E. H. Harriman

E. H. HARRIMAN

A Biography

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CHAPTER XI

CONTROL OF THE BURLINGTON

THE struggle for control of the Chicago, Burlington & Quincy Railroad, which began soon after the acquirement of the Southern Pacific by the Union Pacific in 1901, was one of the most striking and spectacular incidents in Mr. Harriman's career. Possession, or control of the Burlington was desired by two powerful and far-sighted managers, each of whom was striving to strengthen his position, or increase his business, in the great transportation field lying west of the Missouri River. This field was partly occupied at that time by four important railroad systems, namely, the Great Northern, the Northern Pacific, the Union Pacific, and the Chicago, Burlington & Quincy. The first two of these systems, which were dominated by James J. Hill and J. P. Morgan, extended from Lake Superior and the Mississippi River to the Pacific Coast; but neither of them had an outlet of its own in Chicago. The Burlington had its eastern terminus in Chicago, but it did not extend westward beyond Denver. Between that city and the Missouri River, however, it closely paralleled the Union Pacific, and its great network

of branches and feeders in Kansas, Nebraska, and Colorado gathered up or distributed large quantities of freight originating in, or destined for, Union Pacific territory.

Such being the situation, it was almost inevitable that Hill and Harriman should both seek to get possession of the Burlington system. Hill and Morgan wanted it because it would give their roads an entrance into Chicago, while Harriman wanted it, partly because it was a competitor for business in Union Pacific territory, and partly because it might at any time extend its main line from Denver to the Pacific Coast and thus become a rival of the Union Pacific in transcontinental as well as local traffic.

The Burlington, at that time, was

> one of the best constructed, best managed, and most profitably operated systems in the West. . . . It had its own line from Chicago to St. Paul, well built, well handled, and with good terminal facilities and connections. It had a network of lines in northern Illinois; reached Peoria and Quincy, and ran thence to St. Louis. It covered southern Iowa and northern Missouri from Burlington to Omaha, and from Omaha to St. Joseph, St. Louis, and Kansas City. Its lines stretched across southern Nebraska, with termini at Denver and Cheyenne. Northwest, it had a line straight up to and through the Black Hills to Billings in Montana. . . . The total length of lines operated by it in 1901, exclusive of systems leased or otherwise controlled, was 7911 miles.

It had been organized under another name as early as 1849. It absorbed one line after another and built steadily, growing rich and powerful because it ran through one of the best traffic countries in the West. Tributary to it were the fertile lands of Illinois, Iowa, and Nebraska, the coal mines of Illinois and Iowa, the river valleys of the Mississippi and its tributaries, and the mining industries of Colorado and the Black Hills. During its existence it had paid out, up to 1901, cash dividends of more than $127,000,000, besides $6,700,000 in stock distributed[1]

Its capital stock was approximately $110,500,000, and it had a funded debt of a little more than $145,000,000.

To purchase such a road as this, or even to acquire stock control of it, would obviously require a large amount of capital — a greater amount than Mr. Hill at that time could secure. He discussed the matter with friendly financiers in London as early as 1897, but they thought it too big an enterprise for the Great Northern alone to undertake. The Northern Pacific, of course, was equally interested, because it too needed an outlet in Chicago; but the Northern Pacific was not then financially strong enough to participate. It had gone into the hands of a receiver in the panic of 1893 and was not reorganized until 1896. J. Pierpont Morgan and the Deutsche Bank then took

[1] *Life of James J. Hill*, by J. G. Pyle (New York, 1917), vol. II, pp. 114–15.

its affairs in hand, set the company on its feet, and allowed Mr. Hill, in behalf of the Great Northern, to buy about $16,000,000 of its reorganization stock. Subsequently the Great Northern added largely to its holdings, and before 1900 the two roads were practically being operated as a single system, under Mr. Hill's management, and were known as the "Hill Lines." Both roads were then prospering, and when, in 1901, Mr. Hill renewed his effort to get control of the Burlington, he had the support of both companies and the powerful backing of J. P. Morgan and his associates.

Meanwhile, however, Mr. Harriman was not blind to the consequences that might follow a consolidation of the Great Northern, Northern Pacific, and Burlington systems under the skillful and far-sighted management of his rival in St. Paul. Such a combination was sure to be injurious to the interests of the Union Pacific, and might even affect them disastrously.

Late in 1899, therefore, Mr. Harriman and Mr. Schiff had conferences with the president and some of the leading directors of the Burlington Company for the purpose of ascertaining whether the purchase of the road would be possible. The negotiations, however, came to nothing, either because the managers of the Burlington were disinclined to sell, or because Harriman and Schiff did not offer enough.[1]

In the spring of 1900, after the failure of these negotiations, Mr. Harriman called a conference of some of the most powerful friends of the Union Pacific, for the purpose of considering the situation and discussing the best means of preventing the Morgan and Hill interests from buying or controlling the Burlington system. There were present at that conference E. H. Harriman, Jacob H. Schiff (senior partner in the firm of Kuhn, Loeb & Co.), James Stillman (president of the National City Bank), and George J. Gould. Mr. Harriman pointed out the danger involved in the possible acquirement of the Burlington system by Morgan and Hill, and suggested that it be averted, or at least minimized, by the formation of a stock pool to purchase a large enough block of Burlington shares to prevent any hostile interest from acquiring control. As the stock of the Burlington was very widely scattered, and held in small lots of sixty or seventy shares each by fifteen thousand permanent investors, it was not at all certain that enough of it could be obtained in

[1] Mr. Hill's biographer says that Mr. Harriman "made an offer, but it was too low to be taken into serious consideration. Then, believing he could make terms satisfactory to himself later, he went back to New York." (Pyle's *Life of James J. Hill*, vol. II, p. 121.) Mr. Schiff, however, could not remember that any definite offer was made.

the open market to give the Union Pacific a substantial hold on the company; but the experiment seemed to be worth trying. It was decided, therefore, to form the pool and secure as much Burlington stock as could be had up to 200,000 shares.

Kuhn, Loeb & Co. began purchasing for the syndicate in May, and by the 6th of June had accumulated 69,800 shares. The market supply at current prices then seemed to run short and in the next six weeks the syndicate was able to add only 10,000 shares to its holdings. By that time it had become apparent that to get enough of the stock to establish even partial control of the company would be difficult, if not wholly impracticable; and on the 25th of July the syndicate suspended operations, after having acquired 80,300 Burlington shares at a cost of approximately $10,000,000. In speaking of this episode, a year or two later, Mr. Hill said that when the Union Pacific interests tried to get control of the Burlington by stock purchases, they "found themselves up against a stone wall consisting of the great body of small shareholders" (fifteen thousand, or more, who did not wish to sell their holdings).[1]

Throughout August and September Burlington stock remained inactive; but in October the demand for it began to increase, as the result, apparently, of

[1] Pyle's *Life of James J. Hill*, vol. II, p. 139.

bids made by speculators, or friends of the Hill Lines, who based their calculations on reports that the Great Northern and Northern Pacific intended to buy the Burlington road. From that time the price of Burlington shares steadily increased until, in December, it reached 140.[1]

The scanty market supply of the stock and the increasing demand for it apparently convinced the members of the Harriman syndicate that they could not get enough of it to answer their purpose; so about the 1st of November they decided to sell their shares, take the profit they had made, and liquidate the pool. Kuhn, Loeb & Co. began selling on the 7th of November, and between that time and the 21st of December sold 60,300 shares at prices ranging from 130 to 140$\frac{5}{8}$. The 20,000 shares that remained were then divided among the members of the syndicate, each taking 5000 shares.

The next steps in the contest for possession of the Burlington were taken by Morgan and Hill. In testifying as a witness in the Northern Securities case, two or three years later, Mr. Morgan said:

[1] Mr Hill always contended that he never tried to buy stock control of the Burlington and that the purchases which raised the price of the shares from 130 to 140$\frac{5}{8}$ in the fall and winter of 1900 were neither made nor inspired by him. This is doubtless true, because if he contemplated buying the road outright from its directors and stockholders he would not run up the value of its shares by bidding for them in the open market. That would only encourage the owners of the property to demand a higher price for it.

I made up my mind that it was essential that the Northern Pacific Railway should have its terminus practically in Chicago. I talked it over with a great many people interested in the Northern Pacific, and I found that all agreed with me, and the question came up as to how it could best be done. I came to the conclusion that there were but three lines available, the St. Paul, the Chicago, Burlington & Quincy, and the Wisconsin Central. I made up my mind that I would rather have the St. Paul. Soon after that I met Mr. Hill and I said: "Mr. Hill, I think the best thing we could do — I think your line perhaps is in the same condition — I think we had better go to work and secure the St. Paul road, or a road to Chicago, and if you will share with us we will do it together." He said: "All right; who would take it up?" I said: "I will. I think we had better take the St. Paul." He said he thought we had better take the Burlington. I said I would rather have the St. Paul, because the financial responsibility would be less. He did not agree with me, but he acquiesced in my decision, and I took it up with the directors of the road. They refused to sell the road on any terms — they would not even name terms — so I went to Mr. Hill and told him; "You can go ahead and see what you can do with the Burlington."[1]

Inasmuch as Mr. Morgan's main object was to get an entrance into Chicago for the Northern Pacific — the road in which he was most interested — he would have been quite satisfied with the acquisition of the Chicago, Milwaukee & St. Paul. But Mr. Hill had other aims. He, too, needed a Chicago terminus, but he needed still more some means of independent

[1] J. Pierpont Morgan's testimony in the Northern Securities case.

access to the prairie States of Kansas and Nebraska, where he could market his lumber, and to the great distributing centers of Omaha, St. Joseph, St. Louis, and Kansas City where he could get cotton and provisions for transportation to the Pacific States, Alaska, and the Orient. The St. Paul line would not give him access to any of these places, while the Burlington would open them all to him. In a letter written a little later to his friend and associate, Lord Mount Stephen, he said:

> The best traffic of the Great Northern and Northern Pacific is cotton and provisions west- and lumber and timber east-bound. The San Francisco lines run through the cotton country, from New Orleans through Texas and Arkansas. The great provision centers are Kansas City, St. Joseph, Omaha, Chicago, and St. Louis, none of which are reached directly by the Great Northern or Northern Pacific. Both companies have to divide the through rate with some other line to reach those important points. Now as to lumber from the Coast, we have to divide our rate with lines south to reach Chicago, Illinois, St. Louis, Iowa, Nebraska, Kansas, etc. The Burlington lets us into all these districts and commercial centers, over better lines and with better terminals than any other road.[1]

In the early part of 1901, after having been authorized by Morgan to "go ahead and see what he could do with the Burlington," Hill opened negotiations with the president and directors of that road, with a

[1] Pyle's *Life of James J. Hill*, vol. II, pp. 119–20.

view to buying it outright for the joint use of the Great Northern and Northern Pacific. Of these negotiations Mr. Harriman seems to have been unaware. He was deeply absorbed at that time in the gigantic task of rebuilding the Union Pacific and in plans for the improvement of the Southern Pacific, and it is quite possible that the acquisition of the Burlington had temporarily dropped into the back of his mind, as a matter either of secondary importance, or of no immediate urgency. Certain it is that he did not attempt any active interference with the Hill-Morgan plans, as he probably would have done if they had been known to him.

Mr. Hill afterward maintained that he began and carried on his negotiations with the Burlington people quite openly, so far, at least, as Union Pacific interests were concerned. In a letter to a friend, written on the 16th of May, 1901, Mr. Hill said:

> To remove any ground for the charge that we were working secretly to acquire the Chicago, Burlington & Quincy I said to [a representative of the Union Pacific interests] in January that if he at any time heard that we were conferring with the "Q" board of directors looking to the joint acquisition of the property, I wanted to be the first one to tell him that we intended to take the matter up seriously. In April, after Mr. Morgan had gone abroad and the Burlington matter was taking definite shape, I again told him that matters were progressing toward a close. . . . I told him our plan was an open

and fair attempt to agree with the "Q" board as the only means of gaining control of the property.[1]

If the unnamed person to whom Mr. Hill made this statement was really a representative of Union Pacific interests, he did not pass on the information to the men who were actively in control of Union Pacific affairs, namely, Harriman and Schiff. Neither of these gentlemen had any knowledge of the Hill-Morgan negotiations until some time in March, 1901. As soon as they became aware of the situation, they asked Mr. Hill to meet them in conference at the house of George F. Baker, a friend and associate of Mr. Hill in New York. The interview, which was brief, failed to establish any basis for agreement or compromise. Harriman, in behalf of the Union Pacific, asked to be given one-third interest in the purchase of the Burlington and offered to furnish one third of the purchase money. Hill declined even to take this proposition into consideration. "Very well," Harriman is reported to have said, "it is a hostile act and you must take the consequences."

In a signed statement published nine months later in the St. Paul "Globe," Mr. Hill explained in the following words his refusal to allow the Union Pacific to participate in the Burlington purchase:

> About a year ago, the Union Pacific Company bought the Huntington and other interests in the Southern Pacific, and at the same time made an effort to buy the control of the Chicago, Burlington & Quincy. With these lines in the hands of the Union Pacific interests, the Northern Pacific and Great Northern would be largely shut out of the States of Nebraska, Kansas, Missouri, South Dakota, Iowa, Illinois, and Wisconsin, except by using other lines of railway, some of which were in the market for sale and might at any time pass under the control of, or be combined with, Union Pacific interests. We, then, with the Northern Pacific, made proposals to the directors of the Burlington to buy their entire property. When this transaction was about being closed, the people who represented the Union Pacific Company, and who had previously tried to buy the Burlington, asked to be allowed to share with us in the purchase of that Company. This proposal we refused, for the reason that it would defeat our purpose in buying the Burlington, and, further, it was against the law of several of the States in which the largest mileage of the Burlington was located.[1]

[1] Pyle's *Life of James J. Hill,* vol. II, pp. 138–39.

If Mr. Hill supposed that, by refusing to allow the Union Pacific to participate in the purchase of the Burlington, he could thwart the purposes of as resolute and resourceful a man as Mr. Harriman, he reckoned without his host. Absorbed in the affairs of the two great Pacific systems which had so recently come under his control, Harriman may have lost sight temporarily of the Burlington danger; but when it became imminent, he acted with characteristic vigor, and met the unlooked-for move of his

[1] St. Paul *Globe,* December 22, 1901.

adversaries with a counter-move which, in the words of Mr. Hill's biographer, was so "daring" in conception and so "swift and unsparing in execution" as to "command admiration from friend and foe." [1]

When Mr. Harriman discovered that the Burlington had been captured and taken into the camp of the enemy, he determined to make a sudden, surprise attack on that camp itself. He had lost the C., B. & Q.; but there was nothing to prevent him from seizing the Northern Pacific by secretly buying a majority of its capital stock. He would then control not only that company, but the half-interest that it had just acquired in the Burlington. By this move Morgan would be ousted and the joint ownership of the disputed property would be vested in the Great Northern and the Union Pacific, with the latter in the stronger if not the dominant position. As Mr. Hill's biographer has justly said:

> The boldness of this plan, so different now in magnitude from the old days when Mr. Villard had realized it — $78,000,000 to put up instead of $8,000,000 — allied it to a work of genius. From those grim old lions [Morgan and Hill] who guarded the way, the quarry was to be snatched before they sensed the presence of an enemy. The implications of the project were tremendous. Suppose the Union Pacific gained control of the Northern Pacific. At once the Great Northern would have to make terms with its new owners, or bear the brunt of incessant attacks along two thousand miles of battle front. It would be shut into the narrow strip between its line and the Canadian border. As the Union Pacific would succeed also to a half-interest in the Burlington, the situation there would be a permanent deadlock. . . . There could be but one issue from a position so intolerable. He [Mr. Hill] would have to make the best terms he could. And the terms dictated by an interest that would then reach from New Orleans and Galveston to Winnipeg, and from San Francisco, Portland, and Tacoma to Chicago, St. Paul, and Duluth, were not likely to be tolerable. The victor could make them almost what he pleased.[1]

[1] Pyle's *Life of James J. Hill*, vol. II, p. 141.

Although an agreement between Mr. Hill and the directors of the Burlington was virtually concluded in March, 1901, the purchase and sale were not formally authorized until about a month later. On the 20th of April, the directors of the Great Northern empowered its president, with the coöperation and participation of the Northern Pacific Company, to buy the whole, or not less than two thirds, of the Burlington capital stock. The two companies thereupon bought 1,075,772 shares, or 96.79 per cent of the whole, and in payment therefor issued their joint collateral trust bonds and scrip to the amount of $215,154,000. The price that they had to pay was high. The market value of the shares was less than 180, but the Burlington directors and stockholders would not sell for less than 200, and that was the price paid. Mr.

[1] Pyle's *Life of James J. Hill*, vol. II, pp. 141–42.

Hill, however, believed that he had made a good bargain.

> It is true [he said], we pay a great price for the property. This could not be avoided. . . . The Burlington road had a very heavy sinking fund. For many years the miles of main track — something more than 8000 miles — had a bonded debt, less the sinking fund, of $15,800 a mile, and its stock was about $13,000 a mile. Take the Burlington stock at 200, and add to it the bonded debt per mile of the road, and it would give the average cost of the Burlington about $42,000 a mile, which is about what it cost us; that is, $10,000 or $12,000 less a mile than any of these granger roads are selling at on the market. In other words, the Burlington was the cheapest property altogether and reached the points we desired to reach; and it would cost us less money per mile than it would to have acquired any other.

Satisfied that they had checkmated the Union Pacific and made the Burlington safe, Mr. Morgan sailed for Italy, while Mr. Hill went to the Pacific Coast to look after his interests there. Harriman and Schiff, in the meantime, were swiftly and secretly carrying out their plan to get control of the Northern Pacific by buying more than half its capital stock. The first purchases seem to have been made by Kuhn, Loeb & Co. for firm account; but on the 15th of April they turned over to Mr. Harriman all that they had accumulated — 150,000 shares of the common and 100,000 shares of the preferred — and

thenceforward bought steadily and aggressively for account of the Union Pacific. When they began buying, early in April, Northern Pacific shares were selling at 102 for the common and 101 for the preferred; but under the influence of their purchases, together with a large speculative demand from other sources, quotations gradually advanced, on enormous transactions, to 131 for the common and 109 for the preferred.

This speculation in Northern Pacific shares was not regarded, at the time, as anything extraordinary. Nobody suspected that the Union Pacific was accumulating the stock, and the general impression seemed to be that it was being bought by brokers, or by the general public, in anticipation of the enhanced value that it would have as a result of the Burlington purchase. Even the Northern Pacific people took this view, and regarding such anticipations as too sanguine, they sold their holdings, in order to take advantage of what seemed to them absurdly high prices. Mr. Hill himself did not take the possibility of losing control of the Northern Pacific into serious consideration. In speaking of it afterward he said:

> As I remember it, one of our directors raised the question that inasmuch as the purchase of the Burlington stock, and the creation of a bond to pay for it, involved the joint and several liability of the entire amount of the purchase, it was a matter of consequence to the Great

Northern to know that the Northern Pacific would not pass into the hands of people who might be interested in other directions — in developing in other directions or other sections of the country; and I remember I answered that, with what my friends held at that time, and what Morgan & Co. held, we would have somewhere in the neighborhood of 35 or 40 millions of the stock out of a total of 155 millions, which is larger than is usually held in any of the larger companies. I did not think, at the time, that it was at all likely that anybody would undertake to buy in the market the control of 155 millions of stock.[1]

Hill's friends were as unaware of Mr. Harriman's operations as Hill himself was, and in many cases they played directly into their adversaries' hands by selling their stock to brokers who were buying for Kuhn, Loeb & Co. One large holder, for example, sold to them 35,000 shares in a single lot. Even the Northern Pacific Company, tempted by the high prices, sold its own stock. As late as the 2d of May, one of its subsidiary corporations, which happened to have in its treasury 13,000 Northern Pacific shares, sold them by direction of the Northern Pacific board itself. So unsuspecting were Morgan & Co. that on the same day they sold 10,000 shares which had happened to come into their hands in the ordinary course of business. All of this stock, or most of it, went directly to Kuhn, Loeb & Co., who were buying for Harriman and the Union Pacific.

[1] Pyle's *Life of James J. Hill*, vol. II, p. 144.

Toward the last of April, Mr. Hill finally took alarm. He happened, just then, to be in Seattle, and noticing in the market reports the enormous transactions in Northern Pacific stock and the rapid advance in the quotations of both common and preferred, he felt a premonition of impending trouble. He did not know what had happened, or what was likely to happen; but inasmuch as his ally, Mr. Morgan, was in Europe, he thought that he himself ought to be in New York, where he could investigate the exhibition of fireworks in Northern Pacific shares, find out what caused it, and follow closely the course of events. He therefore called upon the operating officials of the Great Northern to give him at once the fastest possible special train to St. Paul with unlimited right of way over everything. The superintendent of the western division furnished the "special" immediately and said to the locomotive engineer: "The road is yours to St. Paul; everything else on the line will be held up to let you pass." The train pulled out of Seattle with a clear track ahead of it and made the quickest run to the Mississippi River that had ever been made up to that time.

Mr. Hill arrived in New York on the afternoon of Friday, May 3d, and went at once to the office of Kuhn, Loeb & Co. to see Mr. Schiff.[1] In reply to an

[1] Hill and Schiff were old personal friends and the latter had been a director in the Great Northern Company.

inquiry as to the meaning of the rapid rise in Northern Pacific shares, Schiff informed Hill that Kuhn, Loeb & Co. were buying them on orders from the Union Pacific. "But," said Hill, "you can't get control. The Great Northern, Morgan, and my friends were recently holding $35,000,000 or $40,000,000 of Northern Pacific stock, and so far as I know none of it has been sold." "That may be," replied Schiff, "but we've got a lot of it. You secretly bought the Chicago, Burlington & Quincy and refused to give us a fair share; now we're going to see if we can't get a share by purchasing a controlling interest in the Northern Pacific."

Hill, after a brief talk, left the office, saying that he did not believe it could be done. He evidently feared, however, that it *might* be done, because on the following day, after making further investigations, he went to Robert Bacon, of the firm of Morgan & Co., told him that the situation was critical, and suggested that it might be well to cable J. Pierpont Morgan, who was then in Italy, for authority to buy at least 150,000 shares of Northern Pacific stock, preferably the common, which, for purposes of control, was more valuable than the preferred. The cablegram was sent to Morgan after the close of the Stock Exchange, Saturday, May 4th.

But if Hill was anxious with regard to the outcome of the contest, Harriman was hardly less so. Kuhn, Loeb & Co. had advised him, Friday night, that they had bought, for Union Pacific account, about 370,000 shares of the common stock of the Northern Pacific Company and about 420,000 shares of the preferred, making a total of approximately $79,000,000. This was a clear majority of the two classes of stock taken together, but it lacked 30,000 or 40,000 shares of a majority in the common taken separately. This deficiency in the common gave Mr. Harriman a feeling of uneasiness, which he afterward expressed in the following words:

On the morning of Saturday, May 4th, I was at home, ill. We had somewhat over $42,000,000 of the preferred shares of the Northern Pacific, or a clear majority of that issue, and somewhat over $37,000,000 of the common shares, which lacked being a majority of the common by about 40,000 shares. But we had a majority of the entire capital stock, as represented by both the common and preferred shares, and I had been competently advised, and was convinced, that this holding was sufficient to enable us to control the Company. Nevertheless, the fact that the Northern Pacific could, on the 1st of January following, retire the preferred shares, of which we had a majority, bothered me somewhat, and I felt that we ought not to leave open to them any chance of retiring our preferred stock and leaving us with a minority interest in the common stock, or involving us in litigation about it.

Some of our friends, however, felt that our position was secure enough, and that it would be foolish to go in and buy more Northern Pacific stock at the prices which then prevailed. Nevertheless, I made up my mind that we should have a majority of the common shares, and on that morning I called up Heinsheimer (one of the partners in the firm of Kuhn, Loeb & Co.) and gave him an order to buy, at the market, 40,000 shares of Northern Pacific common for my account. He said: "All right"; and as dealings that day in Northern Pacific common shares continued to be very heavy, I felt that, come what might, I had control of Northern Pacific, common stock and all.

On Monday, the 6th of May, Northern Pacific came strong from London and opened with a burst of activity in the Street; and having had no confirmation from Kuhn, Loeb & Co. of the purchase of the 40,000 shares of Northern Pacific which I had ordered on Saturday morning, I called Heinsheimer up and asked him why I had gotten no report of the execution of my order. He told me that before giving out the order he had to reach Schiff, who was at the synagogue. Schiff instructed him not to execute the order and said that he (Schiff) would be responsible. I then knew that matters were in a serious way and that the whole object of our work might be lost. Meanwhile, the day (Monday) had become so advanced, and prices of Northern Pacific shares had gone so high that I realized the impossibility of buying, in such a market, 40,000 shares of stock. So I determined to go down and see Schiff, find out what it was all about, and fight the question out with what material I had in hand.[1]

Schiff's decision to ignore Harriman's order was based on the belief — which is understood to have been shared by James Stillman — that inasmuch as

[1] As related by Mr. Harriman to G. W. Batson.

the Union Pacific had a clear majority of *all* the shares of the Northern Pacific, taking common and preferred together, it would be unnecessary and wasteful to buy any more. But this proved to be a tactical mistake. If Harriman had been well enough to go downtown and see Schiff personally, his influence and his arguments might have overcome the banker's reluctance to make further purchases; but it must not be forgotten that the time available for deliberation and action, on that critical Saturday morning, was short. There were only a few hours in which business could be transacted before the Stock Exchange closed at noon; Schiff had neither time nor opportunity to consult Harriman, and he was forced to decide quickly on his own best judgment. But the consequences were unfortunate. Before Harriman found out, on Monday, that his order to Kuhn, Loeb & Co. had not been executed, the opportunity to get a majority of the common stock had passed.

Some time in the course of Sunday, May 5th, Robert Bacon received a cablegram from J. P. Morgan authorizing him to go ahead and buy 150,000 shares of Northern Pacific common at the market. Immediately the Hill-Morgan forces took the field. With the reopening of the Stock Exchange, Monday morning, their brokers swarmed over the floor, bidding eagerly for Northern Pacific common, and taking all that could be had at prices that advanced steadily from 110 to 130. Tuesday they continued this aggressive buying, and ran the price of the common up to $149\frac{3}{4}$ — an advance of nearly forty points in two business days.[1] But they attained their object. Before Tuesday night they were in possession of the 150,000 shares that Morgan had authorized them to buy. With this addition to their holdings, the Morgan-Hill interests had something like 30,000 shares more of the common than they needed; but they had only a minority in the preferred, and lacked also a majority in the common and preferred taken together. Of the whole capital stock of the Northern Pacific Company, Harriman and the Union Pacific owned 781,080 shares, or about 6000 more than one half. As both classes of stock had equal voting rights, this would enable Harriman to choose a majority of the board of directors at the next election; but whether it would give him power enough to prevent the retirement of the preferred shares, in which he had preponderating strength, was an unsettled question. So far as control of the common was concerned, he had lost the fight.

Hill's biographer attributes this partial defeat of the Union Pacific plan to Harriman's "oversight" in not taking into account the right of the Northern

[1] *Commercial & Financial Chronicle*, May 18, 1901.

Pacific Company to retire its preferred stock and thus to leave him with only a minority of the common.[1] But Harriman did not overlook this possibility. On the contrary; it was precisely for this reason that he ordered Kuhn, Loeb & Co. to buy 40,000 more shares of the common on the morning of Saturday, May 4th. He believed, with Schiff, that the holders of a majority of *all* the stock — common and preferred together — could prevent the retirement of the preferred;[2] but he did not wish to take any chances of litigation over this question. He wanted to be *sure*, and his failure to make sure was due not to oversight, but to accident. Illness alone kept him away from the firing line when the contest reached its final and decisive stage. In his absence and without his knowledge his bankers ceased buying, while Morgan & Co. went into the field, practically unopposed, and secured 150,000 shares.

Although the contest for control of the Northern Pacific and the Burlington was carried on with more or less secrecy and was imperfectly understood by the general public, the rapid and sensational advance of forty points in Northern Pacific common created

[1] Pyle's *Life of James J. Hill*, vol. II, pp. 141 and 153.

[2] This belief was based on the unanimous opinion of five eminent authorities on corporation law whom Mr. Harriman had consulted. (*Edward Henry Harriman*, by Otto H. Kahn, New York, 1911, p. 32.)

great excitement in Wall Street, and not only led to an avalanche of "short" selling of the virtually "cornered" stock, but brought on, two days later, the memorable Northern Pacific panic.

CHAPTER XII

NORTHERN PACIFIC PANIC

THE contest for control of the Burlington, which ultimately developed into a struggle for possession of the Northern Pacific, ended, so far as the competing interests were concerned, on the afternoon of Tuesday, May 7th. Each of the contending parties then believed that it had won a victory over the other. Harriman and Schiff were sure that they owned a majority of all the Northern Pacific stock, taking common and preferred shares together, while Morgan and Hill were equally confident that they had a safe majority of the common, which would enable them to retire the preferred and thus leave the Union Pacific with only a minority holding in the capital that would then remain. Both sides, therefore, ceased buying. Their purchases, however, had given a great impetus to speculation in Northern Pacific common. Nobody knew, with certainty, who was accumulating this stock, or why it had risen from 112 to 149¾ in less than a week; but more than half of the public believed that the common shares were selling far above their intrinsic value and that they must soon fall to something like their normal