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Book Review: Harriman vs. Hill: Wall Street's Great Railroad War

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Book Review

Haeg, Larry. Harriman vs. Hill: Wall Street's Great Railroad War. Minneapolis, MN: University of Minnesota Press, 2013. ISBN 978-0-8166-8364-2

The Last Great Stock Market Corner

By William Huneke

Harriman vs. Hill concerns an epic in U.S. financial history. This story includes some of the great characters in American history: Theodore Roosevelt, J.P. Morgan, James J. Hill, Edward Harriman, Jacob Schiff, Mark Hanna, and Justice Oliver Wendell Holmes, Jr., just to name a few. The epic includes some dramatic episodes like the assassination of President William McKinley, which, because it vaults Roosevelt into the presidency, brings on the last act: the *Northern Securities* case.

The story begins with the desire of Hill and his Great Northern-Northern Pacific syndicate's desire to get a connection to Chicago. To do so, Hill focused his efforts on acquiring control of the Chicago, Burlington & Quincy (CBQ). This effort put Hill in direct conflict with Harriman and his Union Pacific (UP).

Harriman and Schiff had recently reorganized the UP out of bankruptcy. The UP also lacked a connection to Chicago. Moreover, the CBQ paralleled and competed with the UP in many markets, particularly in Nebraska. Harriman believed if a rival, like Hill's railroads, controlled CBQ, it would imperil the UP's future.

Both parties proceeded to put offers in front of Charles E. Perkins of the CBQ, who insisted on a \$200 per share cash offer. After much dickering, Perkins accepted Hill's offer, much to the consternation of Harriman. Schiff and Harriman approached Hill and his chief banker, J.P. Morgan, about a compromise, framed as a "community of interest," only to be dismissed out of hand. Morgan then headed off for a long European vacation while Hill returned to his St. Paul headquarters: major strategic errors.

Harriman and Schiff realized that Hill had organized his takeover of the CBQ by placing ownership inside the Northern Pacific (NP). This meant that control of the NP also meant control of CBQ. Harriman and Schiff also realized that it might be possible to buy control of NP by buying up its common and preferred stock in the open market. So while Morgan and Hill were away, Harriman and Schiff started buying.

At this time there was no Securities and Exchange Commission, nor were there any regulations regarding announcing any attempt to acquire controlling interest. Harriman and Schiff could commence their buying campaign in secret. This caught everyone off guard, most notably Hill and Morgan.

NP's price exploded. On Monday, April 29, 1901, it opened at 108¾ and closed at 119. A buying frenzy ensued. By the following Tuesday, NP stock sold for 143½. At first it was not clear what was behind the frenzy. When Hill realized the NP was in play and his allies were actually selling NP stock, he countermanded those decisions and ordered unlimited purchases of NP stock.

At the same time, speculators were trying to guess when the frenzy would break and tried short selling. The shorts were crushed. A panic ensued. Speculators tried to cover their positions by selling other positions. The prices of other securities collapsed. Many Wall Street firms teetered. A resolution could only be achieved with peace between the forces contesting control of the NP.

Hill realized he had a tactic he could use to assert control over the NP: after January 1, 1902, the NP Board could retire the preferred stock. At that point, control of the common would mean control of the NP. Moreover, while Harriman and Schiff might have more combined preferred and common stock, Hill had the most common stock. When Hill met with Harriman and Schiff, Hill revealed

his intent to force retirement of the preferred. This forced a resolution: a resolution that included lending NP securities to resolve the exposure of many speculators and brokerage firms.

For the contending parties, the resolution created a “community of interest,” which permitted each side to appoint an operating officer to direct the workings of the consolidated companies: CBQ, NP, and Great Northern (GN). The community of interest was formalized by having a holding company hold the securities of the three companies. The holding company was Northern Securities.

President McKinley had been a friend of Big Business and his administration had been complacent in applying the antitrust statutes. McKinley’s assassination made Roosevelt president. Roosevelt had a much different approach to antitrust. Furthermore, he saw an antitrust action against Northern Securities as a way to attract western farmers to his reelection bid.

The *Northern Securities* case dissolved Northern Securities. It was the first time federal authority had applied antitrust law to a railroad merger. It represented a more aggressive application of antitrust law in general and it revealed a more aggressive regulatory stance by the Roosevelt administration toward the railroad industry. Justice Holmes issued one of his classic dissents, including the quote: “Great cases like hard cases make bad law.”⁷¹ Holmes’s thundering dissent provoked an equally famous quip from Roosevelt: “I could carve out of a banana a judge with more backbone than that.”⁷²

Hill unwound Northern Securities by providing a pro rata share of the securities in the three underlying companies. This angered Harriman, who much preferred getting just his NP securities instead of minority shares in CBQ, GN, and NP, especially since this method left Hill and his allies in effective control of the three railroads.

While this is a fabulous story that the author relates reasonably well, there are some annoying facets to the way the author tells it. Instead of just telling the story from the record, the author often borders on a novelistic approach by speculating on what the actors were thinking with phrases like: “Hill must [have] daydreamed through the drone of the High Mass, his mind wandering to the evening.”⁷³

The author attempts to add local color to make the reader get a sense of the times but stumbles over basic facts: the White House is across the street from Lafayette Square, not three blocks away. In London, it is Euston Station and Hyde Park, not Eustis Station and Hyde’s Park. He also uses anachronistic names like referring to the Hudson River as the North River.

Perhaps the most frustrating feature of the book is the way the author and editor chose to handle footnotes. These are handled as endnotes, which would be fine except there are no numbers where they occur. Instead, they are presented as a list with pages at the end, which makes the reader need to search the individual page to apply them back to the text. This is poor practice.

Still, this is a great story. The reader will enjoy the conflicts and may desire to find out more about the great characters.

Endnotes

1. Quoted in Haeg, *Harriman vs. Hill*, page 278.
2. Quoted in Haeg, *Harriman vs. Hill*, page 279.
3. *Ibid.*, page 106.

William Huneke received his Ph.D. from the University of Virginia. His dissertation concerned the economic and financial history of the Union Pacific, 1862-1898. He has more than 30 years’ experience in economics, management consulting, information systems, and business analysis in the commercial and government sectors. He has taught undergraduate and graduate business classes at the University of Maryland. Currently, he is chief economist, Surface Transportation Board. Views in this review are solely the author’s and do not represent those of the Surface Transportation Board, nor of its members.