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EDWARD HARRIMAN

ROBBER BARON OR INDUSTRIAL STATESMAN?

BY

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A THESIS

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INTRODUCTION: HISTORIOGRAPHY

People and events do not live on merely because they occurred or existed. An event ends as soon as the action is done. A person would be forgotten when he dies unless someone were to write of that person and his deeds. The work of the historian is to preserve for posterity the events of the past. In many cases, events are recorded on the spot when and where they occur. Most other times, they are recorded only after a lapse of time. When this is the case, there will be a discrepancy between actual details and incidents that are remembered. So it is with the history or biography of a person.

When an historian sets out to write the life of a particular person, not all the details or facts will ever be known. But it is important that as much pertinent information as possible be brought to light, for it is in only this way that a truly objective work will be made. It might be said that for the biographer to really do a presentable, and accurate story, he should follow the subject from birth to death and record every event. This would seem to be ideal. But this is even more than impossible, it is unsatisfactory. In such a manner, we would not see the inner thoughts of the man
doing the action. Only the outward manifestations would be brought to life. How about autobiography? This might be the best method of preserving the inner thoughts and actions of a man. But here again a deficiency must be admitted. Such a work would undoubtedly be biased; just as a biography can be biased towards the views of the writer.

American history is a comparatively young field of study on the level of a science. Prior to 1870, it was considered a branch of literature. After this period, the teaching of history and the writing of history became fused as one skill of the historian. The establishment of the American Historical Association gave impetus to interest in American history, not only from the standpoint of wars and depressions, but from the view of institutions, placing American history in a position to explain or relate facts and the sociology of the American people as well.

The biography of a person, ideally presents an objective viewpoint, but as shown, objectivity is illusive. True biography has come to have on standard of measurement: an adequate presentation of cause and

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effect, a stressing of the "why" rather than the "what." Also included in biography must be certain non-material elements called individuality, temperament, and personality. The deeds of a person spring from his character. A mere recital of events does not present character. The life of a person must be vitalized, and humanized to do away with what would otherwise be padded chronology.²

The position arises that since an autobiography tends to be biased, a well-handled biography would be better. But when should a biography be written? Since it is not written as events occur, but only afterward, it is then a question of how much time should elapse until writing of the deed. Hence, it is possible to have two biographies of the same subject; one written by a contemporary, the other written by a historian in later years. The contemporary has the advantage of having more intimacy with facts and the tune of the times, but is handicapped by not having access to all the facts, which time alone will reveal. The later historian, while handicapped by a lack of an intimate knowledge of facts and of the emotions of the period,

does have the advantage of more materials, such as the
documents and literature compiled by different scholars
and researchers. He is thus able to present a more
over-all view.

The biographer must also be on his guard against
putting unconscious emotions into his work. These emo­
tions can creep in and tend to place the subject
rather than present him. On the other hand, some
authors are not working to be objective, they blatantly
"place" their subject. The subject can be placed in
two extremes: On one side we have the deification of
the subject, emphasizing the good works and discarding
the mistakes. An example of this extreme can be found
in Shakespeare's "Julius Caesar" and the funeral eulogy
by Antonius. On the other side some authors are not
merely interested in presenting society with an objec­
tive study of a person. Their explicit purpose is to
condemn him. An example of this style of writing is
Ida Tarbell's History of the Standard Oil Company.
Works of either extreme are neither good nor bad, but
do shape the conceptions of the reader on the subject.

Another critique of biographers is a tendency to
point out the subject and present myriads of detail of
the life and times with an attempt to point out how the
subject influenced in some way, the outcome of the
events of his time. In their attempts to show how influential the subject was with current events, colleagues of the subject are usually written down, or avoided. This type of work does little to show how much the subject was affected by the times and we get no insight into a real character analysis.3

A new field for biographers arose in the field of economic history. Many authors were drawn into the field of industry and to leaders who were especially prominent in industrial expansion. The economic factor of history cannot be overlooked because the influence at times is strong. After the Civil War, while the South was reconstructing its damaged industrial, agricultural, and political institutions, the rest of the nation was going through a phase that historians have come to call the "Age of Big Business." Business was not only big, it was growing beyond all dreams and expectations. Especially noticeable was the connection between a certain business and a key personality. Edward C. Kirkland compares the present business age with this newly expanding period when he says: "... most Americans, it may safely be presumed, can hardly

3Krause, op. cit., p. 549.
give the name of a single contemporary business leader."

However, this was not always the case. Certain names stood out and were understood to be connected with a given industry. John D. Rockefeller was a rich oil man, Andrew Carnegie was prominent in the field of steel, John Pierpont Morgan and Cornelius Vanderbilt were connected with huge finance and large railroad operations.

There are two aspects to be considered in connecting the industry and the personality. One is that the individual was great because he was fortunate to have been connected with a great industry. The other is that a dynamic personality took an industry and made it become large. More weight can safely be placed on the latter contention. It is because these captains of industry had such strong personalities, drives, and ambitions, and were able to accomplish magnanimous deeds, that they were attracted by biographers.

In his book, *Historians and their Craft*, Herman Ausubel has set forth and explained the messages of the various presidents of the American Historical Association's annual meetings. Each of the presidents¹

speeches is analyzed for their thoughts on such subjects as the usefulness of history, history as literature, the selection and interpretation of historical facts, the science of history, the content of history, and the treatment of historical persons. All these views represent an attack to the study of history, but it is the last category upon which the essence of biography is based. There are several approaches to the study of individuals. It was Thomas Carlyle who said the history of a country is in the biographies of the men who made it. The question arises, Who should be the subject for biography? What type of individual should be examined? The pioneer, or great men in the settings of their time, the hidden scenes of the diplomat are all mentioned as types to which more attention should be paid. 

James Angell, president of the Association in 1893, explained why such figures were ignored. The general and his battles can stir more imagination and passions than do diplomats' negotiations. Angell also deplores iconoclastic biographies, where men who have come to be legendary heroes to the eyes of the American

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people are later called cowards, immoral and egotistical. The stories of men are not to be relations of facts about men who were accepted in their own times and are now to be rejected by posterity, or of men who were rejected in their times, but to be accepted later.

George Fisher (AHA president, 1899) said the historian must guard against distortion that grows out of hero-worship, but calls hero-worship the lesser of two evils when compared with iconoclastic biographies. Fisher felt that it is fruitless to search for flaws in such an individual as George Washington, since all nations must have at least one hero. But this seeming desire from which springs the repression of the truth if harmful to famous characters is blasted by Dixon Wector. Wector claims America has no hero. Heroes of the caliber such as Dante, Michelangelo, Joan of Arc are non-existent in America. Only a few men such as Mark Twain or Will Rogers have become popular with the people to become almost traditional heroes who will live on. It will be noticed that these men were not the intellectuals, the artists, nor the savers of their country. They were practical men. American heroes (if

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6Dixon Wector, The Hero in America (New York: Charles Scribner's Sons, 1941).
the term can be used here) are the Davy Crockettts who make sure they are right and then go ahead. It is not necessary to be a genius; in fact, it could be a detri-
tment. American idols are good neighbors and casteless, whose character is more important than brains. American outcasts were those who secretly nipped the bottle and/or failed to attend church on Sunday. Of course, the hero must do something greater than the common folk, but so long as it is open to any American to do the same thing, or at least comprehend the act, then it is won-
derful.

There is, however, one aspect that Weetor fails to mention. Tremendous deeds are also capable of making the American people take notice. Of course these tremen-
dous deeds are not within the reach of every Ameri-
can, but nevertheless, they are amazed. Such great deeds were done by the industrial leaders who became famous in their times. As seen, these leaders were attracted by biographers, but not always in the same verse. To be sure, the men they wrote about accomplish-
ed great deeds, but it was in their manner of accom-
plishing these deeds that much attention was paid too. Upon certain individuals, no doubt is left that they were unscrupulous cheats who lied or bribed their way to success. Upon others, because of no evidence to the
contrary, it is assumed that they were the hard-working American exercising his right to rise to the top. Still others drew the fire of the iconoclasts and their position wavered.

Such a man was John D. Rockefeller. Rockefeller was the oil magnate of his time. He was also known to be quite generous with his gifts of "God's money" to churches and educational institutions. However, after Ida Tarbell wrote her *History of the Standard Oil Company*, in which the company's operations are treated as scandalous, and John D. Rockefeller is presented as a ruthless operator, the public view becomes mixed. Miss Tarbell's work became popular and led to agitation for political regulation of large industries. But a fact remains suppressed as to why Miss Tarbell wrote her story. Did Miss Tarbell feel a great patriotic sense of duty to expose the Standard Oil Company? Perhaps she was somehow harmed by its operations and was seeking revenge. The answer to these proposals is, of course, no. Miss Tarbell was doing her job.

This was the age of the muckrakers. Publishers found that the people bought the literature if it was written with a slant to expose, and of course with the intent to please the reader. Such a publisher was S. S. McClure, who put out *McClure's Magazine*. McClure was a
very energetic publisher and hired his writers to do a
painstaking amount of research on their topics. The
writers would at times be paid wages for months without
printing anything, but all the while they were search­
ing for facts. Then they would burst forth with their
discoveries in an astounding publication. It was in
this manner that Miss Tarbell wrote her book. She was
paid to do so.

Miss Tarbell was, of course, a muckraker. She
gave a very detailed analysis of Rockefeller's schemes
and when she had finished, the reader had a comprehen­
sive, but one-sided picture of a large industry's oper­
ations. This fact is recognized by Allan Nevins in his
two volume work on Rockefeller. Nevins attempts to
modify the world's impressions of Rockefeller as a
predacious businessman. In his preface, Nevins states
that he wishes to tell the truth, but admits truth is
illusive. Nevins presents Rockefeller as a philan­
thropist, who, having accumulated so large a fortune in
his business, he must hire Frederick Gates to help
spend his money for great benefactions. More space


(chapter 35) is devoted to exposing the errors of the muckrakers. Of Miss Tarbell's work, Nevins says it is a "... factual history difficult to read."9

Nevins insists that Rockefeller and his company's operations have been misunderstood. He points to the great oil company, calls its growth inevitable, and proudly points out to the world the great universities or hospitals given to the world by the Rockefeller money. Again rebuffing Miss Tarbell, Nevins calls her work in order: "preposterous... one-sided... merciless... and sinister in view."10 But one point is pertinent in Nevins eulogy of Rockefeller. He does not say Miss Tarbell lied. In fact, he points out her book as a book of facts, and admits that some phases of the work are useful to the scholar.11

However, Nevins does not have the final word on Rockefeller. Other writers strike out against Nevins's book, others reaffirm many of the attacks made on Rockefeller. Rockefeller and his money give intense interest to economic historians. Without a doubt, Rockefeller was an unusual phenomenon of accumulated

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9Ibid., II, p. 340.
10Ibid., II, p. 343.
11Ibid., II, p. 341.
wealth and many pros and cons arose as to the legiti-
macy of such a large fortune in the hands of one man. So intense was the interest, so unsettled the conclu-
sion, that the Department of American Studies of Amherst College prepared a work entitled John D. Rockefeller, Robber Baron or Industrial Statesman? The work presents excerpts from the various writers of the life of Rockefeller and of his company's operations. No con-
clusion was given, none was intended. The work was meant as a guide to help the reader reach his own con-
clusions, depending upon individual preferences of beliefs.

John D. Rockefeller was not the only powerful man in America. There were other business leaders in other phases of economic activity. Such a man was Edward Henry Harriman, of Union Pacific fame. Any study of Harriman presents a panoramic phenomenon of growth, wealth, and power. It is the aim of this work to pre-
sent aspects of his rise to power in the field of transportation.

When a brief study of a personality is made, it is not possible, nor necessary to review all the events.

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Many circumstances are neutral to a narration. A study can be made only from one aspect at a time. Just as the artist who wishes to paint a portrait, he can only view his subject from one side at a time. While viewing that side, all the pertinent attributes, shades, and blends of varying sizes and colors are examined. When this side is done, only then can the artist turn his subject around and examine the other side, and look for what was not on the first side examined. So it will be with this study. Harriman will be presented, accused, praised, and weighed, each aspect considered separately.

Harriman was a man of much influence, strong determinations, and power. Since he was not born to these roles, he had to acquire them. The railroads attracted his attention and to them he gave his career in life. The important thing to remember when drawing conclusions of someone is that we also will be judged.
CHAPTER I

THE RAILROADS AS A CHAPTER IN AMERICAN HISTORY

During the decade prior to the Civil War, the North had been largely linked to the South by a system of railroads. Then the trend was to build lines towards the west. But with the outbreak of hostilities between the North and South, railroad construction came to a virtual standstill while the battle lines surged back and forth. Many of the major battles of the war were fought in the Confederate territory causing considerable destruction of rail lines in the South. In the North, however, the railroads for the most part escaped the ravages of war. Indeed, the North, out of the necessity of hauling military personnel and supplies, became highly efficient railroad operators. It is for these reasons that, after the Civil War, the rail connections with the West were with Northern railroads rather than with lines in the South.

The end of the Civil War witnessed a great and sudden interest and expansion in railroads which was intensified by the realization during the war of a need for dependable transportation. In the process of the rapid expansion of railroad facilities, numerous abuses
occurred. The abuses were probably unavoidable under the conditions which existed, but they were nevertheless serious and created many new problems which had to be solved in a growing country. For one thing, because railroads experienced a rapid expansion, the consequences were that of overbuilding both in number of lines and trackage. The reason for this overbuilding can be found in the economic definition of investment and speculation. The modern world of economics tends to look upon a huge business undertaking, involving fixed capital and huge sums of money, as a long term investment. The hope is that over the years, a fair return will be realized. This is in direct contrast to the prevailing method of railroad construction in the period after the Civil War. Promoters did much of the work in organizing a new railroad. They hoped to build the greatest amount of railroads, unmindful of whether a given territory could adequately be served by a railroad, and then tried to sell the line at the highest price possible. This was virtually pure speculation. The promoters handled tremendous sums of money and made their profits in this way. Naturally, with all the construction of the various railroads, many lines could not adequately maintain a break-even point on their returns; but, of course, this did not concern the
promoter, who was busy elsewhere planning another railroad. John Moody estimated there was, by the 1880's, about twice as many railroad lines as the country could adequately use, and about four times as many securities as the country could pay dividends on. These railroad securities were vastly overvalued.

The construction of the railroads in the country during this period were financed by capital stock subscriptions. Bond issues were virtually unknown in railroad finance. There were many advantages to the method of direct stock subscription. Responsibility was placed directly upon the stockholders, and in case of mismanagement, only the owners would suffer loss, in accordance with the laws of corporation finance. Should more capital be needed after the corporation was started and became a going concern, loans could be made and securities offered on the line already built. In this way, bond subscriptions were avoided.

However, as railroads moved into the opening new territory of the West, after the Civil War, it was found that raising capital by direct stock subscription would not suffice. The original plans for financing the Union

Pacific construction called for direct stock subscription. The act of congress which authorized construction of the Northern Pacific in 1864 actually forbade bond issues. Within five years, however, this limitation had to be dropped.

The inevitable risk of railroad construction into new territory called for large and quick returns. In other words, the construction of a railroad in the West was not looked upon as being a solid investment by which appeal could be made to local people to buy stock. The whole project was considered to be essentially speculative, and no matter how great the local interest might be in a railroad, the large amounts of cash necessary for construction lay in the East. Before the Eastern capitalists could be induced to invest in a venture they had never seen, security had to be offered. So it was then of necessity that bonds were issued to the financiers of a new railroad, with the land and facilities of the road offered as a mortgage for the bonds. In fact, in order to induce the Eastern speculators to buy the bonds of the proposed railways, it became necessary to offer bonuses of stock to

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encourage the bond sales.

From the standpoint of the promoter, there was an undesirable disadvantage in financing a railroad by direct stock subscription. The promoter could make no quick profits, as a corporation such as a railroad must operate several years before one could tell whether or not such a venture would be a success. With bonds as the method of financing, the promoter did not have to wait, nor did he have to risk his own money. He risked some investor's money. If the railroad prospered, the bondholders would be paid their principal with interest and the promoter would pocket his commission and go elsewhere and try to do business again. The successful promoter did make large profits, but we cannot imply that an unsuccessful promoter merely broke even. The large profits of the promoter can lead to the idea that he was perhaps overpaid, but the point is that the promoter took large risks. There were many preliminary investigations, such as surveying potential right-of-way, making estimates, or having experts make them. All these preliminary expenses had to be borne by the promoter. Should the investigations of the promoter prove the inadvisability of a venture, then the entire cost of the preliminary work is borne as a loss by the
Another disadvantage of stock subscriptions was that it was sometimes issued at a discount to induce subscriptions. However, this worked a hardship on the unknowing and the uninitiated when and if the corporation failed. The stockholder, of course, was liable for the amount of the discount. The stockholder could become quite irritated, and to avoid antagonizing prospective shareholders, this matter was overcome by the interposition of a third party, a construction company. This company operated between the railroad and the shareholders. The railroads would issue its stock to the construction company in exchange for services of some nature, usually for the construction of the railroad, but not always. In many cases, the construction company would sublet the contract to another construction or engineering concern. But at any rate, the railroad would then issue its securities to the construction company, and they were then considered as fully paid shares. (Paid for in services, not in cash.)

The construction company was primarily a financial concern rather than one engaged in physical

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services. With the securities in the hands of the construction company, it is then free to sell the bonds or stocks to the public, and with the returns from the sales of these securities, the company pays any debt it may have incurred, and pockets the rest. In instances, however, the railroads over-issued its securities to the construction company, causing windfall profits to the owners of the construction company and the over-capitalization of the railroad involved. It was in just this way that the famous Credit Mobilier, the construction company for the Union Pacific operated. Not only was the Union Pacific guilty of such abuse, but other railroads also were guilty of the same practice. Probably the most spectacular figures from the point of percentage of over-capitalization occurred on the Southern Pacific. This railroad had to pay out forty million dollars in securities for a total cost incurred by the bankers syndicate, which financed the building of the road, of six and one-half million dollars.\(^4\) Strictly speaking, the construction company is and was quite legitimate, but it must also be mentioned that the construction company was misused. Fortunes were lost, and

made; reputations were smeared.

While there were many growing industries in America at the time, it is almost unquestioned that railroads literally dominated the scene of economic activity. Yet while the railroads were an example of economic progress, they were also expressive of the worst in buccaneer practices. While it was a common practice for corporations to be plundered by both speculators and their managers, plundering was most common among the railroads. Indeed, an example of quite indiscreet plundering, is the Erie Railroad and its esteemed early directors, such as Daniel Drew and Jim Fisk.

The general prevalence of the financial corruption in railroads prompted the various state legislatures to pass laws attempting to control the railroads in their state. The type of laws passed, in the majority of cases, were "Granger laws." This was the type of law which maintained that the state had the power to fix rates of charges for transporting passengers and freight. The proponents of the Granger laws based their argument on the fact that railroads were showing

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discrimination in the setting of fares. The rates, it is true, were very unequal from one railroad to the next. Indeed, the rates were different from one end of the same railroad to the other. If different railroads charged different rates, and a given road charged different rates in different areas, the discrimination was even more complete when railroads would set up different rates for different customers in the same area.

The reasons for these variations can be pinned on the long and short haul problem. Two or more railroads would start out from the same terminal, continue an independent route for perhaps several hundred miles, then finally converge on another large city. This meant that the railroads competed with each other only at the terminals. But the roads were independent or monopolistic in the intermediary areas. The roads would vie for business at the terminals by reducing rates for shipments, but since they had no competition in other areas, they tended to offset losses by boosting their rates in these areas where they were monopolistic. So great was the difference in rates than it was sometimes cheaper to ship goods from terminal to terminal than for a short haul in the intermediary area. A railroad investigator could easily have reached the decision that distance meant nothing in computing costs
of shipments.6

It is problems such as these that faced railroads and managers of the period. Other technical aspects as engineering, maintenance, and the like, had, for the most part, been solved. It was then primarily a problem to set rates that would attract business and at the same time provide profits. Since there were no set rates for any particular commodity which might be hauled, a position of Rate Manager was usually set up on a railroad, and the Rate Manager had full authority to set rates and charges, varying them as he deemed expedient to current business conditions. It was the varying of the rates that eventually caught the ire of the public. The Congress of the United States, although it did have the power to regulate commerce, did nothing to regulate it for nearly one hundred years after the establishing of the constitution. Not until 1887 was the Interstate Commerce Commission founded to deal with the problems of rates. Now, it is agreed that, in many instances, the accusation of unfairness was entirely justified on the part of the railroads. The Granger activities, because of their newly found strength

through organization clamored for state and national remedy to the unfair rates. But mention can also be made of unfairness to the railroads. The law became one-sided and for almost three decades after the founding of the Interstate Commerce Commission, the attitude of Congress was one of outright enmity towards the railroads. In fact, in the year prior to the founding of the Commission, a Senator Cullom introduced a bill that was a forerunner of the act eventually passed the following year.\footnote{Winthrop Daniels, American Railroads—Four Phases of Their History (Princeton: Princeton University Press, 1932).} This law and the subsequent act can be looked upon as being responsible for the weak position the Commerce Commission found itself at its beginning. The Commission was to be a court out of court for the redress of grievances pertaining to rates. The customers of the railroad could charge the railroad with unfair practices. The law went to the extreme by assuming the railroad would always be a guilty defendant and presumed no innocence. A hearing was to be merely a matter of finding the defendant guilty as charged. The Supreme Court took cognizance of this fact in subsequent decisions and later declared the Commission did not have the power to set rates.
The Commission, thus weakened, still had one advantage, however, they could give publicity to evils existing in the railroad world, which could be investigated. Eventually the Commission did come into its own place of authority by the passing of the Hepburn Act in 1906.

The question of what to charge for transportation is an illusive one, as can be pointed out. An examination of the theory of railroad rates will cast much illumination on the reasons for rate discrimination. At first glance, the cost of transportation would seem to be merely adding up the various costs of moving a train, add a fair percent for profit, which should be accorded all entrepreneurs, and then charge the customers accordingly. But unfortunately the problem is not quite that simple. It is exceedingly difficult to place charges on railroad transportation based upon costs. In computing its costs, a railroad is looked upon as already being in existence, i.e., the plant of operations such as the roadbed, offices, communicational facilities, stations, etc., are all in use. Then the cost of transportation would center upon how much it would cost the railroad to move an engine between two points and pay the crew of the train plus costs of any fuel consumed. But since it is the movement of the
train pulling either freight cars or paying passengers from which the railroad derives its income, it can be seen that there are many joint costs in the operation of a railroad. To move a train from point "A" to point "B" costs a given amount. Therefore, if it has a stipulated number of freight cars with each car hauling one commodity, a charge can be levied and the railroad will operate at a normal profit.

With this basic premise, it is obvious that if a train hauls say twenty-five freight cars and meets its expenses, it will not make much difference in costs, outside of a bit more fuel used for extra power to haul twenty-five more freight cars, the same distance with all the same commodities. It is these extra cars which are possible to haul which opened the way to discrimination in rates. Traffic Managers, assured a steady flow in traffic of normal freight, were in the position to add extra traffic, induced by lower rates, almost all of which would be clear profit. The ordinary expenses would be met by ordinary traffic. But on this very issue Owen Ely asks if the railroad executive in charge of rates would have been justified morally in charging a lower rate for the extra traffic.8 It would

8Owen Ely, Railway Rates and Cost of Service (Cambridge: The River Side Press, 1924), p. 44.
seem that he should do so for it is not costing the railroad to haul the extra freight as it is the normal freight. But on the other hand, perhaps the Rate Manager should have spread his costs so that all shippers are charged alike. This would have meant lowering his costs on the ordinary traffic, and raising his costs on the extra traffic. But then the next question to be answered is, could the Rate Manager be assured of the extra traffic? Raising the costs on the extra traffic could very well have meant losing it.

Another important factor which must be considered is that up to now, the assumption has been that all traffic handled is the same commodity going the same distance. William Ripley pointed out the pure fiction of ratios relating expenses to receipts assuming like commodities.9

Now it is obvious that freight trains haul many varied and different types of commodities for varied distances. To haul one commodity at a given price for a given distance would probably incite no quarrel; but to another shipped with a different product, the rate may be even higher than the total value of the product

he desires to ship. Patently, no shipper would pay more than a service was worth to him. This then was the problem of the Traffic Manager: To set rates for his customers which would not be higher than the value of the service to the shipper as an upper limit, and yet at the same time charge a rate which would not be lower than the minimum costs necessary to perform a service and still make a profit.

The gap between the two points was quite wide--wide enough to permit discrimination. And experience was proving that, unless the discriminations were to be prevented by governmental action, much abuse was occurring which was detrimental not only to the shipper, but to the railroads as well.

While it can be shown that a shipper will not pay more than a service is worth to him, it can also be inferred that there must be a price at which the shipper will not balk, in fact consider it a necessary part of doing business. It is this price, in reality, what railroads were charging, and it was aptly called "charging what the traffic will bear." Translated, it means what can the shipper afford to pay? What ought he pay? Hence, if one shipper is financially more able to pay a higher cost than another shipper, railway Rate Managers felt that he ought to pay more. Or, if a commodity is
worth more than another, then it ought to be more ex­
pensive to ship the higher valued commodity. This, the Rate Managers and the railroads did not deny, was dis­
 crimination; but it was a discrimination based on a sense of ethics and justice.10

In addition to computing what the shipper should pay, and what the shipper was able to pay, the railroad Rate Managers had to be familiar with the current conditions of competition. If other carriers were bidding for the same traffic, this fact also had to be con­
sidered in setting a rate.

The end result of all this line of reasoning is that, due to the fact that not all railroad Rate Man­
gers thought alike, and since railroads were becoming more and more to be looked upon as a public enterprise, it was necessary that regulation be imposed on them by some governmental agency. State regulation was not satisfactory, in fact it was usually ignored by the railroads. With the founding of the Interstate Commerce Commission, the first real step was taken towards Fed­
eral regulation.

This move, however, did not solve the problem of setting a just rate. The problem of rate determination

10Ripley, Railway Problems, p. 124.
was by no means simplified. The Commission soon found this out. Taking the right to set rates away from the railroads did not solve the problem. The Commission found itself faced with the very same problems that were being faced by the railroad Rate Managers. The Commission could not please everyone concerned because of the illusive statement provided by Congress that rates shall "be just and reasonable." However, the Act to Regulate Commerce did not define the meaning of "just and reasonable." As pointed out, the Commission merely assumed "just and reasonable" was to be applied towards the shipper and no attention was paid to the financial position of the railroads. The Commission soon had to classify the different commodities in order to place a rate on them. In 1886, before the Commission came into existence, the railroads themselves had a classification enumerating over one thousand different commodities.\(^\text{11}\)

The following year with the founding of the Commission's Official Classification, No. 1, over two thousand, eight hundred commodities were enumerated.\(^\text{12}\)

The Commission had still not settled the question


\(^{12}\)Ibid.
of whether the individual rate should be based on cost of service or on the value of the service. Between 1887 and the passing of the Hepburn Act in 1906, the Commission did not have the power to revise rates except on complaint of the shippers. Between 1888 and 1905, out of slightly over 4,000 cases brought before the Commission, approximately 3,200 cases were settled by the Commission members acting merely as a mediator between parties; about 500 cases were withdrawn and settled away from the Commission; leaving only 300 cases settled by a formal decision of the Commission.

On the whole, nothing of a spectacular nature was done by the Commission during the period. The problem of defining reasonable and just rates still existed. The matter of judging a just rate was soon thrown upon the courts. In 1888, however, the Supreme Court held that "Without proof of the sum invested . . . the court has no means of determining that the rate . . . fixed by the legislature is unreasonable."\(^{13}\) The problem was still unsettled, but with this decision, the court paved the way for a later decision that the returns to the railroad companies must be considered, and therefore

\(^{13}\text{Dow vs. Biedelman, 125 U. S., 680, as quoted in Ripley, Railroads, Their Finance and Organization, p. 316.}\)
implied that for the court to decide a rate as fair or unfair, the railroads financial statements would have to be investigated.

In 1898, in a court issue over the constitutionality of a Nebraska Maximum Rate Law, the court held in essence that a corporation could not be made to operate without receiving a just compensation for its services. Admitting its ignorance of the ability to ascertain a just compensation, the court did say "What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience."\(^{14}\) This decision was authoritative, not because it finally settled the issue of a fair rate, but led the way still further to economic investigation of rates as well as a legal basis for rates.

A striking note must be inserted in regard to the general level of rates for this period. After the period of the Civil War, with railroads expanding quickly throughout the country, it was then that discriminations of rates had set in. This resulted in the clamor for governmental bodies to set maximum rates, with the resulting act setting forth the Interstate

\(^{14}\) Smythe vs. Ames, 169 U. S., 466, as quoted in Ibid., pp. 318-19.
Commerce Commission. But the Commission's orders were ineffective since the courts held they did not have the power to prescribe rates that were reasonable, so the orders were ignored. In spite of this controversy between the commission and the railroads, statistics of the railroads' rates show that from the Civil War to the year 1900, railroad rates for freight shipments had actually been declining.\(^1^5\) In the year 1900, however, there was a noticeable trend towards an increase in rates which continued for a few after. In 1903, the commission, taking recognition of the increases, pointed out that the rate increase could be reasonable or they could not be reasonable, say they had "... No power to determine what rate is reasonable, and such orders as it can make have no binding effect."\(^1^6\)

Obviously, the Commission, weak even by its own admission, could do nothing. It was the Elkins Act of 1903 which gave more power to the Commission. The Act called for the railroads to file published rates with the commission and these were to be the basis for lawful

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rates. Any deviation from these rates, (such as rate-cutting or rebates) was to be a public misdemeanor. It was on the initiative of the railroads themselves that this act was passed, because they realized that forcing themselves to stay within the boundaries as prescribed by law would be to their own benefit.

In the usual manner, self-interest was the prevailing method of accumulating wealth. The railroads literally burst on the American scene, causing a great interest in speculation. The railroads grew and the Western territory grew.

Robber Barons grew not only because they decided to take whatever they wanted for an income, but also because they did not have to give fifty percent of their annual income to the Federal Government. To be sure, a robber baron was a gambler, but that did not prevent him from stacking the deck in his favor. But when he did so, it was usually to the detriment of the public, at least in the short run, and hard on the barons themselves in the long run.

Severe competition was ruinous, and the baron knew it. A baron with a touch of statesmanship in him knew outside regulation would help stabilize his business. But how is it possible to distinguish a robber
baron from an industrial statesman? The evidence must be investigated, compared, weighed, and concluded.

Robber barons of the railroads would tend to own a percentage of the corporations they controlled, but not an overwhelming share. It was seen that fifty percent ownership was not required for control. Thirty, even twenty percent would be sufficient; and the barons could always count on the proxy to vote as he asked them. The proxy was only interested in dividends. What the company did, he did not know, and cared even less.

In summary then, this was the position of the railroads in the American scene at the turn of the century. Starting as a scattered group of companies, gradually coming into a position of prominence, and given impetus by the Civil War, railroads grew in size and influence upon American economic activities. Since they were big, they did at times become unwieldy, so much so, that public appeal brought governmental authority to prescribe certain managerial laws which must be followed. The railroads at first objected to the coming of outside regulations. John Murray Forbes called the Interstate Commerce Commission "... the interstate monstrosity ... this assumption of right to
However, no amount of objections from railway managers could stem the tide of public demand that railroads, now considered as public utilities, be managed by law. In the end, railroads saw in this new coming law, which gained strength as the years passed, a chance to do away with the unnecessary cut-throat competition with each other.

CHAPTER II

EDWARD HARRIMAN AS A RAILROADER

Edward Harriman, always a short, frail-built person, was born in 1848, the third of six children, at Hempstead, New York. Harriman's father, an honor-student graduate of Columbia University, was not too successful in accumulating the goods of the world. As a minister in the country churches of New York, a few hundred dollars a year was about all the elder Harriman could muster to support his family. It was under such conditions that Harriman was raised. ¹

The Reverend Harriman, with his fine educational background decided that his son must also receive an education worthy of the boy. For a few years, Edward Harriman attended the public schools of Jersey City, to where the family had later moved. But this was not enough for the idealistic preacher. Young Edward was then sent to Trinity School in New York. It was necessary for Edward to leave home early in the morning, walk about two miles, take a ferry across the river, and then walk to school. When it was time to come home,

the route was reversed, so that young Harriman arrived home quite late in the day.

To be sure, this was a gruelling task to be performed day after day, but young Harriman kept it up for two years. There was nothing in his life as a boy to indicate that Harriman was of an extraordinary ability. He was alert and observant. He was, as young boys go, rather short for his age, with a frail body. But even if he was fairly frail, he could take good care of himself if he had to. More than once, he encountered the rough street boys of Manhatten and used his fists well enough to stand his ground. Harriman was given to scrapping. Like most boys of his age, he preferred sports and games to books. But he had a stubborn streak that could be used to his own intentions. For instance, while at Trinity School, he made up his mind that he would win the first prize for scholarship. With effort he accomplished the goal. This no doubt pleased his scholarly father. Harriman said he could accomplish given feats if he put his mind to it, and meant it.²

Edward Harriman's active mind was not always on

²Ibid., p. 10.
his books, however. He soon made up his mind that it would be better if he were to go to work and help support the family. At the age of fourteen, he told his father that he was going to stop attending school and go to work. This was more than a blow to a father who wished his son to have a good education. But young Harriman had put his mind to it; he had decided. This was a forceful decision he had made and he kept right to it. Harriman's father yielded when he saw the boy really meant to go to work. Young Harriman had made the first of a long march of forceful decisions that was to be characteristic of him in his career.

The first job Harriman obtained was on Wall Street. He became an office boy in a stock exchange house at five dollars per week. As there were no ticker-tapes in use as yet, some boys hired by the exchange were used to carry current stock prices from broker to broker. These boys were called "pad shovers." Not long after starting work for the exchange firm, Harriman was made a "pad shover." In a bid to outdo the other boys doing the same type of work, Harriman would memorize the various stock quotations on his "pad" so that when he would enter the firm of a broker and some speculator wished to know the price of a given stock, Harriman was able to shout out the figure without
having to search through his list.

While doing this work, Harriman became acquainted with the various stocks which were traded, their prices and, more important, he noticed the fluctuations of the prices. He was amazed at the wavering amounts paid for various stocks. He was amazed especially because he perceived that outside conditions were usually the cause of the fluctuations. He began to take on a wider view of the market. Soon, young Harriman was made the managing clerk in the stock exchange house where he worked.

By the time Harriman was twenty years old, he decided that there was a profit to be made in buying and selling securities. Borrowing some money, he bought a seat on the Stock Exchange for three thousand dollars, and opened his own brokerage office. For a few years, Harriman was strictly a commission broker. But one day, a leading speculator was attempting to corner the market on the stocks on railroads whose principal source of income was the hauling of coal. The price of these stocks was rising beyond all their intrinsic value according to Harriman's judgment. He watched for the price to rise to what he thought would be the peak in trading costs of the stocks; then, with some capital he had accumulated from his brokerage, he
sold the railroad stocks short. The results were most gratifying to the ambitious broker. The market fell, and young Harriman cleared approximately $150,000.  

Encouraged by his success in a bear market, Harriman then turned to dealing in a bear campaign on stock of the Delaware and Hudson Railroad. But, at the same time that Harriman began selling Delaware and Hudson short, John Jacob Astor, a man of much more wealth and power than young Harriman, began buying the same stock in large quantities. Instead of falling, the price of the stock began to rise under Astor's increased demands. In the resulting transactions, a large part of Harriman's fortune, which he had so recently gained, was wiped out.

Harriman was not discouraged, however. He stayed in his brokerage business and gained experience in handling securities. However, a great change was taking place within him. He realized that the stocks he kept trading represented real and tangible assets of a particular corporation. He felt an ambition to control and manage the material properties which the paper securities represented. He wished to act; to achieve bigger

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deeds. But this would take capital and much of it. He began to save as much money as he could from his business income.

In 1878, Harriman bought a small steamer which regularly provided passenger service between New York City and the town of Newburgh on the Hudson River. This was Harriman's first-owned vehicle of transportation. It was not a vast nor important operation and did not in any way greatly influence Harriman's career. However, a short time later, Harriman sold the boat at a profit, after operating it quite successfully for a short while.

After Harriman married Mary Williamson Averell in 1879, he became interested in a short-line railroad in the northern part of the state of New York. It was not much of a railroad, since it was only thirty-four miles in length. It had been only in existence for seven years. The road was a badly managed, poorly operated, and a most unprofitable business to whomever owned it.

The line ran from the town of Stanley, New York, to a harbor on Lake Ontario, known as Great Sodus Bay. The line formed a connecting link with the Pennsylvania Railroad at Stanley, and another link with the New York Central at Newark. The line carried a few local passengers and small quantities of freight destined for or coming from the lake ports of Canada. Experienced
railroad managers of the period looked upon the short line as an unprofitable and undesirable piece of property.

When the road was originally organized, it was called the Ontario and Southern Railroad. But when the road went bankrupt, it was reorganized as the Lake Ontario Southern, and its new owners again tried to make it into a profitable line. In 1881, the road was controlled by William Smith. At that time, however, the road was again on the verge of bankruptcy and receivership. Harriman observed the location of the line as a strategic vantage point in transportation. It joined two big railroads, the Pennsylvania and the New York Central. Neither of the two roads, however, had absorbed the short line. Harriman reasoned that if the line were put in good condition, it might very well be sold to either one of the lines as a branch line.

In the fall of 1881, Harriman joined a partnership with S. J. Macy of New York and bought the interest of William Smith, who was glad to be relieved of his financial burden. The railroad was reorganized as the Sodus Bay and Southern Railroad. Macy was made president and Harriman was made vice-president. To increase the chances for the business of the road to make it more profitable, Harriman used his position as the
vice-president to erect a grain elevator at Sodus Point. 4

By the fall of 1883, after two years of work, the road was put in a much better operating condition, especially as concerned the rolling stock, the roadbed, and the operating facilities. But the road was still unable to operate on a profitable basis. Harriman decided to make a further move in extending his power of control over the small railroad. When President Macy reported the poor earnings of the road to the stockholders and directors, Harriman stepped in and named a price at which he would either sell his own shares, or buy the shares of the other owners. The stockholders, discouraged by the lack of profits, and the lack of any encouraging future signs of prosperity in the road, decided to sell their ownership to Harriman. Harriman thus became the principal owner of the small road.

Harriman then reorganized the road and had himself elected as its president to replace Macy. He continued to work on the improvement of the road's physical facilities. Then he approached the owners of the Pennsylvania and the New York Central Railroads. Harriman offered his railroad to them for sale in separate

4Kennan, op. cit., p. 63.
negotiations. He played one road against the other. To the Pennsylvania Railroad, he explained the advantages of the location of the line's harbor and its connections with Canada. To the New York Central Railroad he explained that if they did not buy it, the Pennsylvania probably would. Harriman urged that it would never do to let a rival acquire it, even if the New York Central did not need it. Harriman was a shrewd salesman. He sold property, and if he pleased his customers, it was good business.

Both roads became interested enough in Harriman's line. They showed enough interest to take some action on Harriman's offer. The New York Central took an option for a substantial consideration (the exact amount is unknown) to give them time to investigate. A few days later, the Pennsylvania Railroad told Harriman that they wished to purchase his line. Harriman told them they would have to wait until the option held by the New York Central expired at noon, July 1, 1884. On this day, the New York Central sent a representative to Harriman's office to renew their option, but Harriman was not in his office. By the time Harriman returned to his office, the option had expired, and he was then free to sell the road to the Pennsylvania Railroad. He did. He also pocketed the option of the New York Central.
Whether he was conveniently absent from his office when the New York Central representative called to renew the option is hard to say for certain. But the transaction was a typical Harriman move. All the facets of the sale were at least legal. Just how much money Harriman made on the sale of his short line is unknown. But by this move, Harriman convinced himself that he could do well in the field of railroading: He had taken over a run-down railroad, rejuvenated it and sold it at a profit.

There was nothing in Harriman's personality to indicate financial genius. The success he achieved can be attributed to pure stubbornness. The fact that must be realized and understood in analyzing Harriman's attitudes and actions, center on his upbringing and training. He was from a poor family. His mother, though the wife of a sincere minister, raised a poverty stricken family. She was, however, aristocratic enough to be haughty. Mrs. Harriman was aloof, and that meant she could not pay too much attention to the opinions of her neighbors. As a young man, Harriman became imbued with this attitude. When combined with his

stubborn drives when he wished to accomplish something, the attitude allowed him to plow forward unmindful of outward criticisms.

He had made a profit in his transaction of the Sodus Bay Railroad. But to do so, he had to take control of the railroad by himself in order to have action taken on his plans. The partners with whom he had originally entered the transaction were left behind. He had to cease to care for the associates he had started out with in the beginning. Harriman was developing the quality of knowing what he wanted and then going directly after it without fear or care of what others might have said. Everything was being absorbed into the passion of making money.

To Harriman, money was more than a purchasing medium. It was a tool to use, to grow, to gather. Harriman can be followed in his career using the tool of wealth. He had tasted of its success and he was to continue in that mode. There is this to notice on his career. Only early in his career did he follow the method of obtaining employment and advancing by promotion. Harriman realized that one might be steadily promoted until the top of the particular organization was reached. But this was a time-consuming feat. There was a quicker and much shorter way to control an
organization. It was through the back door of ownership. The securities Harriman handled, bought, and sold for his customers (as a broker) were shares of ownership. Whoever owned the securities owned and controlled the company. Harriman would control organizations by the method of manipulating stocks to his benefit.

Rockefeller called this business urge, the Great Game. The Game was played by many during the latter part of the nineteenth century. Harriman played the Great Game by a three-fold description of values. This is implicit in the Sodus and Northern dealings and is an underlying current in all his future ventures. A property has an intrinsic value. This is one part of its value. In a run-down, neglected, and depraved condition, the value of that property sinks to a below-par amount. At this amount, one can purchase the property, work with it, build it up, improve it until its worth rises beyond its intrinsic value. The property rises beyond its intrinsic value because others desire to use or have the revitalized property and are willing to pay for it. Hence, wealth is created.

Once wealth is created, it is accumulated. The

6Nevins, op. cit., I, p. 19.
owner of wealth can then acquire more wealth by using again and again the same method. The question then arises, does the person accumulating wealth reach a point of satiation? Does he accumulate for accumulation only? Does he particularly care whether he harms others or deprives them of their wealth? Does he outwardly oppress both poor and rich in his self-gratification? These questions are quite applicable to a robber baron or an industrial statesman. Harriman must now face the indictment for his actions.
CHAPTER III

THE INDICTMENT OF HARRIMAN

It was Matthew Josephson who presented the world with the appellation of Robber Baron in reference to late nineteenth and early twentieth century men of Big Business. Josephson pointed out the aggressiveness, the lawlessness, the acting without morals of the men who arose in the era of economic growth following the reconstruction of the South. These men were not only prominent actors, but also ones who played leading roles in transforming this country from an agrarian way of life to a bustling, nerve-wracking, industrial state. Nor did the Robber Barons find out later that they had played an important role in the growth of the country. They knew this from the moment they acted. They knew their actions were changing the established way of progress. They knew wealth was in existence. They knew also, that if they controlled the wealth, someone else did not. It was but a question of methods to be used in obtaining wealth.

When a speculator began to accumulate wealth, he created his own empire, with lieutenants who performed the duties necessary to maintain it. A chain of command grew from the speculator to the lowest worker in the
financial empire. When the Baron spoke, no one pointed to the fact that this was a democracy. Orders were fulfilled or, as in days of old, heads rolled off in the manner of unemployment, ruin, or not unusual, violence. It is thus quite appropriate that the term Baron he used, whether Robber be prefixed or not. Daniel Drew, outspoken and acknowledged Robber, or "Gentleman" John D. Rockefeller, accused Robber—both were barons.

Edward Harriman, who found out that when he became practically the sole owner of the Sodus Railroad he could quite naturally do as he wished. He had tasted of the powers of accumulated wealth and found them refreshing. For a while, after he sold the Sodus Railroad, he returned to his seat at Wall Street. But soon he returned to the field of railroad speculation and investment. In 1880, he became a director on the board of the Ogdensburg and Lake Champlain Railroad. He did not feel these interests were important enough to satisfy his ambitions. He wished to exercise power.1

1This accusation surprisingly enough comes from Edward Harriman's faithful and worshipful biographer, George Kennan, who generally presents the man as spotless and heroic. (Kennan, op. cit., I, p. 66.)
Another railroad came to Harriman's attention. It was the Illinois Central. Harriman was friendly towards Stuyvesant Fish, a director of the road. In a premature bid for power, Harriman took a large share of bonds which had been placed on the market by Fish. This was in 1886, the year of President Garfield's assassination. There developed a slump in the market, and Harriman was caught. But he obtained assistance from wealthy friends and he was able to hold on to the bonds, and eventually was able to sell them at a profit. Fish was one of the men who aided Harriman in his financial dilemma.

In the meantime, Fish had become a more powerful man in the management of the Illinois Central. Harriman was becoming more interested in the road. He believed it was a chance to extend his powers, and at every turn he bought heavily of the Road's stock. The shares were selling quite low and many speculators were selling short, in the belief that it would fall even lower. But Harriman bought heavily and steadily saying, "It won't cost us a cent to carry; the shorts will carry it for us." Suddenly, the stock price reversed itself and rose. Harriman made a profit by literally

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2Ibid., p. 70.
holding up the short sellers.3

Harriman next determined to place himself as not only an owner, but a director of the Illinois Central. But to do this, he had to have backing. How would he gain it? Opportunity knocked, in the person of one of the members of the Boissevain Brothers, a firm controlling the Dutch stockholders' shares in the Illinois Central. When the representative of the Dutch firm was on a visit to America, Harriman put his arm (figuratively) around the man, gained his friendship, his confidence, and also the right to hold his proxy shares in the Illinois Central Director meetings.4 Aided by Fish, who had meanwhile become vice-president of the road, Harriman was elected a director in May, 1883. Harriman's election to the board caused a considerable ripple in financial circles. His rise was quick, sudden and brief. There was hasty scurrying for background information on this comparative new-comer into the railroad field.5 Harriman, by his election to the board of directors of the Illinois Central was now a

3Josephson, op. cit., p. 303.
4Moody, Masters of Capital, p. 93.
professional railroader.

About four years after Harriman became a director of the Illinois Central, he moved towards a clash with the main figure in American finance, the titular organizer and reorganizer of American industry, John Pierpont Morgan. Nobody clashed with Morgan and came out of the ordeal as the winner. Morgan always won; everyone knew this; no one questioned it.

The Illinois Central was operating, under lease, a short railroad in Iowa, the Dubuque and Sioux City Railroad. The road was originally a profitable venture but as more railroads were built in Iowa, competition became quite severe. By 1884, the Dubuque and Sioux City began to lose money. There were two methods which could be tried to change the short line from a losing proposition to a profitable venture. One, expand the leased line—but that would have meant spending Illinois Central money, and would only benefit the lessors of the road. Two, have outright ownership and control of the road by means of purchase. Harriman recommended to the board of directors that this second method be followed, and was authorized to get control of the road. He was to either negotiate for the road through its owners, or to buy its stock in the open market.

When the large stockholders heard of Harriman's
move, they decided to profit on the Illinois Central's plans. They would only sell their shares at a rate higher than market value (but at a price which would be par value) or force a new lease, insuring adequate dividends. In order to do this, they placed their shares in the hands of Drexel, Morgan, and Company. In the meantime, Harriman, seeing that negotiation with the stockholders was out of the question, boldly went into the market and began buying shares of Dubuque and Sioux City. Harriman bought about 15,000 shares, when he suddenly discovered that there were no more to be purchased. The amount he had obtained was not enough to gain a minority control, and the remaining shares (32,000) were controlled by Morgan's company. Morgan was determined to block the Illinois Central group at the next stockholders' meeting. Morgan would demand an extortionate price for retirement of the controlling shares.

In February of 1887, the stockholders' meeting took place. Of the stockholders actually present, the Illinois Central controlled a majority. But the majority of outstanding shares were controlled by proxies and the personal representatives of Morgan, Drexel, and Company. Harriman was elected chairman of the meeting because of his majority of shareholders present. As
chairman, he then turned to shrewd and sharp legal practices. About 5,000 shares of proxy votes were rejected by the chairman of the meeting on the grounds that proxy voting was illegal in Iowa. (It was.) Then, the whole block of shares held by Drexel, Morgan, and Company was also rejected because the votes were signed by Drexel, Morgan and Company personally, and not as trustees (which they were). Therefore, the only shares left which could be voted were those held by Harriman and his interests.6

To say the least, this created an uproar in the Morgan interests, and the matter was taken to the courts. For a while, Morgan held out for his original terms, i.e., purchase of his stock at par value, or a new lease guaranteeing substantial dividends. But Harriman, casually taking advantage of his position, offered eighty dollars a share to Drexel, Morgan, and Company, and at the same time intimated that if the offer were rejected, it would not be renewed. The offer was accepted, the Dubuque and Sioux City became Illinois Central property, and Morgan developed a violent dislike for Harriman. This was Morgan's first

defeat,\textsuperscript{7} and Morgan's dislike of Harriman in later years slowly turned to hatred because Morgan could not intimidate him—a sufficient cause to loath someone!

In 1893, the Union Pacific Railroad fell into the hands of receivers. The railroad owed a huge debt to the Federal Government which had been incurred when the road was originally built. The loan would begin to mature in 1895. The road was running a heavy deficit, and had no prospects for any immediate relief. At a conference held in New York, late in 1893, the security holders of the Union Pacific appointed a reorganization committee. Among the committee members was John P. Morgan. The Committee struggled for two years to arrange a satisfactory plan of reorganization. Congress, however, would not consent to a refunding of the debt. Consequently, in March, 1895, the Committee abandoned its work of reorganization and turned back to the owners, the securities that had been put in its control. Bond holders of subsidiary roads of the Union Pacific, becoming impatient of delay, insisted on foreclosure of their liens. In this way, several branches of the road were cut off, leaving 4,469 miles of track which was claimed by the Union Pacific Railroad, from

\textsuperscript{7}Corey, \textit{op. cit.}, p. 156.
an original 8,167. At the same time, proceedings were also underway against another Union Pacific subsidiary, the Oregon Shortline Railroad Company, which was 1,424 miles in length.

This was the state of affairs when the road, after being abandoned by the Morgan reorganization committee, went into different financial interests. Jacob Schiff, of Kuhn, Loeb, and Company, was approached and asked that he undertake to reorganize the railroad. To this proposal, Mr. Schiff objected, contending the reorganization of the Union Pacific was an affair belonging to J. P. Morgan and he would not wish to interfere with any of Morgan's work. Schiff maintained a healthy respect for Morgan. But when Schiff was told that Morgan had abandoned the task, Schiff agreed to take the railroad into consideration. A few days later, a cautious Schiff called upon Morgan and made sure any work on the Union Pacific by Kuhn, Loeb, and Company would be satisfactory to Morgan. Morgan declared emphatically that he wanted nothing further to do with Union Pacific. So far as he was concerned, he said, Schiff could do

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8Kennan, op. cit., p. 119.

whatever he pleased with the bankrupt road.

So it was with a clear conscience that Schiff and his associates began to work on a plan of reorganization for the Union Pacific. A plan was drawn up whereby foreclosure of the property was arranged to make it easier to get assents to a plan of reorganization and to also make it more difficult to block the operation of the plan. The payment of the Federal debt was postponed, so the reorganizing firm could go ahead on its work without waiting for an affirmation from Congress.¹⁰

The plans of the reorganization firm were proceeding quite smoothly for about a year, when in the latter part of 1896, it was noticed that opposition was being incurred. The Committee's plans of reorganization were being resisted in Congress, by the press, and by many stockholders. Rumor had it that J. P. Morgan was jealous of the successful reorganization proceedings and was trying to get control of the road for himself. Schiff himself called on Morgan for a showdown explanation, and asked if Morgan had changed his mind and was trying to get interests in the Union Pacific. Morgan replied he had not changed his mind, and still

¹⁰Daggett, op. cit., p. 251.
did not want anything to do with the railroad. He did promise Schiff that he would conduct his own investigation as to what was causing opposition.  

Schiff left Morgan satisfied that Morgan was clear. But he was still puzzled by who was opposing his plans. A few weeks later, Morgan sent for Schiff and advised him to check on a Mr. Harriman as the opposing party. Schiff had never heard of Harriman, but upon investigation found that Harriman was actually working on his own to reorganize the Union Pacific. Schiff contacted Harriman and informed him that the house of Kuhn, Loeb, and Company was interested in the Union Pacific and warned him to keep his hands off the road. Harriman quickly countered and told Schiff to keep his hands off the road. Schiff laughed at Harriman and told him that one hundred million dollars was needed completely to reorganize the Union Pacific, and further that it would be raised by Schiff's company in Germany at a five, perhaps even a four, percent rate. Harriman was further told by Schiff that he could not possibly raise such an amount of money in America at

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11Corey, op. cit., p. 204.

six or even seven percent.

Harriman explained that he felt the Illinois Central should have the Union Pacific.\(^{13}\) Further, the Illinois Central had the best credit in the country,\(^{14}\) and upon this credit Harriman told Schiff that he would borrow money at a rate of three percent by issuing bonds against the railroad. Harriman emphasized that the bonds he would issue would be quite close to par.\(^{15}\) Schiff admitted he could not do better and asked if there might be some terms by which the two parties could come together. Harriman said there were. He would be made chairman of the reorganized Union Pacific. Schiff was taken aback at this bold desire, but capitulated. At one grand stroke Harriman moved into a powerful position on the Union Pacific. Harriman joined the Kuhn, Loeb, and Company syndicate for $900,000.\(^{16}\)

\(^{13}\)Kennan, op. cit., p. 124.

\(^{14}\)The Illinois Central Railroad, after the slump caused by the depression of 1857, resumed the payment of annual dividends and had not missed a single annual payment to the time that Harriman and Schiff discussed credit (Corliss, op. cit., p. 97). This was a record of fifty years that the road had maintained in dividend payment, so that when Harriman said his road had the best credit in the country, he meant it.

\(^{15}\)Clark, op. cit., p. 248.

\(^{16}\)Kennan, op. cit., p. 126.
In the end, the two men worked together. Harriman was elected to the Chairman of the board, and Schiff's organization, Kuh, Koeb, and Company, became the railroad's permanent bankers. Harriman and Schiff buried their enmities. However, this is always easy to do when there are large profits to be shared.

Harriman had no difficulty in raising money by using the credit of the Illinois Central. He had been increasing his influence in company affairs over the years, until the management had been left almost entirely to his control. The directors were largely his puppets\(^{17}\) and would do his bidding readily.

So it was by one bold leap that Harriman went to the lead of American railroad financiers. He was a human dynamo, who had a supreme confidence in himself. Harriman had no understanding of public sentiment, or what caused others to oppose him. If he had no understanding of personal views of the people, Harriman had no care for them either. He feared neither God nor Morgan. He did not suffer from pangs or scruples of conscience.\(^{18}\) Everything was absorbed into the master

\(^{17}\)Moody, *The Railroad Builders*, p. 197.

passion of making money.\textsuperscript{19}

Harriman was a bold plunger, where Morgan was not. Morgan was not interested in results which could be obtained ten years ahead.\textsuperscript{20} Morgan had made a serious mistake in not handling the Union Pacific reorganization, and this becomes even more significant when it is realized that the work on the Union Pacific was the only important reorganization of the period in which the House of Morgan did not participate.\textsuperscript{21}

Now that Harriman controlled the Union Pacific, his eye wandered to the Central Pacific Railroad. But the Central Pacific was controlled by the Southern Pacific, which in turn was controlled by Colis P. Huntington. Huntington would not part with the Central Pacific, and Harriman was temporarily stymied. However, Harriman was patient. If Huntington would not part with the Central Pacific, he soon parted with his life not long after approached by Harriman. The wiley Harriman attended his funeral. He also sensed that the bereaved widow would be willing to part with her stock

\textsuperscript{19}Omaha \textit{Daily Bee}, September 9, 1909.
\textsuperscript{20}Clark, \textit{op. cit.}, p. 249.
\textsuperscript{21}Corey, \textit{op. cit.}, p. 205.
in the Southern Pacific. The plan was quite simple in Harriman's mind. Forget about purchasing the Central Pacific. Buy the Southern Pacific, and get both roads. Mortgaging the revitalized Union Pacific for one hundred million dollars, Harriman began to buy Southern Pacific shares, which Mrs. Huntington had decided to sell. By the summer of 1901, Harriman controlled approximately one million shares, or about forty-five percent of those outstanding. In April, he had himself placed as chairman of the Southern Pacific executive committee. In September, he moved to the presidency of the road.\textsuperscript{22}

Harriman was in a prominent position regarding American railroads. His control of railroads extended from Chicago to New Orleans on the Illinois Central; from New Orleans to Los Angeles to Portland on the Southern Pacific; from San Francisco to Ogden on the Central Pacific; from Omaha to Ogden on the Union Pacific; and from the Union Pacific mainline to Portland on the Oregon Shortline Railway. Harriman virtually had an absolute influence on the main lines of the Southwestern part of the United States.

But even with the Illinois Central, Harriman did not have an adequate gateway from the West into the city of Chicago. This was a challenge to the grab-all mind of Harriman. The Chicago, Burlington, and Quincy Railroad, which ran near the eastern part of the Union Pacific had excellent connections into Chicago. Furthermore, the Burlington was rumored to be planning an extension to the coast. This could be disastrous to the Union Pacific. Hence, even if a Chicago outlet were not desired by Harriman, it would be expedient to control the Burlington in order to keep down undue competition with the Union Pacific.

However, there was one drawback to Harriman's scheme. James Hill, of the Great Northern and Northern Pacific Railroads was approximately in the same position as Harriman. Hill controlled the great transcontinental railroads of the Northwest, but he did not have an adequate outlet to Chicago either. Hill also realized the Burlington would provide an excellent path to Chicago for the Northern lines. In secret, both Harriman and Hill began buying shares of the Burlington. Harriman and Schiff, working through Kuhn, Loeb, and Company, purchased about nine million dollars worth of Burlington securities in the open market, when suddenly they realized that there were no more shares to be
bought. Somebody else had swept the markets clean of Burlington stock, and Harriman by no means had a majority control. Schiff suspected Hill and called on him to bluntly ask if it were so. Hill told Schiff he had no interest whatsoever in the Burlington.23

But as time went on, Harriman and Schiff discovered that Hill had lied when he said he was not interested in the Burlington. They also discovered that Hill, working with Morgan, had spent two hundred million dollars and had split the control of the Burlington between the Great Northern and the Northern Pacific.24 Much to his chagrin, Harriman found that his desired road had been snatched from him by Hill and Morgan. Schiff attempted to bargain by asking permission for Harriman and he to share in control of the Burlington but Morgan and Hill turned deaf ears.

For days Harriman chafed and fumed. The consolidation of the Great Northern, Northern Pacific, and the Burlington could have evil consequences to the Union Pacific empire. But there was a chink in the enemy's

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armor. Morgan and Hill said they owned the Northern Pacific. Did they? Upon investigation, Harriman found that Morgan and Hill controlled only a nominal working portion of about forty percent of the outstanding shares. The remainder of the shares, and the majority, lay in the open market in the hands of myriad stockholders. The solution to Harriman's problem was simple. Buy that major share of the Northern Pacific. Control of the Northern Pacific gave a fifty percent control of the Burlington. So the first move Harriman made was to sell all of his Burlington shares. They were useless to him now. With the proceeds, Harriman went into the market and secretly began to buy Northern Pacific. The potential amount of railroad territory which could be controlled by Harriman was amazing. If the appropriate amount of Northern Pacific shares were bought, Harriman would not only control the Southwestern railroads, but even the Northwestern railroads by gaining Northern Pacific and the Burlington. As for the Great Northern, it would be surrounded by Harriman's holdings and could be squeezed out of importance. Hence, every railroad of importance from the Mississippi River and west, would be a Harriman line. The thought was positively staggering.

The total outstanding stock of the Northern
Pacific was one hundred fifty-five million dollars, of which eighty million dollars was common and seventy-five million dollars were preferred. All through April and the first few days of May, 1901, Harriman and Schiff bought Northern Pacific. They accumulated a total of seventy-eight million dollars worth of securities, of which forty-one million was preferred and thirty-seven million was common. Harriman held a majority interest by about one million dollars. But even this did not put Harriman on safe ground. The preferred stock had been originally issued with the stipulation that it could be retired at any time on any January 1st, up to 1917. The existing directory of the Northern Pacific was friendly to Morgan and Hill. The next election of directors for the forementioned railroad was scheduled for October, 1901. But this meeting could be postponed until January 2, 1902. By this move, Harriman's interests would not be given a chance to elect a favorable directorate, and in the meantime, on January 1st, all the preferred stock would be retired, leaving Harriman with a losing share of common stock in

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the railroad. 26

To increase their holdings, both sides went into the open market and attempted to buy more Northern Pacific securities. Morgan issued orders to purchase 150,000 shares in the open market. 27 Harriman ordered 40,000 shares to be purchased for his account. 28 Both sides purchased, but they were not getting real shares. The price of Northern Pacific began to rise because of the sudden increase in demand. Wall Street speculators were selling short in the belief that the rise in price was temporary and that it would soon fall. The price of Northern Pacific, normally sold at approximately 100 (its par value), jumped to 300, then 400, a great leap to 650, and another transaction took place at 700. Just after this sale, in a mad bid for sales, Northern Pacific reached 1,000 dollars per share. 29

Meanwhile, stockholders suddenly noticed other stocks were collapsing. When the speculators began dealing in Northern Pacific, they unloaded all their


27 Corey, op. cit., p. 299.

28 Kennan, op. cit., p. 309.

29 Collman, op. cit., p. 212.
other holdings at whatever price they could obtain. While Northern Pacific climbed, other stocks tumbled. Stock commissioners on Wall Street faced ruin. So it was decided by the Morgan-Hill interests and the Harriman-Schiff interests that instead of waging a further battle for control on Wall Street, much to the detriment of other speculators, they would combine forces. An immense holding company was formed, known as the Northern Securities Company. Northern Pacific shares were exchanged for Northern Securities shares.

Capitalization of the company was set at four hundred million dollars. It was agreed that Harriman would control substantially half of the company. By one stroke, railroad competition west of the Mississippi River was eliminated. Harriman, with his passion for power even more gratified, controlled the Union Pacific and Southern Pacific, eleven thousand miles of railroads in the Southwest. He also controlled about five thousand miles in the Mississippi Valley on the Illinois Central. Furthermore, he now controlled, in conjunction with Hill, over fifteen thousand miles of railroads running out of Chicago, on the Burlington, Great Northern, and the Northern Pacific.

This move by Harriman was not the only one he had been making during this time. He was also busy buying
substantial interests in the New York Central, the Chicago and North Western, the St. Paul, and the Santa Fe Railroads. His acquisitions gave him control of railroad transportation from coast to coast. When Harriman died in 1909, he controlled a dozen railroads with a total mileage of over eighty thousand.

TABLE 1.-Railroad Lines controlled by E. H. Harriman and Their Mileage:30

<table>
<thead>
<tr>
<th>Railroad Line</th>
<th>Mileage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union Pacific</td>
<td>5,916</td>
</tr>
<tr>
<td>Southern Pacific</td>
<td>6,731</td>
</tr>
<tr>
<td>Illinois Central</td>
<td>4,278</td>
</tr>
<tr>
<td>New York Central</td>
<td>12,282</td>
</tr>
<tr>
<td>Atchison</td>
<td>9,350</td>
</tr>
<tr>
<td>St. Louis &amp; San Francisco</td>
<td>6,356</td>
</tr>
<tr>
<td>St. Paul</td>
<td>8,687</td>
</tr>
<tr>
<td>Chicago &amp; Northwestern</td>
<td>7,632</td>
</tr>
<tr>
<td>Baltimore &amp; Ohio</td>
<td>4,446</td>
</tr>
<tr>
<td>Delaware &amp; Hudson</td>
<td>845</td>
</tr>
<tr>
<td>Georgia Central</td>
<td>1,914</td>
</tr>
<tr>
<td>Wheeling &amp; Lake Erie</td>
<td>2,333</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84,319</strong></td>
</tr>
</tbody>
</table>

Nor was this all of what Harriman desired. It seems as though the more he acquired, the more he desired. Not only did his railroad holdings extend over the continent, but he had dreams of using the Chicago and Alton Railway as a link in a combined rail and water system. After Harriman acquired control of the

Union Pacific, he turned towards the Chicago and Alton road. The total assets of the road were about forty million dollars. They were represented by about twenty-two million dollars of shares, preferred and common; liabilities totalling about eleven million dollars; and the remainder was surplus. Harriman and a few associates formed a syndicate and bought practically all the outstanding shares of the Alton. This was in 1898. In seven years, the total capitalization of the road was increased to one hundred fourteen million dollars, an increase of over eighty million. In spending money for improvements or additions to assets, the accounts showed a figure of eighteen million dollars. So it is shown that over sixty million dollars worth of securities were issued and of this there was not one dollar of consideration. This capitalization amount averaged out to about sixty-six thousand dollars per mile of railroad—a considerable excess for the period.

Among the schemes the new owners of the Alton road connived were first, to issue over forty million dollars worth of bonds. This was done under the pretext of

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32 Ripley, Railroads—Finance and Organization, p. 263.
further construction of the railroad. The bonds were sold to the new stock owners (the Harriman syndicate) at 65, which was a discount from 100. Then, the bonds were promptly resold by the owners, to the New York Life Insurance Company at prices ranging from 82 to 91\%. All the profits went to the Harriman group. Next, a thirty percent dividend was paid to the shareholders. The dividend was paid out of the money the railroad had received from the bond issue. Then, a large share of the Alton stock was sold to the Union Pacific and Rock Island Railroads at exorbitant figures. For handling and supervising the Chicago and Alton venture, Harriman was paid, in cash, $100,000.\textsuperscript{33} The Chicago and Alton undertaking was an excellent example of exploitation and indefensible finance. Harriman's syndicate profited quite handsomely, and all under the pretense of raising capital for use in expanding the roads facilities.

The Harriman transportation empire was more than railroads. Harriman had dreams—big dreams—of spreading his influence and power over vast regions. After Harriman gained control of the Southern Pacific, he used the backing of that railroad to purchase the major

\textsuperscript{33}\textit{Ibid.}, p. 266.
share of the ten million dollars worth of capital stock in the Pacific Mail Steamship Company. With the ships of Pacific Mail, traffic was then inaugurated from San Francisco, to Yokohama, Nagasaki, Shanghai, Hong Kong, and Amoy. The greater part of the trans-Pacific traffic affected arrived at the coast over the Union Pacific and Central Pacific lines. Furthermore, Harriman now had his roving eye on the Far East. Having extended his domain out into the Pacific, he thought to keep on pushing Westward. Plans were beginning to take shape for a scheme which the world had never seen nor dreamed even possible, viz., a round-the-world transportation line under unified control. The line would embrace not only Harriman's rail lines in the continental United States, but also his Pacific Mail Steamship Company, to Japan and the Asian Continent. From there, the transportation line would traverse Manchuria, go on to Siberia, through European Russia, and out into the Atlantic Ocean. If such a railroad and steamship connection were successfully established, the four most


populous countries on the globe would be united: Japan, China, Russia, and the United States.

Harriman's plan was to secure control of the South Manchuria Railway, and link it with his Pacific Mail Steamship Company. Completing this connection, he would then buy the Chinese Eastern Railway. His next move would be to acquire transportation rights over the trans-Siberia road and the Russian Government railroad running from North Manchuria to the coast of the Baltic Sea. These acquisitions, in Asia and Europe, plus the Pacific Steamship line, would give Harriman a continuous line more than three-fourths of the way around the world. If this much were accomplished, it would then be comparatively simple to connect European Russia and the United States by establishing a line of steamships across the Atlantic Ocean. It would be an around-the-world empire, and all under the control—wholly or in part—of Edward Harriman. The idea was fantastic in proportions.

But there was an obstacle in Harriman's visions. After Harriman returned from a visit to Japan, he carried with him a preliminary agreement, whereby he and the Japanese Government would share equally in the South Manchuria Railway. The Japanese Government had recently won the railway from Russia. But upon the
treaty being signed with Russia, Japanese diplomats agreed not to part with the South Manchuria Railway unless the permission of the Chinese Government was first obtained.\textsuperscript{36} The Chinese Government did not agree to foreign interests in having control of the line, and Harriman's plan for a world-wide transportation system was thwarted.

Not to be outdone, Harriman thought to build his own railway across the Gobi desert, but his associates convinced him that the area he had in mind was too barren to provide a suitable agricultural development program. The plan was dropped. Harriman's schemes for a round-the-world transportation system simply faded away.

Harriman could not go on, however, in his quest for control and power in an unlimited manner. The Federal Government began to investigate his expansions in 1904. It brought suit against the Northern Securities Company which had been formed by Harriman, Schiff, Hill and Morgan in their quest for control of the Northwest transportation facilities. Even when the company was formed, a great outcry went up against the new corporation. The Federal Government, and more specifically,

\textsuperscript{36}Kennan, \textit{op. cit.}, II, p. 23.
the Interstate Commerce Commission, had become quite suspicious of railroads in their methods of finance. The word monopoly was considered a literal "big bad wolf." Attorney-General Philander Knox was directed by President Roosevelt to begin suit in the name of the Government against the Northern Securities to bring about its dissolution. When Morgan heard of the President's move, he stormed into Washington, D.C., and reminded Roosevelt that he was merely the President of the United States. But Roosevelt would not be moved. Failing in his efforts to turn Roosevelt, Morgan then prevailed upon Attorney-General Knox and indicated that one of Morgan's lawyers and Knox might be able to get together and "fix it up." Knox answered, "We don't want to fix it up. We want to stop it." From then on, Morgan and Roosevelt did not quite see eye to eye.

In the suit that followed, the Government was successful in its persuasive plea. The Court ordered the dissolution of the Northern Securities Company. The Court said, "The Power acquired by a holding company ... constitute (s) a menace to and restraint upon that freedom of commerce which Congress intended to recognize

and protect.38

In working upon the dissolution of the Company, Hill and Harriman disagreed as to the pro-rata share of the assets. Hill claimed he should receive $\frac{22}{35}$ of the assets of both the Great Northern and Northern Pacific. This would have given him control of both roads. Harriman countered that the agreement to form the company was void from the beginning, therefore each party should receive the number of shares he had put into the Northern Securities Company. Hill contended the agreement was not void, but merely that the action of the Northern Securities company in holding stock of lines in competition with one another was illegal. There, said Hill, the contract forming the company was not void, and the shareholders should receive a pro-rata share of the assets of the dissolved corporation.39 The court sustained Hill's argument and Harriman lost his hold on the Northern Pacific.

Harriman received a blow on his territorial empire. With the Northern Securities Company he had had

38Ibid. The decision, however, was only five to four. Justice Oliver Wendell Holmes, one of the four in this case, felt the Sherman Act against restraint of trade or commerce did not apply to restraint of competition.

39Gerstenberg, op. cit., p. 532.
control of the Northern Pacific. Control of the Northern Pacific gave him control of the Burlington. Control of the Northern Pacific and Burlington would have enabled him to literally squeeze out the Great Northern road. But at one blow, the Government wrested the Northwestern transportation from Harriman's hands. When he lost the Northern Securities issue, he lost the Northern Pacific, which in turn lost to him the Burlington. And since he had sold all his previous holdings of the Burlington stock, he had nothing left from his holdings in the Northwest. Furthermore, the Great Northern was free to operate on a competitive basis with the Union Pacific. Harriman had lost a tussle. Or had he?

When Harriman received his pro-rata share of the Northern Securities Company, he received some twenty-five million dollars in Great Northern and thirty-two million dollars in Northern Pacific shares. At the time, however, they had a market value of about one hundred million dollars. But from the time Harriman received his shares, the stocks began to appreciate in value, until they were worth, on the market, about one hundred-fifty million dollars. Harriman then sold about one hundred-eighteen million dollars worth of the
He lost the Northern Securities case and reaped a tremendous profit.

As for the Northern Securities Company itself, it was not officially dissolved until August, 1937. In Hoboken, New Jersey, a group of men met in an office, and with little ceremony, ended the Company. When it was ascertained that eighty-eight percent of the Company's stock was represented by proxy or in person, a resolution was passed that the company end its existence. Papers were signed and the meeting was adjourned. Thus, quite undramatically, the company, which was formed in a flurry, disappeared. Its existence was the result of a battle between financial giants. But the strange thing about the battle is that the combatants did not get hurt. It was instead the innocent bystander who attempted to capitalize or profit on the battle who was hurt. To prevent disaster to the small speculators, the company was formed. But it was soon stopped by the government.

With the enormous amount of available cash he received upon the dissolution of the Northern Securities

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40 Stuart Daggett, Railroad Reorganization, p. 258.
41 St. Louis Post Dispatch, August 29, 1937, p. 4.
Company, Harriman purchased more Chicago and Alton stock. But at the close of 1906, the Government began investigating Harriman's holdings more extensively through the Interstate Commerce Commission. At the questioning of his holdings and control of the Chicago and Alton Railway, Harriman gave a clue to his methods of operating. To secure control of a railroad, he admitted that it was necessary to own or control only twenty percent of the outstanding stock.\(^{42}\) Apathy of the remaining stockholders permitted the twenty-percent-owner to do as he pleased with the company.

In 1907, the Interstate Commerce Commission charged Harriman with attempting to gather under single control the transcontinental lines, and to exclude all competitors. This, charged the Commission, was a matter of policy with Harriman. What did Harriman have to say to that charge? He bluntly supported the Commission's charge, and made a frank admission that it was only the law which prevented the concentration of every transcontinental railroad into his hands.\(^{43}\) When at a later date, he was asked when he was going to stop

\(^{42}\) Gerstenberg, *op. cit.*, p. 67.

expanding his interests, he answered, "I would go on as long as I lived."  

The term "Napoleon of Finance" was applied to Harriman. His genius and character were Napoleonic in an extraordinary manner. He began his career as a little corporal and ended as the commander of huge armies of men. Slight of physique, he had indomitable energy which enabled him to endure hours of work. Once he laid down a plan of campaign, he pursued it ruthlessly, no matter how many of the enemy's forces were destroyed. Napoleon looked to the future of a consolidated Europe. So Harriman looked to the future of economic power in consolidated transportation. He did have the honorable ambition of building, not destroying. He destroyed only what was necessary to permit larger building. 

Napoleon failed, however, because he opposed civilization. He was autocratic, but democracy overtook the world and him. Mr. Harriman was an industrial autocrat. He believed that the industry and finance of the country should be carried on in accordance with

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44Evidence before the I.C.C., Proceedings of the Special Examiner, as quoted in Ibid., p. 341.

principles and methods of feudalism. He felt that the railroad territory of the country should be divided into great baronial districts, each of which should be administered by a railway overlord. The railroad baron had to administer his district for the benefit of his dependents, tenants, and serfs— or the workers, stockholders, and the customers. And when occasion demanded it, he was compelled to fight other railway barons and take away their overlordship.

Harriman said that the railways of the country should be consolidated and administered by one man, if possible. Now it is not improbable that he dreamed himself to be that one man, ordained by providence, as it were. If his theories on industrial administration were to be followed, however, he had the correct view as to who should be that one man. Mr. Harriman was a successful railway builder and operator. He was a financial genius and drew to his camp the capitalists whom he could convince. He most probably was not against democracy, but he certainly attempted to buck it.

The Federal Government kept up its suits long after Harriman had died. (He died September 9, 1909). In 1911, the Union Pacific was ordered to end it control

\[46\text{Ibid.}, \text{ p. 89.}\]
of the Southern Pacific on the grounds that it tended to eliminate competition. Harriman's financial power in all his systems was reduced. It was felt that an aggregation of railroad companies in the Southwest, totalling more than seventeen thousand miles, under the management of one group of men, all taking their orders from Harriman had power that no government could control. Competition, so long feared to be coming to an end, was promoted. Harriman's system of railroads was, in the end, broken up and dissolved.

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"God gave me my money," said Rockefeller. He looked upon himself as a trustee for the wealth of the world that accumulated into his hands. Only he had the ability to dispense properly the millions that came his way (or so he thought). The fact that Rockefeller had so much money proved him an excellent industrial organizer and statesman (so he thought). When one has as much money as Rockefeller had, it obviously cannot easily be spent quickly. Not that Rockefeller was especially anxious to see how much money he could spend or how quick it could be spent; but he was warned about his fortune. It was growing at a terrific rate. His friend, Frederick Gates, cautioned him that if he did not begin to spend it, and spend it in huge quantities, it would crush him.

Not wishing to be crushed by his own money, Rockefeller agreed his fortune must be put to use. He therefore changed slightly in his method of contributions. Whereas, in his youth, when he was just starting out on his career, Rockefeller recorded in his personal accounts, "Missionary work, six cents; church
poor, ten cents; . . . pew rent, one dollar,"¹ he now changed his direction, amounts, and tactics. His fortune was large, almost too large for Rockefeller to devote his time to both handling the affairs of business and the method or amounts of his donations. Rockefeller therefore hired Frederick Gates to supervise the spending of his money. Many men are perennially hired to work and make money, but few are hired for the sole purpose of spending someone else's money.

And the money was spent for many objectives—education, medicine, religion (regardless of creed) and numerous charities. Despite the fact that such acts were good advertising for Rockefeller, even the most rabid "muckraker" would have to admit that some benefaction was granted to society. Laying aside, for the moment, the premise that the end never justifies the means, a great case can be built up to point out that the Rockefeller donations have made possible worthwhile progresses, and because of them, he can be ranked among the industrial statesmen of the world.

What of Edward Harriman? Can he too be pointed out as a man who put some benefit into the world as a

result of his life's work? Or was his mind so taken up with his railroad activities that he had absolutely no time for the petty benefices to which he might put his wealth? He did have wealth. His personal fortune was estimated to be in the vicinity of about seventy-five million dollars.  

What did he do with his money? For an answer, it is necessary to go back several years in Harriman's career. A fifteen year old boy, hearing that Harriman's activities were being investigated by the Federal Government says: "Nobody makes him—he just does it himself." Does what? The supporting of the New York Boys Club. This club was started by Harriman himself, and kept going under his sponsorship and leadership. In 1875, long after he entered the field of railroading, and while he was still a small broker on Wall Street, Harriman was active in youth affairs.

Harriman saw, in his early career, many young boys of the street, who did not have a chance to do anything. What they needed was a place to go where they

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2"A Study of Harriman and His Methods of Work," New York Times, August 1, 1909, p. 3. When Harriman died, his estate was estimated to be approximately 160 to 200 million dollars, "Romance of a Railroad Wizard," Leslie's Weekly, February 16, 1911, p. 188.

3Kennan, op. cit., p. 53, II.
could play, exercise, learn, and in general occupy their time in a constructive manner. There was, in the neighborhood, a school which had been organized to give industrial training for the poorer girls of the neighborhood. But the school authorities complained that they were continually being bothered by the boys of the street who teased the girls and threw stones at the school windows. Harriman's mind went to work and arrived at the conclusion that if a school kept the girls occupied, the boys should have a school or a club to occupy them.  

Early in 1876, Harriman interested some of his friends in the idea and organized a boys club in the basement of a building. It had no fees, or dues, and was open to any boy who came. At first Harriman and his friends took turns in supervising the boys at their evening activities. It was kept going in this manner for five or six years, and the expenses were borne by Harriman and his friends. Then a definite organization was established which included a board of directors and an executive committee, which had Harriman as the chairman of both. A clerk was hired to keep accounts and assist the evening supervisors at their work.

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In the early 1880's, many college students and graduates were enlisted to help in the evenings. Over the years, the club grew and expanded in its facilities and soon many workers were hired who were skilled in certain gymnastics to train the boys. In 1898, Francis Tabor was hired as the superintendent of the club. Under Tabor's supervision, the club expanded into many outdoor activities as well as the usual indoor ones.

As the club grew in scope and membership, it became evident to Harriman, that the club had more than outgrown its building and annexes. A new home was necessary for the continued growth of the club. In 1900, Harriman bought a lot and had a building erected which was designed to meet the needs of the club for many years to come. The total cost was $185,000, nearly all of which was contributed by Harriman personally.5

Harriman always showed an interest in the club. In 1901, while he was chairman of the executive committee of the Union Pacific reorganization, he kept watch on a crop of potatoes which the Boys Club had been growing. Although he was absorbed in the railroad work, he bought the whole crop from the boys (about fifteen bushels) as soon as they were ready for market.

5Kennan, op. cit., II, p. 39.
As proof of Harriman's organizing ability, there were many prominent men of New York brought in to help contribute to the club's growing annual expenses. By 1906, contributions to the club's treasury numbered about 350 men. In 1907, the club fell $11,000 short of meeting its expenses for the year. Harriman promptly stepped in and made good the deficit. Then he notified the club's directors that he would personally contribute annually to the support of the club, fifty percent of the total sum that the club might raise by any other means. This amounted from $5,000 to $8,000 every year until his death.

Thus it can be shown, that even if Harriman had personal plans of grandiose achievements in the field of railroading, he still had time for those more unfortunate than himself; and proof of his generosity is further pointed out that the Boys Club was started long before he had become a financial success. Therefore, the work of the Club for Boys was not the result of an attempt to salve his conscience or allay suspicions of his financial empire. "He just does it himself."

In 1899, Harriman was given orders by his doctor to spend a bit more time at relaxation and recreation.

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6Ibid., p. 48.
He was working quite hard on the Union Pacific reorganization, and its rebuilding. His naturally frail body was in danger of exhaustion. He decided upon a summer cruise for himself, his family, and a few friends. He intended a short cruise between the coast of Washington to the coast of Alaska. As preparations were undertaken, it was soon discovered that to insure the safety of the family and friends, a large ship and a substantial crew would be required. Harriman then decided to extend his guest list. He invited scientists and artists to accompany the voyage. The men chosen represented a cross section of various branches of scientific research, were professors in universities, or leaders of their day in government scientific work.7

The expedition sailed from Seattle, May 30, 1899, on the steamship George Elder, a chartered ship, and was gone a total of two months. During that time, a distance of approximately 9,000 miles was covered. The trip extended primarily along the broken coast of Alaska nearest Canada, out on the Aleutian Islands, then turned North to the Bering Sea, where landings were made on the Continent of Asia. There were frequent landings

made on many shores and a much detailed study of Alaskan geography was made.

The artists, photographers, geologists, botanists, and zoologists made great use of their times ashore. Large collections were made of small animals and birds; large numbers of marine life and seaweeds, and a huge collection of insects and land plants of the area was made. A number of glaciers not previously known to exist, and many others which were only vaguely known, were mapped and photographed. Evidence was collected of their changing sizes. When the ship entered Prince William's Sound, a new fiord was discovered, photographed, and mapped. The fiord was named the Harriman Fiord to honor the man responsible for the scientific expedition.

This is not to suggest that Harriman was the absolute dictator of the expedition. When the trip was under way, Harriman personally called a meeting of the many scientists aboard and told them he wished them to organize several committees for the various types of scientific investigation to be undertaken. Harriman further impressed on the scientists that the ship had no other business than to convey the party wherever it wished to go. Its route was entrusted to a committee comprising the various sections of research.
Equipment for the expedition was quite comprehensive. Launches and small boats, camping outfits and stenographers were provided the scientists. All this was done at the personal expense of Harriman. Because he had to take a vacation, he was not one to let an opportunity go by. Scientific advances were made as a result of his voyage. Nearly six hundred new species of plant and animal life were found. Because of this trip, the knowledge of Alaska, which at the time was quite meager, was advanced substantially. Again, this was all done at the personal expense of Harriman. This was a contribution to scientific knowledge which he did not have to make.

When Harriman was elected chairman of the Union Pacific executive committee, the first act he performed as chairman was to make an order for a special train to carry him from Omaha all over the U.P. lines. The special train was to have an observation car in front and an engine behind, so that Harriman had himself pushed, not pulled over every mile of the system. He travelled only by daylight, and the trip lasted several weeks. In his examination of the road, and its equipment, nothing escaped his attention. The railroad was in a

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Ibid., p. xxv.
run-down condition, both in stationary facilities and rolling stock.

While on the line, quite early in his journey, he telegraphed to the board of directors for authority to begin work that would cost an estimated twenty-five million dollars. A letter followed his telegram explaining in detail the reasons for adopting a revamping program of such expense. Harriman had two reasons in mind as to why the work should be done, and why it should be done immediately. First he saw that the Trans-Missouri region had a coming prosperity, (it did), and second, labor and material costs were lower than they would be for many years to come in view of the coming prosperity.9

The directorate of the Union Pacific was frightened at giving authority to one man to spend so much money. The road had just been burdened by the reorganization committee with a debt of eighty-one million dollars due on the Federal debt. The country was beginning to creep back to normal after the panic of 1893. The country was at war with Spain at the time, and Harriman was advocating authority to spend twenty-five

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million dollars. The board did not make a decision to authorize the money demanded by Harriman. They waited until he returned to New York to make a decision. But Harriman was not one to wait when there were things to be done. He took immediate action. He had, in fact, without any authority, begun his own program of reconstruction while out inspecting the line. On his own authority, he had signed contracts and placed orders while in the west, so that time would not be wasted. The program which he advocated was gotten underway right from where things had to be done.  

When Harriman ultimately did return to New York and met with the board of directors, he convinced the members that the money should be allocated. However, it did not have to turn out this way. Harriman's whole actions on his inspection tour could have been repudiated by the board. He really had no right to purchase things for the company without authorization. Harriman could have been ruined, and his career blasted. But this did not happen. Harriman went on to spend much more money for revitalizing of the Union Pacific. Initially authorized to spend twenty-five million dollars,

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Harriman's expenditures for betterments, and new equipment reached great proportions. In 1898, the year he started, only $505,368 was spent. But, as the years of Harriman's management passed, the amounts were increased tremendously. In 1899, over $8,000,000 was spent. From that year on, tremendous amount of money were spent to improve the road. A high was reached in the year 1906, when over $29,000,000 were allocated for additions, betterments, and equipment. Between the years 1898 and 1909 inclusive, a total of $174,593,578 was spent just for improvement of the road. And all this money was not spent without a reason. The Union Pacific did not only become a better road from the physical standpoint, but also from its operating revenues. Gross revenue of the road went from $32,631,769 in 1898, to $78,750,416 in 1909, with, but one exception, each year showing an increase over the previous one. Harriman came to the Union Pacific when it was financially insolvent, friendless, and decrepit. He left it financially powerful. Under him, rates were lowered, traffic

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11 Annual Report, Union Pacific Railroad, 1898.
12 Annual Report, 1899.
13 Annual Report, 1906.
14 Annual Reports, 1898-1909 inclusive.
increased, wages raised, and the region which the railroad served acquired a great prosperity.¹⁵

In his work on the Union Pacific, Harriman literally threw out old and worn-out locomotives and freight cars, and replaced them with newer ones. The locomotives could haul more of a load, and the newer cars had more capacity. The cost of hauling freight was reduced by a lessening of the number of curvatures and by shortening the distance between points. Harriman's work also extended in a like manner to his other roads.

On the Union Pacific, perhaps his greatest achievement was the building of the Ogden-Lucin Cut-Off. The old line west of Ogden curved north across the Great Salt Lake and then came back down heading towards California. Harriman, looked across the lake, and gave orders to build the roadway straight across it. Two trestles across the two northern arms of the Lake were built. One is ten miles long and the other is nineteen miles long. In this way, out of a distance of 14¼ miles, 4½ were eliminated.¹⁶

In 1908, a land commissioner of the state of


¹⁶Trottman, op. cit., p. 304.
Nebraska made an estimate of the value of a strip of land extending ten miles back from the Union Pacific line for a distance of twenty miles along the road on either side. The value was placed at approximately one billion, seven hundred million dollars. This same territory was estimated to be worth about twelve and one-half million dollars in 1863, just before the Union Pacific was built.\(^{17}\) The values imparted to the lands the railroad traverses is quite obvious.

On the morning of April 18, 1906, Edward Harriman was told by his private secretary that a disastrous earthquake had all but leveled the city of San Francisco. Communications out of the city had been knocked out by the quake, but other areas around the city had begun to pick up bits of information of the disaster. Word was received by reporters in New York, that the Union Pacific office was receiving information on the quake through its telegraphic communications to San Francisco. Reporters clamored for news outside of Harriman's office. As news bulletins came in, they were read to the press men.

The situation in San Francisco was an obvious

disaster. As more and more information filtered into New York, Harriman perceived that there would be much work to do in the city. At 4:00 o'clock in the afternoon, Harriman said to his secretary, "Well, Hill, we start at daybreak running special. Make the arrangements." The trip of Harriman from New York to San Francisco was a record-breaking dash. It was made in a few hours more than three days. When the train reached Ogden, a car loaded with bottled mineral water was added to the special train. The water had been ordered ahead of time so it would be made available to the stricken people. On April 21, 1906, Harriman's train reached the Southern Pacific's Oakland pier. The sight that greeted Harriman was a pall of black smoke which hung over the city. Flames were coming from the blackened ruins as far as the eye could see.

For three weeks Harriman remained at Oakland, and from his private car, he directed the relief work activities. Thousands of people in the San Francisco area were frantically trying to send messages to friends or relatives in the east. Many more thousands in the East

were trying to make contact with those they feared to be stricken by the disaster. The telegraphic communications of the Harriman lines were made available, free of charge to the people. In a three week period, over 10,000 messages were sent. 19

Three river steamers, belonging to the Southern Pacific were ordered by Harriman to be given to the city authorities, to help carry refugees out of the city and into surrounding towns. Harriman ordered his operating officials, both on the Union Pacific and on the Southern Pacific, to give relief and refugee trains the right of way over all other trains. People and supplies were to be carried without charge. In the matter of transportation along the Union Pacific and Southern Pacific brought into San Francisco, were 1,603 carloads of supplies, free of charge, which would have cost about $1,15,000. Over 200,000 refugees were carried over the lines out of the city, whose fares, if they had been paid would have cost $500,000. 20

In compliance with Harriman's orders, the resources of the railroads were made available in many ways. When explosives were needed to blow up houses in

19 Ibid., p. 4.
20 Kennan, op. cit., pp. 72-73.
the ways of the fires the railroad supplied them. Gas­
oline was supplied by the road for the many automobiles
which carried emergency workers around the city. The
private hospital maintained by the railroad was thrown
open to those who were injured and company doctors and
nurses aided many people.

Harriman personally attended a meeting which was
called and organized to meet with the emergency. At
the first meeting, called the Committee of One Hundred,
Harriman proposed that men be put to work immediately
clearing the streets of debris. He urged that citizens
in the unburned part of the town be encouraged to re­
sume their usual occupations. He further stated that
an effort be made to get all people to do something--
anything--so their minds would be occupied and thus
they would be helped towards their normal pattern of
life. Many of his suggestions were adopted and put
into effect. Harriman had the ability to get jobs
moving quickly. The San Francisco disaster is one more
proof that Harriman had the ability to think of others
than himself.

Almost on the border of the United States and
Mexico, in California, is located the Imperial Valley.
Today this valley ranks among the most productive areas
of the world. The whole valley is the bottom of what
once was an ancient sea, now dried up. The valley was seldom sprinkled by rain. It was always scorched by the hot sun. The greater part of the valley is below sea-level. Water and vegetation were almost nil. Early explorers regarded the valley as a dreary, foreboding, desert of North America. As recently as 1900, the Imperial Valley did not have a single inhabitant, save a few wandering Indians. None of its arid acres had ever been cultivated.

Today the valley is a vast agricultural production area. It is populated to almost 100,000. It has all the conveniences of modern civilization, with churches, banks, electricity plants, schools and several prosperous small towns. The history of the valley will always be connected with Edward Harriman. He did not create the valley, nor did he develop it. He saved it from destruction. He saved it from the very forces that had created the valley—the surging Colorado River.

Tens of thousands of years ago, the ancient sea was a literal salt-ocean. Then the Colorado River, which flows near, in a rambling, shifting course, cut off the basin of the sea from the ocean. The lake eventually dried up under the hot sun. Then again, in later years, the Colorado shifted its course, and then
overflowed into the bed of the ancient sea, and made a fresh-water lake out of it. Then again, the capricious Colorado changed its course and left the basin of the ancient sea, a dry delta.

Over the centuries, the Colorado again and again invaded the delta, creating a fresh-water lake, and then again abandoned it, leaving it dry. But each time it invaded the basin, it did something to it. In the Colorado River are suspended great loads of sediment, which were carried into the basin, and, when the Colorado receded from the basin, it left this sediment on the bottom. The sediment, although dried out, did provide the basis for fertilization of the valley. The only problem was that of bringing in water. In 1891, a company was formed to study the basin, and provide the method of bringing water into it.

By early 1904, a vast system of canals had been dug throughout the Imperial Valley. All the subsidiary canals were supplied by a main canal which led to the Colorado River. Under this system, the valley was now able to take advantage of the fertile sediment, and farmers and settlers were encouraged to settle in the area. The Valley was soon prosperous as innumerable varieties of crops were able to be raised. But, also by 1904, the California Development Company, the
builder and maintainer of the canal system was also having its difficulties. From the time irrigation of the valley was started, the silt carried in the Colorado River was a problem, and the cause for much financial loss. While the silt itself contained useful mineral fertilizing qualities and could therefore benefit the land when deposited on it, its accumulation in the canals was a far different matter. 21

The main canal had become so clogged with silt that despite increased dredging operations, the water supply into the valley was gradually being diminished. The California Development Company decided to build another intake from the river into the Valley early in 1905. This second intake was built further downstream from the main canal. But in 1905, the Colorado was acting as it had never acted before. It had several high floods, whereas in earlier years, only one high water season was common. The newer intake on the canals was then dammed off, because, with the high floods, the proper amount of water was being supplied in the main canal, despite its being laden with silt. But then suddenly the dam on the second intake broke.

Attempts to repair the damage were futile. Water from the Colorado began pouring into the Imperial Valley, and literally began creating another Salton Sea.

The California Development Company found itself short of funds in the emergency and approached Julius Kruttschnitt, general manager of the Southern Pacific, for a loan. Kruttschnitt, however, declined to consider the loan. The company then turned to Harriman, who as President of the Southern Pacific, took action. Against Kruttschnitt's advice, $200,000 was loaned to the canal company. But there was one stipulation. Three of the directors of the irrigation company were to be chosen by Harriman, and fifty-one percent of its stock was to be put in the hands of a trustee as collateral for the loan.22

Before long, however, the $200,000 was used up by the company and the river was still not under control. The Valley was still in danger of being flooded. Harriman was appealed to again for more money. He gave his assent and work was again attempted. By November, 1906, over one and one-half million dollars had been spent, and the Colorado was again forced into its old bed. The Valley was safe from inundation, or at least

22Kennan, op. cit., II, p. 120.
the residents of the valley thought so.

In the first few days of December, another sudden flood occurred, and an earthen dam gave way. The breach gradually grew through erosion and the Valley was again becoming flooded. The engineers of the California Development Company reached the decision that the Colorado River was showing its ancient tendency to flow back into the Salton basin area, just as it had centuries before. To prevent this from happening, it would be necessary to not only close the new breach of the dam, but to build a stronger and higher massive levee along the west bank of the river for at least twenty miles. A million and one-half million dollars had already been spent in trying to control the river, and estimates called for at least that much more to do the necessary work.

Harriman then decided that the danger was more to the people who had taken up their homes in the valley, and figured that the saving of the valley was really a national emergency. It was not necessary for a private company as the Southern Pacific to do the work at its own expense. Harriman wrote to President Theodore Roosevelt, explaining the stand of the Southern Pacific:

We are willing to cooperate with the government, contribute train service, use of tracks
and switches, use of rock quarries, train crews, etc., and the California Development Company will contribute its engineers and organization, the whole work to be done under the reclamation service. Can you bring this about?

Roosevelt answered Harriman, and told him that the Reclamation service could not do such work without the authority of Congress. Further, Congress was adjourning and nothing could be done in an official manner just yet. He urged Harriman to go ahead with the work saying:

This is a matter of such vital importance that I wish to repeat that there is not the slightest excuse for the California Development Company in waiting an hour for the action of the Government. It is its duty to meet the present danger immediately and then the Government will take up with it ... the question of providing in permanent shape against the recurrence of danger.

Theodore Roosevelt.

Harriman wrote Roosevelt that he was giving permission to his men to go ahead and work on the repairs. Roosevelt again replied to Harriman that he was:

... delighted to receive your telegram. ... As soon as Congress reassembles I (will) recommend

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legislation which will provide against a repetition of the disaster and make provision for the equitable distribution of the burden.\textsuperscript{25}

On the basis of this promise of reimbursement from the President, i.e., any expenditure by the Southern Pacific for this obvious project of a public nature, the Congress would make restitution. The work on the runaway Colorado River went on. In massive movements, several work trains moved thousands of car loads of rock into place. The depth of the river was raised to a point where it began to flow back into its old channel.\textsuperscript{26}

The total cost of this mammoth project was about one million, six hundred thousand dollars, and this, added to the cost of all the previous attempts to control the river amounted to a little more than three million dollars.

That the break in the Colorado River was closed was due to Harriman's insistence that it could be closed. Even experienced engineers on the project looked over the job as a physical impossibility and

\textsuperscript{25}\textit{Ibid.}

\textsuperscript{26}F. H. Newell, Director of the United States Reclamation Service, "The Salton Sea," Annual Report, Smithsonian Institution, 1907, as quoted in Kennan, \textit{op. cit.}, II, p. 156.
discouraged any further work being done. Harriman insisted that it could be done, and, despite advice of experts, pushed forward plans for having the work done.27

As for Congress compensating the Southern Pacific for its expenditures, there was a great difficulty. In his annual message, President Roosevelt outlined the work which had been done before Congress.28 In January 1908, a bill was introduced into Congress to reimburse the Southern Pacific for its expenditures on the Colorado River. Theodore Roosevelt wrote the chairman of the Claims Committee urging "that it is an act of justice to act generously in this matter."29 But the bill was not adopted, then, nor at any time during Roosevelt's term.

Under Taft's administration, another bill was presented by the Claims Committee with the recommendation that the Southern Pacific be reimbursed for its work. However, a minority report objected to the bill


which was described as:

... an attempted raid on the Federal Treasury. ... (There is no) legal ... or moral obligation on the part of the Government (to pay this sum). (We are opposed to this) gift to the Southern Pacific Company as well as all other gratuities to private enterprise.30

On the basis of the minority report, the bill was dropped. Harriman's line was never reimbursed for the work it had done. It was President Roosevelt who specifically urged Harriman to continue the work on the River; who said it was the duty of the railroad to do so; and further said, compensation would be forthcoming. Harriman acted as any industrial statesman when he continued the work. He did what had to be done. Later, when questioned about the refusal of Congress to make a reimbursement, he was asked if he regretted making so many expenditures. He said, "This valley was worth saving, wasn't it? ... Yes. ... Then we have the satisfaction of knowing that we saved it."31

While Harriman was the president of the Union Pacific, he did much towards increasing the physical facilities of the road. But that is not all he did. He also thought of the workers, the supervisors, the

30ibid.
31Kennan, op. cit., II, p. 172.
laborers. The usual method for a worker to master his particular type of work was to tackle its fundamentals until he had learned them. Once he had done this, then he could be fairly sure of having a job. But he could not always be sure of being promoted when vacancies occurred in upper echelons. Advanced positions required a more thorough knowledge and training. Most employees could not get this increase in practical knowledge in their particular occupation.

Harriman realized this and did something about it. Under the initiative of Harriman, the Railway Educational Bureau was founded. Dexter C. Buell was asked by Harriman to begin, organize, and carry through the educational program for railroad workers. The bureau offered an opportunity for Union Pacific employees the chance to have direct study on railroad work. Experts on various fields were called in and they prepared textbooks and furnished the instruction. Programs for many crafts of railroad work as such were begun and still continue today in such fields as the Mechanical Department, Maintenance of Way Department, and Signal Department.

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32Railway Educational Bureau. Personal interview with Mr. Dexter C. Buell, owner and director of the organization, and the one responsible for starting the program for Union Pacific employees.
Department. Today, programs are available for diesel locomotive operators and supervisors. The Railway Educational Bureau, operated exclusively for railroad employees, is an outgrowth of Harriman's plan. On a visit to Omaha, in 1909, Harriman discussed with local officials the possibility of starting such an organization for the employees of the Union Pacific. Nothing definite could be settled as to what type of an organization should be established. Harriman left Omaha and returned to New York. When he got there, he decided the matter in his usual quick manner. He sent a telegram: "Adopt plan of Southern Pacific or one better."33

Buell undertook to do the Southern Pacific training program one better, and organized his own plan, and the original Educational Bureau of Information was started. Today, of course, the name is changed to the Railway Educational Bureau. Only an industrial statesman would be willing to spend money for the betterment of his employees. Harriman did spend such money.

33Ibid. The wording of this telegram is from the memory of Mr. Buell.
Curiosity over a man who wielded tremendous powers in his day is quite natural. Even the people of Harriman's own time were curious about this man who went places and performed such herculean deeds. But this curiosity was never satisfied. Harriman was quite reticent regarding himself or his aims. He was a baffling personality.¹

Harriman was a scrawny, little man, who wore thick eye glasses, a "soup-strainer" mustache, and a big derby hat, which made his naturally unimpressive features even more insignificant. In his slouchy clothes he might easily have been mistaken for a common clerk, with a small salary, who was continuously bullied by his employer and his family. Appearances are deceiving and Harriman is an excellent example of this adage. Beneath his unimpressive figure and outward appearances was a tough aggressive mind in the field of railroad finance. Harriman was a very bold person. He was, without doubt, predatory. He wished

to extend his influence everywhere. He demanded to be let in on deals that he thought were attractive to him. If he were refused, he would usually "muscle" his way in. The Northern Pacific incidents point this out only too well. He seized—of that there is no doubt. But did he seize ruthlessly, carelessly? Or did he seize carefully and even justly, being careful not to disturb his opponent? He had dreams. These dreams were not of a good railroad, or a big railroad; not even of many railroads in the country. He had vast imperial dreams, extending across the Pacific Ocean, across the Continents of Asia and Europe, and over the Atlantic Ocean. He even had plans for a railroad in Mexico. All these plans were not only big—they were daring; and only a bold man dares.

But can a man be condemned merely on the basis of his dreams? To be sure Harriman's dreams were pushed forward. He did control a good share of the country's railroads and controlled shipping lines to Asia. He was, in short, a powerful man.

Harriman never argued. He had a tendency not to make a personal issue out of any matter in dispute. With Harriman, there was a great difference between opinions and convictions. Rather, than treat his own opinion as a conviction, he would readily change his
opinions when he saw that facts did not maintain his view. He would form an opinion as being neither right nor wrong because it was necessary to have a starting point. There was this much about him. His opinions, although they could be changed, would have to be changed for hard-argued reasons. He would not change them easily. Facts were what he wanted, for when he was right, or at least thought he was right, he did not care what others said or thought.

An excellent example of how Harriman operated occurred back in his Illinois Central days. This will show what was in his methods and determinations. In 1895, while he was the vice-president of the Illinois Central, Harriman was at Jersey City. From there he wished to travel to Goshen to watch the trot-horse races. He had accidentally missed the Erie train that he intended to take. And there was not another train that would take him to Goshen. The Chicago Express ran through Goshen, but was not scheduled to stop there. Harriman called the executive offices of the Erie, and asked if the Chicago express might be made to stop at Goshen, as a personal favor of the vice-president of another railroad. Harriman’s request met with a curt refusal.

Harriman was stubborn. He had his mind made up
to see the races. Making an inquiry of the Erie's train schedules, he found that the express would be flagged at Goshen if there were any passengers there going to points west of Buffalo. Harriman telegraphed a friend at Goshen, and told him to purchase a ticket to Chicago. When the Chicago Express left Jersey City, Harriman was on it. When the train reached Goshen, it was flagged to a stop. However, no one got on. Only a short, mustached man got off, and went to the races.²

Harriman was shrewd. What he did was not illegal. The railroad was reimbursed for having its train stop. But Harriman accomplished what he set out to do. And he did so silently.

Once, he was cautioned by a friend that he should explain to the public why he was doing the things he did. He replied: "The people always find out what's what, in the end, and I can wait. I need my time and energy to do things."³

The deeds of the great men of finance, were determined by the economic forces of the time. In writing about any of them, it is necessary to deal with them without anger, and to present them as no more wicked

²Kennan, op. cit., p. 104.
³Ibid., p. ix.
than they or their contemporaries actually were. We, today, live in a new and different moral business climate, as different as the six-gun law of the frontier marshal from modern police methods. Of Harriman's sharp dealing on the Chicago and Alton Railroad, the only defense offered by Harriman's counsel was a blunt statement of the truth of the charges made against him. When questioned about the terrific stock, bond, and dividend transactions, counsel admitted that the sole purpose of the recapitalization was to create securities whose par value would exceed the value of the property. But it was further stated that the times had changed from the time Harriman took over the road to the time of the investigation. Different standards were in use when the investigation took place than when the stocks were issued. Counsel explained that Harriman's move was misunderstood, because it was only at the later date that such a venture was considered unwise, implying, of course, that when it was done, it was perfectly legitimate.

Harriman was always after efficiency. He insisted that the railroads, as they were, were quite

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adequate to meet the needs of shippers. He put the blame for inefficient use of a railroad's cars on the shipper. Terminal facilities, he felt were of the utmost importance in utilizing the railroad's facilities to the utmost. He was openly in favor of having a wider gauge for tracks than the standard four feet, eight and one-half inches. A five, or even a six foot gauge would have been more efficient, according to his reasoning. For only on a wider gauge would the equipment be able to be made larger, carry more goods, and require fewer cars for storage facilities. His greatest emphasis was on keeping things moving. Only a train that is going somewhere and carrying something somebody wants was making money.5

Harriman was endowed with the ability to transform the slightest detail into a vast picture of all his railroads. One day he was walking out on the road with Knuttschnitt and looked at a track bolt. Harriman asked why the bolt protruded so far beyond the nut. Knuttschnitt answered that it was the size generally in use. Harriman pursued the point, asking why the railroad should use a bolt so long that part of it is

useless? Kruttschnitt could not give an answer. Harriman walked along in silence, then at length said there were about 18,000 miles of track on the Union Pacific and Southern Pacific railroads. On that track, there must be some fifty million track bolts. Cut off one ounce from every bolt, and you will save some fifty million ounces of iron. Kruttschnitt was told to change his bolt standard.

While Harriman was impatient of unscientific control of railways, he also realized that the time was coming when the government would not leave the railways free to do as they pleased. Harriman was of his time. As the lawman in days of old used rough, even ruthless methods of tracking down or even gunning down a criminal, the world at the time praised such a lawman. It was sometimes the only way of stopping a ruthless criminal. So it was with Harriman, he was autocratic—brusque—even impatient of opposition, and he set out to overcome it.

While at St. Louis for the World's Fair, in 1904,

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6 This approximates 1,500 tons of iron, a substantial amount.

7 Unpublished letter of Julius Kruttschnitt, director of Maintenance and Operations of the Harriman lines, as quoted in Kennan, op. cit., p. 278.
Harriman stressed the idea of cooperation. He said:

(Man) has found it possible to improve his condition only by cooperation, and becoming dependent on others.®

This advice was definitely not the Harriman mode. Certainly, he liked everyone to cooperate, but he wished to have one big happy family, and they could all call him chief. Harriman did not get work accomplished by cooperation, nor by being dependent upon others. He would find out what he wanted and do it. He would certainly not be dependent upon others. He was his own boss. Others could be dependent upon him, and of course cooperate with him.

At the time Harriman became interested in the Chicago and Alton Railroad, he sent one of his lieutenants, Samuel Felton, out to make a report of the physical condition of the road. Felton went over the road for Harriman and started a very thorough examination of all the assets. When he was about half-way through his report on which he was working laboriously and in thorough detail, Felton received a telegram which said: "Wire report on one telegraph blank." Felton was perplexed. How does one explain the condition of a road

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8"Address Delivered by Harriman at the Opening of the Louisiana Purchase Exposition," St. Louis, Missouri, April 30, 1904.
on a telegraph blank? He spent several hours writing and tearing up blanks, and at length, sent Harriman a message. Then turning back to his work, he hurried the report of the road. When Felton reached New York again, he handed Harriman a voluminous report. Harriman said he would look it over, but he had already bought the railroad on the strength of his wire. 9

Harriman knew how to keep his employees on their toes, whether that employee be a mere laborer or a president of one of Harriman's railroads. At one time he telegraphed Felton from New York, "Be here tomorrow morning." Felton did all he could to leave his work, prepare himself to take the trip. Arriving in New York, he quickly went to Harriman's office. Harriman looked up and asked what Felton was doing there. Harriman often suddenly decided that he would need some information from one of his lieutenants. He would wire the man to come to New York immediately. When the man arrived, the information desired might not then seem so important to Harriman, and he might then keep the man sitting around for a week before getting down to business which would sometimes last thirty minutes.

Harriman's ebullience by no means suggests that he was an ubiquitous and indefatigable individual who was at once the Chairman of the Board, President, Superintendent, and Section Boss. His ability to organize was beyond his insisting on deciding the minutia of railroad problems. Harriman's lines were divided up into two sections: Maintenance and Operations; and Traffic. A man was placed in charge of each division, and acted as a final buffer between the lower operating officers and Harriman. Any question or problem relating specifically to a division was decided upon by the division chief, because he had been given that power to decide on the spot. This eliminated telegraphing the home office and waiting for instruction.

Harriman was not the methodical figure that John D. Rockefeller was. Rockefeller, who studied bookkeeping and found it to his liking, formulated the idea of having everything in its place, done properly, and most important, in correct sequence, as one-two-and three. Harriman did not work that way. He did not have a specialized system of work, nor did he necessarily follow office hours. Neither did he do things in a one-two-three-manner. He would more than likely start with

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10Snyder, op. cit., p. 44.
three, leaving one and two to be done by subordinates.  

Whatever may be said of Harriman and his methods, this much is certain. He made money for the shareholders if he could, but he never failed to develop and improve the property. This was strikingly true of the first railroad in which he became involved, the Sodus Bay Railroad. The Illinois Central was in excellent financial condition; he kept it that way, and used that road as a leverage to buy into the Union Pacific. The Union Pacific was, without argument, in a very sad condition. Under Harriman's aegis, the physical condition was perfected, until it became one of the finest operating roads in the country. This is no casual generalization. Even the Interstate Commerce Commission, while investigating Harriman's expansionary activities, was compelled to admit:

It has been, however, no part of the Harriman policy to permit the properties which were brought under the Union Pacific control to degenerate and decline; as railroads they are better properties today, with lower grades, straighter tracks, and more ample equipment than they were when they came under (his) control.  

Standardization, possible only under a unified

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11 Felton, op. cit., p. 11.  
control was carried out to a great degree on the Union Pacific and Southern Pacific. On the separate lines there were nearly fifty patterns of frogs; they were reduced to four. There were nearly a hundred kinds of journals; they also were reduced to four. Standardization was carried out to a great degree; from rail bolts, to frogs, wrenches, switches, and journal-bearings—all were standardized. This led to efficiency when it was necessary to make repairs, which in turn, saved money.

Was Harriman an intrinsically evil person? Was he an upright, humble, and self-conscious individual, afraid of offending someone else's feelings? The answer to both of these questions is no. Harriman was acquisitive. His desires knew no bounds, as evinced from his great world transportation dreams. But no criminal proceedings were ever proved nor pinned upon him. The wealth Harriman accumulated, all belonged to someone. Harriman's methods were not to wrangle over the bread. It may be said he never took anyone's bread. He did take away their butter and jelly, and he

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13Kennan, op. cit., pp. 276-77.

did so in shrewd ways. Just because a person was in charge of a particular railroad did not mean that he was supposed to continue in that capacity. There was no reason why Harriman should not be in that capacity. Again, it is only necessary to point to the fight for the control of the Burlington and the Northern Pacific.

Naturally, by taking away someone's jelly, you are going to create an enemy. No one, especially a strong person, likes to have someone else come along in a stronger capacity. Harriman was strong. He was forceful, bold, quick, and to the point. If anyone had their jelly taken away and were not strong enough to fight back, the most they could do was to make fists in their pockets, and complain. After a while, there are many people making hidden fists and complaining so that it becomes a national issue, and the government took the stand that a wrong is being committed.

By the same token, if Harriman took over someone's position in the railroad field, he did not necessarily believe it to be temporary. If he was in an influential position, he meant to stay there. This, by his own admission, was his goal. He bluntly told the I.C.C. examiners that he would go on gathering as long as he lived. There is no reason to doubt he would not have done so.
But in a social order, people become disturbed when wealth and power become unequal and are concentrated in one man's hands. The cry goes up that competition is being restricted. Harriman answered it was true. But the public overlooked the advantages resulting from lessened competition. The Government made a great effort to bring criminal proceedings against the trusts. The Supreme Court ruled that to prove a trust criminal, it must be shown to be unreasonable. There was no reason in the world why efficiency and economy should be discouraged by consolidation; and they were not.

At the outset, it was mentioned that very few Americans could name contemporary business leaders. This is not because there are no business leaders today. There are the presidents, chairmen of the boards, and various executive officers of the great corporations today, just as there were in the early days. But a change had occurred. The old era was one of great expansion. This naturally brought to the limelight those leaders who led their company's expansion. But today, there is a tendency among business leaders to preserve the status quo. A corporation president has a protocol to maintain. He must fit in the groove cut out for his position. To do anything even indicative of a bold
movement would be considered radical, insane; the man would soon be replaced.

But in the old era, a corporation president, such as Harriman, did not worry, did not even think of protocol. His protocol was his own desires, ambitions, and possibilities. He did not hide himself in the stream and flow, or even drift with the current, as is the method today. He would think nothing of going against the current, if necessary, he would change from one side to the other side of the stream, when he so desired. And when he changed positions, someone had their jelly taken away.

The key to the whole problem was that he did what he decided to do. A corporation executive of today always tries to find out what he must do. This, of course, is due to the various laws which have been passed, but is not the entire answer. There is that great American concern of what others will think. Harriman was his own boss. This means he was autocratic, of course. In the feudal days, no one questioned the king and his whims. The king decided the customs, manners, and wars. This grates on our "democratic" way of life, but we do not stop to consider that the nation is not a democracy. It is a republic. The only place the will of the people is expressed is in electing the
politicians. A republic implies that the will of the politicians will be done, and it is. Only if the politician becomes extreme is an outcry raised against him.

Harriman was not democratic. He was in charge, and he decided the next move. A determined leader is not always democratic. The general does not ask his troops what the next strategic move will be. The industrial statesman does not always ask the public what he should do. This in no way implies evil. Harriman was generous to those more unfortunate than he. This was shown in many ways. But for those who had their luxuries he felt no sympathy. Harriman was a Baron and a Statesman of industry.
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