Review No 14017

Larry Haeg, *Harriman vs. Hill: Wall Street's great railroad war* (Minneapolis: University of Minnesota Press, 2013. Pp. xvi + 375, ISBN 9780816683642 Hbk. £22.50)

This book is an account of the New York Stock Exchange panic of May 1901, one of the most colorful episodes in financial history. A booming economy stimulated a rise in the stock market, which was then amplified by a rapid runup in the shares of the Northern Pacific Railroad (NP), as two powerful financial groups vied to control it. Those selling NP short were caught in a \`corner,' which led to a dramatic rise in NP shares and then a market collapse. General economic activity was not affected by the panic. After the climax, the market calmed down very quickly, as the warring sides settled their differences. However, their settlement led to one of the most important antitrust cases in American history.

Larry Haeg's lively account of this episode belongs more in the popular business history genre than in economic history. Edward Harriman and James J. Hill were among the most famous and most powerful railroad tycoons of the day. Haeg's book provides a detailed but easy to read and informative presentation how their maneuvers led to the panic and how it unfolded. There were surreptitious assaults mounted through stock market purchases, moguls rushed around in their private railroad trains, one of the most important financiers was pulled out of the Sabbath services at his synagogue, while another had to be consulted by telegraph while on an art-purchasing expedition to Europe. This story serves as a reminder that business life a century ago was even more colorful than now, but was driven by the same competitive spirit, by the same drive for profit, and the same desire for the extra bit of information that might provide the winning edge.

Had Haeg confined himself to these themes, his book could be recommended wholeheartedly. However, he devotes extensive space to commentary on the larger issues of economics and public policy in which the NP corner played a prominent part. And that part is seriously deficient, marred by a poor understanding of basic economics and many dogmatic claims that are unsubstantiated or unbalanced, or just plain incorrect.

The reader's faith in the trustworthiness of this book is bound to be shaken by the claim that the \`[e]ngine and tender' of Hill's private train \`weighed 115,000 tons' (p. 113). This was more than twice the weight of the *Titanic*! More serious are other examples, such as the unqualified quote from a speech by Hill (p. 252), that over the preceding dozen years, \`rates declined 80 percent.' A quick check in a standard reference shows that over that period, freight rates had dropped by 20 percent, to a level of 80 percent of what they had been, not by the clearly implausible four fifths. The fault may very well be due to the newspaper article that Haeg cites, but reprinting it without checking or comment displays poor sense for quantitative estimates.

The Harriman and Hill factions settled their contest by setting up the Northern Securities Company (NSC), which controlled all the main lines involved in the struggle. The federal government sued, contending this combination was an illegal restraint of trade. In the famous 1903 decision, the United States Supreme Court ruled for the government and ordered the dissolution of NSC. Haeg presents this case as a tragic case of `bad law' that crippled the industry. There is a credible argument that strict regulation, of which the NSC case was a part, did hobble railroads. This argument has been made by Albro Martin in *Enterprise Denied* and others. But it needs to be done in a careful way, not by dogmatically asserting it, as Haeg does. Further, there needs to be some discussion of what brought that regulation about. There are several passages in this book that provide a natural opening for such a discussion. For example, while Haeg exalts `market entrepreneurs' such as Hill, he mentions (p. 69) that `[t]o avoid the chaos of price wars and overbuilding,' their lines `had to influence or control competitors.' Thus those `market entrepreneurs' were doing their best, through maneuvers such as the one that led to the NP corner, to destroy the market. Had they been allowed to continue their amalgamations, such as NSC, would the railroad industry have continued on its entrepreneurial course, without the discipline of the market? Perhaps so, but it would require a substantial argument to make the case.

A proper treatment of railroad policy questions needs to rely on balanced consideration of a variety of factors that affected that industry. Haeg's work fails at this task. So this book is worth reading for the details of the 1901 panic, and for the description of the business atmosphere of that time. But its policy discussions are best treated with caution or skipped altogether.

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