

J.P. MORGAN & CO.  
Wall St Corner Broad.  
New York.  
DREXEL & CO.  
Philadelphia.  
MORGAN, HARLES & CO.  
Paris.

*New York,* November 23rd, 1898

James J. Hill, Esq.,  
c/o Great Northern Railway Company,  
St. Paul, Minn.

Dear Sir:-

We received on the evening of the 17th instant your favor of the 8th, for which we are much obliged, and assure you that not only do we now accept but that at all times we shall welcome a full expression of your judgment in all matters concerning Northern Pacific. Our feeling in this respect will not vary even though your views and our own may occasionally differ as to the particular policy to be pursued. We trust this will not often be the case, but when it is, we will endeavor to give due recognition to your opinion in all ways that shall seem consistent with our special duty to the Northern Pacific.

We regret that there should be any divergence of understanding of your conversations in regard to turning over the control of the property, and we do not know that anything more can be said upon that subject, excepting to observe that at the conversation between yourself and our Senior in presence of Mr. Moore, Mr. Coster also was present, and his understanding of that conversation was the same as that of our Senior as given in our previous letter. Bearing in mind the statement made in our circular to the public upon issuance of the plan of reorganization and also the statement in the plan itself, we think you will recognize that it could not have been our intention to promise to turn over to any

one the control of the property in direct violation of our explicit public promise to retain that control in five voting trustees named in the plan itself. In our understanding, the various conversations related to a co-operative management, and this purpose we believe you will recognize we have sought to carry into effect. Indeed you are good enough to specify several important instances in which our action has been directly to that end.

As to any remark of Mr. Morgan to Lord Mount Stephen "after Mr. Morgan and Mr. Gwinner had signed the Agreement of April, 1896," we would point out that a remark by our Senior such as you quote, viz:

"That he would do all he could to bring about the early transfer of the control of the property, as he believed Mr. Hill could do more for it than anyone else,"

if understood as applying to anything beyond co-operative management, would not only have been absolutely at variance with our public announcement and the plan of reorganization, - issued only a few weeks earlier, but also at variance with the very Memorandum of Conference which he had signed only a few minutes before. That Memorandum says:

"The so-called London Agreement having been found impracticable has been abrogated, and it has been decided that the Northern Pacific shall be reorganized independently of the Great Northern or any other company or interest."

Please bear in mind that at the time of the Northern Pacific reorganization, and at the time of the conference in London, the important question was, whether the Northern Pacific could be operated as cheaply as the Great Northern. You had furnished us with various figures indicating that this result could be achieved and showing the great benefits to be derived therefrom, but you had always insisted that in order to bring about such results it would be necessary that the operations



of the property should be entrusted to persons who were capable of appreciating and following your methods of operation. All concerned in the reorganization had indicated that they would be more than glad to have your assistance in these matters, and those now in charge of the operations of the Northern Pacific were selected, not only with your concurrence, but have since received strong expressions of your approval as to the results achieved. The question which has now come up (if we understand it correctly) viz: that you should now have control over the corporate management of the Company, is one that certainly, so far as we are concerned, was not contemplated as a possibility at the time of the Conference in London.

Capitalization. We note very carefully your further remarks on this subject which, as already stated, is receiving our very earnest consideration, but any plan for reducing the capital seems to be surrounded by almost insuperable difficulties. As to your suggestions made sometime ago, we are certain that the Trustees of the Mortgages could not consent to the release of lands covered thereby unless the proceeds of these lands were applied as indicated in the Mortgages, i.e. to the redemption of bonds or to the purchase of new property to come under the Mortgages. This would preclude the possibility of using the proceeds of lands for the purchase of stock.

The Steenerson case to which you refer is indeed very disturbing, but in that decision, as we understand it, the Court ignored nominal capitalization and undertook to ascertain what would be a fair capitalization and a fair rate of return upon such a theoretical capitalization. The conclusions of the Court on these two points seem to us to be singularly unfair, but we fear that such conclusions would not be changed by

mere changes in the nominal amount of capital.

We concur in your conclusion that it does not seem to be worth while now to discuss the legalities of stock issues; a question which, as observed by you, is not understood by us alike.

Neither will we now enter into a detailed discussion regarding the capitalization of the Great Northern in comparison with the Northern Pacific or their comparative earnings, although we confess that some of your figures differ from our understanding of the situation. Perhaps sometime when you are in New York we shall have an opportunity to take this matter up with you, as, of course, it is a very interesting subject.

Before answering in detail other points in your letter we would like to relieve your mind of what seems to us a misapprehension concerning the relation of Mr. Mellen to such questions as have arisen from time to time. Because we have asked for your views on various matters relating to construction or purchases, you seem to have inferred that Mr. Mellen was unwilling himself to communicate with you on these subjects. Therefore, we wish to assure you that all we have done in the way of communicating with you on such matters has been with Mr. Mellen's hearty approval and often at his suggestion. But as our Senior was one of the parties who signed the Memorandum of Conference so often referred to, we have felt we ought to satisfy ourselves by direct communication with you that matters arising under it were properly understood between us.

Referring now to a point of criticism originally stated in your letter of September 27th, viz: "a disposition to buy or build lines which cannot be operated advantageously as a part of the system, &c." Your favor under reply, while dwelling on various details concerning our schedule of new construction or new acquisition by the Northern Pacific



Pacific, does not, as it seems to us, indicate any basis for this criticism, unless perhaps the purchase of the Washington and Columbia River Railroad, for which purchase, as indicated further on, we understood we had your approval.

We do not find any criticism from you of any other purchase or construction except (1) the two spurs, Rockvale to Gebo, and Whitehall to Twin Bridges, both absolutely local lines and aggregating only 40 miles in length, and (2) an investment of \$100,000 in the Portland and Puget Sound Railway right of way. Even assuming, for the sake of argument that these acquisitions were mistakes (though we believe that you will yet conclude otherwise), they cannot be considered a very serious collection of errors in the management of so large a corporation.

With these preliminary remarks we now will refer to so much of your letter as relates to points upon which we do not seem to be in absolute accord, or regarding which you raise questions.

1. Line from Rockvale to Gebo.

The contract for this line was, we believe, made under Mr. Winter's management. Since then a short further spur has been put under contract. Our recollection is that the coal people do the grading and the Northern Pacific lays the rails and ties; so, if the line should fail, the Northern Pacific could easily pull up the rails and incur but a trifling loss. In point of fact, however, and even assuming that the coal mines should not be successful (though from our information we do not believe that such will be the case), there is beyond all question plenty of business on the spur.

2. Line from Whitehall to Twin Bridges.

We have understood that the Parrot Company was about to open up its works, but even with these works closed, the line is doing handsomely, - far beyond expectations.

3. Seattle & International.

Undoubtedly if this property had been bought earlier, money could have been saved, but if we remember aright, you and we had one or two conversations about it and we both felt that it was undesirable to disclose undue anxiety. Later, the aggressive attitude of the Canadian Pacific, as you remark, led you to advise us to make the purchase at a relatively high price, which we did, entirely concurring in your own opinion.

4. Washington & Columbia River.

Of course, we should much regret anything in the notice to the Navigation people which could give just cause for complaint, but we think you err in your recollection that the date when you advised Mr. Coster to acquire that road was before the date of the so-called protocol. The protocol was made in August, 1897. If we remember correctly, your advice to purchase the road was given about the end of 1897 or early in 1898, - shortly before the purchase was made.

5. Oregon Railway & Navigation Company.

We concur with your statement that the purchase of shares of this Company was made for the purpose, among others, of securing harmony and avoiding the building of unnecessary lines. Another purpose was, we think, to insure the independence of that Company. As matters now stand,



the Union Pacific and Short Line have control, and this seems to us an important feature in the situation.

We much regret the complications which have arisen with the Navigation Company, and, as you are aware, we have labored hard and earnestly to adjust them. While we read much in the papers about the invading of Oregon Railway & Navigation territory, we think that you will bear us out in the statement that the Northern Pacific has not yet invaded any Navigation Company territory, nor do we see any likelihood of its so doing, unless the Navigation Company should build on the Northern Pacific's side of the Lewiston gate-way as established, at request of the O.R. & N. at the meeting of October 3rd last, or unless when the time comes the Oregon Railway & Navigation Company should refuse to give to the Northern Pacific, trackage from Lewiston to Ainsworth, as also was understood at that meeting.

#### 6. Portland & Puget Sound Railway.

It would indeed be unfortunate if any construction were to be done, as we fear it would be a most disturbing element in the situation.

The valuation of \$100,000 put on this purchase in the Northern Pacific accounts is arbitrary. It was purchased in one lot with the Montana Union and Montana Railway stocks. The lot had to be bought at a round price and could not be separated. If the Portland & Puget Sound is not worth \$100,000, the Montana Union and Montana Railway must have cost proportionately more.

#### 7. Spokane & Northern.

This purchase was made by us under the stress of conditions which we understood to be dangerous both to the Great Northern and to the

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Northern Pacific. Before we made it, we told Mr. Mellen just how we proposed to handle it, and we had his hearty acquiescence. Mr. Mellen did not make the purchase.

8. Fosston Extension.

We will not go into further considerable discussion upon this point, but we must say that we think that, even if an emergency existed, a matter like this one should have been treated for joint account or at least that opportunity to treat for joint account should have been presented to the Northern Pacific.

9. Chicago, Milwaukee & St. Paul.

The proposed lease of the line south from Fargo has been dropped out of deference to your wishes, as we recognize that your views carry force, though this situation does not appear to us to be as grave as you seem to consider it.

10. Northern Pacific Existing Line in the Red River Valley.

If Mr. Mellen had any desire to get rid of this line, the reason was because, out of neighborly regard for the Great Northern, he felt that he should not develop the existing line by building other lines which would feed it but might injure the Great Northern; and also because the construction of your Fosston Extension makes the Northern Pacific line the long line to the Lake, whereas it used to be the short line.

11. Central of Washington.

You will observe that this being one of the lines leased to the old company was a proper acquisition by the new company. As to its possible extension Mr. Coster wrote you fully a while ago and will discuss



this matter with you on some future occasion. It does not seem to be one that requires hasty consideration, although as matters stand the Northern Pacific is badly handicapped.

12. Profit on Branch Lines.

As we understand it, the branch lines are all run on a simple pro rata basis, but we will make further inquiry. Even if an arbitrary is allowed any of them, the matter is as broad as it is long, because if this arbitrary were reduced to a pro rate, the branches would make less but the main line would make correspondingly more.

13. Traffic department Conflicts.

Corresponding to your own experience, we also have received many complaints from the Northern Pacific as to the attitude of the Great Northern. Might it not be well for us to select some competent party who should spend some time in St. Paul and receive these complaints from both sides and endeavor fairly to adjust differences?

14. Land at Seattle.

We believe that Mr. Kendrick did recommend to Mr. Mellen the purchase of some land, but we know that Mr. Mellen did not view this recommendation with favor. On the contrary, he declined to proceed with it and instructed that no action be taken.

15. Spokane Union Depot.

About two months ago we had several conversations on this subject with Mr. Mellen. He stated that he found that he could buy the bonds from the Union Pacific at a large discount and to this fact he asked our attention. In a general way such a purchase would have been

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justifiable, as the Northern Pacific held half the stock of the Depot Company, which would be wiped out by foreclosure of the bonds. Mr. Mellen stated to us, however, that his conclusion was that it would be best not to buy the bonds and he did not buy them. In point of fact, whatever he may have said to Judge Cornish, he did not compete at a foreclosure sale or in any way seek to embarrass the proceedings, and consequently these very proceedings wiped out the Northern Pacific's interests in the property.

16. Spokane Falls & Northern Floating Debt.

We believe that this transaction was concluded between you and Mr. Stetson on the basis of a written contract which, as we are informed by Mr. Stetson, expressly provides that you shall assume and discharge all obligations incurred in the matter by the Northern Pacific. One of these obligations theretofore incurred and since then actually discharged (or about to be discharged) by the Northern Pacific was the payment of \$75,000 to Mr. Corbin. Mr. Stetson has advised Mr. Mellen that under your contract you are obligated to reimburse the Northern Pacific in this amount, and Mr. Stetson has also approved such correspondence as Mr. Mellen has had with you. We have not followed the details, but if so desired will do so

17. Suggestions from Mr. Mellen about selling out the O.R. & N.  
stock and building a line along the Columbia River for  
joint use.

We rather surmise that these suggestions however expressed must have been in the form of general discussion because Mr. Mellen in the same indefinite way has suggested to us that contingencies might arise when  
such a course



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might become necessary, though never for a moment has he intimated to us that he favored such construction or that he expected that such contingencies would arise. In the same way on various occasions (the last one within two weeks) you yourself have pointed out to us how the Great Northern might be obliged to abandon the present Navigation line and build its own line over to the Columbia and into Portland, but such discussions have not led us to suppose that either you, or we, were doing anything more than considering the map in the same way that we all make it a subject of constant and general study.

18. In view of your various remarks affecting Mr. Wellen to which already we have briefly replied, we would ask whether it would be agreeable to you that we should send him a copy of your letter, or of so much thereof as concerns him in order that he may have an opportunity to answer same explicitly. While, like all of us, occasionally he may have expressed himself hastily, we believe that in all respects he is ready and anxious to co-operate with you in maintaining and cultivating friendly relations; and we always find him willing fairly to consider all sides of a question when presented to him and to modify his own views. When we last saw him here on Friday (after receipt of your letter) we did not feel at liberty to do more than ask him in most general terms regarding a few of the matters you refer to.

We trust that our correspondence has cleared up a good many matters theretofore involved in more or less uncertainty, and we beg to say that we shall always be glad to co-operate with you in disposing of such further questions as from time to time must necessarily come up between two large corporations serving substantially the same territory and in many points having conflicting interests. We are confident that

if approached, as we believe that you, as well as ourselves, are ready to approach them, a good understanding can always be maintained.

Thanking you for the trouble you have taken to lay your views before us, and always at your call, we remain

Yours very truly,

A handwritten signature in cursive script, appearing to read "J. H. Morgan", written in dark ink on a light-colored background.

James J. Hill Papers  
Minnesota Historical Society