

## A REPUTATION FOR CROSS-CULTURAL BUSINESS: HENRY VILLARD AND GERMAN INVESTMENT IN THE UNITED STATES

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For despite his outstanding qualities of courage, determination, perseverance, and benevolence, Henry Villard was also overly optimistic, disinclined to focus on details, and prepared to risk all for the sake of a worthy but shaky enterprise — shortcomings that eventually would lead to financial disaster and the loss of his corporate empire.

Alexandra Villard de Borchgrave, Henry Villard's Great Grand-Daughter, *The Life and Times of an American Titan*, Preface

### Introduction

Émigrés capture our interest for many reasons. For some, like Albert Einstein (1879-1955), that interest is derived from their worldwide prominence in a particular field and the specific circumstances of their departure from their home country. Others, like investment banker Paul Warburg (1868-1932), made a mark by introducing aspects of their home-country culture to their new home. Henry Villard, by contrast, will be remembered for the degree to which he embraced nearly all aspects of his adopted country's culture, its sense of limitless possibilities, and perhaps its sense of invincibility. To be sure, he built a business by connecting German and American finance and shared many of the dreams of American and German business leaders, but his reputation mirrors widespread beliefs about the virtues and vices of his adopted land. A native German speaker, charming, charismatic and master of cross-cultural business, Villard was as convinced of his own destiny as that of his adopted home country. He came to prominence as one of America's first "Cowboy Capitalists." His American career as a journalist, entrepreneur, and financier spanned nearly the entire second-half of the nineteenth century and involved some of the most important figures in American and German business history.<sup>1</sup> Indeed, although he and others may have exaggerated many aspects of his Horatio Algeresque biography, few born or naturalized Americans could boast of such a varied and meteoric career.

<sup>1</sup> Christopher Kobrak, *Banking on Global Markets: Deutsche Bank and the United States, 1870 to the Present* (Cambridge, 2008), 28-31.

## Family and Ethnic Background

Villard is a historical figure about whose early life we do not know whether we know a lot or a little. Much information about him exists in books and archives, but most of it came from Villard himself or from close family members.<sup>2</sup> What is clear, though, is that Villard's personal and professional development was deeply influenced by politics.

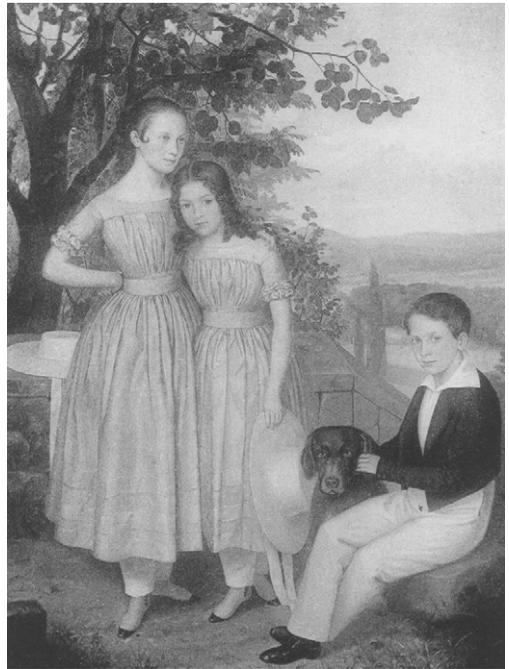
Henry Villard (born Heinrich Hilgard) was born on April 10, 1835, to a financially comfortable family in Speyer, one of the oldest cities in the German states. Located on the west bank of the Rhine, Speyer was part of the Pfalz (Rhenish Palatinate), a region ceded to the kingdom of Bavaria twenty years before Villard's birth. During the French revolutionary wars of the late-eighteenth and early-nineteenth centuries, the region had been incorporated into France and bore many ideological influences and scars from the French occupation. Villard's father, Gustav Leonhard Hilgard (1807-1867), was a relatively successful bureaucrat from a Protestant family, his mother, Katharine "Lisette" Antonia Elisabeth Pfeiffer (1811-1859), a Catholic from a military family with Bavarian roots. The Hilgards were respectable members of the *haute bourgeoisie*. As the youngest of three children, and the only boy, Henry Villard's later willfulness may have resulted from a perverse combination of too many parental expectations and too much indulgence. From an early age Villard seemed drawn to the romantic, adventurous side of his family, some of whom immigrated to the United States and settled in Illinois and the surrounding region.

Some historical accounts of Villard's life focus on how his anti-Prussian, liberal sentiments drew him to America, but Villard had normal adolescent difficulties which alienated him from his father. Repeated problems due to neglecting his studies and finances gave rise to a series of unpalatable choices for the eighteen-year-old, of which buying a second-class ticket on a clipper ship, the *Nordamerika*, from Hamburg to New York seemed to be the least onerous. Leaving the German states in August of 1853 without the knowledge of his parents, Villard changed his name to an anglicized version of a schoolmate's name which closely resembled his own. For a relatively long period neither his father nor his mother knew whether he was alive or dead. With few skills and no knowledge of English, earning a living in the United States was not easy for Villard. For almost two years he wandered virtually penniless, first in New York City and then

2 There are extensive collections of Villard's letters and those of friends, family, and rivals at Harvard's Baker Library, the Library of Congress, the Deutsche Bank Archive (HADB), and the Morgan Library. Villard wrote an autobiography that focuses on his early life and tends to sugarcoat his business failures. (*Memoire of H. Villard: Journalist and Financier, 1835-1900*, 2 vols. (Westminister, 1904). His great-granddaughter's biography Alexandra Villard de Borchgrave, *Villard: The Life and Times of an American Titan* (New York, 2001) contains some passages that read like family folklore but in many parts is extraordinarily candid and agrees with other more scholarly works. She and her co-author, John Cullen, rely on an early draft of Villard's own autobiography, which may have been buttressed or embellished by family reminiscences impossible to verify. I rely on her account of his early life, especially where it does not flatter her great grandfather or conflict with other sources and plausibility. Dietrich Buss's: *Henry Villard: A Study in Transatlantic Investments and Interests, 1870-1895* (New York, 1978) is a good starting point for the study of his business career. Villard is cited in many histories and biographies of the nineteenth century, which will be mentioned in the notes.

in the Midwest, from one odd job or apprenticeship to another while living, in part, off the kindness of fellow German immigrants who made up a substantial portion of the populations in many of the cities he visited.<sup>3</sup>

Sometime late in 1854, Villard finally visited his relatives in Belleville, Illinois. At the time, Belleville was one of the great American centers of German culture. The community was populated by German political refugees. Many had been involved in the Revolutions of 1848/49, which had necessitated their departure from the German states. Situated in the heart of the United States, Belleville looked like a typical German village but contained an intellectual elite that shared America's republican values and devotion to freedom from political repression. They were political liberals who loved most of the principles of their adopted land, but not all. Many rejected social reformist traditions popular in the 1830s and 1840s such as the temperance cause and women's rights, but the town was one of the centers of the abolitionist movement. Villard's time in the community would have a profound impact on his relationship to his adopted country.<sup>4</sup>



**Figure 1: Siblings Anna, Emma, and Heinrich (Henry Villard) Hilgard, 1844. Private collection.**

When Villard suddenly appeared in Belleville, his relatives at first showed little enthusiasm for his arrival but did provide him with some financial support. Even with the help of his family, however, his early twenties were crowned with few great successes, but they did lay the foundation for some of his great achievements. Working as a clerk in a law office, he developed an interest in pursuing legal studies. More importantly, he improved his English during this period and, anxious to avoid demeaning manual labor, started to devise grandiose business schemes. By the age of twenty-one, he had earned sufficient seed money to pay his expenses for an attempt to round up investors to buy land in Kansas for a kind of German "free-soil" community intended to thwart the advance of slavery in the territory. The enterprise never got off the ground, but Villard made some contacts among anti-slavery activists and, as ever free

3 *The Life and Times of an American Titan*, 1-55; and "First Experiences in America," Manuscript Fragment of Villard's Memoires, Harvard Collections.

4 *The Life and Times of an American Titan*, 55-63.

of inhibitions, he visited some important potential supporters, such as the senior senator from Illinois, Stephen A. Douglas (1813-1861). During his “dog-and-pony” show to drum up investors for the Kansas venture, Villard retraced his poverty-stricken steps of just a few years earlier, but this time with enough cash to stay in first-class lodgings. Despite the support of many influential, anti-slavery Republicans, whom he had come to know by working on the new party’s election campaigns, Villard’s lack of business sense and influence was evident and certainly contributed to the enterprise’s failure. The experience, however, did nothing to thwart his personal ambition and taste for a more refined life. A few years later, he headed west to mine for gold, an undertaking that helped ignite a passion for the prairie states and led to a book about his experiences, but produced no yellow metal and quick fortune.<sup>5</sup>

### ***First Real Career***

Villard’s creative bent and desire to avoid confining, repetitive tasks led him to journalism. For most of the 1860s, Villard alternated between working as a freelancer and an employed journalist for a series of German and American newspapers reporting on a variety of topics. Once Villard established a reputation as a journalist, he succeeded in arranging the unusual step of syndicating his work. Some of the newspapers were financed openly by political parties. As a supporter of the Republicans (though not a U.S. citizen until 1864), he preferred writing for their newspapers, but he enjoyed some of his greatest successes with Democratic newspapers. It was while working for one of those newspapers in 1858 that he covered the famous Lincoln-Douglas debates. In contrast to his later expressions of impassioned support for Abraham Lincoln, Villard’s initial reaction to the senatorial and later presidential candidate was unfavorable to say the least.

Although he would have been happier just to let the South secede following Lincoln’s presidential election in 1860, the Civil War provided Villard with a journalistic opportunity. Even before the fighting started, he enjoyed some choice assignments. He reported for the *New York Herald Tribune* on Lincoln’s activities in Springfield, Illinois, after the November election but before the inauguration in the spring of 1861. Although his views of Lincoln had mellowed somewhat, in November of 1860, soon after the election, Villard observed:

I doubt Mr. Lincoln’s capacity for the task of bringing light and peace out of the chaos that will surround him. A man

<sup>5</sup> Ibid., 65-75.

of good heart and good intention, he is not firm. The times demand a [Andrew] Jackson.<sup>6</sup>

Although Villard's comments may have been influenced by the politics of the newspaper for which he was writing, considering how well Lincoln proved his resolve during the conflict, Villard remarks lacked presence and historical insight. Indeed, later in life, he came to appreciate Lincoln's vision for America.

As an established reporter with good contacts and considerable charm, Villard secured interviews with several important military and political figures during the war. He witnessed and wrote about many of the major engagements of the conflict and endured some of the same risks and deprivations as ordinary soldiers, which may have contributed to chronic ill health throughout his later life. His work as a war correspondent, which he returned to briefly during the Austro-Prussian and Franco-German Wars (1866 and 1870-1871, respectively), lasted until the last full year of the American Civil War, when he was called back to Europe by his family. Villard's oldest sister was dying; their mother had already passed in 1859. He reached Speyer a few days before his sister's death. Villard stayed in Europe for approximately six months, during which time he acquired his inheritance from his mother's estate (minus numerous deductions that his father felt appropriate to settle Henry's many prior debts), but his turbulent relationship with his father had changed little in the decade since he had left home and gave him little reason to linger in Speyer. He returned to the United States in March 1865 and on arrival in Boston in April, he learned that Richmond had fallen on April 2, Lee had surrendered on April 9, and Lincoln had been assassinated.<sup>7</sup>

### Business Development

His arrival in Boston was no accident. With his mother's inheritance and a reasonably good start as a journalist, Villard was intent on proposing marriage to Boston resident Helen Frances (Fanny) Garrison (1844-1928), daughter of William Lloyd Garrison (1805-1879), America's most famous (indeed he was world famous) and perhaps most notorious abolitionist. While others had talked of limiting slavery to the Old South, gradual abolition of the institution, or sending blacks back to Africa, for decades Garrison had called for an immediate and complete end to the practice, and equal rights for African-Americans, a perspective which was not only radical but seditious for most Americans in the first half of the nineteenth century. Garrison had publicized

6 Quoted in *The Life and Times of an American Titan*, 130. Originally in Henry Villard, *Lincoln on the Eve of '61: A Journalists Story*, ed. Harold G. and Oswald G. Villard (New York, 1941).

7 *The Life and Times of an American Titan*, 260-61. Villard's father died in 1867.

his views in the *Liberator*, the leading abolitionist newspaper, which he published from 1831 until the Thirteenth Amendment to the Constitution made slavery unconstitutional in 1865. To the horror of many, on one occasion he had even burnt a copy of the “great national sin,” the United States Constitution, which had enshrined the abomination of slavery into law. Villard evidenced no problem with Garrison’s radical feelings about slavery, but later accounts do claim that this *Pfälzer* (someone from the Rhenish Palatinate) was much less happy about the family’s stand against smoking and drinking and in favor of women’s rights.<sup>8</sup>

Villard had met Fanny quite by chance several years earlier. Despite Fanny’s views on some of Villard’s habits, they fell in love relatively quickly and married in 1866. The couple was devoted to one another. Well into old age, Villard seemed to have genuinely bemoaned any absences from her. They doted on their four children, three of whom survived to adulthood: Harold (1869-1952), Helen (1868-1917), and Oswald Villard (1872-1949). When their son Henry died at age seven in 1890, the parents penned a tribute to him. Fanny’s father was at first a little skeptical about his future son-in-law’s prospects and his break with his own father, but the two seemed to have enjoyed a good deal of mutual respect.

Soon after their marriage, the couple made two trips to Europe. The trips had several purposes. Villard wanted to introduce his new wife to the pleasures of Europe and to his family. One of the trips coincided with a triumphant tour of abolitionist groups in the United Kingdom by his father-in-law, whose consistent support of the cause was much appreciated by many parts of British society. Villard continued some of his journalistic work and sought help for his many physical ailments at European spas.<sup>9</sup>

Perhaps, most importantly, it was at this time he began an entirely new career. Garrison introduced his son-in-law to the American Social Science Association, a group organized in 1865 to discover the immutable laws governing man and his social relationships and apply them to contemporary society. Its members included intellectuals, politicians, and a number of prominent businessmen. Villard became the organization’s secretary, editor of its journal, the *Journal of Social Science*, and one of its chief fundraisers.

Although most of his prior work experience was as a war correspondent, by the late 1860s Villard had begun to grow interested

8 Ibid., 231-35.

9 Ibid., 270-80.

in marketing American securities abroad. By leveraging his status as William Lloyd Garrison's son-in-law and his fluency in German and English, he had developed enough contacts and financial savvy to engage in selling American securities while traveling in Europe. During the American (1865-73) and German (1870-73) post-war boom years, this was probably a lucrative business.<sup>10</sup> On the heels of the 1873 international financial collapse and depression, his role as a financial intermediary shifted. While convalescing in Heidelberg, Villard was approached by a group of Frankfurt investors, who were holding Wisconsin Central Railroad bonds that were in default. The investors asked him to perform a somewhat different task. His mission between the two countries changed from mere salesman to troubleshooter, although privately some of the bankers also wanted him to go back to the United States to obtain undervalued securities whose prices had been significantly depressed by the panic.<sup>11</sup>

### ***The Northwest Passion***

It was at this time that Villard developed, or rekindled, two loves: the Pacific Northwest region and railroads. In typical Villard fashion he convinced Siegmund Jacob Stern (1809-1872), the leader of the Frankfurt banking group, to double-down on his American railroad investments. Villard was confident that future immigration would lead to much higher revenues and profits for the existing rail lines in the West and that the poor management of existing rail lines could be easily remedied. With German backing, Villard effectively bought up virtually all the rail lines between Oregon and San Francisco, establishing the Oregon Railway & Navigation Company (ORN), the firm to which he probably had his deepest, long-term business attachment. As president of the new concern, his reputation grew, but the dream of controlling the transportation resources of the entire Pacific Northwest eluded him. Moreover, his existing ambition brought him into conflict with three major rail lines, the Union Pacific (UP), the Northern Pacific (NP), and the Great Northern (GN). Like many of the moguls with whom he now was in conflict, Villard realized that only true consolidation of rail lines within a region could avoid ruinous competition and make the huge initial investments profitable, an approach that went well beyond the pooling arrangements and loose agreements that railroad officials had often devised during the previous decades.<sup>12</sup>

To realize his dream of control, Villard, acting from the seat of financial power in New York City, needed to achieve two goals: get out

10 *Ibid.*, 280-81.

11 Kobrak, *Banking*, 28-31.

12 *Ibid.*, and Buss, *Henry Villard*, 1-150.

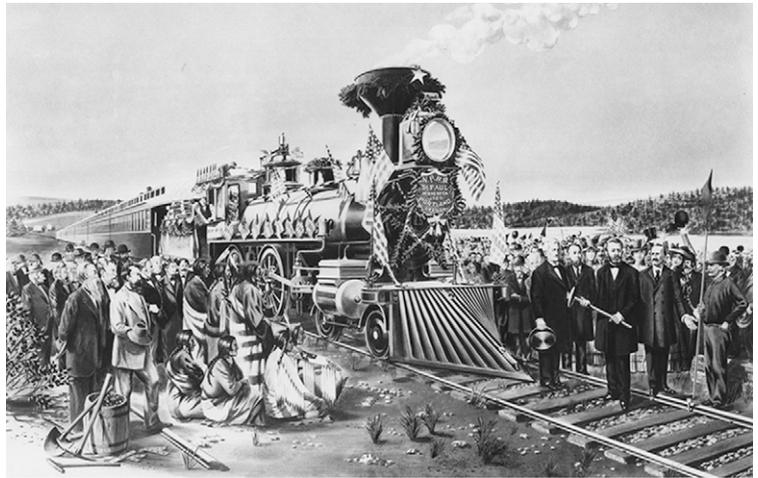
from under the control of his foreign investors and buy at least one of the major neighboring lines. By 1881 he had realized both aims. First he targeted the profitable Oregon Steam Navigation Company, which operated riverboats, a shortline railroad, and other transportation assets along the Columbia and Willamette Rivers in Oregon. Using the assets of the target line as security, he managed to finance its acquisition in what may have been the first management buyout (MBO) in history. Villard also convinced the Frankfurt group to sell its holdings in his unprofitable Oregon Steamship Company to him at a loss. He combined both operations into a new firm, the Oregon Railway & Navigation Company. Yet the new line did not yet stretch across the West. For that he would need more money for additional construction, for conversion of narrow gauge lines to standard gauge, and for acquiring control of other lines, but he was well on the way to securing his objective. To achieve the next step, he turned his sights on the Northern Pacific Railroad, chartered by Congress in 1864 with rights to build rail and telegraph connections between Lake Superior and Puget Sound, WA. By the 1870s the NP had already experienced one bankruptcy. Buoyed by new financing, it resumed work on the second transcontinental rail line and expanded its activities further west. Convinced that the only way of saving the Oregon Railway & Navigation Company was by acquiring the majority of the Northern Pacific's shares, Villard in 1883 used his contacts on Wall Street to gather eight million dollars from 53 investors (approximately \$180 million in 2010 dollars).<sup>13</sup> Remarkably, this feat was accomplished within twenty-four hours of his private announcement and without his new investors learning the purpose of the money. By this time, Villard had accumulated enough capital himself that he could contribute nearly one million dollars (approximately \$22.5 million in 2010 dollars) to this "blind pool," for which he served as the only "seeing-eye dog." Even his old client Stern was reported to have participated, despite Villard's earlier double-dealing. The Northern Pacific's shares were added along with those of the Oregon & Transcontinental, a holding company that controlled the ORN, to a new holding company that now controlled 2,700 miles of track in the West and Midwest.<sup>14</sup>

The various rail lines under Villard's financial control were still not connected, however. To that end, Villard raised enough money to employ 25,000 workers laying track at a rate of three miles a day (with a burn rate of four million dollars per month (approximately \$90 million per month in 2010 dollars)) across open territory in Montana that had recently witnessed the Battle of the Little Bighorn, the worst

13 All 2010 dollar figures based on Samuel H. Williamson, "Seven Ways to Compute the Relative Value of a U.S. Dollar Amount, 1774 to present," MeasuringWorth, 2011 <http://www.measuringworth.com/uscompare/>, using the Consumer Price Index.

14 Kobrak, *Banking*, 30-31.

military disaster in the U.S. government's long series of battles with Native Americans. When the transcontinental connection was completed in September 1883, Villard controlled the second line that stretched from the Mississippi to the Pacific, a distance equal to that



between Paris and Moscow. Villard threw a triumphant party with guests that included intellectual notables, a former American president, and many current and potential investors, including the managing director of Deutsche Bank, Georg Siemens (1839-1901), whose experiences in the United States during that trip strongly influenced his personal and business outlook, according to his son-in-law biographer.<sup>15</sup>

**Figure 2: Northern Pacific Railroad Spike Excursion, n.d. Gaston Sudaka, illustrator. Private collection.**

### ***Villard's First Financial Meltdown***

The bill for the construction and the Golden Spike party arrived in the fall of 1883. Like so many of his undertakings, Villard's first involvement with the Northern Pacific reflected his disdain for any constraints on his vision and his abhorrence of cost-benefit analysis. Villard's undertaking had added ten million dollars in watered-down stock and forty million dollars in debt to the Northern Pacific accounts (approximately \$220 million and \$880 million, respectively, in 2010 dollars). Even as reports about the company's shaky finances surfaced in late September, Villard somehow issued another eighteen million dollars in debt (approximately \$400 million in 2010 dollars), half sold in Germany. Predictably, throughout the fall, Northern Pacific bond prices tumbled as further cash needs were announced and the company started relying more and more on short-term financing. By the end of October its common shares were selling at twenty-seven-percent of their nominal value, but Villard saw the dip in share prices as an opportunity for the company to buy back its own stock, which further increased the company's debt ratio.<sup>16</sup>

<sup>15</sup> Karl Helfferich, *Georg von Siemens: Ein Lebensbild aus Deutschlands grosser Zeit*, vol. 2. (Berlin, 1921), 228-29.

<sup>16</sup> Jean Strouse, *Morgan: American Financier* (New York, 1999), 240-41.

In December Villard finally bowed to the inevitable. The drop in the NP's share price threatened the finances of his other holdings and led to his personal bankruptcy. With the line and his personal finances in the hands of a group of bankers led by J. P. Morgan (1837-1913), he tendered his resignation from all his administrative positions (as required by the bankers) and lost many of his assets, including his Madison Avenue mansion, completed just weeks before the final crisis, and which still stands as the historic wing of New York Palace Hotel. The bankers' reorganization of Villard's railroad interests saved the lines from another bankruptcy for nearly a decade, despite ever greater investment needs and tensions among investors. Typically, Villard did not see his management or other skills as responsible for the bankruptcy. His lack of interest in details and accounting were of no consequence. In his mind, bad luck was the culprit.<sup>17</sup>

### ***The Deutsche Bank Connection***

Villard's German roots provided him with an opportunity to revive his fortunes. He, his wife, and children spent nearly two years in Berlin after the disaster. In 1884, Villard even considered moving back to Germany permanently. Despite heavy losses inflicted on German investors by the NP's financial difficulties, some Germans and Americans continued to have faith in Villard's managerial reputation and trusted him to identify and safeguard American investment opportunities overseas. Still enchanted by his visit to the United States and sharing many liberal convictions with Villard, Georg Siemens, in particular, seemed willing to overlook his American friend's failings. In 1886 Deutsche Bank, by then one of Germany's leading banks with a strong international focus, was still anxious to sell American investments to Germans and was unimpressed by NP's new management. It signed Villard to a lucrative contract to represent the bank and Stern in the United States. Villard's responsibilities were varied and extensive. Within a short time, he had introduced a long list of new transportation and other investments to German investors through Deutsche Bank. Deutsche Bank even made a \$5 million equity investment (approximately \$120 million in 2010 dollars) that got Villard back into the management of a number of western transportation companies including the Northern Pacific. Against the advice of many of his colleagues, Siemens agreed to make further significant investments in railroad lines and other companies.<sup>18</sup> As Deutsche Bank's U.S. investment advisor and manager for nearly a decade, Villard claimed to have sold \$64.3 million in U.S. securities

17 Kobrak, *Banking*, 34-35.

18 *Ibid.*, 37-38.

(approximately \$1.6 billion in 2010 dollars) to German investors, an amount significantly larger than Deutsche Bank's total equity capital and nearly as great as its total assets in 1890.<sup>19</sup>

Villard's principal device for managing these extensive investments and encouraging new ones was to create a holding company structure, which would at once diversify risk and serve as a conduit for the flow of funds. The North America Company (NAC) required \$24 million (approximately \$660 million in 2010 dollars) to hold large packets of shares in NP, the Wisconsin Central, and the company near and dear to his heart, the Oregon & Transcontinental Company, the successor to his first transportation investment, as well as other firms. When Deutsche Bank balked at providing all of the huge sums for these investments, more than its own equity capital base, Villard sought other investors. Little is known of how Villard's holding company scheme worked, not even his main investors understood its convoluted structure, but the idea seems to have been that the NAC would serve as an investment fund, which would simultaneously allow investors to invest in a wider range of companies, thereby exercising more control over the companies by concentrating ownership, and serve as a reserve fund for the investments should access to capital become impaired. Organized under the laws of New Jersey with \$50 million in capital (approximately \$1.2 billion in 2010 dollars), NAC would keep some cash and have the option to sell some of its holdings to support entities short of capital, a kind of pooling of resources to avoid panic borrowing or sales of equity. In addition to Deutsche Bank, several other financial heavyweights were involved, including John D. and William Rockefeller, J.P. Morgan, Kuhn Loeb & Company, and Speyer & Company. Even in early 1890, though, when financial markets were fairly strong, much of its financing came from short-term debt, collateralized by its own stock and that of its holdings, an obvious weakness for a company that was designed to support other companies' financing needs and equity values in turbulent times. As U.S. finances deteriorated in the fall of 1890, the company had to draw on more help from German investors, undermining NAC's credibility and that of its president, Villard.<sup>20</sup> However, the worst was yet to come.

### ***Other Electrifying Ideas***

One of the beneficiaries of the holding company was supposed to be Villard's old friend, Thomas Alva Edison (1847-1931). Villard had known and admired Edison since 1880. As an early investor in

<sup>19</sup> Helfferich, *Siemens*, 246. Deutsche Bank's 1890 Annual Report.

<sup>20</sup> Kobrak, *Banking*, 39-40.

Edison ventures, he had arranged for demonstrations of Edison's dynamo and lamps, installed Edison lights on some of his trains, and tried to get German investors interested in providing capital for Edison's U.S. companies and bringing some of Edison's patents to Europe. Indeed, Villard was hawking Edison's companies in Europe when he met Siemens for the second time. Edison and Villard shared many attributes: both were visionaries with very little patience for day-to-day business matters and financial constraints, and both were hard of hearing and deaf to many kinds of criticism. Their large visions required capital and investors, a fact which brought them together, creating a mutual dependence. Edison believed that only large generators and an extensive distribution system for electricity would create the necessary infrastructure for his inventions, a huge upfront investment before light bulbs and electricity could be sold in great quantities. Villard loved big deals.<sup>21</sup>

Villard was ideally placed to find an international solution for many of Edison's problems. While working for Deutsche Bank, he also represented some of the interests of Siemens & Halske (S&H), the German electrical giant. Deutsche Bank itself was deeply involved in electrification, in part through Georg Siemens' family connections with S&H, and its financial support of rival Allgemeine Elektrizitäts-Gesellschaft (AEG). Although many conflicts of interest and competing product lines existed, Villard and Deutsche Bank helped raise German and American capital to allow Edison to consolidate his interests and fund expansion. A truly speculative venture, it turned out to be one of the most important, and international, private equity deals of the nineteenth century.<sup>22</sup>

In April 1889, Edison General Electric Company (EGE) was formed. Edison hoped that the new company and its by-and-large distant shareholders would relieve him of financial pressure. J.P. Morgan, who had been one of his principal backers, and rarely a silent partner, took only a small amount of the shares. The amounts of equity capital varied over time, but seem to have begun with \$3 million and gone up to \$8.3 million (approximately \$73 million and \$203 million respectively in 2010 dollars). As representative of the German investors, Villard became the company's first and only president.<sup>23</sup>

The company's business model helps explain the large increase in financing needs. The new company not only was intended to integrate Edison's manufacturing and marketing interests in electric lighting and machine works in order to achieve better operating efficiencies,

21 Ibid., 47-49.

22 Ibid., 47-61.

23 Ibid.

it was also designed to expand the business by helping finance the conversion or construction of power stations in major cities. Before electricity could be used for devices (lights and appliances), power had to be generated and distributed. To this end, EGE used its own shares to buy an interest in some new and old local electrical companies and to help finance further construction. The machinery and cable for generation and distribution was sold to local power companies by EGE, which was able to incur large receivables financed by the deep pockets of their German investors. Increasing sales required more staff and above all more capital to finance customers.<sup>24</sup>

Predictably, conflicts between management and the investors grew steadily. S&H resented the treatment of its patents and its lower-than-expected profits on the sale of cable to the new company. EGE profits were lower than expected and declared dividends went unpaid. Some of the participants started to challenge Edison's conviction that direct current was reliable and efficient, an issue that would haunt Edison for years and one about which he was ultimately proven wrong. Villard had problems fulfilling his promise that EGE shares would be listed on the New York Stock Exchange, a failure that would hurt their price and liquidity. NAC's Edison share holdings and loans brought little relief. The original agreement among the syndicate members required investors to hold all or parts of their shares. They were repeatedly requested to extend the period. Operational problems mounted. The consolidation of the former businesses progressed more slowly than originally anticipated, and patent disputes threatened some business operations. Although investors found the company's profits disappointing, sales grew quickly, despite vigorous competition, adding to the company's working capital requirements. Even Edison started to lose faith in his friend. EGE had been founded to make his life easier and provide him with more time for his inventions, not to make his life more complicated.<sup>25</sup>

Once again, Villard saw a big deal as the solution. As early as March 1890, he argued that combining EGE with its rival Thomson-Houston would create the "greatest enterprise in the world."<sup>26</sup> Founded by Elihu Thompson (1853-1937), one of the most prolific inventors in American history, Thomson-Houston (TH) was much better run than EGE. Thompson focused on scientific matters and managerial control was given over to professional managers. Under the leadership of Charles Coffin (1844-1926), a former shoe company executive, TH recruited many skilled managers who concentrated on strategy,

24 Ibid. As an example for the regional activities comp. Uwe Spiekermann, "Business and Politics: The Contested Career of Charles F. Pfister," in *IE*.

25 Ibid., 47-61.

26 Villard to Deutsche Bank, March 7, 1890, HADB, A404.

marketing, and technical innovation. The company was organized into a functional structure with clearly defined departments. Unlike EGE, it broadened its product line to include both direct current (DC) and alternating current (AC) for lightening and streetcar systems. As a leader in management organization and a supplier of electronic equipment, TH enjoyed solid financial backing.<sup>27</sup> From the very founding of EGE, Villard had pushed for more consolidation of competing companies. Because the ensuing merger between EGE and TH spelled the end of his involvement in this sector, as well as Edison's and the German companies' involvement in the new company, some accounts give insufficient credit to Villard's original insight. Taking credit for the deal, J.P. Morgan led the consortium that financed the merger. TH's old shareholders held the major position in the new company. EGE's shareholders, including Edison, Deutsche Bank, and the other Germans, chose to hold little or nothing of the now Morgan-controlled enterprise. Even though Villard's rosy prediction about the future of the new company, General Electric (GE), was borne out, in 1892 the Germans seemed to count their blessing that they got their money back before new management or macro-economic difficulties arose.<sup>28</sup>

In fairness to Villard, he had a very full professional and personal life at this time, including, tragically, the death of his youngest son in June 1890. The bereaved family toured Europe for many months. Villard found time, however, to interview the recently ousted German Chancellor, Prince Otto von Bismarck (1815-1898), as well as other German political and business leaders. Moreover, not only was he running the Edison businesses during the period, Villard took an active role in the 1892 presidential election campaign of his friend Grover Cleveland (1837-1908), a Democrat whose commitment to the Gold Standard endeared him to the business community. Cleveland's success in the election did not eliminate fears that the United States would not honor its gold commitments, which made getting short-term loans in New York difficult, severely threatening the NAC of which he was still president. Ostensibly, he was also overseeing Deutsche Bank's (and its clients') other substantial investments in the United States.

By the middle of 1893, this latter responsibility showed obvious signs of neglect or worse. The physical assets, not state of incorporation, of the vast majority of Deutsche Bank's and its clients' investments in the United States was west of the Mississippi, but Villard's office and residence was in New York City. Although on the surface this division may

27 W. Bernard Carlson, *Innovation as a Process: Elihu Thompson and the Rise of General Electric, 1870-1900* (Cambridge, 1991), 203-19.

28 Kobrak, *Banking*, 59-61.

seem odd, in practical terms the fortunes of these assets depended to a large extent on the health of East Coast and European capital markets.

### ***Second Bankruptcy***

The second Northern Pacific bankruptcy was part of the third great wave of American railroad failures. In 1893, 74 companies representing \$1.8 billion in capital (approximately \$45 billion in 2010 dollars), nearly one-sixth of total U.S. capacity, went into receivership due to the financial panic that spring. Since the previous bankruptcy wave in 1884 (the first occurred in 1873), the Northern Pacific evidenced a seemingly unquenchable thirst for capital. In the decade following Villard's first departure from the company, NP had more than doubled the length of track it controlled, accounting for approximately three percent of the United States' entire stock. It controlled terminal, coal, logistic, and navigation companies and an amount of land equal to fifty percent of present-day Germany. Its operations actually consisted of 44 separate companies with \$380 million in debt (approximately \$9.5 billion in 2010 dollars). In 1893 with the parent company alone owing \$10.9 million in interest and sinking fund payments (approximately \$273 million in 2010 dollars), its fixed financial costs alone put it at considerable risk. Considering that average operating revenues and income over the previous three years were \$24.5 and \$9.8 million respectively (approximately \$613 and \$245 million in 2010 dollars), even an untrained eye should have seen that the company was exposed to a downturn in economic activity.<sup>29</sup>

Despite the risks as 1893 began, Villard and his investors remained remarkably sanguine. Deutsche Bank managers expressed some concern about the price of its preferred shares, but did not have concerns about anything else. In May of 1893 panic swept through U.S. capital markets as fears mounted that America, despite Cleveland's election, would fall off its strict adherence to the Gold Standard. The panic led to one of the most severe downturns in U.S. history. With banks failing, unemployment rising, and a sharp drop in equities prices, short-term lending was hard to come by. Farm commodities prices, already in decline and a mainstay of NP's business, fell further. Villard's NAC, which was to have served as a financial backstop, itself could not get additional loans from its original investors or acquire new ones. Price competition among the rail lines increased further, impairing revenues. In the early summer NP's share price dropped to less than eight percent of its par value, a sure sign that bankruptcy

<sup>29</sup> Ibid., 62-63.

was imminent, but even companies like GE were at risk.<sup>30</sup> Villard was not alone in underestimating the dangers inherent in over investment, conflicting and unclear bankruptcy laws, as well as volatile capital markets. The bankruptcy of the NP and its sister companies was large, but by far not the largest case during the crisis. By 1896 twenty percent of all U.S. railroad trackage was held by bankrupt companies.

Villard's role in the NP bankruptcy saga says as much about Villard as it does about the difficulties of managing investments over great distances, especially in an era with high macroeconomic turbulence, inappropriate or nonexistent financial regulation, and rudimentary communication technologies compared with that of the twenty-first century. Without a clear warning about NP's dire straits, in the spring of 1893 Villard announced his desire to resign his responsibilities with Deutsche Bank, but the resignation had not been accepted immediately and no replacement had been found. On August 3, Villard cabled his conviction that the only feasible option for NP was receivership, but the letter with his explanation of the decision and the defense of his own behavior was dated August 15. German investors were furious not just about what happened but also about how decisions were communicated. After months of false hopes and dire rumors, Villard finally wrote in mid-August to his honorable friend, Siemens, that NP had come under a court-appointed receiver, a step Villard said he had encouraged albeit without prior Deutsche Bank consultation over essential aspects such as the choice of administrators. Although Villard claimed that his own responsibility made writing the letter difficult, the gist of his missive outlined all his achievements, his own lack of fault, and how much he himself had lost. Typically, he was optimistic about an economic recovery and the possibility of mitigating excess competition that would eventually justify the high levels of investments the company had made.<sup>31</sup> His optimism would eventually be justified, but the turnaround took three years and a lot of patient administrative savvy, hardly attributes which he had hitherto displayed. Moreover, at least some of the investors doubted his sincerity. Even his great-granddaughter reported, in contrast to his assertions about losses, that Villard, who owned directly or indirectly NP debt and equity, was well prepared for the crisis and lost little of his personal fortune.<sup>32</sup>

German investors were furious, but despite many misgivings, they needed Villard, at least during the early stages of the NP's reorganization. Villard, who initially asserted with his German clients that the

30 Ibid., 63-64.

31 See various correspondence among Villard, Siemens, Deutsche Bank, and Villard's secretary, July and August, 1893, HADB, A674, A1142, A718.

32 *Life and Times of an American Titan*, 375.

receivership was the only sensible course, claimed in September that he had played no part in the decision to put the company in the hands of administrators whose job it was to insure that as many creditors as possible would be paid out of the assets of the company. While one of the receivers was a long-time Villard associate (indeed friend), the others were loyal to non-German investors like the Rockefellers. No one on the committee represented the Germans. By late August, however, Deutsche Bank had its own man on the scene with a clear mission to safeguard all German interests, not just those of Deutsche Bank, but his influence was limited. Only with German investors united behind the bank, could Deutsche Bank hope to coordinate an intensive, multi-year effort to salvage the interests of its customers. Meanwhile, Villard's friend Siemens was convinced that the origin of the NP's problems lay in the acquisition of several ancillary lines, especially the Wisconsin Central, for which NP had simply paid too much and in which Villard, suspiciously, had a financial interest. Villard still had some influence over the receivers, though, and for this reason Deutsche Bank had to proceed carefully. During late August and early September, Villard remained virtually in hiding, leaving the briefings to his assistant.<sup>33</sup>

In September, Siemens, whose personal reputation was on the line, left for a second and far less enjoyable trip to the United States. Meeting Villard was one of the first points on his agenda. While defending Villard in public, Siemens' stepson and biographer maintained that in private his stepfather accused Villard of violating his duties to Deutsche Bank by willfully neglecting to inform the bank of problems he simply could not have overlooked. Even Villard's offers to resign the previous spring reflected, in Siemens' opinion, only Villard's fatigue and desire to return to Europe, not the company's dire financial straits. It is not clear what infuriated Siemens the most, Villard's incompetence, his dishonesty, or his failure to inform Deutsche Bank before the public discovered NP's predicament.<sup>34</sup>

Apart from the long-term financial issues facing the NP, creditors had to decide what to do with Villard who still had influence with some of the investors, who were, in turn, highly suspicious of one another, management, and the receivers. Under no circumstances was Villard permitted to continue representing Deutsche Bank and the other Germans. By October Siemens had found an experienced banker, Edward D. Adams (1846-1931), to represent the bank and help structure the ultimate reorganization of the NP, a task that lasted many years. That

33 KobraK, *Banking*, 67-68.

34 Various correspondence between Deutsche Bank and Villard's office, August, 1893, HADB, A-1147.

solution would incorporate many of Villard's ideas, especially closer cooperation among adjacent and parallel lines, but not his absentee management style, his willingness to throw good money after bad (and convince others to follow suit), and most importantly his blindness to his and his managers' conflicts of interest.<sup>35</sup>

### ***Retirement***

The NP's financial distress spelled the end of Villard's business life. Apart from occasional consultations, his relationship with Deutsche Bank was at an end. Ever modest to the end, Villard claimed credit for the NP turnaround in his autobiography. According to virtually all accounts of the reorganization, he played virtually no role in the administration and refinancing of the line after 1893, a feat that was accomplished by J.P. Morgan, Deutsche Bank, its representative, and several other investors who had, and wanted to have, nothing to do with Villard. Siemens, whose own reputation had been tarnished by his inability to control Villard, felt personally betrayed by Villard and disgusted by his passion for self-promotion and "ruthless pursuit of money."<sup>36</sup> Villard was tried for fraud and then sued for malfeasance by some investors, but he escaped all legal punishments. Some of the firms that he had established or controlled continued to exist. Though it remained a murky entity for investors and regulators, NAC, which accounted for a substantial portion a Villard's own portfolio, still held NP securities and was undoubtedly involved in subsequent reorganizations into the new century.

According to his great-granddaughter, the recession and then collapse of the line cost Villard little of his personal fortune. She was probably right. He also probably profited from the resurgence of the line in 1896, for which he claimed credit. In any case in 1893 at age 58, relieved of his business burdens, he could easily settle down to the life of a wealthy retiree, entertaining foreign dignitaries, writing a two-volume autobiography ninety percent of which dealt with his journalistic career, engaging in philanthropic work such as making substantial gifts to the University of Oregon and Columbia University in New York City, and enjoying his family. His great-granddaughter admittedly paints a somewhat rosy picture. He was still troubled by bad health and deafness, a condition he shared with his friend Edison. Horrified by what he viewed as America's imperialist war with Spain in 1898, he preferred to stay in Europe for its duration. In November 12, 1900, back at his residence in Sleepy Hollow just north of New York City, Villard died surrounded by most of his immediate

35 Helfferich, *Siemens*, 258-59.

36 Kobrak, *Banking*, 43 and 92-94.

family; all but his daughter who was by then living in his native land. His long-time friends Edison, as well as his friends, journalists Carl Schurz and Horace White, attended the funeral.<sup>37</sup>

## Conclusion

Despite his many setbacks, Villard's life was by any measure a grand success. Having arrived in the United States virtually penniless, he later lived in grandeur and enjoyed a happy family life. While enmeshed in business conflicts on both sides of the Atlantic, at one time or another he had been on familiar terms with the leading bankers, inventors, journalists, and politicians of his day. Some remained close to the end. His investments were both a measure of his financial clout and his broad contacts and interests. He pioneered such diverse financial engineering tools as leveraged buyouts and mortgage-backed securities, well before they became common business buzzwords and even household terms. At the peak of his financial power, Villard's assets under management in the name of Deutsche Bank alone represented six percent of the bank's entire assets in 1890, an amount in 2011 equal to approximately \$94 billion dollars.

Many of his visions were realized: electrification, the Pacific Northwest's economic growth, and for a while, even the combining of rival rail lines in the West. All these things came to pass, or prospered, as Villard had forecasted, but perhaps with less trauma without his untempered ambition and inconsistent commitment.

Perhaps, though, Villard's long-term influence was greater in the political and social spheres of his life. Many of the currency and banking reforms that he had championed came to pass as American Progressives began to recognize that a more powerful government could serve as an effective counterweight to private initiatives and help insure financial stability. Several American universities and cultural institutes, such as the Metropolitan Museum of Art and the Museum of Natural History, as well as churches and hospitals in his native land, benefited from his generosity. The newspaper he bought in the early 1880s, the *New York Evening Post*, which could trace its heritage back 80 years to Alexander Hamilton, remained for many decades a beacon for liberal ideas. After Villard's death, his son, Oswald Garrison, one of the founding members of the National Association for the Advancement of Colored People, continued to publish the paper, until 1918 when anti-German sympathies hurt circulation. Oswald kept its weekly supplement, *The Nation*, in print and turned it into one of the leading left-liberal magazines in the United States. Although it is not clear that Oswald's father would

<sup>37</sup> *Life and Times of an American Titan*, 375-80.

have supported all of his liberal reform causes, he would have been proud that his son continued to use the very special political and social connections of an insider to question basic tenets of, and contribute to, American society with the very special perspective of an outsider. Perhaps that is Henry Villard's most profound legacy.

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