Information, Markets, and Corruption: Transcontinental Railroads in the Gilded Age

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The corrupt, like the poor, are supposedly always with us. Corruption is a species of fraud that involves violation of public or private trust. A covenant of some sort, either implied or explicit, is violated. Corruption involves betrayal, often of a third party. The corrupt buy or sell what was not supposed to be for sale—a vote, for example, or public property. They turn to personal advantage their legal status as trustees of persons or property. Or they grant only to a privileged few what is purportedly available to all or available only through open and fair competition, such as public information or access to political officeholders or charters or contracts. Or, for a price or for personal advantage, they make public what was pledged to be private, such as state secrets or confidential business information. In the Gilded Age, the corrupt explored new frontiers: they corrupted information, particularly financial information, on a scale never before possible.

The Founders feared the corruption of the American republic, as did the Jacksonians. Gilded Age reformers decried corruption. Today, plagued by financial scandals, we seem both fearful of corruption and resigned to it. We seem uncertain about whom it hurts and what difference it ultimately makes. The Republic seems perpetually corrupted, but instead of being outraged, we are not sure it matters.[1]

Corruption, however, is not always the same; it has a history. The Gilded Age was a key moment in that history not just because the issue of corruption dominated politics but also because, as republicans from Thomas Jefferson through Andrew Jackson had feared, the rich, who now controlled corporations, used them to infiltrate the state and to turn parts of it to their own purposes. They also did something equally important: they moved to take control of the mass circulation of financial information in order to manipulate financial markets. Those markets, which were supposed to ensure the competition that would prevent the rise of economic units large enough

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[1] Gordon Wood, *The Creation of the American Republic, 1776–1787* (New York, 1969), 32–36, 107–17, 414–25; Harry Watson, *Liberty and Power: The Politics of Jacksonian America* (New York, 1990), 46, 62, 65–66, 82–85, 101; Mark Summers, *The Era of Good Stealings* (New York, 1993); John J. Wallis, "Constitutions, Corporations, and Internal Improvements: American States, 1842–1852," paper delivered at Stanford University, April 2002 (in Richard White's possession), 21–22.

to corrupt the Republic, proved to be themselves open to corruption. Even today, as the political scientist Susan Rose-Ackerman has written, the models of modern economists are "deeply embedded in a set of often unstated assumptions about human values, and many of the normative claims for the market are fundamentally dependent upon the assumption that economic actors will not break the law." But, as the misdeeds of Enron and other current financial scandals demonstrate, economic actors do break the law.[2]

Financial corruption provoked outrage and concern. "Our whole system rests upon the sanctity of fiduciary relations," Henry Adams and Charles Francis Adams Jr. wrote in *Chapters of Erie.* "Whoever betrays them, a director of a railroad no less than a member of Congress . . . , is the common enemy of every man, woman, and child who lives under representative government. The unscrupulous director is far less entitled to mercy than the ordinary gambler, combining as he does the character of a traitor with the acts of the thief."[3]

But corruption was not simply a breakdown in morality. The laissez-faire enthusiasms of the Gilded Age did not eliminate nineteenth-century moral constraints. It was funny when Henry Adams described corrupt characters in his novel *Democracy* as "moral lunatics" who "talked about virtue and vice as a man who is colorblind talks about red and green." But outside of novels, most of the corporate corrupt were less amoral than immoral. J. Gregory Smith, a president of the Northern Pacific Railroad who was eased out because of, among other things, suspicions concerning his rectitude, claimed that he would "never retain or countenance an immoral man if I know it." Smith and other corporate leaders employed the same moral vocabulary as their critics. Nineteenth-century American thinking about economics, as the historian Herbert Hovenkamp has argued, joined economic rights with "moral and religious rights."[4]

It is easy to see only hypocrisy in the combination of dubious business practices and Protestant religiosity of the financier Jay Cooke or Harvey Fisk, the Central Pacific Railroad's banker. But it was the cultivation of public character that led both men into personal corruption. Not deeply reflective to begin with, they, like Collis P. Huntington of the Central Pacific or Thomas Scott of the Pennsylvania Railroad, reconciled morality and actions by embracing a morality of consequences. Like business, morality reduced to a bottom line that reflected an increase in wealth. Bad men were bears. Good men were bulls. Bad men lied and manipulated information to drive down values. They hurt investors to help themselves. Good men lied and manipulated information to maintain or increase values. In helping themselves, they helped investors. Men of character considered themselves the final judges of their own rectitude.[5]

[2] Summers, *Era of Good Stealings,* 28–29, 300–306; Susan Rose-Ackerman, *Corruption: A Study in Political Economy* (New York, 1978), 189–90.

[3] Charles Francis Adams Jr. and Henry Adams, *Chapters of Erie* (1871; Ithaca, 1956), 8.

[4] Henry Adams, *Democracy* (1880; New York, 1961), 182; J. Gregory Smith to Jay Cooke, March 8, 1872, Jay Cooke Papers, HSP 148 (Historical Society of Pennsylvania, Philadelphia, Pa.); Herbert Hovenkamp, *Enterprise and American Law, 1836–1937* (Cambridge, Mass., 1991), 74.

[5] Thomas C. Cochran, *Railroad Leaders, 1845–1890: The Business Mind in Action* (Cambridge, Mass., 1953), 122–25.

Gilded Age financial corruption consisted of quotidian faults—lying, deception, and dishonesty—played out largely on paper and along telegraph lines, but on a national and international scale. People did not have to grow more corrupt; old faults yielded new results. Altering a few words or numbers on a page could bring great wealth. When relatively venial sins in a virtual world of financial information could accomplish more than mortal sins in a local world, why bother to be truly evil? Asymmetries in information allowed financial corruption to flourish. The financial markets magnified the results of relatively small actions and yielded disproportionate results. When Alfred A. Cohen, a San Francisco lawyer and businessman, ridiculed Charles Crocker of the Central Pacific as "a living, breathing, waddling monument of the triumph of vulgarity, viciousness, and dishonesty," his ridicule also conveyed a sense that the increased scale and movement—the girth and waddle—of the old arts of lying and deceit had made Crocker a figure to reckon with.[6]

The possibilities for corruption were supposed to have dwindled when Jacksonian reformers sought to diminish the central state and to center development efforts on states and localities. The shift from special incorporation laws toward general incorporation law was supposed to make the corporation a tool of reform by increasing competition and eliminating favoritism, thus diminishing corruption. If a national government or national market was not strong enough to be worth corrupting and if no economic unit was big enough to corrupt either one, then corruption could be contained.[7]

The historical consensus from Robert H. Wiebe through Stephen Skowronek was that antebellum reformers had succeeded in denationalizing the state and society, but more recently Richard Franklin Bensel has persuasively argued that state authority increased dramatically during the Civil War to create a Yankee Leviathan. Sven Beckert has found the emergence of a national bourgeoisie based in New York that replaced regional elites. Central authority may have shrunk in other regions in the 1870s, but it remained disproportionately strong in the West. Elsewhere, that authority left behind new overlapping centers of information, new financial markets, a national bourgeoisie, the Associated Press (AP), and powerful new corporations subsidized and regulated by the central state. All were critical to the corruption that was a part of Gilded Age life, and all are still critical to corporate corruption today.[8]

At the center of national corruption, both financial and political, were particular corporations: the railroads. They were the major corporate consumers of capital and the

[6] *Central Pacific Railroad Company vs. Alfred A. Cohen. Argument of Mr. Cohen, the defendant, in person. . . .* (San Francisco, 1876), 49, pamphlet, 67742 (Huntington Library, San Marino, Calif.).

[7] Richard L. McCormick, "The Party Period and Public Policy: An Exploratory Hypothesis," *Journal of American History*, 66 (Sept. 1979), 286.

[8] Robert H. Wiebe, *The Search for Order, 1877–1920* (New York, 1967), 32–33; Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capacity* (New York, 1982), 8, 23–31; Richard Franklin Bensel, *Yankee Leviathan: The Origins of Central State Authority in America, 1859–1877* (New York, 1990), 1–17; Sven Beckert, *The Monied Metropolis: New York City and the Consolidation of the American Bourgeoisie, 1850–1896* (New York, 2001), 3–13.

leading corporate objects of both regulation and aid. An important subgroup of the railroads—the transcontinentals chartered to cross the western United States—were particularly open to corruption. They operated on the national stage, and they were political from birth. The federal government provided indirect subsidies to many railroads, but the transcontinentals received direct ones. Most such subsidies came as land grants, but outside of providing collateral for bonds, they contributed little initial capital. The key subsidy, granted only to the Pacific road (primarily the Union Pacific Railroad and the Central Pacific Railroad) but sought by other roads, was the loan of government credit in the form of bonds. The Union Pacific and the Central Pacific sold the bonds, and the government paid the interest. The roads would repay both interest and principal to the government when the bonds came due in thirty years. Until then, the government had a second mortgage on the road.[9]

Federal aid was, however, never sufficient to build the transcontinentals, nor could they be financed in the same way as most antebellum roads. Before the Civil War, local investors built local roads, and capitalists combined local roads into systems; but asking local investors to build a transcontinental was like bringing an elephant to a horse fair. It was a different beast, and no one was buying. That was the argument for federal subsidies in the first place.[10]

Federal subsidies allowed transcontinentals to join other railroads in raising money on national and international financial markets, which, like the transcontinentals themselves, were products of federal actions. The federal government created the modern bond market in order to finance the Civil War, and it used key elements of the existing system—urban banking houses—to do so. With the refinancing and retirement of the government's Civil War debt in the 1870s, railroad bonds took over a larger and larger space in financial markets. The bonded debt of American railroads rose from $416 million in 1867 to $2.230 billion in 1874 and $5.055 billion in 1890. The majority of the funds came from investors within the United States, but there was significant investment from parties in Great Britain, the Netherlands, and Germany.[11]

The early transcontinentals were speculative endeavors run by men who were essentially financiers. Early owners usually hoped for a quick gain. Even the longest lasting of them—the "Associates" of the Central Pacific: Collis P. Huntington,

[9] Maury Klein, *The Union Pacific: Birth of a Railroad, 1862–1893* (Garden City, 1987), 14–15, 31, 514–15; David Maldwyn Ellis, "The Forfeiture of Railroad Land Grants, 1867–1894," *Mississippi Valley Historical Review*, 33 (June 1946), 27–60. For land grants as of 1873, see Henry V. Poor, *Manual of the Railroads of the United States for 1875–76* (New York, 1876), 818–22. Henry V. Poor, *Manual of the Railroads of the United States for 1878–79* (New York, 1878), 986.

[10] Robert Fogel, *The Union Pacific Railroad: A Case in Premature Enterprise* (Baltimore, 1960), 58–60, 97; Jonathan B. Baskin, "The Development of Corporate Financial Markets in Britain and the United States, 1600–1914: Overcoming Asymmetric Information," *Business History Review*, 62 (Summer 1988), 210–11.

[11] Bensel, *Yankee Leviathan*, 243–62; Richard Eugene Sylla, *The American Capital Market, 1846–1914: A Study of the Effects of Public Policy on Economic Development* (New York, 1975), 155–61; Vincent P. Carosso, *Investment Banking in America: A History* (Cambridge, Mass., 1970), 15–17. For the amounts of bonded debt of railroads, with figures for 1867 including elevated railways and figures for 1890 excluding them, see U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970* (2 vols., Washington, 1975), II, 734, series Q 346–55. Lance E. Davis and Robert E. Gallman, *Evolving Financial Markets and International Capital Flows: Britain, the Americas, and Australia, 1865–1914* (New York, 2001), 5–6, 32, 234, 238, 249–52, 333.

Charles Crocker, Mark Hopkins, and Leland Stanford—had hoped to sell out in the early 1870s, soon after the completion of the road. The bureaucratic organization of the modern corporation appeared in railroads in the 1880s, but before then, and to an extent even afterward, profit came less from selling goods and services than from financial maneuvering involving the securities of the firms. That is the site where corruption appeared.

The transcontinentals connected the two major strains of Gilded Age corporate corruption: financial and political. Although political corruption is not the focus of this article, it was the twin of financial corruption. It differed from the more familiar corruption associated with nineteenth-century political machines in several respects. It was, first of all, nonpartisan. The railroads sought friends in both parties. Second, it was not focused on democratic elections, which were expensive and hard to control. Third, it depended as much on lobbyists as on elected officials. Lobbyists were common enough, but the Washington lobbies of the Central Pacific and Texas and Pacific railroads operated on a scale far greater than that of most of their counterparts. The railroads took up a kind of politics that the Jacksonians had associated with the Second Bank of the United States. They sought to influence the people who could regulate and control the bottlenecks and choke points of legislation and administration. The more the playing field narrowed, the more potent the transcontinentals became. The transcontinentals were least effective in manipulating democratic elections; more effective in influencing nominations and arranging whom legislatures picked as senators; more effective still in making their interests felt when legislatures and congresses staffed key committees; and most effective in influencing the work of those committees. Friends of the railroads worked best when they worked quietly, in committees and in cloakrooms.[12]

Railroad politics were most often concerned with regulation and subsidies, but such concerns blended seamlessly into attempts to influence financial markets. The goal of a public battle in Congress was not necessarily to get legislation passed. In 1877 John P. Usher, the Kansas Pacific Railroad's lawyer and formerly Abraham Lincoln's secretary of the interior, suggested that the Kansas Pacific push legislation in Congress, as well as pursue lawsuits, in its battle with the Union Pacific—an effort to force that road to grant the Kansas Pacific a fair proportion of the revenue from jointly carried traffic. Usher did not really think the Kansas Pacific would obtain either new laws or a favorable court decision. The Union Pacific was probably strong enough to prevent that. His intent was to drive down the price of Union Pacific stocks and bonds and thus threaten the financial stability of a large but wobbly enemy. The goal, in short, was to produce information that could influence financial markets.[13]

[12] Mark Wahlgren Summers, "'To Make the Wheels Revolve We Must Have Grease': Barrel Politics in the Gilded Age," *Journal of Policy History,* 14 (no. 1, 2002), 49–72; Klein, *Union Pacific,* 370, 465, 532, 538; C. Vann Woodward, *Reunion and Reaction* (New York, 1956), 120–29.

[13] John P. Usher to Henry Villard, Nov. 5, 1877, f. 23, box 3, Henry Villard Business Papers, 1862–1900 (Baker Library, Harvard Business School, Boston, Mass.).

The history of the transcontinental railroads, particularly the Kansas Pacific, Northern Pacific, Texas and Pacific, Central Pacific, and Union Pacific, as well as the Southern Pacific Railroad, exemplifies the linkage between information, markets, and corruption in the Gilded Age. Neither the importance of information to financial markets nor the manipulation of that information was new in the 1870s. The brokering of credit between parties who did not know each other (by notaries in prerevolutionary France and by scriveners and lawyers in Britain) existed before either banks or financial markets.[14] What was new was the scale of the markets and of the private corporations that manipulated them, the rapidity of the dissemination of information and the size of the audiences it reached, and the new technologies that made all this possible. The Gilded Age did not replace local, face-to-face markets with an international market dealing with security issues in the tens or hundreds of millions of dollars; rather, it layered those markets and forged connections between them.

Culture as much as money knit the markets together, and as paradoxical as it might seem, the culture of corruption initially began with character, which was essential for trust. This was as true on Wall Street as it was in the assessments of local bankers or agents of the credit-rating firm R. G. Dun and Company. Few in the 1870s would have failed to understand Henry Villard's refusal to resign as receiver of the Kansas Pacific, appointed by a court to run the bankrupt road, as long as his character was under attack. Corporate leaders often claimed to be honest. Collis P. Huntington attributed his own and his fellow Associates' success to their obtaining "a national reputation not only as railroad builders but as honest men that watch over and protect the interest of all [the company's] stock holders however small their interest." Character among Gilded Age financiers, however, was not synonymous with honesty; it had as much or more to do with honor, dependability, forcefulness, and strength. If Huntington thought a man reliable, he said little about him, and he therefore said a lot about many people. Huntington thought the financier Jay Gould and the railwayman Tom Scott were "two of the worst men in the country," but because being a bad man did not mean being without character, he warned David Colton not to "underrate the power of Tom Scott" of the Texas and Pacific and Pennsylvania railroads, who had come "from a very small beginning by his own forces of character" to head the Penn Central, "one of the largest R[ailroad] organizations in the world."[15]

[14] Philip T. Hoffman, Gilles Postel-Vinay, and Jean-Laurent Rosenthal, "Information and Economic History: How the Credit Market in Old Regime Paris Forces Us to Rethink the Transition to Capitalism," *American Historical Review,* 104 (Feb. 1999), 69–94; Naomi Lamoreaux, *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (New York, 1994), 1–7.

[15] On Henry Villard, see "In the U.S. Circuit court for the District of Kansas, Adolphus Meier et as. vs. KPRR . . . New York, Sept. 28, 1878," f. 7, box 1, KPRR Bondholders statements, Villard Papers. Collis P. Huntington to Mark Hopkins, Aug. 29, 1869, 1: 93, box 20, Mark Hopkins Correspondence, Timothy Hopkins Transportation Collection, 1816–1942, M 97 (Special Collections, Stanford University Library, Stanford, Calif.); C. P. Huntington to Leland Stanford, May 10, 1870, in *Letters from Collis P. Huntington to Mark Hopkins, Leland Stanford, Charles Crocker, E. B. Crocker, Charles F. Crocker, and D. D. Colton* by Collis P. Huntington et al. (3 vols., New York, 1892–1894), II, 145–46; C. P. Huntington to David Colton, May 18, 1874, in *The Octopus Speaks: The Colton Letters,* ed. Salvador Ramirez (Carlsbad, Calif., 1982), 29. For Huntington's opinions, see C. P. Huntington to Hopkins, April 29, 1876, 9: 11, box 24, Hopkins Correspondence; and C. P. Huntington to Colton, April 12, 1875, May 17, 1877, in *Octopus Speaks,* ed. Ramirez, 98, 363.

Decisions on character were a matter of information, and they were linked to other information in judgments of creditworthiness. The smaller the financial community, the greater the ability to obtain such information. Every time the Associates of the Central Pacific had to borrow money at the ornate office of the Bank of California in San Francisco, for example, they revealed information because as Huntington, by far the shrewdest of the Associates, noted, "we are but a small community there." Whenever the Central Pacific bought locally on credit and merchants discounted the railroad's notes, they gave away intelligence to the "ring" of men surrounding the bank, who, as Huntington's partner, Mark Hopkins, complained, "know *all about* our business here." They knew what the Associates owed, whom they owed it to, and what rates they were paying. There was "nothing but the perplexities of it" that they did not know. Lending on both discounted notes and accommodation loans—short-term notes endorsed by a borrower and by other endorsers—was precorporate; the endorsers and their estates bore the responsibility, rather than a corporation. Members of the ring did not invest in Central Pacific securities and would not take them as collateral, supplying only short-term capital. They knew too much about the large floating, or unsecured, debt of the Central Pacific. As late as 1877, Colton found that San Francisco bankers would not lend the Central Pacific or the Southern Pacific money without the personal notes of the Associates behind the loan.[16]

When financiers moved into national markets, issues of character and information went with them. The center of long-term capital markets was New York City, and Collis P. Huntington moved there in the 1860s because the Central Pacific could not survive unless he, or someone like him, was present. Wall Street could seem local. When not traveling, Huntington came to work six days a week at an office at 9 Nassau Street, just off Wall Street. At 20 Nassau Street were the original offices of the Union Pacific. At 5 Nassau Street were the offices of Fisk and Hatch, the Central Pacific's bankers. The New York house of Jay Cooke and Company, the Northern Pacific's bankers, was at Broadway and Nassau Street. Henry Villard, receiver of the Kansas Pacific and eventual owner of the Northern Pacific, would join them on Nassau Street in 1876.[17]

Wall Street was, in fact, a hybrid. A tightly knit world, it was also the nexus between local financial worlds and the emerging virtual world of financial information, which was both national and international. Many of the same bankers who negotiated government war bonds would later undertake the marketing of railroad bonds. Jay Cooke and Company, who eventually took over the sale of Northern

[16] C. P. Huntington to Charles Crocker, Aug. 21, 1874, in *Letters from Collis P. Huntington,* by Huntington et al., III, 164–65; Hopkins to C. P. Huntington, Dec. 29, 1872, Incoming Correspondence, *Collis P. Huntington Papers, 1856–1901* (microfilm, 115 reels, Microfilming Corporation of America, 1978–1979), series 1, reel 5; Lamoreaux, *Insider Lending,* 1–7; John A. James, *Money and Capital Markets in Postbellum America* (Princeton, 1978), 56–57; Ira B. Cross, *Financing an Empire: History of Banking in California* (4 vols., Chicago, 1927), I, 259–60; Colton to C. P. Huntington, May 23, 1877, in *Octopus Speaks,* ed. Ramirez, 366.

[17] Villard to Augustus Meir, Nov. 30, 1876, Kansas Pacific Letterbook 11, Villard Papers; Holmes to Jay Cooke, Jan. 13, 1872, Cooke Papers; Stanford to stockholders, Sept. 9, 1873, 5: 33, box 22, Hopkins Correspondence.

Pacific securities, had overseen the Union bond sales. Fisk and Hatch, one of Cooke and Company's agents, became the Central Pacific's bankers. During the Civil War those houses had not only reaped considerable financial profit but also accrued dividends of patriotic regard and trust.[18]

Soliciting funds on international markets involved the production of information about the railroads themselves and about the trustworthiness of the men who offered and sold the bonds. Railroads and bankers produced information in the form of bond prospectuses, stock and bond market quotations, corporate reports, and financial news. As the scale of the financial markets increased, such information grew more asymmetric: insiders had a lot of it and outsiders relatively little.[19]

On Wall Street a man's reputation, his associations, and his money all had to be evaluated before anyone put any confidence in his paper, precisely because men adept at producing financial information knew how unreliable it was. The men who financed the railroads lived in chronic uncertainty. "I see my friend Gould frequently," Henry Villard wrote in 1877. "One day he talks peace and the next he threatens. But I am not afraid of him." Villard was not always so sanguine; he eventually suffered a nervous breakdown. He was not alone. Wall Street was inhabited by worried and harried men who could not sleep, could not digest their food, and could not avoid each other. Their lives were a series of judgments about each other, shadowed by the nagging suspicion that those judgments were wrong. They often were. Collis P. Huntington balanced on a high wire and nearly tumbled off. Jay Cooke did tumble. Fisk and Hatch, the Central Pacific's bankers, accepted deposits only from "Banks, Savings Banks, or other well known corporations, or of individuals or firms *whose character and standing are already known to us.*" They nonetheless suspended business in the panic of 1873, in part because Huntington betrayed them.[20]

To sell bonds, corporations had to project information and character beyond Wall Street. The character of railroad promoters was initially hard to assess at a distance, and the railroads were thus unable to market their bonds without the assistance of intermediaries. When the Central Pacific turned to Fisk and Hatch or the Northern Pacific to Jay Cooke and Company to market railroad bonds, they benefited from the trust that had rubbed off on those firms from their role in financing the Civil War. In advertising Central Pacific bonds, Fisk and Hatch told potential investors that it sold "First-Class Railroad Securities which we can recommend with confidence." Cooke wrote the president of the Northern Pacific, "You must remember, that my responsibility is greater than that of all the rest put together, as the money thus to be

[18] Sylla, *American Capital Market,* 146–61; Carosso, *Investment Banking in America,* 15–17; Henrietta M. Larson, *Jay Cooke, Private Banker* (Cambridge, Mass., 1936), 10–151; Fisk and Hatch, *Memoranda Concerning Government Bonds for the Information of Investors. . . .* (New York, 1881).

[19] George Stigler, *The Organization of Industry* (Homewood, 1968), 171–90.

[20] Harvey E. Fisk, "Fisk and Hatch, Bankers and Dealers in Government Securities, 1862–65," *Journal of Business and Economic History,* 2 (Aug. 1930), 706–22; Villard to William J. Endicott, April 6, 1877, Letterbook 16, Private Correspondence, Villard Papers; Alexandra Villard de Borchgrave and John Cullen, *Villard: The Life and Times of an American Titan* (New York, 2001), 338–39; "Banking Department," in *Memoranda Concerning Government Bonds,* by Fisk and Hatch. Emphasis added. C. P. Huntington to Hopkins, Sept. 23, 1873, 5: 97, box 22, Hopkins Correspondence; *Letters of Harvey Fisk, Edited for the Family by His Son, Harvey E. Fisk* (New York, 1896), 34–37.

expended comes in 90 cases out of a hundred from those who purchase simply on my word, not on the word of Jay Cooke & Co. in this case so much as my personal reputation."[21]

The transcontinentals were hardly the only speculative ventures seeking capital on European financial markets, and that made the aid of reputable European houses even more necessary. Speyer and Company, whose parent and associated firms were the Speyer Brothers of London and Lazard Speyer-Ellissen of Frankfurt, played the same role in Europe as Fisk and Hatch did in the United States: they vouched for the corporate borrower's character and solvency. The Northern Pacific initially considered Europe the "great market for their bonds," but it was "flooded with bonds offered by every little Dutch house," and so the railroad needed "a great house whose recommendation would give them preference." But the Northern Pacific never secured that great house. First, the Franco-Prussian War disrupted what looked like successful European negotiations. Then, when negotiations over reparations due to the United States for British complicity in the activities of the Confederate raider the *Alabama* threatened to bring on a war with Great Britain, a second Northern Pacific negotiation fell apart. So powerful was the Rothschild name, however, that reports—premature, as it turned out—of the family's participation with Jay Cooke in the funding of a new U.S. Treasury issue in 1872, an enterprise that had nothing to do with the Northern Pacific, was enough to advance the sale of Northern Pacific bonds.[22]

An investor without independent knowledge who found himself in a virtual world of financial statements, prospectuses, newspaper accounts, and market values that at once stood in for and was inseparable from the actual world of a developing nation had to trust someone. The problem of trusting strangers was as old as long-distance trade. A German banker whose client had inherited a note signed by the Central Pacific Associates, and who then tried to ascertain "the responsibility and financial ability of said parties" through American intermediaries, was a part of the older world.[23] The bond market, however, overwhelmed that world of individual promissory notes with millions of pieces of printed paper. This virtual world was, then as now, temptingly easy to corrupt. Numbers and words that were supposed to stand in for certain things could be changed and still maintain their influence; news could be altered or withheld; reports could claim assets that did not exist and deny trouble that did. Altering the numbers and changing the words of the virtual world could prompt actions in the parallel, real-life universe.

Borrowing on national and international bond markets became the key to building and operating the transcontinentals, and borrowing was, as the historian Julius Grodinsky has noted, Collis P. Huntington's great skill. Huntington knew that bor-

[21] "Banking House of Fitch & Hatch," *New-York Daily Tribune,* Oct. 30, 1872; Larson, *Jay Cooke,* 351.

[22] Harris Fahnestock to Jay Cooke, Sept. 18, 1869, B. 3, f. 3-2, Harris C. Fahnestock Papers (Baker Library); "Jay Cooke's Memoir," unedited typescript, pp. 136, 148 (Baker Library); Pitt Cooke to Jay Cooke, Jan. 5, 1872, Cooke Papers; Larson, *Jay Cooke,* 359–60.

[23] *The Newspaper Cuttings Files of the Council of Foreign Bondholders in the Guildhall Library, London, 1874–93* (microfilm, 266 reels, EP Microform Limited, 1975), reel 219; John Bonk to J. L. Worth, Feb. 3, 1876, *Collis P. Huntington Papers,* series 1, reel 9.

rowing was a matter of controlling information. "Capital is always timid," he wrote David Colton, and the "lies told and retold" in the press hurt railroad securities. One way to control information was simply not to release it. Huntington appreciated secrecy when it was practical. Harvey Fisk, his familial, religious, sanctimonious banker, drifts ghostlike through Huntington's letters. Fisk wanted it that way—"Keep your own counsels," he advised his sons. "Tell no one of your affairs." Huntington sneered at the men who ran the Union Pacific because they were as "loose as old colanders." Colton and Charley Crocker of the Central Pacific thought British bondholders were entitled to no information beyond assurances that their interest would be paid, but Huntington was not so stupid. He had to release information both in order to counter the "lying press" and to placate the intermediaries he needed to sell bonds, who demanded it. In 1872 Philip Speyer and Company forced the Central Pacific to issue its first stockholder's report which, as Speyer's agent Henry Schuester wrote, was "such as was made by every other R.R. in the world over fifty miles long." Schuester threatened not to "buy or recommend his friends to buy any of our securities." Speyer and Company had the power to demand such reports because the Central Pacific needed its help in marketing bonds in Europe, but although it undertook independent investigations and demanded systematic reports, it lacked the power to ensure their accuracy.[24]

The lies and inaccuracies of railroad accounting cost Europeans dearly. In 1874 the *Financier* of London reported that for many English investors "United States Railway investments are only another term for total loss of interest and most serious depreciation of capital value" and that 40 percent of the American railroad bonds held in Europe were in default, "largely due to the disastrous investments of Germans in Western lines." In 1876 the *Bankers' Magazine and Statistical Register* of Boston calculated that while only 14 percent of the American railroad bonds held in the United States had defaulted, 65 percent of the American bonds held in Europe had. The *Bankers' Magazine and Statistical Register* blamed this on the "reckless credulity" of foreign investors, and *Railway Age* of Chicago seconded the opinion. Their argument went like this: Europeans bought bonds that Americans would supposedly not touch and, by giving prestige to such dubious issues, introduced "elements of weakness and of danger" into the American financial system. In other words, those duped by American corporations were to blame for the financial system that duped them. It

[24] Julius Grodinsky, *Transcontinental Railway Strategy, 1869–1893: A Study of Businessmen* (Philadelphia, 1962), 2–4; C. P. Huntington to Colton, Oct. 15, 1874, in *Octopus Speaks*, ed. Ramirez, 50–51; C. P. Huntington to Hopkins, March 16, 1877, 9: 161, box 24, Hopkins Correspondence; Harvey Fisk to Alexander Fisk, Sept. 11, 1883, in *Letters of Harvey Fisk*, 248–49; C. P. Huntington to Stanford, Sept. 22, 1874, in *Letters from Collis P. Huntington*, by Huntington et al., III, 179. On withholding information from bondholders, see Crocker to C. P. Huntington, Feb. 12, 1878, *Collis P. Huntington Papers*, series 1, reel 14; and Colton to C. P. Huntington, Feb. 14, 1878, in *Octopus Speaks*, ed. Ramirez, 468–70. Goldsmith and Hart to C. P. Huntington, Oct. 22, 1878, *Collis P. Huntington Papers*, series 1, reel 15; C. P. Huntington to Stanford, Nov. 16, 1872, 3: 37, box 21, Hopkins Correspondence; David Lavender, *The Great Persuader: The Biography of Collis P. Huntington* (Niwot, 1998), 182; John J. Madden, *British Investment in the United States* (New York, 1985), 95–96; C. P. Huntington to Stanford, March 3, 1870, in *Letters from Collis P. Huntington*, by Huntington et al., III, 89–90; Edward H. Miller to Speyer and Company, March 21, 1876, *Collis P. Huntington Papers*, series 1, reel 9; Speyer Brothers to Southern Pacific, July 10, 1879, *ibid.*, series 2, reel 12; Philip Speyer and Company to C. P. Huntington, Oct. 31, 1873, 5: 163, box 22, Hopkins Correspondence.

was a wonderful Gilded Age moment: the financial market's equivalent of Mark Twain's comic denunciation of a man solicited for a bribe by his fictional Senator Dilworthy in *The Gilded Age.*[25]

The "reckless credulity" of such investors had been carefully cultivated by powerful American corporations. The transcontinental railroads lured investors along the financial gangplank one small step at a time. Investors proceeded from government bonds, to government-secured railroad bonds, to mortgage bonds vouched for by the same people who sold the government bonds, to an array of financial instruments, and from there, potentially, into the drink. Fisk and Hatch offered Central Pacific bond issues in all their profusion and variety.[26]

All kinds of information influenced investment decisions, however, and the railroads could never hope to control all of it. They could not effectively conceal news of wars, droughts, crop failures, or major regulatory decisions that could affect their firms. They usually could not mask basic facts about the road: its length or bonded debt per mile. They could more effectively control information about floating debts, the financial condition of their firms (including the amount of actual capital paid in as compared to the total debt of the firm), the results of lawsuits, and minor regulatory decisions. Some audiences were harder to deceive than others—railroads could lie to investors much more easily than to the bankers who financed their short-term debts.

The example of Jay Cooke and the Northern Pacific shows how deception, character, and trust were joined. In the early 1870s Cooke attempted to forge a moral contract with investors. He would sell bonds only to investors who promised to hold them for the long term and not to use them for speculation. He offered rosy assessments of the Northern Pacific, and he never lost faith in the ultimate promise of the road. He did not, however, think that a frank assessment of the road's progress necessarily benefited either investors or the railroad. When the millions investors offered were squandered by the extravagant managers of the road, Cooke recklessly advanced the Northern Pacific money from his own bank. To maintain the moral contract, he became immoral. The house of Jay Cooke failed, triggering the panic of 1873, when Cooke's advance of funds to the Northern Pacific made him incapable of meeting the call of country bankers who tried to withdraw their funds to finance the harvest.[27]

He had become corrupt long before the eventual failure. His partner, Harris Fahnestock, had made it brutally clear in 1872 that Cooke was "morally liable to every man & woman holding the bonds for the proper economical application of all the money received and for verification of all the statements contained in our publi-

[25] *London Financier,* Aug. 4, Oct. 17, 1874, *Newspaper Cuttings Files of the Council of Foreign Bondholders,* reel 219; "The Market for American Securities Abroad," *Bankers' Magazine and Statistical Register,* 10 (May 1876), 844–46; "American Railway Credit," *Railway Age,* July 6, 1876, p. 73; Mark Twain and Charles Dudley Warner, *The Gilded Age: A Tale of Today* (1878; 2 vols., New York, 1915), II, 276–90.

[26] Baskin, "Development of Corporate Financial Markets," 209, 215–18; C. P. Huntington to Crocker, Jan. 8, 1870, in *Letters from Collis P. Huntington,* by Huntington et al., III, 57; Jeffrey Williamson, "Watersheds and Turning Points: Conjectures on the Long-Term Impact of Civil War Financing," *Journal of Economic History,* 34 (Sept. 1974), 651.

[27] Jay Cooke to Lorin, Jan. 7, 1873, Cooke Papers; Jay Cooke to George W. Cass, Oct. 25, 1872, *ibid.*; Larson, *Jay Cooke,* 376–77, 397–411; Davis and Gallman, *Evolving Financial Markets,* 302.

cations." He enumerated the deceptions that Cooke had perpetrated on "a class of investors who have been influenced [by] your personal recommendation." Cooke had assured investors of "the intelligence vigor and economy of the management. We know that it has been inefficient, distracted . . . and extravagant to the last degree." He had described the land grants as rich and valuable, but a large proportion of them were "practically valueless either for cultivation or for lumbering," and the rest were "less valuable than the public have been led to believe." The publications promoting the bonds had promised rapid marketing of the lands for the security of investors. The railroad had, as of June 1872, received exactly $338.76 in cash for the lands. Northern Pacific publications had claimed a comprehensive system was in place to promote immigration; such claims were lies. Such extravagant claims, Fahnestock wrote, had actually deterred capitalists from investing, and Cooke was selling, not to "moneyed men," but "almost exclusively to persons who rely upon our recommendation rather than upon their own judgment." Fahnestock saw "discredit if not . . . ruin" ahead.[28]

For Cooke, as for other financiers, information had become instrumental. Such businessmen often assumed financial reports to be inaccurate. When Henry Villard became receiver of the Kansas Pacific, he asked the auditor of the road for confirmation of the accuracy of the statements he obtained, since he "was perfectly aware that the receipts of the Company prior to the appointment of the Receivers were not accounted for to the letter."[29] In the bond prospectuses that they prepared for the Central Pacific, Fisk and Hatch assured investors that the bonds were safe by repeating information provided by the Central Pacific. They disguised the actual debt and financial condition of the Central Pacific, just as Collis P. Huntington exaggerated its resources.

The utilitarian fictions of capitalism are apparent when Fisk and Hatch's report of January 1874 to the Central Pacific bondholders is compared to the less imaginative letters exchanged among the Associates. In November 1873, in the midst of the panic that would lead to six long years of depression, Mark Hopkins had told Huntington that "it is impossible to save out of it (revenues) enough to [pay] the C. P. January interest." In December, Hopkins had resigned himself to trying to pay the interest by not paying workers or taxes, by "robbing Peter to pay Paul." On January 1, 1874, however, Fisk and Hatch published numbers that assured investors that the Central Pacific had a large surplus from earnings, more than enough to cover its bonded debt (the report did not mention other debts). The Central Pacific, the bankers reported, maintained "undiminished, its accustomed prosperity in management, resources, and revenues." The annual report for 1873 remained as reassuring as ever—"the financial and business prospects of your Company were never brighter." It was part of a genre. When in 1877 the *New-York Daily Tribune* described the annual reports of the railroads as "so vague and inexplicable as to justify the assertion that language was invented in order to conceal ideas," it was an acknowledgment of the financial house

[28] Fahnestock to Jay Cooke, June 8, 1872, B. 3, f. 3-2, Fahnestock Papers; Fahnestock to Cooke and Wm. G. [Fargo?], Sept. 7, 1872, *ibid.*

[29] Villard to S. T. Smith, Nov. 26, 1877, Letterbook 21, Villard Papers.

of mirrors. Even the heavily pro-industry *Railway Age* ran a column in 1876 describing accounting in most railroads as "fraud" and later urged legislation to force financial officers to swear to the truth of their numbers under penalty of law.[30]

Creating plausible fictions is an art. Lies have to be consistent. Huntington and Hopkins could tailor information; another Associate, Leland Stanford, apparently could not. Either from unusual honesty or from normal carelessness, Stanford listed in the 1872 annual report all the company's debts, including the principal and the interest owed the federal government. In a sentence in which the reader can almost hear Huntington's long-suffering sigh, he wrote that "I shall strike the interest out unless I get the reasons why they were put in as this report is to help the sale of stock and this item of say $80,000,000 is not in that direction."[31]

Information was cumulative. It did not have to be true, but it could not call attention to its own contradictions and deficiencies. Hopkins telegraphed Huntington in late 1872 that the New York Stock Board made "the cost of the road about fifteen millions more than our books show it, or can be made to show it . . .We can't afford to deliberately belie our own records." With the threat of a congressional investigation into the building of the Central Pacific looming while the Crédit Mobilier scandal overwhelmed the Union Pacific, Hopkins was advocating circumspection, not honesty. If there was anything in the accounts that "it would be impolitic for us to show, then our report must make the financial statements in such form as will not contradict our books, nor expose their improprieties."[32]

It was difficult enough for corporations to control information when they were producing it—it was much harder to control when others were the producers. Federal commissions and congressional investigations, for example, were sources of information that could play havoc with the bond market. When the Northern Pacific needed "a prompt and generous report" in order to market bonds, the government commissioners in charge of inspecting the road were quick to institute, in Jay Cooke's words, "a bidding . . . for something outside of their government pay." Cooke turned to the commissioners' political sponsors, Vice President Schuyler Colfax and the former senator Benjamin Wade, to bring them into line. Colfax, however, was under intense pressure from his involvement in the Crédit Mobilier scandal and failed to secure what Cooke termed "an honest, cordial report." Cooke resigned himself to inducing the commissioners "in some proper way to give what is due us & what will be somewhat of service to us." The commissioners, as Cooke well knew, had indicated that the proper way was bribery.[33]

[30] Hopkins to C. P. Huntington, Nov. 11, 1873, *Collis P. Huntington Papers*, series 1, reel 5; Hopkins to C. P. Huntington, Dec. 4, 1873, *ibid.*, reel 6; Fisk and Hatch to the holders of Central Pacific Railroad bonds, Jan. 1, 1874, 6: 45, box 22, Hopkins Correspondence; L. Von Hoffman and Company to C. P. Huntington, Nov. 24, 1873, *ibid.*; *Annual Report of the Board of Directors of the Central Pacific Railroad Co. to the Stockholders for the Year Ending Dec. 31, 1873* (San Francisco, 1874), 7; "Railroad Securities," *New-York Daily Tribune*, March 19, 1877, copy in 9: 165, box 24, Hopkins Correspondence; Journal, "Importance of Accounting Department of Railroads," *Railway Age*, Aug. 24, 1876, p. 204; "An English Opinion," *ibid.*, April 18, 1878, p. 206.

[31] C. P. Huntington to Hopkins, Dec. 19, 1872, 3: 177, box 21, Hopkins Correspondence; Goldsmith and Hart to C. P. Huntington, Oct. 22, 1878, *Collis P. Huntington Papers*, series 1, reel 15.

[32] Hopkins to C. P. Huntington, Nov. 30, Dec. 12, 1872, *Collis P. Huntington Papers*, series 1, reel 5.

[33] Jay Cooke to Brother Harry, Dec., Dec. 4, 1872, Cooke Papers.

There were other sources of information, seemingly independent of the corporations and their agents. Investors seeking outside information could go to Poor's *Manual of Railroads*, which, according to Henry V. Poor, was by 1873 regarded as "a standard authority in Europe." Poor's information was, however, no more independent than that of Fisk and Hatch. He too got it from the railroads, and he depended on the patronage of those railroads to sell his manual (he asked Huntington to buy fifty copies). Although he claimed to "present an accurate statement of the condition of each railroad in the United States . . . to supply the best and really only means of forming a correct opinion as to the value of their securities," he could only rearrange the information that the railroads or their bankers provided. Poor's *Manual* served best as a guide to which roads were already in default or bankrupt.[34]

There were state requirements for the public listing of information about chartered corporations as well as requirements imposed by the New York Stock Board, but they were easily evaded. Collis P. Huntington approved the Central Pacific's reports to the California secretary of state as "well enough, or bad enough, to file." In preparing a submission to the Stock Board, Huntington had made sure that Mark Hopkins doctored the lists to conceal the fact that the Associates or companies they controlled owned virtually all of the Central Pacific stock.[35]

More difficult to control were newspapers. In November 1872 an exasperated Jay Cooke practically whined to his partner Harris Fahnestock that "some fellow in the Associate press has permitted a dispatch to go all over the country which is interpreted by some to mean that the N.P. has failed to pay something. We have emphatically denied this by telegraph and are preparing a circular for our agents. Mr. Simonton ought to see how cruel this is to us, & if he can find out who did it, make an example of him." Cooke redoubled his efforts to control the news. The next month he wrote to his brother Harry, "You will have to keep an eye on the editorial fraternity and see that nothing antagonistic to the Northern Pacific goes out."[36]

Simonton was James Simonton, manager of the Associated Press, and he haunted Huntington as much as he did Cooke, because he had power beyond any single newspaper editor or publisher. The Associates of the Central Pacific believed that Simonton, who was also part owner of the *San Francisco Bulletin*, hated them. Most of California hated them; what distinguished Simonton was that his hatred could cost them money. He could have articles unfavorable to the Central Pacific published in the *Bulletin;* he could then have them selected for the AP digest that went out over Western Union at special rates to all the newspapers that were members of the Associated Press. Such articles hurt Huntington's ability to borrow. "We have large amounts to pay and it is very difficult to get money here and then such articles as was

[34] Henry V. Poor to C. P. Huntington, Aug. 5, 1873, *Collis P. Huntington Papers*, series 1, reel 6; Henry V. Poor, *Manual of Railroads of the United States, for 1872–73* (New York, 1872), xxxi.

[35] C. P. Huntington to Stanford, March 3, 1870, in *Letters from Collis P. Huntington*, by Huntington et al., III, 89; "Railroad Securities," *New-York Daily Tribune*, March 19, 1877, copy in 9: 165, box 24, Hopkins Correspondence; C. P. Huntington to Crocker, Sept. 16, 1875, *Letters from Collis P. Huntington*, by Huntington et al., III, 374; C. P. Huntington to Hopkins, Aug. 30, 1873, 5: 9-11, box 22, Hopkins Correspondence.

[36] The dispatch concerned an injunction against the Northern Pacific. Jay Cooke to Fahnestock, Nov. 2, 1872, Cooke Papers; Jay Cooke to Bro. Harry, Dec. 1872, *ibid.*; *New York Times*, Nov. 2, 1872, p. 3.

published in the S.F. bulletin of Jan. 19. . . . are republished in the New York Sun and then that paper sent every where by Simonton hurts our borrowing money here (N.Y.) no doubt more than there (San Francisco)." By 1871 Huntington was convinced that the Western Union operators had orders not to send any information favorable to the Central Pacific.[37]

With the ability of local news to become national overnight, every small-town and county newspaper along a railroad's lines, as well as the regional dailies and the New York and Washington papers, became a potential source of harm. It drove Huntington to exasperation. In August 1869 an article from Silver Bend, Nevada, and another from Gold Hill, California, that Huntington "would much rather not see" appeared in the East, hurting the sale of Central Pacific securities. "I do not suppose you can keep all the Damned bohemians' Quiet," he wrote Hopkins, using the common colloquialism for reporters, "but I wish you would come as near it as you can."[38]

The key to this new system was the Associated Press, and its rise had immense consequences for both capitalists and corporations. The AP transformed the old American newspaper practice of reprinting in one paper articles from another. A small antebellum newspaper might seem nothing but a compendium of articles clipped from other newspapers. The process took time and was the result of innumerable choices by separate editors, so there was no telling how far or where a particular piece of news would spread. It relayed information more slowly than private correspondence.

The creation of a telegraph network allowed the rapid transmission of news over long distances, but the capacity of the network was initially limited and created issues of access and priority. The New York AP arose to streamline the gathering of news and to eliminate the problem of numerous reporters fighting for access to the telegraph lines. Although the AP had its own reporters, its major role was to collect and cull news published elsewhere. AP agents read West Coast newspapers and selected the items that would go into the digest sent to subscribing newspapers. The power of the AP agents and of the Western Union operators who transmitted the news over the lines at night was limited but real. Major news items always went through, but there was significant discretion about minor news items that might affect securities, such as lawsuits against or political attacks on the railroads. The speed with which news could spread made capitalists extraordinarily attentive readers.[39]

A newspaper was able to make or ruin, deflate or inflate the value of securities. The measure of a newspaper's influence was in the pocketbooks of capitalists. The men who ran the transcontinentals cared nearly as much about newspapers as they

[37] Hopkins to C. P. Huntington, Nov. 28, 1872, *Collis P. Huntington Papers,* series 1, reel 5; Menahem Blondheim, *News over the Wires: The Telegraph and the Flow of Public Information in America, 1844–1897* (Cambridge, Mass., 1994), 149, 165, 175; C. P. Huntington to Hopkins, March 31, 1876, 8: 135, box 23, Hopkins Correspondence; C. P. Huntington to Stanford, Jan. 30, 1874, 6: 121, box 22, *ibid.*; C. P. Huntington to Stanford, Dec. 5, 1870, Jan. 11, 1871 (dated 1870), *Letters from Collis P. Huntington,* by Huntington et al., III, 219, 235.

[38] C. P. Huntington to Hopkins, Aug. 29, 1869, 1: 93, box 20, Hopkins Correspondence.

[39] Blondheim, *News over the Wires,* 27–28, 47–67, 132, 169–73, 184; Menahem Blondheim, "'Public Sentiment Is Everything': The Union's Public Communications Strategy and the Bogus Proclamation of 1864," *Journal of American History,* 89 (Dec. 2002), 876–77, 880, 887–88; C. P. Huntington to Hopkins, Sept. 15, 1873, 5: 59, box 22, Hopkins Correspondence.

did about their securities because newspapers and financial papers were connected. William Mahl, who in the 1880s became Collis P. Huntington's right-hand man, said that Huntington claimed he avoided the typewriter and had all of his correspondence written out in longhand because printed pages reminded him of newspapers, and newspapers always "failed to make an impression." What Huntington said, however, was never an infallible guide to what he did. He read newspapers very carefully.[40]

Because, to take a cynical view, one set of lies could affect the value of another set of lies, newspapers mattered regardless of the accuracy of their information, just as corporate reports mattered regardless of the accuracy of their information. Sophisticated readers read with an eye, not toward truth, but toward consequences. When Huntington read the papers, he asked three questions about the information they contained: Who provided it? Whose ends would it serve? How would it affect his companies' securities?

In March 1877 Huntington carefully clipped an article from the *New-York Daily Tribune,* a scathing indictment of the depreciation in railroad securities and the instability and mismanagement of the railroads. It attacked both railroad managers who had rendered half the capital invested "profitless, barren, and practically dead" and recent court decisions that opened the railroads up to "wild and semi-barbarous measures" adopted by state legislatures to regulate them. The article quoted respected sources—Poor's *Manual of Railroads* and *Railway Age.*[41]

Huntington's comments on the article were brief and to the point. Who wrote it? If not Jay Gould, then writers in Gould's pay. "Gould controls the Tribune," he wrote Hopkins. Whose interests did it serve? Gould's, of course, "and some other parties here [who] seem to be endeavoring to break all the R.R. roads in the country, of course selling stock short before commencing their attack." How did it affect him and the other Associates? Their securities would suffer along with the rest because Gould wanted to disguise his actual targets.[42]

A seemingly straightforward attack on railroad mismanagement and financial deception was actually itself, Huntington thought, a piece of financial deception by a man then in control of the Union Pacific who was seeking profit by a stock manipulation. Was it? Gould certainly had financial writers in his pay, and sometimes he wrote their articles for them. He had interests in New York newspapers and planted stories in them. He had been known to sell short—that is, to speculate by selling for later delivery securities he did not own, intending to buy them meanwhile at a lower price and pocket the difference—and then to drive down values to ensure his profit. In the late winter and spring of 1877, however, he took advantage of the break in railway securities to buy railroad stocks rather than sell them. Rock-bottom prices for Kansas Pacific securities allowed him to move toward gaining control of that road,

[40] C. P. Huntington to Hopkins, Aug. 25, 1873, 4: 162, box 21, Hopkins Correspondence; E. L. Godkin to Villard, June 7, 1893, in *The Gilded Age Letters of E. L. Godkin,* ed. William A. Armstrong (Albany, 1974), 446–48; Mahl Memoirs, Huntington J-3, p. 8, box aE461, Collis P. Huntington, 1882–1900, William Mahl Papers (Manuscript Collections, Center for American History, University of Texas, Austin).

[41] "Railroad Securities," *New-York Daily Tribune,* March 19, 1877, copy in 9: 165, box 24, Hopkins Correspondence.

[42] C. P. Huntington to Hopkins, March 19, 1877, *ibid.*

and he bought stock in midwestern roads as part of a convoluted struggle with William Vanderbilt that involved both the Western Union and the Atlantic and Pacific telegraph systems. Huntington was probably right to see Gould's hand in the story, but the secret of Gould's success was that discerning his movements was no guarantee of discerning his target.[43]

Huntington read like a capitalist, and capitalists often read with more sophistication than do historians. He did not assume that the content of a story pointed to its end any more than he assumed that the purpose of a lawsuit was to win a victory in court. Both could be aimed at influencing values on financial markets. The combination of local lawsuits with a national news network could be lethal. The railroads often won only Pyrrhic victories in court; accusations made in lawsuits could play havoc with a railroad's securities and constrain its ability to borrow. In 1870 Leland Stanford made one of his many expensive mistakes when Sam Brannan tried to sell back his two hundred shares of Central Pacific stock at par: $100 a share. He brushed Brannan off. Brannan sued, demanding a full financial accounting of the Central Pacific. Fear of what the Brannan suit might reveal terrified the Associates, who hurried to suppress the suit while buying up as much original stock as they could to prevent other suits. Mrs. Brannan saved the Central Pacific. She got her husband's stock in a divorce settlement, and the Associates bought it from her at $850 a share, effectively quashing the suit.[44]

But the news of the "blackmail" suit, as the Associates called it, did substantial damage. Unfriendly articles on the suit appeared in the *New York Times.* News of the suit threatened to torpedo a $2 million California and Oregon Railroad bond sale being negotiated in Europe. The suit and its claims had a long life. The charges appeared in congressional investigations and repeatedly surfaced in Europe.[45]

In his more innocent days, Huntington had thought the solution to persistently bad press was to own the papers. "It is a wonder to me," he wrote Charles Crocker in 1870, "that you do not control the Sac. [Sacramento] 'Union' and the Stockton papers." And in the 1870s the Associates did acquire papers, but by the late 1870s it was clear that openly owning a newspaper lessened its value. It was expensive. It assured attacks from rival newspapers eager to assert railroad influence over the news. It involved entanglements with importunate editors who thought that inside information on stocks and bonds always paid and begged, as E. L. Godkin did of Henry Villard, to be relieved of debt when it did not. It involved a thousand irritations. And owning a paper did not always guarantee the desired coverage. After Crocker and

[43] Maury Klein, *The Life and Legend of Jay Gould* (Baltimore, 1986), 135–36; C. P. Huntington to Hopkins, March 4, 1875, 7: 101, box 23, Hopkins Correspondence; Julius Grodinsky, *Jay Gould: His Business Career, 1867–92* (Philadelphia, 1957), 138–39, 154–55.

[44] Will Bagley, ed., *Scoundrel's Tale: The Samuel Brannan Papers* (Spokane, 1999), 264–81; Lavender, *Great Persuader,* 260–61, 280, 301; *David Stewart, vs. Collis P. Huntington, Depositions of Leland Stanford and Charles Crocker, Taken on the Part of the Defendants* (New York, 1881), 90–125, bound in "Central Pacific Railroad Pamphlets, 1882–1887" (Stanford University Library); *David Stewart, vs. Collis P. Huntington, Depositions of David Stewart, E. H. Miller, Jr, Moses G. Cobb, and G. Frank Smith, Taken on the Part of the Plaintiffs* (New York, 1882), 56–59, *ibid.*

[45] C. P. Huntington to Stanford, July 7, 1870, in *Letters from Collis P. Huntington,* by Huntington et al., III, 180–81; C. P. Huntington to Hopkins, Aug. 22, 1873, 4: 157, box 21, Hopkins Correspondence.

Mark Hopkins obtained control, the *Sacramento Record-Union* still occasionally attacked the Central Pacific's friends in Congress. "If I owned the paper," Huntington grumbled to David Colton, "I would control it or burn it."[46]

In trying to control information, railroad men corrupted the news. They planted stories and bought journalists throughout the 1870s and 1880s. The railroads' everyday weapons were free passes and advertising, but they also recruited newspapermen as agents and lobbyists and loaned them money. Both were prophylactics against bad news. Huntington often wrote or commissioned articles, but their value depended on disguising the source; the value of a lie depended on the rectitude and disinterestedness of the liar. Even to claim that a newspaper was a railroad organ was to damage its credibility.[47]

The Associated Press and the Western Union, by creating a national market for information and by centering that market in New York, magnified the dangers newspapers presented to corporations, but their very centralization of information also presented opportunities. The Associated Press/Western Union combination could serve as a bottleneck on the nineteenth century's information railroad. If an AP agent did not select an item for the digest, then it either would not travel over Western Union or would travel so slowly and sporadically as to minimize both its damage and its benefit. When the Associates' suit against A. A. Cohen turned into an embarrassment, Huntington acted to confine the publicity. "I have no doubt," he wrote Hopkins, that if "the A.P. agent was seen much of this stuff could be kept back." Huntington's lobbyist, Richard Franchot, succeeded in getting the AP reporter in Washington on the Central Pacific payroll. James Simonton suspected as much from the changing tenor of his stories. And if a local AP agent proved incorruptible, there was always the Western Union operator who forwarded the nightly digest. When J. R. Robinson filed a stockholder's suit in 1876, the reports in the eastern press hurt the Associates' standing in Congress. Huntington knew everything could not be contained, but he thought that "a judicious expenditure of $50 per month to the right party would keep much of it back." At their most ambitious, the Associates unsuccessfully sought in 1875 to get exclusive AP membership for the *San Francisco Chronicle,* a paper they controlled, by offering double the going rates and thus cutting off the city's other papers, the hated *Bulletin* and *Call.*[48]

[46] C. P. Huntington to Crocker, Jan. 8, 1870, in *Letters from Collis P. Huntington,* by Huntington et al., III, 56; C. P. Huntington to Hopkins, March 16, 1872, 2: 51, box 20, Hopkins Correspondence; Godkin to Villard, Aug. 9, 1883, in *Gilded Age Letters of E. L. Godkin,* ed. Armstrong, 301; C. P. Huntington to Colton, April 27, 1876, in *Octopus Speaks,* ed. Ramirez, 240.

[47] William Mills to C. P. Huntington, Dec. 21, 1879, *Collis P. Huntington Papers,* series 1, reel 18; J. Johnson to C. P. Huntington, May 28, 1878, *ibid.*, reel 16; J. A. Slye to C. P. Huntington, April 10, 1878, *ibid.*, reel 14; John P. Young to Richard T. Colburn, Aug. 9, 1876, *ibid.*, reel 10; H. Schüler to C. P. Huntington, Sept. 25, 1877, *ibid.*, reel 13; E. P. Howell to C. P. Huntington, April 24, 1878, *ibid.*, reel 14; Mary Fields to C. P. Huntington, April 4, 1878, *ibid.*; Crocker to C. P. Huntington, Jan. 11, 1878, *ibid.*, reel 13; C. P. Huntington to Hopkins, March 15, 1876, May 8, 1870, in *Letters from Collis P. Huntington,* by Huntington et al., III, 473, 149–50; Mark Wahlgren Summers, *The Press Gang: Newspapers and Politics, 1865–78* (Chapel Hill, 1994), 110, 113; Richard Franchot to C. P. Huntington, Jan. 11, 1872, 2: 19, box 20, Hopkins Correspondence; C. P. Huntington to Hopkins, March 19, 1872, 2: 59, *ibid.*; C. P. Huntington to Hopkins, Nov. 19, 1875, 8: 85, box 23, *ibid.*; C. P. Huntington to Colton, March 18, 1875, in *Octopus Speaks,* ed. Ramirez, 88.

[48] C. P. Huntington to Hopkins, May 12, 1876, 9: 19, box 24, Hopkins Correspondence; C. P. Huntington to Colton, Dec. 8, 1876, in *Octopus Speaks,* ed. Ramirez, 325; James Simonton to George Kenyon Fitch, Jan. 21,

The rise and fall of securities measured the impact of information, but that rise and fall was itself information that could be manipulated. If falling bond prices hinted that an investment was risky, promoters intervened secretly in the market to buttress bond prices so that their bonds seemed to shout security. "The news from Cal as published in this morning papers is not very satisfactory," Huntington wrote Hopkins in September 1873, "and it will all be telegraphed by Simonton to Europe in hopes of hurting our securities in that market." Huntington countered by buying Central Pacific securities: "today something over 100,000 of CP bonds and the market closed 100 1/8 bid and none offered. This will go by Reuters news agency over the cable tonight and an advance of 7/8 since yesterday on the C. P. in this market will more than counter balance any political news from Cal that they can send."[49] Investors seeking to gauge the truth of bad financial news by watching how the market responded could not always trust the numbers.

The paradox of Gilded Age financial corruption was that its goal was to accrue debt; how, then, did the corrupt turn debt into riches? The first way is well known. Its most famous manifestation was the insider contracts that funneled money, in the case of the Union Pacific, from stockholders and lenders into the pockets of the inner clique who controlled the Crédit Mobilier, which systematically overcharged to build the road while selling shares in the company at below-market prices to leading politicians to secure their friendship. In the case of the Central Pacific, which had few outside stockholders, the same techniques funneled money from bond sales into the Contract and Finance Company. That such techniques were common does not make them any less corrupt. The whole scandal of the Crédit Mobilier was based, after all, on the widespread conviction that insiders had corrupted both the corporation and Congress. Insiders at the Contract and Finance Company admitted both implicitly and explicitly that its transactions were corrupt. When congressional investigators threatened to examine the books of the Contract and Finance Company that built the Central Pacific, Mark Hopkins apparently felt he had no choice but to destroy them. The Contract and Finance Company was, as Huntington later told his nephew, "as rotten a corporation as ever lived."[50]

A second, even more obvious, way was simply to pocket the money and evade the legal penalties. Bond salesmen for the Memphis, El Paso and Pacific Railroad, a transcontinental whose president was John C. Frémont, lied to French investors, bilking them of a reported $5 million. Convicted of fraud *in absentia,* Frémont avoided France.[51]

1873, C-B 761, box 1, George Kenyon Fitch Papers and Correspondence, H. H. Bancroft Collection (Bancroft Library, University of California, Berkeley); Franchot to C. P. Huntington, Jan. 11, 1872, 2: 19, box 20, Hopkins Correspondence; C. P. Huntington to Hopkins, March 16, 1876, 8: 115, box 23, *ibid.*; Fitch to Simonton, Dec. 8, 1875, C-B 761 box 1, Fitch Papers.

49 C. P. Huntington to Hopkins, Sept. 5, 1873, 5: 19, box 22, Hopkins Correspondence .

50 Klein, *Union Pacific,* 79–81, 194–99, 285–305; Lavender, *Great Persuader,* 292; C. P. Huntington to H. E. Huntington, Jan. 5, 1898, HEH 4168, box 62, Henry E. Huntington Papers (Huntington Library); *Colton Case. Testimony, 1st–83d Day, Nov. 13, 1883–Aug. 1, 1884* (19 vols., Santa Rosa, 1883–1884), XI, 5048–59.

51 Tom Chaffin, *Pathfinder: John Charles Frémont and the Course of American Empire* (New York, 2002), 281–84.

A third, far more impressive, way to turn debt into profit involved corrupting a corporation over a long period without actually destroying it. Here the Associates of the Central Pacific were masters. The Colton trial revealed how this kind of endemic corruption worked and how hard it was to contain.

When the Colton trial opened in Santa Rosa, California, on November 14, 1883, it shared the headlines in the San Francisco newspapers that day with the capture of Black Bart, "the notorious stage robber," who had robbed his last stage a few miles from Copperopolis, California, on November 3. The shared headlines were a nice coincidence because Ellen Colton, the widow of David Colton, one of the Associates, contended that Leland Stanford, Collis P. Huntington, Charles Crocker, and the estate of the by-then-deceased Mark Hopkins had betrayed her and left her "in the condition of a man attacked by a highwayman upon the roadside." As it turned out, David Colton had embezzled from his fellow Associates, and they had responded by taking from his widow securities—stocks and bonds—leaving her, like the doggerel verse Black Bart left behind, her dead husband's worthless note for a million dollars.[52]

The accounts of the trial focused on corruption: Colton's defalcation (to use the nineteenth-century word), the remaining Associates' response, and the widespread payments to public officials that surfaced in the Colton/Huntington correspondence that Ellen Colton's lawyers submitted as evidence. But buried deeper in the trial was a more revealing corruption. The Western Development Company (WDC) was the successor to the Contract and Finance Company. It was a construction and banking company that performed feats of financial magic. It concealed, transformed, and transferred assets so that debts incurred by the Associates' properties could end up as money in the pockets of the Associates. The companies were screens to obscure the activities of the men who ran the Central Pacific and the Southern Pacific from bondholders and bankers. The Associates kept all the stock for themselves, although they often put it in other people's names.[53]

Heavily indebted corporations yielded fortunes because the value of stocks and bonds was not necessarily determined by what people would pay for them on an open market. The Associates, seemingly such ordinary, bulky Victorian men, were chimeras able to change form at will, and by changing form, they created value. As Ellen Colton's lawyers argued, the Central Pacific, the Southern Pacific, the WDC, and others "were but convertible terms with these four or five movers in them, and they were fused constantly one into the other, and there was no distinction. The corporations was the individuals, and the individuals were the corporations."[54] The Associates proffered a deal, went to the other side of the table, put on another set of hats, and accepted the deal. In the books and ledgers of these companies, trades that appeared to involve a wide variety of entities were not what they seemed.

Ellen Colton's lawyers sought to demonstrate how business was conducted in an internal house of mirrors that was but a miniature version of the larger house of mir-

[52] *San Francisco Daily Examiner,* Nov. 14, 1883, p. 1; *Colton Case. Testimony,* VI, 2568–69, 2818, 2822, 2872.

[53] Colton to C. P. Huntington, Aug. 8, 1877, in *Octopus Speaks,* ed. Ramirez, 401; C. P. Huntington to Colton, Aug. 16, 1877, *ibid.,* 403; Lavender, *Great Persuader,* 300, 308, 328.

[54] *Colton Case. Testimony,* III, 1002.

rors in the financial markets. In 1871 the Central Pacific began to make deposits into various sinking funds, as required by law, to pay off its bonded debt. To keep the deposits from sitting idle until the bonds came due, the Central Pacific in 1872 began lending the WDC money from the sinking fund at 10 percent per year. The loans went into the individual accounts of the Associates. As collateral for the loans, the Associates in 1875 transferred from their WDC accounts 17,577 shares of Central Pacific stock. Subsequent loans in 1876, 1877, and 1878 followed the same trajectory. By the end of its own corporate career in 1879, the WDC had borrowed \$3,086,259.72 from the sinking funds. Most of the debt was settled by letting the Central Pacific keep the collateral (the unsaleable stock).[55] "Now as to the sinking fund," Huntington wrote Colton, "we very likely have done what was best for us up to this time . . . ; but what we have done is not a thing to *talk about,* and I do not think there is a careful business man in the world outside of our five selves who would say it was well invested, while we know it is."[56]

The beauty of these transactions was that the Associates got cash for securities that could not be sold on the open market, and after receiving the cash, they still controlled the securities because they owned the Central Pacific. Jay Gould testified that there was no market for either Central Pacific stocks or Southern Pacific bonds in the late 1870s, but that a limited market might have been established by a syndicate formed to buy the bonds and thus create a value for them. The public offer of a large number of them, however, would have "created a panic in those securities."[57]

Who was harmed by such a maneuver? "It may be a transaction open to censure by proper parties," the Associates' attorney, Hall McAllister, admitted. "It might be very pertinent with reference to parties who are interested in the Sinking Fund in calling these defendants to account." But while bondholders might have had reason to complain, Ellen Colton did not. David Colton had played an instrumental role in arranging the transactions. Betrayal of the bondholders was not the issue in the Colton case.[58]

Such corruption drained funds from the Central Pacific, but it also shows the complications and contradictions that arose within corporations as they tried to rationalize and bureaucratically order their internal affairs while obfuscating and concealing their financial dealings. Managers, accountants, and bookkeepers quickly realized that the men who headed such corporations were not necessarily interested in the welfare of other stockholders or bondholders. W. Milner Roberts, the chief engineer of the Northern Pacific, complained of the suspicious and extravagant contracts negotiated to build the road. "If contracts are to be made from 'policy,' that is one thing," he wrote Jay Cooke, "but I can do it better under such a system as would be best for the pecuniary interests of the stockholders and bondholders." In similar situations, corporate employees saw their own opportunities. Before closing down

[55] *Ibid.*, III, 1011, I, 98–99, 228–33, III, 1015–16, 1022–31, VI, 2632–33.

[56] *Ibid.*, III, 1011, 1015–16, 1022–31, I, 98–99, 228–33, VI, 2632–33; C. P. Huntington to Colton, Nov. 16, 1877, in *Octopus Speaks,* ed. Ramirez, 432.

[57] *Colton Case. Depositions* (2 vols., [Santa Rosa], 1883–1884) I, 3–12.

[58] *Colton Case. Testimony,* III, 998–99; "Findings," in *Colton Case. Depositions,* II, 16.

the Contract and Finance Company in the early 1870s, Huntington sent J. O'B. Gunn to examine the books. The Associates knew what they did not want Congress to find in those books, but what Gunn found surprised them. It took him only a few hours to find "where [John] Miller had stolen $300,000." It took longer to find that between $750,000 and $900,000 (the Associates made various estimates) was missing. John Miller, as it turned out, was not really John Miller—he was Ambrose Woodruff. The Associates got back roughly $400,000, but the rest was gone for good. The books needed to convict Miller/Woodruff were the same books that had the potential to convict the Associates if Congress inspected them. Since Miller/Woodruff knew too much, the Associates never prosecuted him.[59]

The corruption endemic to the transcontinentals played its part in the panic of 1873, which within a year was being described as a "railway panic" caused by the "overconstruction of railways." The failure to recover from the panic was blamed on the paralysis of the enormous amount of capital invested in railroads. The railways, in the South as in the West, were planned and constructed with borrowed funds. The interest on those funds was often paid by more borrowing. Bankers had realized even before the panic that the ability to draw in new funds to keep this cycle going was coming to an end. The specie shortage that afflicted the economy in 1873 was the result partly of monetary policies and partly of a large negative trade balance that the United States had with Great Britain. With the movement of much of Europe to the gold standard, which contributed to the rising demand for and price of gold, specie flowed out of the United States. The problem was exacerbated by a souring of European investors on railroad, particularly western railroad, investments. In December 1872 James Lees, of the banking house of Lees and Waller, issued a warning:

> The enormous amount of European capital sent to this country of late years (a great deal of which has been wasted in extravagance and ill spent in wild cat enterprises such as Railroads through deserts—beginning nowhere and ending nowhere) bearing interest which has heretofore been reinvested here but now will probably be remitted together with heavy trade balances against this country will all tell on our gold supply. To meet this demand we probably have less than at anytime within the last 25 years, so that the whole thing looks very serious to me indeed.[60]

The Crédit Mobilier scandal compounded the difficulties. As Cooke complained, it hurt the ability of the Northern Pacific to market its bonds and "dampen[ed]" its chances for the kind of government bond guarantees that might allow it access to capital. Financial corruption was thus an integral part of the problems railroads confronted in 1873 and the years that followed, just as railroads were integral to the panic. It was, after all, the collapse of the house of Jay Cooke that triggered the panic.

[59] W. Milner Roberts to Jay Cooke, Jan. 1, 1872, Cooke Papers; C. P. Huntington to H. E. Huntington, Jan. 5, 1898, HEH 4168, box 62, Henry E. Huntington Papers; *Colton Case. Testimony,* XI, 5048–59; "The Colton Trial," *San Francisco Call,* May 14, 1884.

[60] *London Standard,* Oct. 24, 1874, *Newspaper Cuttings Files of the Council of Foreign Bondholders,* reel 219; "The Future of Railway Property," *National Car Builder,* quoted in *Railway Age,* Oct. 19, 1876, p. 343; "Capital and Railroad Extension," *Bankers' Magazine and Statistical Register,* 10 (Oct. 1876), 279; Lees and Waller to Mills, Ralston, and Bell, Dec. 7, 1872, box 3,5, W. C. Ralston Papers, MO 217 (Special Collections, Stanford University Library); Lees and Waller to Bell, Dec. 9, 1872, *ibid.*

In listing causes of the weakness of the railroads, the *London Standard* wrote that "last, though not least, [was] the ease with which corrupt adventurers have been able to get possession of railways."[61]

There was a sense that the 1873 crisis had revealed deep flaws, not just in the financial system, but in a larger cultural order. *Bankers' Magazine* might attack the "reckless credulity" of European investors, but American investors had been similarly deceived. In the wake of the panic of 1873, the *New York Sun* described the two most disturbing parts of the crisis: the failures of trust and of information. Large numbers of small investors had traded safe U.S. bonds for risky Northern Pacific bonds sold by Jay Cooke and Company. They had trusted not only the representations made about the safety of Northern Pacific securities but also the counsel of presidents and cashiers of banks in country towns who were paid commissions by Cooke to encourage such exchanges. Their trust had been violated. Most disturbingly, those deceived were "the intelligent classes, who read newspapers, mingle in affairs, and have constant access to information."[62]

Journals and newspapers raised the question of who had been hurt, but there was a connected issue. Had their losses secured a larger good: a national railroad network? Had corruption in effect worked for the benefit of the nation?

There are several issues that must be disentangled here. The first issue of who was hurt cannot be determined with certainty, but there is suggestive evidence that small investors were disproportionately harmed. As Jay Cooke, Harris Fahnestock, and the *New York Sun* all indicated, small investors flocked to the Northern Pacific because of Cooke's reputation. In the immediate wake of failure, the railroad suspended interest payments and the bonds plunged in value. By April 1874 they were quoted at thirty-three, but were "practically unsaleable." The Northern Pacific had offered preferred stock or land in exchange for bonds, and in July 1876 several investors wrote officers of the road inquiring about their investments. James Fulton, who owned forty-nine shares of preferred stock, was a disabled soldier. John Moley, who had returned to England, was willing to exchange stock for land, but only "in a place where I could get employment . . . I have been in America until work failed in Oct. 73 and I intend going back." G. W. Porter, an Episcopalian minister "now advanced in life with a small income," wrote to inquire whether there was an market for the $4,900 in stock he had acquired in exchange for his bonds. *Railway Age* reported that the Kansas Pacific investors were often "people of small means." *Bankers' Magazine* believed that in Europe small investors provided the major market for American railroad securities. Such evidence indicates that this was not an affair between rich capitalists.[63]

[61] Jay Cooke to A. H. Barney, Feb. 21, 1873, Cooke Papers; Jay Cooke to Cass, Jan. 7, 1873, *ibid.*; *London Standard*, Oct. 24, 1874, *Newspaper Cuttings Files of the Council of Foreign Bondholders*, reel 219.

[62] *New York Sun*, Oct. 1873, copy in 5: 145, box 22, Hopkins Correspondence.

[63] Fahnestock to Jay Cooke, April 3, 1874, f. 32, box 3, Fahnestock Papers; James Fulton to secretary, July 18, 1876, Secretary, Unregistered Letters Received, *Northern Pacific Railway Co. Papers* (microfilm, 127 reels, Saint Paul, Minnesota Historical Society, 1979), reel 35; John Moley to president, July 22, 1876, *ibid.*; G. W. Porter to

The second issue was whether corruption had been necessary to lure investors into making investments that were good for the nation but that they would have shunned had they possessed accurate information. Although the irrational-choice element of capitalism should never be underestimated, this argument makes two assumptions, at least about the transcontinentals. First, that corruption built them and, second, that building them was a good thing. The corruption of the 1870s did not add a single new route across North America. The Texas and Pacific and the Northern Pacific defaulted and were not completed. The Memphis, El Paso and Pacific was a total failure, as was the Atlantic and Pacific Railroad. The Union Pacific/Central Pacific near-monopoly (supplemented by the Southern Pacific) remained intact until the completion of the Northern Pacific in 1883.

The Kansas Pacific, the Northern Pacific, the Atchison, Topeka and Santa Fe Railroad, and other aspiring transcontinental roads that defaulted on their bonds did advance to the edge of or onto the Great Plains, but it is an open question whether partial success was better than total failure. Charles Hassler, whose *Weekly Financial Report* was closely followed by investors, wrote that "one of the great causes, if not the main cause" of the disaster in railway affairs was the "concealment of truth." Only through fraud had some of the lines been built, and it was "quite likely" that the country would "be better off without them."[64]

The issues go beyond the immediate financial consequences that Hassler had in mind: immobilized capital, heavy debt burdens that the roads could not sustain, overbuilding and excess capacity, investor distrust, and what *Railway Age* called a "truly appalling record of loss." The expansion onto the Great Plains that the railroads precipitated brought both the final slaughter of the bison herds and brutal and expensive Indian wars. The cattle industry boomed, only to collapse in the 1880s. Wheat production on the prairies and plains contributed to a late-nineteenth-century pattern of glut and falling prices punctuated by drought and farm abandonment. The extension of the roads was not an unalloyed good. Many western roads went bankrupt again in the 1880s and the 1890s. If such developments had been part of some socialist ten-year plan, they would have been derided as economic and social disasters.[65]

That the country needed a transcontinental railroad is not the issue; the question is whether the country needed any or all the routes promoted during the 1870s or the chaotic development that corruption helped deliver. The argument that corruption was necessary to build any transcontinental puts the burden of proof on those arguing for the efficacy of corruption. Since only one road was completed before 1883, the question boils down to the Central Pacific and the Union Pacific. Corruption may have been essential to turning such men as Collis P. Huntington, Leland

Geo. Stark, July 22, 1876, *ibid.*; *Railway Age,* Nov. 16, 1876, pp. 442–43; "The Market for American Securities Abroad," *Bankers' Magazine and Statistical Register,* 10 (May 1876), 844.

[64] For the statement by Charles Hassler, see "The Truth Needed About Railroads," *Railway Age,* Oct. 19, 1876, p. 372. "American Railroad Credit," *ibid.*, Jan. 10, 1878, p. 20.

[65] "Railway Foreclosure Proceedings in 1877," *Railway Age,* Jan. 3, 1878, p. 2; Richard White, *It's Your Misfortune and None of My Own: A New History of the American West* (Norman, 1991), 226–30.

Stanford, and the other Associates into millionaires, but it does not follow that it was essential to the building of the first transcontinental. Corruption could be integral to the Pacific road, continuing long after the road's competion, without necessarily being essential to its existence.

If corruption was integral to the building and operation of the transcontinental railroads, then our usual ways of understanding those enterprises fail us. Yes, the railroads engaged in market competition; yes, they were subsidized enterprises; yes, they eventually became rationalized products of a visible managerial hand. But market competition, subsidies, and managerial rationalization cannot alone or in combination describe how the system actually worked—all leave out corruption. Corruption was never so simple as businessmen seeking to improve their bottom line; the corrupt often propered at the expense of the firms they ran. Corruption produced winners and losers and tangible results.

In the actual world of Gilded Age politics and business, financial and political corruption could not be separated. Corruption influenced how the railroads competed with each other in Congress as well as in the financial markets. Railroad politics were never as simple as reformers versus railroads. On issues ranging from reversion of land grants to debt repayment and new subsidies, corruption solidified coalitions between railroads and reformers that secured both state action and inaction. In the 1870s, for example, reformers sided with the Texas Pacific in legislative attacks on the Central Pacific's monopoly, but they sided with the Central Pacific against the Texas Pacific in attacks on new subsidies. Similarly, the Union Pacific and the Central Pacific opposed new subsidies to the Northern Pacific and wanted a reversion of its land grant. The railroads needed "friends" in Congress as well as in the press, and friendships were complicated. It is the other side of the coin of emerging corporate corruption. But that is another story, and like the story of financial corruption, it has an ongoing and important history of its own.