Gilded-Age Entrepreneurs and Local Notables: The Case of the California “Big Four,” 1861-1877

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1 In the 1871 novel that gave its name to the Gilded Age, Mark Twain and Charles Dudley Warner ridiculed the small-town dreamers and speculators who lured Eastern politicians and patricians into supporting risky and self-serving promotional schemes. In historical reality, however, some Western « boosters» made it into the ranks of the national business elite. Thus the promoters of the Central Pacific Railroad, first a small, Sacramento-based railroad company, built the western branch of the first transcontinental railroad and became known as the California “Big Four”. Collis P. Huntington, Leland Stanford and their associates had started their business careers as country merchants in the East, then moved to California in the early years of the Gold Rush, and got to know each other as notables and fellow-Republicans in Sacramento. Their railroad company, officially formed as a California corporation on 28 June 1861, obtained a share of the federal loans extended to the Union Pacific Railroad under the Pacific Railway Act of 1862. It started operations as a 31-mile long local railroad from Sacramento to Newcastle in June 1864, and continued to build a regional network in California after the celebrated junction with the Union Pacific at Promontory Point on 10 May 1869. After the financial crisis of 1873, the group successfully checked the expansionist plans of Thomas Scott’s Texas &Pacific Railroad with their Southern Pacific Railroad, which became the mainstay of a new transcontinental route across the South. At the end of Reconstruction in 1877, the Southern Pacific Railroad had already reached the Colorado River. The story of the California « Big Four» suggests that the local and regional elites of the Gilded Age did much better than merely survive the competition of Eastern business empires.

2 Recent work on the history of Western railroad enterprise reflects the on-going efforts in various sub-disciplines of history to find alternatives to the modernization narratives
that have dominated the historiography of the Gilded Age since the 1960’s and 1970’s. Through a case study of the Chicago Great Western Railroad, Gerald Berk called attention to the importance of regional markets and argued that the managers of railroad companies were not always as intent on building national systems as business historian Alfred D. Chandler had maintained in his influential synthesis (Berk 1994, Chandler 1977). Richard Orsi endorsed Chandler’s effort to shift the emphasis from the capitalists to the professional managers, but he questioned the relevance of the conventional equation between localism and resistance or opposition to the modern corporation: his book on the Central and Southern Pacific Railroad companies depicted them as managerial enterprises which figured prominently among the boosters of both the state and the counties of California (Orsi 2005). In his monumental history of transcontinental railroads, Richard White proposed a critical reassessment of the social benefits of modern transportation infrastructures and documented a legacy of environmental havoc, economic instability and political corruption (White 2011). The categories formerly used to discuss the history of Western railroads, especially the opposition between mature and premature enterprise, or between forward-looking managers and “robber barons”, seem to have exhausted their usefulness.

This article attempts to shed new light on the business and political practices of Gilded-Age entrepreneurs through an analysis of the relations between a group of railroad promoters –the California “Big Four”- and the local notables of Northern California, including business people, professionals and politicians. The first part of the paper places this story in the context of entrepreneurial mobility: the “Big Four” built their own trans-regional networks, which meant that they could exploit the competitive advantages of different regions and the rivalries between different communities. While tapping the resources of the U.S. industrial and financial centers, they also turned to local notables for land, supplies and credit, as well as for executive and professional work. The rest of the paper is a study of their approaches to network and transactions management, as they can be reconstituted from a variety of source materials: the letters sent by Mark Hopkins to the New York office of Collis P. Huntington, the testimonies collected by the Pacific Railway Commission in 1887, as well as the legal documents printed on the occasion of the many law suits that the associates were involved in represent a wealth of documents that shed light on the associates’ contentious relations with business partners, professionals and politicians. The article argues that the associates’ business practices did not reflect simple alternatives between integration and market transactions, but a wide range of other arrangements based on partnership agreements, credit relations and negotiations with local boosters and politicians. My analysis of these complex and unstable business relations highlights the protean forms taken by the corporations of the Gilded Age.

The resources of Sacramento entrepreneurs

When Collis P. Huntington and his associate Mark Hopkins, along with Leland Stanford and Charles Crocker, decided to back the plans of civil engineer Theodore Judah and venture into railroad building, they had been residents of Sacramento for ten years or less. Their formative experiences as country merchants, petty entrepreneurs or professionals exemplify the importance of mobility in nineteenth-century American society. As their biographers have shown, Huntington, Hopkins, Stanford and Crocker had
lived in different communities in the East and Midwest and tried their hand at different business pursuits before concentrating on the sale of mining supplies and other goods to the gold districts of the Sierra Nevada foothills. Collis Huntington was born in Connecticut and made his start as a peddler. He worked with his brother Solon who had set up a store in Oneonta, New York. Along with other forty-niners, he arrived in San Francisco in the fall of 1849 with a small stock of goods that he and Solon had bought in Oneonta (Lavender 7-8). Mark Hopkins was raised in upper New York State and Michigan. Both Stanford and Crocker were born in Central New York State and spent time in the Midwest: Stanford had a law practice in Wisconsin before he joined his older brothers in California in 1852. Charles Crocker had owned and managed a foundry in Indiana, which he sold before coming to California overland with some of his brothers in 1850. The last figure in the group of Central Pacific Railroad promoters was Charles Crocker’s elder brother Edwin, who was trained as a civil engineer but became a lawyer in Sacramento.

The founders of the Central Pacific Railroad relied both on their connections with the East and on the opportunities offered in the West. This they had already done as Gold-Rush merchants: in the late 1850’s, Collis P. Huntington and his partner Mark Hopkins imported goods from New York, mostly hardware and tools for the mining industry. Charles Crocker dealt in shoes, boots, clothing and other dry goods. After 1854, Charles Stanford left California, settled in Schenectady County, NY, and became the main purchasing agent for his brothers’ mercantile firm. Collis P. Huntington did the same for the Central Pacific Railroad in the early 1860s, going back and forth between New York and California and touring the industrial and financial centers of the East to borrow money and buy railroad equipment. When he was in Washington with Theodore Judah in the summer of 1862, Huntington also attended to the negotiations that led to the enactment of the Pacific Railway Act signed by Lincoln on July 1, 1862. In addition to visiting the members of the California Congressional delegation in the 37th Congress, Huntington revived his acquaintance with Richard Franchot, an old friend of his brother Solon who represented the district of Schenectady in the House. Besides lobbying for favorable federal legislation, Huntington also negotiated a deal with a group of railroad promoters, Alexander Houston, Timothy Dane and Charles McLaughlin, who were planning to build railroads between San Francisco and San José: he agreed to let them build the westernmost section of the transcontinental railroad between Sacramento and San Francisco. The Pacific Railway Act of 1862 allowed the Central Pacific Railroad to build their line westward to San Francisco bay, but shortly after the passage of the act, the company’s rights to federal aid west of Sacramento were assigned to a Western Pacific Railroad Corporation incorporated by the Houston and McLaughlin group on 13 December 1862, which also applied for county and state aid in California.

Local boosters offered decisive support to Huntington and his associates in the early years of railroad construction. While the first public stock-subscription campaigns were a complete failure in San Francisco, many Sacramentans bought shares of the Central Pacific Railroad stock. According to a list of Central Pacific stockholders compiled by the company for the U.S. Secretary of the Treasury in June 1863, 229 stockholders out of 253 were residents of Sacramento County, 21 came from rural counties in California and only two appeared as residents of San Francisco –Amasa Philip Stanford, one of Stanford’s brothers, being one of them. Daniel Strong, a miner and storekeeper from Placer County who had helped Theodore Judah locate a possible railroad route through the Sierra Nevada, and a director of the Central Pacific Corporation until the summer of 1863, led some of the
stock-subscription campaigns. He described them to the Pacific Railroad Commission in 1887 in these terms:

The merchants, saloon men, draymen, and everybody in fact, took an interest in the matter, and took from five to ten and fifteen shares of stock simply to encourage it [the concern]. They said that if anything came out of it it was bound to do business for Sacramento, and they simply took hold of it to show their interest in the matter.  

It is not clear how much of this stock was fully paid, however, as the General Railroad Law of California only required the immediate payment of 10% of the par value of the stock of a railroad corporation. In his testimony to the Pacific Railway Commission, Leland Stanford stated that the directors of the Central Pacific Railroad levied assessments on stockholders, and that many early stockholders never paid their assessments.

Shows of public support among Sacramento boosters certainly helped the directors of the railroad company win a majority of the votes in the referendum on local government subsidies to the Central Pacific Railroad. On April 25, 1863, the California state legislature had authorized the counties of Sacramento and Placer to hold elections to approve the issuance of county bonds to subscribe to respectively 3,000 and 2,500 shares of the stock of the company. The associates received these county bonds—amounting to a par value of $550,000—in September 1863. As the promise of federal loans was not fulfilled before May 1865, local subsidies played an important role at the beginning of railroad construction. Between October 1863, when Charles Crocker really started track-laying work on the first 18 miles of the road (Daggett 83), and May 1865, when the first installment of U.S. Treasury bonds was delivered to the directors of the Central Pacific Company, railroad construction was financed through the sale of county bonds, as well as through short-term loans obtained from a wide range of lending institutions both in the East and in California.

From the start, the associates viewed the regional and the national dimension of railroad enterprise as complementary, and indeed it is impossible to separate them: the Union government’s plan to build the Western link of the transcontinental line enhanced their chances of success as local entrepreneurs; conversely, until 1865 federal loans were conditioned upon the completion of 40 miles of road—20 after the Pacific Railway Act of 1864. The credit of the associates with Eastern financiers depended on their ability to demonstrate that they were bona fide entrepreneurs rather than rash speculators. Their decision to invest in a toll road, the Dutch Flat and Donner Lake Wagon Road, created in November 1861, made sense in this context. The combined rail and wagon road was designed to capture part of the regional traffic between Sacramento and the silver mining districts of the Comstock Lode in the Sierra Nevada. Shippers and passengers would travel on the unfinished railroad part of the way, and continue their journey on teamster-operated stages and carriages to Dutch Flat and Virginia City (Evans 96-98). Through this scheme, the associates hoped to demonstrate that their road could be profitable even in the short run: operating revenue would not only supplement the funds drawn from short-term loans, but also facilitate the sale of company bonds. The letters exchanged between Huntington and the Crocker brothers in the mid-1860’s, as well as those sent by Edwin Crocker to Cornelius Cole, a fellow-Republican and member of the House of Representatives in the 38th Congress in 1864, show that the associates considered that rapid progress in the construction and operation of the railroad line East of Sacramento would make a favorable impression on Eastern politicians and financiers.
Collis Huntington and his associates created a trans-regional corporation: in December 1863, Huntington brought his wife to New York, eventually bought a house there, and came to California once a year in the summer months. He was the railroad company’s chief financial and purchasing agent in the East, as well as its main lobbyist in Washington. Leland Stanford, the president of the Central Pacific Railroad, remained in California and took charge of the company’s political and financial affairs in the West. In the East, Huntington used the federal Treasury bonds and the company bonds to buy rail, locomotives and rolling-stock, as well as some construction supplies. Charles Crocker handled relations with subcontractors and supervised the work of construction crews with the help of his superintendent James H. Strobridge. While construction workers were hired in California, Huntington tried to convince railroad engineers and experienced executives to leave the East and work for the Central Pacific Railroad. In November 1867, for example, he hired John Corning, the assistant general superintendent of the New York Central, to fill the same position with the Central Pacific Railroad. In 1869, upon the completion of the main Central Pacific line, Huntington insisted on hiring a general superintendent who had been working for a major railroad company of the Midwest, the Chicago, Burlington and Quincy, for fourteen years.

Executive work within the railroad corporation did not only entail the management of the technical and commercial aspects of railroad operations, however. The associates turned to some of their Sacramento friends for other tasks. Some executives were “insiders” who could be trusted with confidential information, while others were hired for their knowledge of local laws, conditions and people. Edward H. Miller Jr., a former associate of Mark Hopkins in a Sacramento grocery business, belonged to the first category of salaried executives: as secretary of the Central Pacific railroad from 1864 onward, he was in charge of the books of the company. Benjamin Redding was an executive of the second kind: originally a newspaperman and well-known anti-slavery Democrat, Redding had served as mayor of Sacramento in the 1850’s, and then as California Secretary of State between 1863 and 1867. He became the chief land agent of the Central Pacific Railroad in 1868, and received a salary as head of the company’s land department until his death in 1882. Likewise, Silas W. Sanderson, who became the head of the legal department of the Central Pacific after Edwin B. Crocker retired from business in 1869, was a former justice of the California Supreme Court.

Business partners, creditors and salaried executives

The transactions between the associates and the Northern California businessmen and professionals have generally been described as a set of abuses or more recently as an example of the disorder wrought by the ruthlessness and incompetence of the Gilded-Age business elites (White 2011). Indeed the construction and management of the Central Pacific Railroad did not entail simple choices between market relations and integration in managerial organizations. Transactions with individuals and firms were not exclusively based on transfers of cash, but they also included credit relations as well as a wide range of agreements designed to purchase friendly cooperation and good will with minimal outlays of cash. Local businessmen sometimes appeared as mere parties to specific agreements, but also as partners and stockholders, holders of bonds and promissory notes, as well as in intermediary situations as indebted partners or semi-independent agents paid in salary and expenses. The associates’ efforts to revise the
The terms of their transactions with their business partners and creditors were shaped both by the fluctuations of their financial situation and by their pursuit of entrepreneurial independence.

The management of railroad construction contracts on the main line of the Central Pacific attracted much attention from the U.S. Pacific Railway Commission of 1887 and is well-documented. For the first 18 sections of the road – 18 miles from Sacramento to present-day Roseville, the directors of the company granted a single contract to Charles Crocker, who had previously resigned from the board in December 1862. For the second series of contracts granted in the spring of 1863, which covered construction from Roseville to Newcastle, they diversified their contractors: besides Charles Crocker, they chose five other entrepreneurs. In June 1865, however, after receiving their first instalment of U.S. Treasury bonds, they reverted to their policy of dealing with a single contractor and passed a resolution allowing Charles Crocker & Co. to build the road eastward without signing a formal contract (Daggett 72). In the fall of 1867, after Huntington had succeeded in convincing Civil War financiers Fisk & Hatch to sell company bonds to build the railroad from the California-Nevada state line eastward14, the associates decided to create a contracting company whose stock would be equally distributed between Charles and Edwin Crocker, Collis Huntington, Mark Hopkins and Leland Stanford. From December 1867 onward, the Contract & Finance Co. secured all the construction contracts for the building of the associates' railroads, except in Utah where they had to make specific arrangements with the Mormon leader Brigham Young. In 1874, the associates created a similar ancillary company which built most of the Southern Pacific Railroad line, the Western Development Co.

The terms of the construction contracts were thus repeatedly altered depending on circumstances. Moreover, the transactions with contractors included a combination of cash and equity, so that construction contracts amounted in part to agreements between business associates: for the second series of contracts, both Charles Crocker and the small contractors received 17.5% of their pay in Central Pacific stock (Lavender 137). According to the testimonies of the associates before the Pacific Railway Commission of 1887, the 1867 contract between the Central Pacific Railroad and the Contract & Finance Co. provided that the former would pay $86,000 per mile of railroad, half in cash and half in Central Pacific Railroad stock. When the associates were called upon to explain the relation between the railroad company and the Contract & Finance Co., Leland Stanford mentioned the need to secure friendly cooperation between railroad company and building contractor: independent contractors would not have been willing to wait in case the directors of the railroad company had trouble securing funds, nor would they have accepted to work as fast as the competition between Central Pacific and Union Pacific demanded. Stanford testified that by controlling the contractor, the associates could adjust the timing of construction work to the fluctuations of their financial resources12. Turning contractors into business partners who would agree to take a part of their pay in the form of future profits was a way of purchasing good will. Dealing with a single contractor minimized the conflicts of interest between financiers and contractors.

Various sources of information on other transactions show that the associates secured work and land through temporary partnership agreements with petty entrepreneurs and land developers. The Dutch Flat wagon road first included two managing partners, Daniel W. Strong and E.L. Bradley, and then only Bradley13. In the fall of 1865, when the teamsters combined to raise freight rates between the end of the railroad line and the
mining towns of Nevada, Crocker, Stanford and Hopkins signed an agreement with them, which took the form of a new company, the Central Transportation C°. Thus the associates obtained rates that induced shippers to choose the combined rail wagon road over alternative routes14. It seems that Charles Crocker resorted to a similar device to obtain ties in 1867. When he was interviewed by one of historian Hubert Bancroft’s assistants, Crocker explained that he had difficulty getting local entrepreneurs to work for the Central Pacific Railroad, especially since he needed massive quantities of railroad ties to be delivered or made in the Sierra Nevada. So he started building sawmills near Truckee and induced a minor partner, Allan Towles, to manage them15. In March 1868, Stanford acquired land and wharfing rights near San Francisco Bay through a deal with Horace Carpentier, a land developer who had previously obtained exclusive wharfing rights on the Oakland waterfront. Carpentier transferred these rights to a new company called the Oakland Waterfront C°, whose ownership was split between himself, Stanford, and a few other prominent San Francisco businessmen like Lloyd Tevis (Daggett 88-91). As with the contractors, such agreements were designed to secure good will from minor business partners. However, the “Big Four” kept these ventures separate from the railroad companies that formed the core of their business enterprises.

A couple of letters sent by Mark Hopkins to Huntington in the spring of 1865 shed light on the relations between the associates and some of their leading creditors in California. Hopkins told Huntington that Darius O. Mills and some of his business partners in the Bank of California might be interested in taking an equity stake in the Central Pacific Railroad C°. Darius O. Mills was well-known to the associates: he had opened a bank in Sacramento in the early 1850’s, and then founded the Bank of California with San Francisco financier William Ralston in 1864. Mills appeared in the June 1863 list of early Central Pacific stockholders. The Central Pacific C° had an account with his Sacramento bank, D.O. Mills and C°, which also served as trustee for some of the trust mortgages created to guarantee the company’s early bonds16. Mills and Ralston had considerable resources, drawn mostly from their investments in the mining district of the Comstock Lode in Nevada. Closer business relations with the Bank of California held up the promise of better terms on loans and larger financial resources. When he apprised Huntington of the ongoing negotiations with Mills, Mark Hopkins dwelled on the risks attached to the admission of passive investors into the associates’ circle: he noted that Mills and his friends “[were] not quite ready to give anything, except to put in one half of what we have actually put in & become in all respects halvers with us”17.

Thus the associates weighed the advantages of expanding their financial resources against the risk of taking in partners who would not be entirely trustworthy. As Hopkins further wrote in July 1865,

In regard to enlarging the “ring”, nothing more has been said or done with the parties proposed here, and it appears to me nothing need be done provided you are able there to negotiate our securities so as to go ahead as we are now going and as we propose to go. If we can go to Dutch Flat by spring the earnings of the road and the Wagon road will largely aid us & our credit in every way18.

In the summer of 1865, the delivery of the first federal Treasury bonds had brightened the prospects of Huntington and his associates. Hopkins’ comments suggest that as far as possible, they preferred to rely on operating revenue from the combined rail and wagon road, as well as on the sale of bonds in the East to maintain their independence from their California creditors. After 1865, the associates continued to borrow heavily from the Bank
of California, and they occasionally engaged in joint-business ventures with Mills and his friends. In the spring and summer of 1869, for example, they helped Darius O. Mills and Lloyd Tevis set up an express company which eventually took control of Wells Fargo. However, they also diversified their creditors and used the Contract & Finance Co. as their main bank. The book-keeping operations pertaining to the transfers of funds between the railroad company and the Contract & Finance Co. were entrusted to the care of a salaried executive, William E. Brown, who had been the private secretary of Leland Stanford when the latter was governor. If circumstances permitted, then, the associates’ preferred model of corporate governance was based on cooperation between salaried executives and a small group of entrepreneurs who invested an equal amount of time and work into their common ventures. They feared the conflicts of interests inherent in extended partnerships: minority stockholders were likely to sell their securities at the wrong time or without regard for the welfare of the company; they could also convey confidential information to outsiders and even back competing transportation companies; they could also create scandal by challenging the decisions of corporate directors.

These observations are consistent with the complaints voiced by Theodore Judah and Daniel Strong, who stated in various documents that the “Big Four” ignored them as well as the other Central Pacific Railroad directors who represented minority stockholders until the summer of 1863. According to Strong, the “Big Four” arranged to meet and make decisions outside of the regular meetings of the board, which eventually led the minority directors – Judah and Strong, as well as merchants James Bailey, Charles Marsh and Lucius A. Booth – to resign between the summer and the fall of 1863. The associates’ handling of the railroad construction contracts after a second issue of Central Pacific capital stock on October 8, 1864 strengthened their hold on the company, but their souring relations with their Sacramento friends remained a major problem for them, especially when Samuel Brannan, a prominent Sacramento land-owner and railroad promoter, filed a suit against them on July 1, 1870: in the fall of 1864, Brannan had acquired 200 shares of Central Pacific stock, probably by selling rolling stock to the associates (Lavender 188, 260). Later on, as he needed money and could not agree with Stanford on the sale of his stock, Brannan sued the associates and claimed a portion of the profits public accounting of the profits that they had derived from the construction of the Central Pacific Railroad. At the time of the Brannan suit, the associates set out to purchase all shares of stock issued by the company before 1864 and remaining in « outside » hands, to protect themselves from costly scandals and law suits (Lavender 278-280). Around the same time, they also bought the shares of Central and Western Pacific stock owned by Sacramento, Placer and Santa Clara Counties (Lavender 413, note 18). Thus they made clear that the Central Pacific Railroad Co. was an independent, private enterprise rather than a joint-venture with local boosters.

The success of the associates’ efforts to maintain their independence from troublesome minority stockholders depended both on the growth of corporate earnings and on the sale of corporate bonds. But corporate earnings and long-term debt were also supplemented by short-term credit. In California, interest rates on short-term loans ran as high as 1% a month in the 1860’s, but call loans could be obtained rather easily. The associates signed promissory notes to supplement their cash transactions with local entrepreneurs, for example when they acquired local railroa
thirds in cash down and the remainder in 6 or 12 months”. Hopkins thought it was a good idea, provided Huntington “could get the money without cramping [them] for funds to carry on [their] work on [their] own line”. Two years later, a deal with Charles McLaughlin for the acquisition of the Western Pacific Railroad C° in June 1867 entailed the payment of gold and currency at specific dates within two years, as well as the transfer to McLaughlin of the lands that his company had received from the federal government (Orsi 2005, 109). In September 1867, the associates offered railroad promoter Charles Lincoln Wilson their notes at one and two years amounting to $75,000 and 10% yearly interest for the purchase of two local roads to the north of Sacramento, as well as the franchise of the California and Oregon Railroad, “provided [the associates could] get bondholders to cancel unpaid bonds and get the property free from litigation and entanglements”.

The availability of cash from the sale of bonds as well as from railroad earnings enhanced the associates’ leverage in their negotiations with Northern California entrepreneurs. But the management of short-term credit was also an important issue. If note holders could renew their loans, let them run indefinitely—subject to call and the payment of interest—they could also on other occasions call them back at the wrong time. Such concerns appear for example in letters regarding the promissory notes held by Alfred A. Cohen, a San Francisco lawyer and businessman who had sold the associates two Eastbay railroad and ferry companies in 1868 and 1869. In October 1869, Hopkins told Huntington that a note amounting to $261,375 drawing 1% monthly interest and payable on call was due on December 10, 1869. He hoped that Huntington could find the money to pay Cohen in the East, as Stanford could not do it in California and the railroad company also needed money to pay laborers’ wages. Hopkins stated that Whenever he [Cohen] is discharged of his present undefined position or whenever there is a big tight in the money market (...) he will be pretty certain to call on us impatiently.

According to the documents filed by Cohen when the associates sued him in March 1876, the full payment of this debt occurred only in February 1876. In the meantime, Cohen was allowed to continue to supervise the operations of his Alameda Railroad C°. In the fall of 1870, Stanford even offered that Cohen “enter the service of himself and his associates”, drawing the same salary as Cohen had received as president of his Oakland and Alameda Railroad and Ferry companies. Cohen was paid a regular salary as “attorney and agent” for the Central Pacific Railroad, and they also paid the rent of his law office.

The case of Alfred A. Cohen epitomizes the ambiguous status of some of the attorneys and executives who worked for the “Big Four”. He worked as an attorney on the settlement of claims related to railroad accidents; he also helped the associates purchase land around the Bay Area. But he also had his own law practice—he occasionally worked for rival railroad companies like the California Pacific Railroad and his own business enterprises. Hopkins always doubted Cohen’s loyalty, as he wrote to Huntington in 1872: Cohen I hear intends going East soon. Where he is in matters generally I don’t know of course but although under salary with us, he has always borne an intimate and friendly relation to the Bank of California–has always found it to pay him well to be their friend, and it would be deceiving ourselves to expect anything different of him.

To the associates, Cohen was at once an unreliable business partner, an independent professional and a salaried executive. He sold railroad iron and supplies, and owned an interest in the schooners that carried coal from the Mount Diablo mine of Contra Costa
County to the Bay Area. The coal that the Central Pacific Railroad C° occasionally bought from this mine was delivered by Cohen’s schooners. In 1872, Cohen even worked with Darius O. Mills on a plan to buy the Central Pacific Railroad C° from the associates, although nothing came out of it. One of the issues in the 1876 law suit was to determine whether Cohen had been an employee of the railroad company --as the associates claimed-- or whether it had been understood from the beginning that he would continue to devote part of his time to his own business interests27.

Another example of the hybrid status of some corporate executives can be found with David D. Colton, who became a kind of “debtor-associate” of the “Big Four” from 1874 until his death in 1878. In 1874, the associates had moved the headquarters of the Central Pacific Railroad C° to San Francisco. Huntington resided in New York and came to California only in the summer months. His relations with Stanford were increasingly strained; Edwin B. Crocker had been incapacitated by a stroke in 1869; Hopkins was getting old and did not write as regularly as in the past. Huntington was overworked and desperately needed a correspondent and a financial agent on the West Coast. He was also looking for allies in San Francisco to push the construction of the Southern Pacific Railroad C°, a company that the associates had acquired in 1869. In 1870, the associates had invited Colton to invest in their Rocky Mountain Coal and Iron C°, a company that owned coal lands near Evanston, Wyoming. Colton was well-known to the San Francisco bankers and mining capitalists, as he had been superintendent of the Amador gold mine in the early 1870’s (Shoupe 296-97).

From October 1874 onward, Colton worked as vice-president of the Southern Pacific and received a salary from the Central Pacific C° for his functions as financial director of the latter company, as Leland Stanford did for his work as president, Hopkins as treasurer, and Huntington as vice-president, financial agent and attorney. But Colton was also admitted into the partnership through the creation of the Western Development C°, whose capital stock was divided into five equal shares, as the capital stock of the former Contract & Finance C° had been. Equality between the partners was created through a peculiar and rather artificial agreement: Colton received 20 000 shares of Central Pacific stock, 20 000 shares of Southern Pacific stock, and gave the associates a one-million dollar promissory note in exchange28. Through this arrangement, Huntington hoped to get executive work, but also to increase the “political and financial strength” of the company, as he wrote in a letter to Hopkins in January 187629. Colton was no a mere figurehead, but his presence on the board of the Southern Pacific Railroad C° was supposed to indicate that he represented prominent San Francisco capitalists.

**Railroad management, political bargaining and public relations**

From the start, the “Big Four” weighed the political advantages and costs of reciprocity in their transactions with local businessmen, many of whom, like Stanford himself, were active in California politics. While they found competitive advantages and opportunities in different regions, and instructed their managers to maximize earnings by keeping operating costs as low as possible and adjusting railroad rates to what the traffic would bear, they also discussed the value and the costs of “good neighbor” business practices. Political influence at different government levels could make a difference in terms of
access to credit and land – waterfront land in San Francisco Bay was especially valuable—and was also a form of insurance against what the associates called “blackmail”, i.e. unreasonable demands on the railroad companies that they controlled. As early as 1863, the Central Pacific Railroad C° was embroiled in protracted litigation about the subsidies to be granted by the state of California and by the County of San Francisco (Daggett 33-40). In August 1867, the attempt of the Board of Supervisors of Placer C° to raise the railroad company tax from $440,0250 to $1,100,625 inaugurated a long series of tax disputes with the local and state governments. In November 1867, as construction crews were still making slow progress through the Sierra Nevada, Mark Hopkins complained that the delegates of Placer and Nevada counties were already drawing a bill to reduce the maximum rates authorized by the state railroad law.

Edwin B. Crocker and later Silas W. Sanderson mounted legal challenges to the demands of local boosters and anti-monopolists. At the same time, the associates continued to bargain with public officials, boosters’ associations and large land-holders to defray the costs of building new railroad lines (Daggett 28). They also expected political returns from their transactions with influential businessmen. In 1867, for example, Hopkins told Huntington that purchasing all locomotives in the East could be unwise as long as the associates needed the support of their California neighbors: building locomotives locally « would be regarded with popular favor in all parts of the State and Pacific coast ». The associates « [were] not yet independent of the opinion of the Cal[ifornia] public and their representation ».

This remark followed a visit of Orville Lambard, the owner or manager of the Sacramento Iron Works and a minor stockholder in the Central Pacific railroad C° at the time, who had offered to build locomotives for the Central Pacific C°. Hopkins acknowledged that the competitive advantages of Eastern manufacturers should prevail, and he hoped to break free from the influence of local sentiment as soon as possible, but he suggested that the associates make temporary concessions to local businessmen.

In their quest for political influence, the associates first turned to their personal friends among Republican politicians in Northern California: Collis P. Huntington and Edwin B. Crocker had been involved in the founding of the Republican party in Sacramento in 1856, along with Cornelius Cole, a lawyer who became District Attorney for the County of Sacramento in 1859. Stanford had been the Republican candidate for State Treasurer in September 1857, and then he served for one term as governor of California between 1861 and 1863. Huntington struck a long-lasting friendship with Aaron A. Sargent, a lawyer and newspaperman from Nevada City, who was elected to the House of Representatives in 1860 (Lavender 63, 72-74). After the end of the Civil War, however, the associates expanded their networks of political allies to Democrats and played on the competition between the two political parties to gain more leverage in their relations with politicians. On one of his visits to Republican Congressman Cornelius Cole in Washington in April 1867, for example, Huntington pointedly mentioned that he would also bring his requests to Cole’s Democratic rival John Conness. Huntington’s pragmatic justification for this behavior was that

in business we must use all the elements necessary to succeed, and as we shall always want more or less legislation, I have thought it would be well to have some Democrats connected with us.

Both Huntington and Stanford hired some of their friends as lobbyists to attend to the company’s affairs in the California legislature as well as in the U.S. Congress. Stanford’s main lobbyist in California was William B. Carr, a former brick-mason who became a
successful entrepreneur as a miner and a builder of ditches, levees and railroads, and later a large landholder\textsuperscript{35}. As a railroad contractor in the early 1860's, Carr had been involved with Charles McLaughlin in the Western Pacific Railroad. Besides lobbyists, the associates also hired agents for specific missions: in 1872, for example, civil engineer William B. Hyde was sent to Los Angeles to negotiate the terms of the construction of the Southern Pacific Railroad to that city.

\textsuperscript{31} The remuneration of political friends and allies took many different forms and was often a problem for the associates. Politicians asked them to support their political campaigns, for example by using their influence with railroad employees, or by seeking railroad land for some of their own friends. Charles Maclay, who had been a member of the State Senate between 1868 and 1873, thus wrote to Charles Crocker in 1875 to complain about the superintendent of the Southern Pacific Railroad C° in Los Angeles, Eldridge E. Hewitt, who did not support the Republican candidate for county treasurer:

Having always worked for your interest and that of your Company, I would respectfully ask you to act promptly by telegraph to Hewitt requesting him to support Temple and at the same time inform me that I may conclude negotiations [sic] for the advancement of our Congressman\textsuperscript{36}.

\textsuperscript{32} Maclay explained that his candidate for county treasurer had backed the railroad company in the 1872 referendum over the grant of Los Angeles County and city bonds to the Southern Pacific Railroad, while the other candidate was connected with a group of businessmen who had opposed the railroad subsidy. In the same letter, Maclay bluntly told Crocker that he controlled about 300 votes in the San Fernando region and warned him that his support to the railroad candidates for the California delegation in Congressmen was not unconditional.

\textsuperscript{33} The relations between the associates and local newspapermen were probably shaped by similar forms of bargaining. The associates expected to get fair treatment from newspaper publishers through contracts for printing jobs or for the publication of railroad schedules and advertisements for land sales (Deverell 132). Marcus Boruck, who was the owner and editor of a small weekly San Francisco magazine, the Spirit of the Times, explained to the Pacific Railway Commission in 1887 that the Central Pacific C° subscribed to his magazine for its station agents. He also had a job as a clerk in the California state legislature and attended to the interests of the railroad company there as a lobbyist\textsuperscript{37}. But the favors granted to some newspaper publishers alienated others: the Sacramento Union had supported the company against its many detractors in the San Francisco press in the early 1860’s; when the paper suddenly turned against the company in 1868, Huntington ascribed this reversal to his associates’ decision to give the printing business of the railroad company to the firm of Henry S. Crocker, one of Charles Crocker’s brothers (Evans 186).

\textsuperscript{34} The associates’ uneasy compromises between business and local sentiment caused tensions within their group. Advertising the earnings of the railroad companies was good for their credit with Eastern financiers, but it weakened their defense against the California anti-monopolists, as Hopkins explained to Huntington in 1867:

For the purpose of giving to our Railroad bonds credit and standing in the Eastern and European market of course you give the greatest possible publicity to our reports of large [Hopkins’ underlining] monthly earnings and our small operating expenses. This is sound policy and right. But when our California Newspapers republish those statements, copied
from Eastern Journals, they are too often accompanied by remarks tending to claim that these large earnings proves (sic) that the company charges too high freight and passenger rates, and that the Legislature should reduce the rates by an amendment to the Cal Railroad law etc etc. 38.

Huntington, Crocker and later Colton also criticized Stanford for his costly deals with Northern California businessmen – the promise of a 1/20th of the Southern Pacific Railroad land grant to Lloyd Tevis during the negotiations that enabled the associates to acquire that railroad company, for example – as well as for the pay of his lobbyists – the grant of railroad company bonds to Carr as compensation for some of his services, for example 39. Moreover, Stanford’s occasional attempts to reward his political friends with jobs within the railroad company were frowned upon both by the other associates and by the salaried managers of the railroad company. In the fall of 1869, the comments of Charles Crocker and Alban N. Towne after a train collision involving the Western Pacific Railroad, one of the local roads acquired by the group in 1868, show that they blamed the accident on the superintendent of the road, Josiah Johnson, who had been appointed by Stanford. In a letter to Huntington, Crocker condemned what he called «the present system of employing pets regardless of their experience». Alban N. Towne, the newly-recruited superintendent of the Central Pacific, was just as blunt, and wrote that «Mr Johnson [could not] select and discipline men as is expected from a man holding that position» 40.

Although they sparked much controversy, neither the activities of lobbyists nor the practice of granting railroad passes to business and political allies interfered with the prerogatives of the managers who controlled railroad operations and procured earnings. The same was true for the more legitimate activities of publicists and newspapermen who highlighted the common interests between the railroad company and the local communities. The promotional activities attached to the sale of land from the Central Pacific and California & Oregon land grants became the cornerstone of the associates’ public relations policy in California. Hopkins believed that such publicity helped “silence the outcry against the ‘grasping monopoly’”. Huntington thought that advertising the prospects of California facilitated the sale of bonds in the East and in Europe 41. According to Richard Orsi, the land department of the Central Pacific C° consigned some parts of the railroad land grant to local associations like the California Immigrant Union and the Pacific Coast Land Bureau. The brochures published by the land department promised moderate prices and easy terms of payment on railroad land 42. In the mid-1870’s, the railroad company allowed potential settlers to buy land «on time», over a period of five years, at a time when the interest rates given by rural banks to their customers varied widely (White 2001).

The associates also decided to secure good will from the California press by backing newcomers in the field of newspaper publishing. In the early 1870’s, they bought a small Sacramento newspaper, the Sacramento Daily Record, and left the paper to the care of a young journalist and leader of prison and temperance reform, William H. Mills. In 1874, when Huntington found out that the Sacramento Union was for sale, he suggested that his associates help Mills buy the Union, probably by lending him money: Now, if this paper is bought by outsiders, it will either be against us or a leech on us, when if it is bought by Mills and consolidated with the Record, it will be all right, as I think Mills an honorable man 43.
The consolidation between the Record and the Union was effected, and Mills reciprocated by criticizing the political enemies of the railroad company and debunking the claims of the anti-monopolists, although he also pursued his own interests as a reformer. A February 1876 article of the Sacramento Union shows how Mills battled against plans to regulate railroad rates at the state level and supported Huntington’s fight against Thomas Scott’s attempts to obtain Congressional subsidies for his Texas Pacific Railroad: he argued that the Archer bill providing for railroad rate regulation and passed by the California State legislature on 25 February was pushed by “the emissaries of Colonel Scott for the express purpose of crippling the Southern Pacific Railroad”...Mills charged that the main instigator of this attempt to use the California legislators as “cat’s paws to pull the chestnuts out of the fire for a Pennsylvania railroad king” was the lawyer Alfred Cohen, who at that time had turned against the associates. As many other newspaper editors from California did (Deverell), Mills fanned the flame of sectionalism: he presented the Southern Pacific as a Western corporation, while the Texas Pacific was labelled a “foreign corporation”.

In public relations as well as in transactions management, the “Big Four” experimented with a variety of arrangements which cannot easily fit a simple dichotomy between modern and traditional practices. The “Big Four” did not see credit opportunities and political benefits as alternatives to the pursuit of low costs and high earnings, but as components of business success that reinforced each other and should be conducted jointly. Their efforts to combine these different elements fostered unstable and ambiguous relationships with local notables, as well as utilitarian forms of “good neighbor” practices. Although this article was written from the vantage point offered by the correspondence of the “Big Four”, we can understand that the flexible pattern of transactions management described here implied a variety of social relations with local notables. The businessmen, politicians and professionals who worked with the associates construed their relation to the railroad corporation and to the local community in widely different ways. The “inchoate networks” of unreliable allies described in Richard White’s book (White 2011, 101) included the semi-independent agents or debtor-associates that we have encountered in the course of this study. The extent to which the practices sketched here also existed in other regions of the U.S., or in other sectors than the railroad industry -in which the legacy of early-nineteenth century corporations was more prominent than elsewhere- is a question that cannot be fully discussed within the scope of this paper. Another issue obviously neglected in this paper is the connection between the experiments described here and the constraints that labor imposed on business strategies. However, the analysis of the intersection between management, credit and politics appears as a promising field of inquiry which may yield fresh perspectives on the history of the Gilded Age.


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NOTES

1. The letters sent by Huntington’s California associates to New York can be read at the Special Collections Research Center, Syracuse University Libraries. A microfilm edition of the Huntington papers is also available at the Stanford University Library and at the Bancroft Library. The other materials are scattered in various research libraries and archive repositories in California, as the subsequent footnotes will make clear.

2. Facts obtained from the lips of Charles Crocker, regarding his identification with the Central Pacific railroad and other roads growing from it: dictation and related material assembled in preparing his biography from H. H. Bancroft’s *Chronicles of the Builders of the Commonwealth*, 1865-1890, folder 1, 19, Bancroft library.


4. Huntington’s testimony before the 1887 Pacific Railroad Commission includes the following statement: « When we were in Washington, trying to get through the bill to give us aid, a certain party said that we must cut off our part at Sacramento and they must have the part between Sacramento and San Francisco, or else we must begin at San Francisco...We consented». Quoted in Cerinda Evans, *Collis Potter Huntington*, vol. 1, 94.


8. Letters of Edwin B. Crocker to Cornelius Cole, March 2, 1864, April 9, 1864, April 12, 1865. Cole family papers, box 2, UCLA Special Collections.

9. Charles Crocker to C.P. Huntington, October 30, 1867, Huntington papers, Series I.


12. “We saw that we must have contractors whom we could control, who could do the work when we had the money to pay, and who would just push it and be willing to make any kind of sacrifice that we might call upon them to make”, Testimony of Leland Stanford, July 28, 1887, U.S. Pacific Railway Commission Testimony, 2625-6.


14. Obviously delighted with the success of this negotiation, Hopkins told this story to Huntington in two letters sent on February 16 and July 10, 1866.

15. Facts obtained from the lips of Charles Crocker, regarding his identification with the Central Pacific railroad and other roads growing from it: dictation and related material assembled in preparing his biography from H. H. Bancroft’s Chronicles of the Builders of the Commonwealth, 1865-1890, folder 1, 19. Bancroft library.

16. See the National Bank of D.O. Mills and Company Collection, California State Library.


18. Mark Hopkins to C.P. Huntington, July 19, 1865, Huntington papers, Series I.

19. Edwin B. Crocker to Collis P. Huntington, April 16, 1869, August 19, 1869 (Huntington papers, Series I). On April 27, 1872, Hopkins sent Huntington the following telegram: “we are overdrawn at Bk of Calif. $ 760 000 and must have $ 150 000 more on the 30th inst. The bk [sic] is urgent that we reduce our overdraft to at most a quarter million”.


21. A document in the Hopkins Transportation Collection at Stanford University shows that in January 1872, David Colton bought the 1 500 shares of Central Pacific Railroad stock that the Board of Supervisors of Santa Clara County had purchased from Charles McLaughlin and the Western Pacific C° in 1863 for $120 000 in gold coin. Agreement between the Board of Supervisors of Santa Clara C° and David D. Colton, January 27, 1872, Timothy Hopkins Transportation Collection, vol. 3, Stanford University Libraries.

22. Mark Hopkins to Collis P. Huntington, July 19, 1867. Huntington papers, Series I.

23. Mark Hopkins to C.P. Huntington, September 12, 1867. Huntington papers, Series I.

24. Mark Hopkins to Collis P. Huntington, October 28, 1869. Huntington papers, series 1. On the stormy relations between the associates and Cohen, see also Richard White, Railroaded, 179-180.


28. The one-million dollar promissory note represented exactly one-fifth of the nominal value of the capital stock of the Western Development C°. Testimony of Frank Douty, July 30, 1887, U.S. Pacific Railway Commission Testimony, 2671. Two copies of the agreement between Colton and the “Big Four” are included in the “Biographical Sketch of David D. Colton”, David D. Colton papers, folder 1, 36, 39-40, Bancroft Library.

29. Letter from Huntington to Hopkins, January 4, 1876: “While I have no particular fault to find with Mr. Colton, he has not brought us the financial or political strength that I supposed he would...” Quoted in Cerinda Evans, Collis P. Huntington, 342.

30. In the matter of the equalization of the taxes of the Central Pacific Railroad of California by the Board of Supervisors of Placer C°. Application for Certiorari, Sacramento, H.S. Crocker &C° Printers, 1867, California Supreme Court Case Files, California State Archives.

31. Mark Hopkins to C.P. Huntington, November 19, 1867. Huntington papers, Series 1.


33. Cornelius Cole to “dear Judge” (Butler), April 2, 1867. Cole family papers, box 1, folder 2. (“Huntington called on me an hour ago and took occasion to speak a good word for Connex. I do..."

34. See the National Bank of D.O. Mills and Company Collection, California State Library.
not know what else [underlined by Cole] he called for. (...) Set it down that the railroad C° will do all they can for him»

34. C.P. Huntington to “friend Crocker”, November 7, 1867. Huntington papers, Series I.
38. Mark Hopkins to C.P. Huntington, November 19, 1867. Huntington papers, series 1.
39. David D. Colton to Collis P. Huntington, January 11, 1876. *The Octopus Speaks*, 226. When Colton suggested that Carr’s pay seemed extravagant, Huntington’s answer was that the railroad company had important bills pending in Congress and could afford to pay him well if he delivered on his promises.
40. Charles Crocker to C.P. Huntington, November 22, 1869. Alban N. Towne to C.P. Huntington, November 28, 1869. Huntington papers, series 1. Two years earlier, both Stanford and Huntington had written to Cornelius Cole to obtain a federal patronage job -assessor for the fourth district of internal revenue- for Johnson, a Union Democrat from Sacramento (C.P. Huntington to Cornelius Cole, February 22, 1867; Leland Stanford to Cornelius Cole, February 9, 1867. Cole family papers, box 2).
41. Mark Hopkins to C.P. Huntington, December 30, 1870 (Huntington papers, Series I); Huntington to “friend Colton”, March 18, 1875, *The Octopus Speaks*, 88.
43. Collis P. Huntington to “friend Colton”, December 18, 1874. *The Octopus Speaks*, 68. The purchase of the Union is also mentioned in Collis P. Huntington, to Mark Hopkins, March 18, 1875. Timothy Hopkins Transportation Collection, box 27, vol. 7. We do not know the exact nature of the financial relations between Mills and the associates. In 1883, Mills succeeded Redding as land agent of the Central Pacific Railroad.

**ABSTRACTS**

This article proposes an analysis of the network and transactions management practices of the California “Big Four”, the group of former Gold Rush merchants who built the Central Pacific and Southern Pacific Railroad companies in the 1860’s and 1870’s. The associates’ decisions in their dealings with business partners, professionals and politicians in Northern California did not reflect simple alternatives between integration and market transactions as described in the classical Chandlerian synthesis and the mid-twentieth century theory of the firm. The paper highlights the significance of partnership agreements, credit relations and negotiations with
local boosters and politicians. It concludes that the “Big Four” did not see credit opportunities and political advantages as alternatives to good management but as important elements of business success, on a par with the pursuit of low operating costs and high earnings.

Cet article propose une analyse des pratiques d’un groupe d’entrepreneurs du « Gilded Age » américain en matière de gestion de réseau et de transactions. Il est centré sur le cas des « Quatre Grands » de Californie, des marchands de l’ère de la ruée vers l’or qui construisent les compagnies de chemins de fer Central Pacific et Southern Pacific dans les années 1860 et 1870. Les décisions prises par les quatre associés dans leurs relations avec les hommes d’affaires, les professionnels de la gestion et les hommes politiques qu’ils côtoient en Californie du Nord ne relèvent pas d’alternatives simples entre le recours au marché et l’intégration, telles qu’elles sont décrites dans les synthèses classiques en histoire des entreprises ou dans les théories de la firme du milieu du vingtième siècle. L’étude met l’accent sur les accords de partenariat, les relations de crédit et les négociations avec les hommes politiques et les groupes d’intérêts locaux. Elle montre que les « Quatre Grands » ne considèrent pas les opportunités de crédit et les avantages politiques comme des alternatives à une bonne gestion de leurs entreprises, mais au contraire comme des composantes comme les autres du succès en affaires, qui doivent être conjuguées aux stratégies de baisse des coûts et d’augmentation des recettes d’exploitation.

INDEX

Mots-clés: Chemins de fer de l’Ouest des États-Unis, Entrepreneurs, « Gilded Age », gestion des transactions, « Quatre Grands » de Californie, Central Pacific Railroad Company

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