

Creating the System: Railroads and the Modern Corporation

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The idea that railroads remade North America and in doing so created the modern corporate world is hardly new. Modern scholars have proclaimed it repeatedly, and in this they only follow the nineteenth-century intellectuals and promoters whom they cite. All of the possibilities that arose with railroads seemed magnified in the transcontinentals, which came to epitomize progress, nationalism, and civilization itself not just in the United States but in Canada and Mexico as well. I have my doubts about civilization, but I will accept the rest. All I would change is that they created modernity as much by their failure as their success....

In the late nineteenth century large corporations mainly meant railroad corporations and a few other powerful organizations—Standard Oil, Western Union, and Carnegie Steel—that were intimately associated with them. Although Americans still celebrate the West as a bastion of individualism, corporations, along with the federal government, were central to its creation.

Nineteenth-century North Americans became quite aware of what transcontinental railroads failed to do, but initially they embraced them, as they embraced all railroads, as the epitome of modernity. They were in love with railroads because railroads defined the age....

In the United States the transcontinentals were children of the Civil War and the powerful federal government that Richard Bense, the American political scientist, has called the Yankee Leviathan. In Mexico they were the offspring of Porfirio Díaz, the Mexican dictator and centralizer. In Canada the Canadian Pacific was a product of Confederation. In the United States the state did briefly weaken after Reconstruction, but it retained far more strength in the West than elsewhere....

It may seem both churlish and mad to question the railroads' accomplishments. No one, after all, claimed that they came without a cost, particularly to Indian peoples, or that mistakes were not made and a certain amount of corruption generated, but these admissions tend to be of the "say what you will" variety: say what you will, the result was worth the price, and the lives of tens of millions of people were the better for it. But questioning these accomplishments is what this book does. The issue is not whether transcontinentals eventually proved to be a good idea; it is whether they were a good idea in the mid and late nineteenth century. The idea of a transcontinental railroad was not in and of itself bad, but why were so many of these railroads built at a time when there was so little need of them? The nineteenth-century critics of the railroads were often right: these western railroads very often should not have been built when and how they were. Their costs over the long term, and the short term, exceeded their benefits.

In all three countries the railroad corporations either failed—ending up in receivership—or were rescued by nation-states, which forgave loans, renegotiated

terms of payment, or nationalized the roads. Their failures as businesses were only the beginning. The railroads were also political failures. Having helped both to corrupt and to transform the political system by creating the modern corporate lobby, which they used to compete against each other, they then found it an expensive and sometimes nearly impossible burden to bear....

The Civil War demanded personal sacrifice for concrete collective goals; the railroads promised personal gain for projected public purposes. Having expended so much blood and treasure to restore the South to the nation, Congress hoped to connect the West without expending either.

The desire of Congress to build a railroad without taxing the public and the wish of promoters to build a railroad without investing their own money were at loggerheads. The Associates of the Central Pacific had by the winter of 1863–64 built eleven miles of railroad, and they were out of money. That spring they secured further aid from the California legislature, but that aid got tied up in court. The Union Pacific had built virtually nothing. By 1864 it was apparent to both Huntington and Durant that Washington and New York loomed larger than the Rocky Mountains or the Sierra Nevada for the Union Pacific and the Central Pacific. Unless more concessions could be wrung from Congress and skepticism overcome in the financial markets, the Pacific Railway was going nowhere....

Seeking to modify the Pacific Railway Act of 1862, Huntington and Durant offered congressmen and others private favors to secure a public bounty. Durant and his allies distributed \$250,000 in bonds to those who could help them. This was almost certainly the occasion upon which the Central Pacific gave some of its convertible bonds—bonds that would be later exchangeable for federal bonds—to the men Mark Hopkins called “our friends of influence.” Such bonds would have value only if the act passed. For the country as a whole, the Pacific Railway Act of 1864 was the worst act money could buy.

The act would spread loaves and fishes across a continent, and all would multiply. It was taxless finance at its most grandiose. Like its 1862 predecessor, the 1864 act lent the companies \$50 million worth of government bonds for thirty years,...

Congress combined this recklessness with ineptitude. Congressmen thought they were just lending the railroads \$50 million worth of U.S. bonds. But the law was so sloppily drawn and the section on interest payments so ambiguous that the courts later decided that although the interest on the bonds was due semiannually, the railroads did not have to pay the interest as it accrued. They had to pay the government only the total amount of simple interest owed when the bonds matured. So for thirty years the government, not the railroads, would pay the interest on the \$50 million worth of bonds....

The other piece of government largess—the land grants—followed the same free-lunch logic as the bonds. The Pacific Railway Act of 1864 doubled the land subsidy so that for every mile of road built, the companies would receive 12,800 acres and any coal or iron they contained....

Donating this land to the railroads would supposedly cost the government nothing. In the United States, and later Canada, the railroads received only the odd-numbered sections within a given township. Imagine a checkerboard that

folds down the middle. The railroad right of way is the crease in the board; the red squares are railroad land; the black squares are public land. Because the railroads acted as a magnet pulling people into its checkerboard, the U.S. government could recoup its loss in giving away half the checkerboard by doubling the price of the remaining public land within it from \$1.25—the base rate—to \$2.50 per acre and cutting the amount given as a homestead from 160 acres to 80 acres....

Railroads received the land equivalent of small countries or, in North American terms, the equivalent of an American state or a Canadian province. The federal grant to the Union Pacific roughly equaled the square mileage of New Hampshire and New Jersey combined. The main line of the Central Pacific got slightly more than the landmass of Maryland....

The United States was hardly alone in this. The Canadian Pacific eventually received the equivalent of New Brunswick and Prince Edward Island...

The government did not actually own much of this land; it belonged to Indians. But Indian ownership had never proved much of an obstacle to congressional schemes. Indeed, the very fact that it belonged to Indians initially seemed an asset in financing western railroads. Instead of land grants from the public domain complicated by competing claims from settlers, land might pass directly from Indians to the railroads. In 1862, the year of the first Pacific Railway Act, Senator Samuel Pomeroy of Kansas had written a railroad purchase clause into the Kickapoo Treaty. It provided for the sale at \$1.25 an acre of surplus Kickapoo lands (those left after allotments to tribal members) to the Atchison and Pike's Peak Railroad, which, as it happened, was controlled by Pomeroy. Senator Pomeroy then steered the treaty through the ratification process in the U.S. Senate....

The Central Pacific joined other American roads in the production of one of the nineteenth's century great fictional genres: the annual stockholder's report. Corporate reports were designed to sell stock and bonds; they gave information for a purpose, which some of the dimmer lights in the railroad hierarchies did not always understand. Either from unusual honesty or from normal carelessness, Leland Stanford listed all the company's debts, the principal and interest owed the federal government, in his draft of the 1872 Central Pacific annual report. In a sentence in which the reader can almost hear Huntington's long-suffering sigh, he wrote, "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."

The railroads would have liked to have a monopoly of information, but they did not. The greatest threat to them was the Associated Press....

Commercial and political news formed the bread and butter of the Associated Press. The power of its agents, and for that matter of the Western Union operators who transmitted the news over the lines at night, was limited but real. Major news items almost always went through, although scandals embarrassing to Republican politicians might be suppressed. Minor news items, such as lawsuits against railroads or political attacks that might affect securities, were left to the discretion of Associated Press agents. Investors became extraordinarily attentive readers because the Associated Press was creating a national market by making information about prices and conditions almost instantly available.

James Simonton was manager of the Associated Press, and he haunted Collis P. Huntington, Jay Cooke, and other railroad men because he had power beyond that of any single newspaper editor or publisher. The Associates of the Central Pacific believed that Simonton, who was also partial owner of the *San Francisco Bulletin*, hated them. Most of California hated them; what distinguished Simonton was that his hatred could cost them money....

At least in the short term, a newspaper was able to make or ruin, deflate or inflate, the value of securities. The men who ran the transcontinentals cared nearly as much about newspapers as about their securities because newspapers and financial papers were connected. "I seriously wish that some legislative measure could be passed, which would make the shooting of reporters wholly justifiable on sight, punishable by a fine not exceeding ten dollars," Charles Francis Adams, president of the Union Pacific, wrote to Charles Perkins of the Burlington....

Newspapers were the basins that caught the news, but there were ways to prevent, or at least slow, the arrival of information the railroads wanted held back....

Huntington's lobbyist, Richard Franchot, once succeeded in getting the Associated Press reporter in Washington on the Central Pacific payroll until the Associated Press editor Simonton suspected as much from the changing tenor of his stories....

Nineteenth-century Americans were not shocked by the corruption of the press; neither were they surprised that businessmen cheated, lied, and stole; what worried them was the corruption of the republic. In the Gilded Age, Americans feared that the republic had become corrupted—diseased, decaying, and dying. They identified the source of this corruption as monopoly, and they made monopoly synonymous with the corporation.

The corporate monster—Monopoly—had appeared before the Civil War as the Bank of the United States and had been slain by Andrew Jackson, but it reincarnated as the transcontinental railroads. The monster moved into the halls of Congress, but instead of devouring a rotten republic as the Jacksonians had feared, it announced that it just wanted to be friends....

The second mark of a monopoly was the ability to destroy, limit, or distort competition. The competition in question was not simply that between the railroads themselves or railroads and other forms of transportation; it was competition between all those businesses that used the railroads. By manipulating rates, the railroads could decide who succeeded in business and who failed. They could discriminate among individuals, offering favored shippers lower rates or rebates. They could discriminate among places, giving towns equidistant from the same destination different rates. They could discriminate among things, putting similar kinds of cargo in different categories and charge them different rates. The railroads' ability to discriminate—to use another key word in the antimonopolist vocabulary—against republican citizens violated both equity and basic rules of the market....

Freight traffic rather than passenger traffic gave lands value in the nineteenth-century West. Western railroads were freight roads carrying the basic commodities of an agricultural and increasingly industrial nation. Where there was no access to ocean or other water transportation, the railroads were the primary carriers of grain, other agricultural produce, livestock, coal, lumber, and minerals. The

Businessmen, farmers, and railroad officials all over the West recognized that the price of moving things—railroad rates—did not vary evenly with distance....

Farmers in the upper San Joaquin Valley encountered another price exacted by the railroad. What the railroads gave in freight going to San Francisco, they took back in freight leaving San Francisco, which was the port of entry for goods coming in by sea and also, because of lower through rates, for transcontinental traffic....

Farmers in the San Joaquin Valley shipped wheat at a maximum of \$6.00 a ton, but they paid freight rates that topped out at \$25.00 a ton for goods they consumed....

San Franciscans thus did not initially need the Associates railroads to connect “the City” to the East or the rest of the world, but they needed the railroads to connect them to the rest of California. Railroads gathered California’s products for shipment out of San Francisco and adjacent ports and distributed San Francisco’s manufactures and their imports to the interior. The railroads and San Francisco’s powerful wholesalers reached an accommodation on the backs of interior consumers....

Frank Norris captured this accommodation in a scene in *The Octopus*. Norris’s character Harran Derrick watched the plows that his father had bought pass through his fictional San Joaquin Valley town of Bonneville on the Southern Pacific on their way to San Francisco, where they will be shipped back to Bonneville. “Think of it,” he declaimed. “Here’s a load of stuff for Bonneville that can’t stop at Bonneville, where it is consigned, but has got to go up to San Francisco first by way of Bonneville, at forty cents per ton and then be re-shipped from San Francisco back to Bonneville again at fifty-one cents per ton, the short haul rate.... [I]sn’t it a pretty mess! Isn’t it a farce! the whole dirty business!” As expressed in dollars, a straight line was not the shortest distance between two points in the relational geometry of the railroads....

In the 1870s and early 1880s Gould and Huntington adopted two new tactics.... The system created two sets of westbound rates. The rates in the first set were prohibitively high; those in the second were much lower, supposedly about one-half the higher rates. Merchants could, however, get the set of lower rates—the special contract—only if they agreed to ship *all* their goods by the railroad. If they received any goods by sea, they had to pay the higher rates. The railroad further demanded that anyone shipping on a special contract not buy or sell from anyone who shipped goods by means other than rail. To enforce the contracts, the railroads demanded the right to inspect their customers’ books to verify that they complied with the terms of the contract....

Very few individual merchants dared challenge the railroad. As the California railroad commissioner W. W. Foote put it, the Central Pacific “under existing conditions, without competing eastern lines west of Utah, and almost absolutely controlling local traffic within this State, is too powerful an organization to be successfully resisted by any individual or firm.”...

The San Francisco merchants joined an antimonopoly crusade led by the Democrats that swept the California elections of 1882. The nearly immediate defection of two of their new railroad commissioners had not been what they expected. And they were even more dismayed by two decisions of Judge Stephen Field. The Southern Pacific had nearly crippled many counties by

refusing to pay taxes. Litigation culminated in *County of San Mateo v. Southern Pacific Railroad Company* (1882) and *County of Santa Clara v. Southern Pacific Railroad Company* (1883), which famously voided the tax bills for charging different rates for corporate and noncorporate owners and ruled that the corporation was a person within the meaning of the Fourteenth Amendment and entitled to all constitutional protections....

In 1884 [Democratic Governor George] Stoneman called a special session of the legislature devoted solely to railroad legislation. Antimonopolists wanted a clear demonstration of state authority over railroads, and they wanted taxes, including back taxes, from the railroads. They also wanted the Barry bill, which would have outlawed the special contract system and prohibited any discrimination between individuals by the railroad....

The antimonopolist coalition appeared invincible. With a 61–19 Democratic majority in the assembly and a 32–8 majority in the senate, antimonopolists were confident that even if conservative Democrats, who had legitimate doubts about the constitutionality of some of the measures, and representatives of areas that had reasons to support the railroads joined conservative Republicans, the bills would pass. The bills sailed through the assembly, but in the senate, bill after bill ended in a tie, with the Democratic lieutenant governor casting the deciding vote to defeat them....

What added to the corporation's danger was its connection with unfree labor, which the Civil War had supposedly eliminated. Before the Civil War, the ability to make contracts was what differentiated free men from slaves. The contracts that labor contractors offered immigrant workers—Europeans, Chinese, and Mexicans—flew in the face of the “free labor” whose triumph the North had supposedly secured. To the Knights [of Labor] the contracts offering foreign workers a loan for passage and work on arrival amounted to a kind of debt peonage that put low-wage workers at the mercy of contractors....

In the West hatred of the Chinese was pervasive. It cut across class lines. The Chinese occupied a strange space where they were both essential and exotic. The newspaper writers whom Henry Villard carried west to celebrate the completion of the Northern Pacific regarded them as at once necessary and alien.

The Chinese camps became more and more frequent (Idaho, Jocko River, Clarks Fork) and at every watering place and “wood up station” he stands at the side of the train, bareheaded, stolid, indifferent, in his blue blouse and baggy trousers with his hands in his pockets and his scant and ridiculous que hanging over his shoulder and down in front of his garments altogether perhaps weighting ten ounces and his shoes four pounds. Hundreds of him along the line, waiting patiently for the next order to move on....

The orders that the Chinese awaited were to build railroads. In 1882 there were reportedly fifteen thousand Chinese at work on the Northern Pacific in Washington Territory, with another six thousand working on that line in Idaho and Montana. That same year roughly six thousand Chinese arrived to work on the Canadian Pacific in British Columbia. And this does not include those working on the Southern Pacific system. Few white workers wanted the construction

jobs these Chinese held; but most non-Chinese workers feared that, once the roads were finished, they would move into other work along the lines....

The welding of anticorporate and anti-Chinese politics first flowered in San Francisco, which produced the seeds that spread out along the coast into Canada and inland along the railroad lines. In the twentieth century even Sonora would sprout its own indigenous Anti-Chino League. The anti-Chinese movement did not depend on the actual presence of Chinese in any numbers, because the Chinese were less fellow human beings than a powerful ideological construct. Their degradation represented the fate of all workers should the corporate/coolie partnership be allowed to persist; degradation gained them hatred rather than sympathy....

The next step was to halt immigration almost entirely. Friends of the railroads in Congress and the provisions of the Burlingame Treaty with China had been enough to stop the passage of bills restricting Chinese immigration in the 1870s.... Only a veto by Chester A. Arthur stopped the first version of the Chinese exclusion bill in 1881, but Arthur accepted a second version in 1882 with a ten-year rather than a twenty-year moratorium on immigration and a ban on Chinese citizenship. Collis P. Huntington denounced the "outrageous act" against "that peaceable and industrious people" and then moved characteristically from high principle to immediate self-interest. He worried that the act gave the Canadian Pacific an advantage in securing the steamer trade from China....

Chinese exclusion forced contractors to find new sources of supply, and the Foran Act caused them to develop new subterfuges. Contractors and the railroads piously promised to observe the act. "As importation of contract labor is strictly forbidden by law," an 1898 agreement between the Japanese labor contractors Tsukane and Ichiro Hirota and the Great Northern Railroad read, "we will never attempt to hire Japanese residents outside of the United States." But between 1891 and 1900 over 27,000 Japanese workers, virtually all of them unskilled, entered the United States, and others entered Canada. They worked as far east as Minnesota. Labor contractors simply taught the men they recruited to lie on entry....

There was a quite real, if relatively small, movement of the Chinese into the United States from Mexico, where the Chinese were actively recruited for railroad work in Sonora. Far more Chinese came across the border from Canada as the Canadian Pacific neared completion....

Conclusion

Nineteenth-century railroads transformed western North America, bringing it into national and world markets with a speed and thoroughness rarely seen in other parts of the globe. The transnational West of Mexico, Canada, and the United States was the region where publicly subsidized corporate enterprises—the transcontinental railroads—reached their zenith; it was also an area where antimonopolism and collective efforts at reform flourished....

This is not the standard narrative of the evolution of corporations, of American, Canadian, or Mexican expansion, or of the emergence of the modern world in the late nineteenth century. In the standard narrative, capital was firmly in control, and the modern corporation became the template for social and

political order. In the Left's version of this narrative, farmers and workers formed the bulwark of antimonopolism and, although brave in their opposition, they were outmatched by industrialists and capitalists who were subsidized by the federal government and supported by federal troops. Their Waterloo in the United States was the 1896 presidential campaign. In the Right's version, capitalism, in the persona of the entrepreneur, forged a glorious future....

These are not my guys. My guys were neither particularly competent businessmen nor the Robber Barons of an older literature. The Robber Barons supposedly mastered their world; their corporations were successful and powerful. *Railroaded* is not a kind of Robber Baron redux. The railroad corporations that I have examined here were unsuccessful and powerful.... their corporations were failures constantly in need of subsidy and rescue. They fascinate me precisely because they do not fit into our usual way of seeing things....

The Octopus was the dominant metaphor of the corporation well before Frank Norris ever made it the title of his railroad novel, but I have had trouble finding Octopi. Instead, I find quite limited and ordinary men creating new organizations opportunistically, sometimes cleverly and very often quite ineffectually....

These railroads have led me into a deeper mystery of modernity: how so many powerful and influential people are so ignorant and do so many things so badly and yet the world still goes on. We are confronted with this constantly, yet we often choose to believe that those in high places know what they are doing and that those who achieve great riches are being rewarded for merit.... Seen from within western railroads and Congress, modernity gradually seemed to me the reverse of the homilies of the Gilded Age: it was the triumph of the unfit, whose survival demanded the intervention of the state, which the corporations themselves corrupted.

The Gilded Age that emerged through this lens was a quite complicated amalgam that we have too often reduced to caricature. It was a world where those who controlled corporations could perpetuate gigantic frauds but also a world where reform prospered. In an age supposedly dominated by individualism, the majority of North Americans embraced an ideal of the greater public good and undertook collective measures to achieve it. That reform effort, however, was tragically marred by racial exclusiveness that framed that greater good in terms of white manhood. It was not a world easily reduced to the current platitudes of op-ed columns.

Challenging the System: Chinese Evade the Exclusion Laws

ERIKA LEE

In September 1924 a Chinese male immigrant named Lim Wah entered the United States illegally from Mexico. His goals were to find work and to join his father, a farm laborer in northern California. Legally excluded from the United States, Lim paid an

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