Of railroads and finance: The making of market society in the Pacific Northwest

Mitchell R. Green

Franklin & Marshall College, University of Missouri - Kansas City

13 May 2014

Online at https://mpra.ub.uni-muenchen.de/55940/
MPRA Paper No. 55940, posted 2 September 2014 10:00 UTC
Of Railroads and Finance: The Making of Market Society in the Pacific Northwest

Mitch Green

Abstract:
This paper examines how the development of railroads in the region established enduring ties with financiers on the East coast and Europe, and how these ties facilitated the exercise of power for certain individuals central in their respective social networks. These men of railroads and finance acted in an institutional capacity to transform the region we now understand as the Pacific Northwest so that it was conducive to the generation of financial flows in the machine age. In doing so, they set in motion a process of cumulative development that would render the old provisioning process unviable. That is, the non-market provisioning process embedded in the complex of tribal social relations was destroyed and the peoples who flourished within it were displaced. However, the two systems shared a common thread: each bore some direct relationship with the Columbia River Basin. Hence, I use the river as my entry point in a framework of analysis that seeks to trace out the many relations that account for such radical change.

1 The author is currently visiting faculty in the economics department at Franklin & Marshall College and Ph.D. Candidate at University of Missouri – Kansas City.
To those unacquainted with the business enterprise of the late nineteenth century it would appear the development of market society in the Pacific Northwest is the stuff of tall tales. The exploits of early railroad promoters is littered with chicanery and fraud, and reads like a farce by Mark Twain\(^2\). Yet these men of railroads and finance were real and through their persistent failure influenced a process of change from which emerged a qualitatively distinct social provisioning process. Whereas prior to investment on the part of the modern business enterprise in extractive industries, e.g., fur trapping, fishing, logging, mining, and later a rationalized transportation and navigation system, the social provisioning process was oriented towards a radically different sort of society. For roughly 9,000 years humans inhabiting the region have employed a provisioning process that places salmon at the center of its valuation process, organizing its institutional fabric in such a way that provides for its reproduction as a viable economic system. The economy was embedded in a set of communal social relations, oriented towards the ceremonial reproduction of Columbia River salmon runs.

With the arrival of Western settlers, a new articulation of the social relations of production began to emerge, initiating a sequence of events that would ultimately lead to the transformation of the social provisioning process as whole: the emergence of an economic system that placed absentee ownership at the center of the institutional fabric while moving non-capitalist forms of social integration to the periphery\(^3\). Throughout the process the Columbia

\(^2\) For an example of the ambiguity between story and reality in this regard, see Twain’s, *The Gilded Age*. (1873)

\(^3\) Richard White in his *Railroaded: The Transcontinentals and the Making of Modern America*, emphasizes that through their failures in the construction of their railroads, as judged from either financial solvency or technological serviceability, the corporate managers and directors of the
River basin remains central to the emerging social order, where navigation and transportation, together with its tributary markets, would continue to tie humans to the watershed. Yet, to effect the transformation of the regional economy into a fully rationalized machine process, required control over markets and the mighty Columbia River. The process of rationalization was rather abrupt: in less than a century the region was transformed from a traditional society\(^4\) organized around a set of customs that directly or indirectly bear some relevance to the problem of reproducing Columbia River salmon runs, to the corporate economy which more or less resembles what we see today.

The process of transformation was neither accidental nor passive. Capitalism did not emerge spontaneously in the region as the result of the heroism of a Turnerian “rugged individual”\(^5\). To the contrary, the region was brought under the control of institutions, and persons acting in an institutional capacity, embedded in a set of social networks that reflected the power of corporate finance. These networks were centered on the great financial centers of the East, London and Germany. Further, the outcomes of the capitalist transformation of the West, and the Pacific Northwest in particular, were not unrelated to the process of imperialism.

---

\(^4\) The term “traditional society” is not without difficulty. We do not employ the term here to refer to a natural, idyllic state in which social relations are essentially harmonious. To do so would commit the analysis to the same teleological error for which criticisms are leveled against the Social Darwinists of the late 19\(^{th}\) century. Rather, we follow Polanyi’s (1944) scheme by which to compare the onset of market society characterized chiefly by the advent of fictitious commodities as central mediating processes in the social fabric, with a general process in which social intercourse was conducted on the basis of custom and tradition.

\(^5\) See Frederick Jackson Turner’s, The Significance of the Frontier in American History (1893).
1. Manifest Destiny and the Ideology of Imperialism

William G. Robbins, in his *Colony and Empire* (1994), criticizes the traditional view of the settling of the West (after Frederic Jackson Turner) as ahistorical and teleological. The object of Robbins’s criticism reflects the ideology of imperialism. Envisioning the West as empty or Eden, or as "the last refuge for man and God" in this mythical garden "where woe and wail would be no more," is fraught with the bastard evolutionary approach of a Herbert Spencer or William Graham Sumner (Robbins, 1994, pg. 6). Of course the West was not empty; that we view the West as empty is suggestive of the racism embedded in the legitimating ideology of imperialism. The appeal to settle the west for God's chosen people presupposes those already inhabiting the region were not people at all. Encapsulating the aborigine within nature and pitting the Anglo-Saxon, Christian individual against nature, situates the imperialist history of the West within the broader cannon of Western thought (Sahlins, 2008).

A critical appraisal of the development of market society in the West ought to take into account the interrelatedness between the rise of business enterprise in the credit economy, and the movement toward imperialism. To this end, Robbins writes:

> critical to understanding new bursts in economic growth is a recognition of the evolving dialectic between changes in world capitalism and local conditions. Hence, there are obvious social and regional contradictions in the development of the United States, conditions … that resemble the relationship between an imperial center and a dominated periphery (1994, pg. 15).

---

6 See Robbins (1999), for a criticism of the Willamette Valley in Oregon as Eden.

7 The term “credit economy” follows Veblen in his characterization of the modern social provisioning process animated by pecuniary ends. Credit economy may be used interchangeably with Marx’s M – C – M’ schema, or Keynes’ “monetary production economy.” However, the choice of Veblen’s terminology follows from the desire to situate the analysis in the context of the business enterprise, as Veblen knew it, as the contradictions associated with its existence as a going concern bear on the economic life of the community.
Historians like Robbins, seeking to reinterpret the historiography of the West through a class-analytic or core-periphery framework have, not surprisingly, been dismissed as substituting ideology for evidence. Robbins counters by pointing out that "all interpretations are political in their potential for shaping myth" (1994, pg. 6), rejecting the very positivism that plagues the social sciences in general and economics in particular. For Robbins, not unlike many heterodox economists, the rejection of positivism is linked with the struggle against imperialism as it is understood as both process of oppression in ways of doing economics and its very real manifestation as violent expression of power.

To ignore the centrality of imperialism in our interpretation of the history of capitalist development in the West obscures the violence embedded in its historical transformation. To conceal this violence requires a legitimating ideology that relies upon the fraudulent claims of a) the existence of a timeless, invariant human nature (Henry 1990) and b) the proposition that inequality among socially constructed racial categories is an inherent feature of the progressive development of the human species (Briffault, 1963, [1936]).

To illustrate the ideological framework placing the chief institutions of capitalism at the center of the institutional fabric, thereby justifying their preeminence in the social valuation process, it is useful to draw upon John Fiske (2003, pg. 65) in his Manifest Destiny, who lauds the natural and “gradual transfer of the preponderance of physical strength from the hands of the war-loving portion of the human race into the hands of the peace-loving portion….” For Fiske, it is a mark of progress to place power, “…into the hands of the dollar-hunters, if you please, but out of the hands of the scalp-hunters.” Fiske apologizes for the ethnic cleansing of so-called “scalp-hunters” through his implicit assumption that genocide simply clears the path for the
expansion of American empire, whose inhabitants of Christian, Anglo-Saxon descent represent the highest stage of development for the individual.

Clearing the way for the free development of the American individual requires the extermination of those racially inferior native inhabitants. On behalf of the imperialism that effected the capitalist transformation of the West, Fiske (2003, pg. 69) suggests that, "[w]ar as we have seen, is with barbarous races both a necessity and favorite occupation; as long as civilization comes into contact with barbarism it remains a too frequent necessity; but as between civilized and Christian nations it is an absurdity." Such is the price of progress.

Fiske’s ideology of imperialism provides an apology for the centralized power of a federal state enmeshed with the corporate business community: that which advances the interests of the capitalist class advances the public purpose of peace and progress. In the process, which is a violent parallel to the transition from feudalism to capitalism in Europe, the social provisioning process was remade; the extant tribal relations centered upon a ceremonially encapsulated working relationship with the Columbia River, in which reproduction of the salmon runs dominated the social valuation process, were displaced and moved to the periphery of an emerging set of relations that placed the functioning of the machine process at its center.

According to Robbins (1994, pg. 7), avoidance of the American exceptionalism that has plagued histories of the West in the 20th century, requires confrontation with the subject as a study of conflict and change. The critical approach stands in sharp relief to the harmonious, peaceable qualities of the history of a Fiske or Turner. For Robbins this involves reconciling the historical narrative with a critical understanding of capitalism as it constitutes “a set of values and perceptions associated with that [capitalism] phenomenon, its structural framework as
expressed in social and political relations, and its pervasive reach through American life” (1994, pg. 7).

The remainder of the chapter follows Robbins as it endeavors to construct a narrative of the transformation of the region that makes explicit the power of embedded persons in bringing the new machine process to bear on the community. It is shown that the transformation was a process of integrating the region into the capitalist system, albeit as periphery to the financial core in Europe and the East.

2. **Henry Villard and the Social Construction of the Pacific Northwest**

In the Pacific Northwest the development process follows Henry Villard's own movement within corporate capitalism and the spaces it creates. Because he was vested with the authority to take action on behalf of German bondholders, who had by 1873 assumed the bulk of $11 million in claims on the Oregon and California Railroad Company between themselves and English financial houses, Villard was able to exert his influence through a range of social networks, making his efficacy greater than if it were examined in isolation (Wilkins, 1989; Hedges, 1930; Villard, [1944], 1981). Villard occupied a central position in financial networks that linked Frankfurt-on-Main, Berlin, London, New York, and Boston. Villard’s role in the financial network was to directly manage the affairs of the concerns engaged in railroad construction, with the purpose of making these concerns financially viable. Through Villard’s

---

8 White has argued that one of the outcomes of the transcontinental railroads was as reconstruction of our sense of space and time. The once familiar spaces of the pre-modern era, insofar as we associate modernity with the advent of the machine process, are rendered unfamiliar as a result of the always shifting relative spaces created by changing rate structures. The closing of the frontier by steam power contorts time and brings forth a new spatial situation, ultimately necessitating the need for a new, spatial politics. (2011, pp. 140-174)
attempts to control the transportation situation, to make the system rational, the Pacific Northwest remains tied to a legacy in which its identity is defined by the boundaries of the very markets that Villard helped to establish⁹.

To better understand the role of Villard as an embedded person in the emerging class of corporate financiers and railroaders, let us consider in some detail the early history of the transportation system in Oregon prior to his arrival in 1874 and subsequent dealings. It will be shown that Villard, acting on behalf of the protection of the bondholding class in Europe, emerges as an agent of power in effecting the development of the region. The social fabric, consisting of relations between debtor and creditor, reflecting the pecuniary nature of its institutions, provided the situation in which power becomes something to be leveraged by the acting person embedded therein. As John Commons (1931) would put it, the social fabric in which Villard was embedded allowed for the expansion of his individual action.

Albro Martin has argued, “No other single factor contributed so much to the settlement of the North American continent, to the rapid development of its natural and human resources, and to the transformation of the material and cultural aspects of American life as the maturing railroad system” (quoted in Wilkins, 1989, pg. 190). Following the speculative euphoria resulting from the desire to promote the development of a transcontinental railway in early 1860’s, an association of capitalists centered in the Sacramento Valley in California organized the California and Oregon Railroad Company in 1863 (Hedges 1930, pg. 7; Villard 1981, pg. 1; Ganoe 1924; See figure 2). The “Association of the Upper Sacramento Valley and Southwestern

---

⁹ The notion that regional identity is socially constructed and defined by market boundaries is a theme that will reemerge in the following chapter, when we examine the creation of the Bonneville Power Administration and the manner in which we have come to know one Pacific Northwest among a many alternative visions. See Vogel (2007).
Oregon,” in conjunction with other private Californian interests and the California delegation lobbied Congress seeking similar claims on the public largesse as those granted to the Central and Union Pacific railroads (Villard, 1981, pg. 1).

While failing to obtain direct subsidies, The California and Oregon managed to secure passage of legislation on July 25th, 1866, that conferred upon the concern the right to secure franchises in Oregon and California. The franchises provided for land grants – twenty alternating sections per mile on either side of the road (Villard, 1981, pg. 1). With the legal framework in place, the associates acting through their newly established corporation sought to secure the franchise in Oregon.\(^{10}\)

What remains of this brief historical sketch concerns the role fraud played in conditioning the manner in which economic relations were established and reproduced. The social networks in which these railroaders were embedded were, in large part, constructed on the basis of fraudulent claims and practices, serving to condition the reproduction of fraudulent behavior going forward. The conditions enabling Villard to emerge as a central force in the development of the region were closely related to the financial structures that emerged as the result of the fraud. Once established these financial relations between the railroad concerns and Eastern and European financiers required continuing fraud to remain viable.

While the California and Oregon Railroad Company expired as a going concern, the social networks that birthed it remained. On September 3rd, 1866, the Associates of the Sacramento Valley, of whom Alpheus Bull, C. Temple Emmet and Simon G. Elliot were most active, entreated a group of Oregon based capitalists to join in a scheme to secure the Oregon franchise.\(^{10}\)

\(^{10}\) The California and Oregon did claim the California franchise. However, it failed in raising the sufficient funds to actually begin construction of the road. It was immediately absorbed by the Central Pacific.
franchise (Villard, 1981, pg. 2). The Oregonians to whom the Californians appealed for support were well connected to the political Establishment in Oregon, and would be well placed to influence positive legislation in favor of the Californians.

That the Oregonians did not initiate the drive for railroad development in Oregon may be explained, in part, by the fact that Portland based interests were well represented by the powerful Oregon Steamship Navigation Company, a successful shipping concern with a monopoly over traffic along the Columbia River. Portland, Oregon enjoyed preeminence at the center of a lucrative trade that extended into the Inland Empire (the region east of the Cascade Mountains in Oregon, Washington and extending into Idaho via the Snake River Valley). Prior to the arrival of the Northern Pacific and the Great Northern Railroads in the Puget Sound, Portland’s location at the confluence of the Columbia River and Willamette Rivers resulted in its supremacy. As Hedges (1930, pg. 6) puts it, “The officials of the Navigation Company, growing wealthy through the river traffic were quite indifferent to the question of railroad promotion, which they were not disposed to encourage with either financial or moral support, lest their control of water transportation in the Columbia Basin should be endangered by railway competition.”

However, despite vested interests in Portland advances by the California interests would upset their complacency. The memorandum addressed to the Oregonians mentioned above offered to:

\[\text{\footnotesize{\textsuperscript{11}} Not all Oregonians were created the same. The Oregonians indifferent to the railroad fever of the period are more aptly “Portlanders”, who were vested in their interest with the Columbia shipping trade. However, as a result of gold strikes in Southern Oregon, in the Rogue River valley in particular, cities such as Roseburg, Oregon were more aligned with interests in the Sacramento Valley and sought to establish firmer market relations in San Francisco, and effectively redirect the flow of trade southerly through its burgs. For these reasons Elliott was successful in subscribing support from the Southern Oregon interests for his California & Oregon scheme (Cf. Ganoe, 1924; Lichatowich, 1999).}\]
build and equip the road for a company to be formed under Oregon laws according to the stated specifications, for a bonus of $2,000,000 of preferred stock to the California & Oregon Company and $35,000 for every mile of completed and equipped, provided that the General Incorporation Act of the state could be so amended as to authorize the issue of $16,000,000 of share capital (including the $2,000,000 preferred for the company), together with a corporate existence of fifty years, and provided that financial aid from the state and any other procurable legislative favors be obtained (Villard, 1981, pg. 2; parenthesis in the original).

The signatories to the memorandum enclosed a “confidential covenant” which laid out the terms by which the Oregon party would be compensated for the necessary bribery expenses to persuade their “friends” in the legislature:

The California & Oregon Company in consideration of the expense to be incurred in obtaining the necessary legislation in Oregon to accomplish the results named in the foregoing memorandum agree with the company to be incorporated of citizens of Oregon to assign back to said company, as they may designate, $1,000,000 of the $2,000,000 preferred stock stipulated to be conveyed to them (Villard, pg. 2).

The two parties failed to strike an agreeable contract, despite considerable higgling and haggling over the terms proposed by the Californians, as conveyed through an exchange of letters (Villard, 1981, pg. 6). That the offer was not rejected out of hand suggests the Portlanders did not find it to be a breach of good conduct; to the contrary, bribery was commonplace as a means by which establish and control markets during the Gilded Age.\(^{12}\)

Other efforts were underway to secure the land grant established by the Act of July 25\(^{th}\) 1866. Joseph Gaston, an earlier associate of S. G. Elliot and therefore connected to the California party, had spent the month of September 1866 organizing a concern with the aim of securing the Oregon land grant and right of way to construct the line from Portland to California (Ganoe, 1924, pg. 250; see Figure 3). On October 6th, 1866, Gaston delivered the articles of incorporation to the Oregon Secretary of State for filing, which would establish the Oregon

\(^{12}\) White (2011) argues that corporate interests did not see it is bribery, but rather the price of maintaining “friendship” with their counterparts in the state.
Central Railroad Company as the concern with legal claim to the grant; however, the Secretary had provisionally endorsed the articles on the understanding Gaston would return with additional signatories from the Portland interests (Ganoe, 1924, pg. 250)\textsuperscript{13}. Gaston did succeed in recruiting the support of key Portland capitalists, especially those vested in the Oregon Steam Navigation Company, but not before some defected and filed for incorporation for a competing concern under the same name\textsuperscript{14}. The defecting incorporators – most notably I. R. Moores, J. S. Smith, and E. N. Cooke – filed two days prior to Gaston, who upon return from Portland had nullified the previously endorsed date of October 6\textsuperscript{th} as a result of substantial changes to the articles of incorporation for the Oregon Central Railroad Company.

Ganoe points out that “the company of November 17\textsuperscript{th}, 1866, was not organized for the purpose of building a railroad, but to beat out Gaston since the capital stock was only placed at $500,000” (1924, pg. 251); a notable example of the problems associated with the degrees of separation inherent to the modern business enterprise, as it is controlled by persons acting in a pecuniary interest whose interests diverge from the those of the community at large (Veblen, 1904; Dean, 2013).

\textsuperscript{13} The early incorporators were not united in their support for Gaston; interests were split over the preferred survey. Two surveys were conducted in the early 1860s, one led by Gaston that would proceed north to Portland via the Tualatin Valley and another led by Elliot that would run through the Willamette Valley. The California interests were more closely enmeshed with the Southern Oregon interests, whom favored the Willamette route.

\textsuperscript{14} Much of the struggle between these two factions stems from the fact that on October 10\textsuperscript{th}, 1866, the Oregon legislature, in establishing the legal basis for the franchise and land grants, named the Oregon Central Railroad Company specifically as the concern to effect the law. The law was enacted in favor of Gaston, however, due to disagreements among his fellow incorporators after the law had been enacted Gaston’s control over the name was no longer assured. Here lies a clear example of the importance of “goodwill capital” in shaping the course of economic affairs, as well as instructive to the manner in which it emerges from the institutional fabric.
Yet another Oregon Central (see Figure 4) would be incorporated, this time with the suffix “of Salem” on April 22nd, 1867, by J. H. Moores, I. R. Moores, J. S. Smith, George L. Woods, E. N. Cooke, S. Ellsworth, and S. A. Clarke. Clarke, Cooke and Smith were among the Oregonians to whom the first offer to join with the California party was made, effected chiefly by Elliot. Villard recounts that, “J. S. Smith, who also had knowledge of the California & Oregon Company scheme, accidentally met S. G. Elliot early in April 1867 in San Francisco. They discussed the railroad outlook in Oregon, and, as Elliot spoke very confidently of his business connections and ability to control capital for carrying out a construction project on the lines of proposal submitted [referring to the Willamette Valley survey in the articles of November 17th], Smith urged him to go to Oregon and provided him with a letter of introduction to I. R. Moores” (1981, pg. 3).

Given Smith’s prior knowledge of the memorandum of September 3rd, 1866, it is unlikely that his meeting with Elliot was accidental. A more convincing account would have Smith travelling to San Francisco to seek out Elliot for the purpose of renewing the previously aforementioned offer so that the road could actually be built, thereby cementing claim to the land grant. Nevertheless, Elliot did travel to Oregon on Smith’s advice to meet with I. R. Moores and defrauded him and his associates into believing that he represented the interest of capitalists in California and the East (Ganoe, 1924, pg. 251). Passing himself off as “attorney-in-fact” for Albert J. Cook, whom Elliot claimed to be a wealthy railroad contractor from the East, he managed to connect himself with the fate of the concern and continue to defraud his fellow owners and managers in the enterprise, his suppliers, and his financiers, ultimately undermining

---

15 I. R. Moore was the Assistant Secretary of State at the time Gaston filed, albeit unfinished, articles of incorporation. Moore asked to see the articles and upon learning that they were not physically on file in the Secretary’s office, he moved to preempt Gaston (Ganoe, 1924, pg. 251).
the viability of the going concern (Villard 1981, Ganoe 1924; passim). The chief fraud lied in the fact that Albert J. Cook never existed. Elliot would continue operating on false pretense until he was pushed out by Ben Holladay, the stagecoach magnate, who had grown wealthy as a result of his contractual relationship with the Union Army during the Civil War. Holladay managed to dump his assets on Wells Fargo prior the decline of the stagecoach as a financially viable transportation technology, freeing him to pursue an interest in the very railroads that replaced it (Hedges, 1930; Villard, 1981).

Prior to the discovery of Elliot’s fraudulent practices, the outcomes of his efforts to enrich himself at the expense of the going concern had the effect of stitching together two social networks: one based in the Sacramento Valley and another in Oregon serving the Willamette Valley interests. To this end, Elliot was central in the emerging corporate finance and railroad networks. Unfortunately for Elliot, defrauding fellow business partners was a breach of acceptable conduct in the corporate community, thus tainting his associations with the pall of poor credit worthiness. It would require Ben Holladay’s name to place the “Eastside” Oregon Central Company in good standing with the bondholders, so that it could obtain the funds necessary for its reproduction as a concern.\footnote{This is not to suggest that Holladay was not himself a fraud. In fact, Holladay would later be removed by Villard and the Frankfort Committee for failing to make regular coupon payments in full on the bonds}.

Villard (1981, pg. 15) argues that Holladay, having been previously interested in the Union Pacific and the Credit Mobilier, was keen to the riches that await those successful in laying claim to public lands and subsidies. Holladay was confident that with his lobbying experience and financial connections, obtaining control of the railroad concerns in the region would afford him the basis from which to secure the land grant. In September of 1868, Emmet
and Holladay, who had known each other from previous associations, met with Elliot and convinced him to relinquish his controlling stake in the company. On September 12th, 1868, control of the Eastside company passed into the hands of Holladay.

Immediately Holladay mobilized his lobbying efforts in conjunction with his ownership of the local press to persuade the public opinion in favor of the Eastside company. Holladay was successful: In October, 1868, the Oregon legislature annulled the previous language that, two years prior, placed the land grant in favor of the Westside company of Gaston and associates. Unable to secure finance for the construction of the road, the Gaston interests sold out to Holladay in 1870. Subsequently, Holladay incorporated a new concern to consolidate his interests: On March 17th, 1870, the Oregon and California Railroad Company was formed under Oregon law (Hedges, 1930, pp. 8-9).

Ganoe remarks (1924), “we see how the early political history of Oregon was connected with the railroads. Holladay had bought and subsidized papers as well as politicians. Not only that, by such a plan [Gaston plan] the whole of Southern Oregon would be cut out of a great deal of traffic. It must be remembered that Southern Oregon since the gold rush of '49 had not been an insignificant factor.” Such politicians included the likes of John H. Mitchell and Joseph N. Dolph, each connected directly with the railroad – finance nexus. According to Dorothy O. Johansen and Charles M. Gates (1967), Senator Mitchell remarked, “Ben Holladay's politics are my politics and what Ben Holladay wants I want.” Of course, the politician also served as legal counsel to both the newly formed Oregon and California Railroad and the Northern Pacific, and

\footnote{Cf. Lichatowich, 1999, pp. 52 – 80, for discussion of early mining interests in the Rogue River Valley, in the context of its impact on the viability of a salmon-based economy.}
had been an original incorporator of the Oregon Central (Johansen and Gates, 1967, pg. 351).

Senator Dolph, Johansen and Gates observe:

was also vice-president of the Oregon and Transcontinental Company [a holding company that Villard would later organize to govern the joint interests of the Northern Pacific and Oregon and California] and hence was linked not only with the interests of every important railroad in Oregon and Washington but with timber and mining interests as well. State legislators bought by the railroads were vigilant in warding off public scrutiny of freight rates, and in defeating every effort to establish effective regulatory agencies.

By 1872 Holladay had constructed the road from Portland as far south as Roseburg (roughly 180 miles). However, in order to finance the construction of the road Holladay relied upon extensive issues of bonds. To place these bonds Holladay leveraged his close relationship with Milton S. Latham, President of the London and San Francisco Bank, who managed to organize a syndicate that joined the English and German financial circles (Hedges, 1930, pg. 9; Villard, 1981, pp. 30 – 34)\textsuperscript{18}. Latham’s success in placing the bonds was due, in part, by his embeddedness in international finance, explaining why despite limited knowledge of Oregon in European financial networks, “little difficulty was encountered in disposing of the bonds” (Hedges, 1930, pg. 10). The remoteness of the relationship between creditor and debtor in this circumstance, however, created the opportunity for deceit (Hedges, 1930, pg. 10)\textsuperscript{19}.

\textsuperscript{18} It is important to note that, in the main, railroad bonds were only salable on the understanding they were undergirded by land grants and subsidies. Further, their value depended upon the perceived creditworthiness of the personalities involved, which is evidenced by the fact that once news broke of Elliot’s A. J. Cook fraud, any bonds he wished to sell were worthless.

\textsuperscript{19} Distance takes on both a social and geospatial meaning. Obviously, Europe and the Pacific Northwest are quite removed – a distance of several thousand miles. But, social distance possesses meaning in the network context. Holladay was one degree removed from the German bondholders that would ultimately wrest control from him upon learning of his deceit. His deceit through Latham, who was adjacent to the bondholders, served to place Holladay at arm’s length of the bondholders, placing enough distance between Holladay and his creditors to enable his deceit.
There was significant foreign investment in American railroads from the 1870s through to 1915 (Wilkins, 1989, pp 191 – 236). German financial houses took a considerable interest in the bond issues of the Oregon and California R.R. Co, so that by 1872 they had accumulated $11,000,000 in gold bonds (Wilkins, 1989; Hedges, 1930; Villard, 1981; Buss, 1978). However, Holladay had failed to invest the borrowed funds in a manner that best supported the viability of the concern to reproduce itself, relying instead on the view he would always be able to borrow more funds to service his outstanding liabilities\(^{20}\). Of course, Holladay had assured the bondholders that the fundamental business of the railroad was sound, securing the basis for his favorable credit terms. Holladay’s deceit, as well as that of his predecessor, S. G. Elliot, combined with the fact the road was not completed to California per the language of the franchise, contributed to realized losses in the capitalized value of the assets in the Oregon & California Railroad.

3. **Bondholder Response**

Default of railroad bonds was common during the period (Wilkins, 1989, pp. 191 - 236). The conventional response to default was the formation of bondholder protection committees. In Frankfort-on-Main, the Committee for the Protection of the Bondholders of Oregon and California 7% Bonds was established. In 1873 the Committee dispatched an agent, Dr. Paul

\(^{20}\) It is unclear to what extent Holladay was to blame for the default on the Oregon and California bonds. MacColl (1976) describes Holladay as exemplary of the habit of conspicuous consumption, which suggests Holladay used his control over the enterprise to plunder its cash balances for his own enrichment. Villard’s (1944) account supports this view. However, the lifeblood of any railroad during this period – especially those aspiring to the status of major regional trunk or transcontinental – was easy money. Judged on the basis of sound finance the Western railroads were always a losing venture, with perhaps James J. Hill’s Great Northern as notable exception. The crucial distinction lies in whether or not the persons engaged in managing, financing, or “undertaking” the railroad venture were well connected or central to the dominant financial networks prevalent at the time.
Reinengum, to survey the situation in Oregon; Reinengum discovered that bondholders had been misled. The Pacific Northwest lacked the necessary markets to sustain sufficient financial flows to at least service its debts, which had the effect of rendering the bonds worthless. Ganoe points out that at best the bonds paid 2 or 3 percent, which gave the Germans cause for panic.

In the interest of sustaining the value of the bonds the Committee charged Henry Villard with managing the affairs of the Oregon & California directly. Due to the inability of Holladay to honor the terms of the bondholder oversight, Villard, on behalf of the bondholders, sought control of the Oregon & California R.R. by buying out Holladay and his other interests in navigation in the region. In this they were successful (Hedges, 1930; Villard, 1981, Wilkins, 1989).

Villard's activities thenceforth would have lasting effects on the development of the social provisioning process in the region. His consolidation of the regional transportation system, including the Oregon Steam Navigation Company, was part of a process in which Villard sought to actively develop capitalist development in the region, by joining the shipping hub at Portland with the emerging Northern Pacific. Following his arrival in Oregon in 1874, Villard would rationalize the transportation situation in the region through a process of consolidation and securing corporate control. Engaging his friends in a “blind pool,” Villard secured sufficient subscriptions to finance the consolidation of the Oregon Central Railroad, Oregon and California Railroad, Oregon Steamship Company and Oregon Steamship Navigation Company into the Oregon Railway and Navigation Company. In doing so, Villard gained control over the region-wide transportation and navigation system (Hedges, 1930; Villard, 1981; Buss, 1978), allowing him to integrate the system with the encroaching transcontinental: the Northern Pacific Railroad.
Recall, the Oregon Steamship Navigation Company held total control over the market for river traffic in the Columbia River basin, which a connection with the Northern Pacific would undermine. Villard, recognizing that the viability of the Northern Pacific, a concern he eventually controlled and for whom he represented the interests of the bondholding class in Europe, required a longer planning horizon than that of the Navigation Company, sought control to preclude any potential steamship – railroad rate wars that may ensure.

Thus, a problem faced Villard: in order for the transportation system to remain viable, in the financial sense, the liability structures that emerged with them required validation. Financial validation required markets. Commodity production for sale on the world market was necessary to make the emerging machine process rational, because the scale and scope of local markets was insufficient to generate a flow of income to the railroad. In an effort to resolve this issue, Villard, like his contemporaries in the railroading business and finance, engaged in a propaganda campaign aimed at convincing a mass population to immigrate to the Pacific Northwest in order to bring about markets, and to serve as a ready supply of labor power. To this end, Villard actively promoted migration to the Pacific Northwest in Europe (Buss, 1978, pp. 143-147).

4. Ideology, Immigration, and Imperialism

The process of immigration, promotion of railroads, and the development of an ideology of imperialism are interconnected themes. Villard was secretary to the American Social Science Association in 1865. During his tenure as secretary he was very active in promoting their mission which included:

the development of Social Science, and to guide the public mind to the best practical means of promoting the Amendment of Laws, the Advancement of Education, the Prevention and Repression of Crime, the Reformation of Criminals, and [sic] the progress of Public Morality, the diffusion of sound principles on questions of Economy, Trade, and Finance…It will aim to bring together the various societies and individuals now interested in these objects, for the purpose of obtaining by discussion the real elements of
Truth; by which doubts are removed, conflicting opinions harmonized, and a common ground afforded for treating wisely the great social problems of the day (emphasis added)\(^{21}\)

Reflecting on the history of the association, F. B. Sanborn (1909), remarked “[our] most energetic Secretary… was the late Henry Villard, who increased our membership, got out our Handbook of Immigration, and drew to these shores several hundred thousand, not to say millions, of those citizens who now govern us in finance, industry, economics, history, and fiction. I believe I succeeded, [but] nobody could replace him.”

The significance of this association highlights the fuzzy boundaries between the properly social and properly economic: the two interests are mutually constitutive. Villard’s role in promoting settlement performed a threefold function: a) to draw in more immigration from the continent, thereby supporting the development of markets for the emerging railroad, corporate system; b) “Americanizing” these immigrants so as the imbue in them the sense of American exceptionalism; and c) it offered Villard entrance to the financial circles which would later become the basis for his ascendancy, while simultaneously helping to validate those very financial structures.

While Villard’s association with the ASSA may appear unrelated to the central issue of explaining the development of the region in particular, and a corporate system based upon high finance in general, it remains relevant regarding his membership in what Dorothy Ross, in her *Origins of American Social Science* (1991), refers to as the “gentry class;” a class that took it upon themselves to lead the development a new ideology more fit for life under the machine age. The new situation constituted by finance capitalism, the machine process, and business enterprise

\(^{21}\) Article 2, Constitution of the American Association for the Promotion of Social Science. 1866.
in the credit economy, required a new ideology, wherein the crisis of American exceptionalism might be avoided and her thrust towards imperialism unimpaired (Ross, 1991, pg. 63)

Villard's efforts succeeded in linking the Pacific Northwest with the East via the establishment of financial, social and technological networks. The advent of the railroad, especially the transcontinentals, had the effect of reorganizing social relationships of production so that they conformed to the machine process. That is, the institutional fabric changed to reflect the new technological situation; a situation that was brought about in the Pacific Northwest, in large part, through the decisions and behavior a man who directed the chief institutions vested with the power to shape the nature of the surplus on behalf of his common interest with absentee owners and the rentier class.

5. Conclusion

In considering this brief history of the emergence of the corporate form of organization in the Pacific Northwest we necessarily omit a great deal of detail. However, at the level of our analysis we have examined how the embedded person – in this case Henry Villard – may shape the development of the social provisioning process to effect a radical transformation of the institutional fabric. The power to effect change derives from the pattern of social relations emerging from the complex interaction of a host of factors, ranging from the technological to the social; factors which mutually constitute the basis of the “institutional fabric of habitual elements that governs the scheme of life” (Veblen, 1914). Reducing the analysis to the individual, suggesting that men of railroads and finance acted in isolation to bring about the rise of the machine age, ignores the social and historical contingency of power and influence. Henry Villard does not emerge de novo as an entrepreneurial hero. Rather, Villard was embedded within a set
of networks that constitute the basis of class rule in market society; his connections to international finance, the social elite, and the state explain his efficacy to change the situation in the Columbia River basin as any innate qualities he might have possessed.

In consequence to the advent of the machine process, of which the railroad serves as object of analysis presently, the social relations of production were rationalized. Traditional forms of integration linking the community to the Columbia River through the labor process, centered around the potlatch and salmon runs, would be displaced by a set of forces much more powerful than the fixity of ceremony and tradition. Conceiving of the institutional fabric as a set of mutually constitutive networks allows us to envision the transformation as a process in which the chief institutions of the machine process vis-à-vis the credit economy become embedded in the center of the institutional fabric, while the older set of relations move to the periphery.

The core-periphery concept possesses dual meaning; while the articulation of social relations were rearranged to place at the center persons and institutions vested in the capitalist class, the region itself moved into tributary relation to the East. In this sense, the Pacific Northwest becomes colony to the financial core of the world system of capitalism, precisely in proportion as it develops around the machine process.

Finally, the process of transformation was not inevitable. It required the active participation of men vested with the right to act in the capacity of institutional power. The ability to exert influence over the development of new institutions relies upon a nuanced understanding of the relationship between social structure and the persons embedded within it. It has been argued in this historical example that the specific articulation of social relations, the topology of the network, determines much in the degree to which the acting person may exert his influence
over the affairs of others. Centrality in the network matters in our understanding of power as an emergent process.

Indeed, the fact remains that changes in the social provisioning process are discretionary. Such discretion is distributed in accordance with the hierarchy and inequality inherent to class society. Class societies are by their definition subject to minority rule, leaving the question open as to how so few can effectively rule a majority? The trick is done in part by fraud; a process which is complex and multidimensional, as we have seen in the intra-class warfare in the case of railroad promoters. However, the dimension that possesses explanatory power for the present purpose is the fraud which conceals the violence embodied in imperialism. To bring about a highly centralized class rule, in which the dictates of the machine process govern the lives of the mass proportion of its inhabits, in which the traditional working relationship with the Columbia River as the basis for an ecologically sustainable provisioning process is forever destroyed, requires concealment of the telos of imperial expansion under the cloak of progress.
References


