

THE EARLY HISTORY
OF
TRANSPORTATION IN OREGON

By

HENRY VILLARD

Edited by

OSWALD GARRISON VILLARD

UNIVERSITY OF OREGON
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EDITOR'S INTRODUCTION

OFFICIAL duty made Henry Villard a frequent visitor to Oregon. Between 1874 and 1884 he passed more or less time in the state each year. Owing to the severance of his connection with the transportation interests of the North Pacific Coast in the latter year, he did not again go to Oregon for several years. After resuming his leadership in 1887, he once more put in an annual appearance till 1891, after which his retirement from all business pursuits in the early part of 1893 led to another long pause in his visits to the state.

In the summer of 1899, however, an irresistible impulse seized him to observe the twenty-fifth anniversary of his first arrival in the Willamette Valley in July 1874 on the ground, and to behold once more the scene of his long and arduous labors in the creation and management of railroad and navigation enterprises. He received so much proof during that last visit of the public appreciation of his work and of the personal regard in which he was still held that he resolved, in recognition of it, to prepare a formal record of the part he was called upon to play in the material development of Oregon and Washington. As he had helped to shape the destiny of those states in no inconsiderable degree, he thought that an authentic account of his efforts in promoting their growth would be of interest to their people and of value as a contribution to their history.

Mr. Villard therefore set forth in the following pages the full story of his activities in the two states in the years from 1874 to 1883. He took, in the last months of his life, great pains to be accurate in the compilation of facts, dates, and figures. It was his last achievement, for Mr. Villard's extraordinarily active, full, and useful career ended on November 12, 1900.

At Mr. Villard's request the publication of this manuscript was delayed for many years; it first appeared in print in 1926 in serial form in the *Portland Oregonian*.

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CHAPTER I

TRANSPORTATION IN OREGON BEFORE 1869

BY WAY of introduction and for the better understanding of what follows, it is proper to precede the account of my own activity by a review of the evolution of railroad and navigation interests in Oregon up to 1874. The first chapter in this retrospect embraces the genesis of the Oregon & California Railroad Company, a more curious episode than which will not be found in the railroad annals of the United States.

Early in the sixties, a number of Californians associated themselves for the promotion of railroads from northern California to and through western Oregon to Portland. C. Temple Emmet, a lawyer and politician of considerable standing and at one time judge of a California court, Alpheus Bull, a businessman, both of San Francisco, and Simon G. Elliott were the active men among the associates. The latter, a native of New Hampshire, had come to California in 1855, when twenty-seven years old, in search of a fortune, with nothing but an ordinary school education as his capital, and had engaged in mining and surveying. In 1863 he made an examination in the interest of the "Association of the Upper Sacramento Valley and Southwestern Oregon." When the agitation for Pacific railroads was started, the association formed a corporation under the title of the California & Oregon Railroad Company, with Alpheus Bull as president, and, in conjunction with other California interests and the Congressional delegations of the two Pacific states, sought government aid in money and lands, as had been done in the case of the Union and Central Pacific companies, for the construction of a line from the lower Sacramento to the Columbia River. Congress refused to give financial help, but passed the act of July 25, 1866, granting railroad franchises to two corporations to be formed under the laws of California and Oregon respectively, and lands to the extent of twenty alternate sections per mile, or 12,800 acres on each side of the line, not including mineral lands, except coal and iron, with the right to make up deficiencies from any cause from within the next ten miles. The right was given to the state legislature to designate the company which should be entitled to the franchise and grant. The California & Oregon Company claimed the California franchise and charter, but could not raise the needed capital and subsequently sold out to the Central Pacific Company.

The act of Congress prescribed that the line to be built in Oregon

begin at the city of Portland and run thence southwardly through the Willamette, Umpqua, and Rogue River valleys to the southern boundary of Oregon to connect there with the California road. On September 3, 1866, Bull, Emmet, and Elliott, together with S. F. Elliott, William C. Barron, Joseph Barron, William E. Barron, E. Mickle, David M. Richards, Thomas Bell, and T. J. Gallagher, addressed a memorandum on behalf of the California & Oregon Company to S. A. Clarke, E. N. Cooke, J. S. Smith, and other citizens of Oregon, containing a proposition for the construction of part of the Oregon road from Portland to Eugene City. The offer was to 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 road, 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 for fifty years, and provided that financial aid from the state and any other procurable legislative favors be obtained.

The memorandum was accompanied by the following confidential covenant signed by the same parties:

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.

This secret offer was, presumably, only a disguised bribing fund for the "citizens of Oregon" for use in the Legislature. The citizens were either beyond price or felt unequal to the legislative job imposed on them, and, after some correspondence between them and the proposers, this scheme became dormant.

Soon after, another attempt was made to take advantage of the Congressional franchise and land grant. On November 20, 1866, articles of incorporation were filed under the general laws of Oregon for an Oregon Central Company with a nominal capital of \$5,000,000 in shares of \$100 each. The incorporators were J. C. Ainsworth, R. R. Thompson, S. G. Reed, C. H. Lewis, H. W. Corbett, John McCracken, J. H. Mitchell, Jesse Applegate, J. S. Smith, I. R. Moores, E. D. Shattuck, F. A. Chenoweth, Joel Palmer, M. M. Melvin, George L. Woods, B. F. Brown, T. H. Cox, and Joseph Gaston. The last named was the most active and was chosen president.

The company at once made application to the Legislature then in session and was designated as the beneficiary under the act of Congress. The Legislature, by an act of October 24, 1866, also extended direct aid to the company by a curious guarantee of interest. The secretary and treasurer of the state were authorized to sign 7 per cent coupons on \$200,000 of bonds for every twenty miles completed and accepted by the United States government up to the aggregate amount of \$1,000,000, in return for which the company pledged itself to transport all state officials and all articles to be exhibited at the annual state fairs free, and also to render telegraph service gratuitously to the state. The guarantee was for twenty years, and a special tax was to be levied for the interest requirements. But no action was taken under the law, and it was repealed on October 28, 1868 as unconstitutional.

Notwithstanding the fact that most of the wealthiest citizens of the state were among the incorporators, the company encountered the greatest difficulty in raising sufficient means even to make a beginning with construction. The rich men were willing to lend their names, but not to give their money. The efforts to obtain cash subscriptions to the company's stock among the farmers along the road also had but limited success. The fate of the undertaking had become very doubtful when a competing enterprise suddenly loomed up in threatening form.

One of the incorporators, J. S. Smith, who also had knowledge of the California & Oregon Company scheme, accidentally met S. G. Elliott early in April 1867 in San Francisco. They discussed the railroad outlook in Oregon, and, as Elliott spoke very confidently of his business connections and ability to control capital for carrying out a construction project on the lines of the proposal submitted, Smith urged him to go to Oregon and provided him with a letter of introduction to I. R. Moores. Elliott, having no money of his own, appealed for the necessary funds to C. Temple Emmet after explaining his plans, and received \$200 from Emmet to pay his expenses and those of T. R. Brooks, a civil engineer who accompanied him.

Elliott then conceived one of the boldest swindling schemes ever concocted in furtherance of the object of his journey. He provided himself with a power of attorney from one Albert J. Cook, whom he represented to be a member of a wealthy firm of railroad contractors in Massachusetts. Under this power, he had general authority to contract for the construction of the proposed road in Oregon and to make all necessary arrangements for the early commencement of work. In the course of the litigation which in subsequent years grew out of Elliott's doings in Oregon, he was repeatedly called on to prove that Cook was

not a fictitious person, but never could produce convincing evidence of Cook's actual existence. He persistently claimed that Cook was a living creature and that he had occupied a stateroom with him from New York to San Francisco by way of Panama in March 1867, and that Cook actually had executed the power of attorney. No proof of this, however, was ever produced. Compelled to admit that Cook was not a wealthy railroad contractor, that he never had any interest in the Massachusetts firm, and was never informed by Elliott of the latter's purpose to use his name for the firm, Elliott lied again in claiming that he had known Cook years previously in Sacramento where he had been keeping saloons. The record leaves little doubt that all of Elliott's allegations as to Cook were deliberate falsehoods.

Elliott proceeded to Oregon and met I. R. Moores, John H. Moores, S. A. Clarke, George L. Woods, the governor of the state, and others. He told them all of the high standing of the alleged Cook firm as railroad contractors and of their abundant financial resources, after introducing himself as their representative by the production of his power. He himself pretended to be a railroad engineer of much experience. He finally won them by his confident assertions that the road would surely be built if he could obtain the terms he desired, and renewed the offer to give back half of the demanded bonus in preferred stock. The Oregonians he talked with were all without the least knowledge of organizing, financing, or building railroads; but, whatever their doubts may have been, they yielded before that promise of a \$1,000,000 preferred-stock bonus and before the prospect of their identification with the first railroad in Oregon, not to speak of the salaries and other emoluments and profits incidental thereto. They were influenced, too, by the local prejudices that had sprung up in the towns and among the country people on the east side of the Willamette because of the decision of the Oregon Central to locate its line on the west side of the river. So they surrendered to Elliott at discretion and willingly did his entire bidding.

On April 22, 1867, within a few days after Elliott's arrival, the "Oregon Central Railroad Company of Salem" filed articles of incorporation. The incorporators were: J. H. Moores, I. R. Moores, J. S. Smith, George L. Woods, E. N. Cooke, S. Ellsworth, and Samuel A. Clarke. The articles fixed the capital at \$7,250,000 in 72,500 shares of \$100 each and described the object of the corporation as being

. . . to construct a railroad with all the necessary branches, fixtures, buildings and appurtenances, from Portland in Oregon, southerly about three hundred miles to the California line, to maintain the said road in good

condition and repair and to employ the same in the transportation of passengers and freight.

The principal office of the company was to be at Salem. It was a very bold step on the part of the promoters of the new concern to adopt the same name as the already organized company, modified only by the affix "of Salem." They resorted to this trick in order to avail themselves of the designation by the Legislature of the Oregon Central as the road entitled to the franchise and land grant, in the expectation that the other corporation would fail to comply with the conditions of the act of Congress. Thus they hoped to avoid the necessity of going to the Legislature for a fresh designation. But the stratagem brought a great deal of trouble upon the Salem company and in the end was not successful. Three of the Salem incorporators, Governor Woods, I. R. Moores, and J. S. Smith, figured also among the incorporators of the original Oregon Central Company, but did not hesitate to desert and join the new flag. Woods even became the president and S. A. Clarke the secretary of the company.

Within twenty-four hours of the filing of the articles of incorporation, that is, on April 23, the Salem company by its executive officers entered into an extraordinary, and a very crude, contract with "Albert J. Cook, by S. G. Elliott, his attorney-in-fact." In the preamble, the company claimed the right, privilege, and franchise to construct, equip, and run a railroad from Portland to the California line, without distinctly asserting any title to the benefits of the act of Congress. The agreement with Cook to build and equip 150 miles of railroad with all necessary rolling stock from "Portland South through the Willamette Valley" for the sum of \$5,250,000 in gold also formed part of the preamble.

The specifications required that the road be built on a uniform gauge of 4 feet, 8 inches, with roadbed of a width of 11 feet on the surface; the maximum grade was not to exceed 80 feet per mile, nor the maximum curvature 10 degrees. The iron rails were to be of the best quality and to weigh 45 pounds per lineal yard; the ties were to be of the best obtainable wood, 6 by 8 inches, and 8 feet long and to be laid at the rate of 2,600 to the mile.

The provisions for motive power and rolling stock were singular. For the first division of 25 miles from Portland to French Prairie two first-class locomotives of sixteen tons each, two first-class passenger cars, and two baggage and express cars were required. For the second division to Salem one first-class locomotive of the same weight, two first-class passenger cars, one baggage car, twelve boxcars, and two

platform cars were to be provided ; and for the next division to Albany one locomotive of twenty-six tons weight, two passenger cars, one baggage car, twelve boxcars, and twelve platform cars. For the next division to a point near Corvallis, about ten miles, one locomotive of twenty-six tons, two passenger cars, and two boxcars were prescribed. For the next division to Eugene City, about 30 miles, one locomotive of thirty tons, three passenger cars, one baggage car, ten boxcars, and ten platform cars were stipulated ; and for the last division of 36 miles two locomotives of thirty-six tons each, four passenger cars, twenty boxcars, and six platform cars.

There was also provision for the erection of suitable buildings in the towns and at stations ten miles apart for passenger and freight purposes, as well as for switches, water tanks, and repair shops. Construction work was to be begun in one year and finished in five years.

Payment of the \$5,250,000 for constructing and equipping the 150 miles was to be made in first-mortgage bonds at par, having twenty years to run and bearing 7 per cent interest, secured by a "bottom or first mortgage" (to quote the language used) on the road and equipment and by such amounts in specie as the company might provide ; but the total issue of bonds and the relative proportions of the payments in bonds and in cash were not fixed. Interest on the bonds could be paid in bonds during the period of construction. A deposit of \$15,000 in bonds in a New York bank was required for each mile, to be delivered against bills of lading for the shipment of rails, rolling stock, and material. Payments were to be made monthly on engineer's certificates, but 20 per cent was to be retained till the completion and acceptance of each division.

The company covenanted "to use every means in their power to obtain as much cash and money aid from the people of Oregon as is profitable for the furtherance of this enterprise." It also agreed to issue \$2,000,000 in preferred stock, "bearing interest at the rate of 7% per annum and to deliver it immediately to A. J. Cook upon the signing of the contract." The last article was unique. It read :

It is also understood that the common stock of the Oregon Central Railroad Company shall be offered for sale to the people of Oregon at ten cents on the dollar and at the expiration of six months from the commencement of work on the road subscriptions at the same rate shall be received from any parties whomsoever for the amounts then remaining unsold.

It thus appears that the contract fulfilled closely the demands made upon the California & Oregon Company the year before. What must be thought of the men who as a corporation, with not a dollar in their treasury, recklessly helped to erect this hollow fabric with liabilities

for over seven millions, in league with a brazen, mendacious adventurer without any visible means and without anyone in the state to vouch for him?

But the perpetrators of this precious instrument were not content with their performance. Within less than three weeks, on May 12, 1867, they supplemented it by a still more amazing construction contract, on the representation of Elliott that A. J. Cook & Company required the changes. The full firm name appeared this time at the foot of the new document together with the signatures of I. R. Moores as president and S. A. Clarke as secretary of the company. The new agreement provided for the building of 210 miles more of road, from the end of the 150 miles provided for in the first contract to the southern boundary of the state, for and in consideration of \$12,128,000, "reckoned at gold or specie value."

The specifications were the same as before except that the grades for the twelve miles through the canyon "were to be one hundred feet per mile and the rails were to weigh 50 pounds per lineal yard." The motive power and rolling stock provided were ten locomotives of twenty-five tons each, twenty-five passenger cars, four baggage cars, forty boxcars, and twenty platform cars. A first-mortgage 7 per cent gold-bearing railroad bond "secured by a bottom mortgage" on the 210 miles of road and equipment at the rate of \$32,000 a mile was to be issued and also second-mortgage bonds at the rate of \$25,752 per mile. Further, the company agreed to execute the first-mortgage bonds at the rate of \$25,000 a mile and to deliver \$1,000,000 of them to the contractors as soon as they should report their readiness to commence construction and exhibit evidence that they had purchased rolling stock and material of equal value.

The company bound itself also to advance bonds at the rate of \$25,000 per mile for a distance of 50 miles whenever the contractors so requested and submitted evidence of similar expenditures for material or work performed, and to make monthly settlements, upon the report of the chief engineer, reserving only one-tenth part of the amount reported earned until a distance of 20 miles should be completed, when the company would pay the full amount of \$57,752 in first- and second-mortgage bonds per mile to the contractors.

But construction of the 210 miles was not to commence until the first 150 miles should be completed; the extension was to be finished in five years from that time. The company also bound itself to increase the capital stock to \$11,000,000, and to have the board of directors pass a resolution requesting the president and secretary to "execute

\$3,000,000 of non-assessable" preferred stock and to deliver the same "to the contractors as part payment for the construction of the road, and as collateral security for moneys advanced by them as a working capital." The preferred stock was to bear 7 per cent interest, to be paid out of the earnings of the last 210 miles. The company again promised to get all possible aid from the state of Oregon. In the last clause, it reserved the right to release itself from all obligations under the agreement by surrendering to the contractors the 150 miles upon their completion.

The crudities, contradictions, illegalities, and impracticabilities of the two contracts appear still more glaring when it is considered that not a single step had been taken for even a preliminary survey of the line, and that the allowances for building it were, of course, not based upon proper estimates but were simply the limits to which Elliott hoped to carry his plundering. Such extreme stupidity and ignorance were displayed in these proceedings, however, that he can hardly be looked upon as a clever confidence operator. It is not clear whether he secured part of his booty in preferred stock under the first or second contract, but it is of record that he did not advance to the company a single cent. He left Oregon with certificates for \$1,000,000 of the stock, and scarcely anything else in his pockets, en route for the East, bent, as he assured his confederates, upon the purchase and shipment of rails, motive power, and rolling stock sufficient for fifty miles of road. First-mortgage bonds were to be printed, issued, and sent to him as soon as possible.

He lost no time after his arrival in San Francisco in exploiting the results of his Oregon trip in order to raise the cash for his eastern trip. He succeeded in selling to one N. P. Perrine, a small speculator and promoter, three and a half tenths interest (except the million of preferred stock) in A. J. Cook & Company's contract, for \$3,000 in money with a bonus of \$90,000 in preferred stock, in consideration of which articles of partnership under the firm name were entered into between the two. In connection with this deal, he produced an assignment in perpetuity by Albert J. Cook, in consideration of \$1.00, of all his right, title, and interest in the construction contract. Whether this instrument was a genuine or a fabricated one has remained in doubt. Elliott also disposed of about half of the \$1,000,000 preferred stock in a manner which showed how cheaply he held it and how eager he was for more cash. He sold several hundred thousand dollars worth to various individuals for about \$2,500 in all, and gave to C. Temple Emmet \$100,000 worth in liquidation of his advance of \$200 for traveling expenses

to Oregon. Having thus got himself funds, he started for New York via the Isthmus of Panama.

Some time before his departure, the rumblings of a storm that had gathered in Oregon against the Salem company had reached him. The instant that the original Oregon Central Company learned of the incorporation of the rival concern, it began a determined war upon it in every possible way, which was continued relentlessly till, in due time, the foe was laid low. Assaults in the press and by word of mouth on the "east side" corporation and on Elliott personally were reported to him. He had the coolness to write to Oregon that he would deal with the authors of these slanders upon his return to Oregon and follow them up until his good name was fully vindicated.

The man who thus affected injured innocence spent nine months on the Atlantic Coast, according to the facts afterwards established in the courts of Oregon, and during all that time tried to obtain motive power, rolling stock, rails, machinery, and other material in Boston, New York, Philadelphia, and Baltimore. He practised the most impudent deceptions upon his partner Perrine in San Francisco and his allies in Oregon. On July 9, 1867, he wrote to S. A. Clarke, the secretary of the company, from Massachusetts:

The iron and other material will be shipped as soon as the contractors can make arrangements to ship it direct to Portland . . . The locomotives—two of them—are bought and ready to ship, also most of the iron—all that is in the market of the size we use (about 18 miles), the remaining eight miles will be forwarded after the first shipment . . . I suppose the bonds are on their way before this time, and, if they arrive, as expected, there is nothing to prevent the work from commencing in a very short time.

To Governor Woods, as president of the company, he wrote under the same date to the same effect, adding that the difficulty about shipping the cargo would be removed soon

. . . if the contractors have to purchase vessels to do the work . . . I expect the parties here to telegraph to their agents in San Francisco to have the work commenced as soon as the bonds shall arrive and long before this reaches you.

On October 9, he wrote to the governor:

Since the reception of your telegram informing me that the bonds were on the way, there have been several lots of material shipped. The amount of material and amount of freight required for the first division is much larger than the amounts of bonds issued, being \$488,731.88, a large portion of which has been shipped. The advances were made upon the belief that the bonds would be delivered on Mr. Brooks' letter to Jay Cooke & Co., a

copy of which I send you . . . Had it not been for the unexpected delay in getting the bonds, a large sum of money would be placed at the disposal of parties so that the work could have commenced in good earnest by the 20th of the present month.

On October 12, he stated in another letter :

There are three vessels already on their way . . . nearly all the company will require for any kind of work are boxed and bought . . . The amounts are much larger than the contract contemplates.

The foregoing reference to the delay in sending the bonds is explained by another incident in Elliott's game of deception. Nearly every assertion in these letters was an outright falsehood. Elliott had not shipped anything beyond two locomotives bought on credit and a small amount of machinery, and he had not raised any large or small sums or any amount with which to commence construction work. The truth was that this insinuating swindler had succeeded at that date in persuading the Globe Locomotive Works in Boston to ship the two locomotives to A. J. Cook & Company at San Francisco, to be paid for on arrival and delivery there at the rate of \$15,000 in currency for each. He was asked to guarantee the payment personally and was required to provide for the small expense of moving them from the works and putting them on board ship. He further succeeded in purchasing and forwarding about \$8,000 worth of machine and other tools by paying cash for part of the cost. But he never shipped or bought a single pound of iron.

Before leaving Oregon, he had told the company that he would arrange with the famous firm of Jay Cooke & Company to receive from the company the bonds which were to be delivered to the contractors on production of bills of lading showing shipments to the company for corresponding amounts. The chief engineer, accordingly, gave Jay Cooke & Company formal notice in an improper way, saying merely, "I wish you to act for me in this matter;" but the firm paid no attention to his letter and declined Elliott's personal request to act as requested. The latter did not inform the company of the bankers' refusal, so that Secretary Clarke nevertheless shipped the first lot of bonds to the firm.

There had been considerable trouble before the lot was sent. The company had the names of ex-Governor A. C. Gibbs and of William S. Ladd printed in the body of the bonds without their knowledge or consent. As soon as they discovered this, they formally forbade it, and their names were erased. On being informed of this complication,

Elliott suggested that the name of Pitt Cooke, of Jay Cooke & Company, be substituted, which was done.

On receiving the box with the bonds and a telegram from the chief engineer directing them to deliver one hundred and twenty-five bonds to Elliott, Jay Cooke & Company were naturally amazed at the liberty that had been taken. The use of Pitt Cooke's name was, of course, entirely without authority. His firm peremptorily refused to have anything to do with the business of the Oregon company and forbade the use of the bonds for any purpose as long as their partner figured as payee in them. They informed Secretary Clarke of their decision under date of October 12. Yet Elliott falsely pretended in his letter of October 9 to Governor Woods, from which I have already quoted, that it was a difference between the instructions of Secretary Clarke accompanying the bonds and those of the chief engineer which made Jay Cooke & Company unavailable. He also claimed that, but for the circulation of a letter written by Joseph Gaston, he would have been able to close a contract for rails for eighteen miles of road in exchange for bonds.

Even if Jay Cooke & Company had not had the reasons stated for their refusal to cooperate, this communication from Joseph Gaston, dated September 16, 1867, in his capacity as president of the west-side Oregon Central, and received the day before they sent their letter to Clarke, would have prevented the firm from acting for the other company. Mr. Gaston had all summer been leading in the bitter war upon the Salem competitor. The principal owners of the Oregon Steam Navigation Company, J. C. Ainsworth, R. R. Thompson, S. G. Reed, and William S. Ladd, were his chief supporters in the fight. He had brought suit in both the state Circuit Court for Multnomah County and the United States District Court to enjoin the new concern from the use of their "Oregon Central" name, besides attacking it in the public prints and in other ways. In his letter to Jay Cooke & Company, of which Mr. Gaston sent copies to all the leading newspapers, banks, bankers, and brokers throughout the country, he denounced the other company for attempting to sell worthless securities to the public and for falsely laying claim to the land grant and assuming the name of his corporation, and denied that they had any property whatever in Oregon, that they had made any surveys or procured the right of way for a single rod, turned one spade of earth, or secured the subscription of a single dollar to their stock.

The circulation of this indictment ought, one would think, to have put a complete stop to Elliott's swindling career in the East. But he did not abandon it for a moment; he merely tried a different tack. The

bonds already issued, being useless, were returned to the company and destroyed. Elliott arranged to have new ones printed, and instructed Perrine, his partner, to proceed to Oregon and to obtain another modification of the construction contract to suit his further purposes. Perrine complied and persuaded the Oregon directors to approve a supplementary contract on November 27, 1867, which capped the climax of their subserviency and their blind consenting to Elliott's demands.

It asserts in its preamble that A. J. Cook & Company had expended large sums for materials for the company's road, which were then on the way by vessels to the port of San Francisco. Then follows the admission on the part of the company of its failure to deliver the bonds provided for in the preceding contract in a satisfactory form and manner, and the assertion that the material already purchased was equal to three-quarters of the amount required for the first division, in consideration of which the officers of the company were authorized to execute and deliver to A. J. Cook & Company a corresponding amount of first-mortgage bonds. By this device, Elliott succeeded in getting possession of a total of \$775,000 in bonds. Thus equipped, he tried his best during the winter months to dispose of his booty for cash, equipment, and material.

In the meantime, the opposition in Oregon under the leadership of Gaston had not been idle. Elliott's correspondents at Salem, galled by the attacks and eager to confound Gaston, had unwisely published in the local papers Elliott's confident letters about his purchases and shipments in the East. This put the chase on his trail there, and evidence of the falsity of his statements was soon collected. It was so strong that charges began to appear in Pacific Coast newspapers, especially in the Portland *Herald*, that neither A. J. Cook, the individual, nor the firm of A. J. Cook & Company had any real existence, that both were pure fictions gotten up for the fraudulent purposes of Elliott, a penniless adventurer, and that the construction contracts were not worth the paper they were written on.

Still Elliott persisted, and actually succeeded in buying two more locomotives from the same Globe Works in Boston for \$29,000 in bonds, and in having \$10,400 more of the same security accepted in payment of the purchased machinery. He carried on some negotiations with the National Iron Works of Philadelphia for the purchase of fifty miles of iron rails, but the makers would not receive these bonds in payment. While he was negotiating, he boldly telegraphed early in February 1868 to Perrine at San Francisco that he had bought and would ship that quantity of rails. His partner made haste to telegraph

the joyful news to I. R. Moores, who lost no time in giving it the widest possible publicity in Oregon. Like its predecessors, this announcement was utterly unwarranted and not a rail went forward.

This was the final achievement in the East of this wonderful financier. He sailed for California in February and reappeared in San Francisco in March. He found his partner, Perrine, not in very good humor and anything but proud of his connection with Elliott. Notwithstanding the meagerness of the results of his eastern mission and the contrast between the results and his promises, he did not hesitate to face his Oregon associates; for that purpose he soon took the steamer for Portland. He relied for his defense upon the impossibility of negotiating the bonds in the East in consequence of Gaston's hostile steps. His reception was probably not a very enthusiastic one, but he managed to smooth matters over by assurances that, anyway, he had means enough at his command to finish the first twenty-five miles. He actually hired a small force of men and began grading in the middle of April 1868.

Elliott had but little money left when he made this demonstration. But he soon managed to raise a goodly sum by another fraudulent deal. Concealing the fact that he already had one or more partners—in the lawsuits in which he later became involved he asserted that not only Perrine but Chief Engineer Brooks and one of his brothers had an interest in the firm—in April he had induced Bernard Goldsmith, acting as attorney-in-fact for Ignatz Frohman, to enter into partnership with him as A. J. Cook & Company by purchasing a seven-twentieth interest in his construction contract for \$14,000, which was gradually paid to him. The articles said: "S. G. Elliott and Ignatz Frohman associate themselves together as co-partners under the firm, name and style of A. J. Cook & Co., in the business of contractors in the building of the Oregon Central Railroad from Portland, Oregon, South through the Willamette." Elliott, in the litigation referred to, claimed that the Goldsmith purchase was of Perrine's interest, which the latter had authorized him to sell. But he could not produce his authority; he certainly never notified Perrine of the sale and he kept the \$14,000 himself. As will be seen, Perrine sold his interest five months later to another party.

With Goldsmith's money, Elliott kept the construction work going and housed and set up the machinery purchased by him, which arrived in due time. The four locomotives also reached San Francisco, but never got further. The Central Pacific Company was in urgent need of more motive power, and, hearing of the arrival of his engines, inquired by telegraph whether he would sell them. Elliott eagerly seized

the opportunity to get another considerable amount of cash in his hands, and promptly named his price of \$63,000, which was at once accepted. Of this purchase money \$33,000 had to be applied to the payment for the two locomotives first bought and for freight charges, but the remainder, something over \$20,000 in gold, passed into Elliott's hands. This transaction characterized the man even more than any of his other doings. Though the four locomotives had formed his principal stock in his misrepresentations, he snapped at the chance to turn them into money. The proceeds, of course, belonged of right to the Oregon Central Company, from which he had received the bonds to pay for two of the engines; but he treated them as at his personal disposal.

With the funds derived as described from these two sources, Elliott did just enough grading and other work in the course of the summer to enable him to say that he was building the road. His swindle in connection with Perrine's interest remained undiscovered, but the danger of its exposure was constant. Hence Elliott thought out a piece of refined roguery in order to make Perrine actually sell his share at a low price. In pursuit of it, he requested C. Temple Emmet to call on Perrine "to pay up his proportion of the disbursements heretofore made by the contractors and continue hereafter to pay his proportion thereof, as required, or place his interest in the construction contract in such hands as can make the required payments." The demand was accompanied by a statement of account showing \$31,132.92 as the amount of the disbursements, and by instructions to Emmet to bring suit in case Perrine failed to respond.

This was only an empty threat; but Emmet, not perceiving Elliott's real motive, took it seriously and wrote Elliott on July 31, 1868 that it would be madness to involve himself in litigation with Perrine or anybody else at that stage of his enterprise. Perrine was unable to meet the call on him, and had, indeed, previously felt that he could not well carry so large an interest. He had therefore been looking about for a purchaser for part of it, and in the course of his search had come across one Benjamin Holladay.

When Holladay heard that Emmet had some connection with the matter, he at once called on him and stated that, if he could obtain a large enough interest to make it an object, he would be inclined to enter into the affair, and proposed to Emmet to join him. But Perrine was disposed to part with only four-twentieths, which was not sufficient. However, if Elliott would part with four-twentieths additional, Perrine thought he could bring parties into the project which would place its success beyond peradventure. He begged Emmet to consider the matter and to give him an early answer.

On August 11, Emmet wrote Elliott again warning him against suing Perrine, as the latter could not be coerced, and in a suit against him Perrine would be entitled to call on him for an accounting of all his transactions under the partnership. Fortunately, Perrine had already acted on the alternative suggested by himself, to dispose of his interest to a party able to carry it, by selling it to Holladay. Perrine further notified Elliott that he and Holladay would not be satisfied with anything less than a majority interest. As they could secure the needed capital to make the enterprise a success and as Elliott and his Oregon supporters evidently had not the financial strength for that and were threatened with dangerous opposition, Perrine told Elliott he would be serving himself best by helping them to a controlling interest. He assured Elliott that he would make it a *sine qua non* that full justice be done to Elliott; and a formal understanding to this effect had, indeed, already been reached between Perrine and Holladay. Perrine added, however, that he would find Holladay a more difficult and exacting partner than himself, and it would be much better for him to have Holladay on his side than opposed to him.

Holladay had by this time fully made up his mind to get hold of the Congressional franchise and land grant through Elliott's construction contracts. He was interested in the Credit Mobilier formed by Oakes Ames for the construction of the Union Pacific, and knew what large fortunes were foreseen as a result of the government subsidies to that road and the Central Pacific. He thought that the land grant in so fine a region as western Oregon afforded a similar chance for wealth. Moreover, from his knowledge of ways at Washington, he considered it still possible to secure government aid in money for the Oregon road. Having got his hand in the job through the purchase of Perrine's share, he and Emmet, as another step towards getting hold of more, induced one Parrish, who was in San Francisco at that time on Elliott's business, to prepare the latter for a proposition to sell to them a majority interest.

The news in Judge Emmet's first letter that Perrine was going to sell to Holladay was an embarrassing surprise to Elliott. It upset his nice scheme to squeeze his partner out of his share for a small price and made the peril of the exposure of his deal with Goldsmith imminent. But he induced the latter, probably by intimations that he himself would sell out, to agree to resell the purchased interest to him and to treat the amount received as a loan. Elliott must have been conscious that he would shortly find himself at the end of his rope, and nothing could have been more welcome to him than a means to extricate himself from the intricate tangle in which his dishonest maneuvers had

involved him. While Emmet's letters were therefore happy tidings to him, he pretended an unwillingness to sell and a special reluctance to have anything to do with "Ben" Holladay.

Holladay and Emmet, however, took the steamer *Oriflamme* for Portland early in September with a view to approaching Elliott personally. Elliott met them shortly after their arrival, in the cabin of the steamer. He and Emmet had been acquainted for years, but Elliott had never seen Holladay before. The visitors urged Elliott to part with the control of the company to them, as they commanded all the capital needed for the construction of the line, and would provide for him most liberally. Elliott capitulated after a slight show of resistance at this first interview, during which Holladay gave him the amusing assurance that Elliott would not find him "as bad as he might think he was."

As a preliminary condition, Elliott was required to secure the surrender of the \$1,000,000 of preferred stock in control of the Oregon Central directors. He went to Salem with Holladay for that purpose and succeeded; whereupon, on September 12, 1868, articles of copartnership under the firm name of Ben Holladay & Company for a period of five years were signed by the three. The interest of Holladay was to be 24/40, that of Emmet 10/40, and of Elliott 6/40. It was provided that no member of the firm could sell or dispose of his interest or any of its assets or contracts without first offering the refusal thereof to the other members. The construction contracts of A. J. Cook & Company were to be transferred to the firm. Elliott was not to be required to contribute any money for building the road, but was to be "General Superintendent of the work of constructing, equipping and operating the road," at a salary of \$500 in gold a month.

Simultaneously with the execution of the articles, the new firm entered into a written agreement to give its obligation to Elliott for the money which he claimed to have furnished to A. J. Cook & Company, amounting to about \$21,000, as soon as the exact amount was made up from the books. In consideration of this, Elliott bound himself to surrender to the firm as much of the \$1,000,000 preferred stock he had received as possible, less the \$90,000 turned over by Perrine to Holladay and the \$100,000 held by Emmet, and also all of the \$775,000 first-mortgage bonds except the \$39,400 he had used. The books of A. J. Cook & Company were found to show that between \$64,000 and \$65,000, including the \$39,400 bonds, had gone into the road on their account. Besides this, there was the Oregon Central, which had a floating debt of over \$30,000 including the amount due to Goldsmith.

CHAPTER II

BEN HOLLADAY APPEARS

THUS Holladay made his advent in Oregon as a railroad promoter. As he exercised a predominant influence during the following eight years, not only upon the material but also upon the political life of the state, a sketch of his previous career will be in place here. It is easily told. Born in Kentucky, Ben Holladay emigrated early to Missouri and to Kansas where he became a hanger-on of the Army at Fort Leavenworth and engaged in whatever speculations presented themselves to him. The coming of the Civil War found him operating a buckboard stage line between St. Joseph and Salt Lake City. He speedily found a way to make money in association with others as a contractor for the transportation of troops and supplies across the plains. In this connection he was associated with the well-known pony express firm of Russell, Majors and Waddell. When that firm became involved financially, they delivered to Holladay as their friend \$600,000 of government vouchers for transportation rendered, with the agreement that he should return the money to them when they were straightened out. It was subsequently charged by the firm that Holladay not only declined to return the money but declared that he knew nothing about the transaction. It was with the money thus acquired, so it was charged, that Holladay made his start in Oregon steamship and railroad affairs.

Upon the execution of the articles of partnership, Holladay at once assumed direction of the affairs of the new firm. So far the Salem company had not made any claim to the Congressional land grant. He and his cooperators were aware that the original or west-side company could not possibly complete the first section of twenty miles within two years of the passage of the Congressional act, and further that, in consequence of an alleged flaw in its incorporation, the legality of its existence could be questioned. They made it their immediate object therefore to obtain first from the state Legislature, then sitting at Salem, a revocation of the designation of the west-side company as the recipient of the grant and next from Congress an extension of the time for completing the first section. Holladay had appeared in Oregon with the reputation of being a very enterprising man and a great capitalist, which quickly gave him sufficient influence to carry through the Legislature in October 1868 an act annulling the previous designation on the ground that the preceding Legislature had "acted under a misappre-

hension of the facts" and designating the Salem company as the one entitled to receive the grant.

As the end of the working season was approaching and the land grant was the principal attraction to Holladay, he did not care to push construction without having first made sure of it; so the work in the field came to a stop. Elliott was sent east for the alleged purpose of helping Emmet in his efforts in Washington for the extension of the land grant. With the help of the Oregon Congressional delegation, one year's more time, till December 20, 1869, was given by Congress for finishing the first section.

The east-side parties had loyally endeavored to make good their covenant to do their best to obtain pecuniary aid from the state and the towns along the line, but had failed utterly. They solicited a guarantee of interest on \$250,000 from Portland, on \$50,000 from Oregon City, on \$100,000 from Salem, and on \$20,000 from Eugene City, but got nothing. The exertions of the other company in the same direction, however, bore fruit. Portland agreed to guarantee 7 per cent interest on \$250,000, Washington County on \$50,000, Yamhill County on \$75,000; there was received, besides, \$75,000 cash for stock and more than that amount in donations of real estate and other property.

But in those early days such guarantees and gifts were not a good basis for raising money. The preliminary expenses, including the cost of surveys, absorbed two-thirds of the cash received, so that it was never really practicable to complete the first twenty miles on the west side any more than on the east side. Nevertheless, work was commenced by the west-side company on April 15, 1868, at about the same time that Elliott's east-side company began operations.

The latter tried to embarrass the west-side company at that very time by applying to the Fourth Judicial District Court for a dissolution of the rival corporation on the ground that it was illegally acting as such and committing gross irregularities and frauds. The west-side company promptly joined issue, but the Elliott corporation, after fencing for time by means of motions intended to delay, finally withdrew the complaint. The west-siders scored a success when the Secretary of the Interior, O. H. Browning, on July 17, 1868, decided not to receive the assent to the conditions of the land grant offered for filing by the east-siders in compliance with the act of Congress, as the year from its passage allowed for filing had expired. But neither this decision nor the previous acceptance by the department of the assent of the west-side company prevented the Legislature from annulling its previous designation of this organization as its beneficiary. As related, the act

of revocation of the Legislature laid the original corporation low by depriving it of its very substance.

Elliott soon had cause to doubt both the good faith of his partners towards him and their assurances as to the extent of their resources. When he started for the East, he had great trouble in getting enough money from them for his traveling expenses, and all his appeals for more during his stay in the East were in vain. He had to borrow money personally to provide for his current needs until his return to San Francisco in June 1869. There he found Holladay, who, in response to his call for funds, told him he had none to give him and that "he could not raise a thousand dollars to save his soul." Nevertheless, Elliott returned to Portland and resumed his functions as general superintendent.

In other respects also the "unlimited capital" with which Holladay had been credited did not materialize as had been expected. To be sure, the new firm had ordered twenty miles of iron rails, but of equipment only a single locomotive was procured. Beyond this, the firm incurred, after the reopening of the working season, a moderate expense for the pay and supplies of a small construction force and for building material, the total expenditure not exceeding \$4,000 a month until September. It had hoped to sell the Oregon Central first-mortgage bonds; but Emmet, who had remained in the East for that purpose, had not been able to place any of them.

The refusal of money to Elliott was, however, really due to the deliberate purpose of his partners to get rid of him. They had found out all about his doings in Oregon and in the East. Their intercourse with him had convinced them also that he was wholly untrustworthy in every respect, and that he had about as little qualification for the position they had given him as railroad engineer as they had themselves. Holladay was not the person to apply the highest moral standards to himself or to others, but Elliott was too much for him. When the latter turned up again on the Pacific Coast, notwithstanding his failure to get money from them, they determined to resort to other methods to force him out of the partnership. The first step to that end was to send Robert Harris, a well-known railroad engineer (later president of the Chicago, Burlington & Quincy and the Northern Pacific roads) who was then living in California, to Oregon to examine and report upon the work already done on the road, and also to make a careful estimate of the sum yet required to complete the first twenty-five miles.

It was suspected that the positive assertion of Elliott on the formation of the partnership that \$40,000 would finish the grading to Salem

was a considerable underestimate. Moreover, the engineer whom he had employed, T. R. Brooks, had been found to be an habitual drunkard and otherwise incompetent. Elliott went up on the same steamer with Harris. If the deafness of his associates to his demands for money had not already aroused his fears as to the outcome of the partnership, the proposed inquisition by this expert must have done it.

Harris made a written report to Holladay, under date of June 28, in which he criticized severely nearly every part of the work done and estimated that to finish grading to Aurora, twenty-five miles from Portland, just half the distance to Salem, would alone require \$54,000, and that all the rest of the work to make the roadbed ready for the iron would take \$76,000 more. He calculated that 200 men and 40 horses could accomplish the job in 125 days. This finding furnished Holladay with the desired lever for getting rid of Elliott. He proceeded shortly thereafter to Portland and began to give personal attention to the details of construction, which led to rapidly growing friction with Elliott. On August 14, Holladay issued a direct order to those in immediate charge of the work to send requisitions for supplies to Ben Holladay & Company instead of to the general superintendent. On August 24, he directed the latter to call on him every evening at his house at 8:00 p.m. and report his proceedings and observations. Their relations became more and more strained during September. The full rupture came when Elliott was surprised on October 4 by the following notification:

Mr. S. G. Elliott.

SIR:

Your services as General Superintendent in the construction of the Oregon Central Railroad are no longer required.

Mr. John F. Kidder has been employed to take charge of the work as Construction Engineer.

Respectfully,

BEN HOLLADAY & Co.

The recipient on the same date replied as follows:

Mr. Ben Holladay.

SIR:

I do not recognize your authority to remove me from the Superintendency of the construction of the Oregon Central Railroad.

BEN HOLLADAY & Co.

by S. G. ELLIOTT,

General Superintendent of the work of constructing, equipping and operating the said Oregon Central Railroad, under the said contract.

He also sent this note:

Mr. J. F. Kidder.

SIR:

You are hereby notified that your services are not required on the Oregon Central Railroad, as Mr. T. R. Brooks is acting as Chief Engineer.

BEN HOLLADAY & Co.

S. G. ELLIOTT, General Superintendent Oregon Central Railroad.

On October 10, the following advertisement appeared in the newspapers:

NOTICE: All persons interested are hereby notified that S. G. Elliott is no longer authorized to act as General Superintendent of the work of construction on the Oregon Central Railroad, nor is he authorized to make any contracts in relation to the same, on the part of the undersigned contractors.

BEN HOLLADAY & Co.

This was followed two days thereafter by this counterblast:

NOTICE: All persons interested are hereby notified that S. G. Elliott IS authorized to act as General Superintendent of the work of constructing, equipping and operating the Oregon Central Railroad, and he is authorized to make any contracts in relation to the same on the part of the undersigned contractors.

BEN HOLLADAY & Co.

The diverting sequel to Holladay's *coup d'état* can be told briefly. Elliott's first bold defiance quickly disappeared when he found that his conflict with the firm had destroyed what little credit he had left in Portland and the state, and that his followers were all deserting him and joining his opponent. He became thoroughly frightened when he heard of Holladay's loud threats to prosecute him at once for fraud. Fearing arrest, he sought safety in flight. He executed a bill of sale of all his goods and chattels, including the entire furniture of the rented house he occupied and the fine span of horses and elegant carriage in which he and his family had indulged, arranged for the departure of his family by steamer, and left by buggy for Salem, whence he started by stage for California. Learning at Albany that the roads to the south were impassable, he made his way back to Portland and thence went by boat with his wife to Astoria, where he waited in concealment for the steamer to San Francisco. Being warned that he was in danger of arrest on the steamer, he let his wife sail alone and proceeded up the Columbia to Umatilla, where he took the stage for Kelton on the Central Pacific.

Holladay and Emmet filed a bill of complaint against Elliott on November 5, 1869, in the state Circuit Court for Multnomah County. They claimed \$100,000 damages, and prayed for a dissolution of the partnership. They charged that the defendant had induced them to enter into partnership with him by fraudulent representations as to the firm of A. J. Cook & Company, its assets, the construction contracts, and the condition of the work on the road and its cost. They also prayed for an injunction of the advertised sale of his personal property, which was granted.

After this ignoble exit—a fit ending for such a career—Elliott first went east, but returned to the Pacific Coast in the following spring, and even ventured to show his face again in Oregon and, in the latter part of June 1870, to start a civil suit for large damages against Holladay, whom he charged with conspiracy to defraud by forcing him out of the partnership. Just as he had previously sold shares in his bogus firm and construction contracts, so he now sought to inveigle others into buying participations in his claim for damages; but he did not find a very good market in Oregon for this new venture.

He drifted back to California and tried the same speculation there. He managed to enlist two prominent San Francisco lawyers, John B. Felton and William H. Patterson, in his behalf, who, for contingent fees, began another suit against Holladay in December 1870, in the state District Court. Holladay presented a tempting objective for eager lawyers, as it was well known that he had in the meantime succeeded by a new deal in getting the required capital and was supposed to be making a great deal of money out of building the road. The several suits dragged along for years. A mass of testimony was taken both in Portland and in San Francisco, in the course of which the facts related herein were revealed. Neither Elliott nor Holladay made a very creditable showing, and the final outcome of their litigation against each other was a small judgment for Elliott and a still smaller one for Holladay.

Holladay had kicked his wicked partner overboard, but this riddance did not really improve his situation. He had been advised by his counsel that there were two serious flaws in the organization of the Salem company. One was the illegality of the subscription for 70,000 shares of the capital stock by the corporation itself, and the other the assumption of the name of the west-side company, which the courts would no doubt forbid. The former defect he had only in part cured by an agreement under which the remainder of 39,930 shares of the company's subscription yet in its hands was transferred to Ben Holladay

& Company in consideration of the execution of their bond to all the stockholders to pay the indebtedness of the corporation.

Then there were but two months and a half left of the year of grace allowed for the completion of the first section. Holladay thus had to choose between the lapse of the land grant and a desperate effort to finish the twenty miles at any cost. The several hundred thousands of dollars already spent had nearly exhausted his available cash and credit. But he decided upon the latter course, and did not shrink from large personal risks in pursuing it. He managed to borrow nearly half a million dollars on his personal promissory notes (endorsed by the North Pacific Transportation Company, with the Oregon Central first-mortgage bonds, delivered by Elliott, as collateral), from the French Savings Bank and the Bank of British Columbia in San Francisco, which furnished the largest part, and from others in New York. He did not hesitate to use the bonds as collateral, although he stated, under oath, in his complaint against Elliott, that the latter had falsely and fraudulently represented to him that A. J. Cook & Company had valuable bonds among their assets. This striking inconsistency was sharply brought out in his examination in Elliott's suit. Having thus provided himself with funds, he employed a large additional force and, by pushing work day and night, succeeded in getting the twenty miles of track ready on December 24, 1869, the very day on which the time limit expired.

With the cost of the finished section, and the expenditures and liabilities already incurred for grading south of it, for ties and bridge timber, and for equipment and rails still to arrive, about \$800,000 had now gone into the enterprise. But to complete the road to Eugene City required a great deal more money. In addition to the \$775,000 bonds issued to Elliott, Holladay had then become entitled to receive about \$1,500,000 more. So he started on January 1, 1870 for San Francisco and New York, with a view to placing them. On his arrival in the former city, he consulted an old acquaintance, Milton S. Latham, president of the London & San Francisco Bank, regarding his needs. This was a lucky step. Latham proved to be the right man for Holladay.

Latham had been one of the most prominent figures in early California. He played a leading part in the political life of the state, and became successively governor and United States senator. He strongly sympathized with the South on the outbreak of the Rebellion and made himself very unpopular thereby in his own loyal state. The prejudices against him ran so high that he went abroad for a long stay. While in

England and on the Continent, he formed acquaintances in high financial circles, which led to the organization of the London & San Francisco Bank, as an English corporation with \$3,000,000 capital, with Latham in charge of the principal agency at San Francisco. The stockholders were all financiers of high standing and large means and influence through their connection with other financial corporations.

When Holladay approached Latham, the latter had already induced his institution to undertake the formation of a syndicate for placing in London and at Frankfort-on-the-Main several issues of bonds of the California Pacific Company, controlling the line from San Francisco Bay to Sacramento along the Sacramento River. These operations had been so successful and profitable to all concerned that they were eager for more. Latham possessed the absolute confidence of his stockholders, and they were disposed to follow his recommendations blindly, until subsequent developments showed him in another light.

Holladay explained the state of his case fully to Latham. He described the financial scheme and the first and second mortgages adopted by the company, and did not conceal the legal complications in connection with the stock subscription and the name. Latham told him at once that it would be impossible to sell either of the two issues of bonds even if there were not other difficulties. He suggested to Holladay that he get in all the outstanding securities of the Oregon Central, cancel them, dissolve the corporation, and organize another under a different name under the direction of able counsel. He advised him further to get the west-side company out of the way by coming to terms with the principal promoters. If a new company were organized in that manner and a single mortgage made upon the road, with an issue of 7 per cent bonds at the rate of \$30,000 a mile, and if everything should be approved by first-class lawyers, he thought he could place the bonds. Holladay rejoiced at this assurance, and promised to follow Latham's advice. Latham agreed to sound his European friends by letter and let him know their answer.

Holladay proceeded to New York and waited anxiously for the expected message from Latham. It came in the latter part of February, to the effect that, if the stated conditions were complied with, the bonds would be taken at 60. Latham himself had, unknown to Holladay, recommended this low figure, at which he had also obtained the California Pacific bonds for the syndicate of his clients. Holladay was too eager to get money to haggle about the price, and set out a few days later for San Francisco and Oregon to follow Latham's directions as fast as possible. He found the Salem company directors entirely willing to

meet his wishes and to dissolve the company, on the ground that otherwise the road would not be finished, and on the promise that they would be relieved of all liabilities for the debts of the company. Besides this, they were to be properly recognized in the new corporation.

Accordingly, the successive steps were taken as quickly as Holladay's counsel, Messrs. Mitchell, Dolph & Smith, could prepare the papers for both parties. Articles for the incorporation of the Oregon & California Railroad Company were filed at Salem on March 16, 1870, signed by Ben Holladay, Cicero H. Lewis, I. R. Moores, J. C. Hawthorne, and Medorem Crawford, as incorporators. The capital was fixed at \$20,000,000 in \$100 shares, to which Holladay subscribed for \$13,499,000, C. Temple Emmet for \$5,000,000, William L. Halsey for \$500,000, George W. Weidler for \$500,000, and the other incorporators for the few remaining shares. Nothing was ever paid in on the stock. The purposes of the company were stated to be the construction of a railroad and telegraph line from Portland to the southern boundary of Oregon and to that end

... to purchase, take and receive of and from the Oregon Central Company of Salem that portion of its Railroad and Telegraph line now completed, together with all the property, real, personal and mixed and right of way of whatever name and nature, and all its rights and franchises of every name and nature, both legal and equitable, which the said corporation now has or owns or to which it is in any way or manner entitled or hereafter may be entitled whether the same is absolute or contingent, and particularly and especially all the right, title and interest, franchise, claim and demand which the said Oregon Central Co. of Salem now has or is entitled to and which it may hereafter be entitled to under and by virtue of an act of Congress, approved July 25, 1866, granting lands to aid in the construction of a Railroad and Telegraph Line from the Central Pacific line in California to Portland, and all amendments thereto.

The purpose of this purchase was thus expressly stated to be to make the completed part of the Oregon Central part of the line of the new company.

On March 14, the Oregon Central board passed resolutions to call a special stockholders' meeting for March 28, to "consider the propriety and authorize the dissolution of the corporation, the settling of its business, disposing of its property and the division of its capital stock." The Oregon & California Company was formally organized, at the first meeting of its stockholders, by the election of Ben Holladay as president, William L. Halsey as vice president, A. G. Cunningham as secretary, and the other incorporators as directors. On March 28, Ben Holladay, as president of the Oregon & California Railroad Com-

pany, addressed a communication to the "President and Board of Directors of the Oregon Central Railroad Company of Salem, Oregon, submitting for their consideration a proposition for the purchase of all of its properties embodied in a resolution of the former Company's Board of Directors passed on March 26, which also authorized the president to agree in writing to assume and agree to pay all the debts and liabilities of such Oregon Central Railroad Company, as the same mature and become due." At the Oregon & California stockholders' meeting, by a vote of more than two-thirds of all outstanding stock, the proposals of its board of directors were unanimously approved.

Thereupon, on the same day, the Oregon Central board, at a meeting at Salem, unanimously resolved to accept Holladay's proposition, and to authorize the president and secretary of the company to enter into a corresponding agreement with the new company. The moving considerations were stated in the preamble to be that the company "was indebted in a sum of not less than \$800,000 nor more than \$1,000,000" and that there was a suit pending wherein the right of the company to its corporate name was questioned by another company, which weakened the company's securities and rendered them comparatively valueless by preventing their sale.

A formal agreement, reciting in full the acts of the two boards and the vote of the Oregon Central stockholders referring thereto, and providing in detail for the sale and purchase on the conditions described, was signed, sealed, and delivered on the same day.

On April 15, the first-mortgage indenture of the Oregon & California Railroad Company was filed with the clerk of the County Court of Multnomah County. It named Milton S. Latham and Faxon D. Atherton of San Francisco as trustees, and authorized the issue of \$10,950,000 of 7 per cent gold bonds at the estimated rate of \$30,000 a mile on the assumed total mileage. The bonds were secured by a first lien on the railroad and telegraph lines built and to be built and all the rolling stock, motive power, and all other appurtenances. Coupons were payable on April 1 and October 1. In case of default in the payment of interest, the trustees were empowered to take possession of the road at the end of three months and to operate or to sell it at public auction, for the benefit of the bondholders. The Congressional land grant was not included in this mortgage, but was conveyed to Milton S. Latham, Faxon D. Atherton, and William Norris (a confidential friend of Holladay and San Francisco agent of his steamship company) as a separate trust for the benefit of the holders of the bonds issued against the road. The deed of trust provided that the trustees

... or their successors may, by and with the consent of the party of the first part hereto, but not otherwise, at any time before the maturity of the principal of such bonds, sell and dispose of all or any part or portion of the lands and franchises so granted as aforesaid, by such acts of Congress, and herein conveyed to such person or persons, firm or firms, associations or bodies corporate, and for such price and upon such terms, as the party of the first part herein may, by and through its President, advise or agree to; and the proceeds of all such lands and franchises or rights to such lands, shall, after deducting from such gross receipts all charges, costs and expenses, legitimately or necessarily incurred in making such disposition and sale, shall from time to time, as realized, be received by such Trustees, parties of the second part hereto, and shall be by them, their successors or successor, from time to time, as the same are received, invested in United States securities, unless the President of the party of the first part hereto shall direct that such proceeds shall be invested in other securities, in which event the same shall be invested in such securities, as such President of the party of the first part hereto may designate, which securities, whether the same be United States, or other securities shall create a sinking fund and as such fund shall be held, managed and controlled by and with the advice and under the direction of the President of the party of the first part hereto, by said Trustees, parties of the second part hereto, for the reduction and payment of the principal of said bonds of the party of the first part hereto at the maturity thereof.

This separate disposition of the land grant was made with the knowledge and consent of Latham, at the suggestion of William L. Halsey, the vice president of the company, a very shrewd and experienced businessman from New York, identified with eastern telegraph interests. He became Holladay's active business manager in Oregon and resided as such for years in Portland. The terms of the land-trust mortgage, as will be observed, were such as really to leave the investment of the proceeds from land sales entirely under the control of Holladay. The real object of the creation of the trust was, as will be seen hereafter, the conveyance of the whole grant to a land company at a low figure. It was a scheme to insure large profits to the parties in interest, but was born of delusions regarding the value of the grant.

The railroad mortgage was duly executed and sent at once to the trustees, and the form of the bond to New York for engraving. Holladay was naturally anxious to get hold of sufficient money to pay the loans on Oregon Central bonds, for which he was doubly responsible, and to push construction much more vigorously. He asked for immediate advances against the \$3,500,000 bonds bought outright, and had no difficulty in getting them, as Latham backed his application and as the European syndicate decided to utilize the favorable condition of the financial markets for an immediate issue of half of the entire loan.

In order to do this, they were compelled to use temporary scrip, as the engraving of the bonds, shipping them back to San Francisco for the signatures of the trustees, and then to Europe, would involve months of delay. The scrip was offered for public subscription both in London and in Frankfort-on-the-Main at 72 and was readily taken by the public. The other half of the loan was issued at 75 a year later in the same markets with equal success, the bulk of the bonds being taken in Germany. This was about the ruling rate at which new American railroad bonds sold in those days in Germany, on account of the high premium which gold still commanded in the United States.

The whole business was conducted by Latham for the syndicate with astonishing recklessness. He neglected all the usual precautions in such transactions. He did not have any examination made into the extent and value of the lands comprised in the grant before recommending the purchase of the bonds. Nor was a definite location of the line made, or even a preliminary survey, not to speak of anything like an estimate of cost, before the sale of the bonds. Not even the length of the line was really known, so that a smaller mileage than the actual one was assumed in the mortgage. Latham named the selling price at 60 without really knowing or apparently caring whether the discount of 40 per cent would leave enough to build and equip the whole road. According to his own admission under oath, when testifying in the Elliott suit, all he did was to forward, without even having read it himself, an abstract of the legal points involved in the question whether the title of the Oregon & California derived from the Salem company was good, which document he had received from Holladay's counsel, William M. Evarts.

Holladay thus found millions at his command. He redeemed and canceled the hypothecated bonds of the Oregon Central and enlarged and accelerated the construction work with great vigor. He secured a competent and honest man to put in charge of the work as chief engineer, Hans Thielsen, while J. L. Hallett became the chief contractor. Thousands of men and many hundreds of teams were employed, and the work proceeded simultaneously from different points between Portland and the Rogue River Valley. With the large disbursements for wages and material along the line, very prosperous times set in for the population of the Willamette Valley. That the man who brought this about became very popular will be easily understood.

But Holladay was not to enjoy the favor of the public for long. Because of his imperious nature and his habitual domination of the enterprises he was engaged in, it was not surprising to find him soon

engaged in efforts to concentrate a monopoly of transportation in western Oregon in his own hands. He bought out for the North Pacific Transportation Company the various owners of nine steamboats then navigating the Willamette and the lower Columbia, as well as the so-called "transfer" around the falls of the Willamette at Oregon City. The boats purchased were the *E. N. Cooke*, *Dayton*, *Success*, *Albany*, *Active*, *Shoo Fly*, *Senator*, *Fanny Patton*, and *Alice*. He also soon made himself master of the original west-side Oregon Central. It must be said, however, that there were sound business considerations for these two deals. The river boats were already competitors as far as Salem and Albany all the year round and as high up as Eugene City during high water, and the Oregon Central might become a hurtful rival in hostile hands.

The quick rise of Holladay to power finally had paralyzed the west-side company. It had *prima facie* lost all chance for the recovery of the land grant. Its fight in the courts against the Salem company was useless, since the latter had gone out of existence. So, with their poor outlook, it was not very difficult to convince Joseph Gaston and his friends that they would do better to enlist under the flag of the new railroad power rather than to array themselves against it. Holladay perceived, too, that it would be wiser to have such a determined fighter as Gaston as a friend rather than an enemy. Moreover, Halsey, the brains of his enterprise, showed him that he could have another string to his money-making bow in the west-side scheme. So Holladay bought a controlling interest in it for \$75,000—as he averred—with the pledge that he would build the road. Without this pledge he could not expect to be permitted to benefit by the gifts in money and real estate made to the company on that condition, and without it Gaston would not have found it safe to remain in Oregon. While Holladay got control, he did not actually assume the management, but allowed T. R. Cornelius to continue as president and Gaston as secretary, which was one of the moving considerations for the latter's compromise.

Holladay's plan for the exploitation of the west-side road, for which he needed the cooperation of the Gaston party, was to get a separate land grant for it from Congress and the money to build it from the same syndicate that was financing the Oregon & California. The former object was attained by the passage by Congress of the act, approved May 4, 1870, granting to the Oregon Central Railroad Company, "in aid of the construction of a railroad and telegraph line from Portland to Astoria and from a suitable point of junction near Forest Grove to the Yamhill River near McMinnville," a right of way through the

public lands, station grounds, and 12,800 acres per mile in alternate sections for ten sections on each side, exclusive of existing settlements under the Homestead Act. Twenty miles were required to be completed within two years and the whole line within six years after the passage of the act. The length of the line was assumed to be about 146 miles and the land grant not far from 2,000,000 acres.

Holladay managed to get a provision inserted in the act requiring the company to adopt the identical ingenious scheme, utilized by the Oregon & California Company, of making a separate trust of the grant, under which the proceeds of the land were to be

... invested in United States bonds or other safe and more productive securities for the purchase, from time to time, and the redemption at maturity, of the first mortgage construction bonds, not exceeding \$30,000 per mile of road, payable in gold coin, no longer than thirty years from date, with interest at the rate of 7% in gold.

No other land-grant act of Congress had contained such fargoing financial prescriptions or one which involved a supervision over the company by the government. This was the very thing aimed at, as it justified the assertion of the promoters that the company would be under government control, which was certain to help the sale of its securities in Europe.

Holladay did not find Latham very responsive at first to his wishes for financial help for the Oregon Central. For the banker knew that there would be no use in trying to induce his foreign clients to buy other Oregon securities before they had sold all the Oregon & California bonds, which was not accomplished until 1872, and that, moreover, it would be hard to persuade them of the desirability of two railroads in the Willamette Valley.

It was, indeed, only on July 15, 1871 that the Oregon Central board authorized the execution of what was both a mortgage on the road, equipment, and appurtenances and a deed of trust for the lands, in accordance with the requirements of the Congressional act, to Milton S. Latham and Faxon D. Atherton, as trustees. The instrument provided for the issue of \$4,395,000 of 7 per cent gold bonds, at the prescribed rate of \$30,000 a mile but having twenty years to run. Following the language of the act, the bonds bore the unusual designation as "First Mortgage Construction Bonds." Holladay had to continue his wooing till 1872, and even then Latham could not effect the sale of the bonds, but only procured him an advance for one year of \$1,000,000, in two installments of \$500,000 each, on February 29 and August 29, respectively, bearing 10 per cent interest and secured by the pledge of

the whole \$4,395,000 bonds, of which \$2,930,000 were of the denomination of \$1,000 each and the remainder of \$500 each. The bankers were also given an option to take the bonds at the same price as those of the Oregon & California Company. With this loan, the first fifty miles of the road to near McMinnville were built during 1873.

In connection with the advance of \$1,000,000 to the Oregon Central, Holladay, whose appetite grew with eating, tapped the same financial source for still another large sum by a rather peculiar method. The North Pacific Transportation Company, in which he held a controlling interest employed five steamers, the *John L. Stephens*, *Ajax*, *George S. Wright*, *Oriflamme*, and *Gussie Telfair*, on the North Pacific Coast. They were all old wooden steamers—the *Stephens* even had paddles—with antiquated machinery and small passenger and freight capacity, and were wearing out so fast that they required constant large expenditures for repairs. There was urgent need, indeed, for their replacement by large new iron steamers. The Portland route was so profitable that the ships earned between \$200,000 and \$300,000 a year after paying all expenses.

As related, Holladay had drawn a good deal of money from North Pacific Transportation in constructing the first section of the Oregon & California. In view of these premises, Holladay hit upon the plan, conceived either by himself or by Halsey, of forming a new corporation, to be called the Oregon Steamship Company, with \$3,000,000 stock capital, which was to buy the steamers named from the North Pacific Transportation Company and also to acquire the nine river boats. The operation was to be managed so that Holladay received all the stock, except qualification shares, for nothing, while the money to pay the North Pacific Transportation Company for the steamers and reimburse it for the loans to him and the consideration for the steamboats, as well as the cost of two new steamers, would be provided through the issuance of \$2,000,000 of 7 per cent gold bonds, to be secured by a mortgage on the old and new craft.

Accordingly, articles were filed on May 22, 1872, incorporating the Oregon Steamship Company with the stated capital of 30,000 shares of \$100 each, signed only by Alexander P. Oakeny, H. C. Leonard, and Charles H. Dodd. A board of directors was subsequently chosen, which elected Holladay president and E. H. C. Taylor secretary. Only July 1, 1872, the board authorized a mortgage on all the floating property of the company to William Norris, M. S. Latham, and F. D. Atherton, as trustees, to secure the issue of \$2,000,000 bonds. Holladay besought Latham to place these securities as well as the Ore-

gon Central bonds, and the latter made the attempt, with the partial result that the same persons who had advanced the \$1,000,000 to the Oregon Central agreed to lend \$800,000 for one year at 10 per cent interest to the Oregon Steamship Company against a pledge of all its stock and bonds with the formal, personal assent of Ben Holladay, and on the further condition that the Oregon Central creditors should have a second lien on the steamship securities. Moreover, they insisted upon and obtained a formal guarantee of the steamship bonds by the Oregon & California Railroad Company.

Latham was responsible for the delusion of the European financiers in regard to the legality and value of the guarantee of the railroad company. The outcome of the transaction was that the North Pacific Transportation Company was paid for the ocean steamers and got back the money it lent to Holladay, and that the Oregon Steamship Company paid for the river boats out of the \$800,000 and had a large balance left in its hands. The difference between the amount lent against the steamers and their actual value can be best judged from the fact that the *John L. Stephens*, *Ajax*, and *Oriflamme* became utterly unseaworthy within a few years, and, after being tied up in San Francisco Harbor for several more, were run on the beach of the bay and burnt for the copper in their hulls. Nothing went, however, towards the purchase of new steamers, and Holladay found himself in sole control of the new company without the expenditure of a dollar. Old Oregonians, who remember the character of the mortgaged vessels, will agree that they were not worth in cash one-third of the money advanced.

The interlocking, so to speak, of these railroads and steamship companies by the guarantees and double pledging of their securities involved several sets of creditors in intricate complications which could later on be unraveled only with the greatest difficulty. Excepting the Oregon & California bondholders, Holladay's creditors were among the shrewdest and most experienced bankers in Europe, and it passes comprehension how they ever allowed themselves to be caught in such a snarl.

By the fall of 1872 Holladay had thus enthroned himself as the absolute ruler of all the lines of transportation on land and by river and sea in western Oregon, except on the Columbia River, where he had to compete with the Oregon Steam Navigation Company. But his power rested on a shaky foundation, and was bound from its nature to be short-lived. He could not help being aware that it was destined to last but a brief term even when he obtained the Oregon Central and steamship loans; for he already knew, from the definite location of

the Oregon & California line and the estimate of cost based thereon, that the proceeds of the \$10,950,000 bonds would suffice to complete only the cheaper part of it to the Umpqua River. Moreover, Chief Engineer Thielsen did not conceal his conviction that the finished part could not possibly produce more than a portion of the fixed charges.

Yet Holladay built hopes of a permanent rule on the false assumption that even the incomplete Oregon & California, with the Oregon Central finished to Junction City and the steamship line equipped with new vessels, would earn enough to keep him in power. But this meant the economic impossibility of squeezing the \$1,250,000 fixed charges of the three companies out of a population in western Oregon of barely 70,000. He stuck to this illusion until it was made plain to him by Latham that the Oregon Central and the steamship bonds could not be sold. Latham was in Europe himself during the summer of 1872, and had personally tried to persuade the foreign bankers to take them, but failed. But Holladay was the principal actor on the Oregon stage for five years, and strutted mightily during that period, striving for the political management of the state besides the control of its material resources. Indeed, he took for himself the full role of the modern state boss.

The first disturbance of the transportation monopoly he thought he had established on the Willamette was not long in coming. The raising of the Willamette river rates on grain to the height of those on the Oregon & California Railroad at once gave rise to hostile agitation among the farmers of the valley, among whom the Granger movement had spread widely. The Grangers controlled the Legislature, which at their instance in October 1870 passed an act voting a subsidy of \$200,000 to the Willamette Falls Canal & Locks Company, incorporated two years before, for the construction of a canal and lock on the left bank of the Willamette around the falls at Oregon City, on condition that the company should give a bond of \$300,000 for the performance of its contract. It should charge only certain tolls, and the state should have the right to take over the canal after the expiration of twenty years at its actual value. The act was passed for the purpose of breaking up the command of the river by the canal on the right bank even before Holladay had got control of it.

In addition to the canal and locks company, two other allied corporations grew out of this act. B. Goldsmith took a leading part in the organization and management of all three. The Willamette River Transportation Company gradually put five steamboats and a number of barges both on the Willamette and on the lower Columbia, and the

Farmers' Dock & Warehouse Company built a warehouse at Astoria, where the wheat from the Grangers' depots along the river was brought and stored before shipment to Europe. Holladay met the opposition by reducing his boat and transfer rates on the Willamette so much as to make the new enterprises unprofitable, and he and the Oregon Steam Navigation Company together fought them in the same way on the lower Columbia. The disastrous end of the opposition will be related later on.

The first 200 miles of the Oregon & California were as well built as any western road in those days, but the work south of Eugene was difficult and expensive. The iron rails weighed only 50 pounds per yard. The equipment was limited, consisting of only 12 locomotives, 13 passenger cars, 7 baggage cars, 108 boxcars, 118 freight cars, 10 cattle cars, and 113 construction cars. When the track reached Roseburg, the company's treasury was not only entirely drained of the \$10,950,000 bonds, but a floating debt was accruing. The net earnings were not over \$150,000 a year against the fixed charges of \$766,500. Even the coupon due October 1, 1872 was met only by drawing the deficiency from the steamship company's treasury.

The foreign bankers, who had made themselves responsible for the introduction of the bonds in Europe, naturally became very uneasy on learning that the available funds had finished only 200 of the 365 miles against which the bonds had been issued. The inevitableness of a crisis was made clear to them early in 1873; but, through their efforts, default on April 1 of that year was avoided. However, reports of the embarrassment of the company had begun to circulate in Germany. The press published them, whereupon a great fall of the bonds in the market took place. A movement was inaugurated early in 1873 for the formation of a committee for the protection of the bondholders at Frankfort-on-the-Main. The committee was constituted of prominent bankers, lawyers, and representatives of the bondholders. H. Hohenemser, at Frankfort, one of the managers of a large local bank, was elected chairman, and Dr. Paul Reinganum, a well-known local attorney, secretary.

This brings the narrative to the beginning of my own connection with Oregon railroad affairs, which should perhaps be introduced by a brief synopsis of my own career before becoming connected with railroad development in the Northwest.

CHAPTER III

HOW I ENTERED OREGON RAILROADING

EDUCATED for a professional career in Germany, I came to this country in 1853. After a rough experience for a year in various occupations in the East and West, in trying to support myself, I went to live with some relatives who had emigrated twenty years before to a farm near Belleville, Illinois, sixteen miles from St. Louis. Here I farmed; later I studied law in Carlisle, Illinois, then in the offices of United States Senator Lyman Trumbull in Belleville and of Julius Manning in Peoria.

But, while studying law, I began writing for the press with such success that I turned to journalism as a profession. In 1856 I reported the first presidential campaign of the Republican Party; in 1858 I went to Minnesota for the *New York Tribune*. In 1859 I reported the Lincoln-Douglas debates for several newspapers and began my friendship with Lincoln; later I reported his doings in his home at Springfield from the date of his election until his inauguration and traveled with him as far as New York on his historic trip to take office at Washington. In 1859, sent to Colorado by the *Cincinnati Commercial* to report the gold discoveries in that state, I was able to confirm the existence of gold in a report jointly written and signed by Horace Greeley, Albert D. Richardson, and myself—the first authentic account of the extent of the discoveries.

From the Battle of Bull Run until after the Wilderness I was a war correspondent at the front, being present at many battles on land and sea. Continuing my newspaper career after that struggle, I became in 1868 secretary of the American Social Science Association, was one of the first organizers of civil-service reform societies, and of meetings in behalf of the first civil-service reform bill introduced in Congress.

In connection with my secretaryship, I entered upon an investigation and study of public, corporate, and private finance, including railroads, banks, and banking. The subject of railroad securities especially interested me. The knowledge acquired thus prepared me for my later business career, although I had not the remotest idea at the time that the future had this in store for me. My attention was also attracted to the so-called mortgage banks, so common on the continent of Europe, but as yet unknown in the United States. It seemed to me that their introduction might prove beneficial to the public and profit-

able to the originators in this country also, and I prepared and published a paper advocating it.

An organic complaint compelled me in the fall of 1870 to seek medical advice in Germany. During a visit to Berlin, I spoke to one of the managers of a great bank there of the fine financial opening which the establishment of mortgage banks in the United States seemed to present. He was favorably impressed with the suggestion, and his institution agreed to raise the capital for one on the European model, provided a special charter for it could be obtained in one of the older states. On my return to Boston, early in 1871, I consulted counsel, and it was decided to apply to the Massachusetts Legislature for a charter. The application failed and nothing ever came of the scheme,* but the relations into which it had brought me with high financial circles in Germany proved of great value to me in subsequent years.

My health began to grow precarious in the course of 1871, and in the fall I decided to go to Germany with my family for a long rest. While living at Wiesbaden, I was called on to assist persons from Boston in the negotiation of a large railroad loan at Frankfort and Berlin. This further extended my financial acquaintance in Germany which had begun in the previous year. I spent the winter of 1872-73 at Heidelberg. In the early part of it, I had a stroke of apoplexy which laid me up for some time. It was so serious that, in the opinion of my physicians, I would never be able to undergo severe mental efforts again without the gravest risk. They did not live long enough to see their predictions falsified by the long and intense strain I have gone through since.

It will be seen from the preceding account of the first twenty years of my American career that I had nothing resembling a regular training for business pursuits. But I hope I may say without immodesty that my unusual experience and success as a journalist, my long practice as such in observing men and matters, my pioneer life in Colorado, my extensive acquaintance with men of distinction, and my recently gained familiarity with financial affairs stood me in full stead for it. Without the training in enterprise, perseverance, and resourcefulness which I owed to my previous occupations, it would not have been possible for me to accomplish during the next ten years of my life that which I am now going to narrate.†

While recovering from my severe illness at Heidelberg, I received in February 1873 a call from a friend residing in that place. He begged

* The development of mortgage banks in America lagged for forty-five years after Mr. Villard's efforts, but they have now become a vital factor in American economic life under the control of the Federal government.—EDITOR'S NOTE.

† The complete story of Mr. Villard's romantic career will be found in the *Memoirs of Henry Villard*, Boston, Houghton Mifflin Co., 1904.—EDITOR'S NOTE.

leave to ask my advice regarding what appeared to be an unfortunate investment in American railroad bonds. He had bought a considerable amount of Oregon & California bonds on the strength of an alluring prospectus. Knowing nothing about the railroad company and not much more about Oregon, I had to tell him that I could not express an opinion on the subject without fuller information than he had, and suggested that he consult the protective committee at Frankfort, of whose organization by the bondholders he had spoken. He did this, and I advised him as best I could. The knowledge of railroad law and securities I showed led him to suggest a consultation between me and the committee. Having consented to receive a subcommittee, I was visited by the chairman and another member. A fortnight after this conference, I received a formal invitation from the committee to join it. I declined at first, owing to the state of my health. The invitation was renewed in the spring, and I, as I had then fully recovered and was assured that not much work was expected of me, I yielded and was formally elected a member. Had I again declined, I should never have been heard of in Oregon.

As stated, notwithstanding the payment of the April coupon of the Oregon & California bonds, their decline in the market continued, as the shortness of the completed mileage and the poor earnings became known. The chief German issuing house, Messrs. Sulzbach Brothers, was severely attacked and was obliged to make a public promise that it would do all in its power for the bondholders. It was agreed between the firm and the committee that a delegation should be sent to Oregon to inquire into and report upon the physical and financial condition and the prospects of the road, and if possible to find a basis for an arrangement between the mortgage creditors and the owners. Dr. Reinganum was chosen for the mission, and started for Oregon in April, accompanied by Hermann Koehler, as representative of Messrs. Sulzbach Brothers.

The bondholders' committee properly deferred all action till Dr. Reinganum returned and made his report. This he did in the following August. Considering that its author had never been in the United States before and that he had but limited time to observe, the document was a very creditable one. It contained a full description of the railroad prepared by two engineers, George Black and R. R. Hammond, whom he had engaged in San Francisco to accompany him to Oregon (in their judgment there was not much to criticize in the construction of the road), together with a full account of the financial status of the company, an explanation of all the legal questions brought up by its bank-

ruptcy, and an opinion of the probable future of the road and of western Oregon.

The report had at least the one good effect; it put an end to the alarming story, which had gained considerable currency in Germany, that the road had not been built at all. The delegate expressed the belief that the proceeds of the bonds had been honestly spent in building the road, but he had failed to discover Holladay's indirect methods of enriching himself at the expense of the company, which came to light afterwards.

In all other respects, the report was very discouraging. The floating debt was found to be \$353,000 and the actual earning capacity estimated at not much over one per cent on the face value of the bonds. The land grant was practically unsalable, as the land company had fallen into a state of inertia after starting with a great flourish and an expensive organization under Joseph S. Wilson, who had resigned as land commissioner of the United States in order to take its presidency. Eighty thousand dollars had been spent by the company and only \$15,000 taken in from land sales. Moreover, by the finished mileage, the Oregon & California had earned only 1,500,000 acres, the Oregon Central only 50,000. The delegate reported also that his own efforts to open the way for an arrangement with Ben Holladay, as the principal stockholder, the land company, and the bondholders had proved futile, but that William Norris was ready to come to Frankfort with power from Holladay to carry on further negotiations. The committee urged his coming, and he agreed to be in Frankfort early in the winter.

Actual default took place by the nonpayment of the October 1 coupon. The committee commenced holding regular meetings in the fall, to which I came from Heidelberg, a two hours' railroad journey. I soon found out, not only that there would be long and hard work, but that, owing to the other members' entire ignorance of American affairs, it would prove a very trying task and that the chief burden of it would devolve upon me. But I could not well beat a retreat; and, moreover, I felt interested in this complicated problem, to find a solution for which appealed to my ambition. Norris appeared, but did not bring any proposition from Holladay and was not able to suggest anything himself, as he had never had any experience in such matters. He was in poor health, too, and soon departed, leaving the committee to its own devices.

At first the committee was restrained from assuming responsibilities by the fact that it did not represent a sufficient number of bonds to act under the provisions of the mortgage; but, before the winter was

over, it represented a large majority of the outstanding \$10,950,000. Thus invested with proper authority, it reached, after many protracted discussions, the conclusion which I strongly favored that it would be wiser, in view of the great distance of the railroad from Germany and of the poor earnings, not to take possession of the road by foreclosure and operate it for the account of the bondholders, but to suspend the exercise of their rights under the mortgage for a term and allow the debtor company to continue in the management, provided the bondholders were guaranteed whatever net income the road earned. Our decision seemed right at the time but proved to be a great mistake.

The committee's aim became therefore to elaborate a compromise agreement between its constituents and the Oregon & California Company. The consideration of the matter extended through the whole winter, owing to the cautious slowness and thorough deliberation of every point by my associates. The farther we got into the subject, the more intricate it grew; and gradually I was obliged to spend days every week at Frankfort. Finally, the draft of a contract was finished in March 1874, and agreed to by a nine-to-one vote of the committee.

The proposed contract provided in substance for a reduction of the bond interest from 7 per cent to $2\frac{1}{2}$ per cent for five years and to $3\frac{1}{2}$ per cent for the next three years. Ben Holladay would obligate himself personally to provide for the extinction of the floating debt and to contribute the sum of \$25,000 every six months towards the interest payments if the earnings did not yield the reduced amount. The bondholders were to receive the full benefit of the earnings of the Oregon Central and Oregon Steamship companies after the claims of their European creditors were satisfied. The bondholders were also to have a representation of three members in the board of directors and to appoint a resident financial agent, to whom all the net receipts of the road should be paid over, and who should also control all the expenditures. The European & Oregon Land Company was to cede back the lands to the railroad company in consideration of the repayment of its cash outlay.

I was appointed to proceed to the United States to secure the proper reproduction in English of the contract according to American legal forms and to secure its acceptance and execution by the company. Latham having informed the committee that Holladay would promptly accept any conditions exacted by the committee, Richard Koehler at once was chosen resident financial agent to be installed by me personally at Portland. As he did not know the English language, the appointment seemed somewhat venturesome, but his long record in Ore-

gon proves that the committee could not have made a better choice for the delicate and difficult position that it proved to be.

Mr. Koehler and I sailed on separate steamers in April 1874; we were to meet in New York, where I was to close up matters with Holladay. On arriving, I submitted my own translation of the preliminary contract to my counsel, James B. Thayer (professor at the Law School of Harvard University), who advised a number of more or less important modifications, which caused some delay. When I was able to advise Holladay's counsel, S. L. M. Barlow, the most prominent Democratic lawyer in New York and also a very influential leader of his party, that I was ready, he summoned his client from Washington, where he had been lobbying all winter for an appropriation by Congress of an indemnity of \$600,000 to him for losses of equipment and stock by Indian depredations while a government contractor carrying the United States mail overland to California—a claim which he pursued for years, but which proved an *ignis fatuus* in the end.

Our first meeting took place in Barlow's office. It was attended by myself, Mr. Koehler, Mr. Thayer, Holladay, Barlow, George K. Otis, Holladay's agent in the East, and Senator Mitchell, whom I then saw for the first time. Holladay had a fine presence and was dressed in the latest fashion. He appeared a gentleman, at first sight. But the real nature of the man in the fine clothes was indicated by the display of jewelry on his person, diamond rings and studs, a very flashy watch chain of heavy links of gold-bearing quartz, and a cane with a long handle of richest polished quartz. What this vulgar personal ornamentation suggested was confirmed by his speech and manners, which betrayed him as a low fellow. A short intercourse with him sufficed to disclose his illiteracy, coarseness, presumption, mendacity, and unscrupulousness. Yet with these evil qualities he combined considerable natural intelligence and shrewdness which gave him cunning and acuteness in business matters. He affected a degree of blandness which made him quite popular among his likes. He demonstrated this at our first conference by gradually moving his chair close up to mine and presently emphasizing his remarks by slaps on my knee, accompanied by constant "don't you know," a habit which his acquaintances will all remember.

I was not long in ascertaining that I would not find it easy to obtain Holladay's assent to all the conditions of the contract, as Latham had led the committee to believe. As one article after another was considered at successive meetings, he raised a number of objections on the prompting of his counsel, most of which were mere subterfuges. This

brought on animated and even angry discussions in which Holladay, who had found out that his blandishments were wasted on me, used such language towards me and the committee that I could hardly keep my temper. Several complicated questions arose and led to consultations with Judge Hoar of Massachusetts on our part.

After three weeks of tiresome negotiations, it looked as though no agreement would be reached and my mission would be a failure. Holladay was very strenuous in refusing his consent to the establishment of a land department with an allowance of \$15,000 a year out of the railroad earnings, but did not disclose his reason, namely, the small quantity of salable lands, as he did not wish to discourage me and my constituents. As a last resort, I used the cable freely to set the European creditors to bring pressure to bear on Holladay. This finally made him yield. But it was only on May 27 that all points were agreed on. The preliminary contract necessitated a number of separate agreements among the several Holladay corporations, the trustees, the Oregon & California bondholders, and the other European creditors, which instruments were to be prepared in part in San Francisco and in part in Portland. We agreed therefore to meet in Portland for their final ratification and execution.

Mr. Koehler and I set out for Oregon from New York on May 29, 1874. As he had never been in this country before, I thought it well to have him see something of the construction and administration of western railroads before he entered upon his new duties. Accordingly, we traveled by special trains and in daylight over the systems of the Wisconsin Central and Kansas Pacific railroads. The inspection of the latter had a special object on my part, as during the preceding winter I had also joined, upon invitation, a committee for the protection of the holders of the three classes of mortgage bonds of the Kansas Pacific Company, which had been placed in Germany to the extent of nearly \$12,000,000. Owing to the crisis of 1873, the company was in financial straits and had sought and obtained an arrangement under which interest was funded on part of the mortgage indebtedness. I mention the fact of my connection with the Kansas Pacific, because, as will appear later on, it came very near leading to a combination, which, had it been carried out, would have given the railroad developments in Oregon a very different course from the actual happenings.

I cannot help referring here to the strange sensations I felt—I had crossed the Great Plains in the first stage coach from Leavenworth to Denver but fifteen years before, when there was not a mile of railroad west of the Missouri, and only 500 miles all told west of the Mississippi

—on riding behind a locomotive on a special train into Denver which I had last seen in 1859 as a small town of about two hundred log and frame shanties; it was now a city of nearly 40,000 inhabitants.

We reached San Francisco on June 19. Latham received us with great courtesy and placed himself entirely at our disposal. He had not only the appearance but the ways of a gentleman, and impressed one as a man of great ability and experience in affairs. But there was something in the expression of his eyes which imparted to his countenance a look of insincerity that confirmed the prejudice against him which his conduct in recommending the Oregon & California bonds had excited in me.

My distrust of him was fully justified by the startling facts uncovered through an investigation of the financial condition of the California Pacific Company and its offshoot, the California Pacific Extension Company, made at the instance of some of the holders of the bonds of these two corporations, many of which had been taken by the German public. I found that \$1,200,000 10 per cent income bonds issued by the first-named company, which were held as prime securities by banks and bankers in London and Frankfurt and as part of their reserves, were hardly worth more than the paper they were printed on, and that a railroad line of the California Pacific Extension Company against which \$3,000,000 of 7 per cent bonds had been issued and sold in Europe had never been built. These disclosures caused a great sensation and resulted in a compromise with the Central Pacific, which had acquired control of the two companies from the parties responsible for the issue of the two classes of bonds mentioned, under which there was a scaling down of both interest and principal.

The preparation in San Francisco of our definitive contracts, to which the trustees under the railroad and land mortgages and Latham as attorney in fact of the Oregon Central and Oregon Steamship companies and the European & Oregon Land Company were parties, took so long that we did not start overland for Oregon until July 13.

We went by rail to the terminus of the California & Oregon at Redding and thence covered the 275 miles to Roseburg by private carriage with relays of horses furnished by the stage company. As we wished to see the intervening country in daylight, we stopped every night, so that it took us five days to make the journey. The state of the common dirt roads at that season and the unfavorable direction of the wind kept us in suffocating clouds of dust all day long. This with the oppressive heat made the trip a very trying one. Our night quarters at the stage stations were of the meanest description, but there was

compensation for the hardships in the grand scenery we beheld in the Shasta Valley, in crossing the Siskiyou Mountains, and from the Rogue River to the Umpqua.

In the first hour of July 20, we reached Roseburg in a bright moonlight. As the carriage stopped at the platform of the station, we saw a white figure coming towards us looking like a veritable ghost. The apparition was Ben Holladay in his night clothes. Recognizing us, he shouted: "Hallo, here are the Dutchmen." He had come to meet us with his private car, accompanied by William L. Halsey, Fowler, his private secretary, and Superintendent John Brandt.

The special train started north early the next morning. The finest weather favored us. What I saw of Oregon on that trip to Portland filled me with the greatest enthusiasm. There was no need of the boastful talk of Holladay and Halsey to excite my admiration of the beautiful landscapes unrolled to us one after another and framed to the east by the green-clad Cascades, overtopped by its isolated snow-covered peaks, and to the west by the picturesque Coast Range. The passage of the Calapooya, the Yoncalla, and the upper Willamette valleys was truly inspiring. I could not help being impressed, too, with the evidence of agricultural wealth in the broad wheat fields that greeted the eye. I felt as though I had reached a chosen land, certain of great prosperity and seemingly holding out better promise to my constituents than I had hoped for.

We inspected the road and took time to see Eugene City, Albany, Salem, and Oregon City, and did not reach Portland until late in the evening. As we had been told that there was not a decent hotel in the city, we accepted Holladay's hospitality. I did this reluctantly, as my trust in his good faith was not implicit, and since trouble between us, while I was a guest at his house, would have been very embarrassing. But no serious difficulty occurred, and the comforts we enjoyed under his roof were very welcome after our hard journey.

I had heard much praise of the situation of Portland, but its attractiveness went much beyond my anticipations. Paul Schulze, of Portland, who had come to Frankfort the winter before to advise the committee, took me up on Marquam Hill the first day, and the grand panorama I saw spread out before me from that height with the three snow-clad giants of Mt. Hood, Mt. St. Helens, and Mt. Adams clearly visible in their mighty splendor, seemed to me one of the finest sights I had ever enjoyed. The city had then only about 20,000 inhabitants and appeared to contain, for a place of that size, an unusual number of large and solid business buildings and handsome private residences.

There was also a great deal of activity in the streets and on the river, indicating thriving business; altogether, Portland was surpassed in few respects by any other city in the United States that I knew.

For various urgent reasons, I had to limit my stay to six days. Most of that time I worked with the officers and lawyers of the several corporations, in order to insure the completion of my task, so as to take the first steamer, the *John L. Stephens*, for San Francisco. Of the six separate agreements required to carry out the preliminary contract, two more had yet to be drawn, one of which, defining the authority of the financial agent, involved considerable wrangling with Holladay. It was to be foreseen that the agent's supervision could not be effectively exercised unless he was regularly vested with executive functions within the management; and I therefore insisted upon his election as a director and the creation of the office of auditor of accounts for him, and also upon his appointment as engineer in chief, all of which points were yielded after considerable resistance.

In the short available time, all the agreements had to be set up in type, the proofs corrected, and the documents finally acted on by the several boards of directors and duly recorded on the books of the companies. The extent of the necessary formalities can be measured from the fact that in executing the several instruments I had to sign my name no less than two hundred and forty times for myself and as attorney in fact for the other members of the bondholders' committee. It was in connection with these labors that I first came on contact with J. N. and C. A. Dolph and Joseph Simon, and I should never have gotten off so soon but for the untiring diligence with which they strove literally night and day to get the job done. Even as it was, the steamer had to be detained twelve hours in order to take me aboard.

I supposed that my visit to Oregon would be the only one I should ever make. Since, moreover, I had but two duties to perform—to obtain the execution of the agreements and to install Mr. Koehler—I had no motive to form many acquaintances in Portland, even if the briefness of my stay had permitted it. It did not escape my notice, however, that Holladay purposely tried to occupy my time so that I could not meet other people besides his officials. That I stopped at his house also prevented a number of persons who wanted to see me from calling. Still, I met Henry Failing, W. S. Ladd, C. H. Lewis, Judge Matthew P. Deady, and B. Goldsmith.

The latter, who was at sword's point with Holladay, owing to the bitter fight between their respective river boats, wrote me a note explaining that these hostile relations precluded him from calling and

requesting an appointment. It resulted in a long talk with him at his place of business. He was very anxious to bring the war on the rivers to an end, and tried to show me that, by a combination of the railroads and his Willamette River Transportation Company, and the enforcement of a common high wheat tariff, both concerns would profit largely. I perceived at once that he assumed that I had come to Oregon to depose Holladay and take control of the roads for the bondholders, and that he was very much disappointed when I told him that we had made a compromise and his enemy would continue in power. He charged Holladay with general unscrupulousness and with attempting to rule the state politically by corrupt means.

I did not learn anything good from the other persons named regarding Holladay's public and private conduct. They all dwelt on the danger of political retaliation to which his domineering interference in politics as a party man exposed the railroads. He was obviously more feared than liked. Some of the railroad and steamship officials sought my confidence and complained bitterly of his tyrannical treatment of subordinates. They denounced him as a most arbitrary and brutal master. Even his factotum, William L. Halsey, freely criticized his uncontrollable willfulness and unbusinesslike ways.

Officials called my attention to his systematic if indirect exploitation for his private benefit of the railroad and steamship companies. This procedure was said to be a conception of Halsey's after precedents established in other western states. Four separate corporations had been organized, one being the Portland Dock & Warehouse Company, owning the docks and warehouses on both sides of the river, for the use of which the three transportation lines had to pay rents and warehouse dues. A second was the Oregon Transfer Company, with a monopoly of the local transportation of passengers and freight to and from the stations and warehouses on both sides of the river. The other two companies were real-estate concerns to which had been made over the ownership of all the townsites located at the stations of the Oregon & California and Oregon Central, most of which had been donated to the railroads. I was also told of Holladay's big grab of the blocks in Couch's Addition to Portland, given to the Oregon Central.

As we had been led to believe at Frankfort that, though Holladay's financiering of the railroads had been improvident and even reckless, his dealings with the companies had been otherwise straight and honest, these revelations were quite a shock to me; but upon reflection I concluded, in view of my limited powers, that my proper course would be

to fulfill my mission and report the disclosures to the committee on my return to Germany.

The lowered opinion of Holladay, which the new insight into his doings gave me, made my acceptance of his hospitality very embarrassing. But, although I tried to keep our intercourse within formal bounds, he grew more familiar and communicative from day to day, and the coarseness of his nature became more apparent and repulsive. He openly boasted of the corrupt use of money. He bragged of his control of the press and of his predominant general influence in the state. He declared that he could get anything he wanted from the Legislature. He related how he worked upon the members by receiving and "fixing" them in his private car at Salem. He even claimed that he could go to the United States Senate from Oregon whenever he wished. He was very anxious to get my help in securing more foreign capital for new steamers and the completion of the Oregon Central to Junction City, and rang the changes on these two topics whenever he could get hold of me.

In order to convince me of the desirability of the latter proposition, Holladay suggested that I should go through the country south of the Yamhill; as I wished to see more of western Oregon, I consented to take a day for a unique flying trip through that section with Joseph Gaston as companion and guide. I started early in the morning by special train for St. Joseph, then the terminus of the Oregon Central but now abandoned. There we took an open carriage with two fast horses, and, with two relays, drove in nine hours the whole distance of seventy-five miles to Junction City, whence a special train landed us in Portland by 11:00 p.m. the same day. While taking dinner at Corvallis, I was set upon by a gathering to urge upon me the building of a road from their town to Yaquina Bay. I treated the matter humorously and had considerable fun with the people over it. That wild scheme was eventually carried out and ended in the greatest financial disaster, to all beguiled into it, on record on the Pacific Coast. I must confess that the beauty and fertility of the country made me a convert to the extension of the west-side road as a means of bettering the outlook for my constituents.

Holladay was surely glad to be freed from my uncomfortable presence when I left, and I reciprocated the feeling. I was relieved of a great burden when the *Stephens'* paddles commenced turning. But at the same time I felt much sympathy and some apprehension for Mr. Koehler, whom I left a stranger in a strange land, with a limited knowledge of English, charged with duties at once onerous, delicate,

and perplexing—which he faced, however, with great pluck. I came away with the conviction that Oregon was bound to be a great state, that its development could be accelerated, and that, if the railroads and the steamship lines could be brought and held under one honest, efficient, and permanent control, the salvation of the greater part if not all of the European investments in them might be compassed. It was clear to me that the best means of promoting the growth of Oregon would be to attract immigration, and I resolved to exert myself to that end; but I never thought for a moment at the time that I should become the principal agent in achieving it.

What I had learned of the conditions of the steamers had convinced me that the first and most essential thing to be done would be the strengthening of the Portland and San Francisco line with modern steamers in order to protect the line from competition and in order to increase the traffic. I determined upon an immediate move in that direction. The urgency of it was strikingly demonstrated to me. I occupied the so-called bridal room on the *Stephens* and was much disturbed the first night by the unceasing noise of a pump. I asked Captain Connor in the morning why the pump had been at work. He answered, "Why, we have to keep it going to keep the water out of the hold." That old wooden ship was indeed leaking beyond repair.

I remained only a few days in San Francisco, during which I effected a final settlement with the land company. I also collected data from the steamship company's officials regarding the wornout condition and insufficient passenger and freight capacity of all the vessels, for use as a lever with the Europeans concerned with the ships. These data confirmed not only my belief that the creditors had a very insufficient and precarious security, but that the running of such ships involved a constant and fearful responsibility for a possible heavy loss of life and property by disaster at sea. Thus ended the first chapter of my Oregon railroad experiences.

CHAPTER IV

THE ELIMINATION OF HOLLADAY

I SAILED from New York in August 1874 for England. After conferring with the London creditors, who gave me some encouragement as to the purchase of new steamers, I proceeded to Germany to report in person and in writing to the bondholders' committee. It took me some weeks to prepare my very full report, which I laid before the committee in October. It was approved in a complimentary resolution and printed for distribution among the bondholders.

Having conceived an honest belief in the promising future of Oregon, I gave expression to it in my report to the committee. The confident language in this regard seems altogether too sanguine when read now in the light of what came to pass in the intervening quarter of a century. I stated that all that had been published about the agricultural wealth, the superior climate, and the beauties of scenery of Oregon was borne out by my observations. From my personal knowledge of many of the western states, I could unhesitatingly affirm that the state surpassed them all in these respects. In my opinion, it ought to prove very inviting to immigrants from the eastern states and Europe, and it should not be difficult to direct a flow of new population by properly making known its attractions. I expressed the belief that, if the Oregon & California had only been built to the head of the Willamette Valley, it would be a paying road, and that, even as it was, the bondholders would have a good security if the population of western Oregon could be made to number twice as many souls as its present population. The Oregon Central was and must continue to be a worthless investment unless it was extended through the extraordinarily fertile region beyond its terminus. This done, the net earnings for the first year could be expected to be \$50,000, for the second \$75,000, for the third \$100,000, with a steady increase thereafter. The net proceeds of the steamship business, if the line were provided with new steamers, could be safely estimated at between \$300,000 and \$400,000 a year. If everything went well, with these results and the net income of the Oregon & California road, it seemed quite possible that the bondholders would receive their full interest in the course of six or seven years.

While I reaffirmed my judgment that the committee had acted wisely in agreeing to a compromise, I put on record my doubts of its satisfactory working owing to the defects in the character of Holladay.

I expressed the hope, however, that self-interest would lead him to fulfill his promises, as he knew that no violation of them would be tolerated. I admit that my predictions were very bold; and (alas!) none of them came true.

The committee approved my recommendation for the establishment by the land department of a regular agency in the eastern states for the furtherance of immigration. I agreed to organize it myself, since my designation as representative of the Kansas Pacific committee also called for my return to the United States. On the way I spent a week in England to urge again upon the English creditors the continuation of the Oregon Central and the purchase of new steamers, and succeeded so far with the latter recommendation as to be authorized to ascertain and report on what terms this could be done. I also entered into relations with Joseph Arch, who played a very influential part in England at that time as the champion of the distressed agricultural laborers. John Jacob Holyoake, a well-known English labor leader, brought us together. I offered to pay the expense of sending a delegation headed by Arch himself to Oregon, with a view to the immigration of English agriculturists on a large scale. But nothing came of the scheme, as Canada outbid me by offering free transportation and other benefits to settlers.

On landing in New York, I found a dispatch from Mr. Koehler, reading: "Am in perfect conflict with Holladay. Details by mail." The news, though unwelcome, did not really surprise me; I had expected Holladay to show restiveness and resistance at first under the shackles of the strict financial supervision of the representative of the bondholders. But I thought that a vigorous firmness would keep him on his proper behavior. This first friction between him and Mr. Koehler was caused chiefly by allowance of salaries and other expenditures in contravention of the agreement with the bondholders. I addressed a sharp remonstrance to Holladay, but it did good only for a time.

In November 1874 I began my efforts for the promotion of emigration to Oregon, by opening an office for that purpose on the best business street of Boston. I selected the Massachusetts city in preference to New York, because I believed New England immigrants were the most desirable ones for the state, and certainly more so than the motley crowds of foreigners landing in the other city. To enable me to act as a representative of Oregon, I obtained from the governor an appointment as "commissioner of immigration," an office without much honor and with no emoluments, whereupon the Boston office became the "Eastern Bureau of the Oregon State Board of Immigration."

The land department provided the bureau with a fine display of the cereals, vegetables, and fruit of the state. Carefully prepared advertisements setting forth the inducements offered by the state, in concise form and in strong double-leaded type, were published in the early months of 1875 in a large number of English, German, American, Swedish, and Norwegian papers in different parts of the United States. I also wrote circulars and pamphlets descriptive of the attractions of the state, accompanied by maps, which were also printed in several languages. An official endorsement of the reliability of the pamphlets was obtained and published in them. The advertisements had an immediate effect and brought constantly increasing inquiries in person and by mail from individuals and representatives of intended colonies to whom the printed matter was freely supplied. At my instance and at the expense of the land department, a very fine exhibit was maintained at the Centennial Exposition of 1876 in Philadelphia, in charge of a special agent.

The bureau was continued till the end of 1877, by which time it had accomplished its object in setting in motion a strong wave of immigration to Oregon; but the agitation was kept up through other channels. During its existence, the bureau received and answered tens of thousands of letters and sent out a much greater number of publications. The record kept by the steerage department of the Oregon Steamship Company showed that during the three years mentioned no less than 30,000 persons emigrated to Oregon. The state reaped the benefit of this work of the bureau without the least expense.

In addition to the troubles between Holladay and the financial agent, other questions pertaining to the operation of the companies were referred to me for decision during the winter, although I did not wish to intervene at all. One of these was a compromise which Holladay had reached early in November 1874 with Goldsmith, who was acting for the Willamette Falls Canal & Locks Company. It embodied substantially the plan Goldsmith had explained to me in our interview. The steamboats of both companies were to be placed under one management. The locks company was to adopt the railroad freight rates, in consideration of which it was to receive a subsidy of 50 cents per ton on all the railroad tonnage from Harrisburg, Albany, and Salem. The steamship company was to pay half of this subsidy. Moreover, the Holladay boats were to pass through the locks and pay 50 cents per ton of cargo for tolls. The arrangement was to continue for five years.

This combination clearly involved a breach of faith to the state on the part of the locks company, for the subsidy received by it was given

in order to secure to the public the permanent advantage of free competition on the Willamette. I felt sure therefore that the deal would arouse a storm of hostility, and thought it better for my constituents not to interfere. The arrangement did not, however, go into effect, a pre-existing one between the steamship company and the Oregon Steam Navigation Company preventing its consummation. The former had agreed not to run its river boats on the lower Columbia and the latter to keep off the Willamette south of Portland. Hence, unless the locks company withdrew, which it could not afford to do, from the lower Columbia, the Oregon Steam Navigation Company would have spoiled the bargain between Holladay and Goldsmith by running its boats in opposition to them on the upper Willamette. The accidental loss of some of the locks company's upper Willamette boats during that winter also much lessened the value of the transaction to Holladay.

It became more and more manifest during the next few months that the *modus vivendi* with Holladay, which I had sought to establish, would not work, owing to his want of good faith. Violations of the pact with the bondholders followed one after the other, and no protest, no remonstrance, no threat on Mr. Koehler's or my part kept Holladay from committing them. He did not assume the floating debt of the Oregon & California Company. He failed to make the second supplementary contribution of \$25,000 towards the reduced interest due on March 1, 1875. He hampered the financial agent in the exercise of his authority, thereby rendering his position a more and more trying one. The Frankfort committee, Koehler, and I reached the conclusion by correspondence before spring that it was vain to hold Holladay to his promises and useless to practice more forbearance towards him, and that there was no other safe solution than to strip him of all control over the several companies.

I commenced corresponding with the committee regarding this early in the winter of 1875-76. The first and principal point we had to consider and decide was again the question whether to force Holladay out by the exercise of the legal rights of our constituents or to get rid of his control by a peaceful settlement. If his removal from the Oregon & California alone would accomplish the object, the institution of foreclosure proceedings was the direct way. But the relations resulting from the compromise of the year before between the bondholders and the Oregon Central and Oregon Steamship companies and their creditors, and the harm Holladay could inflict upon the Oregon & California by a continued competitive control of the other companies, together with the grip he had upon all three companies by his ownership of the

dock and warehouse, transfer, and real-estate companies, made his entire withdrawal and a new deal between his other European creditors and our bondholders an extraordinarily difficult problem.

After a full exchange of views, the committee and I agreed that it would be better to buy Holladay off if he would accept reasonable and possible terms. Thereupon I conceived a plan assuring, as will appear further on, a complete riddance of Holladay and a better deal for the bondholders with the steamship and the Oregon Central creditors. The chairman of the committee having given his preliminary approval, I entered upon negotiations with Holladay, who had come east again in pursuit of his big claim against the government. I found him amenable to reason, thanks to the constant pressure of his personal creditors in the East. He was, indeed, quite ready to sell out, and was willing to accept the kind of consideration I offered him; but his necessities made him demand more than I was willing to recommend to the committee. However, I got his signature to a formal proposition with which I started for Frankfort in April.

I found it even more difficult than the year before to induce the three parties in interest, the committee of the bondholders and the two classes of creditors, to come to the desired agreement. It took frequent and protracted committee sittings and the practice of the greatest patience on my part, besides several journeys to London, to carry through my program, which was modified in some respects. The whole scheme came very near being frustrated, or at least delayed, by injunction proceedings instituted by Joseph Gaston, who was secretary of the company, to prevent the surrender of the control of the Oregon Central. This came to naught, however, in a short time, through the dissolution of the injunction. Holladay, in a letter to me, denounced the attempt as a piece of the basest ingratitude, treachery, and blackmail on the part of Gaston, whom he had generously recognized, for which offense he had ordered him to be driven to the wall.

It was not until August 20, 1875 that a circular was issued by the committee, announcing to the bondholders that a general meeting would be held on September 16, at which the following proposition would be submitted for their consideration and action:

(1) To authorize the committee to acquire all the holdings of Ben Holladay of the capital stock of the Oregon & California, Oregon Central, and Oregon Steamship companies, for and in consideration of \$300,000 of 7 per cent Oregon Central second-mortgage bonds, whose interest was guaranteed by the Oregon & California.

(2) To purchase, for account of the bondholders, for \$250,000 (the purchase price being ten times the annual net income) the properties of the Portland Dock & Warehouse Company.

(3) To enter into an agreement with the steamship creditors under which they would release the steamship creditors from their previous pledges and consent that \$15,000 a year should be applied out of the steamship earnings to the interest on the \$300,000 Oregon Central bonds, and that out of the same earnings \$60,000 a year should be used for the purchase of a new iron steamship for the Portland and San Francisco line.

(4) To covenant with the Oregon Central creditors for their consent that the rate of interest on their \$1,000,000 loan be reduced from 10 per cent to 5 per cent; that the Oregon Central be released from its pledge to the bondholders; that, upon the extinction of the debt of the steamship company, half of the latter's earnings, less the \$60,000 for the new steamer, should become applicable to the extension of the Oregon Central.

(5) To purchase additional steamers for the Oregon Steamship Company and to complete the Oregon Central by other means than the contingent steamship earnings, if both objects could be obtained without further liabilities to the bondholders.

(6) Holladay to reconvey to the railroad companies terminal and other real estate improperly appropriated by himself personally, to allow more favorable rates to the three companies under their contracts with the transfer company, to waive the large claim of the North Pacific Transportation Company against them, and to repay to them sundry amounts wrongfully drawn from the railroads.

I attended the ratification meeting and spoke at length in explanation of the scheme, which was adopted by an almost unanimous vote.

I reached New York again late in the fall. Holladay had become reduced in the meantime to desperate financial straights and was very eager for an immediate bargain. Knowing this, I was not disturbed when he coupled threats with a demand for an increase of the consideration for his stocks and other properties stipulated in his written proposal, \$100,000 more in Oregon Central bonds for the stocks and \$300,000 instead of \$250,000 for the dock and warehouse company. He pleaded that he had held off his creditors by promises of payment which our terms would prevent him from making good. But he soon came around, and the needful steps for carrying out the terms were instituted. He begged me constantly to hasten the conclusion of our

trade. But, owing to a severe bronchitis which laid me up in Boston for a month, the lawyers could not finish the preparation of the necessary papers before the end of January. Then they had to be sent to the Frankfort committee for formal ratification.

Holladay fretted and fumed and with his counsel, Barlow, time and again threatened a rupture, and alternated threats with humble appeals for cash advances, which were refused. It was only on February 27, 1876 that our signatures were affixed to a preliminary contract. But not even then did any portion of the consideration become available to Holladay, as new collateral contracts with the European creditors of the Oregon Steamship Company and the Oregon Central were to be concluded by Milton E. Latham and myself at San Francisco. In the last stages, an obstruction arose from an unexpected quarter. Ben Holladay, Jr. refused to sign a reconveyance to the railroad companies of improperly appropriated real estate which had been put in his name, for purposes of concealment, as a gift from his father, unless he was compensated for it. The son persisted in his attempt to squeeze something out of his father, but yielded when Barlow was about to begin proceedings against him.

The status of my constituents resulting from the new arrangements was a great improvement over that under the first compromise; for the control of the three corporations had been secured and the way opened for their development. As I was responsible for involving the bondholders in direct and indirect liabilities and risks under their agreements for the Oregon & California guarantee of interest on \$300,000 Oregon Central bonds, for the purchase of the dock and warehouse property, and for new steamers, it became my duty to do all that was necessary to ensure a successful outcome of the new combination. It was, indeed, clear to me that, in advising and advocating this arrangement, my assumption of the direction of the three companies would be an inevitable consequence. The Frankfort committee had at once raised the question, after being informed of my plans: Who was to carry them out? And they would never have been adopted but for my promise to do so even at the sacrifice of spending a good deal of my time on the Pacific Coast for some years to come. I believed in the possibility of success; and the prospect of making good the investment of my constituents, however difficult and slow the accomplishment of that end might prove, strongly appealed to my ambition.

The first step dictated by the situation was to strengthen the Oregon Steamship Company by the addition of new ships. In the course of the winter, I had received urgent appeals for new ships from William

Norris, the agent at San Francisco. He informed me repeatedly, both by mail and by telegraph, that he was sure we should have competition during the year, since the capacity of the steamers on the Portland route was entirely inadequate to meet the rising demand for passenger and freight space. He sent me confidential reports of the precarious condition of the three ships, which resulted in loss because of the constant expensive repairs (the total cost in 1875 was no less than \$117,000) and involved the risk of interruption by breakdowns.

In view of this, I felt justified in taking some action to meet the emergency. As I could not act under the authorization to purchase a new steamer before I was through with Ben Holladay, I suggested that Holladay and Norris charter some steamers in the Atlantic Coast trade, and with their consent had suitable ones of several lines inspected by experts. But the terms asked by the owners were too high. Since building a vessel would have involved a year's delay, I looked about for a purchasable one of the proper kind and was fortunate enough to find what I wanted in the new iron steamer *George W. Elder* of the Old Dominion Steamship Company, running between New York and Norfolk, Virginia. She answered our requirements so well that I took the risk of closing a contract for her purchase for \$250,000, for delivery in April, after I was advised of the ratification by the Frankfort committee of the preliminary agreement with Holladay, but without awaiting the conclusion of the new contracts with Latham as agent of the Oregon Central's and the steamship company's creditors.

This was exceeding my authority; but, as Latham's principals had notified their consent to Frankfort, I did not hesitate to assume the responsibility. I was even bold enough to consider the purchase of a second new steamer, which was offered to me by the Pacific Mail Steamship Company, the *City of Panama*, an iron steamer about a year old, then running between San Francisco and Puget Sound. As Norris had informed me that the Pacific Mail agents on the coast recommended her being put on the Portland route, I agreed to have her inspected.

My voyage to Germany the year before had been made on the North German Lloyd steamer *Oder*, commanded by Captain K. van Oterendorp. I sat next to him at table and liked him so much that I made up my mind to offer him the management of the steamship company if we got possession of it. I knew the selection of a competent German for the position would please my constituents and give them increased confidence in the future of the company. In due time I offered him the appointment as general superintendent, which he accepted.

Before coming to the coast, he attended to the preparation of the *Elder* for her voyage around the continent.

I left for San Francisco at the end of March and was met there by Mr. Koehler for consultation. I was greatly taken aback on learning there that Latham was quite ill and unable to transact business. The first payment on the *Elder* was due before the end of April, but I could not arrange for it without having come to terms with Latham. It was arranged, after some cable correspondence, that General Barnes, the counsel of the London & San Francisco Bank, should act for Latham. I found him very obliging and ready to expedite the drafting of the additional contracts as much as possible. Our work was done in a few days. I felt well satisfied with my part of it. I had promised my committee to try to get a long option to buy the claim of the Oregon Central creditors, amounting to \$1,000,000 and accrued interest, at a reduced figure. I obtained a three-year option for the bondholders to purchase the loan and interest for \$250,000 cash, a much greater concession than I had ever expected to secure. I felt very much elated at this success. But the examination of the *City of Panama* did not result satisfactorily. My expert, after making two voyages on her, pronounced her unsuited for our purposes.

I sailed with Mr. Koehler for Portland on April 8, 1876, and arrived there on the eleventh, my forty-first birthday. My first business was to assume control of the several companies and then to have them take the necessary action to comply with the several requirements of the settlement with Holladay. The promised resignations of Holladay as president and director and of his fellow directors, and the promised proxies to vote all his stock at the annual meeting then convened of the Oregon & California stockholders, were ready and were delivered to me. The boards of the companies were first reorganized on April 12 and 13, and were composed as follows: Oregon & California Railroad Company: S. F. Chadwick, C. H. Lewis, Hans Thielsen, George W. Weidler, Henry Villard, Henry Failing, and Richard Koehler. Oregon Central Railroad Company: T. R. Cornelius, George W. Weidler, Richard Koehler, Henry Villard, Hans Thielsen, S. F. Chadwick, and M. Crawford. Portland Dock & Warehouse Company: George W. Weidler, P. Schultze, Richard Koehler, Henry Villard, and John D. Biles.

I was immediately elected president of the steamship company, and J. D. Biles was elected secretary. For reasons of policy, State Senator T. R. Cornelius was chosen president and A. G. Cunningham, secretary of the Oregon Central, and G. W. Weidler temporary president

of the Portland Dock & Warehouse Company. The stocks of the three companies having been turned over, the cash payments for the Portland Dock & Warehouse Company's property were made, to the great relief of Holladay. The meeting of the Oregon & California stockholders was postponed for a few days, so as to give time to prepare the contracts to be ratified by it. Then a new board was chosen. I was elected president, Richard Koehler, vice-president and auditor, and A. G. Cunningham, secretary. The Oregon & California stock was, however, not actually delivered for some months, as the \$300,000 Oregon Central bonds could not be got ready for delivery any sooner.

For the first ten days my time was absorbed from morning till night by the work incidental to the final dealings with Holladay. As the Oregon & California bondholders had to borrow the purchase price of the warehouse and docks from Messrs. Sulzbach Brothers, agreements with and mortgages to the latter were called for. The new relations among my constituents, the creditors represented by Latham, and the corporations, required action on their several parts.

A second mortgage on the Oregon Central had to be created. To find a proper consideration for its issue and the guarantee of interest on the \$300,000 bonds by the Oregon & California for the benefit of Holladay taxed the ingenuity of counsel, no less than the legal *quid pro quo* for the contribution of the steamship company towards the interest on the Oregon Central bonds. I divided the properties of the dock and warehouse company by selling to the steamship and Oregon & California companies, respectively, the separate properties in Portland and East Portland. Lastly, there was the complicated task of securing proper modifications of the existing contracts between the transportation companies and the Oregon Transfer Company. Our demand, in the interest of the public, that other carriages and drays than those of the company should be permitted to compete for the passenger and freight business was at first strenuously resisted, but finally acceded to.

These most urgent matters having been duly disposed of, I spent some time in a close inspection of the two railroads, in the course of which I made more or less lengthy stops at the several towns along the lines, in order to learn their condition and to become acquainted with the prominent citizens and ascertain their opinion of the past management and any suggestions they might have for our mutual benefit. I was not very much encouraged by the development or the apparent capacity for the growth of those towns. I also made excursions from the leading points by carriage into the adjacent parts of the Willamette and other valleys, and in every way sought to gather the local knowledge

necessary for an intelligent discharge of my new duties. My first favorable impressions of the year before regarding the great natural attractions and resources of western Oregon generally were confirmed, and, upon the whole, I returned to Portland in a hopeful frame of mind.

The next task before me was the solution of the problem presented by the hurtful competition on the Willamette south of Portland. Unable to come to an understanding with Holladay, or to stand the continuous losses in the running of its boats, the locks company had consolidated with the Oregon Steam Navigation Company at the close of 1875, on terms which gave the latter control and practically ended the brief but disturbing part which B. Goldsmith had played in that field of transportation. I was pledged to my constituents to end the losses from the competition between the railroad and river interests by a sale of the Oregon City transfer basin and boats of the Oregon Steamship Company. But Mr. Koehler argued strongly against the absolute abandonment of the upper Willamette River by our interests as certain to injure the railroads. He advocated the purchase of the transfer basin and boats by the Oregon & California, for \$50,000, the price fixed by the creditors, the money to go towards the new steamer; but I did not dare to propose this to the Frankfort committee in view of the burdens already assumed by our bondholders.

So I bethought myself of a combination which would relieve us of the loss from the steamboats and yet protect the railroads—an agreement upon satisfactory rates with the Oregon Steam Navigation Company, which we would guard against violation by keeping possession of the transfer basin at Oregon City, so that we could resume competition if we had to. After nine days of daily negotiations, the terms were definitely settled. The steamship company sold its river boats to the navigation company for \$75,000, \$20,000 in cash and the remainder on time, against promissory notes secured by mortgage. The transfer basin was not included in the sale, but conditionally leased to the purchasers. The two railroad companies and the navigation company bound themselves to charge like rates from all competitive points and to pool the tonnage carried, out of the total of which the former were to be allowed two-thirds and the latter one-third.

I had barely closed this very satisfactory arrangement, when I received a great shock from a cablegram from the Frankfort committee, informing me that my last agreement had arrived, that I had exceeded my powers in it, and that I should not act under it before I was notified of its ratification by the committee. I was most painfully

surprised and puzzled by this apparent repudiation of my action, since I had carefully sought to keep within my authority. As the Latham contract was the main part of the basis of the settlement with Holladay, disapproval of it by my principals would upset everything I had accomplished in New York, San Francisco, and Portland. Moreover, it threatened me with a most disagreeable personal embarrassment, inasmuch as I had left drafts issued by me on the committee for \$70,000, for the first payments on account of the *Elder*, with the London & San Francisco Bank, and I had instructed the bank from Portland, after the deal with Holladay was closed, to forward the drafts for collection.

I sent a long dispatch in reply to the committee's cablegram, explaining the various complications that would arise from the repudiation of my acts and asking for assurance of the payment of my drafts and for an indication of the ways in which I had exceeded my authority. I was fully determined to resign at once as president and as a member of the Frankfort committee and to return east, if a satisfactory answer was not returned. Fortunately, it came and relieved me of a great load of anxiety. The drafts would be honored, and the supposed transgressions of power on my part had turned out to be more apparent than real.

Still, the committee insisted upon such modifications of the Latham contract that it took all summer and till late in the fall to adjust matters definitely as between the creditors and the bondholders. The committee insisted by cable, against my protest and Mr. Koehler's, that the river boats should be sold with the transfer basin for cash, and this was accordingly done. But I succeeded in obtaining \$65,000 cash instead of \$50,000, the price at which I was authorized to sell. None the less, the pooling stipulations with the navigation company went into effect.

In order to introduce all possible economies, I went over the pay-rolls and all other regular expenditures of the three companies as early as possible. By abolishing useless offices, reducing salaries, and contracting at lower rates for supplies for the steamers, I effected large savings. In order to secure fuel at lower cost, I had the *Gussie Telfair* bring coal from British Columbia. I successfully insisted upon a large reduction of the excessive compensation paid to Holladay's representative in the East, George K. Otis, who had arbitrarily taken the Alaska mail contract in his own name and tried to hold us up on that ground. • I cut down the charter money paid to Ben Holladay, Jr. for the use of the small steamer *California* on the Sitka route, and saved the wharfage collected by Ben Holladay from the steamers at Astoria for his

personal benefit, by ordering them to land at a free dock. The town had donated the site for the dock then being used to the steamship company on condition that it be free, but Holladay had appropriated it as his private property.

I was also able to prevent serious consequences from an inexcusable piece of neglect by my predecessor. It came to my knowledge, ten days after my arrival, that the last section of the Oregon Central had never undergone inspection by the United States government, upon which inspection the earning of about 100,000 acres of the land grant depended. Only a little over a week remained before the expiration of the legal limit for its acceptance; but, by using the telegraph freely, we managed to get three local commissioners appointed, take them over the section, and secure their certificate just in the nick of time.

CHAPTER V

PROGRAMS AND POLICIES

AT THE request of my principals, I had sounded both C. P. Huntington in New York and his three associates in San Francisco, Stanford, Crocker, and Hopkins, as to their disposition in regard both to the purchase of the Oregon & California road from the bondholders and to the completion of the California & Oregon to a junction with the Oregon & California. All four of these Central Pacific magnates claimed to be favorably disposed, but they would not commit themselves to anything definite; and I received and reported the impression to Frankfort that they would not be ready for some time to come to do anything in either direction.

The Central Pacific people, and especially C. P. Huntington, on the other hand, had for some time been lending a seemingly willing ear to a scheme conceived and pushed with a good deal of energy by Byron J. Pengra, an enterprising resident of western Oregon and former United States surveyor general for the state. He had projected a railroad from Winnemacca on the main line of the Central Pacific through southeastern Oregon and the Cascade Range into the Willamette Valley. He had made reconnaissances over the proposed route and actively advocated his plan in the press of the state and otherwise. He induced the Portland Board of Trade, through William Reid, its secretary, to enter into communication with the Central Pacific people on the subject. C. P. Huntington, accompanied by the chief engineer of the Central Pacific, General Colton of San Francisco, and R. T. Colborn, the well-known Civil War correspondent, made an exploring tour through northern California and western Oregon. The result was that Huntington made a formal proposition to the people of Oregon in a communication addressed to the Board of Trade of Portland. He offered to build a branch of the Central Pacific from Winnemacca to some point on the Willamette for and in consideration of a bond subsidy. There were legal obstacles to the acceptance of the offer by the state, but aside from this it got only a chilly reception from the press and the public, owing to the additional taxation it involved; nothing whatever came of it.

Huntington had made his public proposal about the time of my arrival in Portland. Our transportation interests had been utterly ignored in the negotiations between the Board of Trade and the Central Pacific. I felt provoked by this and resolved to comment publicly upon it at

the first opportunity. The opportunity soon came through an inquiry as to the plans of the new management represented by me, addressed to me by the secretary of the Board of Trade under date of April 28, 1876. I answer at length on May 2, 1876. The correspondence here follows in full:

PORTLAND, April 28, 1876.

Henry Villard, Esq.,
President O. & C. R. R. Co., Portland:—

The chairman of our railroad committee mentioned to me this morning that you had expressed surprise that we had not asked your new company what they would do in helping Oregon to get railroad connection, and that your friends would be disposed to accept half the terms made by Mr. Huntington. At the request of the chairman I called to see you this forenoon and did not find you disengaged, and my object in now writing is to assure you that we as a committee and board of trade have no interest in one route more than another, and would be happy, cheerfully, to have your kind co-operation in bringing about that which we all so much need. We recognize that you have now far greater interests at stake in this country than perhaps ourselves, and we will welcome with pleasure any proposal or assistance you may be pleased to give us.

When I say that it affords the mercantile community here pleasure to hear that you and friends are *now* in possession of the Oregon railroad interests I say *less* than the feeling really is. The trade and commerce of this city I know welcome the change made.

Yours truly,

WILLIAM REID, Secretary.

Office of O. & C. R. R. Co.,
PORTLAND, OGN., May 2, 1876.

William Reid, Esq.,
Secretary of the Board of Trade.
DEAR SIR:—

Your esteemed favor of 28th ult. was duly received, and would have received earlier attention but for the great pressure of my many duties.

In reply, I beg to express frankly the surprise I felt at the failure of the Board of Trade to take any notice whatever of the transportation interests which I represent in behalf of their European owners, during the recent negotiations between the Board and the Central Pacific Railroad Company. Every fair-minded man will readily admit that the transportation lines now under my management have, in spite of all past mistakes, contributed largely to the prosperity of Oregon. Hence it seems to me strange that regardless of this fact a scheme should have been perfected without even so much as advising with us, which if carried out, would have placed our interests at the mercy of the powerful combination of capital invited to the State by your board. We certainly could not be expected to remain indifferent spectators when we had so much at stake. We had, to be sure, taken measures to protect ourselves in the contingency of the Central Pacific taking hold of rail-

road enterprises in this State, by coming to an informal understanding for co-operation with that company. But as your Board had no information of this, we still could justly feel aggrieved at the total disregard of our interests by the board. Not being asked for suggestions or propositions, it was not our part to volunteer them. The negotiations with the Central Pacific, however, having now practically come to naught, it may not be improper for me to say that, in my opinion, it is not in the true interest of Portland, or the State at large, to seek a direct railroad connection with the Central Pacific. With such a connection the latter would always absolutely control the commercial interests of the State, and Oregon would never be anything else than a mere dependency of California. This will at once become apparent to any one looking carefully into the subject. I say this notwithstanding the fact that the Oregon and California Railroad was built with a view to such connection, and that our interests might be materially improved by it.

I feel grateful for the expression of satisfaction and sympathy with the change of management which you kindly convey to me in behalf of the commercial community, and I would state that the mercantile and agricultural interests of this city and the State will have no reason to regret the change. Notwithstanding the enormous losses on their present investments in Oregon, those I represent will not hesitate to make further large outlays for the improvement of the transportation lines under our control. As the State for some time to come is likely to be dependent mainly for ready communication with the outside world upon the line of steamers to San Francisco, we believed to be serving the interests of Oregon best, and to meet the long entertained wishes of the public by putting on two new steamers as early as possible. The new steamers will have much larger carrying capacity than those now running, and much better accommodations for passengers. They will be provided with the most improved machinery, and will be faster than and far superior to any steamers now running on this coast. One will be running in the line by the middle of July. Not being able to purchase another outright,—of all the steamers for sale on the Atlantic coast not one was found to be adapted to the wants of our trade except the one bought—we shall have a second one built so as to have it running here by next spring. We propose further to complete the west side road to Junction City. We are anxious to build twenty-five miles of the uncompleted distance this summer and the remainder within the following two years. Whether we shall do the former will depend upon circumstances which I need not explain here. It is hardly necessary for me to allude to the beneficial influence upon the growth of the State these additional railroad facilities will naturally have.

The public will also find us at all times willing to help, to the extent of our ability, any legitimate enterprise promising to promote the material prosperity of the State. I may be permitted in this connection to refer to the expenditure of tens of thousands of dollars by us in the last two years in promoting immigration, through extensive advertising of the resources of Oregon in the leading newspapers of the country, by the gratuitous distribution of vast numbers of circulars and pamphlets, and the employment of special salaried emigration agents at San Francisco, Omaha and in the East, and by contributing to a proper representation of Oregon at the Cen-

ennial Exhibition. The public may further rest assured that though the owners of the railroads and ocean and river lines are foreigners, the management will be in the true interests of Oregon. Knowing that the good will of the people is necessary to our success, we intend to adopt a policy with which no just fault can be found. We do not expect to earn anything like full interest on our investment. We shall be content with what would be considered a very unsatisfactory income by Oregon capitalists and regulate our charges to the public accordingly.

We propose to conduct our affairs in a business way and to confine ourselves strictly to them, leaving to others the care of political and social problems.

The management will be found ready at all times to listen to proper complaints and apply the proper remedies.

Requesting you to lay this letter before your Board, and to give publicity to such parts of it as you may deem proper, I remain,

Very respectfully,

HENRY VILLARD,

For the owners of the O. & C.R.R.,
O.C.R.R., and Oregon Steamship Company.

What I said in my letter regarding our purpose to complete the west-side road to Junction City led at once to a movement among farmers south of the Yamhill to give us a guarantee of sufficient wheat tonnage at a satisfactory price to induce us to extend the line at once to Corvallis. I was invited to attend a meeting called for that purpose and did so, addressing an audience of about one hundred. The resolutions passed by the gathering and the assurances I received, and what I saw during a two days' stay in the neighborhood, warranted me in writing to the Frankfort committee that I felt confident that, if the line were only extended twenty miles, it would secure enough additional traffic to yield \$80,000 net a year. But I had been misled, the result of the canvass among the wheat growers falling far below the figures of the promises to me.

What I knew of the decrepit condition of our old steamships had convinced me, as I have said, that, in order to prevent competition and to profit properly from the existing business, we must have at least two new steamers. I had stated as much in my letters to the creditors and to Frankfort. A report made to me by the superintending engineer on the state of the steamer *Ajax*, the substance of which was that her decks and sides were rotting to such an extent that she would be unseaworthy in a short time and that her engines needed thorough repairs, strengthened me in my determination not to rest until a second modern steamer was secured for the line. It appears from my correspondence files that I wrote several letters during May and June to London and Frankfort urgently requesting authority to contract for

another ship. I re-enforced my pleas with promises as to the beneficial results from the running of new steamers and the extension of the Oregon Central that were certainly not borne out by subsequent developments. I went so far as to say that, with these additions to our earning power and the certain great growth of Oregon, the full 7 per cent interest on the \$10,950,000 Oregon & California bonds would be available within five years. With my sanguine temperament, I actually believed it.

It appears of record, too, that at that early date I thought of a great combination of transportation interests in the Willamette and upper and lower Columbia valleys, with a view to rendering competition by land, sea, and river impossible. I discussed the scheme with the management of the Oregon Steam Navigation Company and found them inclined to enter into it. One of the points considered was the carriage of wheat from the upper Columbia under through rates to San Francisco. I used their willingness to go into this and the impracticability of doing it with the small freight space of our old steamers as one of the best reasons for providing larger ships. I also called attention to the fact that Congress had just amended the navigation laws so as to require more cubic space for passengers, which practically reduced our capacity to handle our vast growing traffic by 30 per cent. In my enthusiasm over the future prospect, I even offered, in a private letter to the chairman of the Frankfort committee, to make my residence in Portland for several years if my recommendations were approved. On the other hand, I gave formal warning that I must not be expected to expose myself to the risk of criminal liability by running unseaworthy steamers.

In the middle of May I took my first trip up the Columbia. I was much impressed with the picturesque and imposing scenery between Portland and the Cascades, and between the Cascades and The Dalles. I perceived the practical monopoly which the control of the lower and upper portages gave to the navigation company. This strong grip upon the natural outlet of the vast, fertile, but hardly touched regions drained by the Columbia and Snake rivers influenced my thoughts with enticing visions of the empire that could be built up upon such resources and of the share I might secure in founding and developing it. The excursion strengthened my belief in my scheme of consolidation with the navigation company into a firm resolution to attempt its realization as soon as possible. Indeed, it was at that early date that a plan arose distinctly in my mind which remained ever present with me until it was carried out through the organization of the Oregon Railway & Navigation Company.

The *Geo. W. Elder* sailed from New York under command of Captain Connor on May 11, 1876. Strange as it may seem, the old commodore and the other captains of the line objected at first very much to donning the uniform which I required all officers of the steamers to wear, but they soon became reconciled to the change and proud of it. The ship arrived at San Francisco on July 19, and reached Portland on her first trip on September 5, on which she cleared \$10,000. She came up to the highest expectations, proved very profitable from the beginning, and paid for herself in less than two years.

When the *Geo. W. Elder* sailed, Captain van Oterendorp was able to leave New York and assume his regular post in charge of the steamship company in San Francisco. As I deemed it advantageous to make him acquainted with Oregon and to introduce him personally to our officials and the principal customers, I instructed him to be in Portland by the end of May. I then took him over both roads and up and down the Columbia and made him known to everybody whose acquaintance was necessary and useful to him. His frank and straightforward ways evidently produced a good impression.

I remained two months in the state. Before this second visit to it, I hardly knew anybody outside of Portland, but at its end I was well known throughout western Oregon. I could truly claim, too, that I had secured the good will and confidence not only of the leading businessmen but of the public generally in city and country. This was due to a considerable degree to my reversal of Holladay's practice of seclusion. Whoever wished to say anything to me, either in Portland or on any of my trips to the interior, always found me willing to listen. I sacrificed a great deal of time by this policy, as not a few honest but ignorant persons wasted my time with ingenuous wishes and crude suggestions. I had to deal, too, with not a few schemers, political and otherwise.

I made it my special object to declare publicly on every occasion that, contrary to Holladay's precedent, the new management was determined to abstain absolutely from all interference in state and local political affairs. This made a very good impression in both parties, and I got on very good terms with their respective leaders. Altogether, I could say that I had made a good many friends and no enemies. With the sense of having done my whole duty according to the best of my ability, to my constituents as well as to the people of Oregon, I sailed for San Francisco on June 9.

Owing to the objections of the Frankfort committee to my contract with Latham, which related, however, only to the order of priority of the respective advances of the creditors and bondholders, I expected

to negotiate a new one with him, but found that he was absent. As he intended to set out for Europe soon, it seemed as well for us to meet in New York and the meeting was arranged.

I could not deny myself the satisfaction of seeking a meeting with Messrs. Stanford, Hopkins, and Crocker, in order to tell them that, considering their previous friendly assurances, the Central Pacific had not acted in good faith towards the interests I represented in making the proposition for a line to Oregon from Winnemacca. They did not dispute the facts, but contended that it had all been C. P. Huntington's doings and renewed their profession of friendliness. When I made the same complaint to Huntington some weeks afterwards in New York, with his usual cynicism, he did not deny his responsibility or inconsistency, but argued that, as no harm had come to us from his maneuvers in Oregon, it would be better for both sides if the matter were dropped and we cooperated for our common good thereafter. When I explained my plans for completing the west-side road to Junction City to him, he said that, if I succeeded in this, we would find the Central Pacific ready to buy us out at a fair price.

I returned to the East before the end of June. Latham's arrival was delayed till fall, but I corresponded with him respecting the second new steamer, and he undertook to get the creditors to waive their interest for a period to facilitate the financing of one. I also further pressed the Frankfort committee for the same object, pointing to the fine earnings of the steamship company, amounting to \$75,000 net in three months since we had control, and to the fact that, besides the *Ajax*, the *Oriflamme* had also been found upon inspection while I was in San Francisco to be in a very bad condition. This exposed the management to criminal prosecution if it ran the risk of keeping the ships in service during the stormy winter season; but, if they were laid up, together with the *J. L. Stephens*, which never ran between fall and spring, we should be reduced to the one new steamer.

The committee did not decline to approve of the acquisition of a second new steamer, but would not act until the Latham contract had been modified. Hence I could do nothing but look around to see whether a suitable ship was in the market. I soon discovered one under construction by John Roach, for a firm which had become financially embarrassed and was willing to sell. I purchased her early in November. She was the *City of Chester*, a smaller steamer than the *Elder*. After being suitably refitted for her new trade, she left New York on December 31, 1876, under Captain Bolles, and arrived at Portland on the following March 9.

I was kept anxious by the great flood which visited Portland shortly after I left. The steamship dock and the office building in Portland, the terminal grounds and buildings in East Portland, and the track for several miles were inundated; the freight business of the railroads was interrupted for two weeks and we had only \$600 net earnings in June.

The remaining steps in the settlement with Holladay dragged along and bothered me all summer. The \$300,000 Oregon Central second-mortgage bonds, after being engraved in New York, had to be sent to Oregon for execution and were not received by me until early in August. Then there was some more delay owing to the neglect of Ben Holladay to relieve the Oregon Central Company of its debt of \$70,000 to the North Pacific Transportation Company, and the failure of both Holladay and his son to reconvey to the Oregon & California some of the real estate wrongfully standing in their names. The elder Holladay's creditors were kept quiet in the meantime by my personal guarantee of the delivery of their respective portions of the bonds. It was only in the third week of September that I actually turned over \$275,000 of the bonds; the remaining \$25,000 I retained some time longer as security for the execution of deeds by the Holladays. Thus it took nearly twenty months from the beginning of my negotiations for the second deal with Holladay to consummate the transaction.

My parting from Holladay was for good. I did not meet him again. He never recuperated financially and sank at once into insignificance. He died at Portland, Oregon on July 8, 1887. He spent the last years of his life in that state, struggling with poverty; but he played no part, either socially or politically, and furnished convincing proof that, but for the influence he commanded as head of the corporations, he would never have risen above the ordinary level.

With the approach of fall, I had to pay attention to the evident determination of the new political party, the Grangers, which had quickly attracted the farmers of Oregon, as those of all other western states, to its fold, to follow the example of other states and press laws regulating passenger fares and freight rates through the Legislature at its impending session. I prepared and published the following declaration of our attitude regarding that attempt:

September 1876.

In adopting the freight tariff which went into effect on the first of June last, the Oregon & California Railroad Company could, in the nature of things, hardly expect that it would be favorably received by those who are unwilling to recognize the just claims of the owners and creditors of the road to a moderate income from its operation. For men everywhere are loath to

consent to that justice which interferes with their own gains. The company was likewise conscious of the probability that this new policy would lead to new opposition on the Willamette River in spite of the losses of hundreds of thousands of dollars which competition has heretofore brought upon those engaged in it, inasmuch as this world is full of people who will never learn by experience and think well enough of their own smartness to believe that they can make, where others have lost money. But this being a free country with everybody at liberty to use his capital in any way he chooses, we could not and would not complain of any competition or opposition that might spring up by land or by river. But what we were not prepared for—as we supposed, and still suppose, the great majority of the people of Oregon to be sensible and fair-minded and willing to deal by others as they wish to be dealt by—were the foolish and wild threats that have been made in some quarters to coerce us by legislative measures into the adoption of such a freight tariff as would suit not ourselves but the producers and shippers of wheat, or in other words to *confiscate* by dint of legislation the very scanty income which our property has yielded so far. Now, our good faith in the good sense of justice of the people of Oregon is such that we have no fears that their legislative representatives will listen to the voice of selfish schemers and demagogues; but as it is nevertheless likely that the legislative body about to assemble will be approached with propositions of the nature described, it may not be out of place to state the reasons that have led to the adoption of the present tariff, to express our view of the rights that attach to our railroad property, and to indicate the inevitable consequences of any attempt at violence to them.

As regards the first point, the existing tariff was adopted simply because the competition of last year and the year before with the river interests had resulted in giving us an income not equal to even one-half of the low interest ruling in the old countries of Europe, and had precluded the possibility of making necessary improvements of our existing properties.

In a former communication to the public through the press of the State, we stated that the net receipts of the Railroad Company during the last business year had not exceeded \$213,000, or less than two per cent of the nominal amount of the bonded debt of the company and little over four per cent of the actual cost of the road, and this with the most economical management. These net earnings were derived from gross earnings amounting for the year March 1, 1875 to March 1, 1876 to \$562,370, and represent, therefore, about 38 per cent of the gross income. In the business year 1874-75 the gross earnings from freights were \$347,168, in 1875-76 they amounted to only \$318,737, or a decrease of \$28,430 for the year, or about eight per cent. Considering the past and probable future river competition, we may well ask what other way was there for us to prevent our income from falling even below the pittance heretofore earned, than by an increase of freights?

And to what extent will this increase of rates benefit us? To an excessive extent? Let us look at the figures. As stated, the gross earnings in 1875-76 amounted to \$318,737. The tonnage carried over the whole length of the road was 53,000 tons, of which 40,000 was derived from that portion of the road which competed with the river and *for which alone there has been an increase of*

rates, that is from Eugene City to Portland. The proportion of our gross earnings to the tonnage for the distance stated is \$240,556. Now, supposing that the tonnage to be carried by the road between the points named will be the same this year as last—no well informed person will contend that it will be greater—the increase of rates, which is equal *on an average* to 40 per cent of the rates of last year, will at the most bring our gross earnings from freighting up to \$336,776. Deducting from this amount 62 per cent for operating expenses, we shall have left \$128,976 as net earnings. Last year the net earnings for the distance mentioned, allowing also 62 per cent for operating expenses, were \$91,411, thus showing that we shall be benefited by the increase of rates on the tonnage carried just to the extent of \$37,565 and no more, that is just *one-third of one per cent of the interest of the company's bonded debt*. Who will say again, in the face of these figures, that the company is a greedy monopoly? Every just-minded man must admit that we are more moderate in our expectations of profit than any private individual would be in his desires of income from his property. For, supposing we divided every cent of our net income, the bondholders would get a little over two per cent on their holdings, or in other words less than one-third of what they are entitled to.

But we shall not be able to give them the whole benefit even of this pittance. For, in the interest of the traveling and shipping public, we have made various expensive improvements, among which we would mention the new Clackamas bridge, costing \$30,000 alone, the construction of twenty freight cars and the re-laying of six miles of new rails.

Again, willing and anxious to contribute as much as possible to the prosperity of the State by attracting immigration, we have spent and are now spending, ten per cent of our net income for immigration purposes. What other corporation, what other individual in the State makes such sacrifices for the public benefit? And shall we be rewarded for our liberality by having our modest income violently taken away from us?

And right here we would submit another point for consideration. We are taxed by the State and counties through which our road extends to the amount of fully ten per cent of our net income, and may well ask, whether this is not more than a just share of the public burdens, which we have borne, however, so far without complaint.

If our word as regards the above statement of the earnings of the Oregon & California Railroad be not believed, we will be glad to give a Legislative Committee access to our books to verify it.

To meet the complaints directed against the new tariff of the Oregon Central Railroad, it will be only necessary to state that that road has never yielded one cent of income to the parties that furnished the money to construct it and that it has at no time earned more than the bare operating expenses. A diminution of its present small earnings would inevitably compel us to stop operating it, as we cannot be expected to be satisfied with no income and subject besides to a constant drain to meet deficiencies.

Concerning our right to the management of our properties in our own way, we would say that we invested our capital in railroads in this State on the strength of the explicit assurance that a railroad corporation in Oregon has "*power to collect and receive such tolls or freight for transportation of persons or*

property thereon as it may prescribe," which assurance is contained in Section 36, II of the General Law on Corporations in this State and constitutes a guarantee of this power which cannot be violated by the legislative body of the State without coming in direct conflict with Section 2, XI of the State Constitution, which provides distinctly that the Legislature shall have no "power to impair or destroy any vested corporate rights," and with I, Section 21, providing that "No ex post facto law, or law impairing the obligation of contracts, shall ever be passed," which is, as is well known, but a confirmation of a prohibition of the Constitution of the United States to the same effect. Knowing the protection thus vouchsafed to us, we calmly await the course of events, trusting to the integrity of the State and Federal Courts for the vindication of our rights, if any power subject to their jurisdiction should venture to dispute them.

Our abiding trust in the sober judgment and good faith of the people of Oregon and their legislative representatives does not permit us to believe that they can be persuaded to enter upon so hazardous a course as to attempt to take the control of our dearly acquired property practically from us. Such a high-handed course would be as reprehensible and bring no less disgrace and misfortune upon the State, as repudiation of their just obligations has brought upon other commonwealths. For, it would be but a violation of plighted faith in another form, and the effect of so-called Granger legislation in the States east of the Rocky Mountains shows that the money lending public both in this country and in Europe so regard it. What has been the experience of Wisconsin, the State in which the experiment of fixing rates for railroads by legislative enactment, has been tried more thoroughly than in any other State? The notorious Potter law did not remain long on the Wisconsin Statute Book, after its destructive working had become apparent and it was virtually repealed last winter, thus having been in force only from one legislative term to another. And why did the Wisconsin legislators hasten to retrieve their grievous mistake? Because the existence of the law was found to operate as an absolute check to the influx of outside capital into the State, as it filled every class of capitalists with the fear that the violence done to railroads might be applied to all interests, and because the supply of money for new railroad construction, of which the State stood much in need, had ceased entirely.

The intelligence of the people of Oregon renders us confident that they will not refuse to profit by the lessons of experience, especially as the constitutional and legislative guarantees to railroad companies in this State of the right to regulate transportation rates would make any attempt to curtail this right a priori abortive. And it will be well to bear in mind that the very making of such an attempt would already involve deplorable consequences for the State. It would taint its reputation to such an extent that not another dollar of outside capital for any public enterprise would find its way to Oregon during the lives of the present generation. It would destroy entirely the prospect of securing for Oregon an Eastern railroad connection. Certainly we should at once abandon every effort to develop the transportation enterprises under our control, upon which development the prosperity of the State altogether depends. It is generally known that it is our intention to complete the Oregon Central or Westside road. If we are

left undisturbed in the enjoyment of our rights as owners and creditors, this will be done within three years at the latest, and next year will see the addition of twenty-five miles to the present length of the road. But if we should be disturbed, not a rail will ever be added to it, if we can help it. Furthermore, we know that the owners of the Central Pacific R.R. with whom we intend to cooperate in connecting our railroads with theirs, take the same view of the case. If we are permitted to carry out our intentions, Oregon may enjoy the benefit of such a connection within five years. On the contrary, if hostile action should be attempted, there is not one of those that have joined in the unjust outcry against us that will live to see the day when Oregon will be lifted out of her present isolation.

A candid consideration of the facts bearing upon the subject will show that we suffer incomparably more from the evil under which our railroad interests labor and which compelled us to increase the rates at competing points in the Willamette Valley, than the producers and shippers suffer from the greater cost of transportation. This evil is the small amount of carrying business which the country offers to the railroads. It is a fact susceptible of arithmetical demonstration that with our carrying capacity we could easily do in three months all the freighting offering to the roads in the course of a whole year. Take our present business year. Why, from March 1 to August 1, the entire gross earnings of the Oregon & California R.R. were only \$167,027, leaving as net profit for the period of five months only \$19,175! In the same period the gross earnings from freighting were but \$76,176, that is in five months less than one-third of what is earned in twelve from the same source. It thus appears that for a large portion of the year the road is operated for the benefit of the public and not for our own; for, the wretched profits of the spring and summer months do not compensate for the wear and tear of the rolling stock and track. The most striking evidence of the insufficiency of the business is furnished by the fact that for a considerable time of the year the receipts from the passenger traffic exceed those from the freight traffic—a discouraging phenomenon, with which I believe no other road in the United States is afflicted. It is this paucity of business which makes the case of the Oregon roads an entirely different one from that of the Eastern roads which, by attempting to grind dividends for watered stock out of the public, gave rise to the Granger movement. The evil discussed furnishes the true key to the solution of the transportation problem which troubles us verily more than those that complain of our freight rates. We would say to the producers and shippers of the State: double and triple our tonnage and you will find us ready to lower the rates correspondingly. Even as it is, no more is charged on our roads than is charged on roads in California that do a three times larger business.

In conclusion we should be very sorry to feel that the people of Oregon have forgotten the undeniable and immeasurable benefit which the investment of our money in the railroads has conferred upon them. It will be better for them and for us that they should remember the state of things that existed before either road was built and ask themselves whether our money did not appreciate the value of every acre and every town lot and of every kind of agricultural products raised adjacent to the roads, and what

the Upper Willamette and Umpqua and Rogue River valleys would be without the longer road. And having answered these questions, let them act accordingly.

H. VILLARD,
on behalf of the owners and creditors
of the Oregon & California and
Oregon Central R.R. Co's.

My contention that the Constitution and laws of the state protected the railroads from legislative interference with their right to fix their own charges for conveying passengers and freights became, of course, subsequently untenable by the decision of the Supreme Court of the United States in the so-called Granger cases. But this contention, together with my statement that hostile legislative action would prevent the completion of the Oregon & California and Oregon Central roads, had a sobering effect upon the legislators, so that in Oregon the Grangers were defeated by a large majority.

CHAPTER VI

VICISSITUDES OF STEAMSHIP OPERATION

MUCH of my time, after my return to the East, was again devoted to the current business of the Eastern Immigration Bureau, both during the Philadelphia Centennial Exhibition and after. The bureau's efforts continued steadily to bear fruit, as shown by the large increase of the northbound passenger traffic from San Francisco in the spring of '77. I tried my best also to obtain the means for extending the Oregon Central to Junction City. I labored for this unceasingly by correspondence, but did not succeed until 1878, as will be related hereafter.

A most disagreeable surprise came to me in March in the receipt of a letter from the collector of customs in San Francisco, officially informing me as president of the steamship company that S. G. Elliott had filed allegations that the stockholders of the Oregon Steamship Company were now foreigners, and that its vessels were therefore subject to forfeiture to the United States under the laws thereof, and that these charges had been referred to the Secretary of the Treasury. I was obliged to enter into a voluminous correspondence with the Secretary of the Treasury, but succeeded in warding off this treacherous blow.

Not only the passenger but also the freight business of the steamship company showed such a great increase from February 1877 throughout the following spring and summer as to demonstrate the entire insufficiency of the two new steamers to do the business offered. I felt obliged to lay up all the old steamers rather than involve the company in the enormous expense that would be necessary to put them again in safe running condition. The three ships had to be tied up for some years, and were finally sold for breaking up, bringing less than \$80,000 for all three. Time and again it happened that both passengers and large quantities of freight had to be left on the dock in San Francisco for want of room.

Satisfied that this fact was sure to bring on opposition, I felt it my duty to call on the parties in interest during the spring for authority to contract for the building of a third steamer considerably larger than the two others. I was reluctant to take this step, because I knew my original constituents, the Frankfort committee, were very much disinclined to impose new burdens on the bondholders. As expected, the committee declined to act as I proposed, but the steamship creditors

gave me assurance through Latham that I could rely on assistance in financing the third steamer. Accordingly, I made a new contract on behalf of the steamship company, on June 4, 1877, with the well-known shipbuilders, John Roach & Son, for a third steamer, afterwards known as the *Oregon*. The builders granted very liberal terms. She was to cost \$310,000, but no cash payments were required during construction and only \$50,000 on completion; the *Ajax* was to be taken for \$30,000 on account; and time was allowed for the balance.

Shortly after making this contract, I set out again for the Pacific Coast, accompanied by my whole family. As I have already stated, in the winter of 1873-74 I had become a member of the German committee for the protection of the holders of the three issues of bonds of the Kansas Pacific Railroad Company, which had become financially embarrassed in consequence of the general commercial crisis of 1873. As representative of the bondholders, I was appointed one of the two receivers of the road in 1876. In pursuance of my duty as receiver, I spent some time on the line and in Denver before we continued our journey to the Pacific Coast in the summer of 1877.

I had contracted a cold in Denver by an imprudence, which resulted in a hard cough that grew worse on the way to San Francisco. On arriving there, I received a dispatch from the War Department at Washington informing me that a regiment of infantry* was passing over the Pacific roads by express train bound for Oregon in consequence of the outbreak of war with the Nez Percé Indians, and requesting me to have a steamer meet the troops at Oakland, so that they could sail without delay. I gave orders at once to prepare the *City of Chester* for the extra service, and she was at the ferry landing in time to receive the regiment on its arrival. I crossed over to superintend the embarkation, during which one of the well-known icy San Francisco fogs came rolling across the bay and chilled me thoroughly. I felt feverish on reaching the hotel, but ate a late dinner with my family.

Three hours later I came down with an attack of pneumonia, and was delirious. It was the terrible night of July 23, when the "Sand Lots" agitators set fire to the city in numerous places. My life was in danger for more than a fortnight, at one time was so wholly despaired of that the physician informed my wife I could not live through the night, so that she telegraphed her relatives in the East that I was dying. It took me months to recover my full strength, and it was only in the latter part of August that I was again able to give attention to business. My illness spoiled my plan to spend the summer at Portland with my family,

* This was the 12th Infantry under command of General Wheaton.

and I returned to the East in October without having visited Oregon.

While I was delirious, steamship affairs took a most untoward turn. The Pacific Coast Steamship Company, then and now managed by Goodall, Perkins & Company, opened an opposition line by putting their steamship *Ancon* on the Portland route. Captain van Oterendorp, after consultation with Latham, at once met the competition by reducing cabin rates from \$30.00 to \$8.00, steerage rates from \$12.00 to \$3.00, and freight rates to a uniform charge of \$1.50 per ton to Portland, with rates of \$10.00 for cabin, \$5.00 for steerage, and \$2.00 per ton for the downward trips. These bad tidings were the first news I heard after recovering sufficiently to be spoken to on such matters.

This spectre of opposition had come in sight repeatedly ever since I had had anything to do with the Oregon companies. B. Goldsmith had tried for years in California, New York, and Europe in his fight with Holladay to induce other parties to furnish ships or capital for boats for the Portland route, but had failed, although he once came very near accomplishing his object. Then the Pacific Mail Steamship Company, which was running steamers on the Puget Sound route, considered the question of entering into competition with us, and had almost determined to put their new steamer *City of Panama* in the Portland trade; but I was able to prevent this through my influence with the parties controlling the Union Pacific Railroad, which company had then a large interest in the Pacific Mail Steamship Company. But now the danger had become a most threatening actuality. Had we been able to provide properly for the increased traffic by restocking the line earlier with new steamers, the contingency would probably never have arisen.

I apprehended from the very first that this cloud over our steamship prospects would produce at once the greatest discouragement among my European supporters, and might possibly lead to fatal embarrassments, owing to the old and heavy liabilities and the large new ones for the new steamers, to meet which large net earnings were required, while the heavy reduction in rates reduced the receipts to barely operating expenses. It was not surprising to me that, under the circumstances, the Frankfort committee became very much alarmed, and not only declined to contribute to the payment of the *Oregon*, but decided wholly to sever the connection of the bondholders with the steamship company; negotiations to that effect were brought to a conclusion early in 1878. A meeting of bondholders was called for February 9, 1878. They voted in favor of the proposition of the committee to surrender the steamship stock to the steamship creditors in consideration of a mutual release, so the committee should no longer be liable

for any of the payments for the new steamships nor for that portion of the property of the dock and warehouse company ceded to the steamship company.

Being released from these liabilities, the Frankfort committee felt encouraged to take up the subject of the extension of the Oregon Central, which it was authorized to do by the February 1878 meeting of the bondholders. But the committee thought best, before coming to a decision, to take the advice of Mr. Koehler, who, pursuant to its summons, reached Frankfort in June. After conferences with the committee, he embodied his recommendations in a printed report which was sent to the bondholders prior to the general meeting called for August 31, but which had to be adjourned to September 30 for lack of a quorum.

This general meeting authorized the acquisition of the Oregon Central and the issue of \$2,500,000 of 6 per cent bonds, interest and principal guaranteed by the Oregon & California Company, to pay the purchase price and to provide for the extension to Junction City, with priority to the first-mortgage bonds. But these bonds could not be negotiated; so that the committee had to call another meeting for February 25, 1879, which authorized the committee to provide the necessary funds for purchasing the finished road and for extending it for fifty miles from St. Joseph to Corvallis by the issue of debentures, not exceeding \$20,000 a mile, secured by the pledge of all the bonds deposited with the committee. The debentures were offered first to the bondholders, but, as they did not subscribe for them, they were sold to a guarantee syndicate and disposed of at public subscription. The extension to Corvallis was completed by January 28, 1880, and was operated by a perfectly independent organization known as the Western Oregon Railroad.

A further result of the visit of Mr. Koehler in Frankfort was the decision by the committee, owing to several violations by Holladay of the conditions of the agreement with him, not to pay the coupon due October 1878 on the \$300,000 bonds given to him in settlement. But this action did not hurt him, inasmuch as all the bonds had passed into the hands of his creditors. The committee subsequently bought up these bonds at low prices.

As stated, the steamship creditors had given me positive assurance that they would meet the requirements for the *Oregon*; but they also began to waver on learning from the San Francisco management of the bank of the strong financial backing of the opposition and of the low competitive rates. The low rates very largely increased the passenger and freight traffic during the fall months, but with the stormy season

there came such a falling off that the business showed a large loss every month, necessitating the overdrawing of the company's current account with the San Francisco bank. Threatened with a refusal of further bank credit, which would have meant instant bankruptcy for the company, I was obliged to yield to the demand of the bank and the steamship creditors for a compromise with the Pacific Coast Steamship Company. The bank was fortunately willing, in case a satisfactory compromise should be reached, to furnish all the money needed for the *Oregon*, which it did by discounting all the notes given to John Roach & Son, and taking a lien on the ship.

The *Oregon* sailed February 16, 1878 under Captain Connor and arrived at Portland on April 22. I may mention the fact that she was lighted by electricity, at my instance, being the first ocean or river craft with that modern illuminant. She received the first dynamo ever designed and manufactured by Thomas A. Edison. This generator served its purpose well till 1893, when it was removed and sent to Chicago to the World's Fair, and exhibited in the electrical section, where it offered a striking contrast to the much smaller and better-finished dynamos of later dates. It is now preserved in the Smithsonian Institution in Washington. It will now seem hardly credible that we had great difficulties, in the first place, in getting the builders' consent to the introduction of electric light, and, in the second, in obtaining marine insurance on her on this account.

Another strong reason for a compromise was the fact that the opposition company had contracted, in the previous summer, for a large new steamer, the *State of California*, which was expected to reach the Pacific Coast during the spring. Mr. Goodall came to New York for negotiations with me, and we closed an agreement on March 2, 1878. Under it the *Elder* and *Chester* and one of the Pacific Coast Steamship Company's steamers were to make six monthly trips between San Francisco and Portland, with sailings five days apart. The gross earnings were to be pooled, and out of them operating expenses allowed for the round trip to the *Elder*, \$6,000, *Chester*, \$4,000, and Pacific Coast Steamship Company steamer, \$4,000. After the payment of these expenses, we were to receive \$7,000 monthly and, of the remainder, two-thirds was to go to the Oregon Steamship Company and one-third to the Pacific Coast Steamship Company. It was also provided that, on entering the line, the new steamer *Oregon* should be allowed \$7,000 and the *State of California* the same amount for operating expenses for the round trip. Our company had the right to run all three steamers whenever the business justified. Rates were to be

mutually agreed upon. A joint auditor was appointed with full power to direct the application of the earnings as stated. The owners of the *State of California* took advantage of the compromise and sold her to Russia at a large profit—a very clever trick—but ordered the *Queen of the Pacific* in her stead.

The compromise worked satisfactorily, but had not been in operation more than three and one-half months when a new and formidable trouble arose for the steamship company by the appearance of another competitor, the side-wheeler *Great Republic* under the direction of P. B. Cornwall, president of the Diamond Coal Company. She made her first trip to Portland on June 15, 1878. The contract with the Pacific Coast Steamship Company provided that, in case of opposition, either party could withdraw from the contract; but it was decided to carry on the fight jointly at even lower rates than during the struggle against each other. The *Great Republic*, however, underbid us. It was demonstrable that she was suffering heavy losses, and it was hoped therefore that she would soon be compelled to stop running, but she continued on the line till bad weather forced her to tie up for the winter.

This second opposition exhausted the patience and endurance of the steamship creditors. Towards the end of the year, I received an intimation from London that they were ready to sell their interest at a heavy sacrifice, provided that all the advances of the London & San Francisco Bank to the company were liquidated at the same time. I did my best to dissuade the creditors from their purpose; but, finding them determined to sell, negotiations to that end ensued, which came to a head in February on this basis: A new company to be organized under the name of the Oregon Transportation Company, with \$1,000,000 capital, which was to purchase all the interests of the creditors and of the London & San Francisco Bank in the Oregon Steamship Company for \$220,000 cash, \$500,000 in promissory 7 per cent notes due in March 1881, and \$200,000 stock of the new company. I had just effected the purchase on these terms when the disturbing news came that the *Great Republic* had resumed her trips to Portland. Still, I succeeded in organizing the new company and in complying with the terms of the sale.

As mentioned before, I had become one of the receivers of the Kansas Pacific as the representative of German holders of the defaulted Kansas Pacific bonds. In defense of the rights of these constituents, I became engaged in a violent contest with the directors of the company, who had entered into an alliance with the Union Pacific Railroad Company, whose controlling spirit was then Jay Gould, to force the bond-

holders to submit to a heavy scaling down of the principal and interest of their holdings.

Gould tried to win me over to his plans by offering me large advantages in the reorganization of the Kansas Pacific; failing in this, he waged a virulent war upon me till early in '79, when he acceded to the demands of the bondholders. When I was appointed receiver, the price of the three classes of bonds I represented ranged from 50 down to 30. The settlement made them worth way above par. This outcome of the struggle with the most-feared man in Wall Street gave me great prestige, both in Wall Street and in London and Frankfort, and helped me greatly in my subsequent financial enterprises.

After peace had been concluded with Jay Gould, he conferred with me repeatedly regarding the construction of the Oregon line of the Union Pacific, which had been surveyed ten years before by General Grenville M. Dodge via Boise and Baker City to the Columbia River. Gould said that the Union Pacific was ready to undertake the extension in connection with the Utah & Northern, which it was then building as a narrow-gauge line; the road to Oregon would also be narrow gauge. He suggested further that the interests I represented in Oregon and the Union Pacific should join hands, we to build from the Columbia to Baker City and the Union Pacific to meet us there. On learning that our companies did not control the company navigating the upper and lower Columbia, he said: "Well, let us buy the control of it for joint account." After consultation with my friends, I agreed to the project, and an undertaking was signed between him and myself personally for the formation of the Oregon Construction and Improvement Company, under the laws of Oregon, for these purposes:

To assist and facilitate the construction of railroads, the building and purchase of steamships and steamboats; to own or control the lines of transportation by rail and steamboat in Oregon, Idaho, Utah, and Washington and between the ports of Oregon, California, and British Columbia; to acquire and own stock and bonds of such lines; and to lend money on stock or bonds and generally to transact the business of a railway construction, improvement, and finance company within the limits designated.

The capital stock was fixed at \$1,000,000, of which I subscribed "for Henry Villard and friends for \$500,000" and Jay Gould "for self and friends" an equal amount. With this contract in my pocket, I set out for Oregon early in April, accompanied by a few friends, bent upon obtaining control, if possible, of the Oregon Steam Navigation Company.

In the early winter of 1878-79, the approach of the resumption of specie payments had started a "boom" in Wall Street, the like of which was never witnessed before and is not likely to be witnessed again; I say this in the face of the extraordinary inflation of values that has taken place within the last year and a half.* I will give one illustration. In the belief that the Kansas Pacific possessed sufficient vitality to insure its eventual recuperation, I had made purchases of its stock at $1\frac{1}{2}$, the lowest figures it reached in 1876. When I left New York, it was quoted at 15. On reaching Kansas City it had risen to 18. At Denver, it was reported to me at 27, at San Francisco at 38, and when I arrived at Portland, at the end of a fortnight, it was selling at nearly 60.

Tidings reached us on the way, in the Nevada desert, of the wreck of the *Great Republic* on the Columbia River bar, fortunately without any loss of life, so that we could receive the news with unqualified joy. This competitive experiment had resulted in a loss to Cornwall and his backers of \$150,000, and the former was compelled to compromise with his creditors at 30 cents on the dollar.

Directly on my arrival at Portland, I informed J. C. Ainsworth and his associates of my purposes, and asked them whether they were willing to sell their holdings of Oregon Steam Navigation Company stock. After some deliberation, they informed me that they were willing to sell, but they wanted a high price. They suggested that, before beginning formal negotiations, I should inspect all their properties, and to that end visit the upper Columbia and Walla Walla once more. They recommended that I should endeavor to obtain control also of the road from Walla Walla to Wallula, then owned by Dr. D. S. Baker, as an essential feeder of their river line.

Accordingly, I spent ten days in examining the boats and dock properties, the portage railroads, and their shops and equipment, under the guidance of S. G. Reed, who also accompanied me to Walla Walla, where I first made the acquaintance of Dr. Baker. I went over his unique railroad, 35 miles long, the track of which consisted at one time of wooden stringers with strap iron for rails. The passenger equipment was one singular "homemade" car, which was nothing but an ordinary boxcar with rough seats along the sides. The doctor collected \$2.50 per passenger and \$5.00 a ton for the haul of 35 miles to Wallula. He promised to respond to a summons to Portland if his presence should seem necessary in the course of the negotiations. We also made excursions to Milton, Weston, Dayton, and Waitsburg, which furnished

* 1898-1900.

conclusive proof of the extraordinary fertility and potentiality for development of that entire region.

On my return to Portland, the bargaining began. The Oregon Steam Navigation Company had formerly been one of the assets of the Northern Pacific Railroad Company, which fell into the hands of Ainsworth and associates at a very low price for the stock after the Jay Cooke failure in 1873. The control of the upper Columbia traffic was then giving promise of becoming a mine of wealth, and the gentlemen concerned were really not at all willing to sell, but deliberately put their price so high as to frighten me off. They submitted the schedule of the real, floating, rolling, and other properties which I had requested, with a valuation the large total of which, \$3,320,000, they felt sure would scare me. But my belief in the great future of the upper Columbia basin, together with the actual earnings of the company, which showed over 12 per cent on the aggregate price demanded, made me quickly accept the price as a basis for the purchase. On May 23 a formal contract of sale was signed between Ainsworth and myself with the following provisions:

I was to pay \$100,000 for the privilege of calling on Ainsworth and associates on the first day of any month up to October 1, 1879 for 40,320 shares, out of a total of 50,000 shares of stock, at par, payable one-half in cash and the other half in bonds and stock, 20 per cent in bonds and 30 per cent in stock, of a new company to be formed under the name of Oregon Railway & Navigation Company, into which the Oregon Steamship and Oregon Steam Navigation companies were to be merged, and which was to issue altogether \$6,000,000 bonds and \$6,000,000 stock, to be used as follows:

For the acquisition of		
O. S. S. Co. properties.....	\$1,000,000 stock and	\$1,200,000 bonds
To raise say		
\$2,000,000 cash to		
be paid Ainsworth		
and associates	2,000,000 stock and	2,500,000 bonds
For balance of purchase price of		
O. S. N. stock	1,200,000 stock and	800,000 bonds
Leaving in treasury		
of new company	1,800,000 stock and	1,500,000 bonds
	<u>\$6,000,000 stock and</u>	<u>\$6,000,000 bonds</u>

The stock and bonds left in the treasury were to be used for the acquisition of the outstanding one-seventh interest in the Walla Walla & Columbia River Railroad and for other purposes.

As Ainsworth, Thompson, Reed, and Ladd repeatedly confessed to me afterwards, they thought I was an enthusiastic fool, that I would never be able to raise the millions of cash required under the contract, and that they were sure to pocket my \$100,000.

Dr. Baker came down to Portland, and I also reached conclusions with him. For a consideration of \$10,000 cash I secured an option to call for the entire capital stock of the Walla Walla & Columbia River Railroad for \$150,600, payable \$75,600 in cash, \$30,000 in bonds, and \$45,000 in stock of the new company. I exercised this option simultaneously with that for the Oregon Steam Navigation Company stock. I also bought from Henry Failing, H. W. Corbett, and C. H. Lewis all the stock (4,000 shares) of the Willamette Transportation & Locks Company for \$100,000 cash.

The contract with Ainsworth was not quite in accordance with my agreement with Jay Gould, but the form adopted was obviously so much preferable that I did not doubt for a moment that the Union Pacific parties would gladly assume their share. I arranged with Hans Thielsen, whom I had appointed chief engineer, to make a flying reconnaissance through eastern Oregon and southwestern Idaho, with reference to the proposed narrow-gauge lines, and to report the result of his observations to me at Ogden, which he did.

I left Portland in the last days of May, in a high state of elation at my complete success, and reached New York on June 8. I immediately sought Jay Gould, explained what I had accomplished, and offered him a half interest in my bargain. He asked for twenty-four hours' time, at the end of which I received a note from him declining the offer. I was not at all sorry for his desertion (for I knew well that association with him had both advantages and disadvantages), nor did it embarrass me in the least. Had he joined me, eastern Oregon might have had to this day a narrow-gauge system of roads. As it was, in less than ten days from that date I was able to telegraph J. C. Ainsworth that the Oregon Railway & Navigation Company was fully organized, with myself as president, on the lines agreed on, and that the securities would be issued and the cash payments due to him and his associates made by the first of July, which was actually done. I raised the required cash by selling the bonds at 90, with a bonus of 70 per cent in stock, which terms were equally allowed to all subscribers.

I had undergone such a severe strain for some time past that I felt in need of rest, and I sailed for Europe on July 10, 1879. I did not

return until November. I was met at the dock in New York by a friend, who, in reply to a question about the price of Oregon Railway & Navigation stock (on which a dividend of 2 per cent had meanwhile been paid and three other dividends of 2 per cent earned, and which had been listed on the New York Stock Exchange), informed me that it was selling that day at 95. This was well enough for a stock that had been given away in July.

Before leaving for Europe, I had contracted with John Roach & Son for the steamship *Columbia*, which was pronounced by competent judges to be the most perfect steamship built up to that time. It was peculiarly well adapted for our ocean passenger and freight traffic. She entered the service between San Francisco and Portland in the spring of 1880. Goodall, Perkins & Company were not satisfied with the working of the pooling contract and carried on a long correspondence with me in 1878 and 1879 regarding changes in their favor. But the formation of the Oregon Railway & Navigation Company and the addition of the *Columbia* to our ocean fleet gave me occasion to notify Goodall, Perkins & Company in our turn in February 1880 that, under the changed conditions, our contract would have to be modified. Not long thereafter, new complications threatening from this quarter were definitely averted, as will be related, by my purchase of the stock interest of the firm in the Pacific Coast Steamship Company.

Before going abroad I had instructed Chief Engineer Thielsen to put regular surveying parties in the field and to locate several short narrow-gauge lines in the Walla Walla country and the adjoining part of eastern Oregon for feeders of the Columbia River traffic. On my return, owing to the great increase of the traffic down the Columbia during the preceding summer which far exceeded the capacity of the available river fleet, it was decided, instead of making additions to the fleet, to locate and construct without delay a line from Celilo to Wallula. It was the intention to make all the contemplated lines narrow gauge. The *Columbia* brought out no less than 2,600 tons of light rails for that purpose. But, as will be seen, this program was changed, and standard gauge adopted.

CHAPTER VII

COMPLETING THE NORTHERN PACIFIC

IN THE summer of 1880, I conceived the plan of forming another company under the laws of Oregon, for the purpose of cooperating with the Oregon Railway & Navigation Company in the material development of the state of Oregon, the territory of Washington, and the North Pacific country generally. The name of Oregon Improvement Company was adopted for it. It was organized on October 21, 1880, and issued \$5,000,000 of 6 per cent first-mortgage bonds and \$5,000,000 of stock. The whole of the former was subscribed for at par, with the entire stock, which was made full paid by the acquisition of properties, as a bonus. Large premiums were paid for subscriptions, and within a few months this stock sold at par and over. The directors were: William Endicott, Jr. of Boston, George M. Pullman of Chicago, Artemas H. Holmes of New York, and C. H. Lewis, S. G. Reed, Henry Failing, C. J. Smith, J. N. Dolph, and C. H. Prescott of Portland. S. G. Reed was the first president.

As the new company was expected to have regular dealings with the Oregon Railway & Navigation Company, it was deemed best, for legal reasons, that I should not be an officer or director, but I practically directed its affairs. The company first acquired the New Castle coal mine and the railroad to it from Seattle; contracted for three colliers, the *Walla Walla*, *Umatilla*, and *Willamette*; and bought, for development, a large body of select land from the Northern Pacific, in the Palouse country. Subsequently it built a coal dock at San Francisco, and bought a controlling interest in the stock of the Pacific Coast Steamship Company, which purchase practically gave me control of the coastwise steamship business from Mexico to Alaska. This company, after it had passed from my direction, built some railroads in western Washington. The Oregon Improvement Company defaulted in 1893, and was reorganized under the name of the Pacific Coast Company.

As owner of the Pacific Coast Steamship Company (which always was a profitable investment, earning millions net), the company has been active in ocean transportation between San Francisco and Oregon and Puget Sound ever since. It engaged once in a transaction on land which has affected Oregon to an important degree to this day. This was in connection with the reorganization of the Oregon & California Railroad, whose earning capacity continued to prove a

constant disappointment. Notwithstanding the extension of the west-side line to Corvallis, which was completed in 1880, and the construction of the Lebanon branch from Albany, its income did not show any considerable immediate increase, owing to unusual crop conditions.

While in Germany in 1879, I had come to a conditional agreement, early in October, with the chairman of the bondholders' committee, under which the Oregon Railway & Navigation Company was to take over all the western Oregon roads in consideration of \$5,475,000 of 6 per cent bonds (50 per cent of the existing issue) secured by a consolidated mortgage on all the lines, and guaranteed by the Oregon Railway & Navigation Company. I submitted the proposition to the Oregon Railway & Navigation Company, and, at my request, the stockholders, at their special meeting on January 6, 1880, appointed a special committee, consisting of William Endicott, Jr. and George M. Pullman, to inspect the several properties of the company in Oregon and Washington, and to inquire into the question whether the proposed lease of the western Oregon roads was desirable.

But the committee was not called upon to examine the latter subject, for, when they reached Oregon with me, I had become satisfied that William Reid had succeeded in securing capital in Scotland for the construction of a competitive system of narrow-gauge roads in the Willamette Valley, and that hence the acquisition of the western Oregon roads was no longer desirable for the Oregon Railway & Navigation Company. This situation led, early in the summer of 1880, to my resignation as president of the Oregon & California Railroad and as a member of the Frankfort committee of bondholders. The running of steamboats on the Willamette by the Oregon Railway & Navigation Company and other competitive conditions rendered my tenure of both presidencies improper.

But this condition was not to last long. The merger of the three existing corporations, the Oregon & California, Oregon Central, and Western Oregon (which, it will be recalled, had been organized to build the extension to Corvallis) into one corporation under the old name of Oregon & California Railroad, was brought about in 1880 by the efforts of the Frankfort committee. This merger was followed by agitation for the creation of new securities by the consolidated company, to take the place of the existing ones. The committee was not inclined to recommend any plan involving the raising of further capital for construction purposes, but a movement was started with my knowledge and consent by Messrs. C. E. Bretherton and R. D. Peebles, in London, to which market the majority of the bonds had drifted, for

a reorganization which would provide the means for finishing the main line to the California boundary. A plan to that end was perfected by Mr. Bretherton, and found so much favor with the English holders that it was carried by an almost unanimous vote at a special meeting of the bondholders, held at Frankfort on May 5, 1881.

Its essential features were the creation of a new general mortgage on all lines, under which 6 per cent bonds at the rate of \$20,000 per mile were to be issued for the completion of the main line, of which bonds \$6,000,000 were authorized to be sold for 88, and the issue of \$12,000,000 of preferred and \$7,000,000 of common stock, in lieu of the old 7 per cent bonds and the unpaid interest thereon. In anticipation of the acceptance of the plan, a syndicate had been formed, headed by me, to take the \$6,000,000 of bonds; the Oregon Improvement Company acted for the syndicate. This was the transaction referred to above. In order to secure the adoption of the whole program, it became necessary for me to personally guarantee the sale of the \$6,000,000 of bonds at the figure named. Immediately after the reorganization plan was carried, I was re-elected president.

With the funds thus secured, construction was begun south of Roseburg as soon as possible. Surveying parties were immediately put in the field, but, owing to the extraordinary difficulties of the ground and the impossibility of working in the winter in the mountains, the entire line to the boundary was not definitely located till the summer of 1883. Grading was, however, commenced in the fall of 1881, but only 60 miles were got ready for operation in the following twelve months.

In my first annual report as president of the Oregon Railway & Navigation Company, for the year ending June 30, 1880, I was able to state that, although construction work on the line on the left bank of the Columbia from Celilo to Wallula was only commenced on February 13, and although the greatest difficulties had been found in drumming up a coolie force of 2,000 men and 500 draught animals, the completion of the 115 miles between the two points named was assured before the close of navigation in that year. I further announced the grading of the Walla Walla and Grange City line.

The report also stated that the board of directors had come to the conclusion that it would be best to consolidate the Oregon Steam Navigation and the other controlled companies with the Oregon Railway & Navigation Company, and that this had been accomplished by the formal purchase of all the properties of the former at a valuation fixed by disinterested appraisers. The report further referred to protracted negotiations which I had carried on with the Northern Pacific Rail-

road Company, which had been occasioned by the beginning of construction of the 255 miles of the Pend Oreille division of that road, from the lake of that name to the mouth of the Snake River.

When the determination to build that line was announced and confirmed by the arrival of construction material for transportation by us up the Columbia, I had become at once impressed with the danger of a conflict for the control of the Columbia Valley, on the one hand, and the great advantage it would be to us, on the other hand, if our river road became the recognized outlet of the new Northern Pacific line. I was perfectly conscious that I had usurped the right to build along the Columbia, which had been granted to the Northern Pacific by an act of Congress; and, while we had occupied the left bank, there was nothing to prevent the other company from running a parallel line down on the right bank. If the Northern Pacific had then been as strong financially as it became soon afterwards, or if its management had had more foresight and had been more resolute, we should never have been allowed to take undisputed possession of the valley. I am sure, if positions had been reversed, I should have made a determined fight to prevent it.

As it was, my negotiations in New York resulted in an agreement that I should meet Joseph D. Potts, one of the Northern Pacific directors, on the Pacific Coast, and that we should together go over our lines and consider the conditions upon which a traffic contract might be arranged. This we did, and the result was that, on October 20, 1880, after many weeks of laborious deliberations, such a contract was executed by President Frederick Billings for the Northern Pacific Railroad Company and by myself for the Oregon Railway & Navigation Company.

The instrument was very voluminous, and was intended to meet every possible contingency under such an agreement. As it involved many complicated technical questions, I had summoned T. F. Oakes to New York to take part in the negotiations which he, mainly, conducted. I had become acquainted with his great abilities as a railroad manager during my service as receiver of the Kansas Pacific, whose general superintendent he was, and I induced him to accept, that summer, the vice-presidency of the Oregon Railway & Navigation Company. His coming to Oregon led also to the acceptance of the controllership of that company by C. H. Prescott.

On our side the contract was based upon the theory that we could afford to make very large concessions as regards rates, if we obtained in return, on the part of the Northern Pacific, a recognition of our

right to occupy the Columbia Valley, an agreement not to build on the north bank, and a permanent division of territory. The contract obligated us to complete the line from The Dalles to Wallula by July 1, 1881, and from Portland to The Dalles by October 31, 1883. The Northern Pacific forever waived all claims to damages for our occupancy of the left bank of the Columbia, assented to the construction of our Palouse line, and covenanted to deed to us the right of way and depot grounds for both lines whenever it should receive title to the public lands in which they lay.

The Northern Pacific further agreed to an absolute division of territory, the Columbia and Snake rivers forming the dividing line, except for our Palouse line. In consideration of this, the Oregon Railway & Navigation Company agreed to an arbitrary mileage allowance on joint business, a cash drawback from earnings from Northern Pacific business, and a considerable reduction from regular rates for the transportation of officials and employees and construction material. We recognized the right of the other party to build along the north bank of the Columbia, and agreed to give them trackage rights, that is, the right to run trains over our track at a fixed charge per train mile and a further charge for the use of the terminals at Portland, whenever their line reached The Dalles and the Cascades. We made the concessions relative to the north-bank line on the presumption that it would never be built.

Both parties were well satisfied with their bargain. President Billings openly boasted of having had it all his own way. We were perfectly willing to let him enjoy his illusions, in view of what his company had conceded to us, which constituted, we were sure, the best end of the transaction. I did not even dream then that, within less than a year from the date of the contract, I should have control of the Northern Pacific. One effect of the contract was that we had to abandon the proposed narrow gauge for the standard gauge for our railroad system. The narrow-gauge material we had purchased was disposed of.

The promised improvement in transportation facilities had so far stimulated the growing of wheat in eastern Oregon and Washington, during the season of 1879, that we were able to bring only a little more than half the crop down the river before the close of navigation in December. This fact led to a strong recommendation by the special committee of the stockholders for the immediate construction not only of the proposed branches but of the main line from Portland to The Dalles and from Umatilla to the Grande Ronde Valley. The raising of further capital having thus become urgent, a special meeting of stock-

holders was called and held in October, to authorize an increase of the capital stock from \$6,000,000 to \$12,000,000. The whole increase was offered in two installments of \$3,000,000 each, at par, and was promptly subscribed for during the next nine months.

I took the special committee, Messrs. Endicott and Pullman, on a tour by ordinary vehicles from The Dalles via Heppner to Umatilla, Weston, Walla Walla, Dayton, and other points, in order to give them a better idea of the extent of the resources of eastern Oregon and Washington. During the trip I held conferences at various points with farmers and country merchants regarding freight rates on the branches under construction. The rate on wheat then ranged from \$12.00 from Umatilla to \$16.00 per ton from the Walla Walla region. I made it a point to inquire of them what through rate would satisfy them, and nowhere was a lower one than \$10.00 asked for; when I promised to carry their wheat at that figure to tide water, universal satisfaction was expressed. The farmers told me that they could make money enough with that concession. The crop of 1880 received the benefit of that reduction, and in the subsequent years, as long as I remained at the helm, the rates were steadily and voluntarily lowered.

In the first part of 1880, in anticipation of the early completion of the Portland-Dalles line, I made the no doubt well-remembered purchase in South Portland of a large body of real estate, adjacent to the Willamette, for terminal purposes. This proved to be a mistake on my part, and it took the company years to resell portions of it, not without some loss.

I announced, in my report for the year 1880-81, that, of the 696 miles of railroad of which the company's system was to consist according to the adopted program (including 185 miles from Portland to Umatilla and 173 miles from Umatilla to Baker City), 220 miles of new road had been fully graded and track had been laid on 180 miles, including the whole distance from Celilo to Umatilla and 20 miles from The Dalles on the Portland line. I quoted from the report of Chief Engineer Thielsen his assurance that the Portland-Dalles line would be finished to the Willamette by January 1, 1882, a year and three-quarters in advance of the time agreed on with the Northern Pacific.

I made another announcement of great portent in the same report. I recorded the fact that, soon after the traffic contract with the Northern Pacific had been signed, that company succeeded unexpectedly in selling \$40,000,000 of its 6 per cent first-mortgage bonds to a strong syndicate, which transaction had placed it in sufficient funds for the completion of the main line. This great financial success had imme-

wind of this, and immediately sued out a temporary injunction against the issue. This produced the greatest consternation in the Northern Pacific camp, which was increased by the strong argument made by Joseph H. Choate, later the American ambassador in London, against the issuance of the \$18,000,000 of common stock and his arraignment of the perpetrators of the scheme in the Northern Pacific board of directors.

Soon offers of compromise came from the other side, which I and my friends decided to accept, inasmuch as they secured to us our main object, the virtual control of the corporation, and since a refusal might have involved us in years of litigation with its injurious effects upon our finances. To save appearances for the defeated party, I consented to be satisfied till the next annual meeting of stockholders with the election of T. F. Oakes as director and vice-president, and of one more representative as a director. Frederick Billings resigned, but I refused to take the presidency and Ashbel H. Barney, a director, was temporarily elected in his place. Mr. Oakes, however, was practically the chief executive. At the annual meeting in September, a majority of my friends was elected to the board, and I had to yield to the urgent advice of my principal followers and accept the presidency.

Thus I had, in a little over two years from the birth of the Oregon Railway & Navigation Company, attained to a position of full power over the two corporations which were actively engaged in forging the longer and shorter links into the new railroad chain across the continent, stretching in a length of nearly 2,700 miles from Lake Superior to the mouth of the Willamette. Both were assured of the vast capital required to complete the transcontinental line. The Northern Pacific Company had alone the huge sum of over \$30,000,000 at its disposal for construction purposes at the time I assumed control. These great resources were reinforced by those of the Oregon & Transcontinental Company, representing the equivalent of an additional \$30,000,000.

In an address to the Portland Board of Trade, on October 22, 1881, I described fully and frankly the uses to which the great financial power placed in my hands was to be put; that is, I explained in detail the working program of the Northern Pacific, Oregon Railway & Navigation, and Oregon & California companies. The *Oregonian* had said editorially on October 4:

It is no extravagance to say that Mr. Villard has organized and combined interests which, in their detail and entirety, form the most stupendous scheme yet undertaken on the American continent. What is of more consequence is the fact that the success of this great scheme is entirely assured.

My undertaking was, indeed, a mighty one, as it meant nothing less than the completion of not far from 2,000 miles of difficult road within two years, or about three miles a day, including many miles of tunnels, bridges, and viaducts—an achievement never before attempted in this or any other country. When I assumed charge of it, there remained the short gap between Kalama and Portland, the decision to build which I had announced, and the long one of over 800 miles on the main line of the Northern Pacific, extending from the eastern end of Lake Pend Oreille to where the line first strikes the Yellowstone—by far the heaviest part of the line. Neither the Mullan nor the Bozeman tunnel had then been commenced. The engineers still expected to avoid the latter altogether. For a considerable portion of the distance the line had not yet been definitely located. But construction was pushed from the east and the west end of the track, as well as in central Montana, to which section we had to haul all construction equipment and material all the way from Utah. I was resolved to leave nothing untried to insure the connection of the different parts into a through line during the summer of 1883 at the latest.

When I stood before the Portland Board of Trade on October 22, I believed that our course to completion would be an easy one with the exercise of proper energy. But entirely unforeseen and most serious embarrassments arose from several sources before the end of 1881, and continued till August 1882. The prosecution of the work on Clark's Fork, along the Yellowstone, and in central Montana required cash outlays to the extent of millions before any mileage could be got ready for inspection; and where there was very heavy work the expenditures ran way ahead of the proceeds of the limited bond issue. The company's bankers, with whom the funds from the sale of bonds had to be kept on deposit, became alarmed at the treasurer's drafts, and time and again earnest pleadings with them were necessary on my part.

Under the terms of the Congressional charter, the first-mortgage bonds could be issued only at the rate of \$25,000 a mile against road inspected and accepted by a commission of the United States government, in sections of at least 25 miles. Presidents Hayes and Garfield readily responded to the requests of the company for the appointment of commissioners, but after Garfield's death trouble began. Bills for the forfeiture of the company's land grant were introduced in Congress—for blackmailing purposes, as I have good reason to affirm—and President Arthur refused to appoint commissioners, taking the ground, notwithstanding the precedents of the acts of his predecessors, that, as long as the legislative branch of the government was considering the

question whether the company was still entitled to the land grant, it would not be proper for the executive to act on the assumption that it still was. I brought every possible political and personal influence to bear on him during the following winter and spring and summer of 1882, but without effect.

Meanwhile the bankers' syndicate had actually sold the \$40,000,000 of first-mortgage bonds; but they had been able to deliver only the bonds issuable against the parts of the main line completed before 1873 in Minnesota, Dakota, and western Washington, and had given their receipts for the rest of the proceeds of sale, obligating themselves to deliver bonds as soon as they were issued against accepted road. When the company found itself unable to deliver bonds at all, owing to the decision of President Arthur, the reluctance of the bankers to respond to our heavy calls for money was much increased and was overcome only by much effort and extra inducements. Then a constant struggle ensued for long, weary months for the funds to meet the construction requirements, amounting to as much as \$3,000,000 and averaging over \$2,000,000 a month.

My anxieties were no little increased by determined attempts to depress the stocks of all my companies on the strength of the Washington complication. One critical stage after another was reached, and at times passed only by the use of my personal credit and with the liberal help of the Oregon & Transcontinental Company, the availability of which demonstrated the practical value of its creation. I was then kept on the rack till August 1882, when relief came through the efforts of Senator Roscoe Conkling, who induced the President to appoint commissioners for the inspection of 275 miles which had been completed during the trying interim.

On April 27, 1883 I delivered a long speech to a general meeting of the citizens of Portland, called by the Board of Trade, in which I gave an account of what had been accomplished during the year and a half since my former address, and of what remained to be done of the program I then explained to them. As regards the Northern Pacific, I informed my audience that, by the following tenth of June, the track would reach Missoula from the west and Helena from the east, leaving a gap of only 110 miles between the two ends. This would surely be filled and the through connection perfected in the month of August, and I expected soon thereafter to reappear in Portland as the first through passenger on the first through train landed on the banks of the Willamette. This announcement brought down the house.

I also told my hearers that just before leaving New York I had entered into a formal agreement, on behalf of the Oregon Railway & Navigation Company, with the Oregon Short Line Company to the effect that each company should use its best endeavors to complete the construction to the point of meeting of the two lines at the earliest possible moment, and that, accordingly, I had given orders since my arrival in the city to push the work over the Blue Mountains and along the Snake River with the utmost speed. Thus they had assurance of the speedy opening of two transcontinental lines to Portland. This again elicited enthusiastic applause.

I stated further that I felt warranted in announcing that the completion of the Oregon & California road was assured. Lastly, I made known that a project had been matured for the formation of a separate corporation, in which the Northern Pacific, Oregon Railway & Navigation, and Oregon & California companies were to be the stockholders, which would provide ample terminal facilities in East Portland and Portland, including a joint passenger station, and would expend \$3,000,000 which I had already raised for those purposes. The same company was also to build the Portland Hotel.*

From its organization to the winter of 1881, the Oregon Railway & Navigation Company had, including earnings after paying 8 per cent dividends, about \$11,500,000 at its disposal for construction purposes. But this was not enough for its requirements. Accordingly, in December 1881, another \$6,000,000 of shares was offered to the stockholders at par, and was taken by them as promptly as the preceding issue had been. I was obliged to inform the stockholders, in my report for the year 1881-82, that the actual construction requirements had largely exceeded the estimates, and that further provision of capital would have to be made, which was done in 1883 by the issue of another \$6,000,000 of shares at par to the stockholders, thereby raising the stock capital to \$24,000,000.

On July 1, 1882, the date of the report, there were completed the main line from The Dalles to Walla Walla (the narrow gauge to the latter point from Wallula had been changed to standard) 157 miles, and from The Dalles to the Cascades, 46 miles; the Baker City line from Umatilla to Pendleton, 44 miles; and the Walla Walla and Texas Ferry line and the branch to Dayton, 70 miles. The average cost per mile was: The Dalles-Walla Walla line, \$24,566.89; The Dalles-Cascades, \$49,-

* Still standing and in service. It is one of the earlier works of McKim, Mead & White.—EDITOR'S NOTE.

164; Umatilla-Pendleton, \$16,071; Walla Walla-Texas Ferry, \$28,432; Dayton branch, \$32,061.

The last rail on the main line from Portland to Walla Walla was laid on October 3, 1882, three months ahead of the date promised by Chief Engineer Thielsen. The opening of regular operation had to be delayed for some weeks, however, and the first through passenger train left Portland only on November 20, a historic date.

During 1883 nearly 100 miles were finished on the Baker City line, the Palouse line to Colfax and Farmington was substantially completed, and construction was much advanced on a new branch line from Walla Walla to Pendleton, which had been authorized at the annual meeting of the stockholders in 1882.

I said in one of my Portland addresses that the Oregon & California Company gave me more trouble than any other of my enterprises. This continued throughout my connection of nearly twelve years with that ill-fated concern. The reorganization I described, instead of floating it definitely, proved only a transition stage between past and future tribulations. The proceeds of the \$6,000,000 in new bonds, remaining after paying off the mortgage lien created to provide the means for the Corvallis extension, proved upon the final location of the line over the Siskiyou Mountains to fall short by nearly \$2,000,000 of the total amount required to carry the line through to a junction with the Central Pacific. This was a dreadful outcome, threatening the company with the fatal calamity of having to stop work and of a consequent dead waste of the millions that had been spent upon grading, bridging, and tunneling. The available funds were exhausted early in January 1883, but we managed to continue the work till spring. How to find relief from this distressed condition was a desperate problem.

But, after months of worry and consideration of various methods, a scheme was evolved for a construction contract and lease between the Oregon & California and the Oregon & Transcontinental companies, which was embodied in a formal proposition from the latter and submitted in the spring of 1883 to a general meeting of the Oregon & California preferred stockholders, who held the sole voting power, and ratified by them. Under its terms the Oregon & Transcontinental Company undertook to finish the line to the junction and to receive in payment the available balance of the first-mortgage and second-mortgage bonds, at the rate of \$10,000 a mile, upon the whole system. Further, the Oregon & Transcontinental Company was to lease the system and to pay to the Oregon & California, for two and a half years from January 1, 1883, a rental at the rate of \$320,000 a year, and thereafter 35 per

cent of the gross earnings. The Oregon & Transcontinental Company had the right to terminate the lease at the end of three years on six months' notice. The agreement took effect, but came to an end within a year.

This brings my story up to the end of the period of 1874-83, for which I have undertaken to give a succinct record of my work in Oregon. It has already grown long, though I have tried to include only essential matter; but I cannot deny myself the satisfaction of referring briefly to the greatest event in the history of Portland—the great celebration of the opening of the Northern Pacific as a through line, and the magnificent welcome extended by the inhabitants to me and to the hundreds of guests who had accompanied me across the continent. Among these guests were the diplomatic corps from Washington, representative men from Great Britain and Germany, members of the Federal administration, the governors of all the states through which the road extended, General Grant, and hundreds of distinguished Americans in every walk of life.

Though nearly sixteen years have rolled by since then, I still see as clearly and as inspiringly as though it were yesterday the beautiful decoration of the city, with triumphant arches in flowers and evergreens, bunting, and emblems, the great street procession, the splendid evening concert and reception at the Mechanics' Pavilion. Most of all, I still cherish and shall always remember the generous hospitality which all the visitors enjoyed from the citizens of Portland. It all marked the height of my power and leadership—which immediately began, however, to recede with such speed that I was compelled to resign from three of my companies by December 17, 1883.*

* For details of this see *Memoirs of Henry Villard*, vol. II, pp. 313-337.—EDITOR'S NOTE.

EDITOR'S POSTSCRIPT

MR. VILLARD'S narrative ends with September 1883. The subsequent history of the four important companies with which he was connected, briefly stated, was as follows:

In the summer of 1884 Mr. Villard negotiated the cancellation of the Oregon & Transcontinental Company's lease of the Oregon & California Railroad. He continued as president of the latter company until the end of 1885, when he resigned after the stockholders had previously voted with his approval to transfer the road to the Southern Pacific Company, represented by C. P. Huntington. According to the terms agreed upon, which became effective in the following year, the outstanding first-mortgage 6 per cent bonds of the Oregon & California were retired and replaced with an issue of new Oregon & California first-mortgage 5 per cent bonds guaranteed by the Southern Pacific Company. Each holder of a \$1,000 6 per cent bond received \$1,100 in new 5 per cent bonds. The \$12,000,000 of preferred and the \$7,000,000 of common stock were exchanged for \$7,750,000 in stock of the Central Pacific Railroad Company, one share of which was issued for every two shares of Oregon & California preferred and one share for every four shares of common stock.

At the end of 1883 Mr. Villard retired as president of the Northern Pacific, the Oregon & Transcontinental, and the Oregon Railway & Navigation Company. The last-named railroad was leased to the Oregon Short Line as of January 1, 1886, and thus became a part of the Union Pacific system. In 1887 Mr. Villard reentered the board of directors of the Northern Pacific, and in 1889 was made its chairman, a position he held until his retirement from business in 1893. In that same year the Northern Pacific failed and was later reorganized.

In 1888 Mr. Villard resumed the presidency of the Oregon & Transcontinental Company, which he caused to be reorganized and transformed into the North American Company two years later. He remained its head until 1893. Thereafter it grew into the second largest public-utility holding company in the United States, controlling corporations whose assets amount to more than \$2,000,000,000, according to the Securities and Exchange Commission.

OSWALD GARRISON VILLARD