

Date: Thu, 09 Aug 2001 16:47:03 -0000
From: mcnorton@cox-internet.com
Subject: Alexander Mitchell and Russell Sage

In a July 22, 2001 post, Michael Sol refers to Russell Sage as "the Milwaukee Road's primary financier during its early years" and "the Milwaukee Road's old friend."

Today, Russell Sage is known primarily for a foundation and a college, both started by his widow. He is thought of as a financier and a philanthropist.

However, this is not the impression of Sage presented in Derleth's book. The following is from page 84 of "The Milwaukee Road - Its First 100 Years," right after a narrative concerning bribery of the governor of Wisconsin by Byron Kilbourn:

"What no one turned up was the extent of the influence of Russell Sage on Kilbourn's actions. Sage, an upstate New Yorker, had had his fingers in many a highly questionable pie previously; he was a bondholder looming large in the background of the La Crosse and Milwaukee, and in effect a controlling owner who turned out to be the owner also of a \$2,000,000 third mortgage on the eastern division of the La Crosse and Milwaukee, or that portion of the road extending from Milwaukee to Portage, a mortgage for which not more than \$280,000 had been paid in money, according to a subsequent review of the case by the United States supreme court. And it was Russell Sage, by what the court called 'a fraudulent arrangement,' designed to mulct stockholders and creditors, whose third mortgage was given precedence over the first and second mortgages. Out of Sage's foreclosure of the eastern division grew the Milwaukee and Minnesota Railroad Company, and Sage's fraudulent activities were to plague the Milwaukee Road for years."

On pages 111-112 of the same book, Derleth relates a battle for control of the Milwaukee between Mitchell and Sage in 1875, as a result of which Sage was removed as a vice president of the Road. Sage pursued litigation following this battle, which was ultimately dismissed in 1879 on technical grounds.

Derleth doesn't say much else about Sage, but what he has said does not fit with Sage being an "old friend" of the Milwaukee.

The only information I could find on Sage himself on the internet was an article in the Columbia Electronic Encyclopedia Copyright 1994, 2000, the Columbia University Press, through infoplease.com. It says

Sage was successful in the grocery business in Troy, NY, served as a Congressman from 1853-1856, amassed great wealth by banking, moved to New York City in 1863, and in association with Jay Gould, through stock speculation, gained control of several western railroads, the el in New York, and Western Union.

Mitchell saw a conflict between the New York financial interests and the interests of the railroad as a railroad rather than an investment. It may be that the conflict perceived by Mitchell was more personal than anything else; I haven't enough information about that. But no president of the Milwaukee Road after Mitchell seems either to have seen such a conflict, or, seeing the conflict, was able to do anything about it.

Michael Sol Notes:

It was at this time, that a group of men appeared on the railroad scene. One Alexander Mitchell, was a banker. Another, Sherbourn S. Merrill was a railroader. A third John Cary, was an attorney from New York State. All were, in one way or another, representatives of one of the founders of the New York Central System and one of America's great capitalists, Russell Sage.

Russell Sage had attempted to obtain control of the Milwaukee & Mississippi, but had been held off by the local interests. Sage had been a Kilbourn supporter, and so Kilbourn left the Milwaukee & Mississippi, and became president of the rival LaCrosse & Milwaukee railroad, incorporated April 2, 1852. In doing so, he was following Sage to a railroad which was the creation of one of Wall Street's ruthless speculators, which of course was Sage. Operating the railroad from his private office at 25 William Street, the address of the New York Stock Exchange, the LaCrosse paid the rent and the expense of employees that Sage willingly used as his own personal hires. Indeed, Sage originally came to Wall Street, he told reporters, "to mind the affairs of my railroad."¹ From that Wisconsin line, Sage would speculate his way into innumerable midwestern lines, finally becoming the financier behind Jay Gould and the Gould lines, including Gould's takeover of the Union Pacific.

Sage was from Troy, New York, and had been involved, in the 1830's, with Whig party politicians who were interested in railroading. He was president of the Schenectady & Troy Railroad, and was involved with at least one other. Just as the democrats had Samuel Tilden, later builder of the Chicago & Northwestern, as their western representative, so Russell Sage was looking at Wisconsin as a likely prospect for railroad building. In 1850, attorney John W. Cary arrived in Milwaukee to represent the interests of Sage and the New York Whigs.² At the same time, Sage was involved with the formation of the New York Central back home. Of the financiers of the time, Sage was the railroader, and one of the earliest believers in a "Pacific" railroad. He believed that Wisconsin would be where it would begin, and made a visit that presaged a furious era of railroad building, corrupting, in the process, the entire state of

¹ Sarnoff, Paul, Russell Sage: The Money King, (New York: Ivan Obolensky, Inc., 1965). P. 111-112.

² *Ibid.*, p. 63.

Wisconsin. He had sent his attorney, John Cary, to Milwaukee in 1851 to look over the railroad situation, and followed him in 1851, at the invitation of Byron Kilbourn. Sage quickly made the acquaintance of a young Milwaukee banker, Alexander Mitchell, and with his help, had set up a commission business with Charles Wheeler and Joseph Slocum. In 1853, Sage was elected to the US Congress from New York, and there he opposed slavery, proposed to save George Washington's home, Mount Vernon, as a public shrine.

Sage's main political interest was the promotion and passage of the "Pacific Railroad Act." He was quite a politician until he decided that money was a more faithful and dependable friend. To that end, in Wisconsin he and Alexander Mitchell became involved together in a variety of transactions.³ He quickly developed a close relationship with Sherburn S. Merrill as well.⁴ [I located a letter dated October 20, 1859, in which Russell Sage had drafted an authorization on Wisconsin Marine and Fire Insurance Co. letterhead (Mitchell's bank), to Mitchell, authorizing Merrill to borrow money from the bank for the Milwaukee, Watertown & Baraboo Valley Railroad, said loan to be personally guaranteed by Sage. Sage obviously reposed a great deal of trust in Merrill, and he obviously was keeping a chunk of money in Mitchell's bank. State Historical Society of Wisconsin.]

The LaCrosse & Milwaukee was Sage's railroad in Wisconsin. Other lines included the Madison & Prairie du Chien, incorporated March 24, 1852, the Milwaukee, Fond du Lac & Green Bay Railroad, incorporated April 2, 1853, and the Milwaukee & Watertown Railroad, incorporated January 4, 1853. Along with the Milwaukee & Waukesha, the LaCrosse & Milwaukee can be regarded as the foundation for the Milwaukee Road. Many other railroads were bought, foreclosed, or otherwise brought into the Milwaukee system during the next twenty years. Russell Sage was involved in nearly every one of them.

Milwaukee banker Alexander Mitchell financed the Milwaukee & Watertown, which built a line from 13 miles west of Milwaukee, at a point on the Milwaukee & Mississippi Railroad, to Watertown, but, as this line paralleled the LaCrosse & Milwaukee line in that area, the companies consolidated in 1856 under the LaCrosse & Milwaukee name. That successor company then completed lines from Milwaukee to LaCrosse, Watertown to Columbus, and partially graded a line from Madison to Portage. The Milwaukee & Horicon Road, chartered in 1852, finished lines from Horicon to a connection with the LaCrosse & Milwaukee, north through Waupun and Ripon to Berlin. It was substantially owned by the LaCrosse & Milwaukee. In 1863, Russell Sage foreclosed on the Milwaukee & Horicon, and transferred it at great profit to the Chicago, Milwaukee & St. Paul in June of that year.⁵

When a general financial panic occurred in 1857, most of the new little short line railroads then sprouting up, including the Milwaukee & Mississippi and its allied lines, went bankrupt. The LaCrosse & Milwaukee was unable to pay certain of its major contractors. They sued, received judgments and possession of various parts of the railroad. The Company entered a

³ Myers, Gustavus, *History of the Great American Fortunes* (Chicago: Charles H. Kerr & Co., 1911) II, pp. 15-16.

⁴ In a letter dated October 20, 1859, Russell Sage had drafted an authorization on Wisconsin Marine and Fire Insurance Co. letterhead (Mitchell's bank), to Mitchell, authorizing Merrill to borrow money from the bank for the Milwaukee, Watertown & Baraboo Valley Railroad, said loan to be personally guaranteed by Sage. Sage obviously reposed a great deal of trust in Merrill. State Historical Society of Wisconsin.

⁵ Myer, Gustavus, *op. cit.*, p. 42.

period of chaos, operating on its own lines as well as negotiating to continue to operate on those lines which had been taken over as a result of the judgments. Naturally, Russell Sage was behind many of the foreclosures.

It can be said that at a period when bribery and fraud were so common as to cloy the popular mind, no transaction arouse a greater sensation or made a deeper impression upon a people jaded with continuous exposures of bribery, than the great thefts and briberies committed by the owners of the LaCrosse & Milwaukee railroad.⁶

This, of course, meant Russell Sage. On October 29, 1857, Byron Kilbourn resigned as President of the LaCrosse, replaced by Stephen Clark, who was replaced in turn by Nehemiah Stanton in April, 1858. In 1858, Catlin again became president of the Milwaukee & Mississippi and remained in that capacity until its merger with the Milwaukee & St. Paul.⁷

Sage was a well-known speculator in stocks and bonds. He was variously described as "somber, crafty, reclusive,"⁸ and the "shrewdest of stock traders."⁹ In 1859, at Sage's prompting, bondholders instituted foreclosure proceedings against the LaCrosse & Milwaukee. Apparently Sage had sold his stock, and now turned to deprive the purchasers of their interests by his ownership of the bonds.

The bondholders of the LaCrosse & Milwaukee formed the Milwaukee & Minnesota Railroad Company May 23, 1859 to take ownership of those portions of the LaCrosse property which had been foreclosed on. However, a contractor named Selah Chamberlain had taken possession of the railroad by virtue his court judgment for unpaid grading and construction costs. His book-keeper had possession of all the books and records of the LaCrosse & Milwaukee, and that bookkeeper was also the secretary for the Milwaukee & Minnesota company. The Milwaukee & Minnesota elected Russell Sage as its president. Newcomb Cleveland, another contractor who had procured a judgment against the LaCrosse & Milwaukee, filed actions to protect his interests. Litigation was prolonged and protracted, and included an appeal to the U.S. Supreme Court.¹⁰

Ultimately, Sage procured control of most of the LaCrosse Company's second mortgage bonds, and purchased Chamberlain's judgment rights in return for stock and bonds in a new company which Sage was proposing to take over the remains of the LaCrosse & Milwaukee. This company was to be consolidated with a company which Sage also controlled, the Milwaukee & Western, whose controlling interests also included Alexander Mitchell, becoming a prominent Milwaukee banker, and S.S. Merrill.¹¹ Both of the gentlemen were associated with

⁶ Myers, Gustavus, *op. cit.* at p. 32.

⁷ Braley, Arthur B., "Memoir of John Catlin," Collections of the State Historical Society of Wisconsin, XII (Madison, Wisc.: Democrat Printing Co., 1892) p. 446.

⁸ Josephson, Matthew, op. cit. p. 178.

⁹ Ibid. p. 206.

¹⁰ Minnesota Co. vs. St. Paul Co. 2 Wall 609.

¹¹ Cary, John W., op. cit. p. 25.

Sage in other interests in the area, and Sage's biographer described Merrill, at his death, as "Sage's loyal friend of the Milwaukee Road."¹²

Russell Sage figured prominently in the history of the Milwaukee Road. He was a manipulator, and, as the LaCrosse & Milwaukee went through its "bewildering array of successor companies," ordinary stockholders were "duped and trimmed at each stage of the corporate apotheosis."¹³ But, it may fairly be said that he rescued the promise of the LaCrosse & Milwaukee and the Milwaukee & Waukesha from the financial dustbin of history by reorganizing them into the Milwaukee & St. Paul Railway, and, as one biographer noted, above all, he got railroads built when no one else could or would. If Byron Kilbourn was the visionary who may be credited with founding what was to become the Milwaukee Road, Russell Sage is properly the godfather of the Milwaukee Road.

The Milwaukee & St. Paul was under continual assault from the Wisconsin legislature over the railroad farm mortgage debacle. The Legislature tried several times to restrict or handicap farm foreclosures based on the railroad mortgages, and finally enacted a law compelling the Milwaukee & St. Paul to retire the LaCrosse & Milwaukee and the Milwaukee and Horicon Railway mortgages by contributing 12% of its annual gross earnings to a sinking fund designed to ultimately retire all the farm mortgages which were outstanding. Fourteen similar laws had been enacted between 1858 and 1863, and all were declared unconstitutional. Farmers tore up Milwaukee & St. Paul tracks and damaged other property of the railroad; for a time, night passenger service between Milwaukee and St. Paul was restricted because of dangers of sabotage.¹⁴

In, June, 1863, S.S. Merrill replaced Edwin Goodrich as General Superintendent of the new company. On June 21, 1864, David Hughes, who had been elected first President of the Milwaukee & St. Paul, resigned, and Russell Sage was elected President. Under the penny-pinching Sage, the Milwaukee was not making its payrolls regularly.¹⁵ On June 28, 1865, the Company held its first annual meeting, and elected a Board including Sage, Mitchell, Chamberlain, Merrill and John Cary. Two days later, the Board met and elected Alexander Mitchell as President and S.S. Merrill as General Manager.

In the meantime, however, on January 21, 1861, the Milwaukee & Mississippi was reorganized as the Milwaukee & Prairie du Chien, owning over 736 miles of track.¹⁶ There was some logic in a consolidation of the Milwaukee & Prairie du Chien with the Milwaukee & St. Paul, and even a three-way consolidation with the Chicago & Northwestern had been proposed, but no financial impetus to such consolidation was in the offing. In 1863, the Milwaukee & Prairie du Chien turned down an offer to be purchased by the Milwaukee & St. Paul, and in 1865, the Milwaukee & Prairie du Chien rejected an offer to purchase the Milwaukee & St. Paul. Mitchell continued acquiring stock in the Milwaukee & Prairie du Chien, and by 1866, cooperation between the two railroads seemed to suggest consolidation, however, this was

¹² Sarnoff, Paul, *op. cit.* p. 270.

¹³ O'Conner, Richard, Iron Wheels and Broken Men, (New York: G.P. Putnam's Sons, 1973), p. 23.

¹⁴ Derleth, August, *op. cit.* p. 78.

¹⁵ Wells, *op. cit.* p. 112.

¹⁶ Johnson, F.H., *op. cit.* p. 48.

interrupted by events transpiring far away, and completely unrelated to the railroading concerns of Wisconsin.

In New York, the brokerage firm of Henry Stimson & Company began overt speculation in Milwaukee & Prairie du Chien stock. The brokerage had quietly purchased all available common stock of the railroad, and had loaned these shares to various persons and businesses, subject to a short call. In early November, 1865, the brokers suddenly called in all of the stock. The New York Stock Exchange was besieged by traders attempting to purchase shares to satisfy the short call. Milwaukee & Prairie du Chien stock skyrocketed, and the Stimson traders were able to sell their remaining shares at these high prices. The New York Times remarked that the corner was "the sharpest and beyond all precedent the most sudden corner known to the forty years' history of the New York Stock Exchange." Prairie du Chien being French for prairie dog, the corner was memorialized as the "Prairie Dog Corner."¹⁷ Tremendous profits flowed to the speculators. It would happen often with the Milwaukee Road.

The New York speculators retained a majority of the common shares of the Milwaukee & Prairie du Chien stock, but they were surprised to learn that this was non-voting stock according to an unusual provision of the railroad's charter. An agent of the brokerage managed to slip a provision into a last minute legislative measure -- ostensibly designed to regulate petroleum companies in Wisconsin -- but which converted the non-voting common stock of the railroad to voting stock: the speculators now had control of the company, which they offered to the Milwaukee & St. Paul, which accepted, trading share for share.¹⁸ This is undoubtedly where the idea that Alexander Mitchell did not cotton to New York financiers came from.

In 1866, Alexander Mitchell, who had been a director of the Prairie du Chien Company at its inception and until 1855, and for a period in 1858, became president by virtue of the shares voted on behalf of the Milwaukee & St. Paul ownership.

Since Mitchell was also president of the Milwaukee & St. Paul Railroad, and Russell Sage owned large chunks of both, it was only natural that in 1867, the two lines formally merged, creating the largest rail system in the Midwest. In that same year, the Company acquired the McGregor Western Railroad, which had previously acquired the Minnesota Central (whose mortgages, naturally, were owned by Russell Sage). Milwaukee and St. Paul, Minnesota were linked by rail.

Sage was known as the "father of construction companies in Wisconsin, Iowa, Minnesota, and Illinois," and primarily responsible for most of the iron rail lines that became the Milwaukee Road. "For decades, he had milked the Wisconsin farmers, tricked and stripped the Dutch financiers and raked in juicy profits as the head of the 'ring' that built spur lines and sold them to the Milwaukee Road." But, Mitchell and Merrill realized he was not the type to run a railroad, easing him out of any position on the railroad, as well as out of the railroad's Wall Street offices that he had used for free for so long. So he left, and went on to other railroad

¹⁷ Derleth, August, op. cit., p. 89.

¹⁸ Ibid., p. 90.

schemes, using Jay Gould as his new front man.¹⁹ But, he continued to hold bonds of the Milwaukee, maintained a friendship with Mitchell and Merrill, and his favorite nephew, Russell Sage II, went to work for the Milwaukee as a civil engineer.²⁰

Mike Norton writes: Derleth relates a battle for control of the Milwaukee between Mitchell and Sage in 1875, as a result of which Sage was removed as a vice president of the Road.

Russell Sage Jr. was made superintendent of the Chicago & Milwaukee Division and held that position through 1876, at least, and I am not sure for how much longer. The panic of 1873 and the fall of Jay Cooke and the Northern Pacific had marked a turning point for Sage. He had made a killing in that depression by purchasing stocks at cheap prices, and had turned his colossal profits to financing Jay Gould's purchase of control of the Union Pacific. The Union Pacific was the transcontinental railroad that Sage had tried to obtain when he became so heavily involved at Milwaukee Road twenty years before. He had often told people that the Chicago, Milwaukee & St. Paul was only the "first division" of a transcontinental railroad. Mitchell was apparently too conservative to get there, however, so for Sage, and Jay Gould provided a more direct, if more reckless, means of controlling a railroad to the Pacific.

As to a schism between Sage and Mitchell, Sage was eventually replaced on the Milwaukee board by his friend William Rockefeller, who may have purchased Sage's stock as Sage needed more money for his Union Pacific efforts. In 1880, Mitchell accomplished a friendly purchase of the important Hastings and Dakota Division from Russell Sage. As we discussed some time ago on this List, James J. Hill had wanted the Hastings & Dakota but had backed down on attempting to purchase it when the Milwaukee expressed "interest." Now you can see why, and this also suggests that, had there been an animosity between Sage and Mitchell, Hill likely would have made a run for it; however, the more likely explanation is that, between old friends and business partners Russell Sage and Alexander Mitchell, Hill simply didn't have a chance at the purchase, he knew it and so was forced to let this important acquisition pass to Milwaukee Road.

Sage's biographer, Paul Sarnoff, ["The Money King"] notes that Sage had few close associates, and with the death of S. S. Merrill in 1884, Sage lost a "loyal friend of the Milwaukee Road," and says this about Mitchell: "And in 1887, Alexander Mitchell, the overrated Scotchman [yes, it says "Scotchman"] who had gotten his railroad start from Sage in Milwaukee in 1851, finally lost his grip on the Milwaukee Road. His passing ended a 36-year relationship. By 1890, the only close associate Sage had in the business world, outside of his attorneys, was Jay Gould." [p. 271.]

Like William Rockefeller, Sage may have had some lasting sentimental attachment to Milwaukee, in spite of his expansive days with Gould. In 1900, Sage was 84 years old, and regarded with some affection for his miserly quirks, referred to generally as "Uncle Russell" in the financial community.

¹⁹ Sarnoff, Paul, Russell Sage: The Money Man (New York: Ivan Obolensky, Inc., 1965) p. 199-200.

²⁰ *Ibid.* p. 279.

In the Fall of 1900, the Milwaukee was trying to close out a mortgage of the Milwaukee & St. Paul issued in 1869. Only two bonds remained outstanding, and the coupons had not been cashed for more than 14 years.

The Farmer's Loan and Trust Company reported to Roswell Miller that they were being held by Russell Sage.

Apparently, he refused to part with them, and Miller had to negotiate to retire the bonds so that the Milwaukee could retire the mortgage. An agreement was reached and a special meeting of the Board of Directors was called on October 31, 1900 to approve a "settlement" whereby Sage would turn over his bonds. On that day, Russell Sage surrendered his last interest in the Milwaukee Road, having held an interest in one form or another for nearly 50 years, longer than any other person ever had or ever would.