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The Gould southwestern railroad system, 1878-1892

Gerald Otto Zedlitz
University of the Pacific

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THE GOULD SOUTHWESTERN RAILROAD SYSTEM

1878-1892

A Thesis

Presented to

the Faculty of the College of the Pacific

The University of the Pacific

In Partial Fulfillment

of the Requirements for the Degree

Master of Arts

by

Gerald Otto Zedlitz

March 1969

This thesis, written and submitted by

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Dated May 29, 1969

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INTRODUCTION

Few men in the history of American business have been more controversial than Jay Gould. His accomplishments and failures left an indelible mark on United States business life. Although much has been written about Gould's life and business career, no study has related a technical analysis of the Southwestern rail stock price movements to his railroad ventures in the Southwestern United States. It is the purpose of this study to present a historical review of Gould's acquisitions in the southwest and to explore the implications of these ventures on the public and business sectors of the American economy. Utilizing stock price changes, the thesis attempts to explain more fully the relationship of Gould's security trading practices to his Southwestern railroad system. Several technical patterns and interpretations are analyzed and compared for an overall view of his activities. Preliminary investigation by this thesis indicates a high degree of correlation between the stock price changes and Gould's formation of the Southwestern railroad system. Analysis of the moral implications of Gould's business ventures does not come within the scope of this study.

In organizing the thesis, it was necessary to include only Gould's Southwestern rail activities and his associated railroad investments. Although many of Gould's purchases were simultaneous, the study analyzes each acquisition separately in hope of avoiding confusion.

Sources containing business information on Jay Gould's activities included Railway Review and Railway Gazette, which provide many details on southwestern railroad events. Newspapers such as the St. Louis Evening

Chronicle, the Austin Daily Democratic Statesman, and the Denver Tribune were used to portray Gould in view of his contemporaries. Government publications were valuable especially in the areas of public policy and its relationship to the railroads. The Commercial and Financial Chronicle was a valuable tool, as were the leading New York newspapers of the day. Secondary sources were utilized when other information was not available or obtainable.

In the last chapter, the study evaluates a comparable modern railway problem and relates this analysis to Gould and his activities in the Southwest. Hopefully, the result will be a greater understanding of Jay Gould's achievements and failures.

CHAPTER I

Feverish industrial and agricultural activity in the north during the Civil War, aided by rising prices, touched off a period of unprecedented prosperity in the years immediately following the conflict. Immense regions in the west had been opened up to agriculture; the large wartime profits had been invested freely in fixed forms of capital, notably transportation facilities. Enormous amounts of invested capital financed 30,000 miles of newly constructed rail lines between 1867-73. However, the prosperity was too rapid and the expenditures were too great for the economic well-being of the country. Cultivation of western lands only threw older land areas out of production and consequently reduced their value. Speculation ran rampant throughout the country. Poor ethics of politicians and capitalists, as witnessed by the Credit Mobilier and Black Friday scandals, contributed to the weakening of business confidence.¹

In the fall of 1873 the railroad bubble burst. An eruption of business failures occurred, culminating in the failure of Jay Cooke & Co., a leading Wall Street firm. The New York Stock Exchange ceased trading as a wave of selling hit the exchange. By November, fifty-five railroads, including the Kansas Pacific, the Santa Fe, and the Burlington, with securities representing one-eighth of the nation's total railroad debt, were in default. Industries related to the railroads failed for a lack of business. General iron and rail prices dropped 33 per cent and 27 per

¹Harold Underwood Faulkner, American Economic History (New York: Harper & Brothers Publishers, 1960), pp. 515-16.

cent respectively in one year. The September panic and the five years of depression which followed destroyed business confidence and left the national economy in the doldrums.²

By 1878 the economy had hit bottom and was beginning to recover. With the rise in business activity, Jay Gould emerged as one of the nation's leading speculators. Using methods which were without precedent, he bought, sold, and traded his way to financial success.

Born in Roxbury, New York, in 1836, Jay Gould was the son of an unsuccessful but determined pioneer who eeked out a living on a farm. Impressed in his youth by the power and prestige of the Erie Railroad, young Gould undoubtedly looked upon railroads as the most desirable possessions of man.³ Fundamentally he was a hard worker who could pursue a goal with patience and persuasiveness.

For several years, Gould roamed upper New York State, working, saving, and making himself helpful and agreeable to those in strategic places. A self-styled promoter, he surveyed land, made a few maps, and wrote a lurid history of Delaware County, New York. However, it was in his personal contacts, especially in a long and persistent cultivation of retired tannery owner Zadoc Pratt, that he proved to be most successful. Impressed by Gould's industry, Pratt financed the construction of a new tannery in Pennsylvania and then turned the business over to Gould. After

²Irwin Unger, The Greenback Era (Princeton: Princeton University Press, 1964), pp. 213, 220-22, 229.

³George Alfred Townsend, "Jay Gould," Forum, II, 1886, pp. 88, 90.

receiving only the briefest correspondence from Gould during a nationwide boom in leather, Pratt unexpectedly visited the tannery. Much to his astonishment, he found the books in utter chaos. Further inspection revealed that Gould had misappropriated company funds for his own personal use. Pratt immediately demanded Gould resign. The partnership was peremptorily dissolved.⁴

However, Gould gained more than he lost. Now well-known in the leather industry from his previous speculative trips to New York, he had little trouble finding a new partner, Charles Leeup. A prominent leather merchant of unquestioned integrity, Leeup soon discovered that Gould was using Leeup's name in an attempt to corner the market in hides. The panic of 1847 ruined Leeup financially and Gould's speculative ventures in hides failed. Betrayed by Gould and bankrupt, Charles Leeup shot himself in the parlor of his New York mansion. Thereafter, Gould moved to New York City and entered the world of corporate finance.⁵

For eight years Jay Gould labored on Wall Street with moderate success. However, when he was elected to the Erie Railroad Board of Directors in October, 1867, he was still virtually unknown in leading financial circles. Gould's abilities lay in the intricate field of corporate finance and security trading although no one actually knows how he acquired his financial skills and acumen.⁶

4

⁴Whittaker, H. R., Jay Gould, Financier.

⁵Ibid.

⁶Julius Grodinsky, Jay Gould: His Business Career, 1867-1892. (Philadelphia: University of Pennsylvania Press, 1967), p. 23. Hereafter cited as Grodinsky, Jay Gould.

An expert in corporate negotiation, Gould mastered more completely than any other person the art of purchasing worthless stocks and bonds and selling them to financially sound companies.⁷ His usual practice was to examine corporate leases, bonds, and charters for technical or legal weaknesses. Once he found useful information, he sought control and proceeded to use the company information for personal profit. Taking advantage of rising economic confidence during the years 1878-1881, Jay Gould successfully ventured into the speculative and financially weak Southwestern railroads. From the onset, Gould capitalized on the favorable circumstances of low security prices and rising economic activity to form his Southwestern System.

Gould also utilized the New York Stock Exchange whenever possible. Speculation and security trading on the exchange was an important business vocation and was certainly an important avenue for profit. Non-speculators regarded the exchange as an "immense gambling establishment."⁸

Proficient in corporate finance, Gould also mastered the complexities of the national banking system and its relationship to the gold market. By purchasing large amounts of gold in 1873, Gould reduced the amount of gold in circulation causing a financial turmoil which became known as the "Black Friday" panic. Fearing an attempt on his life, he was protected

⁷Alexander Dana Noyes, Thirty Years of American Finance (New York: C. P. Putnam's and Sons, 1901), p. 63. Hereafter cited as Noyes, American Finance.

⁸John F. Hume, "The Heart of Speculation," Forum, II (1886), p. 131. Hereafter cited as Hume, "Speculation."

by a personal bodyguard for several years thereafter.⁹

Small in stature, Gould might walk the whole length of Broadway without being recognized by twenty persons except when he turned the corner onto Wall Street.¹⁰ Inconspicuous, Gould nevertheless commanded respect. William H. Vanderbilt said of Gould: "He always displays great ability on whatever he may concentrate his attentions."¹¹ Violent temper and unrestrained speech were all foreign to Jay Gould. Like most speculators, he kept his own counsel.

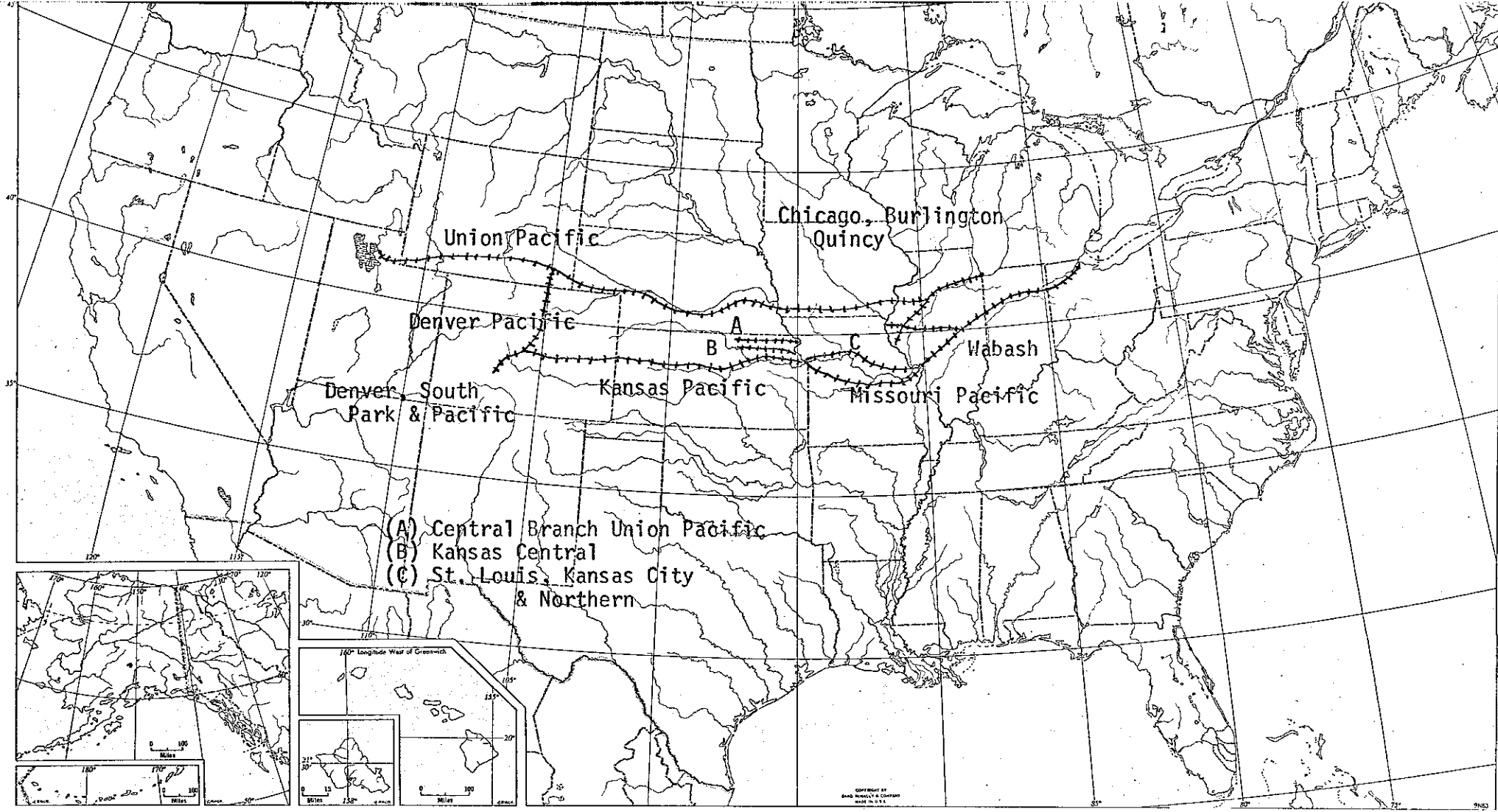
In considering the career of Jay Gould, one must recognize the temper of his times. Government regulation was minimal. Land grants, high tariffs, and other government actions aided business. The labor supply was adequate and funds were available for the entrepreneur. This was the "golden era of speculation" and "Mr. Gould was the busiest of them all."¹²

⁹"Jay Gould," Railway Gazette, January 17, 1880, p. 33.

¹⁰"Jay Gould," Railway Review, January 17, 1880, p. 32.

¹¹"Mr. Vanderbilt's Opinions," Railway Gazette, March 16, 1880, p. 141.

¹²Hume, Speculation, p. 135.



THE WESTERN RAILROADS

1873

CHAPTER II

THE GOULD VENTURES, 1878-1879

Eighteen hundred seventy-eight and eighteen hundred seventy-nine proved to be two of the most remarkable years in the financial history of the United States. Prospects for prosperity loomed brighter than in any year since the depression of 1873.¹

Jay Gould, who gained considerable notoriety in trying to wrest the Erie Railroad from the Vanderbilt interests in the years 1867 through 1872, succeeded in gaining control of the Union Pacific in 1873. Gould's speculative interests next centered on the Kansas Pacific and other financially weak western railroads. The lines represented speculative security profits if they could be united with a financially strong railroad, which meant to Gould his own Union Pacific.

Political turmoil lessened after the 1878 election. The defeat of the "Greenback" and "Silver Inflation" congressional candidates was decisive, and the gold standard resumed on January 1, 1879, without incident. Vast amounts of unoccupied western lands, owned by the government and the railroads, sold briskly at low acreage prices. Settlers, instead of land speculators, purchased a great number of these acres. Large crops in 1879 coupled with a strong agricultural demand from Europe

¹"Retrospect of 1878," Commercial and Financial Chronicle, January 4, 1879, p. 4.

brought farm prosperity which increased the attraction of settlement in the West.²

Stock prices began to rise in 1878 with rail stocks leading as a result of the large eastward movement of grain. The rise was orderly and without speculative excesses.³ As 1878 drew to a close, the stock market ended with most of the issues on their highs for the year.

I. THE KANSAS PACIFIC RAILROAD

As head of the Union Pacific, Jay Gould played a key role in the affairs of the western railroads. Seeking to increase the earning power of the Union Pacific, Gould tried to outflank the Chicago, Burlington and Quincy, a line connecting the Union Pacific with Chicago, by purchasing the Hannibal and St. Joseph. Stymied by the Burlington and unable to obtain any security profits with his Union Pacific holdings, Gould started to accumulate securities of the financially derelict Kansas Pacific, a competitor to the Union Pacific, whose track connected Omaha, Nebraska, with the Central Pacific Railroad in Utah.

Initially, every effort made by Gould to secure control of the Kansas Pacific for his merger with the Union Pacific failed. Henry Villard, a financier who represented the Kansas Pacific's first mortgage bondholders, opposed Gould's attempts to gain control. Searching for speculative profits

²Falkner, American Economic History, p. 518; "Retrospect of 1878," Commercial and Financial Chronicle, January 4, 1879, p. 3.

³"Retrospect, 1878," p. 5.

Gould purchased large amounts of Kansas Pacific junior income bonds at prices as low as ten cents per \$1.00 face value.⁴ Villard, meanwhile, encouraged his clients to purchase the senior first mortgage bonds.⁵ After considerable negotiation, the Kansas City Pool Agreement, an arrangement to harmonize the interests of the junior and senior bondholders, was signed by Gould, Villard, and other financiers.⁶

Despite the apparent agreement, Gould was for the moment stymied in his efforts to gain further concessions from the Kansas Pacific. Lacking capital for a more concerted attack on the Kansas Pacific and other railroads, Gould decided to sell a major portion of his Union Pacific stock to secure additional funds. Of the 370,000 shares of Union Pacific stock outstanding, Jay Gould controlled 200,000. However, any large scale selling by Gould would have depressed the price of Union Pacific stock very rapidly.⁷ Gould, however, found a way to sell his stock without depressing the price. An announcement signified the "great event of the week in Wall Street": Jay Gould had sold 50,000 shares of Union Pacific stock to a syndicate led by his friend Russell Sage, along with an option to purchase an additional 50,000 shares on call.⁸

⁴United States Congress, Senate, United States Pacific Railway Commission Report: 1887, Vol. 1, 50th Congress, 1st Session, (Washington: Government Printing Office, 1880), p. 463. Hereafter cited as Pacific Railway Report: 1887. See Appendix, Tables I and II for the composition of the Kansas City Pool Agreement.

⁵Grodinsky, Jay Gould, p. 141.

⁶Pacific Railway Report: 1887, p. 51.

⁷Grodinsky, Jay Gould, p. 162.

⁸Commercial and Financial Chronicle, February 28, 1879, p. 200.

Now ready, Gould pursued his attack on the status quo in the western railroads. In effect, Gould sold his Union Pacific stock to purchase Wabash and Kansas Pacific stock and form a competitive system to the Union Pacific. The ultimate goal was a merger that would provide security profits.

The attack began with Gould's efforts to purchase the Wabash Railroad primarily because of its strategic location as a potential eastern outlet for the Kansas Pacific. It was the only railroad that had a line from Toledo, Ohio, to St. Louis, Missouri.⁹ Also, as the Railway Gazette later reported, the acquisition of the Wabash would enable Gould to harmonize the Wabash interests with those of the Union Pacific.¹⁰ However, a difficult corporate problem confronted Gould. Commodore C. K. Garrison, seeking to establish a system of his own, and therefore an opponent of Gould's, controlled the Missouri Pacific, the Wabash, and a feeder line, the St. Louis, Kansas City, and Northern. With Garrison's seemingly strong strategic position, the Wabash seemed an unlikely recipient for Gould's interest and money.¹¹ In an effort to strengthen his position against Garrison, Gould purchased control of the Central Branch Union Pacific, a feeder line to the Kansas Pacific and by traffic interchange to the Missouri Pacific and Wabash. The purchase was a double blow to Gould's

⁹Grodinsky, Jay Gould, p. 194.

¹⁰April 23, 1880, p. 220.

¹¹Commercial and Financial Chronicle, February 22, 1879, p. 200.

opponents in the West. Gould not only increased his bargaining position with the financially derelict Kansas Pacific, but also effectively stopped Garrison's plan to expand the Missouri Pacific west from Kansas City into Kansas. Pressed further by declining stock prices and law suits, Garrison sold his interest in the Wabash to Gould.

In addition to the purchase of the Wabash, Gould acquired 40,300 shares of the 100,000 shares of Kansas Pacific stock outstanding.¹² Attempting to end his continuing differences with financier Henry Villard who at this time was threatening the Kansas Pacific with foreclosure, Gould agreed to pay all interest arrearages to Villard and the senior bondholders and then as the largest single security holder, he took control of the Kansas Pacific.

Seeking profits for his Kansas Pacific holdings through a merger, Gould, as head of the Kansas Pacific, suggested combining the Union Pacific and the Kansas Pacific. Rebuffed by the Union Pacific Board of Directors Gould demonstrated his brilliance as a railroad strategist and tactician.¹³ Unable to reach St. Louis or Denver, the Union Pacific had to consider the frightening prospect of insolvency if both the Kansas Pacific and Union Pacific competed for the same traffic in the sparsely settled area. Gould, realizing the Union Pacific's position, purchased the Denver Pacific, thereby linking the Kansas Pacific's Denver terminus with Cheyenne and

¹²Pacific Railway Report: 1887, p. 463.

¹³Gould became a minority stockholder through his Union Pacific sale to the Sage syndicate. Although he was still on the Board of Directors, his influence had declined as a result of the sale.

cutting into Union Pacific feeder traffic. At the same time Gould also became an important influence in the Denver, South Park and Pacific, a road that had access to the Colorado mine traffic.¹⁴ Continuing his attacks against the Union Pacific, Gould proposed to extend the Kansas Pacific to Oregon. With the Union Pacific on the defensive, Gould waited for an offer of merger. As he had foreseen, the Union Pacific capitulated during the negotiations that ensued. Gould was in the enviable position of both buyer and seller since he still owned a small block of Union Pacific stock.

When the merger was announced, profits were reaped by many who held Kansas Pacific and other branch line securities which were exchanged for high quality Union Pacific securities. However, as Vincent M. Masterson has commented, "It was to Gould, as the chief owner of the Kansas Pacific and holder of the Denver Pacific stock outstanding, that the lion's share of the profits went." Gould had purchased the Kansas Pacific stock for as little as \$12.50 a share as early as 1871, while the Denver Pacific stock was obtained at no cost with the purchase of Denver Pacific Bonds.¹⁵

Gould's strategy included the formation of a new corporation with a capital stock equal to the sum of the stocks of the old constituent

¹⁴Arthur M. Johnson and Barry E. Supple, Boston Capitalists and Western Railroads, (Cambridge: Harvard University Press, 1967), p. 243. Hereafter cited as Johnson, Western Railroads.

¹⁵Pacific Railway Report: 1887, p. 559.

companies--The Union Pacific, Kansas Pacific, and Denver Pacific.¹⁶ The exchange of the old securities was on a dollar-for-dollar basis for stocks of the new corporation. In essence, the Union Pacific diluted its earning power and credit with the exchange of Union Pacific securities for the virtually worthless securities of the Kansas Pacific and Denver Pacific.

II. THE ST. LOUIS, KANSAS CITY AND NORTHERN

Prior to the merger of the Kansas Pacific and the Union Pacific, Gould completed a small consolidation that reportedly netted him profits of \$4,800,000.¹⁷ When Gould took control of the Wabash, he privately purchased large blocks of the St. Louis, Kansas City, and Northern stock. The common stock sold at \$7.50 and the preferred stock at \$30.00 a share prior to Gould's acquisition of the Wabash. In July, 1879, the Wabash announced the consolidation of the two lines.¹⁸ When the merger news became public, the price of the common and preferred stocks were \$47.00 and \$72.00 respectively.¹⁹

III. THE POTENTIAL RAILROAD MONOPOLY

Early in 1880 the Austin Daily Democratic Statesman stated,

¹⁶Johnson, Western Railroads, p. 249.

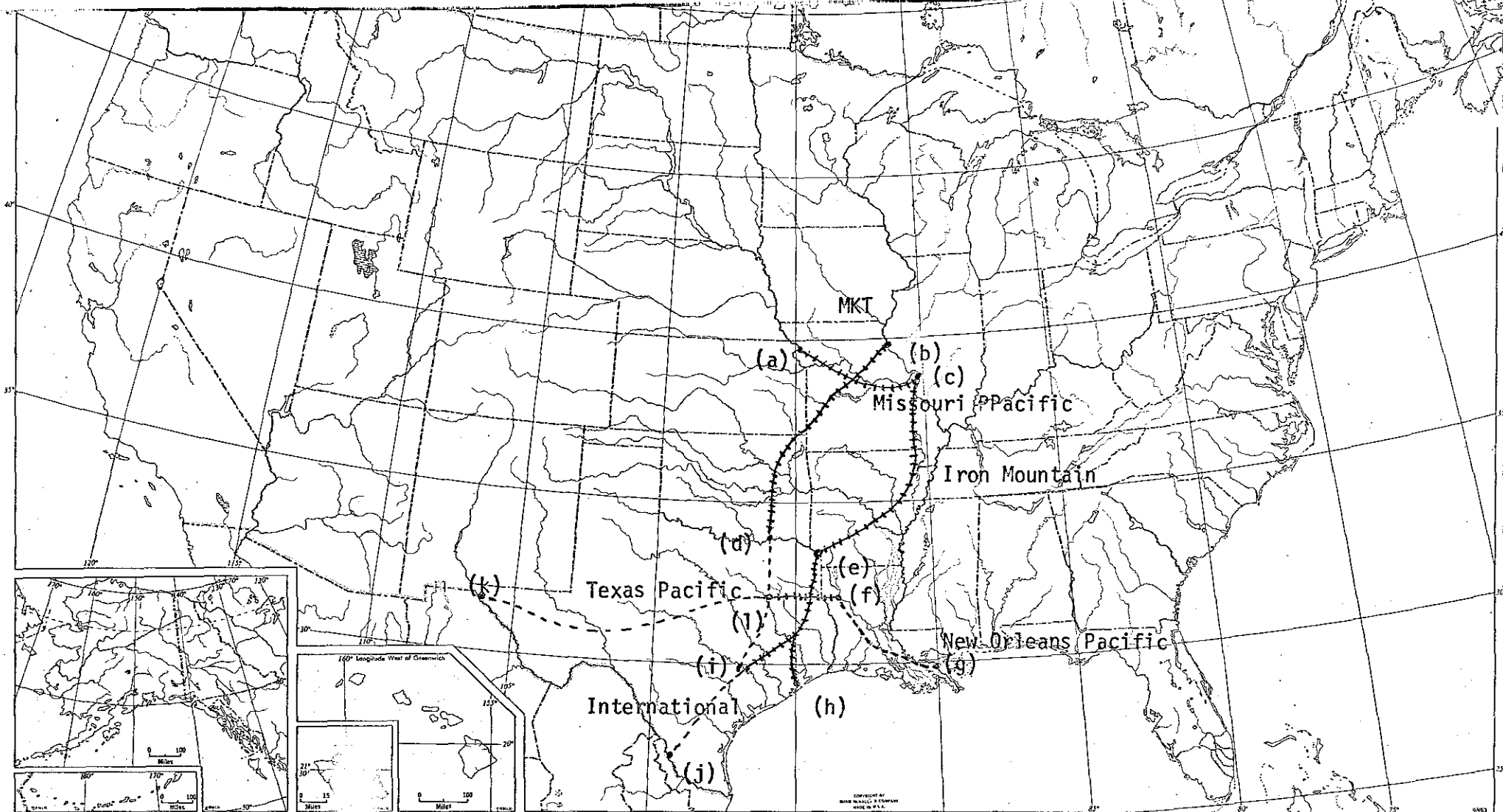
¹⁷"The Gould Speculations," Railway Gazette, April 23, 1880, p. 217. Hereafter cited as "Gould Speculations."

¹⁸Commercial and Financial Chronicle, July 12, 1879, p. 42.

¹⁹"Gould Speculations," p. 217. See also Appendix Table III.

"Gould's great object seems to be the control of the transcontinental trade."²⁰ With the Wabash and Kansas Pacific mergers completed, Gould cast his eyes on the fragmented Southwestern railroads. By acquiring the strategically located but unaffiliated railroads, and by building the necessary lines to link them into a system, he could forge a transportation monopoly in the Southwest. During the next two years, he proceeded to turn these dreams into reality.

²⁰January 21, 1880, p. 2. Hereafter cited as the Daily Statesman.



THE SOUTHWESTERN RAILROADS
1878

----- = Proposed Construction

Table of Cities

- | | | |
|-----------------|-----------------|---------------|
| (a) Kansas City | (e) Texarkana | (i) Ft. Worth |
| (b) Hannibal | (f) Shreveport | (j) Laredo |
| (c) St. Louis | (g) New Orleans | (k) El Paso |
| (d) Dennison | (h) Galveston | (l) Taylor |

CHAPTER III

THE SOUTHWESTERN SYSTEM, 1879-1880

During the year 1879, the railroad picture in the southwest began to change very rapidly with the entry of Jay Gould. "The conquest was rapid," said Julius Grodinsky, "indeed in American history there had been probably no other system built in such a short time."¹ By the end of 1880 Jay Gould became the dominant factor in Southwestern railroad activity.

I. THE MISSOURI PACIFIC RAILROAD

On May 12, 1849, the Missouri General Assembly chartered the Pacific Railroad of Missouri to build a line from St. Louis to a point on the western border of the State. James Kirkwood, a noted engineer of the period, completed the surveys for the route. Construction commenced on the first section of the railroad to Cheltenham, Missouri, a distance of five miles, on July 14, 1851. Passenger service to Cheltenham began on December 9, 1852.²

With the onset of the Civil War in 1861, Pacific Railroad construction temporarily ceased. The line's western terminus was then at Sedalia, ninety-five miles from the proposed western border. Building activity began anew just before the war ended and the last ninety-five

¹Grodinsky, Jay Gould, p. 244.

²Moody's Transportation Manual, (New York: Robert H. Messner, 1968), p. 279. Hereafter cited as Moody's Manual.

miles were completed to Kansas City. Construction resumed after the Civil War, and the railroad soon extended to Leavenworth and Atchison.³

After considerable financial difficulty, the railroad was acquired by a group of eastern financiers, led by Commodore C. K. Garrison. Thereafter the railroad reorganized as the Missouri Pacific Railway. Coinciding with the purchase of the Missouri Pacific, Garrison also acquired the Wabash Railroad, the only railroad leading to St. Louis from the northeast, and the St. Louis, Kansas City, and Northern. It was against Garrison's enviable position in the Southwest that Jay Gould leveled his attack in 1879.⁴

Gould soon confronted Garrison with lawsuits and other tactics designed to end Garrison's hold over the Wabash. With Gould's purchase of the Central Branch Union Pacific, Garrison gave up his efforts to unite and expand his railroads. The Wabash and other Garrison controlled railroads soon passed to Gould.

After Gould successfully purchased the Wabash and the St. Louis, Kansas City, and Northern, he offered to purchase the Missouri Pacific from Garrison. During testimony before the United States Pacific Railway Commission in 1887, Gould gave the following description of his dealings with Garrison: "Mr. Garrison had projected roads out in the Kansas Pacific territory paralleling it to an extent, and I went and saw him and had a story session or two."⁵

³Ibid., p. 279.

⁴See Chapter II.

⁵Pacific Railway Report: 1887, p. 509.

Throughout these "stormy sessions" with Garrison, Gould threatened to extend the Kansas Pacific as far east as Garrison extended the Missouri Pacific west. The threats were a typical Gould tactic. After Gould purchased the Central Branch Union Pacific, which had been vital to Garrison's expansion plans, Garrison decided to sell the Missouri Pacific. Gould quoted Garrison as saying, "You had better buy me out; that is the cheapest way."⁶ However, Gould still had problems. Garrison rejected the first offer on the grounds it was too low. When Gould decided to accept a higher figure, the Commodore raised the ante. Finally the price agreed upon was \$3,800,000--approximately \$1,800,000 higher than the original asking price.⁷ Control of the road passed to Jay Gould on November 13, 1879.⁸

Included in the sale of the Missouri Pacific were two small branch lines and an option to purchase the narrow-gauge Kansas Central Railroad.⁹ When Gould proposed to unite the Kansas Pacific with the Union Pacific, he had acquired the Missouri Pacific, Kansas Pacific, Wabash, and several smaller rail lines, which, when linked together, formed a system competing with the Union Pacific. Only then did the real significance of the

⁶Ibid., p. 509.

⁷Henry Clews, Fifty Years in Wall Street (New York: Irving Publishing House, 1908), p. 646.

⁸In testimony in 1887, Gould stated that he paid \$3,000,000 for 4,000 shares of Missouri Pacific stock. However, since the actual price was not disclosed at the time of the sale, the financial papers generally accepted the \$3,800,000 figure.

⁹See Appendix Table IV.

Missouri Pacific purchases become apparent. The Missouri Pacific was the cornerstone and the eastern outlet for the newly formed system. "His colleagues in the Union Pacific management were informed that it was his purpose to carry his enterprise to the Pacific Ocean."¹⁰ With this objective in view the extraordinary purchases of the Missouri Pacific, at prices which did not bear any relation to the value of the properties, could readily be explained.¹¹

An interview between Gould and the Union Pacific management was held on January 14, 1880, and a subsequent agreement was drawn up. The negotiations were "a speedy but complete surrender to his demands."¹² Referring to the merger, the New York Times stated: "Gould succeeded in managing the matter pretty conclusively."¹³ To the general public, Gould had seemingly changed from a speculator to a railroad manager.¹⁴

II. THE TEXAS AND PACIFIC RAILROAD

After completion of the merger between the Kansas Pacific and the Union Pacific, Gould sought control of the Texas Pacific, the second railroad he desired for his future Southwestern system. The Texas Pacific

¹⁰Pacific Railway Report: 1887, pp. 60-61

¹¹Ibid.

¹²Ibid. See Appendix, Tables V-VII for further details of the merger.

¹³"Gould's Great Monopoly," New York Times, January 20, 1880, p. 1.

¹⁴Commercial and Financial Chronicle, January 10, 1880, p. 30.

originally had been planned and promoted by one of the ablest groups of railroad capitalists in the country. In the early 1870's, T. A. Scott, with the help of an eastern group of financiers as well as a land grant, had planned a railroad to run from the Louisiana-Texas border to San Diego, California. The depression of the 1870's, however, ended all construction outside of Texas, and the Texas and Pacific failed to accomplish its projected construction program by 1879.¹⁵ In 1880, the main line extended from Shreveport, Louisiana, to Fort Worth, Texas, and from Texarkana, Texas, to Sherman, Texas. Adding other minor lines, the total track was 444 miles.¹⁶

Unable to obtain either Congressional help or public financing on the open market, the Texas & Pacific turned to Jay Gould. Early in 1880 the Railway Review announced the organization of the Pacific Improvement Company, the construction company which would complete the Texas & Pacific Railroad.¹⁷ With a paid-in capital of \$1,000,000 stock control of the Pacific Improvement Company rested with the following speculators: General Dodge, G. Morrosini, E. L. Adams, G. N. Pullman, W. L. Scott, C. F. Woerishieffer, Gould associates Sidney Dillon and Russell Sage, and Jay Gould.¹⁸

The newly formed syndicate planned to complete a line from Fort

¹⁵Grodinsky, Jay Gould, p. 253.

¹⁶Railway Gazette, August 3, 1880, p. 436.

¹⁷January 3, 1880, p. 5.

¹⁸Railway Review, January 10, 1880, p. 18; New York Times, January 6, 1880, p. 4.

in completing the line. Taking advantage of his success with the Texas & Pacific, Gould had "New Orleans rejoicing in the prospect" that a railroad would be built from the city of Shreveport. At a meeting of the Board of Directors on April 10, 1880, Gould and Scott completed terms. Although all parties "hoped for" a quick commencement of construction, it wasn't until July 17, 1880, that a contract was let to the Gould-sponsored construction company. The contract stipulated that the rail line be completed in eighteen months.²³ Creditors, in the meantime, consented to be paid at fifty cents on the dollar.²⁴ In one stroke, Jay Gould had eliminated one half of the outstanding debt.

Control of the railroad rested with the original owners until such time as forty miles of track were laid.²⁵ Then according to the construction agreement, sufficient amounts of stock would be transferred to the syndicate to control the railroad.

In an effort to obtain greater profits, Gould sought to transfer an additional land grant to the New Orleans Pacific from the New Orleans, Baton Rouge, and Vicksburg Railroad. Commonly referred to as the "Backbone," the Vicksburg line supposedly lost its land grant before it completed road construction. However, Gould discovered that the lands had been illegally withdrawn and still were held in reserve.²⁶ He reached an agreement with

²³Railway Review, April 17, 1880, p. 184.

²⁴Commercial and Financial Chronicle, p. 434.

²⁵Railway Gazette, July 23, 1880, p. 402.

²⁶George W. Julian, "Railway Influence in the Land Office," North American Review (New York: 1883), p. 253.

Worth, Texas, to El Paso, Texas, by January 1, 1883. The railroad agreed to pay the syndicate the costs of construction by issuing first mortgage bonds to them at \$20,000 per mile, and as a bonus, an equal amount of stock.¹⁹ With the stock market rising late in 1879 and continuing through 1880, the securities paid to the syndicate proved to be very profitable. Eventually the syndicate reaped a profit of 700 per cent.²⁰

Thomas A. Scott reported to the Texas & Pacific stockholders a few months later in 1880 that the road had a surplus of \$3,000,000 in first mortgage bonds, \$600,000 of income bonds and land grant bonds, and no floating debt. "This reserve of securities will not only insure a well-constructed and fully equipped road, but will enable your company to maintain the very strong financial condition which it now enjoys," said T. A. Scott.²¹ Jay Gould had similar thoughts; by the time the Texas & Pacific stockholders met again, he was president of the line.²²

III. THE NEW ORLEANS PACIFIC RAILROAD

Dormant for years, the New Orleans Pacific consisted in 1880 of 100 miles of roadbed and a land grant. There was little hope of completion until 1880 when Gould and fellow financier, T. A. Scott, announced interest

¹⁹New York Times, January 6, 1880, p. 4.

²⁰New York Times, January 10, 1885.

²¹Railway Gazette, July 23, 1880, p. 402; Railway Review, August 21, 1880, p. 430.

²²Grodinsky, Jay Gould, p. 256.

W. L. Scott, the largest shareholder, to pool a majority of the Backbone's stock and to transfer the land grant to the New Orleans Pacific. Eventually the land grant passed to the construction company.²⁷

Although the New Orleans Pacific was supposedly easy to build because of its location, construction difficulties soon arose.²⁸ According to contemporary reports, "unprecedented cold weather" and the "scarcity of experienced labor" hindered progress.²⁹ However, by December, 1880, the railroad announced that it would commence operation over its lines except for the last uncompleted seventy-five miles.³⁰ After the announcement, the Gould-influenced Board of Directors proposed the consolidation of the line with the Texas & Pacific, thereby linking Texas with New Orleans.³¹ The effect of such a report only increased the enthusiasm of Texas businessmen who considered New Orleans an "admirable base" for supplying the Lone Star State with a great many heavy goods.³² Future business and railroad expansion prospects were exceedingly bright as Jay Gould expanded his Southwestern Empire.

IV. THE MISSOURI, KANSAS AND TEXAS RAILROAD

Consisting of a line from Holden, Missouri, to Paola, Kansas, and

²⁷Grodinsky, Jay Gould, p. 258; New York Times, January 10, 1885.

²⁸Railway Gazette, July 23, 1880, p. 402.

²⁹Ibid., May 6, 1881, p. 254.

³⁰Daily Statesman, December 22, 1880, p. 1.

³¹Railway Gazette, December 3, 1880, p. 652.

³²Daily Statesman, June 27, 1880, p. 2; Railway Gazette, August 13, 1880, p. 436.

a line from Parsons, Kansas, to Junction City, Kansas, the Missouri, Kansas & Texas covered a total of 786 miles. However, despite its excellent location, the road fell into receivership during the depression of the 1870's. Reorganization lasted only a short time and was succeeded by a unique scheme arising out of financial necessity.³³ Control of the line did not pass to the stockholders as is normal after receivership. Rather, the property was placed in trust under an agreement with the Union Trust Company of New York.³⁴ The railroad issued income bonds for the past due interest and the floating debt.³⁵

The Missouri, Kansas and Texas was vital to Gould's growing system in the Southwest. But before he could gain control of the rail line, he had to battle C. E. Perkins, manager of the Burlington and Quincy Railroad, who considered the Missouri, Kansas & Texas as a natural extension of the Burlington. In the late 1870's Perkins launched the Burlington on an expansion program which carried the line into Colorado, Nebraska, and Wyoming. The clash with Gould became inevitable as Gould secured the Missouri Pacific, the Wabash and other lines thus invading Burlington territory and earning power. Gould's efforts to control the Missouri, Kansas & Texas produced a quick but spectacular fight. Although Perkins considered the common stock to be worthless because of the large bonded debt, Gould began to buy until he purchased a majority interest. Then

³³Grodinsky, Jay Gould, p. 234.

³⁴New York Daily Tribune, January 28, 1880, p. 8.

³⁵Railway Gazette, November 12, 1880, p. 599.

he tendered \$800,000, together with the \$250,000 cash in the railroad's treasury to the Union Trust Company to pay for the defaulted interest coupons.³⁶ With the defaulted interest paid, control could pass to the stockholders. Gould immediately demanded the return of the company to the stockholders and as the dominate stockholder took control of the company in January, 1880.³⁷ Thus Gould eliminated the Burlington's opportunity to control the Missouri, Kansas & Texas.

V. THE INTERNATIONAL GREAT NORTHERN RAILROAD

The International Great Northern Railroad was promoted by a group of New York Capitalists and planned as a through route to the Rio Grande from Longview, Texas, to Laredo, Texas. The International fell victim to the financial crisis of 1873. Construction ceased while the road was still many miles from its intended goal in southwestern Texas. Lacking the necessary capital, the line failed to complete its construction within the time limits specified by the charter. Expansion plans began to revive in 1880 when the State of Texas instituted law suits to relieve the State from its obligations incurred under the provisions of the land grant.³⁸ In an effort to retain its land grant, the International Great Northern commenced construction on a line to San Antonio in July, 1880.

³⁶Commercial and Financial Chronicle, November 12, 1880, p. 510.

³⁷New York Daily Tribute, January 28, 1880, p. 8.

³⁸Grodinsky, Jay Gould, p. 261.

Rumors of Jay Gould's interest appeared suddenly in December, 1880. At first the rumors were denied by sources close to the railroad. However, the rumors proved to be true; Gould purchased control of the road in December, 1880, and now possessed all the rail lines leading to St. Louis except the St. Louis, Iron Mountain and Southern.³⁹ The Iron Mountain was the next road to fall into Gould's hands.

VI. THE ST. LOUIS, IRON MOUNTAIN AND SOUTHERN RAILROAD

Originally formed in 1837 by Missouri financiers, the St. Louis & Bellevue Mineral Railroad, as it was originally called, was rechartered in 1851 under the name St. Louis, Iron Mountain and Southern. It had the distinction of being the first railroad to be surveyed west of the Missouri River, although construction was slow. Business commenced between St. Louis and Pilot Knob in 1858. A \$3,501,000 loan from the State of Missouri during this period enabled the company to meet its construction obligations. Defaulting on its interest payments in September, 1866, control of the line passed to the State of Missouri who operated the company through a Board of Commissioners for three months.⁴⁰

On January 12, 1867, Thomas Allen, the future president of the line purchased the railroad and promised to extend the rail lines to

³⁹Daily Statesman, May 12, 1880. p. 2.

⁴⁰Railway Review, December 18, 1880, p. 664.

Columbus, Kentucky,⁴¹ and to expend \$500,000 per year for five years on improvements or extensions.⁴² Confirmation of Allen's title to the railroad came only after considerable litigation. However, the line prospered and grew steadily under Allen's control.

By the middle of 1880, Gould challenged Allen's control of the Iron Mountain by his Southwestern rail purchases. Much to his dismay, Allen saw his line effectively surrounded by Gould-controlled railroads. During Gould's negotiations for the Missouri Pacific, Allen had foreseen Gould's motives and had advised Commodore Garrison to buy the Missouri, Kansas & Texas and to merge the line into the Missouri Pacific. However, Garrison declined Allen's advice; eventually Gould completed the purchase of the Missouri, Kansas & Texas.⁴³

Interchange traffic between the Iron Mountain and the Texas and Pacific soon faced an uncertain future as the Texas line began to expand its lines westward.⁴⁴ Allen considered the Gould-formed Pacific Improvement Company as adverse to the interests of the Iron Mountain.⁴⁵ During December, 1880, negotiations took place between Gould and Allen to harmonize

⁴¹The actual agreement read to extend the line to Columbus, Kentucky, or a point on the Mississippi River just opposite or below.

⁴²Railway Review, December 18, 1880, p. 664.

⁴³Ibid.

⁴⁴Ibid., April 10, 1880, p. 176.

⁴⁵Ibid., December 18, 1880, p. 664.

the interests of both railroads.⁴⁶ However, "the combined money and influence of a combination such as that of Messrs. Gould, Sage, Dillon, and their associates" frightened Allen. Elected to the United States Senate in November, Allen decided to sell the Iron Mountain to prevent, in his words, "quarrels" and to secure "harmony" among the railroads that entered St. Louis.⁴⁷

Gould purchased 40,000 shares from Allen and 20,000 shares from Henry C. Marquand, the Vice-President of the Iron Mountain. Other small purchases brought Gould's holdings to 70,000 shares--slightly short of an absolute majority. However, the amount was sufficient to give Gould control over the road.⁴⁸ Gould now dominated all of the main railroads leaving St. Louis to the Southwest.

VII. THE GALVESTON, HOUSTON AND HENDERSON RAILROAD

In December, 1871, the Galveston, Houston, and Henderson, a small line that had access to the port of Galveston, came out of reorganization with a funded debt of \$1,500,000 and a capital stock valued at \$1,500,000. Like so many strategically located railroads, the small Galveston Line had long been in financial trouble, and Gould saw a new opportunity to

⁴⁶Evening Chronicle (St. Louis, Missouri), December 13, 1880, p. 2; New York Daily Tribune, December 14, 1880, p. 5; Railway Gazette, December 17, 1880, p. 678.

⁴⁷Railway Review, December 18, 1880, p. 664.

⁴⁸Commercial and Financial Chronicle, December 26, 1880, p. 653; New York Daily Tribune, December 16, 1880, p. 1; Railway Review, December 18, 1880, p. 664.

expand his system and gain access to the port. A large floating (non-funded) debt existed for several years. With his friend Russell Sage, Gould purchased a majority of the outstanding mortgage bonds. As majority bondholders, they elected themselves as trustees for the line and then foreclosed and bought the property at the sale. Eventually the International Great Northern leased the Galveston line. Gould now possessed "the great terminal link to Galveston."⁴⁹

* * * * *

Jay Gould in less than three years formed a railroad system by exchanging his Union Pacific interests for the financially weak western rail lines. Combining the western lines into competitive system, Gould threatened the Union Pacific with ruinous competition. Facing possible insolvency, the Union Pacific bowed to Gould's pressure and agreed to his merger terms. This resulted in large profits for Gould when the merger was consummated. Then using these profits he purchased the Missouri Pacific and Wabash lines and expanded into the southwest, thus forming his Southwestern System. However, the system still needed to be expanded and consolidated before it was completed. In one more year, Gould completed the system and in doing so established a railroad monopoly in the Southwest.⁵⁰

⁴⁹Commercial and Financial Chronicle, July 10, 1881, p. 45; March 19, 1881, p. 312; Grodinsky, Jay Gould, pp. 265-66; Railway Gazette, July 16, 1880, p. 386.

⁵⁰Noyes, American Finance, p. 64. See also Appendix, Tables VIII-XV for details concerning the railroads discussed in Chapter III.

CHAPTER IV

THE SOUTHWESTERN SYSTEM, 1880-1881

Established as a powerful railroad figure in the Southwest, Jay Gould saw an optimistic business world in the years 1880-1881. Railroad expansion increased and to Gould this meant further speculative profits in the Southwest.

I. ST. LOUIS AND COMPLIMENTARY INVESTMENTS

St. Louis was headquarters for the Missouri Pacific, the cornerstone in the Gould Southwestern Railroad System. From St. Louis the rumors emanated far and wide on activities concerning the Southwestern System.

St. Louis accepted the Gould influence with optimism. "Control by Jay Gould of the Southwestern system of railroads will prove to be a good thing for St. Louis," stated the Evening Chronicle.¹ Gould's non-railroad investments enhanced the city's efforts to make the St. Louis a major commercial center. In 1880, Gould purchased two barge lines between St. Louis and New Orleans.² Consolidation of the two lines occurred soon after with a combined capital of \$3,000,000 an increase of \$1,200,000. The consolidated barge line consisted of twenty-three tugs and 149 barges with an 8,000,000 bushel capacity.³

¹December 18, 1880, p. 1

²The Daily Gazette, (Colorado Springs, Colorado), August 12, 1880, P. 1. Hereafter cited as the Daily Gazette.

³Railway Review, August 27, 1880, p. 466.

Many citizens felt the city was "adapted for the focus of a vast trade if the railroads but work for her interest." The Evening Chronicle expressed the opinion: "St. Louis could become a shipping port for grain to Europe."⁴ The statements were not without foundation. Control of the barge lines enabled Gould to by-pass the railroads east of the Mississippi and to ship directly to New Orleans at lower freight rates. In January, not only was grain backed up in St. Louis for lack of storage, but an additional three hundred cars full of grain stood on the rail line to St. Louis. The grain awaited storage and eventual trans-shipment.⁵

Other Gould investments included an interest in the Vulcan Steel Works, which provided the Southwestern System with a source of new rails.⁶ Across the river from St. Louis, Gould purchased a share in the cattle stockyards and activated several coal mines in the Indian Territory (Oklahoma) for locomotive fuel.⁷

To St. Louis Gould was the great railroad man she always wanted.⁸ Seemingly, whenever Jay Gould visited St. Louis, rumors began to spread.⁹

⁴December 18, 1880, p. 1.

⁵Evening Chronicle, January 17, 1881, p. 2.

⁶Ibid., February 8, 1881, p. 2.

⁷Railway Review, August 27, 1881, p. 476.

⁸Evening Chronicle, December 18, 1880, p. 1.

⁹In the west, the Denver Tribune wrote about the interest generated by Jay Gould: "It is believed that Jay Gould will surpass Vanderbilt as Railroad King." This followed an earlier statement from the same source boasting that Denver would become one of the great railroad centers in the United States. Denver, November 18; November 23, 1880.

His visits were known to have caused many to stir uneasily as the rumors of management changes and new investments circulated around St. Louis. A local paper reported that "Every man connected with Gould lines in the city" (was) "so nervous that it required on their part the greatest heroism to dispose of routine business."¹⁰ Because of his continued success in Southwestern rail affairs and his complimentary rail investments, Gould exerted a substantial influence over the St. Louis economy.¹¹

II. THE ILLINOIS AND ST. LOUIS BRIDGE COMPANY

During the early part of 1881, Gould sought to control the St. Louis Bridge Company. With its bridge and tunnel properties, the Bridge Company connected St. Louis and the east bank of the Mississippi River, and thus was vital to the Missouri Pacific as an eastern outlet to the Wabash. Gould advertised that construction would soon begin on a new bridge across the Mississippi River which would bypass the St. Louis Company property. With a large bonded debt and with little earnings since its founding, the company quickly acceded to Gould's construction threat by leasing the bridge and tunnel properties jointly to the Wabash and the Missouri Pacific. Gould then enhanced the value of the Bridge Company's seemingly worthless common stock by adjusting the interchange tolls.¹² Coinciding with the acquisition of the St. Louis Bridge Company, Gould

¹⁰Evening Chronicle, March 1, 1881, p. 2.

¹¹Grodinsky, Jay Gould, pp. 340-341.

¹²Grodinsky, Jay Gould, pp. 338-340; Railway Review, June 25, 1881, p. 350.

proceeded to expand the Southwestern System.

III. THE SOUTHWESTERN SYSTEM EXPANSION PLANS, 1881

The Southwestern System announced in January, 1881, a construction and consolidation program of one thousand miles.¹³ Under Gould's direction the Iron Mountain gave up its goal of extending its lines southward into Texas from Texarkana, the International was stopped at Longview, Texas, and the Texas & Pacific at Texarkana, Texas, thus making each of these railroads a feeder to the others rather than a competitor. Gould then directed their construction energies toward extending the International southwest through San Antonio to Laredo and the Texas & Pacific westward to El Paso and eastward to New Orleans. The Missouri Pacific extended westward into Kansas while the Iron Mountain pushed toward Arkansas.¹⁴ Gould envisioned another transcontinental railroad being built to the Pacific coast. However, as the Texas & Pacific expanded westward toward El Paso, Gould met a formidable opponent in Collis P. Huntington, who was expanding his Southern Pacific eastward from California. "It would be folly to believe after the Southern Pacific reaches El Paso, that it will disband its perfectly organized working force," asserted the Austin, Texas, Daily Statesman.¹⁵ To forestall the advance of the Southern Pacific, Gould instituted a suit against the Southern Pacific to prohibit the use of the

¹³See Appendix, Table XVI.

¹⁴Moody's Manual, p. 279.

¹⁵September 24, 1880, p. 2.

right of way between Yuma and El Paso. Trying to bring more pressure on Huntington, Gould sought help from the Union Pacific, the Atlantic & Pacific, and the Atchison, Topeka & Santa Fe in organizing a united front to invade California with a rail line through Northern Arizona.¹⁶ With 2,500 men employed in laying Texas & Pacific's rails westward, the Gould lines and his new allies were a significant threat to Huntington's California railroad monopoly.¹⁷

Huntington understood the nature of his opponent completely. Reportedly he once said: "I wouldn't go into the stock market against Gould for he would whip me at the game but when it comes to building and operating railroads in the most efficient and economical way, I can beat him, for that is my business."¹⁸ To offset Gould's threat, Huntington threatened to expand the Central Pacific into Union Pacific territory and bypass the Union Pacific completely.¹⁹ Jarred by this counterattack, Gould halted his construction plans and called a meeting to reconcile their differences. In January, 1882, Huntington and Gould reached an agreement. They jointly purchased slightly less than fifty per cent of the St. Louis & San Francisco, a line that was expanding in Missouri, Arkansas, and Northern Texas. The

¹⁶Railway Review, August 20, 1881, p. 462.

¹⁷Ibid., September 3, 1881, p. 492.

¹⁸Oscar Lewis, The Big Four, (New York: Alfred A. Knopf, 1928), p. 220.

¹⁹Huntington controlled the Central Pacific while Gould still had an important interest in the Union Pacific by virtue of the Kansas Pacific-Union Pacific merger.

purchase eliminated any threat to Gould's lines and Gould's threat to invade California as the "Frisco" controlled the Atlantic & Pacific a feeder line to the "Frisco" that extended to the Colorado River. Hailed by the Railway Review "as the most important move that has been made in the Southwestern system of railroads for a long time," the Gould-Huntington agreement also allowed for joint usage of the Southern Pacific's track from El Paso to Texas & Pacific connection.²⁰ Peace was temporarily established in the Southwest.

However, the peace did not last long. Huntington, whose plans included an eastern outlet for his Southern Pacific, was determined to reach the Mississippi Valley or some other point east of the river. He persuaded T. W. Pierce, a business ally in control of the Galveston, Harrisburg and San Antonio, to match the westward expansion of Gould's International Great Northern mile for mile, with a parallel line. Under this new pressure, Gould changed strategy. After twenty-five miles of track had been laid, he ordered the International to shift its line south from El Paso to Laredo, hoping thereby to open the Republic of Mexico to his Southwestern System.²¹ Thus Gould bowed to the continuous pressure of Huntington's eastward expansion. Instead of extending the Texas and Pacific westward, he went south and hoped to offset his traffic loss with a

²⁰Commercial and Financial Chronicle, January 28, 1882, pp. 99-101; Railway Review, January 28, 1882, p. 51; February 8, 1882, p. 67.

²¹Julius Grodinsky, Transcontinental Railway Strategy, (Philadelphia: University of Pennsylvania Press, 1962), p. 169.

connection to Mexico. Capitalizing on the changing economic conditions, Gould lessened his chances for financial losses in 1881. With the International Great Northern building toward the Rio Grande, Gould ended the Missouri, Kansas and Texas' efforts to connect Dennison, Texas, with Taylor, Texas, on the Rio Grande thus eliminating duplication of rail lines. Acting in the interests of the Southwestern System, he sought approval for this curtailment at a special stockholders meeting. The Missouri, Kansas & Texas stockholders, without opposition, approved Gould's actions.²² The stock market rise in the summer of 1881 afforded Gould the opportunity to sell his holdings in the Texas & Pacific and the Wabash and obtain large profits. The timing was excellent, for by the latter part of 1881 the economic activity of the country began to decline as a result of railroad over-expansion. Rail earnings per mile dipped in comparison to the previous year and the increased railroad mileage was not justified by the growth in population.²³ Consolidation of the Southwestern System and the elimination of his personal security holdings in the system, therefore, became more imperative as 1881 drew to a close.

III. THE CONSOLIDATION OF THE SOUTHWESTERN SYSTEM

Gould decided to reduce his stock and bond holdings in the Southwestern System through his merger efforts. In doing so, Gould obtained

²²Grodinsky, Jay Gould, p. 347.

²³See Appendix, Table XVII for rail earnings comparison.

profits, eliminated possible losses, and again demonstrated his brilliance in corporate finance.

It was apparent early in 1881 that the cornerstone of the consolidated system would be the Missouri Pacific.²⁴ Articles of agreement were filed with the State of Missouri to consolidate the following companies with the Missouri Pacific: the St. Louis & Lexington; the Kansas City & Eastern; the Lexington & Southern; the St. Louis, Kansas & Arizona; and the Kansas City & Leavenworth. The outcome of the merger vote was never in doubt since Jay Gould controlled all of the roads.²⁵ The name of the company, the Missouri Pacific Railway Company, had a total capitalization of \$30,000,000 and a system comprising 587 miles.²⁶

Speculative activity on the stock market increased throughout the fall of 1880 and the spring of 1881, coinciding with the rise in business activity. Taking advantage of the rapid increase in the value of Iron Mountain stock, Gould, who owned slightly less than fifty per cent of the shares, proposed a merger between the Iron Mountain and Texas & Pacific. Considerable controversy took place among the shareholders of the two companies, especially over terms which provided for a share-for-share exchange plus five per cent to Texas & Pacific stockholders.²⁷

²⁴Railway Review, April 30, 1881, p. 238.

²⁵See Appendix Tables XVIII-XIX.

²⁶Commercial and Financial Chronicle, July 30, 1880, p. 123; Railway Review, August 21, 1880, p. 427.

²⁷Railway Review, April 30, 1881, p. 242.

After apparently being accepted, the Texas & Pacific stockholders rejected the terms since the Iron Mountain did not have a land grant or other resources to compensate for the Texas & Pacific land grant.

Frustrated in his first attempt, Gould offered to merge the Iron Mountain into the Missouri Pacific. He proposed an exchange of three Missouri Pacific shares for four Iron Mountain shares. With Gould as a major stockholder in the Iron Mountain and the controlling stockholder in the Missouri, acceptance of the terms was assured and the Iron Mountain combined with the Missouri Pacific.²⁸

Turning to the Missouri, Kansas & Texas, Gould issued an official notice in April, 1881, calling for a special stockholders meeting.

According to the prearranged agenda, the participants were:

1. To consider and act upon a proposed lease of the railway company and the property of the Missouri, Kansas & Texas to the Missouri Pacific Railway Company.

2. To consider and act upon a proposed lease of contract with the International Great Northern Railroad Company for the joint use of and occupancy by the Missouri, Kansas & Texas of that portion of said International Great Northern Railroad Company's line commencing at the point of interchange of the two roads in Williamson or Miami County, Texas, and extending via Questin through to the Rio Grande.

3. To consider and act upon a proposed lease or contract with the Texas & Pacific for the joint use and occupancy of that portion of the Texas & Pacific Railroad Company's line extending from Whitesboro to Fort Worth.

4. To consider and act upon a proposed contract to be submitted to said meeting, for the management and operation of the company's

²⁷Railway Review, April 30, 1881, p. 242.

²⁸Railway Review, April 30, 1881, p. 241; Railway Gazette, August 21, 1881, p. 424.

railway, upon such terms as will secure to it the entire net earnings from its several properties, less current expenses for maintenance and betterments.²⁹

When the meeting got under way, a lease with the Missouri Pacific for ninety-nine years was signed; however, the Missouri Pacific assumed only the responsibility for the operation of the road. No mention was made of the funded debt.

With the Missouri, Kansas & Texas leased to the Missouri Pacific, Gould sought to forestall any possible rivalry between the International Great Northern and Missouri, Kansas & Texas by a merger. He suggested an exchange of one share of International stock for two shares of Missouri, Kansas & Texas stock. The exchange rate was based on the market value of the two stocks prior to the merger.³⁰ Gould easily manipulated the exchange rate since he owned two thirds of the International's outstanding stock.

With the western portion of the Southwestern System consolidated, Gould turned to the east and the New Orleans Pacific. Absorption of the New Orleans Pacific by the Texas & Pacific was contemplated ever since Gould began construction on the New Orleans line. Upon completion of the line, a merger was consummated with a share-for-share exchange with the Texas & Pacific as then surviving company.³¹

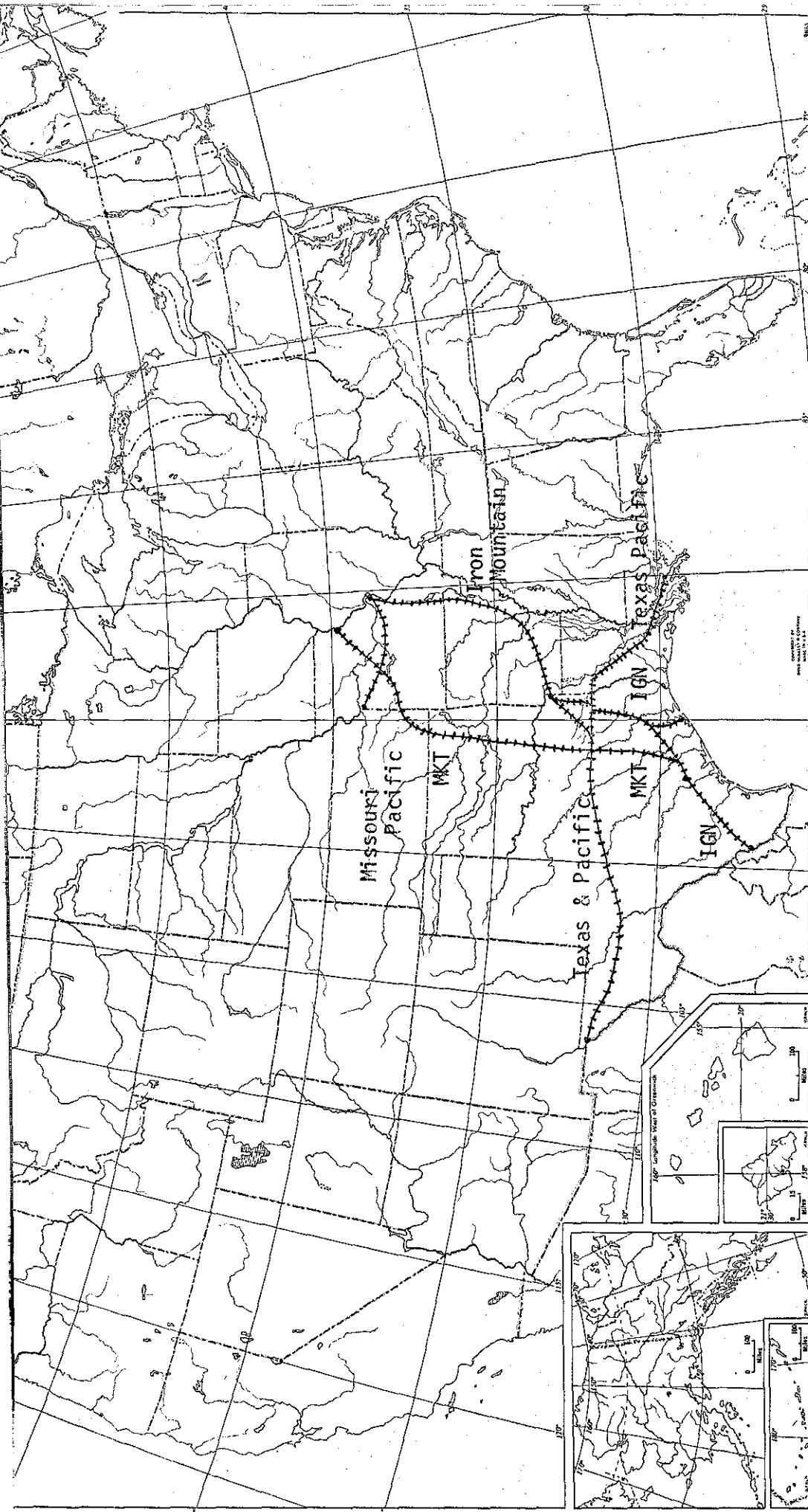
²⁹Railway Review, April 23, 1881, p. 227.

³⁰Commercial and Financial Chronicle, May 14, 1881, p. 526.

³¹Commercial and Financial Chronicle, June 4, 1881, p. 613.

Between 1879 and 1881, Gould became motivated by a primary desire to create a railroad monopoly in the Southwestern United States. He let no idea of business morality or personal charity deflect him from this purpose.³² By the end of 1881, the monopoly was an accomplished fact, with a system in excess of 5,000 miles and a minimum personal investment.

³²Robert Edgar Riegel, The Story of the Western Railroads, (Lincoln: University of Nebraska Press, 1926), p. 178. Hereafter cited as Riegel, Western Railroads. For additional information concerning rail consumption and the Gould interlocking directorates, see Appendix Tables XX-XXII.



THE SOUTHWESTERN SYSTEM

1881

CHAPTER V

A STOCK PRICE ANALYSIS OF THE SOUTHWESTERN SYSTEM, 1879-1881

An analysis of the Southwestern railroads stock price movement during the period of 1879-1881 reveals interesting data. During the time that Gould was building his Southwestern System, the stock prices of his rail lines were in an upward price trend. As Gould merged or leased each line, speculators pushed the stock prices to all-time highs. After Gould had secured his profits through mergers, stock prices fell rapidly. However, Gould still controlled the lines through his majority interest in the Missouri Pacific.

I. THE MISSOURI PACIFIC RAILROAD

Quoted prices for the Missouri Pacific shares prior to 1879 are not available in the financial papers of New York City. However, in September, 1879, the Commercial and Financial Chronicle quoted the high and low price for the month as twelve dollars and two dollars respectively. Before Gould's efforts to acquire the Missouri Pacific from C. K. Garrison, the stock reached a high of approximately twenty dollars a share. It is not surprising then, in 1887 that the Pacific Railway Commission Examiner went into considerable detail to explain why Jay Gould paid \$950 per share for the Missouri Pacific which he purchased from Garrison. Control of the Missouri Pacific enabled Gould to eventually consummate his Kansas Pacific-

Union Pacific merger. The resulting profits justified his expenditure for the Missouri Pacific. In January, 1881, the price of Missouri Pacific stock reached a high of ninety dollars per share. During a period of thirteen months in which the stock had no listed quotations in the Commercial and Financial Chronicle, the price increased a minimum of 350 per cent, notwithstanding the Gould reorganization and the resultant increase in the number of shares outstanding. Prior to the eventual consolidation of 1881, the stock reached a high of \$114.

According to generally accepted theories of technical analysis prevalent today, the Missouri Pacific stock established non-parallel upward trend lines. These trend lines are represented by lines AB and AC as illustrated in Graph I. The significance of the trend lines reveals that the upward price trend was never violated until after the consolidation was completed. Thereafter, the significance of the violation lies in the assumption that the public demand for the Missouri Pacific stock was lessening. The poor economic reports toward the latter part of 1881 and the loss of speculative interest after Gould's consolidation probably accounted for the drop in price.

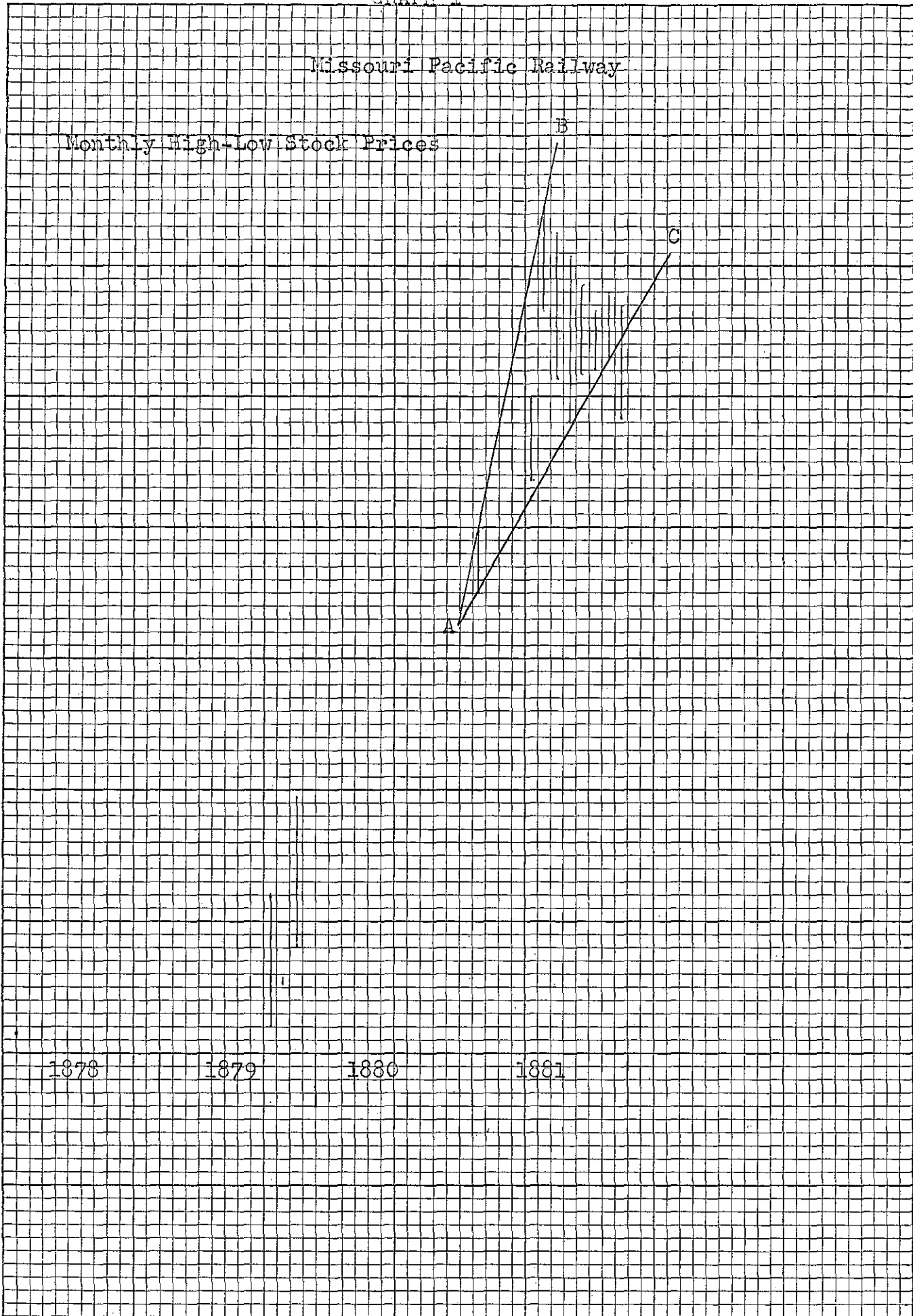
II. THE TEXAS AND PACIFIC RAILROAD

Prior to 1880, the Commercial and Financial Chronicle listed no quotations for the Texas & Pacific. This is quite understandable since the Texas & Pacific stock was closely held by management and was in a difficult period. The first quote for the Texas & Pacific stock appeared

GRAPH I

Missouri Pacific Railway

Monthly High-Low Stock Prices



Texas & Pacific Railroad

Monthly High-Low Stock Prices

\$80

70

60

50

40

30

20

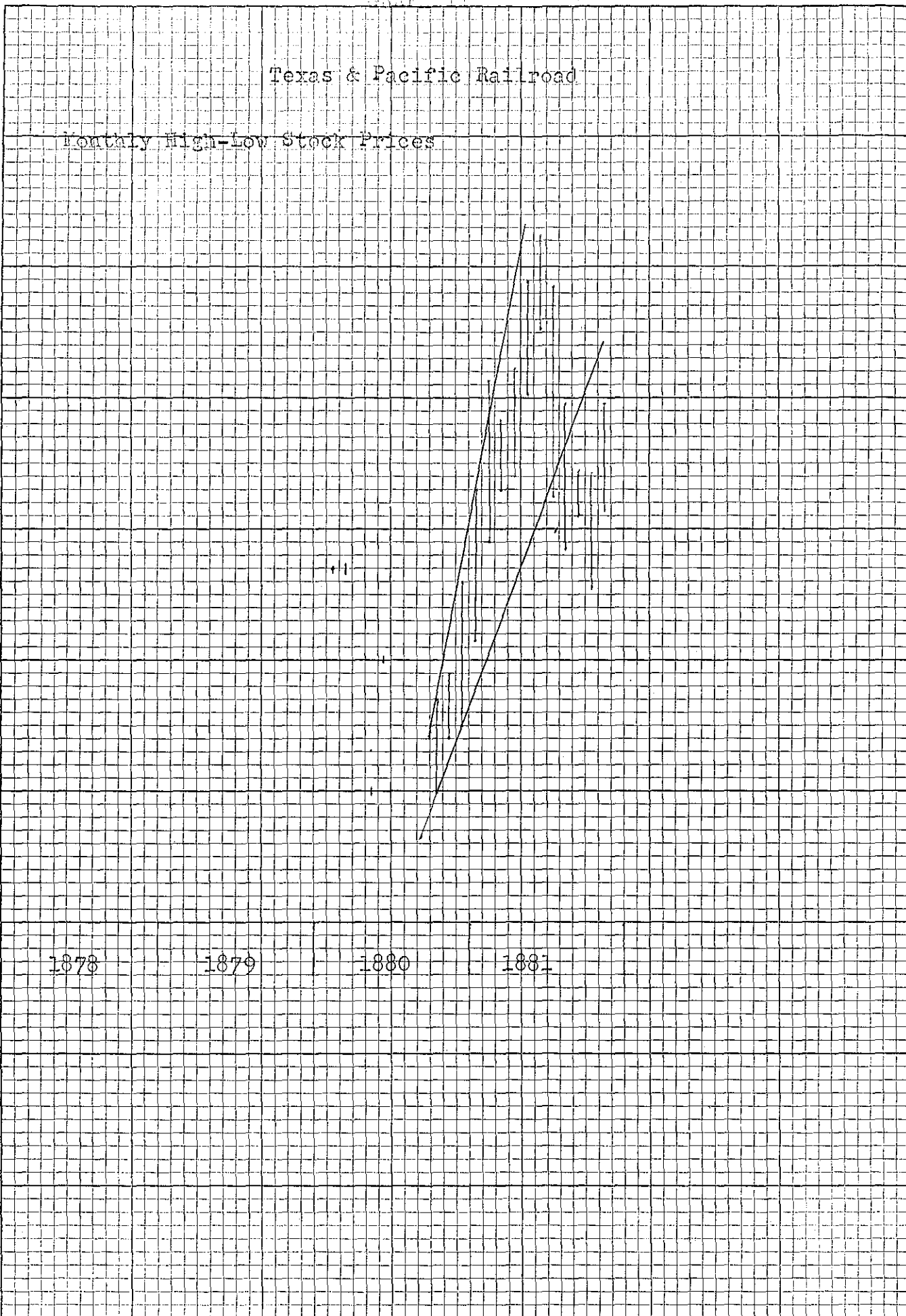
1878

1879

1880

1881

+



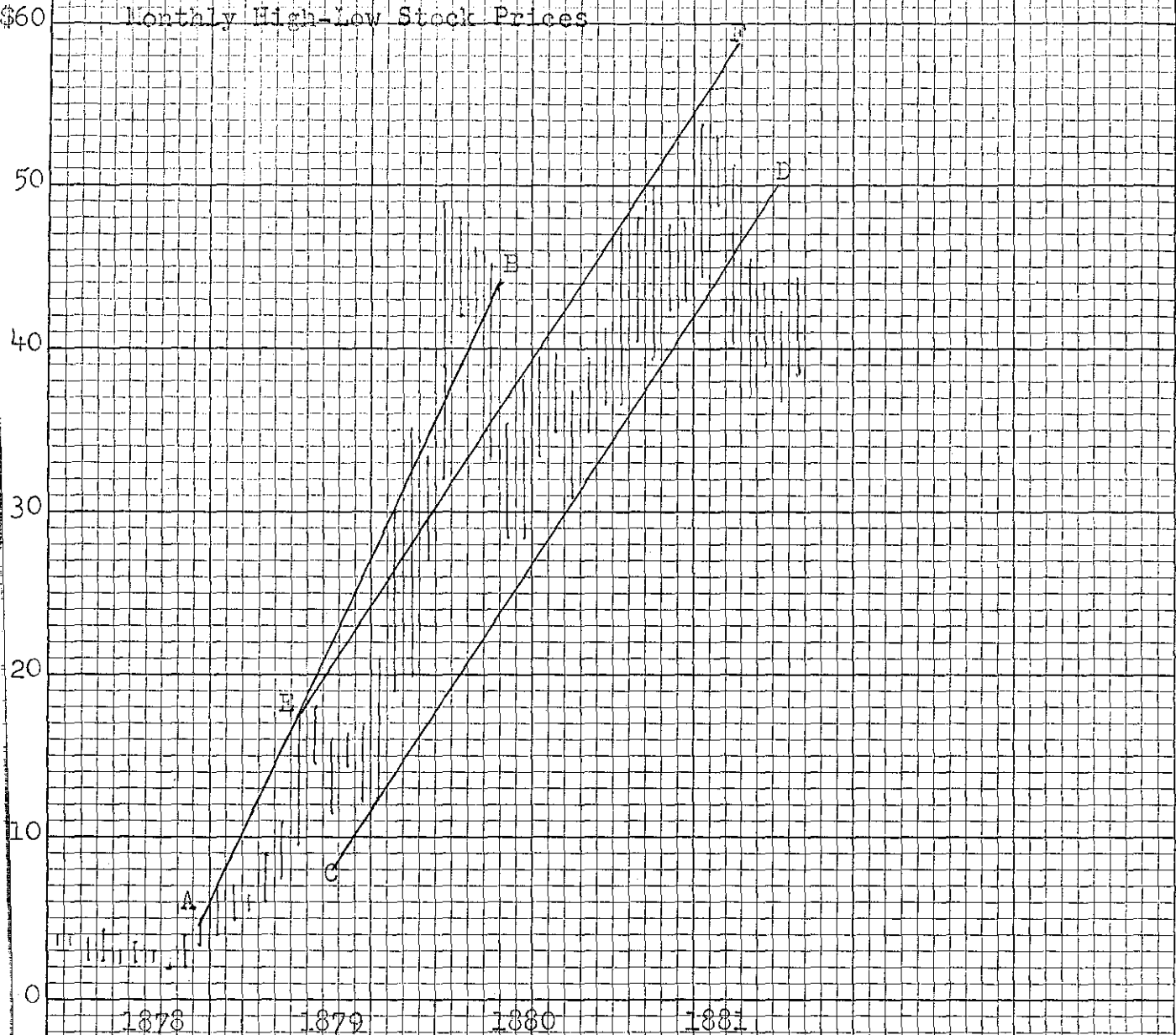
in February, 1880, at \$47 per share. For the rest of 1880, the price fluctuated between a high of \$40 and a low of \$34. By the latter part of 1880, the Gould interest in the Texas & Pacific was apparent, as prices reached \$74 just prior to the consolidation of the Missouri Pacific and the Texas & Pacific in 1881. The Texas & Pacific appreciated approximately one hundred per cent over a period of nine months. Analysis of the Texas & Pacific chart pattern, as illustrated in Graph II, reveals an upward price channel that was not broken until after the Missouri Pacific consolidation 18 1881.

III. THE MISSOURI, KANSAS AND TEXAS RAILROAD

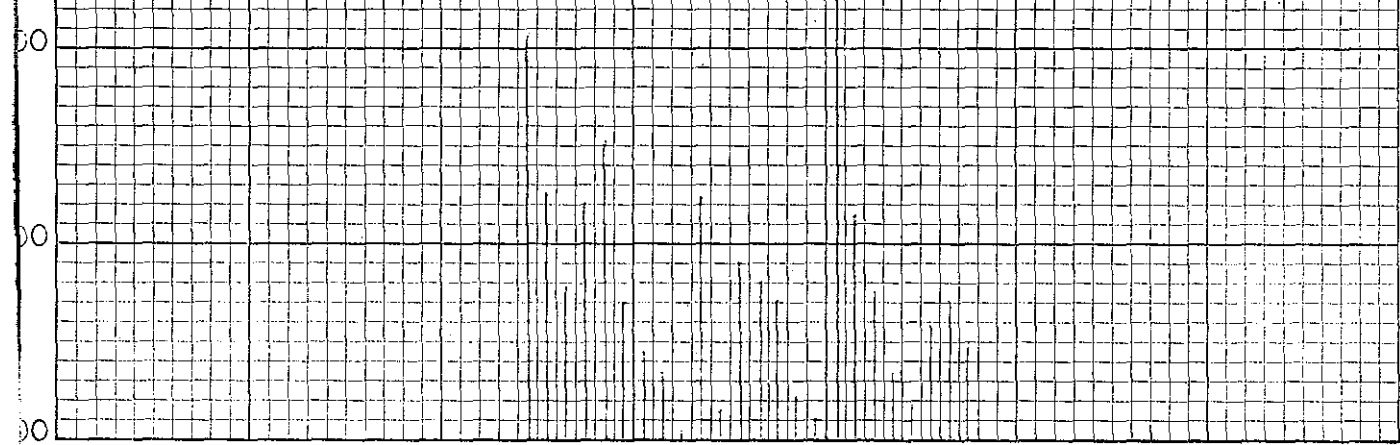
Analysis of the Missouri, Kansas & Texas presents a much clearer association between stock price movements and Jay Gould's activities. Breaking of the first trend line (shown as AB on Graph III) in late 1879 indicates a definite upward swing in the price of the stock. Trend line CD presents additional proof of the strong demand for Missouri, Kansas & Texas stock which coincided with Gould's attempt to take control of the line. Throughout 1880, the price of the stock remained within the channel CD and EF, an indication of strong demand for the stock. Volume statistics, shown at the bottom of Graph III, confirms the demand for the stock. The corresponding increases and decreases in volume paralleled the rise and fall of the stock. Of significance is the fact that during each period that Gould was manipulating the market, the volume increased very sharply but dropped off when Gould had accomplished his goals. Breaking of the

Missouri, Kansas, & Texas Railroad

Monthly High-Low Stock Prices



Volume of Shares Traded
(000's Omitted)



GRAPH IV

St. Louis, Iron Mountain & Southern Railroad

Monthly High-Low Stock Prices

\$90

80

70

60

50

40

30

20

10

0

1880

1881

A

B

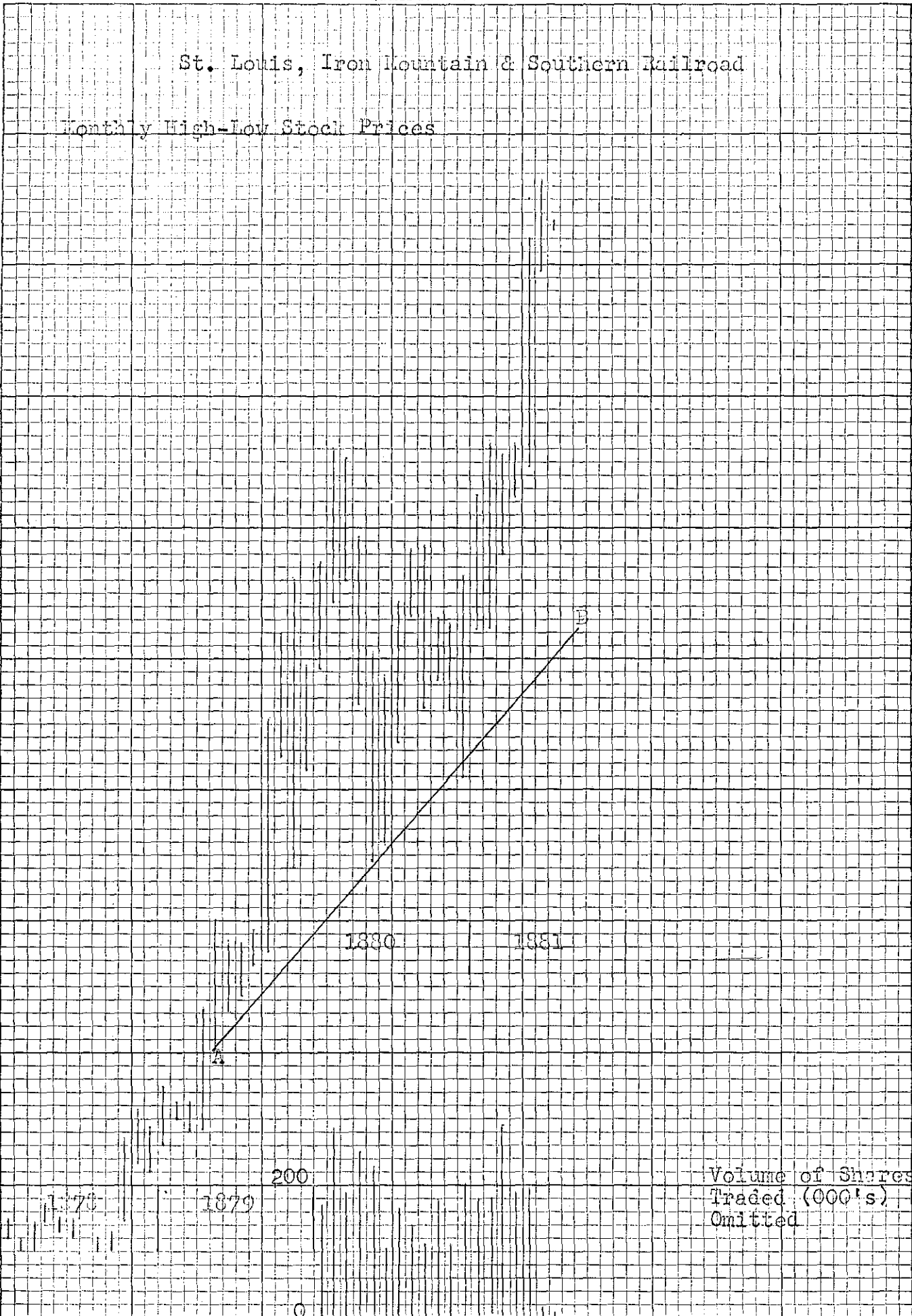
1878

1879

200

0

Volume of Shares
Traded (000's)
Omitted



upward trend line CD occurred after the Missouri Pacific consolidation in 1881.

IV. THE ST. LOUIS, IRON MOUNTAIN AND SOUTHERN RAILROAD

With Gould's purchase of the Missouri Pacific in November, 1879, the price of the Iron Mountain stock began to fluctuate widely between an approximate high of \$66 and a low of \$35 as presented in Graph IV. More than likely the wide changes in price were a result of rumors or reports concerning the Iron Mountain's relationship to the Missouri Pacific. Gould began to purchase large amounts of Iron Mountain stock during the latter part of 1880, although he probably obtained smaller quantities of stock prior to that time.

The upward trend (seen as line AB) was never broken despite the fluctuating price pattern of the Iron Mountain stock. Volume statistics correspond very closely to the upward movement of the stock. The high prices of February, 1880, and March, 1881, were accompanied by the highest volume of the period. The upward thrust coincided with the Iron Mountain-Missouri Pacific merger indicating the speculative interest. Also since Gould owned a considerable amount of Iron Mountain stock, it can be safely assumed that he contributed greatly to this speculative activity.

V. THE INTERNATIONAL GREAT NORTHERN RAILROAD

Pricewise, little if any information was reported concerning the International prior to 1880. Nevertheless, Gould's influence in the International was very evident. The rapid price movements as shown in

GRAPH V

International Great Northern Railroad

Monthly High-Low Stock Prices

\$90

80

70

60

50

40

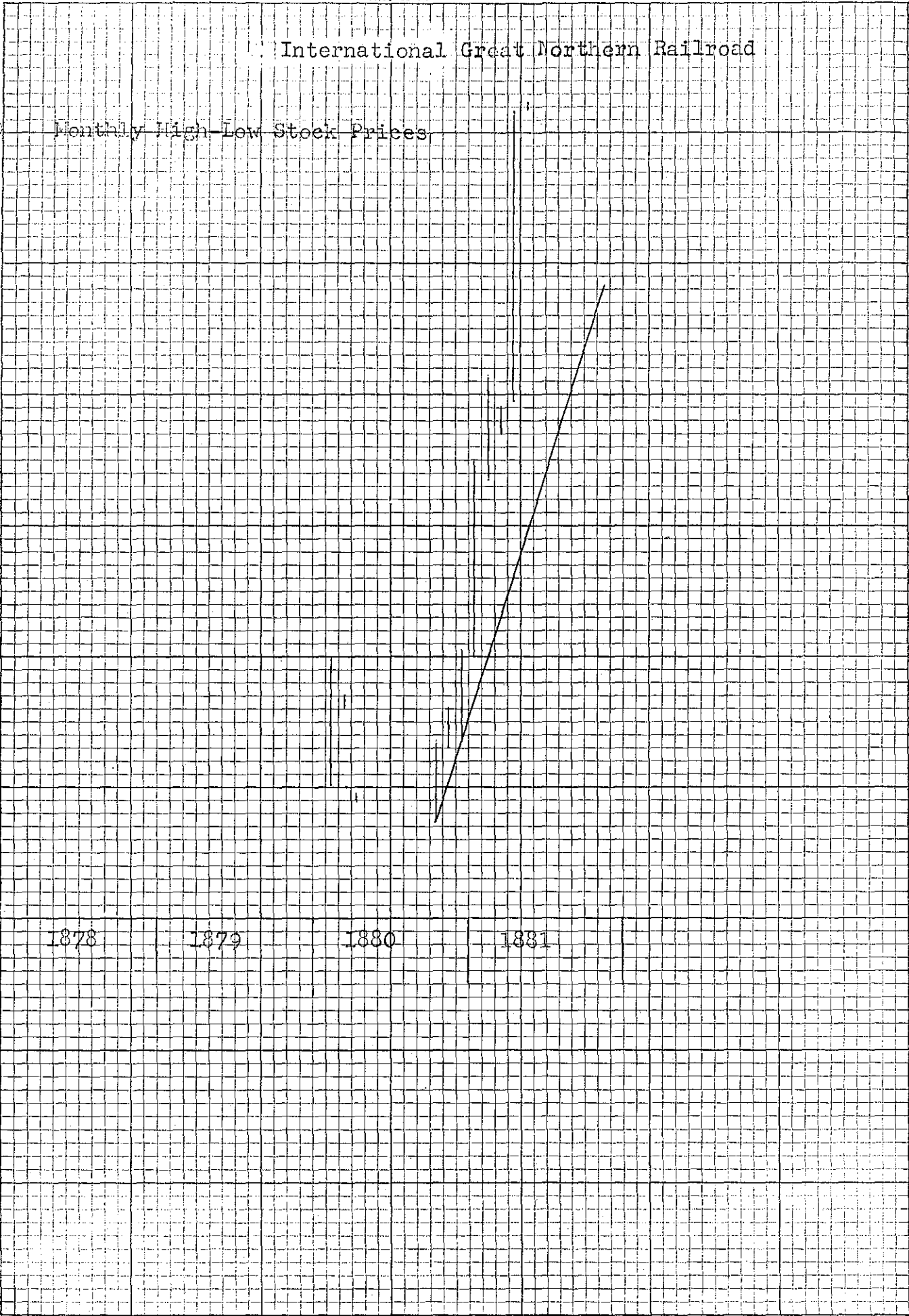
30

1878

1879

1880

1881



Graph V were undoubtedly a speculator's delight. From a low of \$37.60 in October, 1880, the price moved upward to a high of \$92 within seven months. By the time the International merged with the Missouri, Kansas & Texas in June, 1881, Gould possessed sixty-seven per cent of the International's stock and undoubtedly contributed greatly to its speculative activity.

VI. CONCLUSION

The preceding graphs show a close relationship between Gould's market manipulations and the value of Gould's Southwestern rail stocks. An even more significant insight is given when the monthly highs of the Gould stocks are compared to the important events of the period. They are shown on Graph VI illustrating how Gould manipulated the stock prices to further his consolidation efforts in the Southwestern System. Without a doubt, Gould utilized the stock market to achieve his pecuniary objectives.

GRAPH VI

Monthly High Stock Market Comparison 1876-1881

120

100

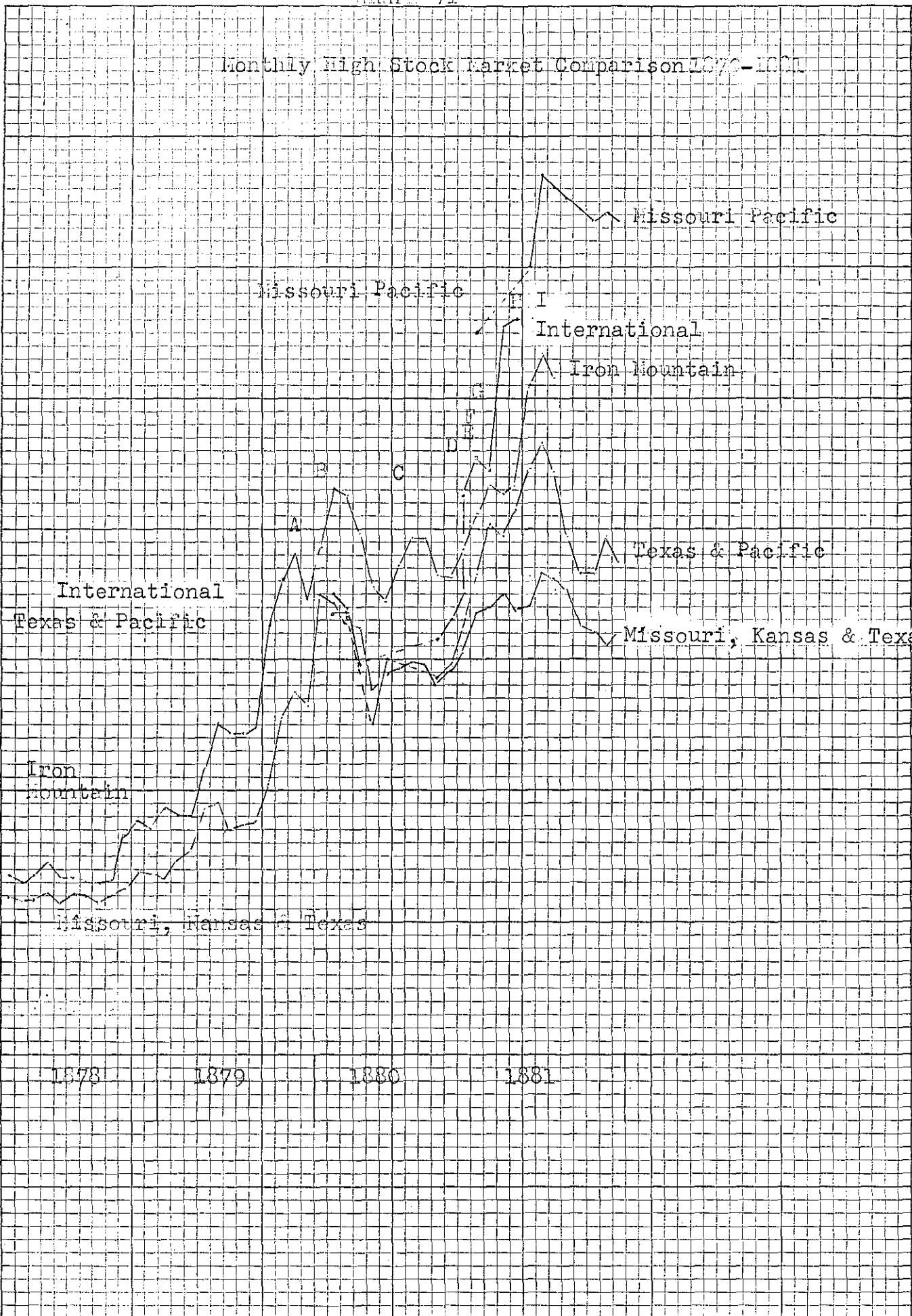
80

60

40

20

0



Missouri Pacific

International

Iron Mountain

Texas & Pacific

Missouri, Kansas & Texas

International

Texas & Pacific

Iron Mountain

Missouri, Kansas & Texas

1878

1879

1880

1881

CHAPTER VI

THE DELINE OF THE SOUTHWESTERN SYSTEM, 1882-1892

Built in sparsely settled areas, the Southwestern System began to disintegrate as the excessive expansion and poor management policies of 1881 exacted their toll. Continued financial problems after 1882 left Jay Gould with only a semblance of control in the Southwest by 1892.

In 1882, the promise of considerable wheat traffic from California and the continued westward movement of immigrants caused the Texas & Pacific managers to express optimism over the company's future earnings. The railroad's management built special railroad cars to accommodate the immigrant traffic. "Where, a year ago, were no, or very few inhabitants, there are now thriving towns and settlements," reported the Railway Review.¹ However, the optimism soon turned sour. The rail traffic failed to materialize, and in July, 1882, the company announced that no interest would be paid on the Land Grant Bonds. Neither did the management issue script for the unpaid interest as they had done in previous years.²

In the same year, expansion of the competing narrow gauge Texas & St. Louis Railroad gave Jay Gould further concern. Had the Line been completed southward to Waco, Texas, and northward to Chicago as proposed, it would have cut very deeply into the Southwestern monopoly.³ Threats and

¹November 12, 1882, p. 65.

²Railway Review, July 8, 1882, p. 392.

³Railway Review, January 8, 1881, p. 20.

counter-threats between Gould and the Texas & St. Louis had begun as early as 1880. Gould this time, however, attempted to capture the essential rail line in the proposed Texas & St. Louis expansion route by acquiring the Gulf, Colorado, & Santa Fe. Unable to acquire the Gulf at low prices, Gould resorted to rate wars and refused to accept the through tickets sold by the line. However, the determined Gulf management fought Gould successfully until 1886 when the Gulf merged with the Atchison, Topéka & Santa Fe. Thus Gould lost his battle to acquire the Gulf.

Other rate wars were soon in the offing. The Galveston, Harrisburg, & San Antonio, the Texas & New Orleans, and the Louisville & Western railroads--all either controlled by or friendly to Gould's enemy, Collis P. Huntington--announced that they would refuse to accept through bills of lading issued by the Gould lines.⁴ At the same time the Galveston pressed for completion of its new line from Houston to El Paso, which would connect the Southern Pacific and by-pass the Texas & Pacific route to New Orleans.⁵ Thus, when the line was completed in 1883, Gould failed in his effort to prevent Huntington from achieving his eastern outlet to the Mississippi Valley. Huntington's new Texas route dealt a blow to the Texas & Pacific, as little traffic originated along the Texas & Pacific tracks in the thinly settled area between Fort Worth and El Paso. The Gould system thus lost the interchange traffic coming from the west on the Southern

⁴Railway Review, November 4, 1882, p. 624.

⁵Ibid., September 16, 1882, p. 531.

Pacific.

Gould also failed in his attempt to control the Memphis & Little Rock, a long-standing competitor of the Iron Mountain. His legal suit was so outrageous that the presiding judge would not even consider asking the Memphis bondholders to enter into an inquiry which would eliminate their bond rights. Even though Gould used every legal and financial technique possible, he was unable to gain control of the road. To recompense for the failure, he was forced to build a duplicating line to Memphis.⁶

In addition to these troubles, Gould went on the defensive as Wall Street suffered a panic in February, 1882.⁷ Contributing to the scare were rumors that Gould was over-extended in the "Bear Market." To offset such rumors and in a manner without precedent, Gould exhibited \$53,000,000 of par value stock to reporters. Market value of the stock was said to be in excess of \$40,000,000. Actually what Gould revealed to astute observers was not his assets but the fact that he was short of cash and was therefore unable to support his holdings against any excessive public selling which would depress the stock prices.⁸ Coupled with the panic on Wall Street came a decline in commodity prices. Record grain crops, together with a drop in the European market demand in 1882, sent farm prices sliding downward. Shock waves from the squeeze on commodity speculators spilled over

⁷New York Times, February 28, 1881, p. 8.

⁸Railway Gazette, March 17, 1882, p. 169.

into the stock market, and Gould stocks declined with the rest of the market.

Troubles continued to plague Gould after 1882. Early in 1883, Gould's hold on the Wabash was jeopardized by rumors which circulated to the effect that the road needed money. Newspapers reported that large amounts of Wabash commercial paper, bearing the signatures of Gould, Russell Sage, and Sidney Dillon, were outstanding and unpaid.⁹ The effect of the rumors eventually forced the Wabash into receivership, but Gould retained control by appointing himself as receiver by using the commercial paper debt.

In the Southwest, Gould was also in trouble. To prevent foreclosure and managerial loss of the Texas & Pacific, Gould used Missouri Pacific funds to pay \$1,250,000 in unpaid bond interest to Texas & Pacific bondholders.¹⁰ Thus, Gould kept control of the Texas & Pacific.

In the midst of all these financial problems, Gould also lost his influence in the Union Pacific by not heeding certain legal requirements in the Thurman Act of 1878. The act required setting aside 25 per cent of the Union Pacific's income for repayment funds advanced by the federal government. Gould failed to set aside these funds and he was forced to relinquish control by Congress in 1884.

Gould's fortune waned even further in 1884. Trying to recoup his

⁹Railway Gazette, December 1, 1882.

¹⁰Richard O'Connor, Gould Millions, (New York: Doubleday & Company, 1962), p. 230. Hereafter cited as O'Connor, Gould.

position, he misjudged the downward stock market trend and brought himself closer to the brink of financial collapse. Unknown to Gould, James Keene, Henry N. Smith, Charles Woerishoffer, and several other leading Wall Street speculators, all united to "break" the leading financier by depressing the value of Gould's stocks. Stock prices dropped to "bankruptcy levels" even though Gould tried to support the sagging market. However, he could not overcome the trend. Seemingly beaten, he sent his emissary to the speculators led by Keene.¹¹ Much to their astonishment, Keene and his followers were presented, not with a plea for terms, but with an ultimatum. Shown a document that assigned all of Jay Gould's wealth to his heirs, the Keene group were informed that he would soon publish his notice of default. If Gould declared bankruptcy, all hopes of profit would be eliminated. Thus Keene and his fellow speculators decided to sign an agreement that became Gould's financial salvation. The speculators agreed to purchase from Gould 40,000 shares of Western Union stock for \$2,500,000, thereby giving Gould enough cash to satisfy his creditors. However, as far as Keene and his friends were concerned. Gould was finished.¹²

¹¹Mathew Josephson, The Robber Barrons, (New York: Harcourt, Brace & Company), p. 234.

¹²O'Connor, Gould, p. 234.

Gould, obviously, had other ideas. He knew through his informants that Keene and his followers had sold "short"¹³ Missouri Pacific stock. With a large percentage of Missouri Pacific already under his control, Gould proceeded to use the newly acquired \$2,500,000 to buy more Missouri Pacific stock. Up went the price even higher. Unable to cover their positions and now completely routed, they bought enough stock from Gould in the 90's to return the stock they had borrowed to sell short.¹⁴

Gould reduced other debts in the summer market rally of 1884. However, he also announced his retirement from active participation in stock market speculation at that time. Even though Wall Street operators were skeptical about the statement, the strain of the previous months had been too severe on Gould and he never fully recovered from the near disasters.¹⁵

Labor troubles struck the Southwestern System in 1885. Wage cuts and dismissals occurred as a business depression cycle set in. The Knights of Labor went on strike against the Gould lines and vowed to stay off the job until previous wage cuts were restored. Labor unrest grew into violence in 1886 and halted all transportation operations. In an era of public hostility to labor unions, Gould was able to break the strike by bringing

¹³Keene and his friends borrowed stock and sold this stock hoping that the large amount of stock put up for sale would depress the price as a result of excess supply. Then when prices were low, they would repurchase sufficient stock to replace the stock they had borrowed. This technique is referred to as "selling short."

¹⁴O'Connor, Gould, p. 234.

¹⁵Ibid.

non-union "scabs" to replace the strikers. Formation of labor unions on the Gould lines was limited for many years thereafter. However, the labor troubles were costly to the railroads as business activity dropped sharply during the period of turmoil.

Throughout the years after 1881, Gould diverted traffic and manipulated freight rates to the advantage of the Missouri Pacific, the only railroad in which he had significant security holdings. Money that should have gone into property improvements had been diverted to the Missouri Pacific or used to finance rate wars in the Southwest. Continued manipulations finally forced the Missouri, Kansas & Texas and the Texas & Pacific into receivership in 1888 and 1885 respectively, thereby forcing Gould to expend his energies in trying to gain control of these lines again.

From 1888 to 1892, Gould made several attempts to re-establish his hold over the Texas & Pacific and the Missouri, Kansas & Texas. In 1889, he emerged as the major stockholder in the Texas & Pacific, but he failed in his efforts to resecure the Missouri, Kansas & Texas which now became a competitor to the Gould lines. The cornerstone of the old Southwestern System, the Missouri Pacific, expanded westward under Gould's direction. However, before Gould could restore the railroad system to its former size, he became seriously ill in November, 1892.

Outside the Gould mansion a "death watch" started on December 1, 1892. Reporters from all the leading New York newspapers gathered and sent messengers to their respective offices whenever news was made available. The next day at 9:15 a.m., Jay Gould died.¹⁶ Within a few

¹⁶O'Connor, Gould, p. 284.

months after his death, the Southwestern System began to disappear. It was never reconstructed by his successors.

CHAPTER VII

CONCLUSION

"It is one of the incidents of Jay Gould's scheming plans to obtain control of a vast network of trans-Mississippi roads," wrote a New York Times reporter in 1881.¹ Gould acquired railroads at such a rapid rate that the same paper in 1881 exclaimed: "Gould is on the point of destroying the country."² As he began his drive to become the United States' leading railroad baron, Gould received great public condemnation, but he anticipated it. Regardless of public opinion, Gould was a successful businessman. The key to his success was his knowledge of corporate finance, and he understood the "maze" better than anyone else.

After failing in his first attempt to merge the Union Pacific and Kansas Pacific, Gould sought control of the Missouri Pacific. Aware of the Missouri Pacific's strategic location, Gould paid far more for the line than the line's inherent physical value. Control of the Missouri Pacific enabled Gould eventually to consummate the Union Pacific-Kansas Pacific merger. However, it is worth noting that Gould did not include the Missouri Pacific in the Union Pacific-Kansas Pacific merger. With a limited stock capitalization and a strategic location, the Missouri Pacific offered Gould other financial opportunities.

¹"Railroad Interests and the Public Interests," New York Times, January 20, 1880, p. 4.

²New York Times, February 23, 1881, p. 4.

Railroad expansion ceased with the depression of 1873. The Southwestern railroads extended from town to town and then stopped because of a lack of funds to complete their building programs. Railroad securities sold at discounts ranging up to ninety per cent of par value. Defining a corporation as a body of men brought together for a common purpose, Gould led the speculators who proceeded to buy, build, and connect the fragmented Southwestern railroads.³ Those roads that could not be purchased outright were incorporated through the use of rate wars, law suits, duplication of rail lines, repudiation of debt, and other maneuvers.

After the Southwestern System took form, Gould began to move his personal capital out of these railroad securities in order to finance his other business ventures. He used the stock market whenever possible to secure the optimum profit and release from a particular venture, but at the same time, continued to maintain managerial control of the Southwestern System largely through his strong forceful personality.

Gould was strongly tempted by the prospect of securing monopolistic control in the Southwest. However, he was a speculative capitalist rather than a corporate manager; long range management duties, coupled with limited profits, probably did not appeal to him. Neither was Gould considered to be a builder; primarily he was pictured as a wrecker and a buyer during panics.⁴ He did, however, bring a railroad system to the Southwest that still exists today. Whether the cost was excessive compared

³Railroad Review, March 5, 1881, p. 127.

⁴Denver Tribune, November 30, 1880, p. 1.

to the results obtained cannot be ascertained.

The Gould Southwestern System was the result of one man's work. It was built and controlled by Gould's forceful personality. For several years in the 1880's he had only limited investments in the Southwestern railroads except for the Missouri Pacific, although he continued to direct the road's destinies. When he died in 1892, the concept of the Southwestern System died with him. Only with a strong and forceful business personality could the re-recreation of the Southwestern System be attempted. The Gould heirs were lacking in all these essential traits.

It may be useful to draw a parallel between Gould's scheme and a modern railroad financier's plan in the Southwest. William G. Marbury, astonishingly little-known in modern rail circles, has been attempting in recent years to build a new Southwestern System that will encompass 25,000 miles of rail lines from Chicago south to St. Louis and New Orleans, and west to San Francisco.⁵ If completed, the result will be a corporate pyramid of \$3,100,000,000.⁶

To many observers, Marbury's plan seems to be a dream. However, in January, 1967, the Missouri Pacific gained access to Chicago by purchasing the Chicago, Eastern Illinois Railroad with court approval.⁷ Missouri Pacific also holds approximately ten per cent of the Santa Fe's

⁵"Bill Marbury Strives to Build A Mammoth Western Rail Pyramid," Wall Street Journal, October 11, 1968, pp. 1,18.

⁶See Appendix, Table XXVIII.

⁷"High Court Clears Way for MoPac to Buy C&EI, for Line into Chicago," Wall Street Journal, January 10, 1967, p. 26.

voting stock and, in addition, controls the Texas & Pacific Railroad.

As was Jay Gould, Marbury is variously described as aloof, obstinate, and ruthless. Under his direction the Mississippi River Corporation, parent organization of the Missouri Pacific, increased its profits from \$12.6 million in 1961 to \$26.3 million in 1966.⁸ But unlike Gould, Marbury is a proven manager. Control and development are his main managerial interests. Acceptable to both the business community and to the private investor, Marbury may succeed in building his "mammoth" western rail system. He appears to be strong in areas where Jay Gould was weak--in management and development of corporate properties. Thus, a new Southwestern System may again be reconstructed. Hopefully the new system will serve the public instead of speculative personal interests.

⁸Wall Street Journal, January 10, 1967, p. 26.

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APPENDIX

TABLE I

ORGANIZATION PLAN OF THE KANSAS CITY POOL¹

Kansas Pacific Securities	Par Value	Exchange Rate	Value in New Stock
Stock	\$9,600,000	12.5%	\$1,200,000
Floating Debt	1,200,000	par	1,200,000
Unsubordinated Income Bonds	227,000	50%	113,500
Subordinated Income Bonds	4,048,350	30%	1,214,350
Second Land Grant Bonds	1,055,000	50%	527,500
Arkansas Valley Railway Bonds	570,000	50%	285,000
Leavenworth Branch Bonds	<u>630,000</u>	50%	<u>315,000</u>
	\$17,330,350		\$4,855,350

¹Pacific Railway Report: 1887, p. 456.

TABLE II

GOULD SECURITY HOLDINGS IN THE KANSAS CITY POOL AGREEMENT ¹

Kansas Pacific Securities	Amount	Par Value	Estimated Cost
Stock	42,000 shares	\$ 420,000	\$ 52,500
Unsubordinated Income Bonds	95 bonds ²	47,500	23,750 ³
Subordinated Income Bonds	2,143.7 bonds ⁴	2,143,700	643,110 ⁵
Second Land Grant Bonds	160 bonds	160,000	80,000 ⁶

¹Pacific Railway Report: 1887, pp. 456-77.

²\$500 par value bonds.

³Estimated at 50 per cent according to testimony before the United States Pacific Railway Commission: 1887.

⁴The decimal represents \$700 par value. The figure 2,143 represents \$1,000 par value bonds.

⁵Estimated at 30 per cent according to testimony before the United States Pacific Railway Commission: 1887.

⁶Author's estimate. The figure is based on probable prices during the purchase of the other Kansas Pacific securities.

TABLE III

THE WABASH-ST. LOUIS, KANSAS CITY & NORTHERN CONSOLIDATION¹

Route	Miles
Toledo to East St. Louis	433
Chicago and Paducah	157
Chicago and Strawn	95
Eel River	94
Decatur to Quincy & Hannibal	201
Other branches	68
Total Wabash Mileage	1,048
St. Louis & Kansas City	275
Moberly to Ottumwa	131
Brunswick to Pattsburg	81
Pattsburg to Council Bluffs	146
Lexington Junction to St. Joseph	76
Quincy Missouri & Pacific	102
Other branches	37
Total St. Louis, Kansas City & Northern & Mileage	848
Consolidated Length	1,896 miles

¹Commercial and Financial Chronicle, November 15, 1879, p. 513.

TABLE IV

1879 GOULD PURCHASE OF MISSOURI PACIFIC WITH RELATED ROADS¹

Railroad Company	Securities	Price	Total Cost
Missouri Pacific	4,000 shares	\$950 per share	\$3,800,000
Kansas Central	385 bonds	80% plus interest	310,992.47
Kansas Central	2,251 shares	\$18 per share Approximate	45,000.00

¹Pacific Railway Report: 1887.

TABLE V

KANSAS PACIFIC RAILWAY COMPANY¹
New York, January 14, 1880

Memorandum of terms of agreement for consolidation of Union Pacific with Kansas Pacific, in which the Denver Pacific, St. Joseph and Western and Union Pacific, Eastern Division, are included.

All necessary papers and any further agreements to be prepared by Judge Dillon on his return. The Union Pacific, with all their respective liabilities, are to be put together at par of their respective capitals - \$36,762,300 and \$10,000,000 - to which is to be added the capital of the Denver Pacific, \$4,000,000, making the capital of the Union Pacific Railway Company, as the new line shall be called \$51,762,300.²

The Denver Pacific capital, now an asset of the Kansas Pacific, is to be used, after conversion into Union Pacific Railway stock, to pay for shares and bonds of St. Joseph and Western Railroad and St. Joseph Bridge, as hereafter states, and for other purposes.

The St. Joseph and Western first-mortgage bonds and stocks, to the extent of the controlling interest in the same, to be bought of parties now owning it, at par for bonds, and \$20 a share for stock, payment to be made in Union Pacific Railway stock at par.

The road to be leased to the Union Pacific Railway Company for the interest on first mortgage bonds, or otherwise as may be determined. The bridge at St. Joseph is to be bought of parties now owning controlling interest in the bonds and shares of same, at par for bonds with the shares thrown in, and payment to be made either in shares of Union Pacific Railway at par, or Kansas Pacific consolidated-mortgage bonds at par.

The Union Pacific, eastern division, is to be taken at cost to Mr. Gould, and paid for in same securities that he gave, viz, about one-half in Kansas Pacific consolidated-mortgage bonds and one-half in new Union Pacific 6 per cent trust bonds, both at par.

R.S.
Jay Gould
Fred'k L. Ames
E. H. Baker
F. G. Dexter
Sidney Dillon
E. Atkins

¹Pacific Railway Report: 1887, p. 61.

²An apparent error, this should read \$50,762,300.

TABLE VI

SECURITIES DELIVERED TO JAY GOULD¹

February 16, 1880, delivered to Jay Gould in payment for the following securities:

St. Joseph and Pacific first-mortgage bonds and scrip at par	\$1,020,204.23
Kansas and Nebraska Railway Company's first mortgage bonds and scrip	729,820.00
Kansas and Nebraska Railway Company's second mortgage bonds and scrip	24,700.00
Kansas Central Railroad bonds	479,000.00
Kansas Central Railroad stock, 2,421 shares	--
St. Joseph and Denver City receiver's certificates	59,000.00
St. Joseph Bridge Building Company bonds	784,000.00
St. Joseph Bridge Building Company stock, 4,000 shares	--
St. Joseph and Western stock, 15,162 shares at 20	307,240.00
Hastings and Grand Island Bonds	--
Hall County bonds	60,204.25
Total (34,641 shares) ²	\$3,464,168.48

¹Pacific Railway Report: 1887, p. 381.

²\$100 par value Union Pacific stock.

TABLE VII

STATISTICS--UNION PACIFIC & KANSAS PACIFIC MERGER¹

	<u>Union Pacific</u>	<u>Kansas Pacific</u>
Miles of Road	\$ 1,039	\$ 780
Gross Earnings for Year	12,904,857	4,904,857
Net Earnings for Year	6,506,562	1,690,993
Other Income	2,282,418	60,617
Debt Due United States	45,657,599	10,919,683
Other Bonded Debt	50,404,000	22,130,100
Interest Accrued and Due	869,891	5,621,366
Bills and Accounts Payable	4,561,845	1,219,080
Capital Stock	36,762,300	9,689,950
Assets besides Road & Equipment	27,123,902	10,427,283
Annual Interest other than United States	4,234,133	1,665,060
Earnings Applicable to Dividends and Sinking Fund	4,214,816	85,617

¹Railway Review, January 24, 1-80, p. 39.

TABLE VIII

FUNDED DEBT OF THE TEXAS & PACIFIC - MAY 31, 1880¹

Type of Bond	Amount
1st Mortgage Bonds-Eastern Division	\$ 3,481,000
Consolidated Mortgage Bonds-East Division	7,619,000
Income and Land Grant Bonds	8,177,000
Old Land Grant Bonds, Scrip, & Misc.	321,343
Interest Scrip-Redeemable in land or stock	1,552,570
Texas School Fund Loan	<u>181,677</u>
Total Funded Debt	\$21,332,590

TABLE IX

RAIL LINES OWNED BY THE TEXAS & PACIFIC - MAY 31, 1880²

Area	Miles
Shreveport, La., to Ft. Worth, Texas	219.69
Texarkana to Sherman, Texas	155.12
Texarkana Junction to Marshall	<u>69.05</u>
Total Miles	443.86

¹Railway Gazette, August 13, 1880, p. 436.

²Ibid.

TABLE X

RAILROAD EQUIPMENT OF THE MISSOURI, KANSAS, AND TEXAS 1879¹

<u>Quantity</u>	<u>Type of Rolling Stock</u>
88	Engines
34	Passenger Cars
20	Baggage Cars
5	Postal Cars
798	Box Cars
360	Stock Cars
315	Coal Cars
96	Flat Cars
48	Caboose Cars
1	Pay Car
1	Business Cars
20	Dump Cars
4	Boarding Cars
1	Magazine Car
1	Derrick Car
1	Tool Car
1	Pile Driver Car

¹Railway Gazette, November 12, 1880, p. 599.

TABLE XI

FUNDED DEBT OF THE MISSOURI, KANSAS, AND TEXAS 1879¹

<u>Type of Bond</u>	<u>Amount</u>
Union Pacific, Southern Branch Bonds	\$ 2,315,000
Tebo & Neosho Bonds	349,000
Hannibal & Central Missouri 1st Mortgage Bonds	768,000
Hannibal & Central Missouri 2nd Mortgage Bonds	32,000
M. K. T. Consolidated Bonds	14,752,000
M. K. T. Income Bonds & Scrip	<u>7,571,533</u>
	\$25,787,533

TABLE XII

RAIL LINES OWNED BY THE MISSOURI, KANSAS, & TEXAS 1879²

<u>Area</u>	<u>Miles</u>
Hannibal to Dennison, Texas	575.5
Holden, Mo., to Paola, Kansas	54.0
Parsons, Kansas to Junction City, Kansas	<u>156.5</u>
Total Miles	786.0

¹ Railway Gazette, November 12, 1880, p. 599.

² Ibid.

TABLE XIII

RAILROAD EQUIPMENT OF THE ST. LOUIS,
IRON MOUNTAIN & SOUTHERN 1879¹

<u>Quantity</u>	
121	Engines
46	Passenger Cars
1	Sleeper Car
24	Baggage, Mail, & Express Car
7	Pullman Cars (50% interest)
1,138	Box Cars
424	Stock Cars
1,029	Flat Cars
48	Caboose Cars
1	Director's Car
1	Boarding Car
1	Derrick Car
3	Wrecking Cars
1	Pile-Driving Car

¹Railway Gazette, March 26, 1880, p. 177.

TABLE XIV

FUNDED DEBT OF THE ST. LOUIS, IRON MOUNTAIN & SOUTHERN 1879 ¹

<u>Type of Bond</u>	<u>Amount</u>
Various Divisional Bonds	\$21,925,000
First Preferred Income Bonds	4,054,937
Second Preferred Income Bonds	<u>4,088,720</u>
	\$30,068,657

TABLE XV

RAIL LINES OWNED BY THE ST. LOUIS, IRON MOUNTAIN & SOUTHERN 1879 ²

<u>Area</u>	<u>Miles</u>
St. Louis to Texarkana, Texas	490.0
Bismark, Missouri, to Belmont	120.0
Popular Bluff, Missouri, to Bird's Point	71.0
Mineral Point, Missouri, to Potost	<u>3.5</u>
Total Mileage	684.5

¹ Railway Gazette, March 26, 1880, p. 177.

² Ibid.

TABLE XVI

ANNOUNCED EXPANSION OF THE GOULD SOUTHWESTERN RAILROAD
SYSTEM, JANUARY, 1881¹

Branch	Route	Distance
St. Louis & Southern Branch	Parsons, Kansas to Arkansas City	110 miles
Kansas, Arizona & Pacific Branch	Leroy, Kansas, to Wichita, Kansas	103 miles
Kansas, Arizona & Pacific Branch	Ottawa, Kansas, to Topeka, Kansas	42 miles
Lexington & Southern Branch	Nevada, Missouri to Joplin, Missouri	65 miles
Jefferson City, Lebanon & Southwestern Branch	Jefferson City, Missouri to Lamar, Missouri	125 miles
IGN Connection	Whitesboro, Texas, to Fort Worth, Texas	70 miles
Jefferson City, Lebanon & Southwestern Branch	Greenville, Texas, to Mineola, Texas	50 miles
IGN Connection	Fort Worth, Texas, to Waco to Georgetown, Texas	150 miles
Texas & Pacific-IGN Joint Usage	San Antonio, Texas, to Laredo, Texas, and Georgetown, Texas, to San Antonio, Texas	154 miles 135 miles

¹ Railway Review, February 12, 1881, p. 87.

TABLE XVII

AVERAGE EARNINGS PER MILE OF RAILROAD¹

Month	Per Cent of Increase over Previous Year	
	1880 ¹	1881 ²
January	16.7%	(7.0%)
February	12.5%	(10.1%)
March	19.0%	(6.1%)
April	14.3%	2.9%
May	10.4%	3.5%
June	16.7%	13.4%
July	9.7%	4.8%
August	12.7%	6.9%
September	3.6%	(1.6%)
October	(0.2%)	(5.1%)
November	4.4%	(1.3%)
December	2.4%	6.2%

¹Commercial and Financial Chronicle, February 4, 1881.

²Ibid. February 3, 1882.

TABLE XVIII

MISSOURI PACIFIC CONSOLIDATION OF 1880¹

Debt

1st Mortgage Bonds	\$ 7,000,000
2nd Mortgage Bonds	2,573,000
3rd Mortgage Bonds	4,500,000
Real Estate	800,000
Carondelet Branch	<u>250,000</u>
Total	\$15,123,000

Branch Bonds

Missouri Pacific	\$ 409,000
St. Louis & Lexington	650,000
Kansas City & Eastern	348,000
St. Louis, Kansas, & Arizona	1,200,000
Lexington & Southern	1,050,000
Leavenworth, Atchison & Northwest	<u>479,000</u>
Total	\$ 4,136,000

¹ Commercial and Financial Chronicle, p. 454.

TABLE XIX

GOULD HOLDINGS IN THE MISSOURI PACIFIC CONSOLIDATION¹

Company	Owner	Shares
Missouri Pacific	Jay Gould	5,028
Kansas City & Eastern	Jay Gould	3,660
St. Louis & Lexington	Jay Gould & P. M. Schmidt	4,845
Lexington & Southern	Jay Gould	10,500
St. Louis, Kansas City & Atchison	Jay Gould	11,118
Kansas City & Leavenworth	Jay Gould	16,801

The above shares represent more than 66 per cent of the total outstanding stock voting in the Missouri Pacific Consolidation of 1880.

¹Commercial and Financial Chronicle, August 21, 1880, p. 223.

TABLE XX

RAIL CONSUMPTION 1872-1881¹

Year	Total Tons	Construction	Maintenance
1872	1,530,850	740,500	790,350
1873	1,148,849	392,000	756,849
1874	837,695	192,000	645,695
1875	810,770	151,000	659,770
1876	879,916	231,000	648,916
1877	784,744	206,000	522,700
1879	1,157,420	440,000	717,420
1880	1,674,235	688,000	986,235
1881	2,230,422	960,000	1,279,442

¹Railway Gazette, October 27, 1882, p. 662.

TABLE XXI

RAIL CONSUMPTION 1872-1881¹

Aggregate Total Rail Tons		Per Cent of Track Renewal
1872	7,942,500	10.30%
1873	8,683,000	9.02%
1874	9,075,000	7.34%
1875	9,267,000	7.33%
1876	9,418,000	7.10%
1877	9,649,000	5.92%
1878	9,855,000	6.56%
1879	10,215,000	7.24%
1880	10,384,000	9.52%
1881	11,385,000	11.16%

¹Railway Gazette, October 27, 1882, p. 662.

TABLE XXII

UNION PACIFIC BOARD OF DIRECTORS-1880¹

Fredrick L. Ames	Russell Sage
Carlos S. Greeley	Jay Gould
Ezra H. Baker	Solon Humphreys
Elisha Atkins	David Dows
F. Gordon Baxter	Thomas T. Eckert
Sidney Dillon	William L. Scott
G. M. Dodge	S. H. H. Clark
	John Sharp

¹Railway Review, January 31, 1880, p. 51.

TABLE XXIII

MISSOURI PACIFIC BOARD OF DIRECTORS-1880 (Consolidated Company)¹

Jay Gould	Oliver Garrison
Sidney Dillon	D. K. Ferguson
Russell Sage	Web. M. Samuel
George J. Forrest	H. H. Clark
William F. Buckley	J. L. Stephens
Thomas T. Eckert	L. T. Smith
Fredrick L. Ames	

¹Railway Review, August 2, 1880, p. 427.

TABLE XXIV

ST. LOUIS, IRON MOUNTAIN & SOUTHERN BOARD OF DIRECTORS-1881¹

Jay Gould	Sidney Dillon
Henry C. Marquand	Samuel Shethar
Henry Whelen	Thomas T. Eckert
Russell Sage	George B. McClellan
Joseph S. Lowry	Rufus J. Lockland
John T. Tery	R. C. Kerns

¹Railway Review, March 5, 1881, p. 120

TABLE XXV

MISSOURI PACIFIC BOARD OF DIRECTORS-1881¹

Jay Gould	Fredrick L. Ames
Russell Sage	D. K. Ferguson
Sidney Dillon	Web M. Samuel
William F. Buckley	S. H. H. Clark
Thomas T. Eckert	Joseph L. Stephens
George F. Forrest	L. T. Smith
Samuel Sloan	

¹Railway Review, March 5, 1881, p. 130.

TABLE XXVI

MISSOURI, KANSAS & TEXAS BOARD OF DIRECTORS-1881¹

Jay Gould	Thomas W. Pearsall
Sidney Dillon	Fredrick L. Ames
G. J. Forrest	Frank S. Bond
Thomas T. Eckert	T. S. Hays
M. S. McCready	C. H. Pratt
A. G. DuIman	Judge David Kelso
Samuel Sloan	

¹Railway Review, May 21, 1881, p. 282.

TABLE XXVII

TEXAS & PACIFIC BOARD OF DIRECTORS-1882¹

Jay Gould	H. M. Hoxie
S. T. Walters	R. S. Hayes
Russell Sage	T. T. Eckert
Jas. P. Scott	A. L. Hopkins
W. C. Hall	E. H. Perkins, Jr.
T. S. Bond	E. B. Wheelock
Charles O. Baird	D. Felsenheld
Fredrick L. Ames	George J. Gould
J. C. Brown	

¹Railway Review, September 16, 1882, p. 531.

TABLE XXVIII

MARBURY CORPORATE PYRAMID FOR PROPOSED
WESTERN RAIL SYSTEM