6-1-1963

The consolidation of the Union Pacific and Kansas Pacific Railroads in 1880

Gene R. Pugh
University of Nebraska at Omaha

Follow this and additional works at: https://digitalcommons.unomaha.edu/studentwork

Recommended Citation
https://digitalcommons.unomaha.edu/studentwork/1164
THE CONSOLIDATION OF THE UNION PACIFIC
AND
KANSAS PACIFIC RAILROADS IN 1880

by
Gene R. Pugh

A Thesis
Presented to
the Graduate Faculty of the Department of History
University of Omaha

In Partial Fulfillment
of the Requirements for the Degree
Master of Arts

June 1963
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PREFACE</td>
<td>iv</td>
</tr>
<tr>
<td>TABLE OF FIGURES</td>
<td>vi</td>
</tr>
<tr>
<td>TABLE OF MAPS</td>
<td>vii</td>
</tr>
<tr>
<td>I. THE FIRST TRANSCONTINENTAL - THE UNION PACIFIC</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>History of Transcontinental Idea</td>
<td>1</td>
</tr>
<tr>
<td>Building of the Union Pacific</td>
<td>11</td>
</tr>
<tr>
<td>Union Pacific, 1869-1875</td>
<td>25</td>
</tr>
<tr>
<td>II. THE KANSAS PACIFIC AND DENVER PACIFIC RAILWAYS</td>
<td>33</td>
</tr>
<tr>
<td>Building the Kansas Pacific</td>
<td>33</td>
</tr>
<tr>
<td>Building the Denver Pacific</td>
<td>47</td>
</tr>
<tr>
<td>The Roads of 1875</td>
<td>49</td>
</tr>
<tr>
<td>III. THE UNION PACIFIC AND KANSAS PACIFIC RAILROADS, 1875-1880</td>
<td>55</td>
</tr>
<tr>
<td>1875</td>
<td>55</td>
</tr>
<tr>
<td>1876</td>
<td>56</td>
</tr>
<tr>
<td>1877</td>
<td>57</td>
</tr>
<tr>
<td>1878</td>
<td>61</td>
</tr>
<tr>
<td>1879</td>
<td>67</td>
</tr>
<tr>
<td>IV. THE CONSOLIDATION AND THE NEW ROAD</td>
<td>82</td>
</tr>
<tr>
<td>Conditions in January, 1880</td>
<td>82</td>
</tr>
<tr>
<td>Terms</td>
<td>85</td>
</tr>
<tr>
<td>Announcement</td>
<td>89</td>
</tr>
<tr>
<td>CHAPTER</td>
<td>PAGE</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Reaction to Announcement</td>
<td>89</td>
</tr>
<tr>
<td>Physical Structure of New Road</td>
<td>94</td>
</tr>
<tr>
<td>V. CONCLUSION</td>
<td>103</td>
</tr>
<tr>
<td>BIBLIOGRAPHY</td>
<td>119</td>
</tr>
<tr>
<td>APPENDIX</td>
<td>123</td>
</tr>
</tbody>
</table>
The purpose of this study was to trace the steps which led to the consolidation of the Union Pacific and Kansas Pacific Railroads in 1880. This merger was a natural one, uniting two Pacific roads created by the Union Pacific Enabling Act of 1862, but the methods used in bringing it about were not "natural." In order to understand how this was accomplished some consideration had to be given to the business ethics of that period and the circumstances which motivated Jay Gould, the prime mover behind the consolidation.

Material used in the preparation of this study was secured from two main sources, the Report of the ...United States Pacific Railway Commission and the Grenville Mellen Dodge Papers. The nine-volume Report was found in the Business and Industrial Department of the Omaha Public Library. The Dodge Papers were found in two locations. The entire collection (468 Boxed volumes) are under the care of the Iowa State Historical and Art Museum, Des Moines, Iowa. Extracts and typed copies of many pertinent papers from the Dodge collection are to be found in the Council Bluffs, Iowa, Public Library.

When a person starts a research project he features a block of time in which he must shut himself off from outside civilization, enter dark and lonely catacombs, and in all probability say good-bye to people. The research for this
thesis has taken the author a good deal of time, but the
time and effort has brought quite a few new acquaintances--
all of whom helped make what might have been a dreary job
much more enjoyable. My deepest appreciation to these people,
whose helpfulness and cooperation made this project a reality.
To these friends and near-friends I respectfully dedicate this
work.
TABLE OF FIGURES

<table>
<thead>
<tr>
<th>FIGURE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>15</td>
</tr>
<tr>
<td>2.</td>
<td>66</td>
</tr>
<tr>
<td>3.</td>
<td>95</td>
</tr>
<tr>
<td>4.</td>
<td>97</td>
</tr>
<tr>
<td>5.</td>
<td>98</td>
</tr>
<tr>
<td>6.</td>
<td>100</td>
</tr>
<tr>
<td>7.</td>
<td>100</td>
</tr>
<tr>
<td>8.</td>
<td>112-113</td>
</tr>
</tbody>
</table>
# TABLE OF MAPS

<table>
<thead>
<tr>
<th>MAP</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. THE UNION PACIFIC RAILROAD</td>
<td>32A</td>
</tr>
<tr>
<td>2. THE KANSAS PACIFIC RAILWAY</td>
<td>52</td>
</tr>
<tr>
<td>3. THE DENVER PACIFIC RAILWAY</td>
<td>54</td>
</tr>
<tr>
<td>4. THE CONSOLIDATED ROAD, THE UNION PACIFIC RAILWAY, 1880</td>
<td>96</td>
</tr>
</tbody>
</table>
CHAPTER I

THE FIRST TRANSCONTINENTAL - THE UNION PACIFIC

The idea of a transcontinental railroad fascinated the minds of Americans from the time of the introduction of the steam locomotive into the United States. There was talk of connecting the East and West Coasts as early as the 1830's but the development of railroading had not reached a point where this was practical. Nor was such an idea feasible from a political standpoint. The Treaty of Guadalupe-Hidalgo signed in 1848, finally connected the western edge of the Louisiana Purchase to the California coast and gave the United States ownership of the area between. The land for the transcontinental was in hand; needed was a concrete plan for effecting a railroad across it.

One such plan had been put forth by Asa Whitney, New York merchant and world traveler, in 1845. Whitney had the notion that a railroad should be built through the South Pass (in Wyoming) to the Pacific Ocean with what he called "private capital."  

---

Whitney would have had the Federal government, in order to maintain "the principle of private enterprise and private responsibility," sell to him eighty million acres of government land for a price of eight million dollars or ten cents an acre.

The Whitney method of financing the road would have been based upon the enhancement of the value of the land as a result of the railroad and selling it to private individuals. Whitney should have labelled it a "mixed enterprise" as later interpreters, with hind-sight, so aptly did. It is also apparent today that the Whitney plan would not have worked as he envisioned it because the price of land would not have increased until after the railroad was completed, while the actual need for money was during the construction. Public reaction to the plan did not operate in its favor; it was considered too private, a swindle benefitting one man, although this did not deter Whitney. A contemporary description held it to be a "wholesale stock-jobbing scheme foisted upon the public domain."

Another plan, that can be described as "quasi-governmental" in scope flowed from the pen of William M. Gwin, Senator from California, in 1853. The Gwin plan was fundamentally a

---

2 Fogel, op. cit., p. 28.
3 Ibid., p. 29.
4 Quoted in Ibid., p. 29.
land grant philosophy, of the type inaugurated by Stephan A. Douglas for the Illinois Central Railroad in 1850. Gwin originally proposed a grant of forty sections of land for each mile of track laid. Four-fifths of the land was to be given to the railroad after completion of each 100 mile section of track—the other one-fifth upon completion of the entire road. The President of the United States would select the route and construction would be supervised by a commission reporting to the Secretary of War. The company was to reap the benefits for thirty years whereupon ownership of the road would revert to the government of the United States. During the period of private operation the Federal Government could use the railroad free of charge, with Congress setting the rates for all other business. Had the Gwin plan been adopted and the land sold for an average of only $1.25 per acre, it would have yielded the builders $27,700 per mile or $7,700 above the estimated cost of construction per mile.

The Gwin plan seemed to strike the fancy of all concerned; from its introduction in 1853 down to 1860 the leading transcontinental railroad bills were merely variations upon this theme. Some changed the size of the land grant, length of private op-

---

oration, or added varying amounts of monetary assistance, but basically all were the same as the one put forward by the Senator from California.

The Congress heard many arguments to explain why a transcontinental railroad was necessary, but all could be categorized under three major titles, those of political, economic, and military. The military reasons given were associated with the bringing of California closer to the rest of the nation of that time. This was especially strong when the threat of possible British or Russian invasion of California was bandied about. Oregon was mentioned in the same vein. The strategic value of having a railroad connecting these two American outposts to the rest of the nation would have been extremely important in event of war. A railroad as a solution to the Plains Indian problem did not come into consideration until the Civil War.

The political reasons were not quite as simple, being bound up as they were in the sectional differences prevalent during the fifties. Southerners saw a Pacific road as a means of improving the waning strength of the South. Northerners envisaged the prospective railroad as an extension of the already dominant rail network of the Ohio-Mississippi valley.

---

6 Fogel, op. cit., p. 35.
7 Ibid., p. 20.
unlike the Southerners though, the North was split into cliques seeking an eastern terminus for the transcontinental for themselves.

The commercial or economic considerations were not complex at all. They consisted of two parts: One, a method of draining off the excess dregs of society and putting these unfortunate into a frontier environment where they would be forced to work in order to exist; no explanation was given as to how they would be convinced to go. And two, a method of creating markets, sources of raw materials, and providing encouragement for a slowly increasing industrial machine.

As the final showdown approached, the "issue before Congress was never really one of choosing between opposites---a government road or a private enterprise." All interests involved, both North and South, were either pushing for a government built and supported road, or a privately built and government subsidized road. A pragmatic attitude seemed to have become dominant---with the objective that of getting a transcontinental railroad under construction by any acceptable method. Further proof of this is seen in the additional inducements legislated even after the road had commenced its

---

8 Ibid.
10 Ibid., p. 27.
slothlike movement West. Because of the lack of settlement between the Missouri River and the Pacific Coast, with the exception of the Mormon area around the Great Salt Lake, the pushing for a transcontinental at this time has been called a "premature enterprise." "Premature", according to one authority, "that is, when the measuring rod of its maturity and practicality was the willingness of unaided private enterprise, guided solely by the search for profits, to undertake the project." The railroad was "premature" when first suggested and, using the above definition, premature when it was eventually constructed in 1863-1869. Such an idea is not a recent innovation; Charles Francis Adams, Jr., was guilty of making a similar remark in 1870, just one year after the completion of the Union Pacific. He felt that there was no urgent need for the Union Pacific at that time because the entire policy of building the Union Pacific was "based on the stimulation of a supply in excess of the natural demand." Adams blamed the "clamor for it" and for the road even becoming a reality at the time it did, upon public opinion. A sidelight on Adams and

11 Ibid., pp. 39-44.
12 Ibid., p. 18.
13 Ibid.
his statement is that just fourteen years later (1884) he was to become president of the Union Pacific, after the road had reached adolescence.

The Republican Party platform of 1860, as had the other three party platforms, called for a transcontinental railroad. Attempts were made during 1861, to get a bill through, but the setting up of war machinery proved of primary importance. All of the arguments used down through the years were brought into play during the 1862 pre-election session of Congress with renewed vigor. Secession gave the North an opportunity to push through a bill that was favorable. A "binding up the Union" theme played a prominent part in the hearings. Detractors had maintained that within twenty years private capital would build such a road without any assistance. Despite the threat of government intervention and implied destruction of the private enterprise system, Congress and the general public were unwilling to wait one Congressional session, let alone twenty years.

The bill that eventually became the Union Pacific Enabling Act of 1862 was said to have been written in its original form by Henry Bennett of Elmira, New York, who was then chief lobbyist of the Leavenworth, Pawnee and Western Railroad

---


Fogel, op. cit., p. 19.
Bennett came to Washington in late 1861 armed not only with the bill, but twenty thousand shares of LP&W stock (par value one million dollars) to dispense for favors. Later on other individuals who became associated with the Union Pacific were also accused of having spent $167,000 for "special legal expense" during consideration of the 1862 bill.

A point of information vital to the understanding of a discussion of the 1862 Enabling Act is that there were several railroad companies already enjoying corporate life that were avidly interested in becoming a part of or the transcontinental railroad. The Union Pacific was not one of these—it received its life from the 1862 Enabling Act itself. The bill attempted to create a transcontinental system of railroads rather than a single road across the continent. The end result, it must be admitted, was a single line, but this was not the original intent.

The act provided for a board of commissioners to establish a "Union Pacific Railroad Company" with directions as to

---

17 Hereafter referred to as the LP&W.

par value of stock, officers and a board of directors, and the amount of stock to be sold to an individual. The other participating roads were to join the Union Pacific at the 100th meridian or along the Union Pacific route east of that point. The other roads and their routes were as follows:

1. Pacific Railroad of Missouri (later the Missouri Pacific) was to build west from Kansas City, Missouri, across the Kansas and Nebraska prairie to join the Union Pacific at the 100th Meridian in Nebraska's Platte Valley.

2. LP&W was to build from Leavenworth, Kansas, and connect with the Pacific Railroad of Missouri.

3. Hannibal and St. Joseph Railroad (of Missouri) was to build west from St. Joseph, Missouri, and meet the Union Pacific at the 100th Meridian or connect with the Iowa branch of that road coming from Omaha, so long as the Hannibal did not exceed 100 miles in length.

4. Sioux City Pacific Railroad was to be constructed by the Union Pacific from Sioux City, Iowa, to the Iowa Branch of the Union Pacific at or east of the 100th Meridian.

5. Central Pacific Railroad was the Western half of the

---


Ibid., p. 383.

Ibid., p. 382-4.
transcontinental road. It was to be constructed by a group of Californians from, eventually, San Francisco to the California-Nevada border.

The Union Pacific Railroad, Iowa Branch, was to extend from a point across the Missouri River at Council Bluffs, Iowa, up the Platte Valley in Nebraska Territory to the 100th meridian. From the 100th meridian to the California-Nevada Border all the participating roads that had reached that point were to build the line connecting with the Central Pacific, or if just one of the lines survived it could build on west.

The Act also provided a means and a reason for building these roads with a series of land grants and bond subsidies. A direct grant of five alternate sections of public land per mile of track constructed was to be selected from within a ten mile distance of each side of the two hundred foot wide right-of-way. The size of the land grant was later (1864) doubled and the right-of-way width halved.

The bond subsidy provided, in 1862, a scaled amount, depending upon the difficulty of construction. The prairie or low-land subsidy was sixteen thousand dollars per mile, in

---

23 Ibid., p. 383.
24 Ibid., p. 382.
the region between the mountains (Rockies and Sierra Nevadas) thirty-two thousand dollars per mile, and in the mountains the payments were "trebled" or forty-eight thousand dollars per mile of completed track. In 1864 this was further liberalized by transforming the government subsidy bonds into a second mortgage and allowing the railroad companies to issue first mortgage bonds in an amount equal to the government subsidy per mile. Although the company could not issue its first mortgage bonds until after the issuance of the government subsidy bonds, it in effect doubled the amount of money the builders could lay their hands upon. This gave them thirty-two, sixty-four and ninety-six thousand dollars per mile respectively through the various terrains.

Since the 1862 Act did not attract enough investors it was necessary to modify the original act in 1864. Another reason for or at least an influence upon this later act was the Credit Mobilier of America - construction company extraordinary.

The origin of the Credit Mobilier was based upon a set of rather short sighted, but, for that day normal assumptions. They were:

1. All the money to be made out of the Union Pacific

---

26 Act of 1862, p. 383.
27 Act of 1864, p. 251.
project would be made in the construction of the road.

2. The road itself as a "legitimate business enterprise" would never yield a profit.

3. The government offered an immense bonus to any set of men who built the road, but only if these men also controlled the railroad company itself could they control the construction contracts and share in their profits.

4. The solution was to put the control of both companies, railroad and construction into the hands of one set of men.

The failure of the Union Pacific to raise enough money to do its own construction became apparent by early 1864. Forty miles of line had been graded, but only a few miles of track had been laid. It was at this juncture that Thomas C. Durant, then Vice President of the Union Pacific was given a free hand.

Durant had started his business life as a member of an uncle's flour and grain exporting business. He moved from there into successful stock brokerage and finally like many a visionary promoter of the day into railroad construction and its attendant speculation. He built railroads in Michigan and Iowa, and was one of the prime contractors of the Chicago and Rock Island Railroad. Throughout these earlier dealings he

---

had been associated with, or had working for him, most of the persons who were later to become famous financiers and builders of the Union Pacific.

The alternative that Durant used, when it was decided that the Union Pacific would not construct its own road, was the exhaustive contract construction company. The creation of such an organization was neither new or out of the ordinary; rather, it was common-place in railroad building during the period between 1855-1880. The difference between the Credit Mobilier and other railroad construction companies seems to have been only in the amount of profits it was able to accrue. The exhaustive contract system was used time and again by other construction companies, but to the Credit Mobilier befell the dubious honor of being singled out as the greatest malefactor. The honor did not fall upon undeserving shoulders.

The amounts received in the form of bond subsidy, Union Pacific bonds, and lands sold vary according to the criterion used for estimation. The estimates range from a low of forty-

30 Davis, op.cit., p. 163.
eight million to a high of seventy-four million dollars. Profits are similarly difficult to determine as records were inadequately kept. The estimates varied from slightly over eight million to a high of almost forty-four million dollars (see Figure No. 1, p. 15).

The very motive behind the building of a transcontinental railroad presented an evil. Anytime speed of construction is considered paramount over physical and geographic capabilities the resulting cost must be inherently higher. Authorities have estimated that within twenty years after 1662, private capital and enterprise would have been ready to build the road alone. Another estimate was that if ten years would have been used to build the road, instead of four, the overall cost could have been cut by one-half to two-thirds.

However critical a person might be of the Credit Mobilier and the people who surrounded it, one thing should be kept in mind—it completed the railroad! There was waste.

FIGURE 1

ESTIMATES, FROM VARIOUS SOURCES, OF PROFITS MADE BUILDING THE UNION PACIFIC

<table>
<thead>
<tr>
<th>Estimating Authority</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wilson Committee (House of Representatives</td>
<td>$23,366,319.81*</td>
</tr>
<tr>
<td>Investigating Committee, 1873)</td>
<td></td>
</tr>
<tr>
<td>2. Rowland Hazard.</td>
<td>15,000,000.00**</td>
</tr>
<tr>
<td>3. J. B. Crawford.</td>
<td>8,141,903.70***</td>
</tr>
<tr>
<td>4. Henry Kirk White.</td>
<td>16,710,432.82+</td>
</tr>
<tr>
<td>5. John P. Davis.</td>
<td>29,521,213.11++</td>
</tr>
<tr>
<td>6. George A. Donely.</td>
<td>13,712,368.00+++</td>
</tr>
</tbody>
</table>

corruption, and excess profit, but the objective was reached, the result was a transcontinental railroad. If, on the other hand, one would look at it with hind-sight and point out the ways in which money could have been saved, and only a fair profit been allowed, there is an argument for detracting from the credit heaped upon the builders. There was a definite need for such a railway and the expressions of the best minds of the time verify this. Had the question been put off until private enterprise had found it profitable to build, the whole settlement and history of the West might conceivably have been much different.

Ground was broken in early December of 1863, for the beginning of the road at a point (near Ninth and Capital Streets) in Omaha, Nebraska Territory. The Chief Engineer, Peter Day, for the Union Pacific had platted the road almost directly west from that location, but other heads prevailed and the line was laid out and graded followed the Missouri River south a way, then slanted southwest through the river bluffs toward present day Papillion, Nebraska, up along the Elkhorn River to Fremont, there joining the Platte River valley and following it west into Colorado to Julesburg. Day and an assistant, Grenville Dodge, had surveyed and sight located the prospective route across Nebraska, beginning in 1853 at the behest and pay of Henry Farnham and Thomas C. Durant, free-wheeling builders of the ill-fated Mississippi and Missouri
Railroad Company, then building through Iowa.

The problem that remained unsolved until the latter part of the Civil War, was to find the best way through the Rocky Mountains. South Pass in Wyoming was the natural route used by the travelers on the Overland (California-Oregon) Trail. This route was not practicable for a railroad because it would entail too steep a grade - the Enabling Acts required a grade of no greater than 116 feet rise per mile. It was Dodge who found the way.

While crossing the Plains with a troop of his cavalry, Dodge, then a General in the U. S. Army, located a pass with a ridge that led from the high plains into the Rockies at a gradient of only ninety feet per mile. He named the location Sherman Pass in honor of his commanding general during the War—William T. Sherman.

Once into the mountains it became apparent that if the route was to be built it would require a major engineering triumph. The successful completion called for the erection of innumerable trestles and bridges to cross and edge around precipitous cliffs and the blasting and chipping out of tunnels through craggy heights too steep or difficult to go over. Originally the intention was to angle the road down into Colorado and sweep through Denver, the center of Rocky Mountain mining at the time, and then to shoot back up into Wyoming aiming at the Great Salt Lake Basin. Investigation revealed
that this route into Denver would be too difficult, expensive, and time-consuming. The desire to reach the Salt Lake Basin and Mormon region was not given up though--this was the only really populated area between the Missouri River and the West Coast, at construction time.

The construction halted with the loss of Peter Dey in December, 1864, as the Chief Engineer of the Union Pacific. As previously indicated, Dey had been associated with Thomas Durant in Iowa in the early fifties. It was at the direction of Durant that Dey made surveys into Nebraska Territory and beyond in 1853. These surveys gave Durant and his associates an advantage in formulating and putting over the Platte Valley route for the Union Pacific. This association between Durant and Dey nonetheless closed in late 1864.

The reason for Dey leaving is confused by differing stories circulated after his departure. Dey claimed that he left because he could not be partner to the "exhaustive contract" idea which Durant and the Credit Mobilier people had inaugurated on the first 100 miles of the Union Pacific to be constructed. This Hoxie contract (so-called because the "contractor" of record was H. M. Hoxie) was written so that the road was to pay sixty thousand dollars per mile of completed track. Dey had estimated the cost of building that section at thirty thousand dollars per mile. For this reason Dey wrote to Union Pacific President General John A. Dix on December 7,
1864, stating:

"I do not, approve of the contract for building the first hundred miles from Omaha west, and I do not care to have my name so connected with the railroad that I shall appear to endorse the contract." 34

Grenville M. Dodge, who succeeded Day, told a different story. Dodge reported Day's resignation of "...the best position in his profession this country has offered to any man," occurred because the Company would not build along the route he wanted. Dodge could have rationalized the reason for Day's departure in order to accept the post himself.

Grenville Mellen Dodge (born April 12, 1831) was an almost Horatio Alger-like character. He rose from the obscurity of poor New England farm-life near Danver, Massachusetts, to become one of the most distinguished personages in the civil engineering field, although much distinction came to him from his other endeavors.

Dodge was of that generation that reached adulthood during the time railroads were starting their first wave of construction. He received his degree as a military and civil engineer in the early summer of 1851, and immediately followed two classmate-friends to Illinois--scene of the greatest rail-

road activity. In the course of the next few years, he joined an Illinois Central Railroad engineering party, where he worked under Peter Dey; later surveyed along with Dey for the Mississippi and Missouri Railroad from Davenport to Iowa City. Dodge then took himself a wife and settled in Council Bluffs, Iowa. As a result of his reconnaissance and surveying between the Missouri and West Coast he drew up a map and guide booklet, showing the best camping stops on the way west, that was distributed through his outfitting store in Council Bluffs. His reputation became so great by 1859, that when an Illinois politician, looking over some property he held mortgage to in Council Bluffs, asked who could best discuss proposed railroad routes through the West, Dodge was the man. Dodge described the discussion as one in which his brain was completely "picked" of all the information he possessed on Western routes. This Illinois politician remembered his conversation with Dodge after the Illinoian became President of the United States in 1861. Dodge maintained years later, rather immodestly, that this 1859 conversation with Lincoln was responsible for the choosing of the Platte Valley route for the transcontinental.

After the outbreak of the Civil War, Dodge was caught up in the conflict. Because he had organized a company of militia in Council Bluffs, he was able to secure himself a commission as a colonel in the Fourth Iowa Volunteers. Wounded twice in battle, the first early in the war at the Battle of
Pea Ridge and again on Sherman's March, he served out the last part of the war heading up the Army's Department of the Missouri with the responsibility of keeping the Indians in check.

It was as a Major General of Volunteers in the latter post that he left the Army and became Chief Engineer of the Union Pacific in May, 1866. He had accepted the position in January of that year upon the condition that he would have complete autonomy to build the road "his own way." Whether Dodge was his own man or not, he did take the job and give guidance to the construction of the road that had been without the services of Day for over a year. He proceeded to speed up the building program to such a degree that three years and ten days after assuming the position, the rails of the Central Pacific and the Union Pacific were wedded on the Salt Lake desert.

The construction of a railroad across an unsettled section of the continent involved a number of major problems, each of which by itself could have halted things had it gone unsolved. The biggest problem was that of geographic isolation of the rail head. Because the nearest railway connection was at St. Joseph, Missouri, the use of river steamboat was

necessary to supply the construction crews at Omaha. This method of transportation was handicapped by the necessity of hauling a whole year's supplies within the three-to-four-month period when the Missouri River was navigable. Other supplies, particularly timbers were hauled across Iowa at a very high cost by freight wagon from the end of the North Western Railroad building across the Iowa prairie. The "big push" of track construction came after Council Bluffs was connected with the East by rail, which allowed far more in the way of quantity to be carried and at a much lower price than the tonnage handled many times via steamboat.

The Plains Indians presented a formidable obstacle also. They had taken advantage of the distraction of the Civil War to go on several rampages in Nebraska and Colorado during the early sixties. The constant Indian threat to surveyors, graders and tracklayers was partially alleviated by help the Army provided. Up until the time Dodge left the Army he was responsible for the eradication of troublesome Indians in the Platte Valley. Because of his friendly contacts in the Army this service was maintained during the entire construction period. Complementing this service were the laborers hired by the Casement brothers (General John and Daniel), the track-laying and grading contractors for the Union Pacific. Most of the men working on the Union Pacific were Civil War veterans and, these men under the leadership
of many former commissioned and non-commissioned officers serving as foreman and superintendents, made a very effective Indian fighting force that never worked very far from their stacked arms.

The shortage of men during the Civil War years was overcome somewhat by the importation of Irish laborers to carry on what could be done under the circumstances. The shortage of men was closely coupled with the geographic isolation—solved eventually by the end of the war and the completion of a railroad into Council Bluffs in 1867. At the time when a maximum effort was being expended to complete the road (1868-69) there were "some 12,000 men...directly employed on the Union Pacific." 37

Many of the men who came to help with the building stayed only long enough to save sufficient money to buy land near the railroad right-of-way, others, just enough to bring their family from the East out to the Middle West. Still others were of the rolling-stone variety who, when the Union Pacific was completed, moved down to Texas to build the Texas and Pacific or north to build the Northern Pacific. These were probably the sons of men who had built the canals in the Middle Atlantic states and Ohio Valley during the eighteen-

thirties and forties. These were the men who made the "end-o-track" camps the loud, brawling, notorious places they were. Murderers, rapists, card sharps, bar-room brawlers, ex-convicts, and even good men: they all had one skill in common--railroad building. What they did when they were not working was their business, but when the workbell clattered their souls belonged to Grenville Dodge and the Casement Brothers and they worked!

The whole nation celebrated as the silver sledge (wired to the telegraph) smacked the golden and silver spikes into the tie of polished wood on May 10, 1869. Representatives of the government, the officers of both Union and Central Pacific Railroads, the press, construction foremen and laborers, all cheered as the cow-catchers of the two locomotives, one headed west and the other east, touched and champagne bottles were smashed on them. Not all the champagne was wasted in such pursuits. They were done, a continent had been spanned, East had met West. Almost seven years from the time the 1862 Act had been passed the roads were joined. The work was not completed, however; it was almost another year of strengthening, filling, replacing and rebuilding before the entire route was accepted by the government inspectors.

For use as a means of saving the Union it came a little late, but the road did help bring the Indian Wars to a close. To serve as a means of communication between the coasts, this
it did; it cut travel time from months to days. Serving as a means of distributing the manufactured goods of the East over the mid-West and West, as a method of putting Western raw materials into the East—another success. The Union Pacific did not solve all of the country's ills socially, economically, or politically, in fact, it helped create some. The new railroad stood as a great achievement of man over the elements, as a step in putting the peoples of the country in a little closer contact. And, it made a small group of people immensely rich.

The estimates of profit made by the people in control of the Credit Mobilier, ranged from a low of approximately $8,000,000 to a high of nearly $44,000,000. The only figure that presents a breakdown with any authenticity is the highest one, backed by the prestige of government subpoena and a complete government commission investigation. The Pacific Railway Commission conducted an investigation in most of the important railroad and financial centers, bringing before it the biggest names in railroad operation, finance and construction. The Commission accountant reported, from subpoenaed Union Pacific and personal accounts of the individuals involved, that the total profits made from the construction of the Union Pacific amounted to $43,929,328.34.

---

Between 1869 and 1875 the Union Pacific faced two problems that were to eventually bankrupt the railroad. The first was the problem of how payment of the subsidy bonds furnished by the government should be met. Solution to this had to wait until the 1890's, after many acts of Congress, railroad proposals, and court decisions. The other problem--Jay Gould--was a recurring one also. He bought into the Union Pacific twice. Once in 1873, only to leave in the early eighties, and again in the latter part of the same decade to complete his work of destruction. There were periods, nonetheless, during which the Union Pacific was able to operate fundamentally as a railroad, providing freight and passenger service along its route, without interference from the financial meanderings of Gould and his cohorts.

The period from 1869 until 1873 was such a period. Between 1869-71, the same people who had been financially responsible for the construction of the road were still connected with it. Rapacious Thomas Durant had taken his silver spike from the completion ceremonies and left the scene. Still remaining were the Massachusetts shovel manufacturers, Oliver and Oakes Ames, the former as president of the road and the latter as an important member of the board of directors--still in Congress unsullied by the upcoming Credit Mobilier Investigation of 1873. With the Ames brothers, yet another important Credit Mobilier trustee, Sidney Dillon, remained on the board
of directors. Grenville Dodge and the Caseament brothers had gone on to other railroad construction, Dodge to Texas to work on the Texas and Pacific.

The building group retained control of the Union Pacific until January 1871. It was at this time that the company was faced with a floating debt of five million dollars that was to mature in just three months, secured by collateral with a market value about one-third less than the loan, and ten million dollars of income bonds maturing between 1872 and 1874. Union Pacific stock prices slid down to a quotation of 9, income bonds to 32, and the land grant bonds (allegedly to be paid off from sale of lands) to 53. Two groups of capitalists fought for control of the Union Pacific during this period above conditions; both groups hoped to use the road as the completing link to a truly transcontinental railroad system.

The first group, whose immediate success later gave way to the second group, could be fairly described as the Pennsylvania Railroad party. It was made up of Thomas Scott, then President of the Pennsylvania, Andrew Carnegie, and George M. Pullman. In 1871, this group took control of the Union Pacific, elected Scott president and provoked a managerial

---

struggle that resulted in March, 1872, in the second group winning control in a proxy battle. This second group was associated with Cornelius Vanderbilt and the New York Central Railroad. The New York Central depended too heavily upon car loadings from Chicago and the West (meaning freight going East from Omaha from the Union Pacific) to allow the Pennsylvania control of another of the Pacific roads. The Pennsylvania, through its President, Scott, already had a wedge in the Kansas Pacific board of directors. Control of the Union Pacific, by the Pennsylvania, would allow diversion of eastbound freight over the Kansas Pacific to Kansas City, through to St. Louis and the Pennsylvania.

Thus the victorious party led by Horace F. Clark, son-in-law of Cornelius Vanderbilt, saved part of the transcontinental business for their Eastern rail line—but at a tremendous cost to themselves for waiting. The price of the road’s stock had been driven up so high that Clark paid an average of 30 for his stock, which had sold at 9 just a few months before. Clark remained as President of the Union Pacific until his death in 1873. Jay Gould’s purchase of the Union Pacific stock, put into the market by the administrators of the Clark estate, brought another change in the management structure of the transcontinental.

Jay (born Jason) Gould came of upstate New York Scottish-Puritan stock. There seemed to be some confusion as to the year of his birth (1836 or 1837), but the day was agreed upon as May 27. Son of a ne'er-do-well farmer he worked on his father's farm until he was fourteen, assisting a local storekeeper with bookkeeping to earn enough money in order to remain in school. His next stop was Beechwood Seminary, where he was noted for his seriousness of study and his unfriendliness. While at Beechwood he authored an essay that was entitled, according to one source, "Honesty is the Best Policy," it stressed conscience and conscience alone as the control of individual action. It was while still at Beechwood that he took his first real job—one that put him out into the world.

Serving as an assistant to a surveyor making a county map, Gould taught himself surveying. When his employer was unable to complete the map, Gould did, and received the profit for the entire job. He soon moved into the tannery business, but left it shortly—losing his half interest in it to the heirs of his partner rather than allow an investigation into

---


the suicide of that partner.

Moving to New York City, the twenty-one year old Gould married the daughter of a wealthy grocer. His father-in-law put Gould to work investigating the operation of a railroad in which the family owned a considerable number of shares; the road was turned over to a larger one at a $130,000 profit in a matter of months. The speculator was born; Gould was to never be without a railroad or at least engaged in financial speculation from that day until his death.

Gould's progression began; from railroad speculation he moved into building roads via the printing press, later, becoming an actual builder, using real ties and steel. His first venture into the high finance of railroading occurred during the fight over the Erie Railroad.

Acting as an agent for various clients, Gould controlled numerous Erie proxies and was drawn by Daniel Drew into opposition to Commodore Cornelius Vanderbilt in a factional fight over the control of that railroad. The Erie fight being the best known case of capitalistic connivance on record, time will not be devoted to a blow by blow description of the strife. Suffice it to say that each of the contending groups

---

43 Ibid., pp. 29-43.
44 Ibid., pp. 51-54.
used every known device to grasp control of the road from the other; bribing of stockholders, legislators, and judges, "watering" the stock, injunction and counter injunction, and last and not least of importance, one of the largest stock market battles in history. The team of Drew, Gould, John S. Eldridge, and James (Jubilee Jim) Fisk won the donnybrook. Gould and Fisk turned on the others in their group and wound up in control all by themselves.

Controlling the Erie from 1868 until late in 1872, Gould acted as president of the line and was in charge of expanding it into Cleveland, Ohio, and the oil districts of Pennsylvania. During the same period he was responsible for an increased watering of Erie stock, raising of the floating debt to an unmanageable figure, and a "systematic looting" of the treasury. With Erie stock at the highest quotation in years, Gould unloaded a major portion of his holdings in order to delve into other speculations, the Union Pacific being one of them.

45 Grodinsky, op.cit., pp.35-53.

With the purchase of the Clark shares in the Union Pacific in 1873, Gould did not immediately begin his usual manipulations. His first step was one of assistance to the road during the Crash of 1873. In conjunction with the directors of the Union Pacific he was able to transform the huge (five million dollars) floating debt into longer-term bonds, maturing in 1893. Gould himself did not officially become a member of the road's board until 1874, and it was 1877 before he actually became manipulative with its fortunes.

The Union Pacific had come a great distance, from the germ of a thought in the minds of several visionaries to a bright iron ribbon across the Great Plains and through the Rockies some 1,038 miles in length by 1875. It served an area that was just beginning to come to life. The fifteen years between 1875 and 1890 were to see the end of the Frontier in America and the Union Pacific had as much to do with bringing this about as any other one factor. The road was completed, it could provide a great service to the people along its route, but it was in the hands of that arch corporate destroyer—Jay Gould.

---

48 Ibid., p. 447.
CHAPTER II

THE KANSAS PACIFIC AND DENVER PACIFIC RAILWAYS

The sister road of the Union Pacific was already enjoying corporate existence when the stroke of President Lincoln's pen joined their destinies in the 1862 Enabling Act. The route of the Leavenworth, Pawnee and Western Railroad was to be constructed from Leavenworth to Lawrence, Kansas, and from there connecting with the Hannibal and St. Joseph Railroad that was to run from a point opposite St. Joseph, Missouri, on the Missouri River to the Union Pacific line at, or any practical point east of, the 100th Meridian—so long as the Hannibal and St. Joseph line was no longer than 100 miles. A supplemental Act passed by Congress in 1864 provided that the 100th Meridian was to be the western-most limit of any government land grant or subsidy and also that should the Union Pacific quit building before that point was reached the Kansas road could continue on until it met the Central Pacific. The ambitious men backing the Kansas road were more than content with this proviso, as Kansas at this time was scene of a great deal of railroad speculation.

When Kansas became a State in 1861, it had sufficient

---

1 Hereafter referred to as the LP&W.
2 See Chapter 1, p. 9.
population to warrant one railroad 400 miles in length—and no more—if it were to be a "paying" (successful) road. At that time there were 1,320 miles of rail lines projected by railroad companies already incorporated. Although 1,100 railroad companies were chartered by the Territory or by the State of Kansas only two hundred ever laid any track. No other middle border state could boast, however, as Kansas could by 1885, that there was not a single farm in the eastern half of the state that was more than twenty miles from a railroad! In 1870 there were 1,234 miles of railroad in Kansas; by 1880, that figure increased to 3,104 and ten years later it reached 8,763. It was during these years that the average Kansan farmer acquired large acreage and came to specialize in one or two cash crops. He was dependent upon the railroads to carry these crops to market and bring in the manufactured implements which he needed.

The LP&W, chartered by the Territorial Legislature of Kansas, was like most corporations in that it had many stockholders; for all practical purposes, however, it was controlled by four men, James C. Stone, J. H. McDowell, Colonel A. J.,

---

5 Humphrey, op. cit., p. 402.
6 Zornow, op. cit., p. 135.
Isaacs, and General Thomas Ewing. It was this group of LP&W backers who were responsible for the Act of 1862.

This group had arranged for the distribution of 83,160 shares of LP&W stock ($4,158,000 per value) from a "special fund" to insure the passage of the 1862 Act. Shares of this stock went to certain prominent people, according to a list presented during an investigation of the Pacific Railways in 1887. LP&W lobbyist, J. C. Stone, who apparently handled the distribution, would not admit the list was authentic, although admittedly it was in his handwriting. The three names that stood out as having received the largest amounts of stock were "T. Stevens," "Gen. J. H. Lane," and "S. C. Pomeroy." Pomeroy supposedly received a total of four thousand shares, Stevens, 4,100 and Lane, 9,400. This was an obvious reference to Thaddeus Stevens, the leader at that time, of the Radical Republicans in the House of Representatives, the other two, Lane and Pomeroy, were then, United States Senators from Kansas. During his testimony, Stone was asked if it had not surprised him that Stevens had been involved; his answer was that at his age "nothing would cause me to be surprised very much." He added that the stock distribution was not to have

been considered only for the 1862 Act, but for additional legislation that LP&W promoters knew would be needed at later dates.

Unlike the Union Pacific, the LP&W underwent name changes from time to time. The original name, the Leavenworth, Pawnee and Western Railroad Company, was adopted in 1855, when the first Kansas Territorial Legislature issued the corporate charter. The LP&W was succeeded by the Union Pacific Railway Company, Eastern Division on June 6, 1863, because the Act of 1862 required that the LP&W have completed at least 100 miles of track (up to prescribed standards) within two years after the Act was signed. By June of 1863, the LP&W had built exactly no miles of road. The Act of 1864 transferred the right of the LP&W to connect with the Pacific Railroad at the 100th Meridian to the Union Pacific, Eastern Division. A change in ownership had resulted also, with Stone and his group being replaced by John C. Fremont and Samuel Hallett. Almost the entire road was to be built under the name Union Pacific, Eastern Division.

10 Ibid., p. 1612.
12 Hereafter referred to as the Union Pacific, Eastern Division.
13 Thompson, op. cit., p.433
In March, 1869, the name of the road was again changed,
this time to The Kansas Pacific Railway Company—the name it kept until the Consolidation in 1880. A possible reason for the last change in name of the road was an attempt, extending over a period from August, 1868 to April, 1870, to interest the Congress in extending the road to San Francisco and San Diego, California, through the Colorado "Mineral Belt." The road had reached the 100th Meridian and was eligible for no more Federal land grants or bond subsidies under the existing Enabling Acts.

The Congress had reserved four million acres of land, for railroad land grant usage, when statehood was granted to Kansas. The State itself held an additional one-half million acres "for the support of the common schools" under the Wyandotte Constitution, but a later Legislature was able to circumvent the intention of the earlier proviso and "donate" the one-half million acres to "internal improvement." The Kansas Pacific, or its predecessors, did not receive all of the above land as there were many railroads in the state, all trying

---

15 Thompson, op. cit., p. 10.
17 Zornow, op. cit., p. 137.
18 Thompson, op. cit., pp. 27-8.
for a share.

The aid received from counties, townships, and cities was an innovation in Kansas although it had been common in the East even during the canal-building era; later the early railroads also benefitted. In Kansas it became a fine art. Bond issues were exchanged for company stock; the Kansas Pacific received $960,000 all told in such aid from cities, counties and townships. The stipulation was, naturally, that the road would "come through" the area that donated the aid. In addition local citizens purchased stock to an amount of one million dollars, again, to secure the railroad for their community. The amount of money involved was close to two million dollars. It would be difficult to estimate the number of miles such practices took the road out of its way, but the attitude of the builders was one of seeking immediate profits from the construction of the road rather than over the long range of operating a successful railroad.

As in the building of the Union Pacific, the construc-

19 Thompson, op. cit., p. 427; Zornow, op. cit., p. 135.
20 In some cases this practice caused the railroad to change the location of the surveyed right-of-way, making some towns prosper and others wither and die. For an interesting study of this situation, see "Some of the Lost Towns of Kansas," Kansas State Historical Society Collections, Vol.XII (1911-12), pp.426-71.
21 Zornow, op. cit., p. 137.
tion of the Kansas Pacific (earlier LP&W and Union Pacific, Eastern Division) was carried out by the exhaustive contract system. There was a slight refinement used by the Kansans that allowed less notoriety than that received by the Credit Mobilier. The subterfuge used was the changing of the construction company name from time to time, without markedly changing the make-up of the company membership. The first contract was given to Hunt and Ruggles; the second was handled by Perry and Company; the third, which completed the road, was R. M. Shoemaker and Company.

The problems facing the builders of the Kansas road were in no way similar to the ones faced by the Union Pacific. Even if the original route had been followed, that of connecting with the Union Pacific at the 100th Meridian, the road would still have been easy to construct. The route as constructed was difficult only in the area approaching Denver and even here there was nothing to compare with the Union Pacific's Cheyenne to Salt Lake route. With the exception of the few miles (less than one hundred) of mountains around Denver the entire Kansas Pacific line was built across the Kansas Plains. Geography was not the only advantage.

Kansas City and St. Joseph, Missouri, were both connected to the East by rail. In transportation facilities then,
the Kansas Pacific had the advantage of being only across the Missouri River from not one, but two sources of supply. This would have allowed the Kansas Pacific to operate with a smaller inventory of construction supplies had they been so inclined. Which leads to the question of why the Kansas Pacific was so slow in getting its line completed.

The major problem was the same as the Union Pacific had experienced in early years—a lack of risk capital. As mentioned previously, the LP&W never did construct any track; John C. Fremont and Samuel Hallett were hampered by a shortage of personal funds, so the Union Pacific, Eastern Division while owned by them constructed only about forty miles of road.

The Fremont-Hallett partnership seemed to be based upon:

1. Fremont's money—$203,000 used to pay for the surveys made by LP&W and some two million acres of land, the total assets of the LP&W.

2. Hallett's engineering and promotional talent—the engineering talent was negligible but there seemed to be a good deal of the promoter in Hallett.

When Fremont and Hallett took possession of the road a construction contract was already in effect, having been let

---

by the previous LP&W owners. The new owners proceeded to
ignore this contract and to let a new one through two deeds
of trust to Hunt and Ruggles. The two deeds of trust were
let just fifteen days apart (June 15 and July 1, 1863) and
were for bonds valued at $5,760,000 and $7,200,000 respectively.
The bonds were secured by "road built and to be built, as well
as by lands of the company." A sub-contract was let to Hal-
lett which provided for the construction of forty miles of
track between Leavenworth and Lawrence, Kansas. When the
people of Leavenworth demanded exorbitant prices for their
land and supplies because they thought their city was the only
place from which a railroad could start west across Kansas,
Hallett proved that Leavenworth was not the only place and
moved all the property of the Union Pacific, Eastern Division
to Wyandotte (now part of Kansas City), Kansas, and proceeded
to build from there a like distance of forty miles to Lawrence.
If profits were to be made, they would not be made by persons
unassociated with the railroad or its constructors!

Hallett's promotional talents were best exhibited by
the methods he used in securing rails for the forty mile sec-
tion from Wyandotte to Lawrence. He got the iron rails by

24 Thompson, op. cit., p. 435.
25 Ibid., p. 436.
telling the manufacturer that the road was graded and ties laid, neither of which was true, and that the government bonds would be forthcoming when the iron was delivered (another untruth). He borrowed fifteen thousand dollars from a St. Louis banker, John D. Perry, by reporting that the line was graded, tied, and the iron paid for. In this fashion he was able to transport his borrowed rails to Wyandotte and start his railroad construction.

Unfortunately Hallett was to be denied the pleasure of celebrating the completion of the forty-mile segment of track. His chief engineer, A. C. Talcott, had been reporting poor building practices on the road by letter to President Lincoln. When Hallett discovered this, he fired Talcott; Talcott fired back, with a repeating rifle, killing Hallett. This allowed the St. Louis banker, Perry, to step in as president of the company and Fremont began to be shunted aside. By December of 1864 he had sold out his interest for his original $203,000 investment. Perry and Company finished the Hallett sub-contract on the forty miles to Lawrence and got the road accepted by government inspectors so that subsidy bonds were issued October 28, 1865.

---

27 Ibid., pp. 437-9.
With the abdication of Thomas Hart Benton's son-in-law, Fremont, the fortunes of the Kansas Pacific (at this time, still the Union Pacific, Eastern Division) were in the hands of a group of St. Louis capitalists led by the banker Perry. It was this group who finished the road, although Perry did not retain his supremacy as the largest shareholder.

The serious work of construction on the road began in the summer of 1865. The branch from Leavenworth to Lawrence, started that summer, was completed the following May. In the meantime, the main line was continued west reaching Fort Riley in October of 1866. The next two years saw 268 miles completed from Fort Riley to Sheridan, Kansas, where work was halted for over a year. Sheridan (mile-post 405) was near the 100th Meridian, the point at which the government subsidy bonds ran out. After the failure of the company to interest the Congress in an additional road to California, probably through Union Pacific pressure, the Kansas Pacific (so named after December, 1869) continued building without federal bond subsidies. There was assistance from the States of Kansas and Colorado in the form of land grants to encourage the completion of a railroad to Denver.

---

30 Thompson, op. cit., pp.442-5.
By April, 1870, the road extended to Kit Carson, Colorado, and early in September of that same year Denver was reached, making a total of 638 miles from Kansas City (formerly Wyandotte), Kansas, to Denver.

While building across the Kansas prairie the railroad had encountered a problem not experienced by the Union Pacific. Many towns had grown up in Kansas, especially in that part of the State east of the 100th Meridian, and each wanted to be "on" the new railroad that was coming through. Some were willing to pay for the privilege while others exerted political pressure. One such incident occurred in connection with Lawrence and Topeka.

Hallett had demanded $300,000 to enter Lawrence. United States Senator James H. Lane, of Kansas, fought to have the Union Pacific, Eastern Division enter both Lawrence and Topeka without any payment and actually secured Congressional legislation authorizing the road through those towns. Hallett still refused until Lane decided that Hallett should be required to remove every log and stump (used to save rock ballast) from the new roadbed, unless the line entered both cities. In

---

a matter of days, Hallett informed Lane of the road’s intention of going through Lawrence and Topeka.

Another source claimed that this same incident, which caused the road to bypass the town of Indianola, Kansas, was caused by the people of Topeka, making “the railroad promoters an offer they could not refuse.” When the road by-passed Indianola by three miles the people in that community actually moved their town to Topeka.

Other towns were laid out and constructed for the sole purpose of profiting from the end-of-track business opportunities. Such a town was Rome, Kansas, one mile west of Fort Hays, where William F. (Buffalo Bill) Cody and a William Rose started a general store in May, 1867. Buffalo Bill was instrumental in the promotion of the town and it soon enjoyed the end-of-track boom previously noted on the Union Pacific. Within one week the town had grown to a population of over five hundred, within a month to two thousand. At its peak, the citizens of Rome were mostly “business men, soldiers, railroad graders, gamblers, hunters, cut-throats, and prostitutes.” Like the boom towns on the Union Pacific, Rome soon lost its population to the next end-of-track further west.

---

34 Ibid., p. 439.
but unlike a number of the Union Pacific towns, Rome disappeared—no one stayed.

Of the Kansas Pacific's 638 mile length, 394 miles were constructed from Kansas City to the 100th Meridian with the assistance of federal land grants, like those given the Union Pacific and a bond subsidy of sixteen thousand dollars per mile. The Denver Extension (from 100th Meridian to Denver), a distance of 244 miles was constructed without any federal aid.

Despite being well over one-half as long as the Union Pacific it had a total capitalization of only $32,088,950. This consisted of $9,437,950 in stock and $22,651,000 in bonds at six, seven and eight per cent interest. This was a lower capitalization per mile of track constructed than the Union Pacific, but the difficulty in building the latter was far greater. The builders of the Kansas Pacific did go beyond the pale of normal financial capitalization, when, in July, 1866, they issued bonds mortgaging the future income of the new road. The definition of "income" was so worded that the bonds took preference over the road's preferred stock; this

method was used to enable the Company to issue bonds in excess of the amount stipulated by the Enabling Acts, which called for the issuance of a number equal in amount to the federal subsidy bonds. This type of capitalization is difficult to rationalize, even though, in the opinion of a recent authority: "The farther the line progressed the more efficiently it was constructed.... The cost per mile went down as the speed of construction increased."

The connecting link between the Union Pacific and Kansas Pacific roads was a line 106 miles in length, running from Denver, Colorado, to Cheyenne, Wyoming. This road, the Denver Pacific Railway, was important for one reason only—it gave the Kansas Pacific an attachment to the transcontinental market, if the Kansas Pacific could control it. Of all the Pacific roads it was the least expensive of the lot, being capitalized in its entirety at six and one-half million dollars—four million dollars capital stock and two and one-half million dollars in mortgage bonds.

On March 3, 1869, an act was signed by President Andrew

37 Ibid., Testimony of Artemas H. Holmes, pp. 121-2.
38 Zornow, op. cit., p. 137.
Johnson allowing a land grant to the Denver Pacific Railway and Telegraph Company, along with permission to build from Denver to Cheyenne. The act further stipulated that the new road was to operate as an adjunct of the Kansas Pacific, but not to be operated by the Kansas Pacific. There was to be, as in the Kansas Pacific Denver Extension Act, no bond subsidy from the government and there was an added restriction that no more than $32,000 in bonds could be issued per mile of track constructed. The company had been incorporated by the Colorado Territorial Legislature and was composed largely of citizens of Denver, who were anxious to see Denver connected with the transcontinental railroad, after suffering the humiliation of not being included on the Union Pacific route. Former Territorial Governor John Evans was instrumental in forming the company and securing the completion of the line, by making arrangements for the Kansas Pacific to furnish the rails and rolling stock for the road after the company had graded and tied the roadbed. Thus the Denver Pacific Railway and Telegraph Company was able to complete its line into Den-

41 Ibid.
ver and start service in June, 1870, while the Kansas Pacific was not completed to Denver until August. After its completion the Denver Pacific became for all practical purposes a part of the Kansas Pacific.

With its line completed, the Kansas Pacific attempted to operate with two distinct disadvantages: the first was the advantage the Union Pacific had as to route and connections. The latter road had the shortest route across the nation, east to west. The Union Pacific connections at Council Bluffs, Iowa, and Ogden, Utah, were of special note. The roads that connected with the Union Pacific at those points were mutually interdependent upon the Union Pacific and vice versa. The Kansas Pacific had interdependent connections at Kansas City, but at its western end the connection with the Union Pacific at Cheyenne was anything but interdependent. Any freight or passengers exchanged between the two roads, except local business, could be said to have come right out of the pocket of the other. For this reason the Union Pacific was not prone to devise any sort of split or sharing of this business—in spite of the stipulations of the Enabling Acts.

The other disadvantage that operated against the success of the Kansas Pacific was its risky debt structure. This problem was to almost destroy the road. The Union Pacific was

---

Ibid.
quick to point out that this problem of finances was responsible for all of the Kansas road's problems. The Kansas Pacific in return felt that the financial condition was caused by the former's refusal to pro-rate business west from Cheyenne--thus allowing the Kansas Pacific to share in the transcontinental market. The Union Pacific retort to such an offer was to remind the Kansas Pacific that the road between Cheyenne, Wyoming, and Ogden, Utah, was the most expensive at that time, of any railroad line in the country (which was true) and that the Union Pacific had to have all income from it to make it pay.

Regardless of the cause, within two years after its completion the Kansas Pacific was in trouble financially. The Panic of 1873 pushed the road over the precipice and it was forced to default on interest payments. The total bonded indebtedness at the time amounted to $28,588,000. The only arrangement agreeable to the European (Dutch and German) bond holders was the creation of an issue of bonds covering the overdue interest and establishment of a receivership. This

---

44 Thompson, op. cit., p. 456. Thompson finds the Union Pacific argument "wholly sufficient."
funding agreement forced the Denver Pacific into receivership also, as the Kansas Pacific held a controlling share of the former’s stock and bonds.

The two receivers appointed represented the two different classes of securities involved in the crisis. Henry Villard acted for the foreign bond holders and Carlos S. Greeley, for the junior securities—bonds other than first and second mortgage—on the Kansas Pacific Board of Directors. The two receivers acted in this capacity from the time of their appointment by the Kansas court in 1874 until just before the Kansas Pacific—Union Pacific consolidation in 1880. During this period the financial condition did not improve to any degree and the road remained in a "chronic state of insolvency." 47

A study of the Kansas Pacific reveals that its history was very similar to that of the Union Pacific. The men instrumental in the construction of the former were of like attitude to the ones associated with the Credit Mobilier. The construction was fraught with as much corruption as that of the Union Pacific, only the story is not as well known. The Pennsylvania Railroad group that had an influence through Thomas Scott’s presence on the Kansas Pacific board were not interested in the solvency of the road, only in the use to which the road

"Westward the Course of Empire takes its Way"

PUSHING SLOWLY WESTWARD OVER TORTUOUS MILES OF UNDULATING PRAIRIES, EVER UNDER THE WATCHFUL EYES OF HOSTILE INDIANS BENT UPON ITS DESTRUCTION, THE KANSAS PACIFIC WAS ONE OF THE FIRST RAILROADS TO SWIM THE GREAT PLAINS. SWEATING UNDER THE WITHERING RAYS OF SUMMER, SUN CHILLED TO THE MARROW BY Icy BLASTS OF WINTER, INTREPID WORKERS LAIK THE RAILS OF THIS HISTORIC ROAD. MANY OF THEM, VICTIMS OF THE ELEMENTS OR OF INDIAN RAIDS, GAVE THEIR LIVES THAT RIBBONS OF STEEL MIGHT UNITIE A NATION. TINY WOOD-BURNING LOCOMOTIVES PULLED CARS LADEN WITH TEXAS LONGHORN CATTLE AND BLEDING BUFFALO BEARS TO EASTERN MARKETS; BUILDING SUPPLIES AND IMMIGRANTS TO WESTERN FRONTIERS. TRIBLY, THE KANSAS PACIFIC WROTE A THRILLING CHAPTER IN THE BUILDING OF THE OLD WEST.

MAP 2.

THE KANSAS PACIFIC RAILWAY.

Print from Union Pacific Photo Bureau, Courtesy of Union Pacific Historical Museum.
could be put. The Panic of 1873 and the ensuing receivership caused the Pennsylvania group to lose interest in the road and to concentrate their holdings east of the Mississippi River. Although burdened with debt and a dismal future because of Union Pacific competition, the Kansas Pacific was potentially a valuable road. It served a rich territory with a rapidly growing population and had adequate depots and yard facilities at both Kansas City and Denver. It only needed to be removed from under the stultifying weight of its poorly financed debt or have business increasesufficiently to handle interest payments and debt retirement.
THE DENVER PACIFIC RAILWAY (Shaded Red).

Print from Union Pacific Photo Bureau, Courtesy of Union Pacific Historical Museum.
CHAPTER III

THE UNION PACIFIC AND KANSAS PACIFIC RAILROADS, 1875-1880.

The years 1875-80 were packed with the manipulative meanderings of Gould and the men who opposed him. This half-decade saw Gould reach the top and bottom in speculative finance, have success and utter failure, and at the end of the period, control most of the major railroads west of the Missouri River. The conflict between the Kansas Pacific and Union Pacific seemed almost as irreconcilable as the conflict eventually solved only by the Civil War. In reality the problems between the two roads were a result of Gould's actions affecting each of the lines. He began the period (1875) as the majority stockholder in the Union Pacific, trying to force the Kansas Pacific into submission. He ended the period, as the majority stockholder and bondholder in the Kansas Pacific, forcing the Union Pacific to submit to him.

The years of 1875 and 1876 were marked by only two incidents of more than ordinary day to day railroad competition. In the spring of 1875 Gould met with Thomas Scott, Pennsylvania Railroad representative on the Kansas Pacific Board of Directors, at the Continental Hotel in Philadelphia. Purpose of the meeting was to discuss Gould's idea for a consolidation of the Union Pacific and Kansas Pacific. Basically the proposal
was one of each road issuing one-half of the new stock to their present stockholders; Scott was not interested and the idea was dropped. One reason Gould did not press for consolidation was that he had already entered into an agreement, lessening competition between the two roads, benefitting the Union Pacific.

The Kansas Pacific and the Burlington and Missouri (Plattsmouth to Kearney, Nebraska, subsidiary line of the Chicago, Burlington and Quincy Railroad) had sponsored a bill in the Congress that would force the Union Pacific to pro-rate any business coming onto its lines from other railroads. Gould seemingly offered the consolidation as one alternative; the other being an agreement "to prevent competition and controversies...for the mutual protection of their mutual interests." The agreement gave all local Colorado business to the Kansas Pacific with the Union Pacific receiving assurances that the Kansas Pacific would not attempt to compete for business coming from west of Cheyenne on the Union Pacific. They further agreed to set rates, mutually, and to settle all differences by arbitration.

The agreement lasted only a short time. When it became obvious to the Kansas road that the agreement was made only to force the Kansas Pacific to withdraw the prorate legislation, the Kansas Pacific cut the Chicago to Denver freight rates and started a rate war.

The Union Pacific was at a disadvantage in any rate war with the Kansas Pacific because of the three well-managed roads that connected with the Union Pacific at Council Bluffs. The Chicago, Burlington and Quincy, the Chicago and Rock Island, and the Chicago and Northwestern roads had formed the Iowa Pool to equally divide all transcontinental business going west from Chicago through Council Bluffs onto the Union Pacific and all business going east from Council Bluffs off the Union Pacific. Since they mutually supported each other’s rates they did not need to, nor would they, enter into any rate wars for this traffic. The Kansas Pacific on the other hand was able to get railroads connecting it with Chicago to enter into rate wars in order to receive the added business. While the rate wars did not help the Kansas Pacific's financial condition, they did increase freight volume. Gould attempted to split the Iowa Pool, in 1877, by purchasing stock in two (Chicago Northwestern and Chicago and Rock Island) of the Pool roads. He almost succeeded, until he inadvertently began shipping freight to Kansas City from Omaha to coerce the Pool
roads. The Burlington, the other Pool road, pointed out Gould's insincerity and the Pool was reinforced.

The other noteworthy event in this connection, which occurred in 1876, was Gould's philanthropic creation of a funding mortgage to take care of the Kansas Pacific's floating debt, although he was not a stock or security holder in the Kansas Pacific at this time. Gould offered the credit of himself and other Union Pacific board members to relieve the Kansas Pacific directors if the first mortgage bonds defaulted. His offer was accepted. The new mortgage covered cash advances to the Kansas Pacific directors to pay the first mortgage bond interest for 1876, to keep the receivers, Villard and Greeley, from foreclosing upon the road. The Kansas Pacific board used various junior securities, including some Denver Pacific stock from their treasury, to act as collateral for the short-term notes maturing in February, 1877. The natural thing happened in February--the notes could not be met, so Gould and his friends acquired an interest in the Kansas Pacific.

A break in market prices, probably brought on by knowledge that Gould had acquired an interest in the Kansas Pacific,

---


allowed him to purchase even more junior securities at low prices—"some income bonds for example at twelve cents on the dollar." This opportunity caused Gould to enter into a struggle for the control of the Kansas Pacific, where his primary opponent was Henry Villard, the receiver whose major responsibility was protecting the interests of the European holders of bonds on the Denver Extension (100th Meridian to Denver). Gould himself had very little invested. He owned a small part of the bonds on the floating debt, a small part of the Funding Mortgage, and a substantial part of the junior securities purchased at recession prices. The other members of the Union Pacific board owned an equal amount (less the junior securities), but Gould controlled their use of the securities. His first move was to put the railroad in which he had just become interested, into a more difficult financial position.

The Kansas Pacific, beginning in 1877, had started to display a phenomenal business growth. To offset this Gould made peace with the Iowa Pool roads and agreed to move all Union Pacific business through Council Bluffs. The upsurge of Kansas Pacific business was the result of a number of factors which were not affected by Gould's action at Council

---

Gradinsky, op. cit., p. 139.
Bluffs. They were: (1) An increased migration of people into the Kansas Pacific trade area; (2) the development of the Texas and New Mexico cattle drives bringing the animals to the Kansas Pacific's line; (3) the growth of the city of Denver in population and trade; and, (4) a period of increased rainfall, resulting in more farming and larger crop production.

Another move by Gould to siphon off further business from the Kansas Pacific was aimed at the valuable bullion traffic of the Colorado mining districts. A small and relatively insignificant railway had been built by a group of Coloradans from Longmont to Denver to handle ore and bullion from the mines in the area. By 1877, Gould and the Union Pacific had gained control of the Colorado Central Railroad and completed it from Longmont to Cheyenne, thus giving the Union Pacific access to Denver. With this direct competition to the Denver Pacific, the Kansas Pacific was effectively blocked from the lucrative bullion traffic and the Union Pacific acquired it. The Kansas Pacific fought back with the only means at its disposal, a further financially hurtful lowering of rates. This was what Gould sought, but it caused Villard to take separate action.

---

Villard had but one course open to him if Gould was to be stopped. The key to any Kansas Pacific power was its connection with Denver and, since Villard represented the first mortgage bond-holders of the Denver Extension, he instituted foreclosure proceedings in order to prevent Gould from completely destroying the road's value. Gould retaliated through the St. Louis directors, having the Kansas Pacific Railway Company apply to the courts for the removal of Villard and Greeley as receivers. The application, based upon the contention that Villard and Greeley had shown partiality toward the bond-holders to the detriment of the company's interest, was successful. Villard denied none of the accusations but he made a special point of the fact that, if the foreclosure went through, the Kansas Pacific would be reorganized in favor of the first mortgage bondholders.

The Spring of 1878 saw Gould, his collaborating directors of the Union Pacific, and the St. Louis members of the Kansas Pacific board (including Carlos Greeley) purchasing more Kansas Pacific securities—stock, income bonds, Denver Extension bonds, Funding Mortgage bonds, and even issues of Kansas Pacific branches. Gould, at this time, still maintained

---

absolute control of the Union Pacific, owning two hundred thousand out of a total of 370,000 shares of Union Pacific stock, with the Ames family and Sidney Dillon the other large share owners.

Villard and his interests were not standing still either. He had induced the German bond-holders to increase their holdings and at the same time he received help from the Burlington and Santa Fe Railroads in an attempt to control the Kansas Pacific. It was at this point that Gould persuaded Villard to enter a securities pooling arrangement that would eradicate any danger from foreclosure by the junior securities controlled by Gould and his associates.

The first four months of 1878 witnessed a tremendous spurt in migration into Kansas with some 56,000 people coming in by rail alone and there were indications that an additional 150,000 would follow before the end of the year. This population influx would have meant little unless a solution could be found to the Kansas Pacific's financial problems. The pool arrangement offered by Gould was designed to solve that problem but at a price.

---

Gould was of the opinion that the many different classes of Kansas Pacific securities "led to such inextricable confusion" that the only answer was to put all the securities in the hands of one man and "then cut the principal down." Gould induced ten other Kansas Pacific securities holders to create a "common pool or fund holdings of securities taken at a fixed valuation" with their interests in the pool to be proportioned to the amount of securities and stock contributed. The participants bound themselves to:

1. Secure payment of Kansas Pacific bonds and,
2. Set schedule of rates at which securities might be entered into the pool.
3. Apportion new stock according to holdings of various subscribers to pool agreement.
4. Provide for reorganization of Kansas Pacific on sound basis.
5. Unite the two roads (Kansas Pacific and Union Pacific) in order that they could be operated as one road.

The last stipulation was Gould's price for putting the agree-

---

15 Thompson, op. cit., p. 457.
ment through and one to which Villard grudgingly agreed.

At that time the funded debt of the Kansas Pacific amounted to $27,727,350 with rates of interest varying from six to ten per cent, but averaging about seven. The annual interest amounted to $1,892,134.50. Under the pool agreement the securities would be reduced to a first mortgage over the entire road, a government lien over part of it, and $4,800,000 in capital stock. The key to the whole arrangement was dependent upon the entrance of all Kansas Pacific securities holders into the pool and some were not prone to do so without the guarantee or protection of a strong lien. Had a few securities holders been allowed to remain outside the pool their securities would have attained a value greater than the same proportion of new securities. In order to force the laggard holders Gould started foreclosure proceedings under the Income Mortgage (junior securities) terms, thus threatening to take the road away from first mortgage bond-holders. Villard and other European bond-holders, pool participants until then, rebelled and began maneuvers of their own to save their interests in the road.

In June, 1878, a new board of directors was elected.

---

16 Thompson, op. cit., p. 457.
17 Ibid.
18 Ibid.
with membership made up primarily of holders of stock and other junior securities. The new board proceeded to appoint all the Union Pacific officers to like posts in the Kansas Pacific which resulted in overt Union Pacific operation of the Kansas road. This put the Colorado Central, the Denver Pacific, and the Omaha Bridge (railroad bridge from Omaha to Council Bluffs), besides the two main lines, under Gould control. All income was to be pooled and apportioned out on a basis of the previous year's (1877) income. The Union Pacific received the major share (72.85%) while the Kansas Pacific was given less than twenty per cent. It was at this point that Gould felt powerful enough to attempt foreclosure under the Income Mortgage.

It took Villard until the fall of that year to gain control of a solid majority of the Denver Extension bonds. Then he had counsel file foreclosure proceedings. He was able to garner sufficient support from the Burlington and Santa Fe officials to assure the removal of the Denver Extension from Gould's dominance and thus emasculate the Kansas Pacific as a power tool. The stroke that almost caused Gould to break and run was Villard's announced intention to connect

---

19 Pacific Rv. Comm. Report, Vol. II, Testimony of Frederick L. Ames, p. 672. See Figure No. 2, p. 66, for complete apportionment break down and method used to arrive at the figures fixed.
POOL OF 1878--BETWEEN UNION PACIFIC, COLORADO CENTRAL, DENVER PACIFIC, AND RECEIVERS OF KANSAS PACIFIC.

Proportions:

<table>
<thead>
<tr>
<th>Route</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union Pacific</td>
<td>72.858%</td>
</tr>
<tr>
<td>Omaha Bridge</td>
<td>2.776%</td>
</tr>
<tr>
<td>Colorado Central</td>
<td>4.673%</td>
</tr>
<tr>
<td>Denver Pacific and Kansas Pacific</td>
<td>19.693%</td>
</tr>
<tr>
<td>Total</td>
<td>100.000%</td>
</tr>
</tbody>
</table>

The basis for this apportionment were the earnings of the member roads, both passenger and freight, for the previous year, 1877. These earnings were:

<table>
<thead>
<tr>
<th>Route</th>
<th>Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union Pacific and Colorado Central</td>
<td>$12,474,203</td>
</tr>
<tr>
<td>Omaha Bridge</td>
<td>$475,203</td>
</tr>
<tr>
<td>Denver Pacific</td>
<td>$800,000</td>
</tr>
<tr>
<td>Kansas Pacific</td>
<td>$3,371,301</td>
</tr>
<tr>
<td>Total</td>
<td>$17,119,777</td>
</tr>
</tbody>
</table>

the eastern end of the Denver Extension to the Santa Fe, giving that road an entrance into Denver, and building a new road connecting Denver to Ogden, Utah. This would have placed a new transcontinental road in competition with the Union Pacific, a road parallel to it in its own back yard. Villard had discovered a touchstone. The pool agreement disintegrated and Gould began a busy winter of marshalling his forces to forge a complete mastery over all the Kansas Pacific securities he could lay his hands on before March, 1879, the date the foreclosure decision was to be announced by the court.

The only alternative open to Gould was to buy the Denver Extension bonds controlled by Villard. In order to do this, he had to find a source of money. Gould, unlike most of the Gilded Age financiers, was never directly associated with any large banks or financial corporations; he always operated with his own money or that which he could command from his personal associates. The winter of 1878-79 found him without any further fluid assets and faced with lowering Union Pacific stock market prices—his only ready source of capital.

20 Letter, G. M. Dodge to J. T. Baldwin, January 31, 1878, Dodge Papers, Vol. 19. Dodge was of the opinion that the greatest single threat to Union Pacific superiority was another road connecting with the Central Pacific at Ogden.

21 Grodinsky, op. cit., p. 171.
Gould capitalized on his reputation to fill his depleted coffers. Early in 1879, he released an announcement that a controlling interest of Union Pacific stock had been sold by him to a combination led by Union Pacific and Kansas Pacific President Sidney Dillon and another Gould financial associate, Russell Sage. Union Pacific stock became active and Gould began to sell at twice the price it had been a few days earlier. In a short time Gould was able to accumulate somewhere between five and six and one-half million dollars in cash—cash that was used to carry out his plans for the Kansas Pacific.

Gould went to Villard "and told him he [Gould] was tired of fighting and ...was ready to accept" Villard's terms for consolidating the Kansas Pacific mortgage. Gould offered to pay the interest arrearage on the Denver Extension bonds, in full, provided the Villard group would allow the new consolidated mortgage to be funded at six rather than seven per cent. Villard agreed to the terms and the lien against the Denver Extension was removed before the Federal District Court for Kansas convened in March, 1879. This put the junior

\[\text{Letter, G. M. D. Dodge to S. H. H. Clark, February 18, 1879, "Letterbook 1878-1881," Dodge Papers, Vol. 386. Dodge explained the sale as relieving a some of the "load" on Gould.}

securities in control of the entire road and Gould proceeded
to buy them out, so that near the middle of March an associate
of Gould's wrote, the "...U.P. has got the K.P. ...without
any 'ifs'." Gould paid a total of $1,310,825.48 for the re-
mainder of the junior securities not already held by himself
or his associates.

The next move was designed by one of Gould's close
associates, John P. Usher, after he listened to what Gould
wanted as to commutation rates on the securities. Certain
securities were taken into the mortgage consolidation at pre-
ferential rates—especially those which Gould owned entirely.
The new consolidated mortgage bonds were issued in May with
the avowed objective of creating a uniform security and
effecting a saving in interest. The market interest in the
new Kansas Pacific "consols," as they were called, was instant-
taneous and remarkably good. The acceptance was based upon
three things: (1) The lowering of the total bonded indebted-
ness some $3,700,000 plus the intelligent, money-saving, low-
ering of the interest rate, which had varied from seven to
ten, to a uniform six per cent; (2) the improved management

24 Letter G. M. Dodge to J. M. Eddy, March 12, 1879, Dodge
Papers, Vol. 386, "Letterbook, 1879-1881."
and financial condition of the Kansas Pacific plus the prospects for a continuing increase in the road's business from the movement of thousands of settlers into its territory; and (3) the anticipation of collecting the interest arrearage from the pre-mortgage consolidation Denver Extension bonds. Demand for the "consols" was so great that they jumped to a quotation of 40 over par shortly after they were issued.

Having dealt with Villard, Gould's attention was turned to one of the railroads that had joined with Villard in trying to keep Gould out of Kansas Pacific control. The Burlington had been looking for a way to compete with Gould at Denver. The St. Joseph and Denver City Railroad Company possessed a charter allowing it to build to Denver across northern Kansas. By 1879 it had laid only a few miles of track extending out onto the Kansas Prairie from the Missouri River and was connected with St. Joseph by a railroad bridge owned by the St. Joseph Bridge Company. Burlington officials began cautious inquiries about the ownership and the possibility of extending the road to Denver. Upon hearing that news, Gould fell on the virtually worthless road and bridge, and in June, 1879, purchased all the stock of the former and bonds of the latter.

28 Thompson, op. cit., p. 468.
This was a foolish move in a way, for it showed speculators that Gould might be frightened into buying property of questionable value.

That year turned out to be a busy time for Gould. It began with the St. Joseph episode and was followed in August by an ocean trip to Amsterdam. The purpose of the trip was to purchase from Dutch holders, two and one-half million dollars in Denver Pacific bonds. He arrived on his personal yacht in Amsterdam one morning, had breakfast, asked the bond-holders to a luncheon meeting, purchased their bonds at 74, and started his return to the United States that afternoon. Purchase of the Denver Pacific bonds made him majority bond-holder and in a position to control any foreclosure of that road, a possibility suggested by the Dutch holders when they had not been included in the consolidated mortgage.

With the majority of Denver Pacific stock held in the Kansas Pacific treasury, virtual control could now be exercised over the Denver area. The only value of the Denver Pacific or its stock was the measure of worth a consolidating company might place upon it. The road did serve as the only connecting link between Denver and Cheyenne for a time, but

---

the completion of a parallel track by the Union Pacific-owned Colorado Central greatly impaired its value. At this juncture the Denver Pacific stood only as a pawn in a bigger game—to be used by Gould to give him the most benefit.

The only obstacle to complete control of the Denver area was the Atchison, Topeka and Santa Fe lease of the Denver and Rio Grande Railroad's line into that city. In retaliation for the Santa Fe's assistance to Villaard, Gould moved to block it out of Denver. In September he was able to purchase half of the Denver and Rio Grande's voting trust certificates at twenty-two cents on the dollar in a contract that called for payment in cash, Kansas Pacific stock at 66, or 32 Kansas Pacific "consols" at 88. With controlling interest of the Denver and Rio Grande tucked into his portfolio, Gould broke the Santa Fe lease of his new road's tracks into Denver and the city was his. All four of the major roads coming into the town were controlled effectively by him, or his associates, in the case of the Colorado Central.

Gould was now ready to repeat his overtures for a consolidation. This time he controlled the Kansas Pacific and made the offer to the Union Pacific. The exact terms offered by Gould were never revealed, although it was known "that he

---

Grodinsky, op. cit., p. 174.
valued Kansas Pacific, compared with Union Pacific, very much higher ... than the rest of the [Union Pacific] directors did...."

The Union Pacific management, even those closely associated with Gould in the Kansas Pacific, agreed "perfectly" with him on his desire to eliminate competition, between themselves and other roads, but feelings were split on the relative value of the two roads. The real opponents were the directors from Boston, led by F. Gordon Dexter. Another way of looking at the offer was to assume that Gould had not yet put the Union Pacific directors in a position where they had to agree to consolidation. They could still inter-change freight at Council Bluffs and Ogden. Their short route was still the best and in high demand.

As the pressure of Gould's consolidation scheme began to build, he became more susceptible to the maneuverings of railroad speculators who owned railroads near the Kansas Pacific. One such was Oliver Ames, nephew of the Oliver Ames of Union Pacific fame. He had, upon the death of his namesake, inherited a few hundred shares of Central Branch Union Pacific (originally the Atchison and Pikes Peak Railroad)

---


34 Thompson, op. cit., pp. 468-9.

stock in 1877. By 1879 he had added to the inheritance to the extent of controlling the Central Branch road. This was the road that had taken over the rights of the Hannibal and St. Joseph Railroad Company to build a line under the terms of the 1862 Act, no longer than 100 miles in length, joining the Leavenworth, Pawnee and Western as that road built toward the 100th Meridian to connect with the Union Pacific in Nebraska. As the Kansas Pacific (successor to the Leavenworth road) did not make the connection with the Union Pacific, the Central Branch line ran a hundred miles out onto the Kansas prairie west of Atchison and stopped.

After witnessing Gould's treatment of the St. Joseph and Denver City, when threatened with a proposed connection to Denver by an Eastern road, Ames approached Commodore C. K. Garrison, President of the Missouri Pacific, and suggested that the two of them build the Central Branch to Denver and operate the Missouri Pacific over it. To prove his faith, Ames started building a 288 mile extension onto the one hundred length of the Central Branch at his own expense. This antagonized Gould and he started preparations to build branches of the Kansas Pacific into Central Branch territory. Ames retaliated by repeating his Garrison offer to the Burlington

and Rock Island roads and Gould succumbed. Gould met with Ames, supposedly at the behest of the Boston directors of the Union Pacific. Ames asked for and received in October, 1879, an average of $238 per share or $1,826,500 for 7,616 shares which consisted of five-eighths of the total stock of the road.

The financial condition of this road was far from good. The Central Branch had not paid a dividend in six years; its bonds had been in default for some time; and, as late as 1878, the stock had been selling for as little as ten cents on the dollar. An objective examination years afterward found no "...conceivable justification for the price paid by Mr. Gould to Oliver Ames for the stock...."

In later years Gould refused to admit he had been bested—fooled, yes, but not defeated. "I saw a freight train 'nosing' out of every station, and sometimes we had to wait to get by," he said, in reporting on the trip over the Central Branch before he purchased it. He was to learn only after purchasing the road that the management had "saved up"

---

37 Ibid., pp. 805-6.
38 Thompson, op. cit., p. 465.
freight over a seven to ten day period in order to impress him with the large amount of business the road was doing. Ames reported that Gould did not make an inspection trip until after the purchase of the road and that freight had been saved only one day to make Gould "feel good" about his purchase.

Whether the road was a good or bad buy was inconsequential to Gould. He found a way to make the road pay its first dividend in six years; he leased it to the Kansas Pacific. In that way any losses in operation were borne by that road rather than the owner of the Central Branch.

By October 23, 1879, Gould and Russell Sage were able to move the "Boston directors," F. Gordon Dexter, Elisha Atkins, Frederick L. Ames, and E. H. Baker, to send a letter asking for the investigation of the feasibility of a consolidation of the Union Pacific and Kansas Pacific. Grenville Dodge and Solon Humphreys, both closely associated with Gould, were the men selected to investigate the "equitable conditions" upon which a consolidation would "promote the interests

---

Gould later said that Dodge was "one of the best engineers and the best railroad man" that General Grant had "ever seen;" Humphreys "had lived in Saint Louis and was conversant with both of these properties." Gould's feeling was that they were "two disinterested men" whose sole responsibility was to inform the directors what would constitute a "fair consolidation."

In 1879, Dodge was in Gould's employ and had been since at least 1873. Dodge seemed to be Gould's engineering advisor with the responsibility of handling branch and extension construction in addition to financial and directorship arrangements. While Dodge had not been a "great believer" in the proposed consolidation earlier, it would have been difficult for him to have opposed it at that time. Dodge's biographer said that "Gould came to depend upon him Dodge in

43 Letter, G.M. Dodge and Solon Humphreys to Union Pacific Directors, January 16, 1880. "Letterbook, 1878-1881." Dodge Papers, Vol. 386. The original October 23rd letter seems to have been lost. The letter cited here acknowledges that letter and quotes it in its entirety.


45 Ibid.

46 Letters G.M. Dodge to Frank S. Bond, Vice-President of the Texas Pacific Railroad and George Walcott, Chief Engineer of the Union Pacific Railroad, dated April 7, 1879, and December 22, 1879, respectively. "Letterbook, 1878-1881." Dodge Papers, Vol. 386.

all things save the financing of the roads, although Dodge formulated many of the capitalist's plans for consolidation and extension."

Humphreys, the other "disinterested" party to the investigation, was a similar personality. He was described by another railroad official of the day as one who "...reflected the ideas of Gould." Acting, in 1879, as one of Gould's "operating chiefs" he was president of the recently Gould-consolidated Wabash, St. Louis and Pacific Railway Company when assigned to look into the proposed Union Pacific - Kansas Pacific merger.

The examination that Dodge and Humphreys were to make consisted of looking "...into the accounts of the road and ...[familiarizing] themselves with the character of the country, and the connections and the amount of business that was likely to be built up on the road in the future." If such a comprehensive study could have been done by Dodge in

---

48 Perkins, *op. cit.* xii.
two weeks, it was faithfully done, because between October, 1879, and January, 1880, date of the consolidation, Dodge was absent from New York for only that length of time.

While Dodge and Humphreys may not have left New York during that period, Gould did. In early November he made a trip to Missouri to see Commodore C. K. Garrison, owner of the Missouri Pacific, to discuss their mutual problems. When Gould had blocked Garrison's move to gain control of the Central Branch in October, the Commodore had purchased control of a narrow gauge road, 166 miles in length, extending west from Leavenworth, Kansas, between the Kansas Pacific and Central Branch roads. On November 13, Gould bought Garrison's Missouri Pacific, 300 miles in length, from St. Louis to Kansas City, for three million dollars, and the Garrison interest in the narrow gauge Kansas Central Railroad for $479,000. The price paid for the Kansas Central was, as in the case of the Central Branch, blackmail, but the Missouri Pacific was a good buy, even at the $750 per share.

Gould was in control of a rail network that had connec-

---

52 An examination of the Dodge Papers, Letterbooks, Diaries, and correspondence fails to reveal that Dodge was away from New York except for a short period around the end of November and early December. He did not return to Council Bluffs for Christmas that year, which was unusual.


tions as far east as Buffalo, New York, and as far west (exclud-
ing the Union Pacific) as Denver and Cheyenne. He had
only to complete links to New York in the east and to Salt
Lake City or Ogden in the west and he would have had a rail-
road of truly transcontinental proportions, capable of de-
stroying the remaining value of the Union Pacific.

In order that he would not be left holding any virtu-
ally worthless stock Gould turned over his controlling in-
terests in the Kansas Central, St. Joseph and Denver City,
and St. Joseph Bridge Company to the Kansas Pacific Treasury
making them branches or subsidiaries of the Kansas Pacific.
At the same time Gould was able to remove 29,979 shares of
Denver Pacific stock from trusteeship by likewise depositing
$1,500,000 in Denver Pacific funding bonds he had purchased
in Amsterdam. The Denver Pacific stock was then paid to
Gould in return for the above subsidiary stocks he had just
placed in the Kansas Pacific Treasury. Gould's base was now
very firm; he could afford to wait for the Union Pacific
people to come to him, under his conditions.

Gould changed his tactics, from that of pressing, to
a waiting game. He began talking in grandiose terms of build-
ing an extension of the Kansas Pacific from Denver to Salt

---

Lake or Ogden and even had surveys started paralleling the 
Central Pacific to San Francisco. When the "Boston group" of 
Union Pacific directors approached him in late December of 
1879 assenting to his September offer to merge, he refused 
to do so, noting that his "interests had changed." He re-
ported that he even offered the directors one million dollars, 
cash, if they would let him out of the merger.

The half-decade between 1875 and 1880 saw Gould sac-
ifice victories in several battles in order to put himself 
into position to win the consolidation war. Villard showed 
himself to be inflexible when the interests of his bond-holder-
ers were involved and made Gould do right by them. The 
"Master Manipulator" was forced to take over several worth-
less properties in order to put the Union Pacific into a 
corner and on its knees. By December, 1879, he occupied a 
very strong position and he was ready to make the most of it.

---

56 Fulton, Epic of the Overland, (San Francisco: A. M. 
Robertson, 1924), pp. 29-30.


58 Ibid., p. 485.
CHAPTER IV

THE CONSOLIDATION AND THE NEW ROAD

By January, 1880, Gould was ready to move. He had the potential to drive the Union Pacific out of the Transcontinental market. By joining the financial destinies of the Boston group of directors to his, he insured their eventual consent to merge at his terms. The Boston group had, in late December, 1879, relieved Gould of some of the extra (beyond controlling interest) stocks and bonds of his recent acquisitions. Gould, along with Russell Sage and Sidney Dillon, was in control of all of the Gould Middle-Western holdings. By January of 1880, the Union Pacific directors, Frederick L. Ames, F. Gordon Dexter, Elisha Atkins, and E. H. Baker had become involved with the Kansas Pacific, Kansas Central, St. Joseph and Denver City, and the Central Branch Union Pacific, although their main interest was still the Union Pacific.

Gould had sold them the securities at his cost which was way below par. In this way the Boston group stood to profit, proportionately the same as Gould from the proposed consolidation. Whether guided by better judgement or fear of what they knew Gould would do, the Boston directors continued to hold back for the best terms they could get for the Union Pacific.

---

The price of Kansas Pacific stock had been climbing higher each month since February of 1879. After selling as low as 9 1/8 in January, it made a forty point jump in April to a quotation of 60. The offer by Gould to consolidate in September had caused an additional eighteen point upward surge. The market growth continued into the new year. By January, 1880, there was "...talk from Boston of a soon-to-be-developed cause for a further advance" in Kansas Pacific stock. On January 6, Kansas Pacific stock passed Union Pacific in price on the New York Stock Exchange; Kansas Pacific closed at 86 and Union Pacific at 84 7/8.

Gould soon became greatly "irritated with the Union Pacific people for standing out ...from consolidation at his terms." His threat to build a Denver-Salt Lake City or Ogden line still hung like a storm-laden cloud over the proceedings. It was this threat that caused the Boston directors to meet with Gould repeatedly from December to the middle of January with little apparent success.

---

3 Iowa State Register [Des Moines]; January 1, 1880.

This is based upon supposition. Nowhere in the available sources is there a statement of the demands which Gould made between September, 1879, and January, 1880. A reasonable assumption is that as his position grew stronger so did the value which he placed upon the Kansas Pacific. This is not, however, reflected in the merger agreement.
On January 14, 1880, a meeting was held in the drawing room of Gould's New York town house. Present, in addition to Gould, were Sage, Dillon, Ames, Baker, Dexter, and in all probability Solon Humphreys and Grenville Dodge. Elisha Atkins was absent, but cognizant of the meeting. Consolidation was not discussed; it was a foregone conclusion with everyone resigned to it. The question under study was what the terms of consolidation would be.

Gould presented his arguments for fixing the value of the Kansas Pacific stock on a par (or better) with the Union Pacific: (1) The Kansas Pacific extended fifty miles further east than Union Pacific, giving it fifty more miles of rich agricultural land from which to draw business; (2) the Kansas Pacific was 2,000 feet closer to sea level, on the average, than the Union Pacific, thus providing better agricultural territory and less trouble from winter snow storms; (3) the Kansas Pacific had terminals at Kansas City and Denver valued at $2,000,000 and $1,000,000 respectively; and (4) the Kansas Pacific branches were extremely valuable.

---

These were all good arguments and built a case difficult to refute.

F. Gordon Dexter, some years later, claimed to have presented the information that caused Gould to enter the merger on the terms the Boston group had sought. Between the October and January meetings he had found out that the Burlington Railroad intended to start a building program in Nebraska and on west at least to Denver. Such a plan would shatter the strength of both roads if they remained independent.

A memorandum of agreement was drawn up as follows:

Kansas Pacific Railway Company,
New York, Jan'y 14, 1880.

MEMO: of terms of agreement for consolidation of Union Pacific with Kansas Pacific in which the Denver Pacific, Saint Joe & Western, & Union Pacific, Eastern Division, are included.

All necessary papers, and any further agreements to be prepared by Judge Dillon on his return. The Union & Kansas Pacific, with all their respective assets and properties and liabilities, are to be put together at par, of their respective capitals—$36,762,300 & $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 Co., as the new line shall be called, $51,762,300.

The Denver Pacific capital, now an asset of the K.P.,

---


11 *Ibid.*, Vol. II, Testimony of Frederick L. Ames, p.668. Note that an error in addition was made: the total $51,762,300 should have been $50,762,300. This was subsequently discovered and corrected.
to be used after conversion into U.P. Railway stock to pay for shares and bonds of St. Joe & Western R.R. & St. Joe Bridge, as hereafter stated, & for other purposes.

The St. Joe & Western R.R. 1st mort. [gage] Bonds and stocks to the extent of a controlling interest in the same to be bought of parties now owning it, at par, for bonds & $20 a share for stock - payment to be made in U.P. Railway stock, at par.

The road to be leased to the U.P. Railway Co. for the interest on 1st mort. bonds, or otherwise as may be determined. The Bridge at St. Joseph is to be bought of parties now owning controlling interests in the bonds & shares of the same, at par, for bonds with the shares thrown in, & payment to be made either in shares of U.P. Railway, at par, or K.P.Con. [solidated] mort. bonds, at par.

The Union Pacific, Eastern Division, [meaning Central Branch Union Pacific] is to be taken at cost to Mr. Gould, & paid for in same securities that he gave, viz, about one-half in K.P.Con.mort.bonds, & one-half in new U.P. 6 per cent. Trust bonds, both at par.

Frederick L. Ames
E. H. Baker
F. G. Dexter
Sidney Dillon
E. Atkins

Two days after the tentative consolidation agreement had been drawn, Grenville Dodge and Solon Humphreys addressed their answer to the October 23 request for "fair and equitable terms" for such a consolidation. When asked later where Dodge and Humphreys had been during this period, Gould indicated he "did not know" that he might have "seen" them but did not talk of the consolidation. The Boston directors were appar-

---

ently more interested in the survey because Frederick L. Ames admitted talking to both men about it.

The report was purportedly to be "as an extensive an inquiry" as that the Pacific Railway Commission made (which ran to nine volumes and took over a year to complete). The Dodge-Humphreys survey report was ten hand-written pages in length and "by a singular coincidence" was "a mere reproduction of the terms contained in the agreement of January 14, 1880, executed at Mr. Gould's house." The important part of the report was to be found in the summary and concluding suggestions that the two roads should consolidate on a share for share basis into the Union Pacific Railway Company. As Dodge and Humphreys saw the two roads they were equal in everything, physical condition, earning capacity, and indebtedness. The only dissimilarity was their difference in length. With the reception of this report Gould had "objective" approval for his consolidation terms.

Public reaction was not long in coming when word of the consolidation began to circulate. Rumors of the impend-

14 Ibid., p. 657.
17 Ibid., pp. 253-4.
ing consolidation had been rampant from the time Gould began actively manipulating the fate of the two roads. Each new rumor had caused renewed activity on the New York Stock Exchange with regard to Kansas Pacific stock and the price advanced each time. Reporters often sought out prominent members of the Union Pacific board for verification or repudiation of the various rumors. It was for just such a reason that a staff member of the New York Times wrote of trying to confirm a rumor reporting that the directors of the Union Pacific had been "in session in the offices of that company" for a week, supposedly discussing a merger with the Kansas Pacific. He reported that:

Mr. Russell [Russell Sage?] in particular asserted that the story was made out of the whole cloth.... He added that negotiations of the sort indicated were not only not in progress, but had never been in contemplation, though in his private judgement the idea was a good one, and he had no doubt that such a consolidation would be effected in the remote future."

But, the report continued, since Kansas Pacific stock was still booming:

There were ...indications that the parties most interested had been playing havoc with the truth, and several responsible gentlemen, who generally manage

---

19 Ibid.
20 Ibid.
to keep themselves informed as to financial matters, told the TIMES reporter that they knew this to be the case."

There had been a report on the night of January 17 that a merger had been effected—it was this report the reporter from the New York Times was trying to confirm, along with a dispatch from Boston. Members of the Boston Group of directors had returned to that city saying the "merger had been effected with only the drawing up of the details causing the delay." Apparently the Boston directors were not as close-mouthed about the merger because of their unhappiness with the way it had been foisted upon them. "Jay Gould had finally induced the Union Pacific to take the pill after sugar-coating it," one of their number was reported to have said. The Boston Directors were able to see that the merger gave the Union Pacific a great advantage "in connection with Gould's south-western system of roads."

When confirmation came, the New York Times attacked the consolidation doubly—once on the front page in a news item and again, editorially. The front page story repeated the earlier statement of the "Boston Director" and ascribed confirmation to a "New York resident Director, who ... was

---

21 Ibid.
22 Ibid.
23 Ibid.
also an officer of the Union Pacific Company." The report was accurate in all respects, save one. The article referred to ten continuous days of negotiation that ended on January 16, 1880. The use of this date was an attempt to support the Dodge-Humphreys letter (same date) as being the crucial lever in the consolidation negotiation, when their letter obviously was drawn up to support the tentative consolidation agreement of January 14.

The article surmised, rather caustically, that the results of the consolidation would be: (1) The Union Pacific would have two outlets--Omaha and Kansas City--rather than just one. (2) Since the Union Pacific was required to pro-rate all freight from Omaha--it seemed a certainty that Gould would move most of the Union Pacific business to the East through Kansas City (where no pro-rate law applied) and onto his own Wabash system. (3) The final result would be "the eventual complete monopoly of transcontinental business by Jay Gould."

Editorially the paper was even more pointed in its criticism of the agreement. The tack taken was that the

24 Ibid., January 20, 1880.
25 Ibid.
26 Ibid.
large corporations of the nation (railroads particularly) were combining and consolidating to a point that monopolies were resulting and the rhetorical question was asked: Is the public beginning to regard consolidation and combination synonymously with monopoly?

Going on to point out that the latest consolidation, of the Union Pacific and Kansas Pacific, raised the question once more. Protection of the "vested and speculative" interests was insured by the terms of the agreement, but where, the editorial asked, were the interests of the public protected? A further observation was that, the "West will feel most deeply the malign effects of the 'Gould System,' but the traffic of a continent will also suffer." As if forecasting impending doom for recalcitrant corporations the editorial concluded that, the "companies cannot complain if the way finally chosen [for solution] by Congress be not altogether in consonance with their wishes."

The investing public reacted also on, January 20, the day the consolidation was confirmed; Union Pacific fell off one and one-eighth points to 95½ and Kansas Pacific declined

---

27 Ibid.
28 Ibid.
four points to 100. One source attributed the declined to the realization that the new road would declare no stock dividend. The decline continued for the next several days.

During the ten day period from January 14 to 24, a number of significant events transpired in connection with the consolidation. An important one already mentioned was the Dodge-Humphreys report-letter of January 16. The news-leak of the twentieth was another and, although editorial comment was vitriolic, neither the government nor the government directors of the Union Pacific made any move to stop or oppose in any way the proposed consolidation.

It was during this period that John F. Dillon, Gould's able attorney, was drawing up and ironing out the final consolidation agreement. It would seem that the news leak on January 20 was probably an attempt at "running it up the flag pole, to see if anyone would salute"—as a gauge of public and governmental opinion—if such things were considered during the "Gilded Age."

The final move made during this preparatory period was the resignation of Jay Gould from the boards of both the

29 Ibid., January 21-31, 1880.
Union Pacific and Kansas Pacific Railroads. He did this apparently upon the advice of Dillon because of how it would look with Gould representing both parties to the consolidation. Gould's resignation, dated January 12, 1880, effective January 10, 1880, was not announced until the early afternoon of January 24! Later that same afternoon Gould was elected to serve on the board of the new road—the Union Pacific Railway Company.

According to the testimony of one of the Boston Directors, Frederick L. Ames, Gould did not submit his resignation prior to the night of the fourteenth when the tentative agreement to consolidation was made. This action on the part of Gould was later characterized as a "confession of conscious guilt." The reason he resigned was because he was going to sell his various branch lines to the old roads—Union Pacific, Kansas Pacific, and Denver Pacific—and be paid in stock of the new road. While his name did not appear on the Union Pacific stockholder list between January 1 and 20, 1880, Gould still owned 27,000 shares of that road's

33 Ibid.
stock along with 73,342 shares of various issues of Kansas 36
Pacific stock. Retention of his position on the boards of
either road would have made him both a buyer and a seller,
an open conflict of interest. Gould may have resigned either
upon advice of counsel or at the behest of the boards of the
consolidating roads. Which one is not important because the
move was not made until the agreement had been forged; his
selection to the board of the new road was assured.

The consolidation agreement of January 24 was in
reality a "carbon copy" of the memo drawn in Gould's home
just ten days before, with the exception that no mention
was made of the various "cheap-piece" branches unloaded by
Gould. The new board of directors consisted of the men who
had had chairs on the boards of the two old roads plus Solon
Humphreys and Grenville Dodge. Since the agreement required
that a director "must be the bona fide owner of at least
fifty shares of stock in the consolidated company," it may
be assumed they met the "legal" requirements.

The new road was 1,820 miles in length with the Union

---

36 Ibid., Vol. I, Testimony of Jay Gould, pp. 518, 474 and
475.
37 See Appendix, p. 126, for entire text of Articles of
Union and Consolidation.
38 Ibid., Art. VI.
39 Ibid., Art. V.
Pacific making up well over one-half of that total (see Figure 3). The cities of Omaha, Kansas City, Denver, and Ogden were the main terminals and points where business could be expected to naturally be the heaviest (see map, p. 96).

**FIGURE 3.**

<table>
<thead>
<tr>
<th>Length of Roads at Date of Consolidation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union Pacific Railroad</td>
</tr>
<tr>
<td>Kansas Pacific Railway</td>
</tr>
<tr>
<td>Leavenworth Branch of Kansas Pacific</td>
</tr>
<tr>
<td>Denver Pacific Railway</td>
</tr>
<tr>
<td><strong>Total Length</strong></td>
</tr>
</tbody>
</table>

The combined bonded debt of the two roads equalled $124,215,909.60 (see Figure 4, p. 97) which averaged $68,213.02 per mile. The debt of the Union Pacific was made up of first mortgage bonds (Government lien), sinking fund bonds, land-grant bonds, collateral-trust bonds, and Omaha Bridge bonds. The debt of the Kansas Pacific—Leavenworth Branch—Denver Pacific consisted of first mortgage bonds (Government lien) on the first 394 miles of the Kansas Pacific, Leavenworth Branch bonds, two issues of land-grant bonds, Denver extension bonds, income bonds, funding bonds, and over-

---

*Dodge Papers*, Vol. 170. While not dated this was apparently a part of the working papers Dodge and Humphreys used in writing their letter of January 16, 1880.  
due interest bonds. The average debt per mile on the Union Pacific was lowered somewhat, but, of course, the average on the Kansas Pacific was raised. The net effect of spreading the debt over more miles of track plus the removal of any competition helped raise the revenue and profit of the new road.

FIGURE 4.

"Funded Debt, including principal and balance of interest due to the United States, January 31, 1880."

<table>
<thead>
<tr>
<th>Road</th>
<th>Mileage</th>
<th>Amount</th>
<th>Per Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union Pacific</td>
<td>1,042</td>
<td>$88,472,391.10</td>
<td>$84,906.32</td>
</tr>
<tr>
<td>Kansas Pacific and</td>
<td>705</td>
<td>$35,162,518.50</td>
<td>$45,883.58</td>
</tr>
<tr>
<td>Leavenworth Branch and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denver Pacific</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,747</td>
<td>$124,215,909.60</td>
<td>$68,213.02</td>
</tr>
</tbody>
</table>

It would seem at first blush that the two roads were not similarly suited to combination because of the dissimilarity in their financing. The total amount of capital stock was $46,871,650 which averaged $25,574.77 per mile (see Figure 5, p. 98). The point of interest was the difference be-

---

42 Ibid.
between the per mile average of capitalization of the Union Pacific and the Kansas Pacific-Leavenworth Branch-Denver Pacific, the former was almost three times as large as the latter. This was due to the fact that the Kansas Pacific was built over what might be called "easy" terrain, while the Union Pacific went over some of the most difficult to be encountered in railroad construction anywhere, added to which had been the additional burden of the Credit Mobilier.

FIGURE 5.

Capital stock of Roads, January 31, 1880

<table>
<thead>
<tr>
<th>Road</th>
<th>Mileage</th>
<th>Amount</th>
<th>Per Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union Pacific</td>
<td>1,042</td>
<td>$36,762,300</td>
<td>$35,280.51</td>
</tr>
<tr>
<td>Kansas Pacific and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leavenworth Branch 693</td>
<td>779</td>
<td>9,809,350</td>
<td>12,592.77</td>
</tr>
<tr>
<td>Denver Pacific</td>
<td>106</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,821</td>
<td>$46,571,650</td>
<td>$25,574.77</td>
</tr>
</tbody>
</table>

Outstanding as above 9,809,350

Kansas Pacific stock in Treasury 191,750

Denver Pacific stock in Kansas Pacific Tuney 3,998,900

Total $14,000,000

In absorbing the Kansas Pacific-Denver Pacific complex it was necessary to increase the capitalization of the

new road by fourteen million dollars over the capitalization of the Union Pacific in order to exchange the new road's stock for that of the old Kansas Pacific-Leavenworth Branch-Denver Pacific. This was done even though the Denver Pacific stock ($3,998,900) and a small amount of Kansas Pacific stock ($191,750) was already in the Kansas Pacific treasury. As has been mentioned, the Denver Pacific stock had no real value except that which a consolidating road might place upon it. Since the Kansas Pacific wholly owned the Denver road the stock could have been ignored, but was not.

The earnings of the two roads were not comparable (see Figures 6 and 7, p. 100). The Union Pacific had paid dividends since 1876, but the Kansas Pacific except for a few good years during the 1867-79 period, had operated at a loss. The overall deficit was $11,330,772. The enviable financial status of the Union Pacific was due to its short route and its position as a connecting link within the transcontinental system. The financial problems faced by the Kansas Pacific during these years were largely the result of poor financing and the policy of challenging the Union Pacific in rate wars. Increased population in the Kansas Pacific trade area was just reaching the point where it would help the road. Neither road had paid any interest on the Government debt. Of the two, only the Union Pacific
was in a position to have paid anything during the years since its completion. It was apparent that the roads were not of equal value and this explained the reluctance of the Boston Directors to agree to the consolidation.

FIGURE 6

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Earnings</th>
<th>Net Earnings*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1878</td>
<td>$12,873,658</td>
<td>$7,497,072</td>
</tr>
<tr>
<td>1879</td>
<td>13,205,076</td>
<td>7,725,572</td>
</tr>
<tr>
<td>1880**</td>
<td>22,455,134</td>
<td>11,910,015</td>
</tr>
<tr>
<td>1881</td>
<td>24,258,817</td>
<td>11,778,474</td>
</tr>
<tr>
<td>1882</td>
<td>22,823,854</td>
<td>12,090,834</td>
</tr>
<tr>
<td>1883</td>
<td>21,002,541</td>
<td>10,334,940</td>
</tr>
</tbody>
</table>

*The Union Pacific had been paying dividends since 1876—but had not been paying the Government loan or interest on it.

**The first year the roads operated as a consolidated company.

FIGURE 7

Receipts of Kansas Pacific, 1867-79

Total Receipts 1867-79. . . $9,220,218
Bond and interest account,
same period . . . . . . . 15,745,287*

Deficit $ 6,525,069

Deficit, including accrued interest due Government, $11,330,772

*Exclusive of accrued interest due Government.

---

The key to the consolidation seems to have been the threat imposed by the announcement of the Burlington's intention of extending its line into Denver. This caused Gould, according to Dexter, to meet the highest offer the Boston Directors made, that of a stock for stock exchange. This explanation may have been a rationalization by the Boston Group, allowing them a way out of a difficult position. Gould himself had made a threat earlier—that of continuing the Kansas Pacific from Denver on to Salt Lake City or even the Pacific Coast. Threatened from both sides the Union Pacific Directors had no real choice; their only hope was to hold out for the best possible terms. The Dodge-Humphreys letter served as the instrument of proof of good terms. Obviously the letter served the interests of Gould more than those of the Union Pacific directors, but it did indicate that the Union Pacific was not being injured by the move.

By entangling the various Union Pacific Directors in his financial manipulation surrounding the Kansas Pacific, Gould was insured of eventually winning the contest on his own terms. It would seem that Gould agreed to a stock for stock exchange as if he were giving a bargain to the Union Pacific, when in reality placing a value of equality upon the two roads was over-estimating the Kansas Pacific by fifty per cent. Regardless of book value of the respective
roads, regardless of expressions of public opinion against it and its effects upon the people served by the roads, the consolidation took place, for better or worse.
CHAPTER V
CONCLUSION

The web spun around the consolidation makes it difficult to determine whether it was the work of Gould alone or whether he was drawn, as he had claimed, into it by pressures too great to resist. Several questions present themselves for answer:

1. Who profited from the consolidation and to what extent?

2. What was the long range effect upon the new road as a result of the consolidation?

3. Was the consolidation necessarily the only method by which the two roads could have been joined? Were there any alternatives?

Obviously consolidation was not the only alternative open to Gould and the directors of the two roads. The Union Pacific could have leased the Kansas Pacific and its subsidiaries. This offered an opportunity, provided equitable terms could have been worked out, for both roads. The Kansas Pacific complex would have enjoyed a profit with no operational expense and the Union Pacific an opportunity to have increased business through an enlarged trade area without the immediate competition of the other road. For some strange reason a lease was not considered because the
two Pacific roads were thought to be "one" and could not "make or accept a lease to itself." This argument reveals its spuriousness when the question is asked: Why, then, was a consolidation necessary? The strongest argument against leasing, and possibly the reason it was not implemented, was its impermanence.

Another alternative was co-operation. The boards of directors of both roads shared the services of several men and the officers of the roads were the same, with an exception of the post of Secretary. A pool agreement, such as Gould proposed in 1878 whereby the securities could have been reduced to a first mortgage over the entire road, a government lien over part of it, and $4,800,000 capital stock, was a likely choice. The only problem to such a move would have been a determination as to how each security holder would be repaid in reduced securities. The net effect would have been to create a financially stronger road than was eventually secured. There is no record of such an alternative being discussed by Gould and the dual-board officers. How the interests of these men could have been dissimilar as they switched their hats as directors and officers seems hard to explain. One can only conclude that while consolidation was not the most satisfactory alterna-

---

tive it was the arrangement that was desired. The proposed construction by the Burlington into Denver was certainly a factor. Consolidation with the Union Pacific eliminated all possibility of the Kansas Pacific and Denver Pacific being included in the Burlington System. From Gould's point of view, as the prime Kansas Pacific holder, the proposed Burlington plan meant—if completed before a consolidation was welded—the destruction of his control over the best routes into Denver.

To Gould's credit one factor should be brought to light. The railroads in the area west of the Missouri River presented a challenge to him. He envisioned the Missouri as the hub of a great railway system, with the western roads bringing business to points along the river between Omaha and Kansas City and delivering it to the roads running east, "Just as the roads west of Chicago ...[delivered] to the roads that ...[ran] east from Chicago." This explained why Gould and his associates were so active in acquiring Western railroads in the period under study. The charter of the Union Pacific forbade the extension of branch lines into territory that was considered normally tributary to it, but the charter did not prohibit the acquisition of subsidiary companies. This the Union Pacific under Gould had done, with

---

Gould's reason for acting in this manner was simple; he felt that Union Pacific should have been granted exclusive railroad rights west of the Missouri River by its charter. Consequently, he used legalistic means to circumvent it. His "plan was that the Union Pacific should go ahead and occupy the whole country west of the river, and bring the business to the roads east," without being hampered by petty rules or regulations. He summed up his position as follows:

My motive was this: I thought that the Union Pacific should occupy the territory tributary to it and throw out feeders that would bring the business into the main line, and keep pace with the development of the great West, occupying the country as fast as, or a little faster than, the population went in to sustain it.5

In analyzing the Gould "plan of development" for Western railroads, it would seem the idea was both good and bad. It would have been good in that it would have greatly simplified the West's transportation problems both to and from the East. It would have been bad in that it was monopolistic, plus the fact that Gould roads had a reputation of giving notoriously bad service. The fact that he practically suc-

3 Ibid., p. 45.
5 Ibid., pp. 577-8.
6 Grodinsky, op. cit., p. 599.
ceeded in implementing his "plan" shows the perseverance with which he pursued his objective. The uniting of the Union Pacific, Kansas Pacific and the Denver Pacific into one road, the Union Pacific Railway Company, was possible only because the Charter did allow that much—the union of the Pacific roads—but, the fact that there were other roads west of the Missouri to give the Gould system stiff competition saved the West from suffering the rigors of an outright monopoly.

The question of who profited and how much is one of those problems that can be answered only through the use of records the participants wanted to reveal. The men around Gould, of course, had a proportion in each of the transactions leading up to the consolidation. No doubt there must have been considerable turning from the conference table, to count the shares of various stocks and the possible profit accrual, as various consolidation terms were discussed.

Most of the stocks the other Union Pacific directors possessed was acquired upon the advice of Gould. Frederick L. Ames, next to Gould, had the largest holding of Union Pacific stock (par value, $3,861,200) and $969,000 (par value) Union Pacific bonds, mostly sinking fund issue.

This gave him a total par value holding in the Union Pacific of $4,830,000. Ames' holdings in the Kansas Pacific were not quite as heavy. He held $179,600 par value stock, $635,000 par value consolidated mortgage bonds, and $14,000 par value Kansas Pacific (Denver Extension) bonds, for a total par value of $828,600. Ames also held some $100,000 par value first mortgage bonds of the St. Joseph and Western Railroad, along with 475 shares of its stock (par value, $47,500). At the time of the consolidation all these stocks and bonds were exchanged for Union Pacific securities at par. Which meant that Ames received a total of $5,806,100 in various securities of the new road. Taking for granted that his original Union Pacific securities had real value expended for them, his profit on the Kansas Pacific and St. Joseph and Western securities approximated $180,000 on paper.

Elisha Atkins possessed a total par value Union Pacific securities holding of $806,700, divided between 2,937 shares of stock (par value $293,700) and $513,000 par value bonds (land grant and sinking fund). His Kansas Pacific securities consisted of 1,810 shares of stock (par value,

---

9 Ibid., p. 688.
10 Ibid., p. 688.
11 Ibid.
$90,500) and $28,570 par value consolidated mortgage and Denver Extension bonds. Atkins held $30,000 par value bonds of various issue of the St. Joseph and Western along with 142 shares of stock (par value, $14,200). When consolidation terms were completed Atkins received a total of $969,970 par value Union Pacific Railway securities. Using the same formula as before, this meant a paper profit of $115,336 to him, using his own figures for the cost of all but the original Union Pacific securities.

F. Gordon Dexter, in January, 1880, held only stock in the Union Pacific consisting of 6,376 shares (par value, $637,600). His Kansas Pacific holdings consisted of $131,570 par value bonds of various classes and 898 shares of stock (par value, $44,900). His holdings in the St. Joseph and Western duplicated that of Atkins, $30,000 par value bonds of two classes and 142 shares of stock (par value, $14,200). Dexter came out of the consolidation with securities of the new road valued at a par $858,270. Again using the formula, as above, this gave him a paper profit...

---

13 Ibid.
14 Ibid., p. 756.
15 Ibid., p. 756, p. 754 and 756. Atkins reported that his total expense for the Kansas Pacific and St. Joseph and Western securities amounted to $47,934.
17 Ibid., p. 701.
18 Ibid., p. 702.
profit of $152,630, using Dexter's own securities cost figures.

The list of the Boston Directors, for whom data was available, is Ezra H. Baker. Baker controlled 3,307 shares of Union Pacific stock going into the Consolidation (par value, $330,700). His holdings in the Kansas Pacific amounted to a total of $17,000 par value bonds of two issues, $175 in unpaid interest coupons, and 548 shares of stock (par value, $27,400). Baker's interest in the St. Joseph and Western consisted of $30,000 par value bonds and 95 shares of stock (par value, $9,500). His share in the consolidation that January totaled $404,775 in securities of the new road. This gave him paper profits of $31,075 using his own securities cost figures.

When Gould began purchasing his interest in the Kansas Pacific, the road was in a bad financial condition, but he said "it was an immensely valuable property, intrinsically ...." Whether this was what he really believed or whether

---

19 Ibid., pp. 701 and 702. Dexter listed his total costs, excluding original Union Pacific stock, as $67,900.
21 Ibid.
22 Ibid., p. 739.
23 Ibid., pp. 738 and 739.
he saw a badly managed road in trouble with deflated securities, that could be acquired at low prices, is difficult to determine. Regardless of the motivating force Gould began the acquisition, that culminated in the consolidation of 1880, and reporting later his Kansas Pacific holdings cost him $3,058,024.99 A conservative estimate (see Figure 8, p. 112), put Gould's profit in the consolidation at $866,766.76, not taking into consideration any profit made on his Kansas Pacific securities.

Other estimates, which included profits on Kansas Pacific securities, varied from a high of forty million dollars to a low of ten million dollars. The forty million dollar figure is out of line in light of the fact that the sum total of stocks and bonds on the Kansas Pacific and Denver Pacific was $49,551,768.50 at the time of consolidation. Gould in a marvelous understatement said he "...did not lose any money." The Villard estimate of ten million dollars seems to be a more reasonable guess as to Gould's total profit.

---

25 Ibid., p. 558.
### FIGURE 8.

**GOULD'S SHARE IN THE CONSOLIDATION**

<table>
<thead>
<tr>
<th>Road or Property</th>
<th>Cost</th>
<th>Received</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>KANSAS CENTRAL R.R.</td>
<td>$431,820.25</td>
<td>Jan. 24, 1880, 4,790 shares U.P. Ry. stock par value $479,000</td>
<td>$47,180.75</td>
</tr>
<tr>
<td>$479,000 par value bonds and 2,521 shares stock</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ST. JOSEPH BRIDGE CO.</td>
<td>584,940.00</td>
<td>Sold Oct.1-Nov.1,1879 to Sage and S.Dillon $150,000 par value bonds for $112,500 (Gould's Cost)</td>
<td>None</td>
</tr>
<tr>
<td>$784,000 par value bonds</td>
<td></td>
<td>Jan.24,1880 exchanged $634,000 par value bonds and 4,000 shares of stock for 6,340 shares U.P.Ry. stock par value $634,000</td>
<td>.153,560.00</td>
</tr>
<tr>
<td>4,000 shares stock</td>
<td>6,000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ST. JOSEPH AND DENVER CITY RAILROAD</td>
<td></td>
<td>Jan.24,1880, exchanged for 590 shares U.P.Ry.stock par value $59,000</td>
<td>loss 1,695*</td>
</tr>
<tr>
<td>59 Receivers certificates and &quot;a few&quot; interest coupons</td>
<td>60,695.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1,562,886.98 par value bonds</td>
<td>603,204.78</td>
<td>Sold March 13-July 2,1879, to Sage,Dillon,Clark, Dexter,Baker and Atkins $617,000 par value bonds for $246,800 (Gould's Cost)</td>
<td>None</td>
</tr>
<tr>
<td>8,810 shares stock</td>
<td></td>
<td>Jan.24,1880 exchanged $945,886.98 par value bonds and &quot;some scrip&quot; for 9,568 shares of U.P.Ry.stock par value $956,800</td>
<td>$589,482.20**</td>
</tr>
</tbody>
</table>

---

FIGURE 8 (continued)

GOULD'S SHARE IN THE CONSOLIDATION

<table>
<thead>
<tr>
<th>Road or Property</th>
<th>Cost</th>
<th>Received Description</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>HASTINGS AND GRAND ISLAND RAILROAD</td>
<td>$220,839.25</td>
<td>Jan. 24, 1880, received 2,202 shares U.P.Ry. stock par value $220,200 and $635 cash</td>
<td>loss 4.25</td>
</tr>
<tr>
<td>Building this branch for Union Pacific</td>
<td></td>
<td>Jan. 24, 1880, exchanged for U.P. Ry. 6 per cent Bonds par value $100,000. . . . .</td>
<td>None +</td>
</tr>
<tr>
<td>DENVER PACIFIC RAILWAY</td>
<td>100,000.00</td>
<td>Jan. 24, 1880, exchanged for U.P. Ry. 6 per cent Bonds par value $100,000. . . . .</td>
<td>None +</td>
</tr>
<tr>
<td>1,000 shares stock</td>
<td></td>
<td>Jan. 24, 1880, exchanged for U.P. Ry. 6 per cent Bonds par value $1,826,500. . . . .</td>
<td>None +</td>
</tr>
<tr>
<td>CENTRAL BRANCH UNION PACIFIC RAILROAD</td>
<td>1,826,500.00</td>
<td>Jan. 24, 1880, exchanged for U.P. Ry. 6 per cent Bonds par value $1,826,500. . . . .</td>
<td>None +</td>
</tr>
<tr>
<td>7,616 shares stock</td>
<td></td>
<td>Jan. 24, 1880, exchanged for U.P. Ry. 6 per cent Bonds par value $1,826,500. . . . .</td>
<td>None +</td>
</tr>
</tbody>
</table>

*This loss was probably off-set by cashing the "few" interest coupons.

**The $10,892.78 worth of scrip is not included in this figure as the cost of it is not known.

+As has been mentioned, Denver Pacific stock had no value other than as a tool of consolidation.

++This figure does not contain any profit Gould may have made on the exchange of his Kansas Pacific holdings for Union Pacific Railway securities. No where in the sources was a break down found showing the amount of bonds and number of shares that Gould exchanged. It is known that he paid $3,058,024.99 for all the Kansas Pacific securities.
What effect did the consolidation have on the Union Pacific? The few years prior to the consolidation found the railroad in a very favorable financial condition. Between July 1, 1875, and January 1, 1880, the Union Pacific Railroad paid eighteen dividends varying from one and one-half to two per cent totaling $11,942,125. After the consolidation, between April 1, 1880 and April 1, 1884, the new road paid dividends varying from one and one-half to one and three-quarters per cent totaling $16,708,645.13 upon a much larger capitalization. By 1884, the new road was unable to continue dividend payments. Additional competition came from the completion of the Northern Pacific to Seattle making a third transcontinental line. There was also a general business depression which adversely affected the earnings of all railroads. A decrease in income led to an increase in the floating debt on the road from $3,482,315.74 to $6,900,177.95 in the four-year period between 1880-1884. A psychological blow was the sudden realization that the rash of branch lines built at great expense just prior to the consolidation were of "no considerable value." Finally, the threat of Congressional action to enforce payment of the Government lien in 1883.

30 Ibid.
31 Report of the Directors of the Union Pacific Railway Company to the Stockholders, For the Year ending December 31, 1884, pp. 5-25.
caused the Union Pacific to pay $700,000 on the debt rather than declare an annual dividend the next year. Further attempts to retire the Government lien became too much for the road to handle. Within a decade it was bankrupt and in the hands of a receiver.

Regardless of the destructive effect of the consolidation over the short range, its long range effect was beneficial. Following a period of adjustment and reorganization, the road emerged an excellent example of a well-run and well-operated road. Had it not been for the mileage acquired by the consolidation of 1880, this favorable condition might not have existed.

Any real evaluation of the consolidation must include an evaluation of Jay Gould. For all practical purposes the man was the Union and Kansas Pacific roads. He needed only an association with industry to become a truly representative entity of the "Gilded Age." He grew up with the era, matured with it, and passed from the scene with the period. He made contributions and wreaked his damage. His contributions were few but lasting. The Gould lines are given credit for the innovation of interline freight, shipping freight in the same car over several roads, thus affecting substantial savings to the roads and shippers in both time and cost.

32 Ibid., p. 6.
This contrasted with the previous custom of each road transferring freight to its own cars when the freight came onto its line. Another contribution by Gould was the permanent lowering of freight rates in the west and southwest. The original purpose may not have been to benefit the Western customer but this was the end result, because rates once lowered were slow to increase.

The rugged individualism of Jay Gould was no better or no worse than any of the "Robber Barons." He was one of the most hated financiers both in and out of Wall Street. The Grangers looked upon him as the "Railroad Promoter, incarnate," and held him in great distrust. It was men like Gould who caused Western disillusionment over railroads; the West had earlier looked upon railroads "...as a panacea for all economic ills."

An individual caught up in the tenor of the times cannot be judged by any other than the standards of his own times. Jay Gould was a result of his times and representative of it. Those he destroyed were playing the same game—just

34 Grodinsky, op. cit., pp. 554-570.
not quite so well. He was a devoted and loving father. His leisure moments were spent in horticulture and conversation with John Burroughs, the famous Nineteenth Century naturalist. This would not indicate an individual devoid of morals. How then can his, and other of the "Robber Barons'" actions be explained?

A lack of liberal education would seem to be an answer. Gould, along with the rest, had little in the way of formal education—the type of education that builds a social awareness of the individual's duty to society. Gould came onto the scene in a society that had exploded industrially, railroad and corporation finance were still in swaddling clothes, and little more than the law of the jungle existed as rules or guideposts for business activity. Carnegie and Rockefeller mellowed in old age; Gould died in 1892 when he was only fifty-seven years of age. Maybe his image would have changed slightly had he lived on into the Twentieth Century.

Of the consolidation itself a few things are apparent. It was the first major consolidation of large Western railroads. It added fuel to a feeling of revulsion that had been building for some time. A feeling that contributed to the passage of the Interstate Commerce Act in 1887. While it did not happen immediately, this governmental organ (the Interstate Commerce Commission) caused the downfall of rugged un-
restrained individualism in the transportation end of the business community. Because the railroads were big and strong and their abuses apparent and felt at the local level, it was only natural that the Grangers and others would demand that regulation strike the railroads first. Corporate organization had developed farther, faster, and more efficiently than had government and the rest of society. This was obvious by the fact that public opinion had little or no effect upon Gould and his group while they developed the consolidation plans. While the very long range effect for the Union Pacific was the strong road of today, the short range pillaging by Gould left its mark. This was why it eventually became necessary for the public interest to be inserted into the corporate community; an attempt, as it were, to keep the corporate tail from wagging the social body.
BIBLIOGRAPHY

A. BOOKS


Dodge, Grenville M. How We Built the Union Pacific Railway and other Railway Papers and Addresses. [n.p.: n.n., n.d.].


Perkins, Jacob R. *Trails, Rails and War: The Life of General G. M. Dodge.* Indianapolis: Bobbs-Merrill Company, Published under auspices of The Historical, Memorial and Art Department of Iowa, 1929.


B. DIARIES, LETTERS, AND LETTER BOOKS


C. DICTIONARIES, DIRECTORIES AND REPORTS


Report of the Directors of the Union Pacific Railway Company to the Stockholders. For the Year ending December 31, 1884. [n.p.: n.n., n.d.].

D. GOVERNMENT DOCUMENTS


E. NEWSPAPERS

Iowa State Register [Des Moines]. January 1 - March 1, 1880.


F. PERIODICALS


G. UNPUBLISHED MATERIALS


APPENDIX

A. LETTER FROM GRENVILLE M. DODGE AND SOLON HUMPHREYS TO UNION PACIFIC DIRECTORS¹

Jany 16, 1880


Gentlemen:

We acknowledge receipt of the following letter, signed by you and dated New York, Oct. 23, 1879.


Gentlemen:

The undersigned, Directors in the Union Pacific and in the Kansas Pacific Rail Road Companies, conceiving[ sic. ] that a consolidation of these companies, upon equitable conditions will promote the interests of each, as well as those of the public and knowing your familiarity with the problems which such a step involves, and having confidence in your judgment we unite in requesting you to thoroughly consider, and with all convenient speed, report upon the basis and terms of a fair just and equitable consolidation of the two companies."

In compliance with the request wherein, we have considered the question of the consolidation of the Union Pacific, the Kansas Pacific and the Denver Pacific Rail Roads, and respectfully submit our conclusion.

It is manifest from the Act of Congress of 1862, and the move enlarged provisions in the Act of 1864, for consolidation, as well as by the provisions of subsequent legislation, requiring the Pacific Roads under heavy penalties to be operated throughout their whole extent as one continuous line that Congress contemplated such consolidation as probable and it is equally manifest from past experience, that this requirement can be much better carried out where the roads are under one management than where they are under two.

¹ "Letterbook, November 30, 1878 to April 1, 1880," Dodge Papers, Vol. 386.
In considering the question of consolidation we first sought the views of the operating department of each road as to the comparative condition of the two roads and the probable results of such consolidation.

We next considered the comparative value of the two properties, their earning capacity and the effect upon the country they now accommodate, and their future natural extensions, and finally the economy of such consolidation, and its policy.

Without entering into details we will state, briefly the results that control our recommendation.

First. The operating departments of the two roads consider a consolidation as very desirable, so far as they are concerned. They hold that it will largely decrease their expenses, and increase their gross and net earnings, and harmonize conflicting interests, that they can better accommodate the traffic that pertains to each and obtain better net results therefrom.

Second. The present condition of the two roads, their road beds, structures, equipment shops, terminal facilities may be considered to be first-class, and ample for the business they now transact. Their earning capacity is being steadily increased to meet future demands and the earnings of both roads for the year 1879 show very satisfactory results.

Third. The country that each seeks, in the future to develop is naturally tributary to both and a strong, prosperous and healthy Railway would be much more likely to afford adequate railway facilities than would be the case with two warring and rival companies.

Especially is this the case in the large and growing state of Colorado and in the Territory of Wyoming. Again, one corporation, of the wealth and receiving the earnings of these two roads, used under one direction could develop new territory and advance capital to build new lines that at first the country would not justify.

Fourth. Both roads reach, and compete for business from, the same eastern and western commercial centers. While their local interests are widely separated, hence under one management these conflicting interests would be harmonized and more economically administered.
Fifth. The Union Pacific and Kansas Pacific Railroads (including the Denver Pacific and all their other branches) have today a mileage of about 3746 miles. Necessarially [sic] conflicting as they grow nearer to each other or as they contend for the same territory. Today it is all paying property, and it is the duty of the owners, if possible to harmonize their interests and protect their future.

These considerations together with the fact that the physical conditions of the road are about the same, their earning capacity being about equal as compared with their indebtedness and with the strong connection of those who operate [sic] the two properties and the beneficial [sic] results to be obtained from operating them as one, we have concluded to recommend to you that they should be consolidated in accordance with their Charters upon the following basis.

The new company to be known as the Union Pacific Railway Co. That is, the Union Pacific Rail Road with a stock capital of $36,762,300, and the Kansas Pacific Rail Road including the Denver Pacific Railway with stock capital as follows.

<table>
<thead>
<tr>
<th>Company</th>
<th>Stock Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kansas Pacific</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Denver Pacific</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Making a total of</td>
<td>$14,000,000</td>
</tr>
</tbody>
</table>

shall be consolidated into the Union Pacific Railway with a stock capital of $51,762,300 and the stock of the Union Pacific Railway, after consolidation, to be issued for the stock of the Union Pacific, the Kansas Pacific and Denver Pacific Rail Roads, share for share.

The Union Pacific Railway would then represent a mileage of actually constructed and operated road of 3746 miles or less than $14,000 of stock, per mile, controlling and developing a Territory, now in its infancy, the growing business of which, and its rapid development has astonished everyone.

Its future business no one can now safely predict but is beyond question that such a consolidation and such a corporation would control as many, if not more, miles of paying road than any other in the world, and would have a strength, character and ability for future growth and development, unprecedented.

Trusting that our consideration of this subject and our conclusion therein may meet your approval, We are, Gentlemen

Very Respectfully Yours,

G. M. Dodge
Solon Humphreys

Note footing error.
B. ARTICLES OF UNION AND CONSOLIDATION

BETWEEN the Union Pacific Railroad Company, the Kansas Pacific Railway Company, and the Denver Pacific Railway and Telegraph Company.

FORMING THE UNION PACIFIC RAILWAY COMPANY.

WHEREAS, The Union Pacific Railroad Company, a corporation duly organized and existing under the Act of Congress of July 1st, 1862, entitled: "An Act of aid in the construction of a railroad and telegraph line from the Missouri River to the Pacific Ocean, and to secure to the Government the use of the same for Postal, Military, and other purposes," and the Act of Congress of July 2d, 1864, and various other acts, amendatory of the foregoing, owns a line of railroad and telegraph, extending from the Missouri River to Ogden in the Territory of Utah, a distance of 1,042 miles; and,

WHEREAS, The Kansas Pacific Railway Company, described in the said Act of Congress of July 1st, 1862, as the Leavenworth, Pawnee & Western Railroad Company, the name whereof was afterwards changed to that of the Union Pacific Railroad Company, Eastern Division, and again subsequently changed to the Kansas Pacific Railway Company, is a corporation which is entitled to participate in the benefits of the said Act of Congress of July 1st, 1862, and of July 2d, 1864, and the various acts amendatory thereof and relating thereto; and,

WHEREAS, The said Kansas Pacific Railway Company owns and operates as a branch of the Union Pacific Railroad a railroad and telegraph line, from a point connecting with the Missouri Pacific Railroad, in Kansas City, in Missouri, thence from the Missouri River, at the mouth of the Kansas River, on the south side thereof, with a spur from Wyandotte in the State of Kansas, being from the East State line of Kansas to Denver, 639 miles in length, with a branch from a point on the main line near Lawrence, to Leavenworth, 34 miles in length, in said State of Kansas, connecting at Denver with the Denver Pacific Railway, and is entitled to extend said railroad to the western boundary of the former Territory of Kansas, to locate and construct branches of said railroad in the counties of the former Territory of Kansas, adjacent to the line of said railroad, as then located and defined by law; and,

WHEREAS, The Denver Pacific Railway and Telegraph Company, under and by virtue of the said Acts of Congress, and of an Act of Congress approved March 3d, 1869, entitled: "An Act to authorize the transfer of lands granted to the Union Pacific Railway Company, Eastern Division, between Denver and the point of connection with the Union Pacific Railroad, to the

1 John F. Dillon, Pacific Railroad Laws, E. C. Miles, N. Y., 1890, pp. 200-209.
Denver Pacific Railway and Telegraph Company, and to expedite the completion of railroads to Denver in the Territory of Colorado; and of an Act of Congress approved June 20th, 1874, which, among other things, enacts that for all the purposes of the said Act of July 1st, 1862, and of the acts amendatory thereof:

"The Denver Pacific Railway and Telegraph Company shall be deemed and taken to be a part and extension of the road of the Kansas Pacific Railroad to the point of junction thereof with the road of the Union Pacific Railroad Company at Cheyenne, as provided in the Act of March 3d, 1869," whereby, and by force thereof, the said Denver Pacific Railway and Telegraph Company is likewise entitled to participate in the benefits of the aforementioned Acts of Congress of July 1st, 1862, and July 2d, 1864, and the various acts amendatory thereof and supplemental thereto, and relating to the Pacific system of railroads, all of which, whether particularly herein described or not, are, for greater certainty in this behalf, referred to and made part hereof; and,

WHEREAS, In the aforesaid legislation of Congress, applicable to the above-mentioned three railroad companies, it is provided that they may unite and consolidate their respective organizations; and,

WHEREAS, Each of the said above-mentioned three companies, by corporate action duly and severally had, have resolved, pursuant to the authority in that behalf vested in them by law, to unite and consolidate their respective organizations into one company, and have severally agreed to and with each other upon the terms of such union and consolidation, being the terms herein embodied and expressed;

NOW this agreement of union and consolidation, made this, the twenty-fourth day of January, A.D. 1880, between the said Union Pacific Railroad Company, party of the first part, the said Kansas Pacific Railway Company, party of the second part, and the said Denver Pacific Railway and Telegraph Company, party of the third part,

WITNESSETH, That the said parties have respectively agreed, and do hereby severally agree to and with each other, upon the following Articles of Union and Consolidation of their respective organizations into one company, viz.:-

Article I. The said Union Pacific Railroad Company, the said Kansas Pacific Railway Company, and the said Denver Pacific Railway and Telegraph Company, in consideration of the premises, do hereby severally agree to and with each other to unite and consolidate, and do hereby unite, form and consolidate their respective organizations, properties, and companies into one consolidated company, which shall succeed to, possess, and be entitled to receive from the Government of the United
States all and singular the grants, benefits, immunities, guarantees, acts and things to be done and performed, and be subject to the same terms, conditions, restrictions, and requirements which the aforesaid three companies respectively, at the date of this consolidation, are, or may be, entitled or subject to under the Acts of Congress in that behalf, in place and substitution of said constituent companies, so consolidated, respectively; and the said consolidated company assumes to and for itself all of the provisions of said Acts of Congress, so far as applicable, relating or in any manner appertaining to said constituent companies or either of them, including the power to sue and be sued in all courts whether Federal or State, and the right of corporations organized under a law of the United States to remove causes from State to Federal courts; and all of the provisions of the aforementioned Acts of Congress, and each of them, so far as in their nature applicable to the company hereby formed, shall apply thereto, it being the intent of the parties hereto and of these Articles of Union and Consolidation to organize the company hereby formed under the said Acts of Congress, and to make the acts of this company as fully as if the same were incorporated herein at large.

Art. II. The name of the consolidated company hereby formed shall be THE UNION PACIFIC RAILWAY COMPANY.

Art. III. The capital stock of the said Union Pacific Railway Company shall be fifty millions seven hundred and sixty-two thousand three hundred dollars ($50,762,300) (being the total aggregate amount of the outstanding stock of the three constituent companies), which shall be divided into shares of one hundred dollars each, and it shall be issued in lieu of the stock of the said constituent companies on the surrender thereof, for that purpose, by the respective holders thereof.

Every stockholder in the Denver Pacific Railway and Telegraph Company and in the Union Pacific Railroad Company shall receive, in place of every share of one hundred dollars surrendered, a share of one hundred dollars in the new company, and every stockholder in the Kansas Pacific Railway Company, the shares in which are only fifty dollars ($50) each, shall receive, in place of every two shares of the stock at the time held by such stockholder in such company, a share of the capital stock of the new corporation, upon surrendering to the new corporation the certificates of stock held by such stockholder.

Art. IV. The said new corporation shall, without unnecessary delay, issue certificates of stock, in such form as may by the board of directors be deemed advisable, and such board shall provide and adopt such rules and regulations as may be necessary and proper for the issuing and transfer of shares of stock of the said new corporation.
Art. V. The directors of the said Union Pacific Railway Company, to be elected by the stockholders at the annual meetings herein provided for, shall be fifteen in number, each of whom must be the bona fide owner of at least fifty shares of stock in the consolidated company. Such directors shall be chosen annually by a majority of the votes of the stockholders voting in person or by proxy at such election. And they shall continue to be directors until others are elected and qualified in their places. No person shall be a director unless he shall be qualified to vote for directors at the election at which he shall be chosen; and vacancies in the board of directors may be filled by the remaining directors at any regular meeting of the board.

The directors of said company shall, annually, as soon as may be after their election, elect from their own number a president and vice-president, and shall also elect a treasurer and secretary.

Art. VI. The following-named persons shall be the first directors of said corporation, viz.:

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

The following named persons shall be the first officers of the said corporation viz.:

President, Sidney Dillon.
Vice-President, Elisha Atkins.
Treasurer and Secretary, Henry McFarland.

The said directors and officers shall continue in office until their successors are chosen, as provided in these articles.

Art. VII. Until otherwise duly provided, the annual meetings of the Stockholders of the Union Pacific Railway Company shall be held at the company's office, in the City of New York, on the first Wednesday following the fourth day of March in each year, between the hours of 10 o'clock A. M. and 4 o'clock P. M. of said day.

In addition five Government directors were to be appointed by the President of the United States by decision of Attorney General, Charles Devens, March 8, 1880, see footnote p. 204 of Dillon, Pacific R. R. Laws.
Notice of such meeting shall be given as may be prescribed by the by-laws.

These provisions may be changed by the stockholders of the consolidated company at any annual meeting of the said stockholders.

Art. VIII. The parties hereto of the first and second and third parts hereby assign, transfer, set over, and convey, unto the said Union Pacific Railway Company, the consolidated corporation hereby formed, all the rights, privileges, exemptions, and franchises of each of said companies, parties hereto, and all the property, real, personal, and mixed, and all choses in action, debts, on whatever account, of, owing, or belonging to either of said companies, and all claims, demands, property, rights of way, leases, leasehold interests, branches, iron rails, rolling stock, tools and implements, and property of every description, name, and nature, belonging to either of the said companies, with the appurtenances, to be held, owned, and controlled by the said consolidated corporation, its successors and assigns, as fully and completely, to all intents and purposes, as the respective parties thereto do or can now own, hold, use, enjoy, or control the same; and the parties hereto agree to execute and deliver to said consolidated corporation instruments of transfer or assignments, or other instruments proper or necessary to carry out the covenants, conditions, and provisions of this agreement.

This assignment, transfer, sale, and conveyance is made to the said consolidated corporation subject to all liens, charges, and equities pertaining thereto.

Art. IX. Nothing in this agreement contained shall affect or prejudice any rights otherwise existing of the consolidated company to make such further increase of stock or bonds as said consolidated company may by law be entitled to make, or restrict the amount of stock or bonds which such consolidated company is by law authorized to issue or make.

Nor shall anything herein contained affect or impair the right to issue all unissued bonds under the Kansas Pacific Consolidated Mortgage of date May 1st, 1879, wherein Jay Gould and Russell Sage are Trustees; but such unissued bonds may, notwithstanding this consolidation, be issued in the same manner and with the same effect in all respects as if these articles had not been adopted and executed.

And it is expressly agreed that the stockholders of the consolidated company shall have all the powers which would have been possessed by the stockholders of each constituent company if this consolidation had not been effected, to ratify, approve, and carry out any contracts made by either constituent company, and requiring the ratification or approval of its stockholders.
The power of the Union Pacific Railroad Company to issue all unissued bonds under the mortgage of July 1st, 1879, wherein the Union Trust Company is Trustee, is fully and completely reserved.

Art. X. The new company hereby formed does not herein assume any separate or individual liability for the outstanding debts, obligations, and liabilities of the respective constituent companies, whose several and separate existence as to third parties shall, as respects such debts, obligations, and liabilities of every kind and nature, still continue notwithstanding these Articles of Union and Consolidation. But nothing herein contained shall prevent any valid debt, obligation, or liability of either constituent company from being enforced against the property of the proper constituent company, which by force of these articles becomes the property of the consolidated company.

The corporate existence of the respective constituent companies shall not absolutely cease on the consummation of the union and consolidation herein provided for, but shall remain and continue so far as necessary to carry out the intent and purpose thereof.

Art. XI. These Articles of Consolidation shall go into effect, and the consolidated company hereby formed shall come into existence, upon the day on which a copy hereof is filed in the Department of the Interior, as provided in the legislation of Congress in that behalf.3

Art. XII. The existing by-laws of the Union Pacific Railroad Company are hereby provisionally adopted, and shall apply to the company hereby formed, until duly changed or repealed.

Art. VIII. All books, vouchers, records, instruments of title, cash, evidence of debt, contracts and documents pertaining to the business or property of the said three companies, parties hereto, shall, without delay, be delivered to the proper officers of the consolidated company, and the said books, records, and papers shall be deemed and taken, as far as necessary, as the records and books, records, vouchers, and papers shall be subject to the proper examination and inspection of all persons interested therein.

Art. XIV. These articles may be amended and modified, from time to time, and in such manner as the holders of two-thirds of the stock of the consolidated company may direct or approve.

Art. XV. This agreement shall be executed on the part of the respective parties hereto, by the proper officers, and under the corporate seals of said companies.

In Witness Whereof, the said parties have caused their respective corporate seals to be hereunto affixed, and the same to be attested by their respective Presidents and Secretaries, this the twenty-fourth day of January 1880.

THE UNION PACIFIC RAILROAD COMPANY.
[Seal] By Sidney Dillon, President.

Attest. Seal. Henry McFarland, Secretary

THE KANSAS PACIFIC RAILWAY COMPANY,
[Seal] By Sidney Dillon, President.

Attest. Seal. A. H. Calef, Secretary

THE DENVER PACIFIC RAILWAY & TELEGRAPH COMPANY,
[Seal] By D. M. Edgerton, President.

Attest. Seal. D. H. Moffatt, Jr., Acting Secretary,

The Union Pacific Railway Company has signified and hereby signifies its assent to and acceptance of the foregoing Articles of Union and Consolidation, January 24, 1880.

THE UNION PACIFIC RAILWAY COMPANY,
[Seal] By Sidney Dillon, President.