

## JAY COOKE'S EARLY WORK IN TRANSPORTATION

JAY COOKE is usually associated in people's minds with the Civil War and the Northern Pacific, not to forget the Panic of 1873 which he is often credited with bringing on. As a matter of fact, however, those interests covered only a little over a decade of his active years as a banker. On his entry into war finance he had worked a quarter of a century in banking and had had a considerable contact with canal and railroad development. His early work in transportation has a special interest for Pennsylvanians; it was within the boundaries of the Commonwealth that Jay Cooke did his early work in transportation. He in a small way helped build Pennsylvania's magnificent transportation system, and it was that work which was the foundation for his great ventures in western railroad building.

It was the transportation business which first brought Jay Cooke to the Keystone State. For several years he had pursued the career of a merchant in his home town, Sandusky, Ohio, and in St. Louis, but the panic of 1837 sent him home jobless. The following spring at the age of sixteen, he secured a position as clerk with the Washington Packet and Transportation Company, of Philadelphia, of which his sister's husband, William G. Moorhead, was president. This company was one of the many transportation projects which had recently come into being in Pennsylvania and elsewhere the country over. It had been started by Pennsylvania Democrats, including Senator Porter and several members of the Canal Commission. A large part of the money needed for its establishment had been borrowed from the Bank of the United States of Pennsylvania, then recently chartered by the Commonwealth. Jay Cooke said in his later years that he "always suspected that this money furnished by the Bank was in some way as a recognition of the gratitude the Bank felt for its new charter."<sup>1</sup>

The company carried passengers and freight between Philadelphia and Pittsburgh. The trip consisted of alternate journeys by rail

<sup>1</sup> Jay Cooke's Memoir. The bank made loans to a number of such Pennsylvania projects; see 26th Cong., 2d sess., 1840-41, *Ex. Docs.*, no. 111, p. 155.

and water, a distance of almost 400 miles: by rail from Philadelphia to Columbia on the Susquehanna River; then by canal along the course of the winding Susquehanna and Juniata rivers, through beautiful forest-clad hills; next on the Allegheny Portage Railroad over the Allegheny Mountains; and finally by canal along the rivers to Pittsburgh. From there travelers could get steamboats going daily to points on the Ohio, Mississippi, and Missouri, or they could go by stage to Erie and Cleveland on the Lake.<sup>2</sup>

Jay's duties with the packet company were varied. He kept books, solicited trade, handled the advertising, and served as general assistant. It was a strenuous job—he even came to blows with the boys of a rival concern.<sup>3</sup> Through this work he gained his first introduction to the press. It was a simple beginning. Advertising was then still in its infancy, little realizing the power it was later to hold, while the advertising agency had not been born. Young Cooke's notices in *Poulson's American Daily Advertiser* show that he had, even in that rather primitive stage of advertising, a clear idea of its function. While the advertisements of other packet companies were generally merely trite announcements, as was usual then, the advertisements of the Washington Packet and Transportation Company were sales talks which very effectively emphasized the comfort and speed of the line and gave information about time schedules and rates. This connection with the press developed into a close alliance, which in no small measure accounts for Cooke's great success as an investment banker, and perhaps for his failure as well. Advertising was destined to develop into a colossal servant of trade; it was to broaden the market for a given product or a given concern, but in doing so it was also to broaden the area of competition and heighten its effects. Of its tremendous possibilities, however, Jay Cooke perhaps little dreamed when composing the notices for his transportation line.

These advertisements give an interesting picture of the means of travel at the time, by what was claimed to be expeditious and comfortable carriers, from Philadelphia to the inland water system. The cars, noted the advertisements, left the depot on Broad Street daily at 10 o'clock. Passengers taking this line arrived in Pittsburgh at

<sup>2</sup> *Poulson's American Daily Advertiser*, April 10, 1838.

<sup>3</sup> Told to the writer by Charles D. Barney of Philadelphia. Mr. Barney was Jay Cooke's son-in-law.

least a half day earlier than by any other line leaving the same hour. The cars had eight wheels, "which insure safety, and were built with a view to comfort and convenience." The boats, which were new, were "finished and furnished equal to any in the State," and were "commanded by careful and experienced captains, who pledge themselves to render a passage as pleasant and expeditious as possible."<sup>4</sup> Realizing that "expedition in the delivery of merchandize is particularly desirable at this season of the year," the Washington Packet and Transportation Company advertised in the summer that it would deliver freight at Pittsburgh six days after leaving Philadelphia.<sup>5</sup> To us, who today travel between Philadelphia and Pittsburgh in as many hours, this seems slow. How great an improvement it really was in its time, however, could be realized by those who had traveled that long, rough road from Philadelphia to Pittsburgh in the days when the horse and the river were man's only aids in making the trip.

Bankruptcies were epidemic in the late 'thirties, and Jay lost his position because of the failure of his firm. Late in the summer of 1838 the company failed, apparently because it was unable to compete with better managed and stronger concerns. In the fall, Jay returned home, jobless. But he did not long remain so. In the spring of 1839 he returned to Philadelphia to work for E. W. Clark and Company, a firm on Third Street engaged in the exchange and stock commission business.

Under different business conditions, this new job might have brought Jay Cooke back into transportation. E. W. Clark and his predecessors, S. and M. Allen, had earlier as stock brokers taken a considerable interest in financing transportation projects. But the severe depression which descended upon the country in the late 'thirties and held it in its grip for several years put a quietus on canal and railroad finance for some time. As a clerk of E. W. Clark and Company and later as a partner in the firm, Jay Cooke was, therefore, in those years busy dealing in specie, bank currency, and all those things which were the business of an exchange broker and banker. Only occasionally were there stocks or bonds to be purchased or sold.

In the late 'forties, business began to pick up. Railroad building came to life again. One Pennsylvania project which was revived was

<sup>4</sup> *Poulson's American Daily Advertiser*, April 10, 1838.

<sup>5</sup> *Ibid.*, June 21, 1838.

the Sunbury and Erie, which later became the Philadelphia and Erie. This road had been chartered by Pennsylvania in 1837 with the fond hope that it would help Philadelphia greatly in its competition with New York for the trade of the great inland empire.<sup>6</sup>

The Sunbury and Erie was of particular importance to Jay Cooke though he had very little to do with it, directly. His banking firm took considerable amounts of its bonds. But more important, it would appear, was the fact that Jay Cooke, because of the Clarks' interest in the concern and the fact that his brother-in-law and partner-to-be was one of its construction engineers, here had an excellent opportunity to observe railroad finance at its worst. It may have been because of his observations of such examples of ineffective financing that he came so strongly to emphasize energy and centralization of control and responsibility in selling the loans with which he later came to be connected.

The bright hopes of the Sunbury and Erie had at first been blasted by the depression following the panic of 1837. By the early 'fifties very little progress had been made by the road. But then, like so many other transportation projects, the road began to revive, spurred on by New York's success in securing traffic from the Great Lakes by means of her canal and two railroads, one connecting with Lake Erie at Buffalo and the other at Dunkirk.<sup>7</sup> But to secure funds was difficult. As was then customary with railroads under construction, the Sunbury and Erie owned practically nothing but its right-of-way, and it had to finance construction by selling bonds or, more commonly, by paying for labor and materials in bonds.

The construction engineers of the Sunbury and Erie were at the time William G. and J. B. Moorhead.<sup>8</sup> Since the failure of the Washington Packet and Transportation Company, William G. Moorehead had been constructing canals and railroads, and had also

<sup>6</sup> *Supreme Court in Equity, The Sunbury and Erie Railroad Co., vs. Lewis Cooper* (undated pamphlet published in Philadelphia in the 'fifties), p. 1, Jay Cooke Papers, H. S. P.; *Proceedings of the Citizens of Philadelphia relative to the Railroad to Erie, and of the Convention at Williamsport*, 1836, p. 3-15.

<sup>7</sup> *Report of the Joint Special Committee on the subject of a proposed Subscription by the Councils of the City of Philadelphia to the Capital Stock of the Sunbury and Erie Rail Road Company*, 1853, p. 7.

<sup>8</sup> *Report of the Special Committee of the Common Council in relation to the Sunbury and Erie Railroad*, Philadelphia, Sept. 14, 1854, p. 22.

been United States consul in Valparaiso.<sup>9</sup> J. B. Moorhead was a prominent canal engineer and later became an iron manufacturer. The Moorheads were, in their position as builders, also really financial managers of the Sunbury and Erie. They received stocks and bonds from the road,<sup>10</sup> which they sold or used in buying materials; when unable to dispose of the bonds, they attempted to get loans from Pennsylvania banks using the securities as collateral. In 1854 they applied for such loans from many banks;<sup>11</sup> only the Girard Bank, Drexel and Company, and E. W. Clark and Company would help them.<sup>12</sup> The city of Philadelphia, again appealed to for aid,<sup>13</sup> granted the road a loan in the form of an issue of \$2,000,000 in 6 per cent city bonds redeemable in 1892.<sup>14</sup>

Characteristic of the time was the method used in selling the loan. Morris S. Wickersham of Philadelphia was appointed to negotiate the disposal of a large portion of these bonds, for which he was to receive a traveling allowance and one-half of one per cent commission.<sup>15</sup> He was instructed not to sell below 90 and commission in Philadelphia and 95 in Europe. Unless the latter could be obtained he was to attempt to borrow two or three hundred thousand dollars at not over 6 per cent, for from one to five years, pledging bonds at 80 or 85 as collateral.<sup>16</sup> The loan went slowly but a considerable

<sup>9</sup> *The Biographical Encyclopaedia of Pennsylvania* (Philadelphia, 1874), p. 356-57.

<sup>10</sup> In building a section between Sunbury and Lock Haven the Moorheads received in payment for materials and work 80 per cent in bonds of the road and 20 per cent in stock (*Report of the Special Committee appointed by the Select Council to examine the Sunbury and Erie Railroad*, Philadelphia, Sept. 26, 1854, p. 21). A similar arrangement was made in the agreement of Feb. 16, 1855, between the Moorheads and the president of the road (copy in Jay Cooke Papers, H. S. P.).

<sup>11</sup> There are many letters in the Jay Cooke Papers, H. S. P., for July, 1854, from banks which unequivocally refused them aid.

<sup>12</sup> *Report of the Special Committee of the Common Council in relation to the Sunbury and Erie Railroad*, Philadelphia, Sept. 14, 1854, p. 22-24, 28.

<sup>13</sup> W. G. Moorhead to J. B. Moorhead, Aug. 24, 1854, Jay Cooke Papers, H. S. P.; *Report of the Joint Special Committee on the subject of a proposed Subscription by the Councils of the City of Philadelphia to the Capital Stock of the Sunbury and Erie Railroad Company*, 1853, p. 8.

<sup>14</sup> *Report of the Special Committee of the Common Council in relation to the Sunbury and Erie Railroad*, p. 10-11, 40; statement on the appointment of M. S. Wickersham to sell and negotiate and loan, signed by W. G. and J. B. Moorhead, Sept. 27, 1854, Jay Cooke Papers, H. S. P.

<sup>15</sup> *Ibid.*

<sup>16</sup> Copy of letter of W. G. and J. B. Moorhead to M. S. Wickersham, Sept. 27, 1854, Jay Cooke Papers, H. S. P.

amount eventually was sold, two million in Philadelphia alone.<sup>17</sup> The Clarks of Philadelphia took \$117,000.<sup>18</sup>

The road continued, however, to have financial difficulties. In 1855 it tried to negotiate the sale of six million in mortgage bonds but failed.<sup>19</sup> In 1858 the State of Pennsylvania came to its aid, with the result that the road finally reached Lake Erie.<sup>20</sup> This aid took the form of authorizing the Sunbury and Erie to issue seven million in 5 per cent bonds, giving as security a mortgage on the road's property and franchises,<sup>21</sup> and the exchange of one-half of those bonds for a part of the State's canal system, of which the road could dispose on certain conditions.<sup>22</sup> In 1858 and 1859 Jay Cooke helped finance the Sunbury and Erie by giving them loans on their notes or by endorsing notes for them. He also sold Sunbury and Erie bonds, presumably to pay off the notes.<sup>23</sup> In this way he helped finance the completion of Philadelphia's first railroad to Lake Erie.

His relations with the Sunbury and Erie also brought him into the reorganization of the canals acquired by that road. Pennsylvania's proud system of internal improvements, built at a time when canals were looked upon as effective means whereby to enrichen a city by bringing it trade, was sold by the State in 1857 and 1858. In the former year the State works extending from Philadelphia to Pittsburgh, consisting of the Philadelphia and Columbia and the Allegheny Portage railroads, and the Eastern, Juniata, and Western divisions of the canal, were sold by auction to the Pennsylvania Railroad.<sup>24</sup> In 1858 the remainder of the public works of Pennsylvania was sold to the Sunbury and Erie Railroad for \$3,500,000.<sup>25</sup>

In addition to their work for the Sunbury and Erie, E. W. Clark

<sup>17</sup> Philadelphia *Public Ledger*, Feb. 9, 1858.

<sup>18</sup> *Report of the Special Committee of the Common Council in relation to the Sunbury and Erie Railroad*, 1854, p. 22, 28.

<sup>19</sup> *Public Ledger*, Feb. 9, 1858.

<sup>20</sup> *The Sunbury and Erie Railroad and the State Legislature*, 1860, p. 7.

<sup>21</sup> "Its property, at that time, consisted of forty miles of railroad, extending from Sunbury to Williamsport, on which there was a mortgage of one million of dollars; a right of way from the latter point to Erie, on which at different points some grading had been done, and about one hundred and fifty acres of land in the harbor of Erie, with a water front of 3000 feet" (*loc. cit.*).

<sup>22</sup> *Laws of Pennsylvania*, 1858, p. 414-19.

<sup>23</sup> Jay Cooke's Account Book, Jay Cooke Papers, H. S. P.

<sup>24</sup> *Annual Report of the Board of Canal Commissioners of Pennsylvania*, 1857, p. 6-9.

<sup>25</sup> *Ibid.*; Message of Gov. Pollock to the Legislature, *Penn. Exec. Docs.*, 1858, p. 8.

and Company, during the time Jay Cooke was a partner in the firm, sold securities for a number of other railroads. Between 1854 and 1857 they sold large amounts of bonds for Allegheny County to aid in building the bridge over the Allegheny River for the Pittsburgh and Connellsville Railroad, later the Pittsburgh, Fort Wayne and Chicago.<sup>26</sup> In 1857 they offered \$190,000 of these bonds "secured by a mortgage on the Bridge over the Allegheny River, and the Company's road and ground from Federal street in Allegheny to the grounds of the Pennsylvania Railroad Company, on Liberty street, Pittsburgh—which, when completed, will be worth \$500,000. The value of these Bonds is essentially enhanced by a Sinking Fund provided in the Mortgage."<sup>27</sup>

The Clarks also sold the securities of the Pennsylvania, which by the end of 1854 provided a through line from Philadelphia to Pittsburgh;<sup>28</sup> the Pittsburgh, Fort Wayne, and Chicago, a consolidation of three roads which in 1858 reached from Pittsburgh to Chicago and later became a part of the Pennsylvania Railroad;<sup>29</sup> the Philadelphia and Reading, a road going into the coal region northwest of Philadelphia;<sup>30</sup> the Chartiers Valley in southwestern Pennsylvania;<sup>31</sup> and the Northern Central, a line from Baltimore to Harrisburg, Pennsylvania, and northward.<sup>32</sup>

In 1857 Jay Cooke left the Clark firm. The death of the founder and senior partner of E. W. Clark and Company and the disastrous effect on the various Clark houses of the panic of 1857 led to a reorganization of the partnerships. Jay Cooke did not enter the new firm, choosing to be on "free foot." From then until the organization of his own banking house in 1861, he engaged in the

<sup>26</sup> *North American and U. S. Gazette*, Jan. 16, 1854, and daily, April 21 to August 15, 1857.

<sup>27</sup> *Ibid.*, July 20, 1857.

<sup>28</sup> *Eighth Annual Report of the Pennsylvania Rail Road Company*, 1855, p. 3.

<sup>29</sup> *Ibid.*, 1859, p. 13; *First Report of the Board of Directors of the Pittsburgh, Fort Wayne, and Chicago Rail Road Company*, 1857, p. 5, 14.

<sup>30</sup> Scharf and Westcott, *History of Philadelphia*, III. 2185; B. H. Meyer, *History of Transportation in the United States before 1860* (Washington, 1917), p. 393.

<sup>31</sup> Statement authorizing E. W. Clark and Company to sell Chartiers Valley stock on the Philadelphia Board, signed by J. K. Moorhead, president, dated March, 1857, Jay Cooke Papers, H. S. P.

<sup>32</sup> *First Annual Report of the Northern Central Railroad Company*, 1854, p. 5; Jay Cooke's Memoir.

reorganizing and rebuilding of transportation concerns which had all but been destroyed by the panic.

In doing this work he became in reality a promoter and manager. As has already been noted, the Clarks did not enter into the direction of the enterprises whose stocks they sold; they were bankers of the passive kind who furnished the capital and then considered their work done. In this respect they were representative of their time, for bankers in the United States before 1857 were not often concerned with the management of enterprises whose securities they handled; the rôle of the banker as promoter and manager was of the future. For its coming, however, Jay Cooke was preparing in 1858 to 1861.

His first work had to do with the Pennsylvania canal system. In 1857-1858, as noted above, Pennsylvania's canals were sold to private companies, a part to the Pennsylvania Railroad and the remainder to the Sunbury and Erie.<sup>33</sup> We are interested in the latter. Companies were organized at once to buy the canals from the Sunbury and Erie. The North Branch, West Branch, and the Delaware Division were all purchased by companies in which Jay Cooke was interested and with whose finances he was in some way concerned.<sup>34</sup>

With the Delaware Division Company he was actively associated. Among the eleven incorporators of the Company were Jay Cooke, who took 1,000 shares, the least taken by one individual, and E. W. Clark and Company, bankers for the Sunbury and Erie, who subscribed for 9,000, the largest subscription.<sup>35</sup> Other incorporators were William G. and J. B. Moorhead, construction engineers of the Sunbury and Erie, President E. Marsh of the Morris Canal and Banking Company, Samuel Hepburn of Carlisle, Pennsylvania, and C. H. Fisher of Philadelphia.<sup>36</sup> These incorporators were capitalists, bankers, engineers and iron men, a combination which played an important part in the building of our transportation system.

<sup>33</sup> *Supra*, p. 367.

<sup>34</sup> *Eighth Annual Report of the Board of Managers of the Sunbury and Erie Railroad Co.*, 1859, p. 7. Many letters in the Jay Cooke Papers, H. S. P., testify to his work in canal reorganization. Also records of dealings in the securities of these canal companies in Jay Cooke's Account Book, Jay Cooke Papers, H. S. P.

<sup>35</sup> *Supreme Court in Equity, The Sunbury and Erie Railroad Co. vs. Lewis Cooper*, p. 49-50.

<sup>36</sup> *United States Railroad and Mining Register*, April 23, 1859.

The Delaware Division Company bought the Delaware Division Canal, a canal about sixty miles long running along the Delaware River northwestward from Easton to Bristol.<sup>37</sup> This was purchased from the Sunbury and Erie at private sale for \$1,775,000.<sup>38</sup> Payment was said to have been made in the form of \$1,200,000 in 6 per cent bonds secured by a first mortgage and the balance in cash, stock, and notes with collateral security.<sup>39</sup>

Jay Cooke was for a time president of the Delaware Division Company. He was prominent in the organization and management of the concern. "We . . . issued Stocks & Bonds," said Jay Cooke of the canal projects, "refunded the State [Sunbury and Erie] the price agreed upon & then retired with good round profits."<sup>40</sup> How these "good round profits" were made was suggested by a contemporary railroad journal in speaking of the Delaware Division Company.<sup>41</sup>

The history of this company suggests some grave reflections; the canal was purchased at *private sale* from the Sunbury and Erie Railroad Company, for the sum of \$1,775,000 to which is to be added \$25,000 for confessed commissions paid to persons who managed the negotiations. . . . Parties in the speculation subscribing for the stock received two full shares for one paid for, although the payments were chiefly in promissory notes; and by paying a dividend on the whole capital created, at the rate of eight per cent per annum, and thereby making a market for their shares, these gentlemen quietly pocketed *six hundred thousand dollars* in surplus shares, as the profits of an operation upon State property, and where there was no risk whatever. . . . The Delaware Division Canal is unquestionably a property of great value. It is the most productive and profitable of all the divisions of the Public Works recently owned by the State; and to its present proprietors it is an extraordinary bargain.

Evidently the promoters of this enterprise already knew how to profit by organizing new companies.

Jay Cooke's first direct experience in the management of railroads was gained in the reorganization and rebuilding of an abandoned

<sup>37</sup> Map in *Annual Report of the Railroad Commission of Pennsylvania, 1863; The Daily Express* (Easton), Nov. 24, 1858.

<sup>38</sup> *Eighth Annual Report of the Board of Managers of the Sunbury and Erie Railroad Company, 1859, p. 7; W. H. Talcord to Jay Cooke, July 21, 1858, Jay Cooke Papers, H. S. P.; United States Railroad and Mining Register, Feb. 26, 1859.*

<sup>39</sup> *Ibid.; Supreme Court in Equity, The Sunbury and Erie Railroad Co. vs. Lewis Cooper, p. 52.*

<sup>40</sup> Jay Cooke's Memoir.

<sup>41</sup> *United States Railroad and Mining Register, Feb. 26, 1859.*

road owned jointly by Pennsylvania and Maryland.<sup>42</sup> This road ran from Chambersburg to Hagerstown, a distance of twenty-two miles.<sup>43</sup> The road was of interest to Philadelphia capitalists because it was a link between the Philadelphia and Reading and the Baltimore and Ohio railroads, and as such might attract to Philadelphia trade then going to Baltimore. In 1858 the road was purchased<sup>44</sup> by A. J. Jones, a politician, and James Dull,<sup>45</sup> and a company was formed for rebuilding it. The road's name was changed to the Franklin Railroad. Stock was issued to the amount of \$360,000 in shares of \$50; and \$200,000 in bonds were issued on the property of the road as security.<sup>46</sup>

Jay Cooke and E. W. Clark and Co. undertook to finance the project by selling its bonds, for which they were given a considerable portion of stock.<sup>47</sup> They sold most of the bonds through the banks in the towns along the road, especially Hagerstown, Greencastle, and Chambersburg. Correspondence concerning this business in the Jay Cooke Papers shows that this appeal to local interests—so typical of early railroad financing—was none too popular in the communities concerned.<sup>48</sup> Cooke's unusual sales ability was used to excellent advantage.

He was, also, the financial manager of the Franklin Railroad during its construction. He had charge of the purchase of rails and other iron materials.<sup>49</sup> The construction of the road began in March, 1859,

<sup>42</sup> *Laws of Pennsylvania*, 1858, p. 619 (referring to Act of May 12, 1857).

<sup>43</sup> *Annual Railroad Reports of Pennsylvania*, 1863, p. 73.

<sup>44</sup> *Laws of Pennsylvania*, 1858, p. 619, and 1859, p. 20-22; H. C. Fahnestock to Jay Cooke, July 1, 1859, Jay Cooke Papers, H. S. P.

<sup>45</sup> Jones ran for the position of treasurer of Pennsylvania in 1858. A letter of H. C. Fahnestock, treasurer of the Franklin Railroad, to Jay Cooke, Dec. 7, 1858, Jay Cooke Papers, H. S. P., refers thus to Jones' candidacy: "It is very reasonable to conclude that, with the business connections now growing up between A. J. J. and yourselves, it would be mutually advantageous to assist his election. . . . You may be in a position to influence some of your city members, and if so should go to it at once." Fahnestock suggests that the Moorheads might help Jones in western Pennsylvania.

<sup>46</sup> *Laws of Pennsylvania*, 1859, p. 20-22.

<sup>47</sup> Ellis Paxson Oberholtzer, *Jay Cooke, Financier of the Civil War* (Philadelphia, 1907), I. 100.

<sup>48</sup> A. Armstrong to E. W. Clark and Co., Jan. 14, 1859; James Mason to E. W. Clark and Co., Dec. 31, 1858; and telegram of A. Armstrong and James Mason to E. W. Clark and Co., Jan. 25, 1859; A. B. Wingard to E. W. Clark and Co., Jan. 3, 1859, Jay Cooke Papers, H. S. P.

<sup>49</sup> There are many letters in the Jay Cooke Papers, H. S. P., to Jay Cooke, which deal with the purchase of materials.

and was completed in August, 1860.<sup>50</sup> In his Memoir Jay Cooke refers with considerable pride to the fact that the Franklin railroad was very superior in construction while built at a very low cost—averaging about \$10,000 a mile.<sup>51</sup> On completion, the road was leased to the Cumberland Valley Railroad, which guaranteed its mortgage bonds.<sup>52</sup> It later became a part of the Pennsylvania system.

Though the railroad was a relatively short one, Cooke profited considerably from his contacts with it. There is no evidence which indicates that he made much money from his work with the Franklin.<sup>53</sup> But he gained much experience in railroad building which stood him in good stead in his later connections with western railroads. Moreover, he made contacts with iron manufacturers and bankers, all of which was later to be very useful to him. Of the acquaintances he then made, perhaps most important to Jay Cooke was Harris C. Fahnestock, a young teller in the Bank of Harrisburg who was treasurer of the Franklin Railroad. Fahnestock later became Cooke's partner and worked brilliantly for Jay Cooke and Company in the Washington office during the Civil War and later as head of the New York house.

Cooke's next venture in Pennsylvania railroads had to do with a short road tributary to the Lehigh Valley Railroad in the vicinity of Bethlehem.<sup>54</sup> The Ironton Railroad Company was incorporated in 1859 with a capital stock of \$150,000 and was authorized to borrow to the amount of one-half of the capital stock at not over 8 per cent, to be secured by the real property and franchises of the company.<sup>55</sup> The company purchased iron mines and buildings at Ironton from Tinsley Jeter, contracted with him to construct the road, and leased to him the mine property and the prospective road on the agreement that he pay \$18,000 a year for the mines and road, pay all taxes and

<sup>50</sup> A. J. Jones to Jay Cooke and E. W. Clark and Co., March 11, 1859, and O. N. Lull, construction engineer of the road, to Jay Cooke, Jan. 7, 1862, Jay Cooke Papers, H. S. P.

<sup>51</sup> *Annual Railroad Reports of Pennsylvania*, 1863, p. 73.

<sup>52</sup> *Laws of Pennsylvania*, 1861, p. 539.

<sup>53</sup> O. N. Lull of the Cumberland Railroad to Jay Cooke, Nov. 3, 1860, Jay Cooke Papers, H. S. P.: "None of you, as you say 'have made your fortunes by the Enterprise' we know."

<sup>54</sup> *North American and U. S. Gazette*, July 17, 1860.

<sup>55</sup> *Laws of Pennsylvania*, 1859, p. 739-40.

expenses, and furnish the rolling stock.<sup>56</sup> The purpose of this project was to furnish Jeter transportation and capital needed for exploiting the mine property. Cooke's relations with the Iron-ton consisted wholly in helping to finance its building. He and E. W. Clark and Company took a large portion of the stock at a low cost and furnished three out of five of the road's directors.<sup>57</sup> They also sold the bonds of the road, and Cooke secured temporary loans for Jeter.<sup>58</sup>

Other transportation projects in Pennsylvania appealed to Jay Cooke for aid. One of these was the Chartiers Valley Railroad, of which J. K. Moorhead was president.<sup>59</sup> This road was in western Pennsylvania and was expected to form a section of a through road from Philadelphia to Cincinnati.<sup>60</sup> It later became a part of the Pennsylvania system. Cooke was asked to organize a company to lease and finish the Chartiers in return for preferred stock and mortgage bonds.<sup>61</sup> He did not accept the offer.<sup>62</sup> This episode was important to him chiefly because it brought him into contact with W. Milnor Roberts, a construction engineer who was later to play an important part in Cooke's work for the Northern Pacific.

Unfortunately little information has been uncovered with regard to Jay Cooke's method of financing his relations with these various projects. His banking business in Philadelphia was done largely with E. W. Clark and Company, where he maintained a desk for a few years after he left the firm. He had some capital of his own. He also borrowed from the Farmers' and Mechanics' Bank and from Drexel and Company, giving bonds as security. In 1859-1860 he borrowed heavily of the Bank of Harrisburg and the Bank of Chambersburg of which his friends, Weir and Messersmith, were cashiers. His loans on these banks were both time and call loans for which he gave notes and collateral security. Cooke received the loans mainly in the form

<sup>56</sup> *Report of the Board of Managers of the Iron-ton Railroad Company*, Feb. 11, 1861, p. 1-2.

<sup>57</sup> *Ibid.*

<sup>58</sup> Jay Cooke's Account Book, covering principally 1858-61, Jay Cooke Papers, H. S. P., records the dealings with Jeter.

<sup>59</sup> J. K. Moorhead to Jay Cooke, July 16, 1860, Jay Cooke Papers, H. S. P.; *Reports of the several Railroad Companies of Pennsylvania*, 1862, p. 28.

<sup>60</sup> J. K. Moorhead to Jay Cooke, July 16, 1860, Jay Cooke Papers, H. S. P.

<sup>61</sup> *Ibid.*, April 30, 1859.

<sup>62</sup> The road was reorganized, however, and later came into the hands of Edgar Thomson and the Pennsylvania Railroad.

of marked notes issued to him by the banks; when these notes, after circulating some time, returned to the bank of issue, they were again sent to Cooke or were retired, in which case the bank drew on him through a Philadelphia bank for the principal and interest on the loan. Cooke's loans from these banks were in sums up to \$30,000.<sup>63</sup>

The railroad interests of Jay Cooke were not in those years confined altogether to Pennsylvania railways. In 1859 he traded in bonds of the Steubenville & Indiana Railroad,<sup>64</sup> through which he became acquainted with the Gilliats, English iron manufacturers.<sup>65</sup> In 1858-1860 he became interested in the Southern Pacific, a short railroad in Texas.<sup>66</sup> But the most important of his interests outside of Pennsylvania in those years was the Vermont Central. For several years in the late 'fifties and in 1860, he took an important part in the struggle of this road's bondholders to save something from a property which had been scandalously mismanaged for the benefit of a few.<sup>67</sup> From this struggle he undoubtedly gained valuable insight into the various ways of managing and mismanaging a railroad. A more tangible result was the fact that through his work on this road he became acquainted with J. Gregory Smith and other New England railroad men—associations which later brought him into the Northern Pacific.

In 1861 Cooke's work in transportation finance temporarily ceased. Thereafter he was for about five years engaged almost exclusively in government finance. It is interesting to speculate on what he would have done in the railroad business if he had not gone into

<sup>63</sup> There are scores of letters in Jay Cooke Papers, H. S. P., on these loans from the cashiers, G. R. Messersmith of Chambersburg and J. W. Weir of Harrisburg. The following letter from the Harrisburg bank to Jay Cooke, Nov. 7, 1860, is typical: "John W. Weir will hand you \$30,000 of our notes, and receive from you note and collaterals as proposed. \$1850 of the issue has not come in yet and in lieu I send you our own notes not marked; which *please circulate*. If you scatter them *where the others went* may be they, also, wont come back till 60 days after . . . [illegible]. There is a pretty fair prospect that the originals of these . . . will not soon trouble you."

<sup>64</sup> E. T. H. Gibson to Jay Cooke, Jan. 12 and 17, and July 9, 1859, Jay Cooke Papers, H. S. P.

<sup>65</sup> *Ibid.*, Algernon Gilliat to Jay Cooke, March 8, 1860.

<sup>66</sup> *Ibid.*, J. Fowlkes to Jay Cooke, Dec. 2, 1858, and May 7, 1859; D. C. Wilder to Jay Cooke, Jan. 19 and Nov. 18, 1859; Shreve Tucker to Jay Cooke, Jan. 18 and Feb. 28, 1860.

<sup>67</sup> For the years 1856-1860 there is a considerable correspondence on this affair in the Jay Cooke Papers, H. S. P.

this other field. He might have continued to strengthen his place in the railroad business of his home city and State, as did Anthony J. Drexel. When the government bond business dwindled in the late 'sixties, Cooke returned to his earlier interest. By then the Pennsylvania field had been well ploughed and was held by others. This situation no doubt in part explains why Cooke turned to the Upper Mississippi and the Northwest for business.

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