

## Chapter 14

### The Early Railroad Land Grants

Almost from the beginning of the distribution of the public domain it was the policy of Congress to donate land for local improvements and public use. Thus, in 1796, Congress granted three tracts of land, each a mile square, to Ebenezer Zane, who constructed a road in Ohio—"Zane's Trace"—and who conducted a ferry in the neighborhood of Zanesville. Also, it should be borne in mind that under the early land acts there were reserved for public use or disposal in each township sections for educational and religious purposes. Land was also donated directly to the states for road building. It was not until 1833, however, when the canal and railroad mania was at its height, that a grant on a wholesale scale was made for a public improvement. In that year Congress gave Illinois the right to apply to railroad construction the national land that had previously been granted the state for construction of the Illinois and Michigan canal. Little was it realized then that this act was the beginning of land-jobbing promotion on a tremendous scale, and, though aimed to benefit material progress, it would carry in its wake rampant speculation, townsite jobbing, political corruption, and downright fraud.

During the fever of violent speculation which characterized the period of rapid western settlement from about 1820 to 1837, it was frequently suggested, and even importuned, that internal improvements be fostered by free gifts of public land. There was then a craze for canals and turnpikes, for bridges and railroads. Landholders wanted these in order to enhance the value of their properties. The promoters of the improve-

ments wanted land so that they could reap the profits which would come from rents accruing to higher land values as well as from the income derived directly from the utilities. Thus land was the bait! Land was the quarry!

The use of the public land as a bait to promote economic development was advocated in all sections of the country. No political party was opposed to it and no geographical section complained about it. As early as 1828, Daniel Webster, staunch "Old State" New Englander, advocated in a speech at Faneuil Hall, Boston:

In most of the new States of the West, the United States are yet proprietors of vast bodies of land. Through some of these States and sometimes through these same public lands, the local authorities have prepared to carry expensive canals, for the general benefit of the country. Some of these undertakings have been attended with great expense, and have subjected the States . . . to large debts and heavy taxation. The lands of the United States, being exempted from all taxation, of course bear no part of this burden. Looking at the United States, therefore, as a great land proprietor, essentially benefited by these improvements, I have felt no difficulty in voting for the appropriation of parts of these lands, as a reasonable contribution by the United States to these general objects.<sup>1</sup>

With this reasoning, other statesmen of the time voted to distribute in both modest and in large quantities parts of the national heritage of free land. River improvements, wagon roads, canals, and railroads received cessions of the public domain.

### Early Grants to Railroads

Railroads became the largest beneficiaries of the congressional largesse. After 1840, the railroad rage took precedence over the canal craze. Real estate developments and land booming went hand in hand with railroad construction. Rail highways were promoted in many cases, not with the idea of profiting from their operation, but with the prime motive of increasing town and rural land values. Large landowners of the period were therefore concerned in early railroad projects. Thus,

<sup>1</sup>Daniel Webster, *Works*, Vol. I, p. 169.

soon after the organization of the Baltimore & Ohio Railroad in 1823, a group of capitalists, some of whom were promoters of the project, formed the Canton Company in Baltimore. They acquired a large tract of land near the city that could be served by the railroad. They expected the value of this land to increase greatly because of both access to the railroad and the harbor. Although the Canton Company and the railroad company remained separate corporations for over a century, their interests coincided. It was not until 1930 that the Canton Company came under the control of the Pennsylvania Railroad, but not without protest of the rival carrier, the Baltimore & Ohio Railroad.

The right of railroads to hold and dispose of real estate was regarded as a special advantage by early railroad promoters. The original prospectus of the Mt. Carmel and New Albany Railroad of Indiana in 1838 took note of this: "Were the Company to purchase a million acres of land adjacent to the work, *the increase alone* in the price of the lands so purchased would, before the work is half completed, pay for the entire construction of the work. The bare location of the route would triple the price of every acre of land within two miles of it. All that is wanted is capital to invest in lands, and go on with the work for a short time without being compelled to make sale of them."<sup>2</sup>

In the same belief, individuals and corporations eagerly granted rights of way over their properties to railroads in order to enhance the value of the portions they retained. Donations of lands, both public and private, to transportation companies as a speculation thus became an established policy. Overbuilding of railroads and canal facilities was a logical result. Waste of capital and political logrolling were evils that accompanied the nation's material progress.

#### Illinois Central Railroad—The First Large Railroad Land Grant

Although Congress had previously granted lands to corporations and individuals for the purpose of creating and maintaining public utilities of various kinds, the first substantial grant for a railroad enterprise was not made until 1850. In that year the Illinois Central Railroad was or-

<sup>2</sup>See Cleveland and Powell, *Railroad Promotion*, p. 199.

ganized. As early as 1836, however, Congress was petitioned for a land grant for a similar enterprise.<sup>3</sup> A similar measure was advocated by Senator Sidney Breese in 1844. He desired to secure for the proposed Great Western Railroad of Illinois the right of pre-emption of public land along its lines. This meant that the railroad would pay the government price for the land, if it were acquired, but of course the lands would be paid for only as they were sold at an advance above the government price. Hence it is quite evident that early railroad building in the West was closely interlaced with land speculation.

Congress had already made a gift of public land to Illinois in 1827, in aid of the construction of a canal between Chicago and the Illinois River in order to create a "Great Lakes to Gulf Waterway." This project and the land donation engendered a fever of land speculation in the region around Chicago. Before the route of the canal was even marked out, lands supposedly adjacent to it increased rapidly in value. William B. Ogden, who, as already noted, previously went to Chicago in the interests of the American Land Company, wrote on May 3, 1836, that he purchased nearly two thousand acres along the canal at five dollars per acre. "It is considered a good investment at \$10," he stated, "for it would not be only on the canal, but near the flourishing town of Joliet." In Chicago, "canal lots" brought ridiculously high prices, but most of the sales were canceled because of defaults in payment following the financial crash in May 1837.

As the canal was slow in building and costly, and as railroads were demonstrating their superiority over other means of transportation, Illinois sought to apply the canal land grant to construction of a railroad. Though Congress consented to this diversion in 1833, the grant was not used because of the curb on internal improvements caused by the 1837 Panic and the bankrupt condition of the Illinois State Treasury. However, in 1836 one Darius B. Holbrook, an Illinois town-jobber who was interested in promoting Cairo City, obtained a charter for the Illinois Central Railroad Company. He petitioned Congress for a land grant under a new Illinois charter. He was opposed in the Senate by Stephen

<sup>3</sup>See *American State Papers*, "Public Lands," Vol. VIII, p. 593.

Douglas, then senator from Illinois, on the ground that Holbrook's railroad was "a stupendous private speculation to enable the Cairo Company to sell their chartered privileges in England."

Douglas offered a substitute plan. He proposed a land grant directly to the state of Illinois, to be used in aid of private railroad construction. This bill was enacted by Congress on September 20, 1850. It did not convey a definite acreage. It granted alternate sections of land (each one mile square), extending six miles on both sides of a railroad to be built as part of a rail line between Mobile, Alabama, and the city of Chicago. Because only alternate sections were granted, speculators could not obtain directly from the railroad company large contiguous tracts. Moreover, if the railroad's lands rose in value, the government's sections would rise proportionately. Thus the government might participate equally with the railroad in the profits obtained from the land grants. This pattern, designed primarily to block monopolization of land along the railroad, was continued in all subsequent grants.

Capitalists were attracted by the possibility of enriching themselves through control of the land grant that promised such swift appreciation in value as virtually to provide the cost of building the Illinois Central Railroad. A group of wealthy New York and Boston bankers, brokers and railroad men, mostly Whigs, induced Robert Rantoul, Democratic senator from Massachusetts, to present their request for the grant and a charter to the predominately Democratic legislature of Illinois. Success came to Rantoul's efforts; the land grant and charter were secured.<sup>4</sup> To attract attention to the lands, Rantoul wrote a typical real estate advertisement of the time entitled *Letter on the Value of Public Lands in Illinois*, in which he spoke enthusiastically of the worth of the lands to the railroad project and predicted that the Illinois Central lands would in ten years rise to from \$10 to \$12 an acre.

He was not wrong. In scarcely ten years thereafter the Illinois Central Railroad announced that it had 1,100,000 acres, less than one half of the original grant, still for sale at \$5.00 to \$25 per acre. Meantime,

<sup>4</sup>Paul W. Gates, *The Illinois Central Railroad and Its Colonization Work*, pp. 44 ff.

the government-reserved sections had been quickly snatched up, mostly by speculators.

It can be readily assumed that the early speculative interest created in the Illinois Central Railroad was based upon its land grant. An English capitalist, reporting on the company in 1856, wrote: "This is not a railroad company, it is a land company." Anthony Trollope, the English novelist, who visited the United States during the Civil War, made a similar remark: "Railroad Companies," he wrote, "were in fact companies combined for the purchase of land. They purchased land, looking to increase the value of it five fold by the opening of the railroad . . . it is in this way that the thousands of miles of railroads in America have been opened."<sup>5</sup>

The main activity of the Illinois Central promoters in the early period was to sell lands. They advertised them extensively in alluring pamphlets both at home and abroad. Moreover, the company was enabled to obtain cash by mortgaging its lands (though of course it had legal title only to such sections along which its lines were already constructed). A large part of the land profit was expected to come from the sale of lots in towns of its own creation. A station was established every ten miles and the surrounding plots divided into lots which were offered at various prices according to the prospects of the location. Town-jobbing and railroad building thus went hand in hand.

Altogether, the Illinois Central Railroad Company received about 2,600,000 acres. In less than twenty years after obtaining the grant, only about 450,000 acres were unsold. A complaint was made to Congress in 1870 that the company was then "holding its land for advance in prices, instead of offering them to settlers."

The records of the General Land Office in Illinois show heavy sales along the line of the railroad to large and influential speculators at the minimum price of \$2.50 per acre or slightly above it for the alternate sections. Stephen A. Douglas, John Wentworth, John S. Wright, and other prominent names appear among purchasers. Not only did politicians and land boosters buy land along the railroad, but they sought

<sup>5</sup>See William K. Ackerman, *Early Illinois Railroads*, p. 75, and Anthony Trollope, *North America*, Vol. I, p. 143.

to influence the location of the route. Jesse Fell of Bloomington, Illinois, a large western land-jobber, was instrumental in getting the Illinois Central to Clinton, Decatur, Bloomington, and other towns in which he held real estate. All this fostered political "wire pulling and corruption."

The land grant to the Illinois Central led to a host of similar projects. Congress was swamped with petitions. Every townsite promoter or landed nabob put in applications. The western congressmen, in whose states were vast stretches of public domain, were kept busy backing up the claims of their constituencies for federal aid in railroad promotion. In these activities, corruption, bribery, logrolling, and other questionable political practices flourished.

Horace Greeley, whose slogan "Go West, young man," placed him among the friends of the pioneer settlers, could see no need of "hiring or bribing capitalists to construct railroads." He advocated limited land "ownership" as an antidote to land speculation, and he even hinted his approbation of "squatter's rights." "The mischiefs already entailed on the Industry and Business of country by Land Speculation," he wrote in his paper, the *New York Tribune*, "are incalculable. . . . Only those who have seen much, reflected much, have any full idea of them. Wherever, upon a natural harbor, a bay, a head of navigation, or a waterfall, a village begins or promises to spring up, there, the speculator or his agent is early on hand, and pounces on the unoccupied land within a circuit of a mile or two. This he holds back for a price treble to sixty-fold that he paid for it."<sup>6</sup> By releasing capital tied up in vast tracts of unproductive land held by speculators, there would be money enough, Greeley thought, to construct railroads without the aid of land grants.

Greeley made a tour of the West in 1847 and while there discovered the heavy traffic in military land warrants. The warrants were bought up in great wads, in both the East and the West, and the owners converted them into large tracts of vacant land of their own selection. They needed settlers to make the lands valuable, but settlers now followed railroads and canals instead of going ahead of them. Hence the numer-

<sup>6</sup>July 17, 1847.

ous railroad projects. Maps in emigrant guides to the western states published in this period show veritable networks of "projected railroads," most of which were never even surveyed. All the "projectors," however, had in mind possible land grants as a means of putting their plans over. "By stimulating the building of roads, where they are not wanted, and where the leading cause for building them is the gift of public lands, we shall throw such discredit (when the breakdown comes) on our western roads, that the building of useful roads will be retarded or indefinitely postponed." Thus wrote John Murray Forbes to Charles Summer on February 14, 1853. Forbes was then engaged in the construction of the Burlington Railroad, which was seeking a land grant for its line in Iowa.<sup>7</sup>

### Summary

Sober-minded statesmen realized that railroad operation in the sparsely settled areas of the Great West was not a profitable business proposition. It was different from the transportation situation in the East. Here population centers were already sufficiently large and prosperous to furnish traffic immediately. But in the new states, still in the process of pushing back the Indians and in preparing the soil for human sustenance, rail traffic had to be developed. This required a comparatively long period. Under the circumstances, the prospects of dividends on capital invested in western railroads were remote.

It was therefore not from choice but rather from necessity that the railroads were proffered lands amounting in extent, in some cases, to empires or principalities as a reward or a bait for their construction. On the whole, prospective profits of operating railroads in most sections of the country had little influence in inducing capital investment in these enterprises. The opportunities for making money in land speculation, in townsite projects, in construction contracts and numerous other schemes were more generally the lure than operating legitimate transportation facilities. In some cases, as, for instance, in the Illinois Cen-

<sup>7</sup>See Henry G. Pearson, *An American Railroad Builder*, p. 189. See also Richard C. Overton, *Burlington West. A Colonization History of the Burlington Railroad*, pp. 31 ff.



tral, the proprietors of the railroad could have donated the entire original cost of construction and still have realized a capital gain from their land sales. The Illinois Central is reported to have cleared about \$25,000,000 from the disposal of its domain. Its success, however, is exceptional. The largest and most richly endowed land-grant railroads were less fortunate. The Union Pacific and Northern Pacific, for example, fell into receivership before they reaped the reward of their land grant. The land-grabbing activities connected with these gigantic ventures will be next considered.