

The Transcontinental Land Grants

Following the Illinois Central land grant in 1850, a number of similar grants were made to encourage the construction of railroads and canals in the Middle West. It was not until the Civil War, however, that Congress finally enacted the Pacific Railroad Act, which for almost two decades was planned and debated in its halls. As early as 1843, Asa Whitney, a New York merchant, published a pamphlet in which he urged the construction of a railroad to the Pacific, to be aided and supported by a grant of public land. The matter was considered seriously by Congress and the nation at large. But the bickering of sectional interests as to the most desirable route prevented Congress from taking action. In 1853, Jefferson Davis, as Secretary of War, sent out parties to make surveys of the most feasible routes, but no agreement could be reached as to which should be chosen.

In the meantime, land speculators and prospectors gambled on the anticipated route. It was not until the secession of the southern states in 1861 that the so-called central route was selected by Congress to connect with the Central Pacific Railroad of California, which began construction at San Francisco under a land grant, the Puget Sound terminus being abandoned. The eastern end of the railroad was to be "on the hundredth meridian of longitude, west from Greenwich, between the South margin of the Republican River, and the North margin of the valley of the Platte River at a point to be fixed by the President of the United States."

The railroad was to have free right of way over government domain

and, in addition, *was to be given ten miles on each side in alternate sections*. All this made an aggregate acreage of about 12,000,000 acres—a vast inland empire, the like of which had never before been known to be held in single private ownership.

But this was not all. The government was to furnish a construction loan in 6-per-cent 30-year bonds at the rate of \$16,000 per mile of road through the prairies, \$48,000 per mile over the Rockies, and \$32,000 per mile between the Rockies and the Sierras, not to exceed, however, a total of \$50,000,000.

This apparently liberal donation brought out opposition and cries of land-grabbing. But these protests went unheeded and the landless Atlantic states joined with the "land-poor" West in favoring the project. "I give no grudging vote in giving away either money or land," exclaimed the Massachusetts senator, Henry Wilson. "I would sink \$100,000,000 to build the road and do it most cheerfully, and think I had done a great thing for my country. What are \$75,000,000 or a \$100,000,000 in opening a railroad across regions of this continent that shall connect the people of the Atlantic and the Pacific, and bind us together? . . . Nothing! As to the lands, I don't begrudge them."

Possibly the senator was right. Twelve million acres was an ocean of territory that would require decades to fill with people. The land was offered by the railroad promoters at from \$2.00 to \$10 per acre and sold in 40-acre tracts upward, with liberal terms of credit. A vast influx of population would have been required to settle them during the period of construction. Moreover, the Homestead Act of 1862 made it possible to acquire land free of cost, and this competition was a serious handicap to the railroad company in disposing of its vast domain.

But it was not the vast tract of vacant land that attracted speculators. Mere acreage is not what the railroad promoters most desired. *It was the favored townsites, terminals, and way stations that were the objects of pecuniary exploitation*. This is borne out by the town-lot speculation of some of the original proprietors of the Union Pacific Company, the company organized to take over the Pacific railroad project. One of these was the notorious George Francis Train, who formed a company chartered in Nebraska which he called the Crédit Foncier of America.

This is not to be confused with the *Crédit Mobilier of America*, which also received its name from Train. The latter company undertook the construction of the railroad for the Union Pacific Company. Train endeavored to exploit real estate in Omaha—the eastern terminus of the railroad—and in Columbus, Nebraska, but with apparently little success.

There was hardly a location in any way suitable as a station or a junction point on the proposed rail line that did not develop into a “mushroom city” because of the activity of land speculators.¹ The same may be said of the route of the Central Pacific in California, which had received a similar grant of land in aid of construction. The Southern Pacific, another transcontinental rail project, also came in for a handsome land bounty, and its promoters also became deeply concerned in townsite and terminal land-jobbing.² And it was thus with the Northern Pacific project, the story of which we are about to tell.

The Northern Pacific Railroad

A final transcontinental railroad project to which Congress made liberal land grants and which became a football of land speculation was the Northern Pacific Railroad. This road was given twenty sections of land in the states and forty sections in the territories for each mile of main line, together with a four-hundred-foot-wide right of way through the government lands. It was to follow the northern route extending from Lake Superior to Puget Sound. The promoters had the statutory assurance that patents to the contiguous land would be issued as each twenty-five miles were constructed, and that the even-numbered sections retained by the government would not be sold for less than \$2.50 per acre. Altogether, the total grant was to be for about 47,000,000 acres.

This free donation of a landed domain larger than all New England attracted at the time little attention, and the act of Congress creating

¹For some details regarding this, see Sabine, *The Building of the Pacific Railroad*, *passim*.

²See Stuart Daggett, *Chapters on the History of the Southern Pacific*.

it passed without much opposition. "It was a faulty measure," wrote John Sherman in his memoirs, "making excessive grants of public lands. . . . It was an act of incorporation, with broad and general powers, carelessly defined, and with scarcely any safeguards to protect the government and its lavish grant of land. Some few amendments were made, but mostly in the interest of the corporation, and the bill finally passed the Senate without any vote by yeas and nays."³

Despite the lavish land grant and strenuous efforts at financing, the company found that it was quite unable to obtain the \$100,000,000 required for the road's construction. There was a time limit placed on the period of construction, and they were forced repeatedly to petition Congress for an extension. British capitalists refused to become interested in the project. But rescue came from the then most prominent banker in America, Jay Cooke of Philadelphia. Cooke, "The Financier of the Civil War," had already become financially interested in the Lake Superior and Mississippi Railroad, which was to extend from St. Paul, Minnesota, in a northerly direction to Duluth. This railroad also had a congressional grant of about 1,500,000 acres, mostly timber land. Believing this timber to be a valuable asset of growing value, Cooke extended his landholdings in the region. He was impressed by the commercial advantages of the city of Duluth—"The Zenith City of the Unsalted Seas." This site, he said, must "become an important point as the terminus of the road," and though he admitted it "may not equal Chicago, there must be a large town there within a few years after the road shall be in operation."⁴ On the basis of this belief, Cooke, in addition to financing the Lake Superior and Mississippi Railroad, promoted the Western Land Association of Minnesota, a concern similar to that proposed by George Francis Train along the line of the Union Pacific, the object of which was to exploit real estate values in towns along the route.

In extending his land speculations, the next logical step of Cooke was to acquire an interest in the projected Northern Pacific Railroad. He

³*Forty Years in the House, Senate and Cabinet*, Vol. I, p. 335.

⁴Ellis Paxson Oberholzer, *Jay Cooke, Financier of the Civil War*, Vol. II, p. 105.

admitted that it was a big proposition. But in May 1869 he reported he "had practically determined to take hold of it." However, on the advice of his partners, he first would have an expert survey the route and the engineering problems involved. The country through which the railroad was to traverse was described by General Sherman "as bad as God ever made or anybody can scare up this side of Africa." The engineers, however, gave favorable reports. The chief engineer, Milnor M. Roberts, stated that "the immense landed property of the company as a body in connection with valuable town sites and water powers will ultimately be worth more than the entire cost of the railroad." And Henry Cooke, Jay's brother and partner, insisted that, "if successful, the financing of the Northern Pacific would be the grandest achievement of our lives."

So in this way Jay Cooke and Company, the leading banking house in America, became identified with the Northern Pacific.

However, before entering the project, Jay Cooke and Company made the following stipulation: "A company shall be organized for the purpose of purchasing lands, improvement of town sites, and other purposes, and the same shall be divided in the same proportion; that is, the original interests shall have one-half and Jay Cooke and Company shall have one-half."

Jay Cooke formed a "pool," in which notables of the time were offered participation, to raise \$5,600,000 for financing the project, of which \$5,000,000 was represented by bonds and \$600,000 by capital stock. With this modest beginning he proceeded to advertise the securities of the Northern Pacific Railroad at home and abroad through pamphlets, circulars, and other means. He gave prominence to the company's land grant, and in a map traced the route of the line encased in its accompanying land. This resembled the shape of a banana, and thus the Northern Pacific came to be known popularly as "Jay Cooke's Banana Belt."

Despite the stupendous efforts put forth to attract investors, which were similar to the methods used by Cooke when he was the selling agent for United States Government bonds, the project was doomed to an initial failure. His firm was forced into bankruptcy on September 18,

1873—and this brought on the financial panic of that year. Not long thereafter, the Northern Pacific Railroad also became bankrupt. However, the land company which Cooke organized in connection with the railroad remained intact, even during the period of the Northern Pacific receivership, which extended into 1875. Its capital stock was acquired by the successor corporation of the Northern Pacific, and its affairs were not wound up until 1891.

The Origin of the "Bonanza Farms"

The Northern Pacific Railroad, before its bankruptcy in 1873, had issued and sold through Cooke's efforts mortgage bonds, which gave the holders the right to convert their holdings at any time into the land of the company at the rate of \$2.50 per acre at 110 per cent of face value of the bonds. Few took advantage of this privilege until after the financial collapse. It was then that Jay Cooke openly advised the bondholders to make the exchange as a way out of a bad situation. He had more faith in the future value of the lands than in the profitableness of the railroad.

Several large holders of the Northern Pacific bonds, feeling that it was better to own wastelands than to have a doubtful equity in a partially completed and visionary railroad, engrossed large tracts in the Red River Valley, North Dakota, by converting their bonds. Here the virgin soil was in a condition for cultivation without clearing, and homesteaders had demonstrated that wheat could be grown in this section. Several of these former Northern Pacific bondholders began to grow wheat on a large scale, under absentee ownership, and their properties became known as "bonanza farms." Some of these individual farms had acreages of ten miles square. William Dalrymple, a pioneer bonanza-farm manager, during the years 1876 to 1879 reported yields on his lands of more than twenty bushels of wheat to the acre. At this time, wheat prices were high and Dalrymple estimated net profits of from ten to twelve dollars per acre per annum. The land exchanged for bonds at the depreciated value of the bonds could be purchased during the railroad's receivership at around fifty cents per acre.

Among the owners of the bonanza farms who also were officers of or large investors in the Northern Pacific were General George W. Cass

and B. P. Cheney. These, along with others, obtained additional sections by purchase from homesteaders. They employed managers to work the farms and are said to have recovered their losses in the railroad project in a short time. Corporations also engrossed the lands by buying up the Northern Pacific bonds. The American and Sharon Land Company, the Baldwin Corporation, and other concerns consolidated large tracts and worked them as a unit. Thirteen large farm holdings in Minnesota and Dakota at this time included 174,000 acres, or an average of more than 13,000 acres per farm. Gradually it became profitable for the owners to divide up and sell off their large acreages. In this way most of the bonanza farms during the period from 1875 to 1900 disappeared.

During the era the bonanza farms flourished they were not popular economically or politically, and there were public utterances of discontent regarding their operations. William Godwin Moody, a radical writer of the period, thus stated his objections to them in 1880.

The owners of these large tracts have bonanzas, yielding great profits, not one dollar of which is expended in beautifying and permanently improving their vast estates, beyond that necessary for the care of the stock and tools, nor in sustaining a permanent population. Their homes, their pleasures, their family ties, are not upon their farms. Their wealth is flaunted in the gaieties and dissipations, or expended in building and developing some distant city or country. But the owner and cultivator of the small farm in its neighborhood, upon which he has planted his root, and around which are gathered all his hopes and ambitions, finds it impossible to pay his taxes, clothe and educate, or find any comfort for his wife and little ones. The case of the small farmer is steadily going from bad to worse. The two can not exist together; the small farmer can not successfully compete with his gigantic neighbor under present conditions. He will inevitably be swallowed up. It is at best but a question of time.

Thus are vast areas, in the very heart of our country, barred and closed to the occupation and ownership of our people in small tracts, and the making of homes for a strong and thrifty population, but are made centers of weakness that are sure, soon or late, under present tendencies, to spread over the whole land.⁵

⁵*Land and Labor in the United States*, pp. 58-59. Also see James B. Hedges, *Henry Villard and the Railways of the Northwest*.

When the Northern Pacific Railway was reorganized in 1875, it re-acquired most of the magnificent grant which had been conditionally conveyed to its predecessor. The machinery of land colonization, which had been interrupted by the failure of Jay Cooke and Company and the subsequent Panic of 1873, was again put in motion. The energetic land-selling campaigns which had been inaugurated by Cooke's agents at home and abroad were intensified. A rush of population into the region followed. Lands in Minnesota and North Dakota rose rapidly in value. The railroad sold land not only to settlers, but also to speculators. In numerous instances, accordingly, the condition requiring purchasers to cultivate a certain portion of the land was omitted from the sales contract or was disregarded. The Weyerhaeusers bought immense tracts to preserve for timbering. In this way they became the timber kings of America.⁶

Others bought tracts with a view to holding them for later development and rise in value or for town-jobbing purposes. The eagerness and necessity of the railroad company to realize cash from its patented lands in order to prosecute construction work as far as Puget Sound led to its making sales to these speculators, who retarded immigration and settlement and later became serious competitors of the railroad company when it undertook to dispose of its lands at advanced prices. However, the company continued with its colonizing and land-jobbing activities. In 1882 it had 831 active local land agents in the United States and Europe.⁷

The vigorous land-disposal policy of the Northern Pacific was fruitful in its results. The company reported to the Interstate Commerce Commission in 1917 that gross receipts from land sales amounted to \$136,118,533, and it still retained a large acreage. The total cost of originally constructing the road was estimated at \$100,000,000.⁸ Accordingly, the prediction of Milnor Roberts, Jay Cooke's engineer, was

⁶See Chap. XVIII.

⁷For a history of the Northern Pacific land-selling activities see James B. Hedges, "Colonization Work of the Northern Pacific Railroad," *Mississippi Valley Historical Review*, Vol. XIII, pp. 311 ff.

⁸See *Hearings of the Joint Congressional Committee on the Investigation of the Northern Pacific Land Grants*, March 18, 1925, p. 2020. The gross proceeds received from the sale of donated lands of the Northern Pacific were \$138,483,626, in 1927. The expenses of administering, sale and taxes, were \$37,555,498.

correct. The immense landed property of this company would be ultimately worth more than the entire cost of construction.

But this is stating it mildly! The receipts reported by the railroad company from its land sales constitute only a part—and probably a minor part—of its gains from its donated domain. The “land” and the “improvement companies” created as subsidiaries of the railroad and owned by it also made vast profits, which trickled into the coffers of the company or of its stockholders. These subsidiary companies, consisting of land, mining, and other concerns, have constituted the mysterious “hidden assets” of the Northern Pacific Railroad Company, by means of which its shares have been boosted from time to time by stock manipulators.

The Northwestern Improvement Company has been an important landholding subsidiary of the Northern Pacific. What business this company is engaged in, or what it owns, has been largely withheld from the public. Its operations, however, have been profitable. In 1908 it declared a dividend from accrued earnings, equal to 11.26 per cent on the capital stock of the railroad company. In some years the Northwestern Improvement Company paid as much as \$5,000,000 into the railroad company's treasury.

Summary

Altogether, it is estimated by Marion Clawson, a director of the Bureau of Land Management (formerly the General Land Office), that about 91,000,000 acres, or 8.8 per cent of the public-domain disposal, constituted land granted to railroad corporations. Another 40,000,000 acres were granted directly to the states in aid of public improvements. The question arises: Was this a proper, necessary, and beneficial policy? There may be arguments for and against it. Certainly it should be admitted that a rapid extension of the railroad system, particularly in the sparsely settled West, could not have been undertaken profitably by private enterprise. Some public assistance was necessary to connect the

This left a net balance from the lands of \$100,928,128, or sufficient to cover the original cost of building the railroad. In addition, there were still in the possession of the Northern Pacific 6,249,339 acres. Federal Coordinator of Transportation, *Public Aids to Transportation*, Vol. II, part I, “Aids to Railroads,” p. 111.

distant reaches of the Republic. But the question also arises, as it has in the past: Was the method employed—the give-away in fee simple (i.e., complete and absolute ownership) of vast stretches of the people's heritage—the proper and most equitable and socially desirable method to obtain the objective? Could not a more moderate and less spectacular plan of financial aid have been devised? It should be borne in mind, as pointed out by Mr. Clawson, that one consequence of the various land grants was to reduce materially the area of land open to homesteading, and hence to diminish considerably the importance of homesteading as a method of parceling out the national heritage of land among the nation's inhabitants. The residence requirements and the acreage limitation to individual purchasers did not apply to the land grants, so the homesteading principle adopted in 1862 was seriously weakened in this way. Moreover, the door was opened to land monopolization through these generous and unrestricted grants, and thus the policy early adopted by the nation's leaders in favor of wide distribution of landownership had been, to a great extent, nullified. As indicated in the foregoing pages, large grants of land to single interests is the easiest way to encourage land engrossment. Many of the large landowning interests today have had their origins in the railroad land grants.⁹

⁹Clawson, *op. cit.*, p. 75.

William Godwin Moody, already referred to in the text, writing in the early 1880s on the railroad land-grant policy, p. 117, stated:

"It would have been far better for the people and for the government, that the whole body of the lands within the railroad grants, had been donated on the homestead conditions. At the first suggestion such a proposition might be deemed extravagant. But a little reflection will quickly show that it is by no means as objectionable as the grants that have been made. In the first place, under the homestead provisions, the railroad companies could not have created and fostered vast monopolies of the lands, nor have peopled the public domain with aliens; neither could they have wholesaled the people's heritage to alien capitalists, for speculation and colonization. The lands would still have been held for homes for our own people and the naturalized citizen. The system of tenant farming, now so prevalent, would not have received the unnatural development that has marked its growth in the last twenty years, and the railroad companies would not have raked Europe for aliens to occupy the people's lands. But the railroad companies, under the grants as they now stand, do all these things that are not possible under the homestead provisions, and extort from the people a far greater amount, in their speculative operations, than they would receive from the whole body of the lands when disposed of under the homestead provision."