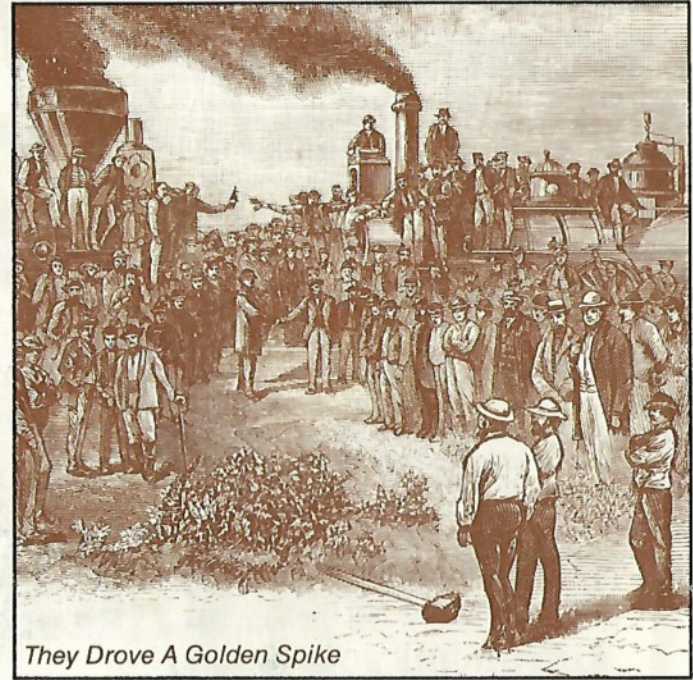


Railroad Land Grants

A SHARP DEAL FOR UNCLE SAM



They Drove A Golden Spike

FANTASY VS. FACT

Like Marley's ghost, the century-old issue of land grants keeps coming back to haunt America's railroads.

It is draped upon the railroad industry to justify all inequities—past, present and future—even though:

- More than 92 percent of the railroad mileage in the United States was built entirely by private enterprise—without benefit of federal land grants.
- The primary purpose of the grants—limited to a few trail-blazing railroads—was not to help those railroads, but to open up a vast new area, mostly west of the Mississippi, for settlement and development.
- The grants were not "gifts," but part of a business transaction that ultimately resulted in the railroads' repaying the government more than 10 times the value of the lands received.

Railroads were neither the first—nor the last—to receive land grants. Developers of wagon roads and canals received 10,007,687 acres, and thousands of individual farmers later were given up to 640 acres each in the form of homesteads.

The railroads received a total of 131,250,534 acres—specifically for the purpose of providing them with the necessary security for borrowing the money needed to finance construction.



PURPOSE OF THE GRANTS

The railroads that received land grants were not established business concerns. They were fledgling companies needing help from the government if they were to get on with the job a young nation needed done.

In 1850, when the first railroad land grant was made, there were vast areas of public domain amounting to nearly 1.4 billion acres.

Congressional debate on the first land grant act made clear its objective.

Senator William R. King, afterward Vice President, said that, "unless some mode of the kind proposed be adopted, it [the unsettled land] will never command ten cents."

Senator William H. Seward, who later became Secretary of State, added: "The best and highest interests of the people of the United States . . . is to bring them [the lands] into cultivation and settlement in the shortest space of time and under the most favorable auspices."

OBJECTIVE ACHIEVED

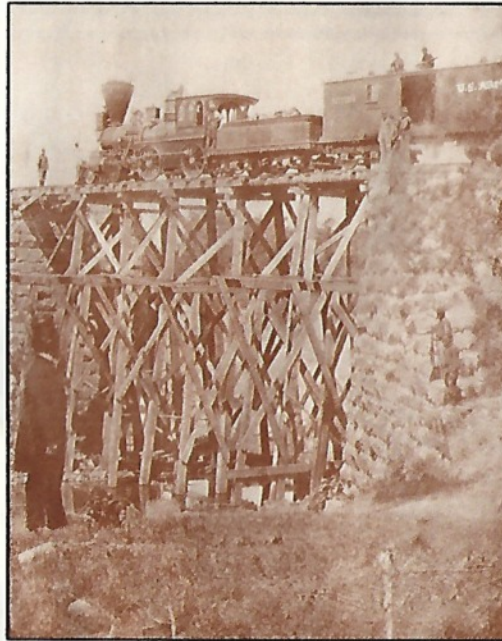
The railroad land grants accomplished the objective set for them—and more.

Two and a half centuries after the first permanent settlement on the Atlantic Seaboard, large areas west of the Mississippi River were vacant or sparsely settled.

But within less than one generation after the first railroad land grant, railroads—both with and without the aid of grants—touched off and made possible the great surge of development that transformed the West from a wilderness into a burgeoning community.

Land grants made it possible to do what never had been done before: provide transportation AHEAD of settlement.

This is what the land grants were intended to do—and did.



Railroads benefited from them, of course. But the greatest beneficiaries were the people and government of the United States.

Under the first land grant act—involving areas in Illinois, Mississippi and Alabama—railroads received alternate sections of land on either side of the proposed rail routes. Title to the remaining alternate sections was retained by the federal government. Later acts, involving lands located west of the Mississippi River, followed a similar pattern.

Prior to 1850, the government offered land for sale at \$1.25 an acre. There were few takers. When the first legislation was passed, the government immediately advanced the price of its retained lands to \$2.50 an acre, or double the former price. And, with a railroad assured, the land was eagerly bought up by settlers.

Thus, the government employed the eminently sound business practice of using part of its domain to give value to the vastly more immense whole.



This map, originally drawn to show the extreme outer limits of areas within which some land might be granted to railroads, is frequently reproduced in American history texts with captions describing it as showing lands actually granted—thereby exaggerating by approximately four times the area received by railroads.



The federal government granted lands to railroads in alternate sections, retaining the sections between. It is impossible to present this "checkerboard" pattern on so small a map, but the shaded areas show the approximate locations of the land grants, and are in proportion to the amounts actually received by railroads.

WHOLE NATION GAINED

The land grants—and the railroads they fostered—made a great contribution, not only to the West, but to all of America. Here are a few important—often overlooked—benefits:

- The railroads thus built converted vast areas yielding no tax revenues into taxable properties for the benefit of states through which they passed and of the municipalities which sprang up along them.
- As title was cleared to property serving as security for loans, much of this land was sold—usually at bargain prices—to stimulate development which would help generate business for the wilderness railroads. On land the railroads retained, taxes—often at discriminatory rates—have been paid for a century or more.
- The transportation system that came into being during the land grant era remains

the most efficient and economical ever developed and continues to give impetus to agricultural and industrial development.

- And, most important of all, perhaps, the grants that made transcontinental rail service feasible helped unite the country at a critical point. A page of our history that few have forgotten tells of the driving of the Golden Spike at Promontory, Utah, on May 10, 1869, completing the link between East and West.

HOW RAILROADS PAID

Railroads were not given the land grants. They were made to pay—and pay—for them.

Railroads receiving land were required to haul government freight and personnel at reduced rates averaging 50 percent. Mail was hauled at a 20 percent reduction.

Under “equalization acts” later passed by Congress, these requirements were extended

to all railroads handling government business—even those that got no land.

When the reduced rate requirements were finally repealed by Congress in 1945, a Congressional committee reported:

“It is probable that the railroads have contributed over \$900 million in payment of the lands which were transferred to them. . . . Former ICC Commissioner (J. B.) Eastman estimated the value of the lands at the time they were granted was not more than \$126 million.”

Reduced rates on most government traffic continued in effect until October 1, 1946, raising the total estimated value of the railroads’ contributions to one and a quarter billion dollars—or about 10 times the value of the lands received.

Figured on this basis, the profit to the government was about \$1,124,000,000, turning the railroad land grants into one of the sharpest business deals Uncle Sam ever made.

OTHER GOOD DEALS

Perhaps because of historical misunderstandings concerning the land grants, other business transactions between railroads and the government have tended to become distorted.

To set the record straight, here's a summary of the principal instances of government financial involvement with the railroads—and the results—over the years:

- The government purchased bonds of six early companies that were chartered to build the pioneer "Pacific" railroads. The total value of the bonds was \$64 million. Including interest, the railroads returned \$167 million, giving the government a profit of more than \$100 million.
- During World War I, the government took over and operated the nation's railroads. After returning them to their owners, the government made "rehabilitation loans"—

"It may be found that even with the most liberal construction of the grant, the government has not been so 'munificent' as sharp."

Charles Russell Lowell,
19th century financier-industrialist

amounting to just over \$1 billion—to a number of railroads. Repayments, including interest, gave the government a profit of \$206 million.

- During the depression of the 1930s, the Public Works Administration and Reconstruction Finance Corporation loaned the railroads \$1.1 billion. Repayments came to \$1.4 billion. After deducting RFC costs, the government had a net profit of \$109 million.
- And, under a 1958 act, certain railroads borrowed a total of \$243 million from private sources with government guarantees. Repayments had totaled \$80 million as of June 30, 1971, with collateral securing most of the balance due later.

In other words, the federal government has recognized from time to time that the public has a vital stake in maintaining an efficient system of rail transportation. And, in so doing, it has done very well indeed for itself—and for its taxpayers.



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