

2.3 - Case Analysis: Funding the Railroads

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Abstract

Funding the Transcontinental Railroad in the 19th century was a major issue for the United States Government. There were several possible courses of action. Two of these are included here as well as the problems and advantages of each. In conclusion, the rationale for government funding is presented.

Keywords: railroads, intercontinental, funding, entrepreneur

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I. Summary

The speculative benefits of a transcontinental railroad were easy enough to articulate: there was fertile land out west for migrants to farm, gold and silver to be mined in California, and of course it was a matter of national pride (Ambrose, 2000). According to Ambrose (2000), the whole country was clamoring for it to be done, yet few were crazy enough to invest as “the risks of financial failure and ruin were huge” (Union Pacific, n.d. para. 3). Ultimately, funding was provided by the United States government via the Pacific Railroad Act of 1862, “mostly in the form of land grants to the railroads; the railroads would sell the unused land to fund the construction” (Ambrose, 2000, p. 47). Much of the land was all but worthless at the time, but it was assumed that as transportation cost were reduced, the land would become more valuable (Garrison & Levinson, 2014; Ambrose, 2000).

II. Problem

The problem is multifaceted. Unfortunately for the railroad companies, they could not sell most of the land until after the railroad was built, and they could not build the railroad without the proceeds of the land sales (Ambrose, 2000). Some relief came with the Pacific Railroad Act of 1864 which doubled land grants and (more importantly) provided the ability to borrow against the land grants by issuing bonds (Union Pacific, n.d.). However, even with doubled bonds and the ability to borrow against them, the transcontinental railroad had major financing difficulties (Ambrose, 2000; Union Pacific, n.d.).

On the other hand, Illinois representative E.B. Washburn (as quoted in Ambrose, 2000) called the 1864 bill “the most monstrous and flagrant attempt to overreach the government and

the people...” (p. 94), charging that the Wall Street elites pushing for funding were only out to profit off the public (Ambrose, 2000). Eglin Air Force Base Archaeologist Benjamin Aubuchon (personal communication, August 17, 2016) affirms that while the Pacific Railroad Acts were instrumental in building the transcontinental railroad, many railroad corporations in the Southeastern U.S. were formed with no intention of following through. In Northwest Florida, the timber-rich land was usually promptly sold for lumber (or turpentine operations in the early 1900s) as soon as it was acquired, whereupon shareholders pocketed the profits as corporations went bankrupt, abandoning the vast majority of the proposed railways (B. Aubuchon, personal communication, August 17, 2016).

III. Significance of the Problem

While the public was eager to see the transcontinental line built, putting taxpayer’s money behind the project was out of the question (Ambrose, 2000). Offering land grants was seen as a way to fund construction with little public risk, but some felt that this was still too much government meddling. Ultimately, those who acted in good faith by attempting to actually build the proposed railroads had extreme difficulty funding the construction, with many risking family fortunes and going deep into personal debt (Ambrose, 2000; Union Pacific, n.d.). Yet others took the public land without providing anything of value in return.

IV. Development of Alternative Actions

Alternative Action 1. The U.S. government could have abstained from providing financial assistance and allowed free market forces alone to drive development.

Advantages. This alternative would have eliminated the risk of Robber-Baron types betraying the public trust.

Disadvantages. Honest entrepreneurs were scarcely able to fund the rails west even with the Pacific Railroad Acts. While the railroad certainly would have been built at some point, it would have taken decades longer as it moved incrementally across the nation.

Alternative Action 2. The U.S. government could have limited the number of lines funded. For example, companies could have bid on one or two lines to California, and maybe one north-south line. The bidding could have been for the whole line or in sections. More generous land grants would have better facilitated development and these would be feasible as total lands granted would be drastically reduced.

Advantages. This alternative would have served to satisfy public demand with reduced risk of Robber-Barron types betraying public trust. Furthermore, lines could be privately funded off of the first lines as demand called for it.

Disadvantages. While the distance to California would be crossed more quickly, privately funded lines with no land grants would have taken longer to spread. Limiting the number of companies funded could prompt charges of government favoritism.

V. Recommendation

The demand for a transcontinental railroad was clear. It is reasonable to assume a majority of entrepreneurs will strive to maximize profits by satisfying demand. Therefore, publicly funding only the lines for which there was very clear public demand coupled with private refusal to invest would have ensured that funds were used for their intended purposes. For example, if there had been great demand for railroads in Northwest Florida, entrepreneurs who received the land grants to build would have been foolish to simply sell the land and back out. This makes Alternative Action 2 the superior solution to the transcontinental railroad-funding problem.

References

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