

The Real Story of the Transcontinental Railroad

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Homeschooling Today – Jul/Aug 2005,
Vol. 14 Issue 3, pp. 28-32

Many Americans have only breezed through, in some history lesson, the story of the building of the first transcontinental railroad. What we remember is often regrettably vague. Perhaps we recall that it was a rather important event that occurred some time in the 1800's, and there is the memorable little detail of the driving of a golden spike joining the westbound and eastbound sections of the railroad. Most American high school graduates (or college graduates, for that matter) could offer little additional information.

But learning something more about the transcontinental railroads (there were several) might be worthwhile. First, establishing an efficient land connection between the Atlantic and Pacific coasts is regarded as one of the most significant accomplishments of post-Civil War America, something like sending men to the moon a century later. Relatively fast clipper ships could go from New York to San Francisco in three months; the transcontinental railroad would cut that time to about a week. Second, the construction of transcontinental railroads is brimming with lessons on the nature of government and the low-key triumphs of private enterprise.

To be strictly accurate, the first transcontinental railroad was a forty-seven mile long track located in Panama, completed in 1855. But here I am considering those routes in the United States, where several transcontinental railroads were completed in the three decades after the War Between the States.

The first of those, and the most famous, was the one authorized by Congress in July, 1862. Two companies, the Union Pacific Railroad and the Central Pacific Railroad, received land and government loans that allowed them to complete a route from Omaha, Nebraska, to Sacramento, California. The Union Pacific began at the eastern end, and the Central Pacific started at the western end. In 1869, they met at Promontory Point, Utah, where the famed golden spike was driven.

Other transcontinental railroads included the Northern Pacific, running from Lake Superior to Washington: the Santa Fe, along a route from Kansas to Los Angeles; and the Southern Pacific, extending from New Orleans to Los Angeles. These were all completed in 1883. In 1893, the Great Northern Railroad was completed, running from St. Paul, Minnesota, to Seattle, Washington.

Subsidizing "internal improvements" like railroads had been an important goal for President Abraham Lincoln. State efforts at funding canals had ended in financial disaster in Lincoln's home state of Illinois and elsewhere, but Lincoln planned to use federal tariffs on imported goods instead of money raised by the states. Southern states objected to the tariffs because they depended on imported goods, and they objected to the railroad subsidies because the proposed routes ran through northern states. As soon as they seceded from the Union, however, the tariffs (and the subsidies) could begin. The Union Pacific and Central Pacific became the recipients of vast sums of federal money.

With the government handing out large amounts of money for the railroads, corruption set in on a grand scale. Each politician, of course, wanted the railroad to run through his district, even if it made for an inefficient route. One New Mexico congressman complained in 1862 that many of his fellow legislators would not vote for the railroad subsidy unless the railroad "starts in the corner of every man's farm and runs through all his neighbors' plantations" (*How Capitalism Saved America*, DiLorenzo).

But the problems extended beyond competing local interests to outright bribery. Historian Dee Brown wrote that Congressman Thaddeus Stevens of Pennsylvania "had received a block of ...stock in exchange for his vote" (DiLorenzo). Stevens was also an iron manufacturer, and

demanded that the railroads use more expensive American-made iron for the rails, rather than British iron. Political influence was bought wholesale. Stacks of free railroad passes were handed out to legislators. The general manager of the Union Pacific Railroad, Thomas Durant, hosted an extravagant party in 1866 for a crowd of 150 that included U.S. senators, an ambassador, and government bureaucrats.

In 1873, however, the corruption was exposed. A massive public scandal erupted, centering on Credit Mobilier, the finance company behind the Union Pacific. The president of the Union Pacific, Oakes Ames, had handed out discounted Credit Mobilier stock to politicians. The well-connected William Tecumseh Sherman was allowed to buy land from the Union Pacific for less than a third of the market rate. Other Union Pacific officials had cashed in on the subsidies as well, by creating their own companies that would sell supplies to the railroad at inflated prices. The Central Pacific saw its share of corruption, though its leaders escaped punishment by destroying records. The corruption was more localized, too, being concentrated in California rather than in national politics.

In construction, waste and inefficiency were typical. Engineering quality suffered as builders considered only how fast they could add miles of track and collect the corresponding subsidies. Rather than use more durable stone work for bridges and culverts, the builders used wood. Economic historian Larry Schweikart wrote that the railroads were built with no regard for the cost of using the railroad, or of maintaining it afterward, as “the subsidized roads ran up steep gradients that increased fuel costs or along weak shoulders that contributed to accidents” (*The Entrepreneurial Adventure*). Burton Folsom noted that since the builders were being paid by the mile, “they sometimes built winding, circuitous roads to collect for more mileage” (*The Myth of the Robber Barons*). Tom DiLorenzo observed that in the Rocky Mountains, tracks were even built on top of several feet of ice, requiring new track to be laid when the ice melted. As the two railroad companies neared their meeting point in Utah, the companies built lines parallel to one another for 200 miles, and continued to collect the subsidies. Realizing that more track built by the one firm meant less for another, workers from the competing companies attacked one another, resulting in many deaths and the destruction of completed track.

The inefficiencies meant that the railroads could not make ends meet once the construction subsidies ended. For five years after the golden spike was driven, the railroads were being rebuilt in many places and sometimes even rerouted. The costs eventually drove the Union Pacific and Central Pacific to bankruptcy. Other subsidized transcontinental routes suffered from poor construction and inefficient routing. The Northern Pacific Railroad took larger grants of land instead of federal dollars and was almost bankrupt by the time it reached Seattle in 1883. The builder, a German immigrant named Henry Villard, had built the railroad for maximum scenic beauty along the route, and virtually ignored costs. The “scenic route” had more curves and steep inclines and was not best for carrying freight and passengers at low cost. By 1893, the Northern Pacific was thoroughly bankrupt.

One transcontinental railroad stood in stark contrast to the circus of waste and corruption. This was the Great Northern Railroad, built by James J. Hill. Hill’s railroad was the only transcontinental railroad not granted huge federal subsidies of land or money, and it was much more efficient. Hill built more slowly, not completing his line as early as the other routes, but he built for low-cost operation. He went to great pains to shorten the length of the railroad and to reduce the grades that locomotives would have to climb. He used quality materials, importing steel from Britain and Germany rather than using the cheaper but then-lower-quality American steel. Hill diligently looked for cost savings, preferring to manage near the construction site rather than from New York, as Villard had done. “A railroad is successful in the proportion that its affairs are vigilantly looked after,” he observed (Folsom).

He paid for the land he used, which helped Hill avoid the violent confrontations with Indians that troubled the other railroads. “Our own line in the North,” he said, “...was built without any

government aid, even the right of way, through hundreds of miles of public lands, being paid for in cash” (Folsom). Obtaining permission to purchase those lands was difficult, as the other railroads used their political influence to stall Hill wherever they could. Burton Folsom noted Hill’s dismay: “It really seems hard, when we look back at what we have done in opening the country and carrying at the lowest rates, that we should be compelled to fight political adventurers who have never done anything but pose and draw a salary.” Hill must have derived enormous satisfaction from buying a controlling interest in his closest competitor, the Northern Pacific, when it went bankrupt in 1893.

To make sure his line was profitable, Hill assisted those who wished to settle along the route. He paid people to farm near his railroad and imported 7,000 head of cattle from England, which he then gave away to settlers along the route. He became a sponsor of agricultural research as a way of increasing the amount of agricultural products transported by rail. According to Daniel Oliver in his interesting article listed in the resources, Hill hired an agronomy professor to do soil analyses along the Great Northern Railroad and paid farmers to cultivate experimental plots on their land according to the professor’s instructions. These plots yielded 60 to 90 percent more than comparable acreage of the time. Well before the Soil Conservation Service came into existence in the 1930s, the same sort of work was being privately funded by the entrepreneurial Hill. The federal government, Hill believed, was incapable of effective resource conservation. “The machine is too big and too distant,” he said, “its operation is slow, cumbersome, and costly.”

James J. Hill’s success in building and running a transcontinental railroad, in contrast to the failures among government-funded competitors, conveys an important lesson. In spite of conventional wisdom to the contrary, large-scale “public works” projects of vital importance can be handled much more efficiently when left to the private sector. Attempts to “help” or “partner with” private businesses through subsidies bring corruption and waste.

The real story of the transcontinental railroad, then, is that of a contest between two ideas about government’s role in society. One idea is that government’s role should be limited to the basics, like upholding contracts and protecting against violent crime and foreign invasion. The second idea is that the government must also constantly intervene to correct a deeply flawed market process, subsidizing (or providing outright) what the market neglects and penalizing the market’s frequent excesses. Government-subsidized railroad companies did produce a transcontinental link earlier than Hill’s private-sector achievement. But the true cost of the government’s effort has been forgotten, replaced by dazzling stories of an epic race through the wilderness and the uniting of a continent with a golden spike.

References

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- “James J. Hill: Transforming the American Northwest” by Daniel T. Oliver, *Ideas on Liberty*, July 2001, pp. 44-8. (see other interesting articles on www.fee.org – Foundation for Economic Education)