SEIBERT HALL, SUSQUEHANNA UNIVERSITY

where some of the sessions of the annual meeting of the Pennsylvania Historical Association were held.
THE PARTNERSHIP BETWEEN PUBLIC AND PRIVATE INITIATIVE IN THE HISTORY OF PENNSYLVANIA

The Presidential Address*

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IT IS a truism to say that, for the most part, the founding of England's thirteen colonies resulted from private enterprise. Nevertheless, British theory in regard to the boundaries between private and public action was very blurred; private initiative became public initiative, and public initiative became private initiative. This confusion of theory bespoke a kind of partnership, conscious or unconscious, between public and private impulses.

Colonial practice as represented by the commercial trading company and by the proprietorship offers interesting evidence of the methods whereby a private desire for profit or refuge was socialized into a government. The Massachusetts Bay Company became the government of the colony of Massachusetts; the grant to the eight Carolina proprietors grew into the colonies of North and South Carolina; the fiefs created for the Baltimores and Penns resulted in colonial governments. Elsewhere the British East India Company and the Hudson's Bay Company developed into public governments which ruled people and territory. In the case of the commercial companies the theory was no doubt mercantilism, which itself was a mixture of public and private ideas in reference to business; and, in respect to the proprietary grants, the theory was feudalism, which, like mercantilism, was a confused conglomeration of public and private mores.

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Take Pennsylvania, for instance. Admiral Penn had a claim of about 16,000 pounds ($80,000) against the King of England, who paid it off by granting to the Admiral's son a private estate of some 28,000,000 acres of land. The sale of the land to individual settlers was supposed to extinguish the debt, although in the end the Penn family received much more than the King ever owed the Admiral. By the very nature of the case, "an ever present motive with them [the proprietors] was the desire to secure more private income from the land"; therefore a government was necessary, in the first place, to establish an agency which could sell the land and collect the quitrents for the proprietor, and second, to provide law and order for those who bought land and settled in the province. In that way a private estate was socialized into a public colony, and a private debt was to be extinguished by the creation of a government to act as a collecting agency.

The close union between private and public action is clear from the fact that Pennsylvania public officials were, on the one hand, part of the colonial government and, on the other, real estate dealers selling land for the benefit of the proprietary pocketbook. So it was that the administrative set-up in Penn's plantation included the land office which in turn was made up of a secretary, a surveyor-general, deputy surveyors, keeper of the great seal, master of the rolls, receiver-general, and from three to five commissioners of property. Towards the end of the colonial period, the land office was changed to a board of property, consisting of the governor, secretary of the province, surveyor-general, receiver-general, and auditor-general, with their deputies.

This relationship emerged as an issue during the debates on the Divesting Act of 1779 when the assembly decided to confiscate from the Penns their unseated lands. The deposed proprietaries still conceived of the unseated lands as private family property; and their defender, George Ross, so argued before the assembly. Upon expropriating the property, the state government promised to reimburse the Penns to the amount of 130,000 pounds. In this

socialization of the family inheritance, the proprietaries lost perhaps as much as a million pounds sterling. To compensate the family, the British government paid it an annuity for many years.

With such a background, the new state of Pennsylvania could hardly be expected to support Adam Smith and *laissez-faire*. In the early history of the state, people were not afraid of government even if it got into what today would seem to be the preserves of private enterprise. The Pennsylvania Fathers did not have the fear of socialization that we have; nor did they make a fetish of separating church and state. The commonwealth in 1786 granted to Dickinson College, founded by Presbyterians, 10,000 acres of land and 500 pounds. Franklin, another denominational college, got 10,000 acres of public lands. Other private colleges which received state aid were Jefferson College, Washington College, Allegheny College, Western University of Pennsylvania, Lafayette College, Madison College, Gettysburg College, and Marshall College. During the Revolution the University of the State of Pennsylvania was given 25,000 pounds by the commonwealth. Likewise it seemed to be quite proper in 1811 for the state to grant some ninety-two acres of land for the support of Row's (Salem Lutheran-Reformed) Church just west of Selinsgrove—reputed to be the oldest congregation in Central Pennsylvania west of the Susquehanna.

The general government did not follow Smithian economics any more than Pennsylvania did. The Bank of North America, the first real banking institution in the United States, was formed

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4 The state of New York confiscated Tory estates valued at nearly two and a half million dollars.

5 Dunaway, *op. cit.*, p. 670. During the provincial era, the city council of Philadelphia granted aid to the private academy out of which grew the University of Pennsylvania. Between 1745 and 1775 the College of Philadelphia received 412 pounds from public funds. See Beverly McAnear, "The Raising of Funds by the Colonial Colleges," in *The Mississippi Valley Historical Review*, XXXVIII (March, 1952), 592-593, who points out that Harvard, William and Mary, and Yale relied upon governmental organizations for much of their financial support, down to 1745. For the kind of aid which Harvard received from Massachusetts, see John A. Pollard, "Raising Funds—Operation Endless," in *Association of American Colleges Bulletin*, XXXVIII (May, 1952), 301-302. After 1792 Yale's corporation included the governor, lieutenant-governor, and six state senators because the college received financial assistance from the state of Connecticut.

6 Robert Morris, who helped establish this bank, represents too well, perhaps, the close relationship between public and private finance. In his case the line between the two was so vague that his reputation does not come down to us as immaculate as we could wish.
in close conjunction with the Congress in order to bail the Confederation out financially; a fifth of the stock of the First Bank of the United States was held by the Federal Government, which, upon later disposing of its shares, netted a nice profit of $671,680; and likewise a fifth of the stock of the Second Bank of the United States was owned by the United States Government. Federal financing of the Cumberland Road began under Jefferson, and it cost the United States Government $6,824,919.33 between 1806 and 1844. The federal Fathers were no more afraid of government than were the state Fathers.

The reason why government participation was necessary if the country was to gain banks and communications is simply stated. It is thus: There was so little private wealth that no large venture like a long turnpike, a United States Bank, or an intersectional canal could be financed unless government used its aid and influence. In some cases the purchase of stock, as in the First United States Bank, was employed to entice private money out of hiding; for, as the shrewd Hamilton knew, few investors would risk their savings unless the government showed its belief that the speculation was sound.

Of course small mills and mines could be opened with private funds, as, for instance, Samuel Slater's textile mill at Pawtucket, Rhode Island, which was financed by the Quaker merchant, Moses Brown. Such local and personal sources of capital were too small for a large venture like the United States Bank. By the same token, a private company could assume the construction and operation of the Lancaster turnpike in Pennsylvania, but a costly undertaking like the Cumberland Road had to be financed by public money.

Adventure capital was indeed scarce and timid. The private portion of the stock of the Second Bank of the United States was not subscribed in the time allotted. Stephen Girard saved the bank by purchasing the three million dollars worth of stock that had

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8 Compare Prime Minister Nehru: "It is inevitable in India, where private resources are not great, any project must be a state project," in *Talks With Nehru... A Discussion Between Jawaharlal Nehru and Norman Cousins* (New York, 1951), p. 24.
found no takers. Lack of credit was particularly evident during and after the War of 1812.

It was difficult for industry to develop without transportation facilities; but both industry and transportation were dependent upon credit, which banks alone could offer in sufficient amount. The rub was that there was want of private credit to establish banks. The vicious circle had to be broken somewhere, and it was broken by state action. Banks were owned wholly or in part in South Carolina, Indiana, Illinois, Mississippi, Arkansas, Florida, Louisiana, and Missouri. Pennsylvania made loans to steel producers and farmers in numerous instances after 1793.

Indeed, Secretary of the Treasury Albert Gallatin thought well enough of the Pennsylvania practice of aiding private initiative to recommend its employment by the United States. The following paragraph, which completed his report to the House of Representatives, dated April 17, 1810, is clear evidence of the lack of private capital:

Since, however, the comparative want of capital, is the principal obstacle to the introduction and advancement of manufactures in America, it seems that the most efficient, and most obvious remedy would consist in supplying that capital. For, although the extension of banks may give some assistance in that respect, their operation is limited to a few places, nor does it comport with the nature of those institutions to lend for periods as long as are requisite for the establishment of manufactures. The United States might create a circulating stock, bearing a low rate of interest, and lend it at par to manufacturers, on principles somewhat similar to that formerly adopted by the States of New York and Pennsylvania, in their loan offices. It is believed that a plan might be devised by which five millions of dollars a year, but not exceeding, in the whole, twenty millions, might be thus lent.

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9 Catterall, op. cit., p. 22.
11 Examples of this practice can be found in Louis Hartz's Economic Policy and Democratic Thought: Pennsylvania, 1776-1860 (Cambridge, 1948), p. 56.
Pennsylvania also helped to break the circle by entering into partnership with private investors in the mixed corporation. The first of these was the Bank of Pennsylvania of 1793, into which the state put a million dollars, bringing to the public treasury dividends of $80,000 annually. The state also bought about a third of the stock of the Bank of Philadelphia of 1804. Bank bonuses and bank dividends became a major source of revenue for Pennsylvania in the 1830's, largely because of the unwillingness of the people to tax themselves for the upkeep of their government. Likewise the state participated heavily in turnpike and bridge corporations, the largest investment being in the Northumberland Bridge Company. In addition, the state legislature cashed in on the demand for bank charters. To secure incorporation, banks had to invest in stocks of certain railroads and turnpikes. The state charter for the Second Bank of the United States in 1835 was passed with the requirement that the bank invest in sizable blocks of railroad and turnpike stock, and make direct grants to turnpike companies.\textsuperscript{13}

State participation in mixed corporations in order to aid private business had its limits; and forcing banks to help transportation facilities could be carried only so far. When the demand arose for long and costly intersectional internal improvements, something more was in order than mere promotional or token investments in various concerns. Broad constructionists thought it was a job for Congress, and they used the Cumberland Road as proof of what could be done. If Congress had had its way, the bonus from the Second United States Bank would have been used for public improvements after 1817. Madison's veto did not mention interference with private initiative; his concern was with invasion of state rights. He asserted that public works were desirable but could be constructed by the Federal Government only after it had been granted such power by constitutional amendment. Likewise Jackson protested in his Maysville Road veto that he was in favor of the "improvement of our country by means of roads and canals," but he too demanded an amendment, "delegating the necessary power and defining and restricting its exercise with reference to the sovereignty of the States."

\textsuperscript{13}Hartz, \textit{op. cit.}, pp. 46-47, 54-55, 82-83, 84-85, 96. By a law of 1843 most of the state's stock in mixed corporations was liquidated, and in 1858 an amendment to the constitution forbade public investment in business corporations.
Thus the issue was far from being one between private and public initiative; to the contrary, everybody accepted public initiative as a matter of course. The question was this: Which public—federal or state—should undertake the task of constructing such improvements? When the matter was settled rather definitely that, as long as strict constructionists were in control at Washington, there would be no further aid from that quarter, the problem of providing arteries of commerce so that private wealth could develop was handed back to the states.

By that time private businessmen in all the large eastern cities were clamoring for trade routes to tap the western market, but private capital was either too scarce or too wary to take on such enormous tasks as constructing transmontane canals and turnpikes. Business interests in New York City got their state government to provide a transportation facility in the form of the Erie Canal, at public expense; this astute piece of subsidization gave to New York City the impetus with which to pass Philadelphia in population and in trade. Philadelphia merchants at once demonstrated alarm—an alarm which Senator Samuel Breck indicated the year after the Erie Canal was started. In a book he wrote on internal improvements, Breck put the case for Philadelphia succinctly: "THE PROPERTY AT STAKE, THEN, IN THE CITY AND COUNTY OF PHILADELPHIA, AMOUNTS TO NEAR TWO HUNDRED MILLIONS OF DOLLARS!" Worried as Philadelphia merchants were, it was clear that neither they nor Philadelphia alone could finance a trans-Allegheny communications system. As Homer T. Rosenberger has said: "... capital was scarce and the building of an extensive system of turnpikes and canals was an enormous financial undertaking. Local communities were not able to develop such works within their own vicinity and the finances of the day could not swing the project without assistance. 'Hard money' was none too plentiful. ... Ardent advocates of improved transportation banded together and aimed to secure State aid. ..."

**Compare Victor L. Albjerg, "Internal Improvements without a Policy (1789-1861)," in Indiana Magazine of History (September, 1932), pp. 168-179.**

**Quoted by Homer T. Rosenberger, "Philadelphia's Influence in Pennsylvania Transportation Development," in The Bulletin of the Department of Internal Affairs [of Pennsylvania], November, 1949, pp. 9-10. This periodical is hereafter referred to as BDIA.**

**Ibid., p. 6.**
ural for men to turn to the state to accomplish what they are un-
able to do by themselves.\textsuperscript{17}

Indeed there was considerable sentiment to the effect that, even if private funds were available, public money should be employed because it was safer and fairer to all concerned. Thus John Sergeant argued that the state should undertake the task of providing a transportation system over the mountains because private investors had already lost so much in previous similar efforts. His attitude can be gauged by the statement: "The public good ought not to be advanced at the expense of individuals."\textsuperscript{18} Allied to this feeling was the conviction that private businesses were likely to become monopolies. A House committee in 1830 suggested that private charters should be granted only after proof that it was "inexpedient for the state to proceed in the undertaking as a public measure."\textsuperscript{19}

The result was a feverish period of public canal construction in Pennsylvania, largely for the purpose of enabling Philadelphia to catch up with New York City. A great deal of this work was done by the commonwealth. By the time the public construction ended, the state had 790 miles of canal, along with 117 miles of railroad, costing the public just under 33.5 millions of dollars. Original cost, upkeep, and interest amounted to over 101 millions in thirty years, with a consequent loss of almost 59 millions.\textsuperscript{20} Pennsylvania spent more for canals than any other state; although, in proportion to their wealth, some of the western ones expended even more. Ohio, Indiana, and Illinois almost bankrupted themselves to construct canals which were out of date almost before they were finished.\textsuperscript{21}

Nevertheless, it would be very wrong to assume that these water-

\textsuperscript{17} Edward T. Bollinger, \textit{Rails That Climb: The Story of the Moffat Road} (Santa Fe, 1950), p. 339. Compare Matthew Page Andrews, \textit{Virginia The Old Dominion} (Garden City, 1937), p. 438: "As so often in American history, when private initiative failed to command the men and means to project enterprises profoundly affecting a region, a section, or a State as a whole, governmental aid has been sought." See also Hartz, \textit{op. cit.}, pp. 14, 290-291.

\textsuperscript{18} Dunaway, \textit{op. cit.}, pp. 593-596, and Hartz, \textit{op. cit.}, p. 149.

\textsuperscript{19} Hartz, \textit{op. cit.}, p. 141.

\textsuperscript{20} Ibid., p. 72.

\textsuperscript{21} See Harlan Hatcher, \textit{The Western Reserve} (Indianapolis, 1949), pp. 88 and 99 on the abject poverty of the people in Ohio and the need to produce private wealth by public construction of canals. He asks: "But how could a raw young state, whose total real estate in 1826 was valued at only \$15,946,840, and whose revenues for the fiscal year ending November 15, 1825, were only \$131,738, undertake to spend upward of \$3,000,000 for a canal?"
ways, which were soon deprived of traffic by the more efficient railways, were a failure. It was of course unfortunate that the beginnings of the canal and railroad ages were so nearly contemporaneous. Had the millions of dollars expended by the states for canals been put into railroads, the story would unquestionably have been different. In that case the railroad age, at least for a considerable length of time, would have been much more a period of public financing, operation, and ownership than it was.

That the public works were financially unable to make ends meet is unimportant. The essential fact is that, as government projects, they subsidized countless private industries which otherwise could never have existed because no market was available for what they might have to sell. The contribution of the public canals was to open up backwoods areas, bring products to market, carry urban goods to the hinterland, and in general create private wealth. The number of mills, stores, warehouses, boat-building establishments, taverns, mines, and other private concerns that were fathered by the public canals is multitudinous.

A case in point is Jersey Shore. Sherman Day, in his *Historical Collections of Pennsylvania*, published about 1845, said of Jersey Shore: "Within about ten years past, since the completion of the public works, the place has increased very rapidly, and the public and private edifices erected during that period are elegant and substantial." Joseph Cox, the most recent historian of that community, adds: "The Lycoming line, as it was known, with the Bald Eagle and Lewisburg side cuts, cost $1,158,580.84 and was worth it to this area, carrying sawn lumber down to tide water and bringing coal and other things back."

Some of the most interesting evidence of what the public works did for settlements along their routes refers to towns in the Juniata Division, especially to Hollidaysburg. Part of that place's prosperity can be attributed to a decrease in the cost of transportation. Upon completion of the Old Portage Road, the cost of moving a ton of merchandise fifty-three miles from Hollidaysburg to

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22 Some of the loss was no doubt planned by those who profited. The state treasurer pointed out in 1841 that one of the reasons for the plight of Pennsylvania's public works was that private interests persuaded the legislature to charter railroads which were drawing traffic from the state canals. See Hartz, *op. cit.*, p. 161.
24 Ibid., p. 16.
Blairsville dropped from between twelve and sixteen dollars down to four dollars.  

Hollidaysburg’s boom is described by Harry A. Jacobs:

There were five large forwarding warehouses at Hollidaysburg on the north bank of the basin, and the port was a busy place. Hollidaysburg was a bustling town and enterprising men from all parts of the State were attracted there by the promise of employment and business opportunities. Numerous small industries were started and the town was considered one of the most prosperous between Philadelphia and Pittsburgh. It had a large local trading area. From a population of less than 100 before the advent of the canal, it had grown to 1,200 in 1838, and in 1846, the year when the County of Blair was erected and Hollidaysburg made the county seat, the population was about 3,000.

Of all the Juniata Division towns, Jacobs comments:

The opening of the main line of the “Public Works” was followed by a great increase of business in the Juniata Valley towns. Hollidaysburg, Huntingdon, Lewistown, Mifflintown, and Newport sharing in the general prosperity, all being important canal ports. In 1834, the first year that the completed system was in operation, about 1,100 boats passed the port of Huntingdon from March 18th to September 15th.

The Juniata towns were hard hit by the passing of the canal. "Hollidaysburg declined in importance as a transportation center, giving way to a new thriving railroad town, the future City of Altoona." Yet Hollidaysburg’s victory in becoming the county seat was not lost. Altoona people still must journey to Hollidaysburg to attend to county business. And of course the place got new industries, including a branch line of the Pennsylvania Railroad, thereby surviving the abandonment of the canal.

Part of the history of Snyder County is the story of farm wagons from the back country coming into Selinsgrove filled with grain and waiting in a line which extended well out of town for their turn to load into warehouses and canal boats. The canal

27 Ibid., April, 1944, p. 6.
which passed through this area carried everything from farm products to iron ore out of the surrounding region; and it caused Selinsgrove's first real period of growth—during which, by the way, the community became a borough, an event whose centennial is to be celebrated in 1953. Dunkelberger's statement, "The abandonment of the canal during the last decade of the last century proved a severe blow to the town," tells volumes about the importance of public subsidization of transportation for the prosperity of Selinsgrove.

What the canal did for Selinsgrove, Jersey Shore, and Hollidaysburg, it did for countless other communities. Who could list all the settlements which owed their existence or growth to the state waterways, even though those same public works were financially insolvent most of the time? Untold amounts of private wealth resulted from the public canals, making the loss of 59 millions a mere bagatelle. Listen to the testimony of the official organ of the Pennsylvania Department of Internal Affairs:

Although the hundreds of miles constructed by the Commonwealth more than a hundred years ago have been abandoned and are now lying in ruins, it is generally conceded that these works were not built in vain, but have directly and indirectly proved of much value in developing many portions of the State, and have added materially to her wealth, thus refunding to the Treasury the amounts expended in their construction.

One can run his eye over the map of Pennsylvania and note places which, by the very names, owed their existence to the public works. Examples are Lock Haven, Port Trevorton, Portage, Hummels Wharf, Newport, and many more. Other localities developed swiftly when public internal improvements brought them into contact with civilization. Those which failed to get on a canal could foresee for themselves a permanent state of stagnation.

Indeed prosperity for back-country settlements was one of the important reasons—in addition to helping Philadelphia—for con-

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20 George F. Dunkelberger, The Story of Snyder County (Selinsgrove, Pa., 1948), pp. 126-127.
21 The privately owned canals accounted for their share, also.
22 "State's Industrial Greatness Traced in Part to Old Canals," in BDIA, March, 1939, p. 3.
23 Others, like Schuylkill Haven, Union Deposit, White Haven, Port Clinton, and Port Carbon, arose because of the coming of private canals.
structing internal improvements. During the legislative contests over the passage of canal bills, interior communities always used as much pressure as possible to assure that the route would reach them. And why not? It meant life or death to a town. Unseemly log-rolling and exchanging of votes ensued, as a matter of course.

Space exists for only one example to indicate the dreams of isolated areas as they fought resolutely to win a canal, or if not that boon, at least a branch. It is a paragraph from a speech made by Representative J. M. Petrikin of Centre County, who was adamant in his demand for a West Branch route for the people of his section. Said he, with purple but understandable hyperbole:

>If a canal by the West and North branches [of the Susquehanna River] to the state line, and the projected Chemung canal, were constructed, there would be an entire water communication from the mouth of the Bald Eagle to Lake Champlain—might I not say Quebec! A canal boat laden at the town of Liberty, in Lycoming county, might be taken to Lake Champlain, and its cargo, by a transhipment, thence to Quebec. Again, if it should hereafter happen that water could be had, on the West Branch summit, for the purposes of a canal, then would there be an entire inland water communication from lake [sic] Champlain to Pittsburg, . . . or if you please, from Quebec to New Orleans.\(^3\)

In every state where canals were dug, the same pressure was used by local areas to attract public improvements, and the same growth occurred to those which were lucky. One outstanding extra-Pennsylvania example must suffice, but it is a noteworthy example. The Illinois-Michigan Canal Commission laid out Chicago in 1829 when population was nonexistent; by 1848 when the canal was completed, Chicago had a population of 20,035; and by 1854 it had 74,500.\(^3\) Who can deny that under such circumstances government activity fructifies private wealth and instigates private initiative?

\(^3\) Speech printed in *Pennsylvania Intelligencer*, April 6, 1827. The passage was badly garbled in “State’s Struggle for Supremacy Noted in Its Early Canal History,” in *BDIA*, June, 1937, p. 24; and in “Canal Route Rivalries Mark Transportation Pioneering,” in *ibid.*, May, 1939, p. 11.

As a result of the creation of private wealth, much of which arose because of state canal construction, less public money and less public ownership were necessary in the building of railroads. This statement is only relatively true before 1850, however, and not entirely correct even after 1850. The Illinois Central and the transcontinentals could not have been constructed at the time without government aid in the form of bonds and/or land.

This fact was particularly true of the early trans-Allegheny railroads, which were just about as dependent upon public largess as were the canals; and for the same reason, namely, lack of available private capital which was willing to take on such speculations. Even in cases where railroads did not face the herculean task of financing a mountain crossing, it was customary for local units of government to attract railroads within their boundaries by buying stocks and bonds of the companies. As late as 1852 the city of Philadelphia helped finance the North Pennsylvania Railroad by buying 28,000 shares of stock. This road was leased to the Reading in 1879.

Further confirmation of that practice is found in the history of Snyder County. The fact that there is such a county is in part the result of an internal squabble in old Union County over a bond issue of $200,000 in aid of a railroad which the County hoped to secure. The fight instigated the movement which later resulted in the secession of Snyder from Union. It was not caused so much by objection to the use of public funds for buying stock in the projected Susquehanna Railroad as it was by the difference of opinion over which section of old Union County should get the railroad.

Let us use the Baltimore and Ohio as another instance of the partnership between public and private initiative. It traverses part of Pennsylvania and would have been given a Pennsylvania charter

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34 The Philadelphia and Reading was financed privately, in part because both Moncure Robinson and Franklin B. Gowen were able to entice British money, but also because the Reading built right into a lucrative coal business, which promised an immediate return. Such was not true of projects like transmontane canals and railroads wherein profits, if they ever emerged at all, would arise only with the passage of time. For the Reading story, see Marvin W. Schlegel, Ruler of the Reading: The Life of Franklin B. Gowen 1826-1889 (Harrisburg, 1947).

35 Jay V. Hare, "North Pennsylvania Railroad a Pioneer Enterprise," in BDIA, May, 1944, p. 4. For other examples, see Hartz, p. 88.

had the Pennsylvania Railroad not started to build in time. The story has often been told that on July 4, 1828, the last surviving signer of the Declaration of Independence, Charles Carroll of Carrollton, broke ground for the successful B&O; and that the Chesapeake and Ohio Canal, for which President John Quincy Adams dug the first spadeful on the same day, turned out to be a financial fizzle. Yet too many persons forget that in their early years both the B&O Railroad and the C&O Canal were, financially speaking, public rather than private concerns.

In fact, without the large amount of public help, the B&O could not have been built at the time, if at all; it almost failed to reach Wheeling even with the help of much governmental financing. By 1838 the city of Baltimore owned three million dollars worth of stock in the B&O; the state of Maryland another block of three millions; and the city of Wheeling one million. The ownership of six millions in stock by the state of Maryland and the city of Baltimore gave to those two public entities control over a majority of the stock of the B&O railroad. Obviously we have here an instance of socialism in close partnership with private initiative.

Pennsylvania's own "beloved" railroad, the "Big Smoke," is often referred to as an instance of the success of private initiative in contrast to the failure of public enterprise as exemplified in the Pennsylvania canal system. Unquestionably there is considerable basis for this contention, because the Pennsylvania Railroad Company bought up and junked the financially decrepit main line of the public works. In all fairness to the state works, on the other hand, it should be said that this transaction of 1857 was possible because by that time more private capital was at hand for such

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37 Congress bought a million dollars worth of stock in the C&O Canal, and it permitted the three cities of the District of Columbia to subscribe for a million and a half dollars worth of stock. The state of Maryland took half a million dollars worth. The state of Pennsylvania had a director on the canal board for some time. Individual subscriptions amounted to only $607,400. See Walter S. Sanderlin, The Great National Project A History of the Chesapeake and Ohio Canal in The Johns Hopkins University Studies in Historical and Political Science, Series LXIV (Baltimore, 1946), pp. 56-57.

38 The state of Virginia bought $1,360,520 worth of B&O stock but the road would not fulfill the requirement that the right-of-way pass through a hundred miles of Virginia territory; and so the Virginia purchase was rescinded. See Milton Reizenstein, The Economic History of the Baltimore and Ohio Railroad 1827-1853 in The Johns Hopkins University Studies in Historical and Political Science, Vol. XV (Baltimore, 1897), p. 46.
vast undertakings as crossing the Alleghenies. Moreover, the canal and inclined plane, which had been projected as early as 1826, pioneered the way over the mountains, as no orthodox railroad could possibly have done, whether public or private, at that early date. In addition, it ought to be kept in mind that the PRR, in buying the state works, got some bargains. One was the state-owned Columbia and Philadelphia Railroad, of which more in a moment. Another was the right-of-way of the canal. A press release from the Pennsylvania Historical Commission for the week of February 1, 1943, described the latter bargain as follows: "Engineering problems were difficult, and to utilize the most advantageous route, the [Pennsylvania Railroad] Company bought most of the State Public Works, for right-of-way and service connections."

Additionally, by lobbying the contract of sale through the legislature, the PRR received the boon of freedom from state taxation forever. Hartz comments that the act whereby "the company extracted from the legislature that remarkable bill for the sale of the Main Line of the public works which excepted it forever not only from tonnage taxation but from all state levies on capital stock, bonds, dividends, and other property as well" was "unprecedented" and "amounted to nothing less than a gigantic fraud upon the state." The State Supreme Court declared the tax-exemption provision unconstitutional.3

Aside from all that can be said, one way or another, about the success of the PRR as a private venture, the fact remains that it could not have been constructed without public participation. In his 1892 report, President George B. Roberts told the stockholders of the PRR:

... the City of Philadelphia came to the aid of the shareholders in building up its [the Company's] property, and though it may be answered that she [the City of Philadelphia], has got back directly all the money and more than she invested, still that is an ungenerous answer to a friend who has come to your aid when you needed it badly; and it is well for the shareholders here, probably, to pause a little and see if we have done our duty to this municipality which helped us so kindly in time of need. ... At the same time we must not be unmindful of the fact that the City of Pittsburgh and the County of Alle-

3 Hartz, op. cit., pp. 278-281.
gheny also came to the rescue of this Company in its time of need. . . .

Surely these words bespeak a close and helpful cooperation between public and private enterprise. President Roberts was referring to the fact that Philadelphia, Pittsburgh, and Allegheny County bought large blocks of stock to keep the construction going when private money dried up. Philadelphia's council purchased 50,000 shares amounting to two and a half million dollars, while Pittsburgh and Allegheny County invested in 20,000 shares costing a million dollars.

These governmental units accounted for three and a half millions of the original seven and a half millions of capital stock. Some smaller political bodies also helped out. Seven of the original thirteen directors represented the public, as follows: Philadelphia three, Allegheny County two, Spring Garden one, and the Northern Liberties one.

Thus we have another beautiful instance of the cooperation between public and private initiative, a kind of collaboration which had been typical of Pennsylvania from its founding. Nobody at the time considered it to be wrong or un-American for government to participate in the building of a railroad. Indeed in the first charter as granted by the legislature, provision was made for socialization of the PRR after twenty-five years if the commonwealth so desired. State enterprise in railroad building was common all over the country, then and later. The Michigan Central and the Michigan Southern were entirely state-owned and profitably state-operated until they were sold to eastern capitalists for bargain-basement prices. By 1861 Tennessee had invested sixteen millions of dollars in railroad and turnpike companies, a figure which reached forty millions by 1870. Cities also got into railroad building. The Cincinnati Southern was constructed by the city of Cincinnati in order to protect its businessmen from those of Louisville.

40 Printed by H. W. Schotter, The Growth and Development of the Pennsylvania Company (Philadelphia, 1927), pp. 229-230; see also pp. 6, 19, 21, 22, 24, 184, and 189 for information on the municipal investments and their disposal.
In the Far West, after the Federal Government had subsidized several transcontinentals, it became commonplace to expect public participation in railroad building. In 1868 William Sharon, Virginia City agent of the Bank of California, secured a charter for the narrow-gauge Virginia and Truckee Railroad in order to tap the Comstock Lode. Says one historian of this famous railroad which ran from Carson City to Virginia City:

Naturally he [Sharon] had no thought of putting up any more of his own or the Bank's money than was necessary. Railroads could be built almost entirely with public funds and still leave their promoters in control. The "Big Four" had just demonstrated that to anyone's satisfaction.45

It was the same story with the Atchison, Topeka and Santa Fe, which could never have been started by Cyrus K. Holliday without public subscriptions by several Kansas counties.44 This sort of thing became so common that the historian of the Santa Fe is able to say:

In the late '80s you didn't need money to buy a railroad. Communities were so anxious to get track that they banded together in community enterprises, voted bonds and subsidies and figured to pay off out of profits. Hardly a dollar was put up in cash to build the McPherson, Texas & Gulf, which became part of the Santa Fe.45

The significance in the national scene of government aid for railroads was stated recently by a writer in Life:

The railroads could not have been built so fast without government help, mostly in the form of land grants. For such a policy there was ample precedent in American economic doctrine. Federal aid to industry was first proposed in Alexander Hamilton's classic Report on the Manufactures, which led to the protective tariff. It found a later spokesman on the Ohio frontier in Henry Clay.

45 Gilbert H. Kneiss, Bonanza Railroads (Stanford University, 1941 and 1943), pp. 53, 55, 62. See also pp. 35 and 106-107 for other instances. The "Big Four" were Collis P. Huntington, Leland Stanford, Charles C. Crocker, and Mark Hopkins, who were just completing the Central Pacific with public money. Compare Lucius Beebe and Charles Clegg, Virginia & Truckee A Story of Virginia City and Comstock Times (Graham H. Hardy, Oakland, 1949), p. 13.


46 Ibid., p. 236.
Clay's "American System" of internal improvements welcomed British capital but not British ideas of free trade.

Next the writer shows how the governmentally-financed railroads duplicated what the earlier governmentally-financed canals did, namely, fructified private wealth. He goes on:

The railroads, however, created a domestic market so vast and various that it was really a substitute for Adam Smith's free trade world, within which Smith's magically effective formula found a new home. Where the tracks went, the smokestacks followed—moving forward toward new raw materials, creating new cities, moving again to be near new markets.46

Let us return to Pennsylvania, where the iron horse was fast overtaking the canal boat. It was not so much a question of private vs. public enterprise as it was a question of railroad vs. canal. The more efficient, cheaper, and quicker railroad was fated to bankrupt any competing canal, whether the railroad was publicly or privately owned, or whether the canal was publicly or privately owned. There were quite a few privately operated canals in Pennsylvania. If private ownership was the panacea, then they should have made money and still be running. Not one is left. The Schuylkill Canal, a system of 108 miles which was largely owned by private investors, lost business to the Philadelphia and Reading until it was finally bought up and abandoned by that railroad.47 Thus one form of private initiative killed off another.

Still another well known line, whose stock was chiefly in private hands, was the Union Canal which connected the Schuylkill and the Susquehanna. "The work was abandoned and sold for a song, including the masonry of 100 lift locks, 3 guard locks, with buildings, machinery and pumps, all of which had cost more than $6,000,000, which melted away from the estates of widows, orphans, and capitalists all over the Commonwealth."48

48 "Union Canal Data Vast Historical Reservoir," in BDIA, April, 1946, p. 13.
The Delaware and Hudson, a privately operated waterway which connected Honesdale, Pennsylvania, with Rondout on the Hudson, was finally sold for $10,000 because its traffic was taken away by the Erie Railroad. The state of Pennsylvania got a larger share of its investment out of the sale of the main line of the public works to the PRR than did the stockholders of the private Delaware and Hudson Canal Company.

In this connection, one part of the state canal system is worthy of special notice. It is the Beaver-Erie Canal, which joined Lake Erie and the Ohio River. Public construction between Conneaut Lake and the Ohio River cost so much—about four million dollars—that the works were turned over to a private company for operation. But the railroad between Erie and Pittsburgh, built in 1864, bankrupted the private company, and soon the canal was abandoned. That portion of the waterway, from Conneaut Lake to Erie, which had always been privately operated, likewise went into the limbo of forgotten things when it was sold at sheriff's sale in 1876.

Nevertheless, it would be contrary to the facts to say that the digging of this stretch of artificial waterway from Lake Erie to the Ohio River was a useless expenditure of money. Or that the monetary aid from Stephen Girard's will, which helped finance the project, was wasted. It is the opinion of Homer T. Rosenberger that the Beaver-Erie Canal "probably made possible the concentration of the iron and steel industry in the Pittsburgh area."

When this company was about to collapse in 1827 because private capital was no longer available, the state of New York lent it $400,000 to keep construction going. See E. D. LeRoy, "Delaware and Hudson Canal Pioneer Coal Carrier," in BDIA, November, 1945, pp. 4-5.


John Elmer Reed and John Irvin Cretzinger, "The Old Erie County Canal, Its History and Service," in BDIA, July-August, 1948, pp. 3-7; September, 1948, pp. 3-7; October, 1948, pp. 8-10; December, 1948, pp. 10-13; January, 1949, pp. 5-9; February, 1949, pp. 18-22; March, 1949, pp. 15-18; April, 1949, pp. 19-20; and May, 1949, pp. 24-32.

Homer T. Rosenberger, "Philadelphia's Influence on Pennsylvania Transportation Development," in BDIA, November, 1949, pp. 12-13. See also Clara M. Cassel, "Canal Routes Subject of Bitter Battles," in BDIA, August, 1939, p. 16. Girard willed $300,000 to the state for use in internal improvements. Part of his money was used to continue the digging of the West Branch Canal when it was about to stop for lack of appropriations from the assembly. Surely here is an interesting instance of the partnership of private and public initiative, only in this case it was private aid coming to the support of public initiative instead of the other way around.
That railroads, whether public or private, were likely to be efficient and profitable is brought out by the case of the publicly owned Columbia and Philadelphia Railroad. This artery of commerce, which was started in 1829 and which cost the state about eleven millions, had produced about nine millions in revenue by 1853. It was a paying proposition and would soon have wiped out its debt and then made money for the state, had it not been sold to the PRR along with the canal system and inclined planes over the mountains. Even if the public canals should have been traded away because they were unremunerative, there was no point in including the state's profitable railroad in the sale if the question of profit and loss was the primary reason for getting rid of the public works. As Hubertis Cummings has put it: "The baby needed not be thrown out with the wash."54

This analysis should not be closed without a quick look at several municipalities which owe almost their entire existence to public activity. First, State College borough. In 1855, when the farmers' high school began, the land upon which the borough was later to be located was practically valueless for taxing purposes. Private property has grown since then until in 1951 real estate in the borough of State College was assessed at $4,476,830. Inasmuch as assessment is at about a fifth of actual value, the story is one of growth from practically nothing to 22 million dollars in less than a century. This figure is exclusive of a rather large amount of untaxable property, of which the college itself, worth 38½ millions, is the greatest.55 Surely we have here a rather potent

50 The prosperity of this line is all the more remarkable when it is recalled that the legislature chartered the private Lebanon Valley Railroad which practically paralleled the Columbia and Philadelphia (Hartz, p. 53). In addition the private companies using the rails cheated the government to such an extent that public inspectors had to be put on the trains to check on the number of passengers being carried by the private companies. In 1842 Governor Shunk declared that the state was reaping a return of three per cent on its investment, whereas the private companies were using the state's property and making nearly 200 per cent on their investment (Hartz, p. 146).
52 These figures are taken from a letter to the author, dated January 14, 1952, from Hon. Edward L. Willard, District Attorney of Centre County, an authority on the history of State College borough. Mr. Willard says: "It is almost impossible to secure a valuation in 1855 of the town because it was then part of Harris Township. In the course of searching many titles I have learned that for practical purposes there would be no value whatsoever until about 1875. From that point the town developed rather rapidly until it became a Borough in 1897 and had a separate assessment. Originally there were some good farms but they were like any other good farms in this or any other county."
example of the way in which public initiative creates private wealth.

Harrisburg is another urban entity which owes most of its existence and prosperity to governmental activity. The assessed valuation of private property in the city is 119 millions of dollars. Undoubtedly this figure does not represent assessment at "market price." The nontaxable property in the city amounts to 53 millions, of which sum, state property accounts for 24 millions. To put it another way, 24 millions of state property have been largely instrumental in producing private wealth assessed at 119 millions.

No historian can drive through the pretty little village of Aaronsburg without thinking what it would be like had it been selected as the state capital. It is quite literally a "wide place in the road," because the people hoped its wide street would be a help in persuading the legislature to choose it as the state capital. Suppose Harrisburg had lost and Aaronsburg had won? Then, to a large degree, the situation vis-à-vis the two places would be reversed. Instead of having about 350 people, Aaronsburg might well have a 100,000 or more. It, too, might be assessed at 119 millions instead of about 178,000 dollars. Of course it must be said that Harris's Ferry would have become a city of reasonable size even if it had not become the state capital. Yet the principal fact remains, namely, that much of what Harrisburg is today Aaronsburg would have become simply because of public initiative. It goes without saying that that is the very reason why Harrisburg, Aaronsburg, Millville, and other places wanted to be chosen: state business produced private wealth and prosperity.56

No extensive concluding paragraphs are called for, because the conclusion is self-evident within the paper. Government—particularly in the economic sphere—can become dictatorial and tyrannical, as this generation knows from observing Hitlerite Germany and Stalinist Russia. However the case may be elsewhere, the history of Pennsylvania proves that government in the economic sphere has been benevolent and helpful, rather than dictatorial and tyrannical—aiding in the creation of private wealth rather than destroying it.

56 Similar struggles often occurred in counties over county seats. In Snyder County there was a rather bitter hassle between Middleburg and Selinsgrove in 1865 over which should get the boon of county business. See Dunkelberger, op. cit., pp. 69-70.