



incentives

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DISCUSSION & REVIEW QUESTIONS:

- Towards the beginning of the video we learn from Professor Folsom that, “The government is a very poor investor. And always has been.” Why do you think that this is the case? Why do you think that the government hasn’t improved at investing over the years?
- In answering the question, “How was Hill able to do with private funds what the Union Pacific failed to do with a gift of tens of millions of federal dollars?” Professor Folsom explains that, “The starting point is incentives. The Union Pacific was paid by the government for each mile of road it built. It was in the railroad’s interest not to build the road straight. The more miles it took UP to cross Nebraska, for example, the more money it made. Hill, by contrast, used his own capital. To make a profit, he had to build his Great Northern Railroad sturdy and straight.” Why do you think that the government was so short-sighted in setting financial incentives for the railroad company? How much do you suspect corruption had to do with the failed outcomes relating to the government-funded efforts? Explain.
- Professor Folsom shares with us commentary, “As the San Francisco Chronicle concluded at the time: ‘The destruction of Langley’s machine should put an end to Congressional appropriations of any kind in every field of experiments which properly belongs to private enterprise.’ That remains good advice.” How do you think projects should be determined to ‘properly belong to private enterprise,’ in other words, how should it be decided that a project would be done better by a private company than the government, and who should make that decision? Why do you think that Professor Folsom considers this to be good advice?
- Towards the end of the video, Professor Folsom points out that, “Langley’s subsidized failure was similar to that of the Union Pacific. And the Wright brothers’ success resembled that of James J. Hill and the Great Northern Railroad. Langley and the Union Pacific were using other people’s money. They did not spend it as carefully as Hill and the Wright brothers spent their own money.” Why do you think that those who spend other people’s money tend to not spend it as wisely or as well? What is so significant about this difference, in terms of outcomes of the projects taken on and in terms of long-term sustainability of the company?
- Professor Folsom concludes the video with his summation that, “Economic growth comes from entrepreneurs risking their own money, not from politicians risking your money.” What fundamental principles make this the case? Considering that history has proven this notion to be true over and over, why do you think that some people still advocate for the government to continue to fund even more endeavors?

EXTEND THE LEARNING:

CASE STUDY: James J. Hill

INSTRUCTIONS: Read the article “James J. Hill: Transforming the American Northwest,” then answer the questions that follow.

- What was ‘Hill’s Folly?’ How come Hill didn’t need government money to complete his railroads?
- How did Hill advance farming? What was Hill’s position and reasoning regarding tariffs? In what other areas of commerce did Hill do as good or better than the government?
- What ‘classic traits of a successful entrepreneur’ did Hill exhibit? What did Hill attribute his success to?



QUIZ

WHY PRIVATE INVESTMENT WORKS & GOVERNMENT INVESTMENT DOESN'T

1. **Why was the solar power company Solyndra's bankruptcy such big news?**
 - a. Its biggest investor was the Chinese government.
 - b. Its biggest investor was the auto industry.
 - c. Its biggest investor was the federal government.
 - d. Its biggest investor was the state of California.

2. **How long after the New York Times wrote that human flight might take a million years to accomplish did the Wright brothers fly their plane?**
 - a. 9 days
 - b. 9 weeks.
 - c. 9 months.
 - d. 9 years.

3. **James J. Hill and the Wright brothers funded their endeavors with _____.**
 - a. The government's money.
 - b. Foreign aid.
 - c. Their own money.
 - d. Large bank loans.

4. **Economic growth comes from politicians risking your money.**
 - a. True
 - b. False

5. **Which of the following railroads with massive federal aid was successfully built without financial troubles?**
 - a. Union Pacific
 - b. Central Pacific
 - c. Great Northern
 - d. None of the above.



QUIZ - ANSWER KEY

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James J. Hill: Transforming the American Northwest

Hill Was One of the Greatest Entrepreneurs in American History

- [Daniel Oliver](#)

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In 1962 Ayn Rand gave a lecture titled “America’s Persecuted Minority: Big Business” in which she identified two types of businessmen.¹ Burton Folsom, Jr., later called these “economic and political businessmen,” the first, self-made men who earned their wealth through hard work and free trade, and the second, men with political connections who made their fortunes through special privileges from government.

James Jerome Hill, builder of the Great Northern railroad, was the only railroad entrepreneur of the nineteenth century who received no federal subsidies to build his railroads. All other builders, such as Cornelius Vanderbilt, received aid. Perhaps more than any other American, Hill helped to transform the American northwest by opening it to widespread settlement, farming, and commercial development. In the process, he became one of the wealthiest men of the Gilded Age, amassing a fortune estimated at \$63 million.²

Some critics have charged that Hill did indeed receive federal subsidies to construct the Great Northern.³ But this charge confuses federal subsidies with land grants. Unlike a taxpayer subsidy, a land grant is the ceding of unimproved government land to a private developer. Critics wrongly assume that government has the power to acquire land by non-Lockean means—that is, by simply claiming to own it without “mixing one’s labor with the land.”

Early Career

Hill was born in the small town of Rockwood in southern Ontario, on September 16, 1838. Because his father died when Hill was young, he had to temporarily forgo formal education to help with family finances. Showing academic ability, however, he received free tuition at Rockwood Academy. Hill later

lost an eye to an accidental arrow shot, preventing him from pursuing the career in medicine that his parents had hoped for.

At 18 Hill became interested in the Far East and decided on a career in trade. He headed west in hopes of joining a team of trappers, arriving by steamboat in St. Paul, a major fur-trading center, on July 21, 1856. However, Hill missed the last brigade of the year and had to stay in the city. Nonetheless, he grew to like St. Paul and decided to remain there.

Hill's first job was as a forwarding agent for the Mississippi River Steamboat Company. He set freight and passenger rates and learned about steamboat operations. Unable to fight in the War Between the States because of his eye, Hill organized the First Minnesota Volunteers. He also worked as a warehouseman, pressing and selling hay for the troops' horses. It was here that he learned how to buy and sell goods at a profit and use the least expensive method to ship goods.

After the war, Hill became an agent for the First Division of the St. Paul & Pacific Railroad. At the time the line used wood for fuel. Hill believed rightly that coal would be cheaper, so he made a contract with the company to supply it. He also formed a business with Chauncey W. Griggs, a Connecticut man in the wholesale grocery business. Together they created Hill, Griggs & Company, a fuel, freighting, merchandising, and warehouse company.

Hill later became interested in the Red River of the North that flows north to Lake Winnipeg. Since Fort Garry (now Winnipeg) was an important Hudson's Bay Company trading post, Hill began transporting personal belongings there. Later, Hudson's Bay employee Norman Kittson left the company to join Hill in forming the Red River Transportation Company.

In 1870 Hill traveled up the Red River to investigate a French and Indian mob that had captured Fort Garry. During that trip and others, Hill saw the rich soil of the region while observing the St. Paul & Pacific's steady decline. He became convinced that he could make the line profitable by extending it to Fort Garry. When the panic of 1873 put the railroad under receivership, he saw his chance to buy it and other lines in crisis.

Hill and Kittson went to Donald Smith of the Hudson's Bay Company and told him their plan. Smith offered money and approached George Stephen, president of the Bank of Montreal. Together, the four of them bought the St. Paul & Pacific for \$280,000 (\$3.9 million current), which Hill estimated as only 20 percent of its real value.

Hill purchased rails, rolling stock, and locomotives, and hired laborers who laid more than a mile of track a day. In 1879 the tracks were connected at St. Vincent, Minnesota, to a Canadian Pacific branch from Fort Garry. Since the Canadian Pacific's transcontinental route was not yet completed, all traffic through Fort Garry had to use Hill's route. He received two million acres of land through the Minnesota Land Grant for completing the rail line on time. He also renamed his railroad the St. Paul, Minneapolis, & Manitoba. His timing was perfect since the area experienced two exceptional harvests that brought extra business. In addition, a major increase of immigrants from Norway and Sweden allowed Hill to sell homesteads from the land grant for \$2.50 to \$5 an acre.

Expanding the Line

During his planning of the St. Paul, Minneapolis, & Manitoba, Hill was also involved in the construction of the Canadian Pacific Railway. While Donald Smith and George Stephen were leaders behind this transcontinental route, Hill gave advice about selecting routes and construction techniques. But because the Canadian Pacific would soon be in competition with his own planned transcontinental route, Hill resigned from the business and sold all his stock in 1882.

Only a year after his purchase of the St. Paul & Pacific, Hill decided to extend his railroad to the Pacific. Many thought that he could never do it. Never before had someone tried to build a railroad without government land and grants. Railroads like the Union Pacific, Central Pacific, and Northern Pacific were all given millions of acres of government land to build their transcontinental routes. People thought that even if Hill could achieve his dream, he wouldn't be able to compete with government-funded lines. His quest came to be known as "Hill's Folly."

The St. Paul, Minneapolis, & Manitoba reached Minot, North Dakota, in 1886. Because the Northern Pacific had steep grades and high interest charges, and was saddled by high property taxes, the new railroad resulted in a much more profitable route.

A railroad line would obviously help the economy of any town it passed, so Hill was able to get good rights of way. However, one town, Fort Benton, Montana, rejected Hill's request for a right of way. He decided to cut it off by building around it. Showing his attitude toward those who tried to stand in his way, Hill left Fort Benton one mile from the railroad.

After very quick construction using 8,000 men and 3,300 teams of horses, the St. Paul, Minneapolis, & Manitoba reached Great Falls in October 1887. Hill connected it there with the Montana Central Railroad, which went on to Helena, bringing lots of new business. In 1890 he consolidated his railroad into the Great Northern Railroad Company.

Hill also encouraged settlement along the lines by letting immigrants travel halfway across the country for \$10. In addition, he rented cheap freight cars to entire families. These strategies, rarely used by other railroads, encouraged even more business.

In 1893, the St. Paul, Minneapolis, & Manitoba reached Puget Sound at Everett, Washington. However, during the same year, a panic put the Northern Pacific as well as the Santa Fe and Union Pacific into receivership. Hill made an agreement with businessman Edward Tuck and Bank of Montreal associate Lord Mount Stephen to buy the Northern Pacific. A stockholder objected, however, arguing the deal would violate Minnesota law, and the agreement was stopped. But Hill got around this by having his associates help buy Northern Pacific stock as individuals instead of as a company. The Northern Pacific became part of the Great Northern in 1896. The lines came to be widely known as the "Hill Lines."

Hill realized that the only eastbound traffic for the first few years would be lumber, and this would make the line less profitable than it might be. Wishing to acquire a line to Chicago and St. Louis, where he could deliver the lumber, Hill researched the Chicago, Burlington & Quincy railroad that stretched from the Great Lakes to the Rocky Mountains. This acquisition would also give him a line that could haul cotton to St. Louis and Kansas City and connect to the smelters of Denver and the Black Hills. The trains would be kept full at all times. Working with J.P. Morgan, Hill succeeded in purchasing the Chicago, Burlington & Quincy.

Hill now began to expand his shipping empire internationally via Seattle. He supplied Japan with cotton from the south and shipped New England cotton goods to China. He also shipped northern goods such as Minnesota flour and Colorado metals to Asia.

Hill continued to expand his railroads in the early twentieth century. He bought the Spokane, Portland, & Seattle Railway and added a 165-mile line from Columbia along the Deschutes River to the town of Bend. He also purchased several electric rail lines to compete with the Southern Pacific, and an ocean terminal at the mouth of the Columbia River near Astoria. He had two large steamships that operated between the terminal and San Francisco. This proved to be good competition for the Southern Pacific.

Conservation

Hill had many other business interests, including coal and iron-ore mining, shipping on the Great Lakes, finance, and milling. A major related interest was farmland conservation. Hill was widely known in his day as a leader in this area. Unlike most environmentalists today, Hill believed that natural resources should be privately owned and locally controlled, although in some cases he believed state-level ownership was justifiable. He considered the federal government too distant to competently manage resources. Indeed, he once criticized the U.S. Forest Service, saying “the worst scandals of state land misappropriation . . . are insignificant when compared with [its] record.”⁴

His interest in conservation stemmed both from his concern for the nation’s food supply, a popular philanthropic cause at the time, and from business concerns. Since his railroads largely transported agricultural products, Hill paid close attention to fluctuations in the grain markets. Falling grain yields in the Great Plains would mean fewer goods to transport.

Believing that better farming methods would both increase yields and conserve soil quality, Hill used his own resources for agricultural research and the dissemination of findings to farmers. He even had his own greenhouse that served as a laboratory. He hired agronomy professor Frederick Crane to do soil analyses in Minnesota, Montana, and North and South Dakota. Farmers were paid to cultivate experimental plots on their land according to Crane’s instructions. These were a tremendous success, yielding 60 to 90 percent more than the conventional acreage of the time.

In a speech, Hill once said, “Out of the conservation movement in its practical application to our common life may come wealth greater than could be won by the overthrow of kingdoms and the annexation of provinces; national prestige and individual well-being; the gift of broader mental horizons, and best and most necessary of all, the quality of a national citizenship which has learned to rule its own spirit and to rise by the control of its desires.”⁵

In 1908 President Theodore Roosevelt invited Hill to a governors conference on conservation and appointed him to a lands commission. Hill was never very pleased with the position, preferring action to talking, but he did make his views known.

Hill was also a major philanthropist. He supported the Roman Catholic seminary in St. Paul and endowed the Hill Reference Library, which operates to this day.

Views on Government

Hill was a great champion of free markets. He was particularly critical of tariffs, calling them “a great enemy of conservation” and pointing out that by prohibiting imports of such products as timber from other countries, the United States was accelerating the depletion of its own. Regarding the federal government’s ability to conserve resources, he once said, “The machine is too big and too distant, its operation is slow, cumbrous and costly.”⁶

A 1910 speech to the National Conservation Congress in St. Paul summarizes Hill’s views on government. He remarked:

Shall we abandon everything to centralized authority, going the way of every lost and ruined government in the history of the world, or meet our personal duty by personal labor through the organs of local self-government, not yet wholly atrophied by disuse. . . ? Shall we permit the continued increase of public expenditure and public debt until capital and credit have suffered in the same conflict that overthrew prosperous and happy nations in the past, or insist upon a return to honest and practical economy?

Summing up, Hill once said, “The wealth of the country, its capital, its credit, must be saved from the predatory poor as well as the predatory rich, but above all from the predatory politician.”⁷

A Classic Entrepreneur

In 1907, at the age of 69, Hill turned over leadership of the Great Northern to his son, Louis W. Hill. But he remained active in running his railroads and went to his office in St. Paul every day.

In May 1916, Hill became ill with an infection that quickly spread. He went into a coma and died on May 29 at the age of 77. At 2 p.m. on May 31, the time of his funeral, every train and steamship of the Great Northern came to a stop for five minutes to honor him.

Hill exhibited the classic traits of a successful entrepreneur. He diligently studied all aspects of his businesses, such as which was best for carrying track about to be laid: caboose, handcar, horse, locomotive, or passenger coach. He did all the analyses of grades and curves himself and often argued with his engineers and track foremen, demanding changes that he felt necessary. He insisted on building strong bridges made with thick granite and using the biggest locomotives and the best quality steel.

At the end of his life a reporter asked Hill to explain the reason for his success. He replied simply that it was due to hard work. That hard work earned him the title “the Empire Builder,” and at the 1915 Panama-Pacific Exposition in San Francisco he was named Minnesota’s “greatest living citizen.”

Hill was remarkable because he developed an area that most people thought never could be developed. His railroads made Minnesota and the Dakotas major destinations for huge waves of immigrants. In fact, Hill sent employees to Europe to show slides of western farming in efforts to urge Scotsmen, Englishmen, Norwegians, and Swedes to settle in the Pacific northwest. As a result, more than six million acres of Montana were settled in two years. And because of Hill, the small town of Seattle, Washington, became a major international shipping port.

James Jerome Hill has rightly earned a place as one of the greatest entrepreneurs in American history.

Notes

1. Ayn Rand, “America’s Persecuted Minority: Big Business,” in *Capitalism: The Unknown Ideal* (New York: Signet, 1967), pp. 44–62.
2. A good source of information on Hill is Albro Martin, *James J. Hill and the Opening of the Northwest* (St. Paul: Minnesota Historical Society, 1991).
3. See, for example, Michael P. Malone, *Empire Builder of the Northwest*, The Oklahoma Western Biographies, vol. 12 (Norman, Okla.: University of Oklahoma Press, March 1997).
4. James J. Hill, “Railroad Magnate and Conservationist,” www.csua.net/~cda/hill.html.
5. Ibid.
6. Ibid.
7. Ibid.

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