Three R’s of Economic Development: Real Estate, Rice, and Railroads

1. Introduction

Three industries have encouraged economic development throughout the United States and in Southeast Texas. This study examines impact of real estate, rice, and railroads on national and Southeast Texas economic development. These industries provide significant economic development for the nation and Southeast Texas.

The remainder of the paper is organized as follows: Sections 2 and 3 discuss the economic development of real estate and rice, respectively. Section 4 examines the economic impact of railroads. Section 5 provides conclusions and implications.

2. Real Estate

In the colonial period, land grants enticed Europeans to settle in the American colonies. In South Carolina, the Lords Proprietors acquired lands and allocated them to Landgraves and Caciques, a form of nobility, who controlled the lands (Norris and Cain, 2006). After the Revolutionary War, North Carolina land grants for Revolutionary War service encouraged settlement in Tennessee in the early 1800’s (Griffey, 2011).

In Georgia, with anticipation of future economic development, there came the notorious Yazoo Land Fraud. Several Georgia state legislators and US Senator James Gunn from Georgia accepted bribes to pass the Yazoo Act of 1794. The land, in current day Mississippi, was then part of Georgia. Four companies of land speculators: the Mississippi Company, the Georgia Company, the Georgia-Mississippi Company, and the
Tennessee Company fraudulently obtained lands given to the Choctaw, Chickasaw, Cherokee, and Creek tribes (About North Georgia). Below is a map of the Yazoo Land Fraud area (Source: Yazoo-Georgia Land Controversy).

James Jackson, the other US Senator from Georgia resigned from Congress and was elected to the Georgia state legislature to fight the land fraud. He was able to positively influence the repeal of the act by the Georgia Legislature on February 18, 1796. James
Jackson and others burned the Yazoo Act so that “fire from heaven” started by a magnifying glass may destroy the original act (Mississippi Local History Network).

In 1802, President Thomas Jefferson effected an agreement between James Madison, Albert Gallatin, and Levi Lincoln representing the United States and James Jackson, John Milledge, and Abraham Baldwin representing Georgia to cede Georgia’s land west of the Chattahoochee River in exchange for $1,250,000. In 1806, James Jackson died of wounds from attacks and duels related to the Yazoo Fraud. Although the court admitted that the lands were obtained by fraudulent means, in 1810 the US Supreme Court Fletcher v. Peck decision overturned the repeal of the Yazoo Act stating that the land claimants obtained the real estate via a valid contract. The speculators were awarded more than $4,000,000 (About North Georgia).

Texas land grants have a long history. In 1716, the first land grant came from the Spanish crown to establish a mission and presidio in East Texas. In Texas, land grants contributed to the settlement of Texas and provided significant incentives for the expansion of railroads in Texas and in the United States. In January 1821, Moses Austin received the first Anglo land grant to settle on the Brazos River. After his father’s death, Stephen F Austin assumed the contract to bring 300 Catholics from Louisiana. Although the grant was voided after the Mexican War of Independence, Austin renegotiated a new contract in 1823. Below is a map of Coahuila and Texas in 1833 (Source: wikimedia.org).
Thereafter, many new settlers came from the American frontier. The Republic of Texas used land grants to encourage settlements, education, and economic development. As a State, Texas used homestead grants to encourage settlement and economic development (Lang and Long). Thus, real estate has been a vital ingredient for the settlement and subsequent economic development of the US and Texas.

However, in the United States real estate speculation led to several economic downturns including the Panic of 1797, the 1815-1821 Depression, the Panic of 1837, the 1930s Depression, the savings and loan crisis of the late 1980s, and the recent 2008 recession (Goldstein). The latest real estate bust suffered from poor judgment throughout the residential real estate spectrum. Buyers did not have to show that they had the means to adequately purchase their homes. Real estate brokers could earn an origination fee
without having to service the mortgage. These mortgages and others were sold to Fannie Mae and Freddie Mac who guaranteed the mortgages. Speculation in derivatives based on the flawed mortgages further added to the real estate and financial crisis of 2008. Economic development has resumed given the recent stability in real estate markets nationwide. In Texas, real estate market volatility was limited due to annual restrictions on refinancing. This abated the overly speculative price movements that plagued other jurisdictions.

3. Rice

Rice needs land with available water, such as the low country of South Carolina or in Southeast Texas. In 1694, Landgrave Thomas Smith introduced rice into the US and South Carolina as a gift from a Madagascar ship’s captain. Given a gracious reception in Charleston harbor, the captain gave Smith, a former resident of Madagascar, a bag of rice seeds (Lewis, 2013). However, the settlers of South Carolina, mostly Europeans, were inexperienced at farming rice. The Gullahs, slaves from Sierra Leone, were adept at rice farming and commanded higher prices in the slave market than others. Also, the Gullahs adapted to the malaria infested low country of South Carolina (along the South Carolina coast) (Opala). In the 1880s Louisiana and Southeast Texas received rice from Japan. The increased competition from Louisiana, Texas, and others precipitated the collapse of the South Carolina rice economy in the 1890s (Opala). Today Arkansas, California, Louisiana, Texas, Mississippi, and Missouri are major rice producers with an output of 20 billion pounds, of which 50% was exported in 2012 (USDA, 2013). In 2009, US rice farms provided $2.6 billion in value added to the economy and over 36,480 jobs. Total
rice production which includes farming, rice milling, and end users (such as brewers) provides over 128,000 jobs and adds approximately $18 billion to the US gross domestic product (Yunich, 2011).

Major producers of Texas rice are Wharton, Colorado, Matagorda, Brazoria, Jackson, and Jefferson Counties (Texas Almanac, 2012). Although water is a critical resource for rice farmers, in a twenty-year period ending in 2011, rice producers have collectively reduced land and water usage by 21% and 32%, respectively (USA Rice Federation).

In times of lower or uncertain rice prices, farmers look to alternative crops: corn in Arkansas and crawfish (“mud bugs” or crayfish) in Louisiana, Texas, and Mississippi. Texas crawfish farming evolved for two major reasons. First, parts of Southeast Texas with hot, low-lying bayous are ideal for rice crops. Second, rice fields provide an excellent environment in which to raise crayfish (King, 1984). Starting with one crawfish farmer in 1977, today, Texas crawfish production has increased to 20 producers of 800,000 pounds of rice over 1,500 acres and an estimated crop value of $1,000,000 (Treece, 2012).

4. Railroads

Railroads, the third leg of economic development, began with passenger traffic from the Best Friend of Charleston on the Columbia and South Carolina Railroad in 1830. The steam powered train traveled at the speed of thirteen miles per hour from Charleston to Columbia, South Carolina. However, a few months later the boiler exploded. Passenger
trains are now limited to short Amtrak runs on the East Coast and long distance runs from California to Georgia. The Sunset Limited from Los Angeles to New Orleans serves Beaumont, Texas six days a week.

Today, freight dominates railroad traffic. The Pacific Railroad Act of 1862 encouraged construction of the Transcontinental Railroad. Land grants encouraged the expansion of rail traffic from Omaha, Nebraska to the West Coast on the Transcontinental Railroad. The railroad construction encouraged immigration and economic development. Chinese workers provided the labor for the Central Pacific Railroad from Sacramento, California to Promontory Point in Utah. Thus, one should not be surprised to see a long-standing Chinese restaurant in downtown Salt Lake City. Irish immigrants, freed slaves, and Civil War veterans provided labor for the eastern leg of the Transcontinental Railroad from Omaha, Nebraska. The railroad was completed in 1869 (History.com). As oil and other mineral resources were discovered in the railroad land grants, the railroad companies further benefited, as did the local economies. Below is a map of the route for the Transcontinental Railroad (Source: Transcontinental Railroad.com).
In 2010, with more than 175,000 workers nationwide freight railroads provided more than 1.2 million additional jobs nationwide. Thus, a job in daily freight rail operations sustains over 4.5 other jobs (Association of American Railroads, 2012). Freight railroads annually move more than 70% of US coal, 58% of raw metal ores, and over 30% of grain shipments. Also, freight railroads account for one third of all US exports (Select USA, 2013).

In the early days of the Texas Republic, the lack of railroads hampered commerce. The first railway, a twenty-mile segment from Harrisburg (now part of Houston) to Stafford’s Point (now Stafford, west of Houston), was completed in September, 1853, eight years after Texas was admitted into the Union. A lack of sufficient local capital to finance the early railroads created the need for incentives. First, until prohibited by the Texas Constitution in 1876, cities and counties issued bonds. As another source of funds, the
state provided loans. Six of the pre-Civil War railroads borrowed $1,816,500 from the Special School Fund ($6,000 per mile of track) and repaid $4,172,965 in principal and interest (Werner).

Initially, state land grants, a third incentive, provided eight sections of land per mile of railroad, but this proved to be insufficient. The general land grant law of 1854 authorized sixteen sections per mile. Land grants continued until prohibited by the Constitution of 1869. However an amendment was passed in 1874, followed by an 1876 law that essentially restored the 1854 law. Thereafter, when no public land was available, the land grant law was repealed (Handbook of Texas Online). Railroad land grant estimates range from 27,000,000 acres to 35,780,000 acres (Werner).

The Texas and Pacific land grant in West Texas provided a special opportunity. The Texas and Pacific Land Trust was created from the 1888 bankruptcy of the Texas and Pacific Railway, a Jay Gould enterprise. Bondholders of the Texas and Pacific Railway Company received 3.5 million acres of Texas land pledged as collateral for the bonds. The bondholders created the Trust and exchanged their bonds for shares in the Trust, created to manage and sell the land. The Trust, one of the largest Texas landowners, now owns 921,916 acres located in eighteen counties. The Texas and Pacific Land Trust receives revenue from oil and gas royalties, grazing leases, easements, sundry and specialty leases, and land sales. The Trust has a perpetual oil and gas royalty interest in 459,200 acres (Texas and Pacific Land Trust). The units are publicly traded on the New York Stock Exchange, symbol TPL.
In Texas and in Southeast Texas the major railroads are the Union Pacific, Burlington Northern, and the Kansas City Southern. These railroads serve the Port of Beaumont that contributes $150 million annually and 2000 jobs to the economy of Southeast Texas. The Port of Beaumont is strategically located on the Sabine Neches Ship Channel. The Burlington Northern Santa Fe links the port with the country west of the Mississippi River. The Kansas City Southern connects the port to the Midwest and Mexico. The Union Pacific supports the Mississippi Valley, Great Plains, and Western United States trade with the port (Doyle).

The Port of Beaumont handles the largest amount of military cargo in the United States. Also, it is the largest oil importer in the US. In addition, the Port handles significant amounts of iron, steel, forest products, dry bulk, and grain (including rice, a major export) (Doyle). Over 120 million tons of cargo passes through the port annually. Port expansion is planned or underway for a 455 acre addition in Orange County that will double the Port’s size and a deepening of the Sabine Neches Channel to allow for larger ships that currently must reduce their cargo by half to enter the channel (Discover Southeast Texas).

5. Conclusions and Implications

The three R’s of economic development: real estate, rice, and railroads are inter-related. Rice and railroads require real estate. The railroads add value to real estate and provide a means to transport rice and other products to market. In turn, rice and other cargo provide revenue for railroads. The introduction of rice into the United States provided a food
staple that developed into a major grain export. Freight railroads accelerated economic
development. Also, land grants provided the incentive for Texas frontier settlement and
for the westward US and Texas railroad expansion. However, history shows that
excessive land speculation can lead to economic downturns or fraud. Hopefully the
lessons learned from the recent economic downturn will effect sound economic
development.
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