The XIT Ranch of Texas:
A Capitol Capital Budgeting Project

By Brian Grinder and Dan Cooper

The residents of the remote Texas Panhandle town of Tascosa were treated to quite a sight on a spring day in 1882 when a large wagon train accompanied by the U.S. Army rolled into town. In an Army ambulance sat Amos C. Babcock who had come to take a look at land his company had just acquired in exchange for agreeing to construct the new capitol building in Austin. Historian Lewis Nondyle humorously describes Babcock as he entered Tascosa, “He sat at a desk-like table in the shade of the tarp, a dumpy heavy-set civilian wearing a soft fedora. In itself, the hat was sufficient to arouse curious comment among the people of Tascosa. But there was still more to engage the eyes. The man was reading a book! Occasionally his gaze shifted from the pages before him to dart from side to side, never resting on any single object, but quickly appraising and dismissing—contemptuously, it seemed—all aspects of the isolated town.”

Babcock, who didn’t know a Texas longhorn from a dairy cow, fit the definition of “greenhorn” to a T. He hired several locals to help him conduct a survey of the newly acquired property and spent the spring wandering over three million acres of land that neither he nor his partners had seen before striking the deal with the state of Texas. While out on the open prairie, Babcock, who brought along his own private supply of food, balked at eating anything that was prepared by the cook because once the supply of wood ran out, he was forced to cook over a “prairie coal” fire that was fueled with cowchips. In spite of the conditions, Babcock made a thorough observation of the land then wrote a report where he estimated (conservatively by his reckoning) that by grazing 150,000 cattle over a 5-year period on the ranch, a gain of $4,561,031 or 30 percent per year could be realized from an investment of $3 million. Nordsyck wryly commented that Babcock neglected to include “bulls... fire, drought, blizzard, wolves, and the fierce determination of home-seekers” in his analysis. Also absent from his analysis was any possibility of an oversupply of Texas range cattle that could cause prices to drop dramatically and the highly likely probability that this semi-arid region would lack an adequate water supply to maintain such a large cattle operation. Thus began the XIT Ranch.

After the War Between the States and Reconstruction, Texas was readmitted to the Union in 1870. During the Constitutional Convention of 1875, delegates from the money poor but land rich state wrestled with how to replace the current capitol building which was a fire hazard. A provision was included in the new Constitution that reserved three million acres of land in the panhandle to be used to fund the new capitol building project. A new state house wasn’t a high priority for most Texas legislators until the old capitol building burned to the ground on November 9, 1881. The now urgent need for a new building prompted the state to advertise for bids, but very few of those interested in bidding had the wherewithal to handle a major construction project.

Cowboys on the XIT Ranch, 1904.
and simultaneously develop such a vast area of land.

Charles Farwell was an Illinois congressman; his brother John was the owner of a large international wholesale dry goods business that was based in Chicago, and his access to financial capital was virtually unlimited. When talk of the Texas land-for-capitol-building proposal reached Washington D.C., Charles, out of idle curiosity, asked some of his Texas colleagues about the proposal. When Charles later discussed the proposal with John, he was surprised to learn that John was very interested in obtaining the land. A syndicate, which included the Farwell brothers, Amos Babcock and Abner Taylor, was quickly formed, and the winning bid was soon on its way to Texas. Taylor, who had been the chief contractor in charge of rebuilding Chicago after the Great Fire, was tasked with overseeing construction of the capitol building while John Farwell began to arrange for the necessary financing.

The original estimate for building the new statehouse came in at $1.5 million dollars. This valued the 3 million acres in the Capitol Reserve at 50 cents an acre. The contract stipulated that the building would be ready for occupancy by January 1, 1888, and a groundbreaking ceremony was held on February 1, 1882. Taylor also had to construct a 15-mile railroad in order to transport Texas granite from the quarry to the building site. When completed in April of 1888, the capitol building, which is still in use today, was taller than the National Capitol in Washington D.C. The total cost to the syndicate was about $3.2 million, which meant that the land ended up costing over $1 an acre. As one Texas historian has noted, “the capitol remains an imposing red granite structure, the largest state capitol in the Union built with the least expenditure of money.”

As construction on the capitol progressed, the Farwell group was faced with how to best use the land. Since the value of agricultural real estate was somewhat depressed, and since outright ownership of the lands was to be transferred from the state in stages (with the land being in complete control of the syndicate only upon completion of the capitol building), selling the land to homesteaders was initially out of the question. Thus it
was decided to turn the entire 3 million acres into one of the largest ranches in the world. In order to raise the huge amounts of capital needed to develop the ranch and build the capitol, John Farwell travelled to England in 1885, organized the Capitol Freehold Land and Investment Company, Ltd., and began to raise capital in the form of debt. The American cattle business was a hot prospect in England, and Farwell quickly raised a million pounds sterling at an interest rate of 5 percent with maturities ranging from 5 to 10 years. Farwell had two important connections on the other side of the Atlantic. First, since Farwell maintained offices in Manchester and Belfast he was well known to British capitalists. Second, Farwell was a devoted Christian who had supported a young evangelist by the name of Dwight L. Moody and accompanied him on evangelistic crusades to Scotland and England in the early 1870s. Many individuals who knew him from these revivals invested in the enterprise, and one of Farwell’s acquaintances from the crusades, T.A. Denny, not only bought bonds but also played a key role in keeping British investors from pulling out soon after Farwell returned to the United States. A concerned Denny made a trip to the ranch in 1885 then returned to England with an enthusiastic report about the ranch’s prospects. The capital obtained from the British was used to pay ranch hands; fence the entire ranch; purchase cattle; build houses, corrals and other necessary ranch buildings; and provide water to thousands of thirsty cattle. By late 1886, the ranch was stocked with 100,000 head of cattle, 781 miles of barb-wire fence had been built, and the ranch operation was in full swing.

The interaction between the local cowboys who ran the ranch and the powerful Chicago businessmen who oversaw the operations was comical at times. Although the Farwells had grown up on a farm, they knew very little about ranching. Furthermore, John Farwell’s extreme religious convictions were at odds with the Code of the West. On his first visit to the ranch, John gathered all of the cowboys together on Sunday and awkwardly preached a sermon to them. Drinking, six-shooters, and gambling were strictly prohibited on ranch property. Sunday was designated as a day of rest, although allowances were soon made for work that was necessary to keep the ranch operating. It was clear that the unwritten Code of the West was being trampled by business magnates from the east. Yet the ranch operated efficiently given its size, and although serious issues arose with smaller neighboring ranches and local county and city governments, the XIT eventually learned to get along with others.

New breeds of cattle were introduced over the years to “replace the scruffy Texas cattle” with which the ranch was originally stocked, and a program of trailing cattle from Texas to leased land between the Yellowstone and Missouri Rivers in Montana was initiated in 1890 when it was found that cattle tended to fatten up better in the cooler northern climate. At the time, it was cheaper to trail herds than to ship them by rail since the cattle were able to graze for free on the grasslands between Texas and Montana. In spite of the fact that this process led to fatter cattle and increased profitability, the ranch was not able to meet its debt obligations, and in 1901 the ranch was forced to start selling land in order to repay the bondholders, “many of whom had held their bonds far beyond maturity with no prospect of redemption” (Duke and Frantz 1961). By 1912, the ranch was no longer running cattle and the syndicate was exploring the possibilities of colonizing the remaining land. John Farwell’s family continued to own part of the old XIT ranch until the 1960s.

The story of the XIT Ranch offers many insights into the pitfalls of capital budgeting analysis. First, even though the Farwells possessed plenty of political and economic clout, they never should have entered into the agreement with the state of Texas without a thorough examination of the land they were acquiring. Second, John Farwell was a very successful businessman, but his expertise in the wholesale dry goods business was not necessarily transferable to ranching. The syndicate made many mistakes simply because they did not understand the cattle business. Finally, the Farwell group seriously underestimated the risk of the project. This is clearly evident in Babcock’s analysis of the ranch’s prospects. The failure of the XIT Ranch to achieve profitability is a reminder that capital budgeting analysis is difficult, even under the best of circumstances. In the battle trenches of business, even the most experienced dealmakers forget that hot prospects and romantic notions can never replace careful analysis.

Sources


Nordyke, Lewis. Cattle Empire, the Fabulous Story of the 3,000,000 Acre XIT. New York: W. Morrow, 1949.