

THE MYSTERY of the "unaccountable fifth" has long been known to historians who have studied the origins of the Great Northern Railroad. Now a wider public has become aware of the enigma with the recent publication of *The National Dream*, Pierre Berton's popular account of the early history of the Canadian Pacific and its precursors.¹

For brief background, readers should be apprised or reminded of the fact that in March, 1878, the bankrupt St. Paul and Pacific Railroad, a forerunner of the Great Northern, came under the control of a Canadian-American syndicate of four men:

(1) George Stephen (later Lord Mount Stephen), a Scots-Canadian merchant in Montreal and then president of the Bank of Montreal. Primarily a financier, he was later president of the company which built the Canadian Pacific Railway.

(2) Donald A. Smith (later Lord Strathcona and Mount Royal), Stephen's cousin, then a senior executive of the Hudson's Bay Company and prominent in Manitoba politics. Involved with Stephen in industrial enterprise, he was also a director of the Bank of Montreal and in turn interested Stephen in the settlement of the West.

(3) James Jerome Hill of St. Paul, Canadian-born associate with Norman W. Kittson in the Red River Transportation Company which ran steamboats between St. Paul and Fort Garry (Winnipeg), became dedicated to the opening up of the West. He was later to leave the Canadian Pacific board in order to develop the Great Northern and became in the process one of the giants of American railroading.

(4) Norman W. Kittson, also Canadian-born, was Hudson's Bay Company agent in St. Paul. A transportation entrepreneur of more limited ambitions than the others, he was also to join the Canadian Pacific board.

In taking over the St. Paul and Pacific Railroad in 1878, the associates signed a formal agreement defining their shares in the enterprise as follows: "George Stephen, two fifths; Donald A. Smith, one fifth; Nor-

man W. Kittson, one fifth; and James J. Hill, one fifth; it being, however, understood and agreed between us that one half of the said two fifths interest so set off to the said George Stephen as above shall be held by him for the purpose of securing the necessary means to carry out and complete our said agreement. . . ."²

Shortly before, Stephen had returned from England where he had failed to raise the capital necessary to buy out the railroad's Dutch bondholders as well as the remaining American stockholder, one Edwin B.

A Footnote to History

The Unaccountable Fifth

Solution of a Great Northern Enigma

Heather Gilbert

¹ Pierre Berton, *The National Dream: The Great Railway, 1871-1881* (Toronto, 1970). For a review of this book, see p. 197 of this issue.

² Joseph Gilpin Pyle, *The Life of James J. Hill*, 2:428 (New York, 1917).

Mrs. Gilbert is a Scottish-born London resident whose first volume on the life of financier George Stephen, Lord Mount Stephen, came out in 1965 with the aid of the Louis W. and Maud Hill Family Foundation. This article is a result of her research for a projected second volume on Stephen.

Litchfield of Brooklyn, New York, to clear the bankrupt company's debts and to complete the railroad and extension lines. (A March 9, 1878, amendment to an 1877 act of the Minnesota legislature required the St. Paul and Pacific, in order to qualify for a land grant, to complete the road from Melrose to Sauk Centre by August 1, 1878, and to Alexandria by the following December 1. More time was allowed for construction of the section from Crookston to St. Vincent, but the associates wanted to build it as soon as

possible to meet the Pembina branch of the Canadian Pacific from Winnipeg.)³

The assumption of control by the associates had been made possible by the device, suggested by Stephen, of buying the bonds on credit on a relatively small down payment. Excluding the cost of building the main line, the sum immediately required was more than \$2,000,000. It was at this point that Stephen used his credit with the Bank of Montreal to secure a loan covered by the associates' independent security. A year later, when the new owners of the road, whose name had been changed to the St. Paul, Minneapolis and Manitoba, made an issue of \$8,000,000 worth of bonds, secured by a first mortgage upon the entire property, most of the former bondholders in Holland chose to be paid the balance due them in these new bonds in preference to cash. But half of the issue was taken up by a New York syndicate which included the local branch of the Bank of Montreal. By this time the New York agent for the Dutch bondholders, John S. Kennedy, had become closely involved in the negotiations, and his partner, John S. Barnes, had become a director of the new company.⁴ Kennedy, another Scottish emigrant of substantial means, headed a New York banking firm with European connections. Later (1881-83) he also would serve on the Canadian Pacific board.

None of these arrangements might ever have aroused comment had not the former receiver of the bankrupt St. Paul and Pacific line, Jesse P. Farley of Dubuque, Iowa, claimed that the spare one-fifth interest held by Stephen had been promised to him in recognition of services rendered and pursued his claim — unsuccessfully in the long run — in the courts.⁵ Pierre Berton, using such standard sources as the vast documentation of the Farley lawsuit, is understandably left with the question unanswered: What did happen to the extra fifth? "Did Stephen keep it for himself?" Berton asks. "If not, to whom did he give it? That it was not divided among the four partners seems clear from their subsequent court testimony, in which they appeared remarkably casual, unconcerned and even evasive about a slice of stock that came to be worth many millions."⁶

"We did not ask Mr. Stephen to account for it," said Smith. Under oath he recalled, according to Berton, the agreement "that Stephen would use the extra one-fifth 'as might be necessary in getting the aid of friends or in getting the money.' But what friends? Smith did not say; Stephen was not asked." All of this, says Berton, "can be subject to innocent interpretation but the question continues to rankle: who got the extra one-fifth?"⁷

An unsubstantiated clue in Oscar D. Skelton's *The Railway Builders* leads Berton to ponder over the role

of John S. Kennedy, who was subsequently found to have held an enormous quantity of the stock. But Berton concludes: "Perhaps Stephen himself kept the extra one-fifth though that is hardly in character. If he did, no one could say he had not earned it."⁸

At the time my first volume on Lord Mount Stephen, which Berton uses, was published (1965) I was unable to provide the answer. Indeed, I was more concerned about clearing up misunderstanding about Stephen's use of his credit with the Bank of Montreal. It costs money to get money; a great deal of money was required, and I was not unduly preoccupied with the unaccountable fifth.

BY A CURIOUS coincidence, the authoritative answer to Berton's question came into my hands almost simultaneously with his book, and I should like to take this opportunity to remove any lingering doubts as to Stephen's conduct in the matter. The answer is in a letter I discovered in the Royal Archives at Windsor Castle while doing research for the second volume of my biography of Lord Mount Stephen. Dated October 16, 1908, and sent from Brocket Hall, Hatfield, England, the letter was written by Stephen to Sir Arthur Bigge (later Lord Stamfordham, private secretary to Queen Victoria and subsequently to the Prince of Wales, later King George V).

In the letter Stephen was interested, by his own example, in getting wealthy acquaintances to subscribe generously to King Edward's Hospital Fund for London. (Originally the Prince of Wales's Hospital Fund, it was established in 1897 to commemorate Queen Victoria's Diamond Jubilee. The aim was to channel charitable gifts into one source which would redistribute them in the light of centralized knowledge of

³ Heather Gilbert, *Awakening Continent: The Life of Lord Mount Stephen*, 1:36, 41-44 (Aberdeen, Scotland, 1965); William Watts Folwell, *A History of Minnesota*, 3:459 (revised edition, St. Paul, 1969). W. L. Morton reviewed *Awakening Continent* in *Minnesota History*, 40:142-43 (Fall, 1966).

⁴ Gilbert, *Awakening Continent*, 43, 49-50.

⁵ Jesse P. Farley v. N. W. Kittson, 27 *Minnesota* 102 (1880), 14 *Federal Reporter* 114 (1882), 120 *United States* 303 (1887); Jesse P. Farley v. James J. Hill, 39 *Federal Reporter* 513 (1882), 150 *United States* 572 (1893). Titles of cases varied with the death of various litigants.

⁶ Berton, *The National Dream*, 327.

⁷ Berton, *The National Dream*, 327-328.

⁸ Berton, *The National Dream*, 328-329 (quotes). According to Oscar D. Skelton in *The Railway Builders: A Chronicle of Overland Highways*, 136 (Toronto, 1916), Stephen, Smith, Hill, and Kennedy each took one share and Kittson half a share, the remaining half share going to Richard B. Angus after he left the bank to become general manager of the railway.

need. The fund is still in existence, and King Edward VII's name remains associated with it.)

In his letter, Stephen disclosed: "When I first knew Kennedy in 1878 he considered himself a *very rich* man having by 20 years hard work accumulated \$500,000. He was agent for the Dutch Bondholders from whom I bought the Bankrupt St. Paul & Pacific Railway, which became the St. Paul Minn. & Manitoba Railway in 1879 & years afterwards the Gt. Northern; Kennedy was very useful to me. To reward him I gave him $\frac{1}{2}$ interest, making him equal to Hill, Kitson (*sic*) Smith & myself & that is how he became the Scotch millionaire."⁹

Stephen went on to relate how Kennedy and Hill both joined and subsequently left the Canadian Pacific. He ended the letter in this manner: "Why I am telling you all this ancient history I don't know. Forgive me! Always yours, Mount Stephen."

Perhaps this question, too, is now answered. The revelation need not necessarily reflect unfavorably on Kennedy. As I have written elsewhere, Stephen liked to have the line firmly drawn between what must be clearly stated and what it was nobody's business to know. In this case Kennedy's relations with the St. Paul railroad were not unlike those of Donald A. Smith with the Canadian Pacific. When the CPR board was published, Smith's name was left out because the contract had to be approved by Parliament and Smith was decidedly unpopular with many members. Nevertheless Smith contributed his share, and he was officially named a director in 1883.¹⁰

To have his name linked with those of Stephen, Hill, Kittson, and Smith while he (Kennedy) was still acting for the Dutch bondholders might well have caused damaging comment. There is no doubt that the Dutch, at the end of the day, were entirely satisfied with their agent's work on their behalf.

⁹ The author acknowledges, with gratitude, the gracious permission that Queen Elizabeth II gave to publish this extract from a paper in the Royal Archives at Windsor Castle.

¹⁰ Gilbert, *Awakening Continent*, p. 50-51.

THE PICTURE of Donald A. Smith on this page is the frontispiece of John Macnaughton, *Lord Strathcona*, part of vol. 10 in *The Makers of Canada Series* (New York, 1926); that of George Stephen faces p. 240 of Walter Vaughan, *Sir William Van Horne*, also part of vol. 10. The same portrait, by Frank Holl and now owned by Mr. E. Boris M. S. Reford of Montreal, Quebec, is used as the frontispiece of Heather Gilbert, *Awakening Continent*. The picture of John S. Kennedy is from *The New York Genealogical and Biographical Record*, 41: facing p. 136 (July, 1910). The other pictures are from the society's collection.



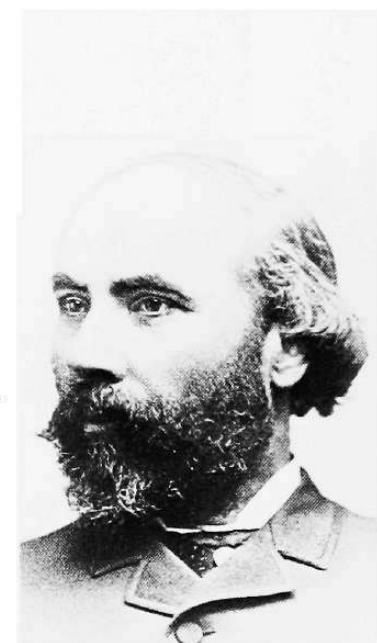
GEORGE STEPHEN



JOHN S. KENNEDY

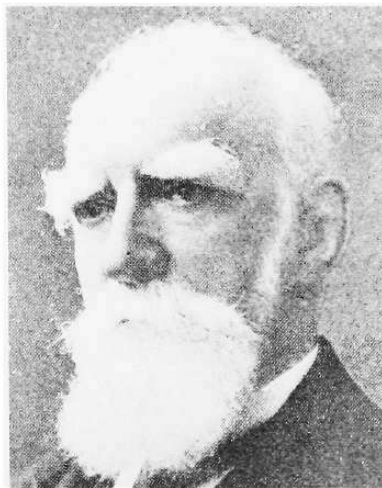


NORMAN W. KITTSON



JAMES J. HILL

DONALD A. SMITH





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