# THE ROLE OF PRIVATE TRANSPORTATION IN AMERICA'S 19th-CENTURY "INTERNAL IMPROVEMENTS" DEBATE

**By Thomas J. DiLorenzo**
**tdilo@aol.com**

**Professor of Economics**
**Sellinger School of Business and Management**
**Loyola College in Maryland**

For the first sixty years of the nineteenth century a key point of contention between the two major political factions in America -- the more-or-less laissez faire Jeffersonians and the mercantilist Hamiltonians -- was the issue of government subsidies for "internal improvements." Beginning with Hamilton at the turn of the century, and then the Whig party (led by Henry Clay) from 1832 until its demise in 1852, and then the Republican party from its formation in 1856, there was always a political faction that favored the adoption of British-style mercantilism in America.

The opponents of this system included Jefferson, John C. Calhoun, James Madison, James Monroe, and Andrew Jackson. Jefferson, Monroe and Madison believed that taxpayer subsidies to businesses were unconstitutional; Calhoun led the fight against protectionist tariffs designed to pay for corporate subsidies; and Jackson defeated the effort to recharter the Bank of the United States while vetoing myriad internal improvement bills while president.

Central banking and protectionist tariffs were two of the key "planks" of the American mercantilist "platform" during this era, a platform that Henry Clay labeled "The American System." This paper will focus on the third plank, the idea that because of pervasive free-rider problems, it was supposedly necessary for the taxpayers to subsidize the building of roads, canals, and railroads. History shows that while governments did subsidize such "internal improvements," most of them during the first half of the nineteenth century were privately financed. Moreover, in virtually every single instance where governments intervened to build roads, canals, and railroads during this period the result was corruption and financial debacle. It was because of such debacles that dozens of states eventually amended their constitutions to prevent taxpayer subsidies for internal improvements.

## PROPONENTS OF "INTERNAL IMPROVEMENT" SUBSIDIES

There were many prominent proponents of government subsidies for internal improvements during the first half of the nineteenth century. This section will briefly outline the views of a few of the most prominent figures whose views shaped the debate for several decades.

George Washington's Secretary of the Treasury, Alexander Hamilton, first promoted the idea of subsides for "internal improvements" or corporate welfare in his famous 1791 *Report on Manufactures*. In what might be viewed as an early statement of the theory of the free-rider problem Hamilton wrote: "[T]he public purse must supply the deficiency of private resource. In what can it be so useful, as in prompting and improving the efforts of industry?"[1]

But it was Thomas Jefferson's Treasury Secretary, Albert Gallatin, who presented a detailed proposal for the taxpayer funding of internal improvements that came to be known as the "Gallatin plan." Presented to Congress in 1806, Gallatin's *Report on Roads and Canals* was "the earliest and most distinguished attempt to formulate a comprehensive national plan of internal improvements," writes economic historian Carter Goodrich.[2] Gallatin's report declared that "The General Government can alone remove these obstacles" to transportation and "the early and efficient aid of the *Federal* government is recommended"(emphasis in original).[3] This statement was Gallatin's version of the free-rider argument coupled with a good example of an oxymoron: "efficient aid" of the federal government. He advocated a ten-year central plan for government-financed and supervised canal and road building.

Gallatin advocated federal subsidies because he claimed there was a "scarcity of private capital" because the prospects for profitable roads and canals were supposedly "remote."[4] He favored a vast, federally-subsidized system of canals that would assure "protection against storms and enemies."[5] Very little came of his proposal, however, because of constitutional issues raised by Jefferson and others.

John Quincy Adams was perhaps the second most prominent advocate of taxpayer subsidies for canal- and road-building companies. In a private letter after he left the presidency Adams opined that "The great effort of my administration was to mature into a permanent and regular system the application of all the superfluous revenge of the Union to internal improvement . . . with this system . . . the surface of the whole nation would have been checkered over with Rail roads and Canals . . ."[6] In the letter a bitter Adams bemoaned the fact that this gigantic pork barrel project was foiled by James Monroe, who had persuasively made constitutional arguments against such expenditures, arguments that Adams blamed on "Jefferson's blighting breath."[7] Calhoun, whom Adams called "the Sable Genius of the South," also played a prominent role in foiling his plans. "The great object of my life therefore as applied to the administration of the Government," Adams complained, had *"failed"* (emphasis in original).[8]

Henry Clay, the leader of the Whig party, championed the Hamilton/Gallatin/Adams cause from the 1820s until his death in 1852 under the rubric of "The American System."[9] By 1837 the Whig part had achieved a great deal of success in state governments throughout the nation and used their political power to commence hundreds of government-subsidized canal- and road-building projects. As will be discussed below, these projects were almost uniformly disastrous and led to the virtual bankruptcy of several states, including Illinois, where a young Abraham Lincoln was the leader of the Whigs.

## THE OPPONENTS OF "INTERNAL IMPROVEMENT" SUBSIDIES

Protectionist tariffs were advocated by all the proponents of government-subsidized internal improvements, for tariff revenues were to be the means of financing the projects. Thus, when John Quincy Adams sarcastically called John C. Calhoun the "Sable genius of the South," he was expressing his bitter disappointment over Calhoun's having succeeded in getting South Carolina to nullify the 1828 Tariff of Abominations. Adams condemned Calhoun for having "fell to cursing the tariff, and internal improvement' and for having "raised the Standard of Free Trade, Nullification, and States Rights."[10]

But it was James Madison, the "father" of the Constitution, who made the most powerful argument against using tax dollars to subsidize private corporations engaged in road and canal building. Given Madison's prominence as an architect of the Constitution, his opinion on the matter was influential for many years.

Madison's very last act as president was to veto an internal improvements bill sponsored by Henry Clay. Clay had seen to it that the rechartering of the Bank of the United States in 1816 left a $1.5 million slush fund to be used for internal improvement subsidies. Madison had previously warned that such expenditures were unconstitutional and said that a constitutional amendment would be necessary in order for the federal government to spend money on such purposes. Clay attempted to sneak his bill past the lame duck president, who reportedly learned of the bill in the newspapers. So on his very last day in office President James Madison

> [D]ecided it was time to teach the nation a lesson in constitutionalism. . . . The . . . bill, he said, failed to take into account the fact that Congress had enumerated powers under section eight of the first article of the Constitution, 'and it does not appear that the power proposed to be exercized in the bill is among the enumerated powers, or that it falls by any just interpretation within the power to make the laws necessary and proper' for carrying other constitutional powers into execution.[11]

Madison warned Congress that the General Welfare Clause of the Constitution was never intended to become a Pandora's box for special-interest legislation.

Some sixteen years later Andrew Jackson vetoed numerous internal improvement bills, much to the consternation of Henry Clay, their principal sponsor. Jackson referred to such subsidies as "saddling upon the government the losses of unsuccessful private speculation" and, in his Farewell Address, boasted that he had “finally overthrown . . . this plan of unconstitutional expenditure for the purpose of corrupt influence.”[12]

In a sense, the momentous nineteenth century debates over protectionism and central banking were rooted in the controversy over internal improvement subsidies. A primary reason the proponents of protectionism and central banking gave for their plans was the need to raise money to pay for such things as Gallatin’s ten-year central plan to “criss-cross the nation” with canals and government-financed roads.

## THE IMPORTANCE OF THE FREE-RIDER PROBLEM

The key argument in favor of government subsidies for the building of canals and roads, as discussed above, was the free-rider problem. The “free rider” language wasn’t used, of course, but the ideas put forth were essentially the same: the alleged lack of private capital, the “necessity” for government to intervene if anything was to be accomplished, etc. But Daniel Klein has shown that, regardless of the popularity of the free-rider theory, privately-funded roads (called “turnpikes”) proliferated during the first forty years of the nineteenth century.[13] If government had a role, it was to reduce or eliminate the taxes and regulations imposed on the “turnpike companies,” not to subsidize them with tax dollars.

As early as 1800, before the internal improvements debate even commenced, there were sixty-nine private road-building companies that were chartered by the states.[14]

In the next three decades, writes Klein,

> The [private road-building] movement built new roads at rates previously unheard of in America. Over $11 million was invested in turnpikes in New York, some $6.5 million in New England, and over $4.5 million in

> Pennsylvania. . . . Between 1794 and 1840, 238 private New England turnpike companies built and operated about 3,750 miles of road. New York led all other states in turnpike mileage with over 4,000 as of 1821. Pennsylvania was second, reaching a peak of about 2,400 miles in 1832. New Jersey companies operated 50 miles by 1821 . . . [B]etween 1810 and 1845 over 400 [private] turnpikes were chartered and built . . .[15]

Even though owning stock in a turnpike company in the early nineteenth century promised a meager return of only 3 percent or less annually, it was widely understood at the time that there were additional economic benefits that would accrue to such investments. Local merchants had strong incentives to invest in private turnpikes because they would bring more commerce to their towns. Landowners would see their property values rise, and cities would more generally prosper as improved transportation extended the division of labor and the economic benefits derived from it.

It was understood that the building of roads would encourage settlement and expand the size of markets for merchants' goods. As one Benjamin De Witt wrote in 1807: "Turnpikes encourage settlements, open new channels for the transportation of produce and merchandise, increase the products of agriculture, and facilitate every species of internal commerce."[16]

Klein points out that the shares in the turnpike companies were almost invariably owned locally, which supports the notion that local merchants, landowners, and citizens in general fully understood that there were additional benefits to investing in turnpike companies aside from the mere return on their investment in those companies. Businessmen in larger cities also invested because they wanted to encourage the development of markets for their goods. At least one state -- Connecticut -- exempted turnpike company stock from taxation.[17]

This was an era that preceded the federal takeover and domination of the states that occurred during and after the War for Southern Independence of 1861-1865. The spirit of voluntary association was not yet snuffed out by the great centralization of governmental power that occurred in the post-war years. As Tocqueville famously remarked in 1840: "Americans. . . constantly form associations. They have not only commercial and manufacturing companies, in which all take part, but associations of a thousand other kinds. . ."[18]

Nineteenth-century Americans used social pressure to encourage people to invest in the roads which they would all benefit from. Town meetings were an important vehicle in this regard, as were newspapers. Most adult Americans of the time were avid newspaper readers, and it was typical of the advocates of road-building projects to make their case to the entire community in the newspaper.

A sort of privatized "law" of eminent domain existed whereby rights of way were paid for not so much with cash but with shares of stock in the turnpike companies. Thus, there was no coercive "taking" of private property with supposedly "just compensation" as defined by only one party, the state. The value of property used as a right of way was negotiated and free-market exchange, not land confiscation by the state, was utilized, in sharp contrast to what occurred in the latter half of the century with the building of government-subsidized transcontinental railroads.

## THE POLITICAL ECONOMY OF CORPORATE WELFARE

The political opponents of government subsidies for canal- and road-building companies understood that such subsidies would inevitably lead to corruption and that any projects built with taxpayer dollars would be guided more by political than economic criteria. Calhoun, for example, protested that the tariff, which was disproportionately paid by trade-dependent southerners, would be primarily used to finance road and canal projects in the northern states. The tariff was thus an instrument of plunder, and he wanted no part of it.

In contrast, when private investors financed the roads, they did everything in their power to assure that the roads were built as economically as possible. This never guarantees "efficiency" -- indeed, there were many bankruptcies in the early nineteenth century -- but the proper incentives are in place: efficient road building would reward investors with profits; inefficient operations would result in losses or bankruptcy. No such incentives can exist with government financing.

With government financing politics inevitably takes the place of economics as the main decision-making criteria. Legislators will insist, as a condition of voting for the subsidies, that roads be built near where they live or in the vicinity of their major contributors, even if it would be uneconomical to do so. For example, during the congressional debates over federal subsidies for transcontinental railroads in 1862 a New Mexico congressman complained that "the wrangle of local interests" was such that many members of Congress would not support the subsidy bill unless the transcontinental railroad "starts in the corner of every man's farm and runs through all his neighbors' plantations" in every congressional district.[19]

All politicians also have an irresistible penchant for micromanaging any government-funded project, and the way in which they micromanage the projects is through regulation. Thus, government-financed projects are inevitably mired in red tape and counterproductive regulations. As Mises wrote: "Bureaucratic conduct of affairs is conduct bound to comply with detailed rules and regulations fixed by the authority of a superior body. . . [It] is the social apparatus of coercion and compulsion. . ."[20]

In private competitive markets investments in businesses are "directed" by the wishes of consumers. If roads are built that too few consumers prefer to travel, then the profits of the road-building company will decline. This creates a powerful incentive not to overinvest.

With government-subsidized roads, however, the criteria for investments are entirely different. The whims of politicians and bureaucrats replace consumer sovereignty as the deciding criterion. Moreover, in government there is no way of knowing whether the not the subsidies were "profitable" investments, since it is not possible to objectively measure the opportunity cost of those resources, i.e., what taxpayers might have otherwise done with those funds. Government agencies do not have profit-and-loss statements, in an accounting sense, so there is no way of knowing whether their expenditures ultimately create or destroy value.

In government bureaucracies wise decisions are not rewarded by profits, since there are no profits, nor are they penalized by losses. Indeed, as a rule, failure is success in government. The worse a government agency performs in accomplishing its purported task (i.e., subsidizing road construction) the *more* funding it will likely get next year.

Recognizing these economic laws of politics and bureaucracy strengthens the case for privatized road building by revealing the underlying inefficiencies of government-subsidized road building. Dozens of states learned these lessons first hand during the first half of the nineteenth century.

## THE FAILURE OF GOVERNMENT-FINANCED

## "INTERNAL IMPROVEMENT" PROGRAMS

By 1840 the railroad had eclipsed canals as the center of the internal improvements debate. Many states subsidized canals and railroads during the late 1830s and later but, as will be discussed below, the subsidies usually turned out to be disastrous.

Ohio was one of the most active states with regard to granting subsidies for internal improvements. But as Carter Goodrich wrote, "In Ohio, as in other states, revulsion followed the early enthusiasm" for government subsidies.[21] There was so much waste and corruption that Ohio "stood as one of the chief examples of the revulsion of feeling against governmental promotion of internal improvement."[22]" In 1851 the state amended its constitution to prohibit both state and local government subsidies to private companies.[23]

Indiana, Illinois, and Michigan were even less successful with their subsidy programs, enacted in 1836 and 1837. In three short years the subsidized canal, road, and railroad projects were all bankrupt and unfinished. By 1840 each of these states also amended their constitutions to prohibit state subsidies for internal improvements.[24]

The most powerful proponent of subsidies for internal improvements in the Illinois state legislature was Abraham Lincoln, who was the leader of the Whig party in Illinois at the time (and later to become the general counsel of the Illinois Central Railroad). The program that was enacted under his supervision was considered to be a "model" of the Henry Clay/Whig "American System" but in reality it was a wildly irresponsible squandering of millions of taxpayers' dollars.

Lincoln and the Whigs controlled the Illinois state house and got exactly the kind of bill they wanted. As Carter Goodrich described it, the 1837 bill

> had . . . something for everyone: improvements for five rivers; east-west railroads across the state, with various branches; and a great central railroad to extend from the northwestern corner to the southern tip of the state. In addition . . . the act appropriated $200,000 for improvements in counties which did not share in the specific appropriations. The total expenditure authorized was $10,500,000, and the legislature prescribed that work should commence simultaneously on all the projects. . . . The next legislature added . . . $1,000,000.[25]

William Herndon, Abraham Lincoln's law partner, marveled over what a spectacular boondoggle the plan was:

> Every river and stream . . . was to be widened, deepened, and made navigable. A canal to connect the Illinois River and Lake Michigan was to be dug . . . cities were to spring up everywhere; capital from abroad was to come pouring in . . . people were to come swarming in by colonies, until . . . Illinois was to . . . become the Empire State of the Union.[26]

But the project was a disaster. In Herndon's words, it was

> reckless and unwise. The gigantic and stupendous operations of the scheme dazzled the eyes of nearly everybody, but in the end it rolled up a debt so enormous as to impede the otherwise marvelous progress of Illinois. The burdens imposed by this Legislature under the guise of improvements became so monumental in size it is little wonder that at intervals for years after the monster of [debt] repudiation often showed its hideous face above the waves of popular indignation.[27]

George Nicolay and John Hay, Lincoln's former law clerks and his personal secretaries in the White House, added that "the market was glutted with Illinois bonds; one banker and one broker after another, to whose hands they had been recklessly confided in New York and

London, failed, or made away with the proceeds . . . the internal improvements system had utterly failed; there was nothing to do but repeal it . . .[28]

Most of the projects were abandoned before completion; only a part of one railroad was completed and then sold for a fraction of its cost. A new state constitution, adopted in 1848, prohibited state aid to private companies.[29] Chicago went on to become the nation's greatest railroad center without the dubious benefit of any state or city tax funds.

In 1837 Michigan began subsidizing private railroad companies but the projects quickly exhibited the familiar characteristics of mismanagement, corruption, and massive cost overruns. The state sold the Michigan Central and Michigan Southern Railroads for less than half of what it had spent on them. "The state's venture in internal improvements was so universally regarded as a failure that prohibitions against both public works and mixed enterprise were voted almost without discussion for inclusion in the constitution of 1850."[30]

Government subsidies for internal improvements in the 1830s were a complete, total, financial disaster. As described by historian John Bach McMaster: "In *every* state which had gone recklessly into internal improvements the financial situation was alarming. *No* works were finished; little or no income was derived from them; interest on the bonds increased day by day and no means of paying it save by taxation remained (emphasis added)."[31]

Wisconsin and Minnesota learned valuable lessons from the above-mentioned states. When they entered the union in 1848 and 1857 respectively their constitutions forbade both grants and loans to private companies.[32] In Iowa the state courts even held that local aid to private companies was unconstitutional.[33] Louisiana began subsidizing railroads before Illinois and most other states (1833) and, consequently, was one of the first states to turn around and forbid state aid for internal improvements (1845).[34]

By 1861 state subsidies for internal improvements were forbidden by constitutional amendment in Maine, New York, Pennsylvania, Maryland, Minnesota, Iowa, Kentucky, Kansas, California, and Oregon. West Virginia, Nevada, and Nebraska entered the union in the 1860s with similar prohibitions. Missouri and Massachusetts were the only two states where the law sanctioned state subsidies for internal improvements, and Missouri amended it constitution to prohibit them in 1875.[35]

## INTERNAL IMPROVEMENTS AT THE BARREL OF A GUN

By 1861, on the eve of the War for Southern Independence, the internal improvements debate had been effectively decided: Government subsidies for private transportation were not necessary, and when they were used the result was disaster after disaster. So disastrous were they that numerous states not only enacted legislation but amended their constitutions to prohibit them. Theory, evidence, and experience had shown the wisdom of privatized transportation and the folly of government subsidies.

The southern states were less active in subsidizing transportation than were the northern states and, all during the first sixty years of the nineteenth century it was southern statesmen who were "the most consistent opponents of federal aid."[36] In fact, southerners were so opposed to federal subsidies for internal improvements that the Confederate Constitution of 1861 prohibited them (with a few minor exceptions). Article I, Section 8, Clause 3, stipulated that

> the Congress shall have the power to regulate commerce with foreign

> nations, and among the several States, and with Indian tribes; but neither this, nor any other clause contained in the Constitution, shall ever be construed to delegate power to the Congress to appropriate money for any internal improvement intended to facilitate commerce . . . [37]

The first part of this article is essentially identical to the Commerce Clause of the U.S. Constitution, with the important exception of adding the prohibition of internal improvement subsidies. An exception was made for "beacons, and buoys," and the dredging of harbors. The southern states were permitted to use state tax revenues to subsidize internal improvements but, as discussed above, most states had also made this unconstitutional in their state constitutions as well.

There is a reason why most opponents of internal improvement subsidies were also opposed to protectionist tariffs and central banking, and vice versa: the proponents of internal improvement subsidies also tended to be in favor of protectionism and central banking. This was the Whig/Republican party agenda, and it was the agenda of America's mercantilists. Henry Clay had fought ferociously for it for forty years, but with almost no success due to the efforts of Jefferson, Madison, James Monroe, Jackson and others. It was the Agenda of the young Republican party in 1861, led by the man who had admittedly devoted his entire twenty-eight year political career to achieving that agenda, Abraham Lincoln.[38] Indeed, Lincoln confessed to a friend early in his political career that his ambition was to become "the DeWitt Clinton of Illinois."[39] Clinton was the governor of New York in the early nineteenth century who is credited with having invented the spoils system and convinced the government to subsidize the Erie Canal -- at a time when the invention of the railroad would quickly render such canals obsolete.

The Whig/Republican agenda was one of greatly centralizing governmental power in Washington with high protectionist tariffs and a central bank. The purpose of these revenue-raising vehicles was to “criss cross the nation” with corporate welfare. Internal improvement subsidies were one leg of this three-legged mercantilist stool.

Opposition to central banking was always strongest among southerners and the Confederate Constitution also outlawed the only other source of revenue for federal internal improvement subsidies, protectionist tariffs. Article I, Section 8, Clause 1 stipulated that “no bounties shall be granted from the Treasury; nor shall any duties or taxes on importations from foreign nations be laid to promote or foster any branch of industry.”[40]

The tariff was the keystone of the Republican party platform of 1861, for it promised to be an immediate source of funds for internal improvement schemes, such as a series of transcontinental railroads. In his First Inaugural Address Lincoln assured everyone over and over that he had no intention to disturb southern slavery and, even if he did, there would be no constitutional basis for it. But if tariffs were not collected, he promised an invasion and, of course, he kept his promise.

When the southern states seceded there was no longer any effective opposition to internal improvements, tariffs, and central banking, and all three were quickly adopted. So anxious were Northern mercantilists (i.e., the Republican party) to reap the fruits of their victory in the 60-year battle over corporate welfare that they began spending millions of tax dollars on a transcontinental railroad line *in California* in the first two years of the war, when Robert E. Lee’s Army of Northern Virginia was scoring victory after victory on the battlefield, and Washington, D.C. itself was seriously threatened with being captured and occupied by Lee’s army. Lincoln was admittedly in a desperate state over the fact that the federal armies were clearly losing the war, but millions of dollars were nevertheless diverted from the war effort to railroad building *in California*.

The intellectual and philosophical debates over internal improvement subsidies may have been won by the opponents of the subsidies as of 1861, but the proponents ultimately prevailed in the policy "debate," literally, by force of arms.

Railroad lobbyists descended on Washington with the advent of the Lincoln administration and their old friend, the former general counsel and lobbyist for the Illinois Central, made sure that his administration complied with their pork barrel requests. The federally-funded Union Pacific and Central Pacific Railroads were given sections of land for each mile of track completed; $16,000 in low-interest loans for each mile of track on flat prarie land; $32,000 for hilly terrain; and $48,000 in the mountains.[41]

Since the subsidies were paid by the mile the companies built wastefully circuitous routes and collected more and more subsidies. They even built tracks on top of several feet of ice in the Rocky Mountains and then rebuilt them when the ice melted, pocketing even more subsidies. The cheapest construction materials were used and speed, not workmanship, was emphasized.[42]

By the time the Union Pacific and Central Pacific railroads were completed in 1869, both companies were bankrupt. Bribery was so rampant during the Grant administrations that the vice president, Secretary of War, numerous Republican congressmen, Grant's private secretary, his Treasury Secretary, and even the ambassador to England were all implicated in stock swindles or bribery related to the Credit Mobilier Company scandal.[43] As historian

Leonard Curry remarked, "the railway interests of the country . . . sustained and encouraged by federal funds, mushroomed into one of the most powerful and ruthless lobbies that the republic has ever known."[44]

During the period of "Reconstruction" (1865-1877) the federal government, which was synonymous with the Republican party, was responsible for extraordinary waste, fraud, and corruption related to railroad subsidies in the southern states, which at the time were governed by military "governors" appointed by the Republican party. Government bonds were typically sold before work began on railroads and "dishonest promoters sold these bonds for what they could get and never built the roads," writes historian E. Merton Coulter.[45] "Railways that had been owned in whole or in part by the states were grossly mismanaged, and were exploited for the profit of politicians," observed William Archibald Dunning, and "the progressive depletion of the public treasuries was accompanied by great prosperity among [Republican] politicians of high and low degree. . . . Bribery became the indispensable adjunct of legislation, and fraud a common feature in the execution of the laws."[46] So-called Reconstruction came to be known as the "Era of Good Stealings."[47]

The advocates of government subsidies for transcontinental railroads made the argument that such railroads would never be financed by private capital markets. But railroad entrepreneur James J. Hill proved them wrong by building the Great Northern Railroad, which was by far the most efficiently built and most profitable of all the transcontinentals. "Our own line in the North," Hill proudly boasted, "was built without any government aid, even the right of way, through hundreds of miles of public lands, being paid for in cash."[48]

The Mormons also built four railroads in Utah without any government subsidies, which also gives the lie to the notion that government subsidies were needed for railroad construction.[49]

New Hampshire and Vermont gave no aid whatsoever to railroads, yet a privately-funded line was built across the rugged terrain of the two states. Unlike many other states, New Hampshire even refused to grant the right of eminent domain to private railroad companies and, in so doing, encouraged them to pay free-market prices for any rights of way.[50]

## CONCLUSIONS

A version of the free-rider problem emerged as early as 1800 during the debates over government subsidies for internal improvements, and was espoused by all proponents of subsidies. But even before that argument was crafted there were private road- and canal-building companies in the U.S. that thrived without government subsidies. Daniel Klein has shown that during the first forty years of the nineteenth century there were literally hundreds of privately-financed "turnpike" companies that were also thriving. There was no free-rider problem that the dynamic discovery process of the free market could not overcome during that era.

Governments at all levels did intervene, however, with subsidies for canals, roads, and railroads, and their record of performance was nothing less than monstrous. State subsidies to canals were made with great fanfare and promise but were such disastrous failures that nearly every state eventually amended its constitution to prohibit such subsidies.

To this day proponents of government subsidies for transportation point to the Erie Canal as one such project that "succeeded," although they usually fail to point out that even though the canal operated successfully for fifteen years it quickly became defunct because of the invention of the railroad.

By 1861 every state had had such a miserable experience with government-subsidized canals, roads, and railroads that only Missouri and Massachusetts permitted such subsidies. That's why the proponents of Amerian mercantilism, embodied in the Republican party, turned to the federal government as the source of their largesse. The major opposition to federal subsidies had always come primarily from southerners, and with the southern states out of the union the way had been cleared for government-subsidized railroad construction which was characterized by an orgy of waste, fraud, corruption, and criminality.

Carter Goodrich remarked at the end of a book-length study of government promotion of canals and railroads that "it is difficult to imagine what the nation's transportation system would have been on the eve of the Civil War if there had been no public subsidy."[51] Well, yes and no. It certainly would have been a more efficiently-built one, since in a free market it would be driven by the motivation to build in the most economical (and profitable) way and to serve the largest numbers of consumers. James J. Hill's Great Northern could be an example of what such a system would have looked like. And if there would have been a smaller railroad infrastructure, so what? As Mises said, it is impossible to objectively judge the "efficiency" of such governmental enterprises because there is no way of knowing how all those tax dollars would have alternatively been spent. Government intervention always short-circuits the dynamic discovery process of the free market.

Even Goodrich acknowledges that after the initial subsidy madness of the post-war years the railroad industry was essentially privately financed thereafter. Without the subsidies all the bankruptcies, scandals, and waste would have been avoided and, if the industry would have developed a decade or two later than it did, it would have done so in a much less wasteful manner. Furthermore, the precedent would not have been established that virtually *any* industry could go to Washington and use the political process to plunder the taxpayers with corporate welfare schemes. It is exactly this system of plunder that the subsidy opponents, from James Madison to the designers of the Confederate Constitution, sought to avoid. In the end, this corrupt system was forced upon the nation at gunpoint.

**FOOTNOTES**

[1] Alexander Hamilton, *The Report on Manufactures*, reprinted in Michael Lind, editor, *Hamilton's Republic* (New York: Free Press, 1997), p. 31.
[2] Carter Goodrich, *Government Promotion of American Canals and Railroads, 1800-1890 (*Westport, CT: Greenwood Press, 1960), p. 19.
[3] Ibid., p. 28.
[4] Ibid.
[5] Ibid., p. 29.
[6] John Quincy Adams, letter to Charles W. Upham, Feb. 2, 1837, in Walter Lafeber, editor, *John Quincy Adams and American Continental Empire* (Chicago: Quadrangle Books, 1965), pp. 146-47.
[7] Ibid.
[8] Ibid.
[9] Robert Remini, *Henry Clay: Statesman for the Union* (New York: Norton, 1991).
[10] Adams Letter, p. 147.
[11] Cited in Robert Allen Rutland, *The Presidency of James Madison* (Lawrence, KS: Univ. of Kansas Press, 1990), p. 205.
[12] "Farewell Address of Andrew Jackson," quoted in Joseph L Blau, ed. *Social Theories of Jacksonian Democracy* (New York: Hafner, 1947), p. 305.
[13] Daniel B. Klein, "The Voluntary Provision of Public Goods? The Turnpike Companies of Early America," *Economic Inquiry*, October 1990, pp. 788-812.
[14] Ibid., p. 790.
[15] Ibid., pp. 797-798.
[16] Benjamin De Witt, "A Sketch of the Turnpike Roads in the State of New York," in *The New American State Papers, vol. 1* (Wilmington, DE: Scholarly Resources, Inc., 1972), p. 215, cited in Klein, pp. 795-796.
[17] Goodrich, p. 21.
[18] Alexis de Tocqueville, *Democracy in America* (New York: Vintage Books, 1945), p. 114.
[19] *Congressional Globe*, 37th Congress, 2nd Session, pp. 2808, 1706.
[20] Ludwig von Mises, *Human Action: A Treatise on Economics* (Auburn, Ala.: Mises Institute, 1998), p. 307.
[21] Ibid., p. 138.
[22] Ibid.
[23] Ibid.
[24] Ibid., p. 139.
[25] Ibid., p. 143.
[26] William Herndon and Jesse Weik, *Life of Lincoln* (New York: Da Capo, 1983), p. 161.

[27] Ibid.
[28] Cited in Paul M. Angle, editor, *The Lincoln Reader* (New York: Da Capo, 1947), p. 100.
[29] Goodrich, p. 143.
[30] Ibid., p. 145.
[31] John Bach McMaster, *A History of the People of the United States*, vol. VI, (New York: D. Appleton & Co., 1914), p. 628.
[32] Ibid., p. 147.
[33] Ibid., p. 149.
[34] Ibid., p. 158.
[35] Ibid., p. 231.
[36] Ibid., p. 182.
[37] Marchall L. DeRosa, *The Confederate Constitution of 1861: An Inquiry into American Constitutionalism* (Columbia: Univ. of Missouri Press, 1991), p. 94.
[38] Thomas J. DiLorenzo, "The Great Centralizer: Abraham Lincoln and the War between the States," *Independent Review,* Fall 1998, pp. 243-271.
[39] Angle, p. 65. See Evan Cornog, *The Birth of Empire: DeWitt Clinton and the American Experience, 1769-1828* (New York: Oxford Univ. Press, 1998).
[40] DeRosa, p. 94.
[41] Heather Cox Richardson, *The Greatest Nation of the Earth: Republican Economic Policies During the Civil War* (Cambridge: Harvard Univ. Press, 1997), p. 178.
[42] Burton Folsom, *The Myth of the Robber Barons* (Herndon Va.: Young America's Foundation, 1991), pp. 18-19.
[43] Paul Johnson, *A History of the American People* (New York: HarperCollins, 1997), p. 544.
[44] Leonard Curry, *Blueprint for Modern America: Nonmilitary Legislation of the First Civil War Congress* (Nashville, TN: Vanderbilt Univ. Press, 1968), p. 134.
[45] E. Merton Coulter, *The South During Reconstruction* (Baton Rouge, LA: Louisiana State University Press, 1947), p. 150.
[46] William Archibald Dunning, *Reconstruction: Political and Economic* (New York: Harper & Brothers, 1907), p. 209.
[47] Goodrich, p. 227.
[48] Albro Martin, *James J. Hill and the Opening of the Northwest* (New York: Oxford Univ. Press, 1976), pp. 410-411.
[49] Leonard J. Arrington, *Great Basin Kingdom: An Economic History of the Latter-Day Saints, 1830-1900* (Cambridge: Harvard Univ. Press, 1958).
[50] Goodrich, p. 132.
[51] Ibid., p. 280.