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GOVERNMENT INTERVENTION in railroading has had a devastating impact over the years. A vital industry has been transformed by it into a declining industry. Many services once performed are no longer performed or poorly provided. Competition has greatly declined, costs have risen, profits have usually been low, and labor trouble is endemic. What has gone before (*Throttling the Railroads*, concluded in the February, 1971 FREEMAN) shows clearly the relationship of government intervention to all sorts of untoward developments in railroading.

If government intervention had elsewhere been attended with great success and had failed sig-

nally only in its effects on the railroads, we might be warranted in concluding that it had failed only because of inept and unintelligent application. The United States government appears to be operating on some such assumption as this presently. The government is beginning to shift from its long term policy of restriction toward subsidization. Actually, those who offer apologies for such shifts in policy would not be likely to admit that the earlier intervention was inept and unintelligent. Their apology would be a little more complex. They would announce that times have changed, and that new conditions call for new solutions. The assumption would be that subsidies in the early years of railroading were justified, that later regulation and restriction was necessary, and that now new

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subsidies are warranted. We can be reasonably sure that this would be the line because the arguments for relief from taxes, removal of restrictions, and the making of loans or the provision of other sorts of subsidies are frequently made on the basis that older practices are outmoded.

The argument from changing circumstances begs the question. The question is whether earlier intervention worked as it was supposed to. If it did not, as has been shown to be the case with the railroads, why did it not? Was it because of the ineptitude of the intervention? Or was it because government intervention, by its very nature, produces such consequences? The effects of intervention elsewhere offer a partial answer to the question.

### **Obvious Results of Intervention**

The debilitating effects of intervention on the railroads is not an isolated instance of such effects. My own studies and reading have confirmed for me that it is generally the case. Sometimes, the effects of intervention are so direct in producing the opposite of what was wanted that they are readily apparent. Such has been the case with the New Deal farm programs and the later extensions of them. These programs were supposed to aid the small farmer

and to reverse the flow of population from the farms into the cities. The results have been just the opposite: the benefits have gone, in the main, to large farmers, and the flow of population into the cities was accelerated.

The impact of some interventions have clear and predictable results. For example, the establishment of price controls with the maximum price below what the market price would be results in shortages. Contrariwise, the support of prices above what the market price would be results in surpluses. When wages are thus supported, there is a surplus of labor, i. e., unemployment. The increase of the money supply, other things remaining equal, will result in higher prices. These and other such economic principles can be illustrated with a hundred historical examples.

Some interventions have results that branch off in a variety of directions, some results being fairly obvious, others more or less obscure. Such have been the consequences of government intervention on behalf of labor unions. The most obvious results are increased unionization, effective strikes, the tying up of industries, higher wages and prices. There are many other less obvious results: the pricing of some products out of the market, the pricing of some

workmen out of the market (unemployment), the arraying of workmen against workmen in strikes, the political pressures of labor unions for government programs that will reduce the available labor supply, and so on.

### **Unseen Consequences**

Some interventions even appear to have salutary results because so many of their effects are hidden from view. This has frequently been the case with government's increase of the money supply (monetary inflation). Much that is attractive follows from this activity. Prices rise; debts contracted earlier can more readily be paid; money is much more plentiful, and a sense of economic well-being may be widespread among the populace. Investments of ready capital expand industries and offer higher levels of employment. The consequences follow in ways that are not usually readily identifiable with the cause. A contraction of the money supply — something that was bound to occur in the fairly short run so long as the monetary expansion had occurred by way of an increase of bank deposits when banks both operated on fractional reserve and men could demand gold for their currency — reverses the above effects and produces what is called a depression. If the money supply is not con-

tracted, the eventual result will be an inflationary level that will make money, and all things expressed in it, worthless. But there are numerous intermediate effects of inflation. Inflation discourages saving, because money loses value as it is held. Those who have already saved will have the value of that saving dwindle away. Contracts expressed in monetary terms are only partially fulfilled.

Government regulation restricts, confines, diverts, focuses, makes inflexible, and alters the course of men's actions in hundreds of ways. Government programs are almost invariably predicated on the notion that a single cause will have a single and predictable effect. If prices rise, the answer to this, simplistically, is price controls. But it is not. For there are then shortages of whatever is controlled. Producers turn their production into uncontrolled areas. Energies are diverted into a hundred channels to evade the restraint. Government regulation can be likened to an attempt to dam a river on a vast and extensive plain. Build a dam athwart the path of the river and it will overflow its banks and follow new courses, perhaps many where there was once one. A series of new dams will only be followed by the same results, multiplied once again, most likely. Eventually, it

will appear that the only way to dam the stream would be to build a dam from mountain to mountain, though it must be a thousand miles across to accomplish the purpose. In human affairs, such a constriction of the energies of a people is called totalitarianism, and it is this toward which government regulation and restraint tend.

### **The Nature of Government**

Government regulation fails in the attainment of its purported object — often produces the opposite result — because of the nature of government, the nature of man, and the nature of economy. The nature of government is, or should be, very clear. It is that body, or those bodies, charged with the exclusive authority to employ *force* in a given jurisdiction. Force may be employed in two ways upon people. It may be used in support of *prohibitions* against certain kinds of actions. For example, murder may be prohibited, and force may be used to apprehend murderers or those caught in the act of attempting it, to hold them in jail, to bring them to trial, and to mete out punishment to those convicted. Or, force can be used to *induce* people to act in ways contrary to those to which they are bent. For example, force may be used on railroads to com-

pel them to keep open stations which they would otherwise have closed.

A rather conclusive case can be made that governments can and ought to prohibit certain kinds of actions and punish offenders, a case as conclusive as any is likely to be in social matters. That is, an exceedingly strong case can be made that a body charged with the power to do so is necessary to the protection of life, liberty, and property and with the settlement of disputes which arise among men. A similar case can be made that the government so charged must have the power to compel the necessary support from those under its jurisdiction for the performance of its tasks. That is, government may collect taxes and may even compel peaceful men to take up arms to aid in the performance of these legitimate functions. (Of course, a government may be constitutionally limited as to how it goes about these things.)

### **Where Force Is Wasteful**

No such conclusive case can be made for the use of government power to induce certain behavior in economic matters. On the contrary, men have quite sufficient inducement in the very nature of things to behave economically. Economy has to do with the frugal use of the elements of produc-

tion — land, labor, and capital — to provide the goods and services most wanted. Everyman is inclined to do it this way. He is inclined to do as little work as possible to get the job done in the manner desired, to spend as little as he can to attain the quantity and quality of goods and services sought, and to use as little of his natural resources as will suffice. Indeed, he is inclined to use most frugally whichever of these are scarcest and to use most prodigally those which are in greatest supply. It is in his interest so to do.

Force is superfluous so far as it might be used to compel men to do what they would tend to do anyway by interest and inclination. It would not only be superfluous; it would be positively wasteful, for all the costs to provide the force would be above and beyond those necessary to get the job done.

Of course, governments do not employ force to get men to act in accord with their interests and inclinations. Government intervention into economy is an employment of force to induce men to do what would otherwise be contrary to their interests and inclinations. Even a superficial look at interventionist policies shows that this is their character. Governments intervene to induce companies to deal with labor unions, to induce

men to join labor unions, to induce lenders to lend money at a lower rate than they could otherwise get, to induce employers to pay more than they would have to do to get employees, to induce companies to provide services which they would discontinue, to induce landlords to provide facilities at rates which are less profitable than they could get in the market, to induce men to charge more or less than it is in their interest to do.

### ***Distorting the Facts***

Most of the government interventions in railroading have been of this character. Government intervened to compel railroads to deal with unions, to fix railroad rates below the market level, to compel the provision of unprofitable services, to induce railroads not to compete with one another in significant ways, to induce them to set up certain work rules, to induce them to share their facilities, and so on, through a story already told.

Men do not cease to pursue their interests when government intervenes; they continue to do that as vigorously as ever. There is a very important difference, however. When men pursue their interests economically, they produce and provide the goods and services most wanted with the

least use of resources. Government intervention changes both what appears to be most wanted and what appears to be the scarcest or most plentiful of resources. For example, when government offered a subsidy for the production of cotton above the market price, it made cotton appear to be in greater demand than it was. When it restricted acreage to be planted to cotton simultaneously, it made land appear to be scarcer than it was. The result was that farmers, who were in a position to do so, devoted much more capital to the production of cotton, thus producing more cotton than could be sold at the supported price, hence surpluses of cotton.

The setting of a price or rate ceiling below the market price makes it appear that less of a good or service is wanted than actually is the case. This, of course, has happened with rail rates. One of the results has been the declining investment in the railroads. Another has been the reduction of services. Yet another was the meeting of the real demand for service by newer and other means of transport.

If wages are raised above the market price, this gives an appearance that labor is in shorter supply than, say, capital, though, in fact, there may be widespread unemployment. The tendency will

be for labor to be replaced by machines, perhaps, at an accelerated pace, or, perhaps, by greater usage of natural resources.

To put the matter in the broadest perspective, when government intervenes in one area, men shift their energies and attention to areas still left free or which may be relatively freer. For example, as the railroads were restricted and restrained, men turned more and more of their attention to the development of trucks, buses, automobiles, airplanes, and so forth. As the commercial uses of these have been increasingly regulated and restrained, the private transportation devices have been ever more extensively used.

### ***Coddling the Criminal***

There are impacts to intervention which go beyond just the economic effects, though these are often devastating enough. Over the last several decades intervention in the economy has been growing and spreading. Government has turned more and more from its protective and prohibitive role toward a role as inducer and regulator. Laws for the protection of life, liberty, and property are still on the books in many instances, of course. The police still apprehend violators on numerous occasions. Juries still try and, as the case may be, convict

those charged with such offenses. Beyond this point, however, the use of force to protect the citizenry has begun to break down. There is a widely expressed view that prisons are only for the rehabilitation of criminals, not for their punishment. There are even those who claim that punishment does not deter the commission of crimes (though some would restrict this view to crimes of passion). Once admit these premises, the criminal becomes an object of solicitude, and the use by government of force upon him becomes aggression. This is especially the case when it is also believed that the criminal is a victim of the society in which he has grown up.

For these and whatever other reasons there may be, many of the courts have taken to treating those charged with committing crimes with great solicitude. Their rights are ever more carefully protected in trials. Capital punishment has virtually disappeared. Probation after a short period of incarceration is commonplace, and suspended sentences are the order of the day.

This has occurred while government's use of force to intervene in economic matters has mounted. Statute books, state and national, are filled with minute and massive interventions ranging from the silly to the near catastrophic. The

present writer has never encountered arguments to the effect that the threat of punishment will not induce people to pay their taxes, to obtain licenses, to refrain from forming trusts, to plant only the allotted acreage to crops, to obey the rulings of the Interstate Commerce Commission, to accept fiat money in payment of debts, to pay the minimum wage, to recognize and deal with the union certified by the National Labor Relations Board, and so on, and on. Indeed, it is everywhere apparent that the threat of punishment must induce men to comply with a great maze of laws, many of which clearly run counter to their economic interest.

#### **Government as Plunderer**

In recent decades, crimes of aggressions by individuals and groups have increased much faster than has the population. Such crimes as rape, aggravated assault, intimidation, robbery, and murder have become rampant. If trespass upon property were as strictly defined as it once was, the amount of violations would no doubt be much greater than it is. Intimidatory groups have frequently been permitted to terrorize selected peoples with impunity.

The connections between intervention in economic activities, on the one hand, and the tendency

toward the breakdown of traditional law and order lie beneath the surface of things and are difficult to ferret out. One of them is the revolutionary thrust which gives impetus to the intervention. It is the desire to make over American society in an egalitarian fashion, and traditional protections of the individual must be broken down for the new society to emerge. Another connection is that the enforcement of the fantastic array of interventions overburdens government and leaves it weakened for its traditional tasks. Yet another is that the increasing force exercised by government has tended to disintegrate society so that social restraints on aggressive behavior are not as effective as formerly.

The impact of intervention, then, is disintegrating in its effects upon society, disruptive and diversive in men's efforts at economy, interferes with voluntary cooperation among individuals and groups, inhibits and redirects individual efforts, and is productive of confusion in industrial life. All too often, intervention produces the opposite of what would be wanted, produces an ineffective railroad system rather than a vital one, drives farmers from rural areas rather than making it possible for them to make a living, creates unemployment, takes away

the value of men's savings, turns them away from serving one another to taking advantage of one another under the cover of governmental programs. Government intervention begets more government intervention. Just as a dam built across a river on an extensive plain will result in numerous rivulets which must in turn be dammed, so government intervention diverts men's energies into the remaining areas of freedom which must, in turn, be reduced in the vain hope that the earlier programs can be made to work. When an industry has finally been brought to heel in this fashion, it can no longer effectively perform its tasks. Government may then take over the industry directly or may subsidize it as an intermediate step to taking it over. Even now, this denouement is being acted out with the railroads.

### **Release Human Energy**

There is an alternative to intervention. To see it clearly we must redirect our sights. Government intervention proceeds by using force to induce men to act contrary to their interests. This, men will hardly do, though Draconian measures be applied against them. There is, however, a vast amount of energy to be found in people, energy which is only potential at its inception. A child at play shows



how great is the energy available. Parents must have ever remarked that they wished they had only a fraction of the energy the child releases. The child runs first to this and then to that, whoops and hollers, invents some game which fascinates him for a moment, becomes bored quickly and turns to some other diversion. This is human energy in its raw state, giving the appearance of being bountiful because it is undisciplined and unrestrained.

The energy potential in man is great for either destruction or construction. No other being on this planet has ever shown the adeptness for destruction that men can do when they put their minds to it. They can burn whole cities, destroy crops, rape, pillage, kill, and lay waste. When they are bent upon construction, they can devise and build such works of beauty and utility as no other creature could even imagine. They can build, heal, transport, provide food and raiment, manufacture, compute, educate, and use their brains and hands in thousands of ways wondrous to behold. Or, they can be so restricted and restrained by force that they neither destroy nor build with any will. Whole populations can be so enslaved or enserfed that their works do not live after them and their lives are little above brute level. Each of

these potentialities of man has been fulfilled many times in the brief span of 4,000 years or so of recorded history.

### ***Discipline and Organization***

Two things are necessary for the vast energy potential in men to be applied constructively. One is for the energy to be released. The other is for it to be disciplined so that it can be effectively applied. There is a major clue to the release of energy in the child at play. The child is following his own bent; he is *interested* in what he is doing, or, what he is doing interests him. To change this with a young child, it is necessary only to assign him to some task which he would call work. He will become tired almost at once. The abundant energy which he was just displaying will quickly disappear. He is no longer interested in what he is doing. Men are like that, too, though "interest" has become something much more extensive and comprehensive than it was for a child. Interest is not simply what gives him immediate pleasure. He has learned to defer immediate gratification for expected future gratifications. He works because it is in his interest to do so. He is interested not only in himself but in his wife, his children, perchance his parents, future grandchildren, and a broader

community which aids and protects him. He is interested in his rights and his possessions — his lands, houses, vehicles, and a hundred and one things which he owns or desires. His energies are readily released in defense of and in pursuit of a multitude of interests.

To release the energies of a man it is necessary to secure to him the fruits of his labor and the protection of his possessions. He will not willingly act against his interests, nor can he be readily induced to do so. Government intervention does, however, lead him to dissipate great quantities of energy to protect and advance his interests. Virtually all of this is so much waste. Americans today waste vast quantities of energy either in complying with government restrictions or finding ways to evade them. Not only that, but some of the regulations positively inhibit the employment of energy.

Discipline and its social corollary, organization, are essential to the constructive employment of energy. The broadened conception of his interests may lead a man to submit himself to discipline. A child may be trained to discipline and direct his energies. So may men in social organizations. Great constructive activities frequently require that men cooperate with one another. This they find ways to do if they are restrained from

injuring one another and are left free to pursue their own interests.


Much of the trouble in America today, as well as in much of the rest of the world, is that many organizations are arrayed against one another and some are deeply divided from within so that rather than facilitating constructive activities they are inhibiting them and dissipating energy in contests. Labor unions pit employees against employers. As American affairs have become more and more politicized much of the energy of many organizations is devoted to gaining favors for the members, favors of wealth taken from the general populace by taxation. Both force and the possibilities of gaining such favors must be denied to organizations before they devote themselves to constructive activities once again.

### ***The Alternative Is Liberty***

The alternative to government intervention, then, is individual liberty. It is the release of the vast energies which men contain to constructive purposes. There is much that serves to help discipline man, but an invaluable support of self-discipline is the facility it gives him when he is able to pursue his interest. There are people today who would like to see passenger trains serving Americans at large once again. Some of these

people believe that the way to achieve this end is to have government intervene. Yet intervention contains and diverts the energies of a people. It provides passenger trains at the expense of giving up other uses which people might prefer for their money. If there is a market sufficiently large to warrant passenger trains in America, it is most likely that railroads would provide them if the energies of their personnel were freed from the present con-

fining restraints. If rate control were removed and investors could see clearly once again what was in demand, they would release funds in that direction. So it would be for a great range of goods and services which commercial establishments can hardly provide because of the restraints upon them.

Government intervention dams up and diverts the energies of the people; freedom releases them to constructive purposes. 

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# Throttling the Railroads

by CLARENCE B. CARSON

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The foregoing article, "The Impact of Intervention," was prepared as an epilogue for the book. Dr. Carson's entire series on railroads is now available and may be ordered from:

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## Tell the TRUTH

RAY L. COLVARD

ROBERT L. HEILBRONER in the introduction to *The Worldly Philosophers* observed that among the great economic thinkers in his books were “a madman, a parson and a stockbroker, a revolutionary and a nobleman, an aesthete and a tramp.” The significant trait they shared was curiosity. Last August I had an opportunity to participate in a seminar at FEE. Although none of my fellow seminar participants that particular week fitted Professor Heilbroner’s more bizarre categories, the notable curiosity of the philosophers was, I found, lavishly distributed. Many of us had, as teachers, searched for comfortable, noncontroversial positions between the ideological extremes labeled “freedom” and

“equality” or “individualism” and “collectivism.” Like Plato, so long ago, we questioned whether or not true democracy must inevitably lead to irresponsible anarchy and aristocracy to privileged oligarchy. Much of our effort that frenzied week at Irvington-on-Hudson was concerned with pinpointing the “good” economics philosophy.

A new concept of liberty was suggested by the speaker one afternoon—freedom from paternalism. That was a troublesome idea to me. How was it possible to deny the obvious historic merits of the Square Deal, New Deal, and Great Society? Could we dare not to license our government to save American businessmen from foreign competition, not subsidize “infant” industries, not guarantee fair wages for workers, parity for

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