

## A History Lesson for Free-Market Pessimists



**S**ometimes free-market advocates despair at the prospects for fundamental change. The pessimists ask, “Where are the examples of a people who have learned enough from the follies of socialism to completely reverse course and pursue freedom?”

Actually, there are more historical instances of such a turnaround than even most optimists know. One comes from the early days of my state of Michigan. It’s a story replete with important principles, and one well worth retelling today.

To many Americans who looked at a map in 1837—the year Michigan became a state—the “land between the lakes” seemed destined for obscurity. Why should settlers heading west make a right turn to the north and put down roots in a territory known for long winters and nasty swamps?

To many Michiganians today, the fact that the state became an economic powerhouse is taken for granted. Few citizens even know that Michigan’s early history produced a disastrous experiment in state government, followed by a new constitution that opened the door to a thriving free marketplace and the birth of world-class, private industries.

At age 26, Michigan’s first governor and “Boy Wonder,” Stevens T. Mason, was de-

termined to get the state off to a fast start. To him that meant an activist government, which would build and own railroads and canals to promote economic growth. With his encouragement, Michigan’s first constitution required the state to get into the highly controversial business of what was then commonly called “internal improvements.”

“The spirit and enterprise which has arisen among our citizens, if fostered and encouraged by the State,” said Mason, “cannot fail to lead to lasting prosperity.” Mason denounced one bill in the legislature that would permit a private railroad as “extortion from the public.” In that sentiment, he was joined by the influential *Detroit Daily Advertiser*, which denigrated the very thought of a “policy of surrendering that great work [of constructing canals and railroads] to the control of a private corporation.” Michigan would indeed have a shot at proving that socialized economic development could be made to work. Mason and his allies were so confident state projects would flourish that they risked millions and put the state deeply into debt to make it all happen.

Among the first state projects was a canal that was to begin in Clinton Township near Detroit and move 216 miles west to Kalamazoo. This Clinton-Kalamazoo Canal began with high hopes and much fanfare. Governor Mason broke ground in Mt. Clemens in 1838 to celebrate the digging of the canal. Bands, parades, speeches, and a 13-gun salute commemorated the occasion. Then came one of the worst engineering fiascos in Michigan

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history: The canal was built only 20 feet wide and four feet deep—too shallow for heavy freight and too narrow for easy passing.

After five years, and only 16 miles of digging, the unfinished canal had cost the state over \$350,000 and earned only \$90.32 in tolls. State officials then abandoned the canal and focused on the railroads, but ended up losing even more money.

The Michigan Central was to go from Detroit west through Ann Arbor, Jackson, and Kalamazoo and on to St. Joseph on Lake Michigan. Poor construction and management drained most of its revenues each year. The Central's thin strap-iron rails were too fragile to carry heavy loads. Rather than switch to a better quality rail, the state chose to run regular heavy shipments over the inferior tracks and repair them frequently. Not only was this practice dangerous, it was more costly in the long run. Under state ownership, the Central didn't make it past Kalamazoo and did not earn enough to pay for needed repairs and new rails to go farther west.

A second railroad, the Michigan Southern, was also a stunning failure. In eight years of state management, tracks were laid only from Monroe to Hillsdale (halfway to its intended destination), at a cost of more than \$1.2 million, with few customers to generate more than a trickle of revenue.

The state spent almost \$4 million on the Clinton-Kalamazoo Canal, the Michigan Central, and the Michigan Southern. It spent another \$70,000 surveying the Michigan Northern Railroad, from Port Huron to Lake Michigan, before abandoning it. It also spent \$47,000 clearing the route for a canal and turnpike near Saginaw, but quit the project and left the materials to rot or be stolen by local residents. Legislators lobbied for these projects to go through their towns, resulting in circuitous routes that often made political but not economic sense.

In his final address as governor, Mason seemed to have learned an important lesson in government enterprise. Referring to the maze of failed projects, he spoke of "that fatal policy" for which "a corrective should be

applied." A corrective measure eventually did come, but Mason never saw it. He died of scarlet fever at the age of 31 in January 1843.

Thomas Cooley, Michigan's most prominent lawyer in the 1800s, observed firsthand the way the state ran its canals and railroads: "[D]oubts soon matured into a settled conviction that the management of railroads was in its nature essentially a private business, and ought to be in the hands of individuals. By common consent it came to be considered that the State in entering upon these works had made a serious mistake."

Mason's successor, Governor William Woodbridge, favored a complete retreat of state government from economic development projects but the legislature balked. The next governor, John Barry, was of the same view but also fell short of gaining sufficient legislative support. Said Governor Barry, "Seeing now the errors of our policy and the evils resulting from a departure from correct principle, let us with the least possible delay correct the one by a return to the other." Meanwhile, the state's blunders multiplied.

It was left to Governor Alpheus Felch, in 1846, to shed the state of its failed experiments. During his administration, all of the state's railroads, canals, and other "internal improvements" were either abandoned entirely or sold to private enterprise, reaping the treasury about 55 cents on the dollar. The people of Michigan had learned important lessons about the nature and proper role of government.

By an overwhelming vote of the citizens, a new Michigan Constitution took effect in 1851. It emphatically took the state out of economic development and gave wide berth to free markets and entrepreneurship. Industries then arose in lumber, copper, and furniture, which would open the door to a thriving trade in carriages. Later, Michigan—where government had failed so miserably in the transportation business—would ironically become the world's leader in the private ownership and production of automobiles.

Yes, indeed, people can learn from their socialist mistakes. That should make optimists of all of us. □

# The Role of Government: Promoting Development or Getting Out of the Way

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by Doug Bandow

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**O**f all the tasks assumed by government, none is more inappropriate than that of promoting economic development. It is rare to find an American politician who doesn't act as if the state were duty-bound to generate businesses, jobs, wages, and profits. This mistake is common enough in the industrialized West. It has proved to be even more pervasive—and harmful—throughout the Third World.

For decades development economists and foreign aid officials acted as though growth came from government. Indeed, some believed that promoting development was government's most important role in society. Thus, poor countries were to undertake *dirigiste* economic programs. And rich ones were to offer foreign aid programs.

Alas, the result has been a dismal failure: Many underdeveloped states have actually been growing poorer. Economic growth will come only when governments realize that their proper role is to stay out of the way, to stop impeding the development that would naturally occur but for state intervention.

## History of Development Theory

Extensive state economic intervention has long existed around the world, including the West, for political as well as philosophical reasons. Such policies have been especially evident throughout the twentieth century. In particular, the vast majority of Third World states traveled the socialist path as decolonization proceeded after World War II. Their decision was in part nationalistic; many new countries believed that true independence required indigenous control of economic resources. Statism also tended to benefit, both economically and politically, the elites that gained power after independence.

But there was also a genuine belief that the government had to guide the development process. Said Ghana's Kwame Nkrumah: "Only a socialist form of society can assure Ghana of a rapid rate of economic progress without destroying that social justice, that freedom and equality, which are a central feature of our traditional way of life."

## A Western Import

This *dirigiste* philosophy was not, however, based on local tradition. Indeed, the very concept of development was an alien idea

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