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The Progressive Era, Part 2: Progressives and the Economy

by William L. Anderson

The last quarter of the 19th century and the first decade or so of the 20th century saw the rise of the large corporation in the United States. Those of us who are used to mega-multi-national firms cannot appreciate the sea change that occurred in the United States, as business enterprises, from manufacturing to retail, were transformed from the small, mom-and-pop operations to something akin to what we see today.

Naturally, many Americans mistrusted this development, especially since many of these new “captains of industry” also worked closely with whoever was in political power, from the local mayor to the president of the United States. Given this background, it is not surprising that a number of myths have endured regarding business and the development of the central regulatory state during the Progressive Era. In fact, whenever someone attempts to challenge the current regulatory apparatus, invariably someone else will bring up the “bad old days” of “untrammelled free enterprise” before the state reeled in business enterprises to make them (as the story goes) more “responsive” to the “needs of the public.”

Thus, if we are to rebuff the claims of Progressives that the “reforms” of the Progressive Era signaled positive change, we have to begin with the myths created about the various economic enterprises that seemed to define life in the United States around the turn of the century. The place to begin is with the historians themselves.

As historian David M. Kennedy has written, “Most American academic historians have thought of themselves as the political heirs of the Progressive tradition.” Indeed, it is not just the historians who crave the Progressive mantle but also mainstream journalists, who long have promoted growth of the regulatory and welfare state, not to mention most politicians. While they no doubt are writing and speaking from a perspective they believe to be true, when one examines the historical record one finds that the Progressives are leaving out some important information, and it is precisely that information that I wish to share with readers.

For the most part, historians, academicians, and mainstream journalists have held that the late 19th and early 20th centuries were periods dominated by rapacious, greedy businessmen who were corrupting government through bribery and bilking the public. The prevailing view is that these enterprises actually were impoverishing most Americans and that, as they grew, they became gluttonous monopolies that used their market power to force up prices and produce inferior goods.

Indeed, some of the so-called robber barons of that age were little more than con men and crooks. They were what the economic historian Robert Higgs calls the “political entrepreneurs,” men who demanded and received large subsidies from governments and ran inefficient, costly enterprises. For example, the famed transcontinental railway that still is portrayed as a great achievement in U.S. history with the driving of the “golden spike” at Promontory Point, Utah, in 1869 actually was little more than an exercise in fraud.

As Burton W. Folsom Jr. points out in his book *The Myth of the Robber Barons*, the Union Pacific and Central Pacific railroads received lavish government subsidies to complete the link between Omaha, Nebraska, and Sacramento, California, which meant crossing the physically imposing territories of the Sierra Nevada, the Great Basin, and the Rocky Mountains when there was no economic reason to do so *at that time*. The vast subsidies given to the two railroad companies created the incentives for shoddy workmanship and inferior rails and crossties, and hurried construction techniques that emphasized length over efficiency. (The railroads were paid by the mile, and they bilked the taxpayers out of every penny they could.)

The near-criminal exploits of the UP and CP are placed in stark contrast to the building of the Great Northern line by James J. Hill, who constructed his transcontinental railway across the northern states using private funds. Furthermore, Hill built as the *market* dictated, not according to what was politically feasible, and he encouraged the development of agriculture and other businesses that could be served by his railroad. In other words, the Great Northern’s transcontinental railroad was not politically driven but instead served an economic purpose.

The marvelous accomplishments of the Great Northern were, however, swallowed by the shenanigans of many railroad owners. While competition was fierce and the various attempts at forming cartels to hold rates high failed, railroads often were unpopular among the intellectuals as well as the populist farmers and others who were becoming increasingly involved in the political process. The agitation resulted in the formation of the Interstate Commerce Commission in 1887, the first of many commissions and agencies that ultimately were to make Congress the “regulator” of interstate commerce.

As Milton Friedman notes in *Free to Choose*, the results of the ICC were much different than what the “reformers” had anticipated. Instead of independently “regulating” the railroads, the ICC, which was staffed by people with ties to rail companies, worked hand in glove with the

entities it was supposed to be overseeing. Thus, the first “revolving door” between industry and the entities that regulate it was established.

One of the great myths arising from the Progressive Era was that the “captains of industry” were promoters of economic laissez faire; the reality is quite different. For example, American historians widely assume that the Sherman Antitrust Act of 1890 was passed to correct abuse caused by “monopolies” and “price fixing.” The assumption was that business was becoming increasingly monopolized and that companies were conspiring with one another to produce inferior products at high prices.

The record is quite different. From John D. Rockefeller’s Standard Oil Company to the various producers of capital and consumer goods, the trend was for prices to fall and for the quality and availability of goods to increase. When Rockefeller entered the oil business in the mid 1860s, the price of a gallon of kerosene (the main refined fuel of choice in that day) was about 60 cents. By the turn of the century, Rockefeller’s efforts at eliminating waste and improving production methods brought the price of kerosene to less than 6 cents per gallon, and his story was typical of that era.

Although the free-enterprise system had resulted in the creation of vast amounts of wealth and an increasing standard of living for most Americans, the intellectuals and journalists of the day became infatuated with collectivist ideology. Many business leaders also bought into collectivist ideology, and, as Murray Rothbard points out, there was no one left to resist the clarion call to government regulation and cartelization.

The collectivist mindset

Influential writers such as Walter Lippman insisted on calling corporations themselves entities of collectivism, and others also bought into that error. He could not have been more mistaken, as the supposed power enjoyed by even the largest businesses depended entirely on how well they served their customers and on making correct predictions about the direction their particular industries would be going. Businesses that must serve customers, unlike governments, do not exist as a result of force.

For example, Rockefeller’s Standard Oil Company enjoyed almost a 90 percent market share at the turn of the century, but by the time his company lost a landmark antitrust decision at the hands of the U.S. Supreme Court in 1911, its share had fallen to about 65 percent and was falling quickly, as competitors moved into the newly discovered oil fields in Texas and Oklahoma. Whatever influence Rockefeller might have had with politicians was no match for competitors who could equal or better his prices.

Collectivism had been gaining force since the late 19th century, but the unhappy marriage of socialism and the business enterprise was spurred by the U.S. entry into World War I in 1917. Rothbard writes,

More than any other single period, World War I was the critical watershed for the American business system. It was a “war collectivism,” a totally planned economy run largely by big-business interests through the instrumentality of the central government, which served as the model, the precedent, and the inspiration for state corporate capitalism for the remainder of the twentieth century.

The development of “war socialism” for the purpose of waging “total war” was approved by both political parties, Progressives, business leaders, and religious leaders. Furthermore, the practitioners saw this as a new horizon, an onward-and-upward step in the development of the United States. Rothbard writes,

Apart from the role of big business in pushing America down the road to war, business was equally enthusiastic about the extensive planning and economic mobilization that the war would clearly entail. Thus, an early enthusiast for war mobilization was the U.S. Chamber of Commerce, which had been a leading champion of industrial cartelization under the aegis of the federal government since its formation in 1912. The Chamber’s monthly, *The Nation’s Business*, foresaw in mid 1916 that a mobilized economy would bring about a sharing of power and responsibility between government and business. And the chairman of the U.S. Chamber’s Executive Committee on National Defense wrote to the du Ponts, at the end of 1916, of his expectation that “this munitions question would seem to be the greatest opportunity to foster the new spirit” of cooperation between government and industry.

As I pointed out in part 1 of this series, many of the nation’s intellectuals were won over to collectivism in the first half of the 19th century, and that trend accelerated, especially after the Northern victory in the Civil War. Nor were American intellectuals alone in their endorsement of socialism; the ideology, after all, had come from Europe. Great Britain and states such as Germany, in order to hold off the more radical calls for communism, already had implemented some “progressive” policies such as the establishment of government “old-age pensions” and some small forms of socialistic medical care.

The desire for intellectual “respectability” carried over to those involved in business, as intellectuals often displayed scorn for those involved in the “trades.” (This was hardly a new phenomenon, as the antipathy toward work and those engaged in trade existed in antiquity, and still is part of the intellectual mindset today.) But as many people began to pile up large fortunes, they also found they could afford to enter a world that previously had been closed to them.

In a recent conversation I had with the economic historian Robert Higgs, he said that he believed that the desire for “respectability” was one of the driving forces of the Progressive Era. This certainly would have been true for many of the so-called captains of industry. Embracing collectivism and an ordered system of government regulation placed them in much more “respectable” company than would have been the case had they insisted on the “unscientific” and

“unsophisticated” regime of laissez faire, with all of its “dog-eat-dog” implications of unfettered competition. Notes Rothbard,

The new dispensation cloaked the new form of rule in the guise of promotion of the overall national interest, of the welfare of the workers through the new representation for labor, and of the common good of all citizens. Hence the importance, for providing a much-needed popular legitimacy and support, of the new ideology of twentieth-century liberalism, which sanctioned and glorified the new order. In contrast to the older laissez-faire liberalism of the previous century, the new liberalism gained popular sanction for the new system by proclaiming that it differed radically from the old, exploitative mercantilism in its advancement of the welfare of the whole society. And in return for this ideological buttressing by the new “corporate” liberals, the new system furnished the liberals the prestige, the income, and the power that came with posts for the concrete, detailed planning of the system as well as for ideological propaganda on its behalf.

Yet, as Rothbard also points out, the end result was the return of mercantilist policies that benefited the politically connected firms at the expense of those who were lacking political ties. In the final irony, in the name of *preserving* competition and promoting the “public welfare,” the Progressives ultimately created a system that stifled competition and created entrenched interest groups and the ubiquitous “revolving door” between regulated businesses and the agencies that regulate them.

The “dog-eat-dog” system that Progressives and their business allies created was supposedly put into place to combat a previous regime of monopolistic and anti-consumer big businesses. In reality, the old system, as reviled as it was, did more to raise the standards of living in the United States and to create opportunities for people who once would have been relegated permanently to poverty, sickness, and early death than anything that came out of the Progressive Era. Indeed, if we are to be honest, the true name for Progressivism should be Regressivism.

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