Forbes

No President Obama, It Was Private Business That Made Our Roads And Bridges Possible

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7/29/2012 @ 4:53 pm

Without big government, President Obama likes to suggest, we would all be poor, miserable creatures. For starters, he claims that business became possible only because government built roads and bridges.

Actually, Obama has it backwards. Private business came first, then roads and bridges.

They weren't originally developed by governments. They were developed by merchants who began establishing trade routes thousands of years ago. In the beginning, before the first Department of Public Works, there were innumerable trails.

Developing trails required that somebody travel, and kings generally didn't travel unless they were conquering new territory. If they left their territory for an extended period, they would probably have returned to find somebody else ruling the territory that used to be theirs. So it was merchants, hoping to make money, who blazed the trails for regional and long distance trade. At their own expense, merchants determined the most worthwhile places to go and the most efficient ways of getting there.

Europe's first great civilizations arose from private trade. Starting perhaps around 7000 B.C.E., a resourceful maritime people who became known as Minoans established themselves in Crete. They were ancient history to Homer. They brought copper from Cyprus, tin from Asia Minor, elephant Tusks from Syria and diorite from the Nile Valley – and Minoan pottery made its way to Egypt.

The ancient origin of private markets and trade routes is most dramatically evident in prehistoric trade goods such as obsidian, a brittle volcanic glass that can be chipped into knife blades, mirrors and other implements. Valued for perhaps 30,000 years, obsidian tools have turned up at most early village sites in the Middle East and Mediterranean. Usually such villages were hundreds of miles away from the sources.

How do we know this? During the 1960s, British archaeologists J.E. Dixon, J.R. Cann and Colin Renfrew gathered obsidian samples from extinct volcanoes throughout the Mediterranean and ancient Mideast. Heated to incandescence, each element in the samples emitted a characteristic wavelength of light. The amount of certain trace elements – barium, zirconium and cesium – varied from one volcano to another. By analyzing obsidian samples from ancient settlement sites, Dixon, Cann and Renfrew could determine which volcano they came from. This isn't the only method of dating obsidian.

Analysis of other commodities confirmed that private trade flourished throughout the ancient world. For example, the remains of many inland Anatolian settlements include seashells from the Aegean as well as amber from the Baltic. Both were valued for jewelry. Copper was used at Ali Kosh, an early farming village in southern Mesopotamia, yet the nearest copper deposits were hundreds of miles away. Pearls from Bahrain, jasper from Armenia, beryl from India and perfume from Egypt have turned up at ancient village sites hundreds of miles away.

Civilization arose not in remote regions but along trade routes where it was convenient for people to gather. Since at least 7000 B.C.E., Jericho was a major commercial center. It was located on a natural trade route between Anatolia, which had obsidian, and Beidha, a village to the south that supplied sea shells and hematite, an iron oxide valued for its red color.

There's abundant evidence of flourishing trade further east. Archaeologists believe that a light-skinned, dark-haired Sumerian people migrated south from the Caspian Sea about 8500 B.C.E., settling along the delta where the Tigris and the Euphrates empty into the Arabian Gulf. Trade was absolutely vital for civilization there, because the only natural resources were water and mud. Sumerian traders invented sailboats so they could travel long distances. They organized caravans for overland routes.

By the sixth century B.C.E., Greeks began hearing about wonders from the Orient.

The sea route from India brought cashmere, furs, finished cotton, gems, jewelry and some silks. In addition, there were spices – pepper, ginger, cardamom, cinnamon and cloves.

In Xi'an, China's ancient capital, silk traders assembled camel caravans for the 5,000-mile trek to Constantinople. They followed the "Silk Road," a trail that crossed forbidding deserts, vast grasslands and icy mountain passes of Central Asia. Many of the goods were sent on to Rome and other destinations. The goods included iron, skins, lacquer, cinnamon and especially silk.

The point here is that for a very long time, a tremendous volume of trade involved ships and overland trails – not modern highways — and this trade was enough to support the development of great civilizations.

Networks of government-built roads came much later.

Around 2500 B.C.E., the Egyptian Pharaoh Cheops ordered the construction of what's considered to be the first paved road, but he wasn't doing any favors for businessmen. The road was about 1,000 yards long and 60 yards wide, and its function was to help glorify himself. The road went only to the Great Pyramid where he would be buried.

Usually, the decisive reason for undertaking a costly government-built road project was to facilitate the movement of armies for defending an empire.

The first extensive road-building project seems to have occurred in the Assyrian Empire, based on the Upper Tigris River. This was reportedly around 1115 B.C.E. Here again, the main purpose was military.

The most famous ancient road builders were the Romans, and the principal function of their roads was to facilitate the movement of their armies. Roman roads certainly helped trade, but it had been going on before the roads were built. Although the Romans had built some 53,000 miles of roads that extended from England through most of Western Europe and the Mediterranean region, they didn't prevent Rome's decline and fall.

Settlers and traders cut trails through dense American forests. Later, the British widened the trails so that army wagons and artillery could pass through to drive out French fur traders. Most American cities arose along rivers, harbors and lakes, where boats could ship and deliver goods efficiently.

In America's early years, there was a perceived need for better roads – our Founders complained about bad roads. But states generally weren't able to finance them. Among other things, people commonly used roads to leave their states! The states tried to fund road projects with lotteries, forced road service and land grants to contractors, but the schemes didn't work.

Capital for road building was raised more efficiently by the private sector. The pioneering business seems to have been the Philadelphia and Lancaster Turnpike Corporation, chartered in 1792. For the first third of the 19th century, hundreds of private turnpike companies built thousands of miles of roads that linked western territories with the eastern seaboard. By 1821, 84 turnpike companies were incorporated in Pennsylvania, and 278 were incorporated in New York. Long distance roads were beyond the capability of any company, so work was divided among many companies that built connected roadways.

Then came a government-run canal building boom. In every case, politicians claimed that the projects were urgently-needed and required more money than could be raised from market sources. Politicians were hailed for having more vision than private entrepreneurs.

From 1817 to 1825, the State of New York financed and built the Erie Canal – 364 miles from Albany to Buffalo, linking New York City and Lake Erie. The project enough revenue to cover construction costs, but not enough to cover operating costs or the cost of improvements. Merchants elsewhere in New York demanded canals. The government built eight more, but they lost money. Politically-connected merchants gained from all this, while taxpayers lost.

Philadelphia built its Mainline, a canal-railroad system linking Philadelphia and Pittsburgh, but it lost money. Because of this and other financial misadventures, Pennsylvania defaulted on its debts in 1842.

Ohio authorized construction of the Ohio & Erie Canal and the Miami & Ohio Canal, but it became politically impossible to deny similar projects to people elsewhere in the state, so the government proceeded with projects that never made any sense. Most of the government-run canal projects were unprofitable. Others were fraudulent. The state had to borrow more and more money to pay its debts. It paid contractors with scrip.

Meanwhile, the private turnpike boom cooled off by the 1840s as private railroads became a principal means of commercial transportation, moving agricultural commodities, manufactured goods and imports to their various processing facilities and markets.

Many politicians didn't think private companies built railroads fast enough, so states borrowed money to build government-run railroads. Alabama, Illinois, Kentucky, Massachusetts, Michigan, New York, Pennsylvania, South Carolina and Tennessee found themselves overwhelmed with debt. At government-run railroads, key decisions were made for political reasons rather than business reasons. For example, Illinois had more railroad debt than any other state, but few of their subsidized railroads went to Chicago!

It became apparent that despite all the claims, most of these government-run projects were failures. They incurred losses that the states couldn't afford. Economic historians Ernest L. Bogart and Donald L. Kemmerer observed that "Many of the enterprises were premature and unnecessary. Most of them were extravagantly, if not corruptly, managed."

Altogether, nine American state governments – a third of all states – which had spent large sums on various government-run transportation projects defaulted on their debts during the 1840s. States sold off government-run enterprises as quickly as they could, and there was strong public sentiment against getting into such a mess again.

Later, governments intervened to promote private railroad expansion, and the unintended consequence was excessive capacity that led to widespread bankruptcies by the 1890s. J. P. Morgan made money reorganizing a number of these railroads.

Despite the troubled history of government-run roads, canals and railroads, during the "progressive" era after 1890, the idea took hold that only government could provide roads and bridges. This became the so-called "Good Roads" movement in which merchants and farmers agitated for states to spend money improving roads.

In many cases, states had constitutional prohibitions on spending money for such "internal improvements." And why would states be so backward as to prohibit improvements? Because as noted, the last time states provided government-run improvements – turnpikes, canals and railroads – there was incompetence, corruption, waste and bankruptcy.

President Theodore Roosevelt backed the Good Roads movement in 1903 when he addressed the National Good Roads convention. He declared that great empires built great roads. Two years later, he signed the Agriculture Appropriations Act that established the Office of Public Roads. It did some demonstration projects, but merchants, auto manufacturers, bicycling enthusiasts and others all wanted somebody else to pay the bills, and the somebody else thought they needed their money for other things. So progress was slow.

People were reminded of the potential for financial trouble when Theodore Roosevelt embraced other kinds of internal improvements. He decided government should encourage settlers to go beyond the hundredth meridian where annual rainfall was less than 20 inches. Hundreds of entrepreneurs thought land could be farmed if there were irrigation, so they started building irrigation systems, but they couldn't recoup their costs. States bailed out the projects by issuing bonds, but there were huge political fights about where dams and reservoirs should be located. State-run irrigation systems became notorious for corruption and losses.

Roosevelt became interested after it had become clear that irrigation projects lost money. In 1902, he signed the Reclamation Act, establishing the Bureau of Reclamation — a federal monopoly for dams and irrigation systems in 16 states west of the hundredth meridian where farming didn't make any sense. The act promoted farming in deserts, the most costly type of farming imaginable, and there was corruption as people posed as homesteaders applying for claims, then sold their land to speculators, and most of those who tried to farm went bankrupt. The projects were nothing but losses. The Bureau of Reclamation went on to build some 600 dams, destroying beautiful valleys, increasing the salinity of irrigated soil, drying out rivers and losing more money.

To make a long story short, often we got better roads, but because of political wrangling, government turned out to be a very expensive way to do it.

We should understand that our roads and bridges exist principally because of the wealth created by private sector businesses. Government, after all, doesn't have any wealth, other than what it extracts from the private sector.

Recall for a moment how dramatically the private sector has produced wealth.

When the United States was established, economically it ranked as a Third World country. It had a small population. The economy was primarily agricultural. It had very limited manufacturing capacity. America had few oceangoing ships, because overseas trade had been monopolized by the British. Americans didn't have the capital to develop their natural resources. A high priority during George Washington's administration was to avoid being drawn into the war between Britain and France, because the new nation was fragile.

Although there was government intervention in the economy, some of which I've noted, from the beginning of our country until World War I government spending was less than 10 percent of the economy – half of what it is now.

During the first half of the 19th century, the United States became a highly literate nation, but government had almost nothing to do with it, because the big expansion of public schools came later — after the Civil War when Protestants were anxious to "Americanize" millions of Catholic immigrants from Ireland and Italy.

The most important essentials for a good education are a motivated student and a motivated teacher, and America had plenty of those before the coming of large public school systems. For example, when Frederick Douglass was a young household slave in Baltimore, sometimes his master read to him from the Bible, and he began to observe connections between the sounds of the words and marks on the page. He began learning to write. He learned more on the streets of Baltimore. He recalled that "when I met a boy who could write, I would tell him I could write as well as he. The next word would be, 'I don't believe you. Let me see you try it.' I would then make the letters I had been so fortunate as to learn and asked him to beat that. In this way I got a good many lessons in writing, which it is quite possible I should never have gotten any other way. During this time, my copy-book was the board fence, brick wall, and pavement; my pen and ink was a lump of chalk. With these, I learned mainly how to write."

According to John Tebbel's History of Book Publishing in the United States, during the first half of the 19th century, "America had already far surpassed England in book sales. It was unusual to sell more than 10,000 copies of even the best fiction book in Great Britain and Ireland, but it was not at all out of the ordinary to sell 50,000 copies of even a moderately good book in America. Washington Irving's works had sold 800,000 copies; more than a million of T.S. Arthur's books had been purchased; James Fenimore Cooper's novels were selling at a rate of 40,000 annually; Bayard Taylor had recorded 150,000 copies; and then there were the incredible sales of Noah Webster's spelling book, totaling 30 million." The number of U.S. publishers jumped from about 50 in 1755 to 385 in 1856. The number of U.S. titles published annually soared 10-fold to over a thousand between 1840 and 1855. Of course, the publishing business was entirely in private hands, without subsidies.

That's not all. Before there was a permanent income tax with charitable deductions, private entrepreneurs established major institutions of higher learning, including Cornell University, Stanford University, Johns Hopkins University and the University of Chicago. Women's colleges were privately funded, too – Mount Holyoke, Vassar, Wellesley, Smith, Radcliffe, Bryn Mawr and Barnard. Because Southern state governments spent little money educating black students after the Civil War, one private entrepreneur – Sears, Roebuck's Julius Rosenwald – funded the construction of almost 5,000 Southern schools for black students. This amounted to about a 25 percent increase in the number of such schools.

Between the end of the Civil War and 1910, American entrepreneurs organized industries to achieve impressive gains in productivity, making it possible for living standards to rise dramatically. For example, iron ore production increased 19-fold. Bituminous coal, up 46-fold. Copper ore, up 67-fold. Crude petroleum, up 419-fold.

Intense competition helped drive down consumer prices for just about everything – including Standard Oil's petroleum products — which meant that people got more for their money, and living standards went up. The increasing number of branded products (Campbell's, Kelloggs, Heinz, Armour, etc.) gave people better assurance about quality. More people had access to these benefits, thanks to improved distribution via department stores, chain stores and mail order sellers.

Immigration to the United States surged, and the foreign-born percentage of the population approached 15 percent between 1900 and 1910, but entrepreneurs created millions of jobs for everyone. Unemployment fell as low as 1.7 percent (1906).

As a result of all this, America joined the ranks of the world's wealthiest nations with some of the highest average living standards.

It happened before America became a welfare state.

That's how American taxpayers could sometimes pay very large amounts of money for roads and bridges.

Other nations, many with abundant natural resources, tried to do what our private sector did, but they failed because they bet on a government-run economy. The Soviet Union isn't even on the map anymore.

Many other countries can't afford to spend what we do on roads and bridges.

I have travelled in China, India, Argentina, Eastern Europe and other places with government-run economies and some really bad roads.

It's past time for politicians to stop insulting all the people who make our private sector work and who pay the bills for roads, bridges and everything else.