

TRANSPORTATION & REGULATION

The Rights of Producers

Statists often charge that transportation is a "natural monopoly" meriting government control and restriction—to which libertarians reply:

When railroads, trucks, barges, or airlines refuse to provide their services at "competitive" prices, or discriminate among customers, that is their moral prerogative. Nothing "enslaves" patrons to a particular producer of transportation but their own inflexible wants. Forcing carriers, on the other hand, to provide service on terms other than their own is *real* slavery, which libertarians abhor and reject.

More than most industries, transportation is highly vulnerable to envy and ignorance. The moral right of those engaged in transport to withhold their services, bargain for "cartel" prices, or choose their customers is equal to that of any businessman, but a number of things about this industry foster the *illusion* that, somehow, transportation is "different" from other pursuits. Predictably, generations of statist economics professors have compounded these myths in order to drive a wedge into Americans' insecure commitment to free enterprise.

Because all forms of transportation are among the most basic ingredients of other industries, they are viewed as "essential" to production, and to the "national defense." Should an industry become utterly dependent upon one type of transport, or upon one individual carrier, the competitive position of that product is likely to be strongly affected by carrier policies. When whole communities and industries pin their hopes upon stable transportation practices, it becomes easy to slip into the illusion that changes in those practices—prices, service, and so on—initiate *force*. This is certainly untrue, for *it is the right of the producer to set his terms, or not produce at all*. Continued purchase of transportation on "unfair, discriminatory" terms is *prima facie* evidence that the buyer still

finds it to his benefit to trade dollars for transport, whatever his complaints. No one forces him to do anything.

Nonetheless, the political system stands ready to implement and exploit this resentment. This is the *real* reason for regulating transportation.

Ninety years of comprehensive regulation have, additionally, created a host of historical sophisms to keep the regulators in power. Let's debunk a few of these ripe myths.

The History of Transportation in the U.S.

First, the monopoly element in transportation—its ability to "trap" shippers located along railroad lines where no other competition existed—was grossly exacerbated by 19th Century State charters granting territorial monopolies to canals and railroads. A similar effect was achieved when government aid built several lines across the great empty spaces of the West, afterwards luring settlers to populate areas where the railroad *alone* linked them with the outside world. Monopoly? No wonder!

Moreover, State subsidies encouraged the construction of far too many railroads; thus, when subsidies began to end, many lines began to founder in the market. Both the notorious "cutthroat" rate wars and later attempts to set up rail cartels foretold a necessary shrinkage if railroads were to make it on their own. Unwilling to countenance the failure of many of its own creations, the State moved to shore up the cartel arrangements with legal force: the Interstate Commerce Act of 1887.

Consumers will not put up with an abusive cartel in *any* industry; even recognizing the justice of the situation, few consumers want to remain without substitutes for monopolized goods. Despite the high costs of creating rivals to railroads, consumers moved with remarkable speed to design substitutes for services which railroads had previously dominated.

Short-haul trucking arose to compete with the railroads for the traffic of rural towns from whom the rails had always exacted high rates. Barge and river traffic emerged to undercut the rails' superiority in handling heavy bulk loads. Finally, the automobile and airplanes came on the scene to lure the passengers out of railroad limiteds. These alternatives were also fondled and subsidized with State support; the motives behind their origin, however, are a natural economic response to the rail cartels.

And how did the regulators respond? *With more regulation!* Over the protests of most shipper groups, Congress extended regulation to trucking in 1935 and to barges in 1940. The attempt to preserve the rail cartel by admitting competitors was, ultimately, futile.

Today, the railroads' grip upon their customers has weakened so severely that the industry is before Congress for direct capital aid to the *entire* group. The cartel protection of trucks and barges is beginning to fall before the massive flight of business to unregulated "private trucking", or simply illegal trucking. Businesses dependent upon transportation are learning to avoid it by dispersing plants and duplicating inventories. The only way continued regulation can work is by continual expansion, leaving a trail of abandoned transportation alternatives in its wake.

Regulatory Reform?

It will do no good to "reform" regulation, nor cast it as a benevolent watchdog. Injecting more antitrust fervor into ICC deliberations will only result in imposing artificial limitations upon the efficient size of transport forms and allocating traffic to less-able carriers. Prohibiting "discrimination" among transport users will only result in extensive idleness of transport resources, with greater costs making transportation "equally" unavailable to all. And requiring carriers to

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serve all comers will continue to abort better ideas by forcing their potential markets into the cold arms of "common carriers".

The most innocuous regulatory apparatus has powerful incentives to increase the numbers of its "constituents", by robbing the strong to sustain the weak. Vested interests can forever cower a maverick competitor by threatening to subject independently-filed rates or innovations to expensive litigation before the regulatory commission. All of these reasons suggest that no regulatory reform can relieve us of the pox that intervention in the free market brings upon us all.

While the gap yawns ever-wider between the true possibilities and the substitutes remaining under regulation, old myths about transportation continue largely unquestioned. If transport is today the sick man of American industry, it is because *government put it on the wrong track, and is unwilling to stop the train!*

Continued regulation can only result in the continued destruction of both transportation as a business, and further loss of freedom to the regulators and their bootlicking servants in the industry. Transportation, if anything, *is a classic proof of the case for economic freedom!*



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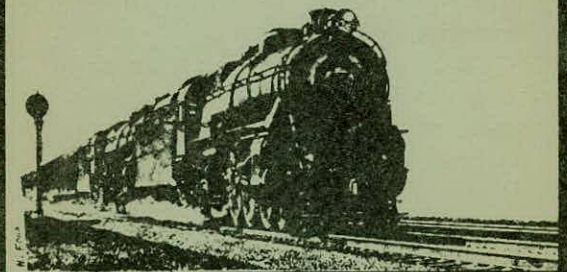
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