

THE BUREAUCRACY - OVER 100 YEARS OF DECEPTION

To understand the inherent evil in the Fourth Branch of the government, the Bureaucracy, one must first understand the conditions, the conflicts and the motives that led to its creation.

The Interstate Commerce Commission was the first of the infamous bureaucracies. In the late 19TH Century, the railroads were a rapidly growing industry. As with any rapidly growing industry, a certain amount of chaos existed. Two powerful “Special Interest groups” clashed trying to use the government’s monopoly on force instead of the free market to resolve that chaos.

These “special Interest” groups were:

- The Grange (<http://www.u-s-history.com/pages/h854.html>) was a social and educational rural farm organization that evolved into a lobbying group for farmers. The Grange opposed what they considered were discriminatory and unstable shipping rates charged farmers and other small shippers. The large number of members throughout the Midwest made the Grange a formidable political force.
- The Railroad Industry was concerned with what it considered “cut-throat” competition between railroads. The problem the railroads faced was that competing railroads would agree upon a rate structure but would not abide by the agreement. There was no way to enforce the rate setting agreements. The Railroad’s position is summarized by a Vice President of the Pennsylvania Railroad:

A large majority of the railroads in the United States would be delighted if a railroad commission could make rates upon their traffic which would assure them of six percent dividends, and I have no doubt, with such a guarantee, they would be glad to come under the direct supervision and operation of the national government. (P37-38, *An Empire Of Wealth*, John Steele Gordon, HarperCollins Publishers, Inc)

The railroads were willing to surrender their freedom for security and a guaranteed profit. The Railroads wanted a government coerced cartel.

The “Wannabe Peers”, those politicians trying to regain the power and prestige of the 16TH Century English “Peers”, were faced with a problem. The Grange wanted low freight rates; the Railroads wanted a guaranteed profit and the politicians just wanted to be reelected. How on earth could the politicians placate both groups with such diverse agendas? The answer was to create a bureaucracy to determine and enforce the solution. So Congress invented the ICC, the Interstate Commerce Commission, and charged it with the responsibility of maintaining “reasonable and just” freight rates. Who could argue against “reasonable and just” freight rates? If the results failed to meet either side’s expectations, the politicians could agree with the aggrieved constituents and gain support by promising to “reign in an out of control bureaucracy.”

The life span of the ICC was over 100 years and it did grievous damage to the economy, increased shipping cost and nearly destroyed the Railroad Industry. (Ref. Chapter 8 of *21ST Century Common Sense*, by Felton Williamson, jr., AuthorHouse Publishing.)

History; however, has shown that the bureaucracy simply acts to favor the politically powerful. This characteristic of the Bureaucracy is referred to as “regulatory capture” sometimes referred to as the “Iron Triangle”. (<http://online.wsj.com/article/SB124580461065744913.html>, <http://baselinescenario.com/2009/08/14/an-inside-perspective-on-regulatory-capture/>, http://en.wikipedia.org/wiki/Regulatory_capture, http://en.wikipedia.org/wiki/Iron_triangle.) The term “iron triangle” is used by some scholars to describe the interaction between Congressional committees, the bureaucracy and special interest groups. Was the “Regulatory Capture” of the bureaucracy hidden from the politicians of the era? Hardly! Two quotes from politicians of that period follow:

Richard Olney, the US Attorney General in 1889, made this statement about the ICC:

The Commission is, or can be made, of great use to the railroads. It satisfies the popular clamor for a government supervision of the railroads, while at the same time that supervision is almost entirely nominal. (Ref. Thomas Frank, "[Obama and 'Regulatory Capture'](#)" *The Wall Street Journal*, June 24, 2009)

In 1913 President Woodrow Wilson wrote:

If the government is to tell big business men how to run their business, then don't you see that big business men have to get closer to the government even than they are now? Don't you see that they must capture the government, in order not to be restrained too much by it? Must capture the government? They have already captured it. (Ref. Woodrow Wilson, *The New Freedom: A Call For the Emancipation of the Generous Energies of a People*)

History clearly shows that the “Wannabe Peers” of the period knew exactly what they were doing. But in the late 19TH and early 20TH Centuries, one could not have envisioned the damage to the economy perpetrated by the “Fourth Branch of Government” over the next 100 + years or the power that would be wielded by powerful bureaucrats by the turn of the 20TH Century.

Today, the Bureaucracy acts as legislator, investigator, prosecutor, judge and jury. Rules and regulations which could never pass the Congress are enacted with little or no publicity until the Bureaucracy pounces on the hapless victim. The Bureaucracy provides incumbent politicians with unlimited power to prosecute political enemies and extort political support. History provides many instances of the “Wannabe Peers” using the power of the Bureaucracy for politically motivated prosecution. Perhaps the best documented instance is President Franklin D. Roosevelt’s use of the IRS against his political enemies. (*“FDR and the IRS”, by Burton W. Folsom, Jr. Prepared for the Durell Colloquium, “The Role of Markets and Governments in Pursuing the Common Good,” at Hillsdale College, October 28, 2006.*) The ability of the “Wannabe Peers” to use the Bureaucracy to persecute political dissent and reward political support is a grave danger to the Republic and has great potential to destroy the American Revolution.

In addition to political persecution, the Bureaucracy has had a tremendous effect on the economy. For almost 100 years, the ICC prevented innovation in the Railroad Industry and

provided a technologically challenged competitor protection causing artificially high freight rates and near destruction of the Railroad Industry.

The saga of the ICC had a somewhat happy ending. By the 1970's the regulatory handcuffs had the railroad industry in shambles. In 1970, the Railroad Industry was partially deregulated. Rates, productivity and volume had been dormant for over 15 years by 1980. Between 1980 and 2007, productivity of the railroad industry increased by almost a factor of 3. Volume doubled and rates dropped (adjusted for inflation) to half the rates at the time of deregulation. The railroad industry made a comeback. Today, freight rates in the United States are the lowest in the world. One wonders what could have been accomplished if the industry were completely deregulated or if the ICC had never existed. (Ref.

<http://www.aar.org/PubCommon/Documents/AboutTheIndustry/Overview.pdf>)

The Bureaucracy had the power to destroy the competitiveness of an established industry, the Railroad Industry. It also has the power to prevent innovation and exclude new technological achievements from the market place. Consider the effects on the economic growth of the last half of the 20TH Century if the bureaucracy had outlawed the use of silicone to protect the vacuum tube industry and prevented the development of solid state electronics.

There is no place in a free society for a Bureaucracy with the power to legislate, investigate, prosecute and act as judge and jury.