

Economics and the railroads

[Economics](#)



Roster simply added to the aura Robert Vogel decided to measure how important OR was How much did it affect U. S. Output? How much higher was GAP with OR than w/o OR? Social Savings Actual GNP 1890 - GNP 1890 OR Fact contractual Explicit contractual Transportation system without OR Lots more canals and roads would have been built Must assume that most of the investment that went Results: Social savings in cargo = 4. 7% of 1890 GNP S. S. In passenger traffic = 2. 6% Total social savings = 7% of GNP GNP would have been 7% lower in 1890 w/o OR 7% = 2 years of expansion

Impact similar to 2-year recession Very important, but not indispensable "Indispensable" says gap between OR and alternatives was big big enough to show up in GNP difference Victory of OR does not indicate margin of victory Indispensability says margin was big and important Small margin is all that is necessary for big shift Massive shift in investment Profits or losses to firms Especially at edge of settlement Conclusion that OR was necessary does not follow from switch to OR To be " necessary," gap must have been big Fusel's estimates of social savings says gap was not all that big

OR may have been #1 contributor to growth - no argument there But canals could have been #1 w/o OR Transportation improvements were crucial Maybe even indispensable But one mode of transportation was not Again, economic growth is multi-faceted Many sources adding incremental gains Transcontinental Railroads Government subsidized Canals and early railroads were built with big state subsidies Transcontinental were built with federal government help Subsidies in the forms of land and loans Government gave what it had most of - LAND

Railroad companies were given land to use and sell And huge loans, which were hardly repaid at all The rewards were for building the rails fast Bonuses for miles laid - shortest route was avoided They operated with high costs Like Soviet planning; results were inefficient Corruption was rampant The government subsidized ones went bankrupt Were reorganized over and over Many of famous " Robber Barons" were owners One exception was the Great Northern Built by James J. Hill with no federal subsidies He built his rail efficiently and slowly as market demanded

Developed economic activities along the route He built many branches

Finished in sass Demonstrates that most were built too soon

Transcontinental preceded the market by years or decades Rails were built before economic activity was there Tree trunk with no branches That contributed to the financial losses Massive investment of public resources Costs may have exceeded benefits Cost to workers, Native Americans, environment Cost to taxpayers Ushered in era of government and business partnership and conflict Government-created monopolies Eventually triggered anti-trust laws