

The Railroad in American Life

1. The democratic capitalist system of the United States is unique because of the way that the British North American colonies were established and allowed to develop by the English crown. Representative democracy, plurality elections, geographic-based representation (the tradition of the representative living with those he represented), and private property rights were established from the beginning of the British colonies and shaped everything that was to follow.
2. From the very beginning private property rights in land were the norm and the colonies were pretty much unfettered in their internal development until the 1760s.
3. Representative democracy and Capitalism evolved together in an environment of almost unlimited natural resources.
4. The British North American colonies used plurality elections (the person with the most vote wins) and for practical reasons, geographic-residency-based representation (the tradition of the representative living with those he represented). When mass based political parties emerged in the 1820s this system produced two major parties and embedded regional interests within the parties. This in turn made centralized control of local party members impossible.
5. The combination of private property rights (enshrined in the Common Law and enforced by the Courts), limited government, and isolation from Europe, led to tremendous rewards for creative entrepreneurs and inventors.
6. Consequently, during times of peace political institutions have been largely reactive. Given government enforced private property rights in which inventors and entrepreneurs can make money from their creations, these creations—the railroad, the telegraph, radio, automobiles, etc.—have *unpredictable economic, social, and political effects*. Government tends to act with a lag to these spill-over effects. Politicians—who typically have a short-run perspective—react to what people believe is true and often, with the best of intentions, over-regulate the targeted economic activity thereby distorting the flow of capital in the economy as a whole.

- 7. Political institutions are not simply reactive. Wars, depressions, and social movements can drastically change taxes and the extent of economic regulation. The causal arrow points in both directions. Not only do *shocks in the form of new technologies in the economic system affect the political system*, but *shocks in the political system affect the economic system*.**

- 8. *The evolution of the railroad network illustrates how this two-way interaction operates over time and how this interaction is driven by creative entrepreneurs, inventors, scientists, and politicians.***