THE DAVID HUME INSTITUTE

THE REGULARITIES OF REGULATION

GEORGE J. STIGLER

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PROFESSOR GEORGE STIGLER is one of the outstanding economists of this century and one of the first to be awarded the Nobel Prize in Economics. His distinguished academic career culminated in his appointment as Professor of Economics at the University of Chicago in 1958. Although he has been retired for some years, he still teaches and undertakes research at that university. In 1964 Professor Stigler was President of the American Economic Association, the largest professional organisation of its kind in the world. For many years he has been Editor of *The Journal of Political Economy*, one of the world's leading professional economics journals. He has made major contributions to the economic theory of markets, to the history of economic thought and to the economic and statistical analysis of a wide range of policy measures.

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PREFACE

The David Hume Institute specialises in the promotion of discourse and research on the economic and legal aspects of public policy questions. In order to establish its claim to be internationally recognised as a centre with a particular interest and expertise in problems of government regulation, a deliberate decision was taken to seek the support of advisers of high standing from a number of countries and to honour persons in public life who were sympathetic to the Institute's aims. Members were therefore delighted when Professor George Stigler, Nobel Laureate in Economics, agreed to become the Institute's first Honorary President for the period 1985-1987. This required him to deliver a Presidential Address during his term of office and a suitable occasion presented itself when the Institute decided to hold a Conference on Financial Deregulation in early May 1986. Professor Stigler is internationally known for his original contributions to economic analysis, but of particular relevance to his appearance in Edinburgh is his famous thesis that 'the regulated finish up capturing the regulators'. He has subjected this thesis to empirical tests in several important areas, including the securities market. It therefore seemed opportune to persuade Professor Stigler to time his address to coincide with the opening of the Conference. That his address was perceived to be a major event may be gathered from the fact that the Secretary of State for Scotland, The Rt Hon Malcolm Rifkind, MP, and his Minister of State for Education and Industry, Alan Stewart, MP, both attended the occasion, as well as many other eminent persons in Scottish public life.

It will be clear from the printed version of this address why it was so greatly enjoyed. In thoroughly typical fashion Professor Stigler took an episode in American financial history—the deregulation of the securities market—in order to illustrate an intriguing general proposition, which challenges the view held by such *éminences grises* as Dicey, Keynes and Friedman, that the influence of opinion determines the growth and scope of legislation. His alternative hypothesis is that 'the propensity to use the state is like the propensity to use coal: we use coal when it is the most efficient resource with which to heat our houses and power our factories. Similarly, we use the state to build our roads or tax our consumers when the state is the most efficient way to reach those goals . . . the efficient pursuit of one's interests requires this kind of behaviour'. It follows that the deregulation of the securities market is better explained by the influence of changing economic circumstances on the interests of business than by some emergent ideology of deregulation.

Equally characteristically, Professor Stigler, who has a unique grasp of the anthropology of economists, sees a role for economists as predictors of what the effect of economic policies will be and therefore indirectly as predictors of the state's role in regulation. His own prediction is that 'when the economic environment has stabilised for a time, we shall see new regulations serving to shelter the new financial markets that will develop'. There is every indication that this will hold true for the UK as well as for the USA.

The Institute stresses that its role is that of a body without political affiliation and that the author's views and conclusions are his own and not necessarily those of the Institute. This note of caution does not preclude the Institute from expressing its deep gratitude to Professor Stigler for inaugurating the Presidency with such a stimulating address.

Alan Peacock
Executive Director

The First Presidential Address to the David Hume Institute, delivered on 1st May 1986

1 Introduction

I propose to address the question: what is the nature of the forces which bring about long-term, persistently long-term, trends in the degree of political control over economic life? And I propose to test the two leading answers to this question—to which I shall presently turn—by examining two episodes in the long history of governmental attention to economic affairs.

The first episode can scarcely be called an episode except on the scale of geological time: it is the pervasive growth of state intervention in economic life. It cannot have escaped even the most myopic observer of social affairs that the share of economic life under the control of government has undergone an enormous expansion in the past one hundred years. The share of the nation's income that has been spent by governments has risen perhaps three-to five-fold in the Western world during this period. The share of the labour force directly employed by governments has experienced a similar expansion. No simple, satisfactory measure can be assigned to governmental regulations of economic life at any time, but the inundation of the economy by regulations today compared with the past is as Noah's flood to a normal spring.

The second episode is the deregulation of the financial markets, which has been proceeding vigorously for the past two decades in the United States, and more recently in Europe and elsewhere. I have just referred to the literal flood of governmental regulations, which certainly covered also the financial markets. Is financial deregulation the ark on which private enterprise will reach its former domain?

First, let us look at the major explanations for long-term changes in public policy.

2 Explanations for State Action

Two main types of explanation have been given for social movements as widespread, as persistent, and as powerful as the expansion of the economic functions of the modern state. The one attributes this magnitude of development to a massive change in the opinions of people, the second attributes this development to the changing circumstances of society.

Opinion and public policy

I take Albert Venn Dicey as a most important proponent of the view that opinion rules governments and men. His *Law and Public Opinion in England* is a classical exposition of this view. He would not claim originality; on the contrary, he would claim much ancient authority for the position that there exists a 'close dependence of legislation . . . upon the varying currents of public opinion'.[1] He carved the nineteenth century into three periods:

1 The Period of Legislative Quiescence (1800-1830)
2 The Period of Benthamism or Individualism (1825-1870)
3 The Period of Collectivism (1870-1900).

Throughout the century there was a 'close and immediate connection . . . between public opinion and legislation'.[2] Dicey did not assert that such a relationship was characteristic of all societies: primarily in England, and primarily after 1800, it was the opinion of those who take 'an effective part in political life' that dictated public policy.[3]

Dicey could have cited among his ancient authorities our beloved David Hume, who assigned primacy of influence to opinion, even ignorant opinion. His magnificent essays made immense advances in the theories of money and trade, but observe their stance. He is consistently seeking to eliminate the intellectual confusion to which he attributes the unsocial policies of Europe. Thus the essay 'The Balance of Trade' begins:

> 'It is very usual, in nations ignorant of the nature of commerce, to prohibit the exportation of commodities, and to preserve among themselves whatever they think valuable and useful.'

His close friend, Adam Smith, paid more attention to the sinister interests of the parties who benefited from such policies, but also leaned heavily upon ignorant opinion as an explanation for public policies.

The assignment of a high influence to opinion and its makers did not stop with Dicey. I need hardly cite the famous peroration with which Keynes closed the *General Theory*: '. . . the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else.' Milton Friedman is more explicit:

> 'The example of India and Japan . . . exemplifies the importance of the intellectual climate of opinion, which determines the unthinking preconceptions of most people and their leaders, their conditioned reflexes to one course of action or another.
>
> 'The Meiji leaders who took charge of Japan in 1867 were dedicated primarily to strengthening the power and glory of their country. They attached no special value to individual freedom or political liberty. They believed in aristocracy and political control by an élite. Yet they adopted a

liberal economic policy that led to the widening of opportunities for the masses and, during the early decades, greater personal liberty. The men who took charge in India, on the other hand, were ardently devoted to political freedom, personal liberty, and democracy. Their aim was not only national power but also improvement in the economic conditions of the masses. Yet they adopted a collectivist economic policy that hamstrings their people with restrictions and continues to undermine the large measure of individual freedom and political liberty encouraged by the British.

'The difference in policies reflects faithfully the different intellectual climates of the two eras. In the mid-nineteenth century it was taken for granted that a modern economy should be organised through free trade and private enterprise. It probably never occurred to the Japanese leaders to follow any other course. It is an interesting sidelight that both views came from Great Britain. The Japanese adopted the policies of Adam Smith. The Indians adopted the policies of Harold Laski.'[4]

It is entirely appropriate that the two economists of the twentieth century who succeeded in becoming major figures not only in scholarship but also in the very different world of policy discussion should assign a large value to opinion-makers.

For ideology to be a useful theory of governmental functions, it is surely necessary to explain how ruling opinion is formed and in response to what forces opinion changes. There are hints of a 'great man' theory of political opinion in Dicey[5]—hence his label of the age of Bentham—which became more definite in Friedman, but such hints are merely illustrative. There were, of course, also important leaders of opinion on the side of *laissez-faire* in Dicey's time. Herbert Spencer, William H. Mallock and Alfred Marshall are examples. One could fill a whole lecture with the pairings of names of strongly divergent advisers on policy today. Great men are made great by representing important movements rather than by creating such movements. So let us turn to our second explanation for the expansion of the economic functions of the state.

The self-interest theory

The self-interest hypothesis assumes that societies consistently behave in the same way with respect to the use of the state at all times. Any group in the society that has access to political influence will use that influence when political actions can improve its position. The composition of the groups that have access to political influence will depend upon the economic and social structure of the society. The composition and the desired programmes of these groups will depend also upon the society's political institutions, although over longer periods these institutions are surely partly or wholly responsive to the underlying economic and social structure.

In short, the hypothesis is that the propensity to use the state is like the propensity to use coal: we use coal when it is the most efficient resource with

which to heat our houses and power our factories. Similarly, we use the state to build our roads or tax our consumers when the state is the most efficient way to reach those goals. At all times men will use the resources they command to best effect: the efficient pursuit of one's interests requires this kind of behaviour, and the requirement is generally fulfilled.

When the conditions of the society dictate little use of the state, the economy will be characterised as *laissez-faire*. When the conditions of the society dictate much use of the state, the economy will be called collectivistic or welfare or (better) politicised. To explain why a society moves from one of these régimes to the other, one does not look (primarily) to intellectual currents: rather, the explanation will lie chiefly in the changing *scope* for governmental action as the structure of the economy changes.

Cannot the state always play a large role in economic life? I think not. For example, in a rural society there is a much smaller possible role for the provision of public services such as education and medical care. Governments much prefer to supply services, which cannot be resold by their recipients, instead of goods. In such a society, income is ill defined and not a suitable object of taxation, so *property* becomes the leading basis for taxation. However, it is difficult to tax property progressively because its ownership can often be subdivided. I shall shortly give more examples of how economic and social circumstances influence the possibilities of state action.

Let us now turn to the two episodes which I propose to examine in order to help us choose between the hypotheses that opinion, or alternatively self-interest, guides public policy. The first episode, the vast growth of modern governments, will be condensed to the narrower question: why was the role of the state so small in the nineteenth century? The second episode, to repeat, is the deregulation of the financial markets of the United States in the past fifteen or twenty years.

3 *Laissez-faire* in Nineteenth-Century America

Consider the economic conditions in the United States in 1840. In that year four-fifths of the labour force was in agriculture, and except along the Atlantic seaboard from Massachusetts to Maryland, the share was usually closer to nine-tenths. Only one person in twelve lived in a city over 10,000. Much of manufacturing was decentralised for local markets: the largest employer was house construction (then included in manufacturing). Other major manufacturing industries included flour and saw mills, and those providing building materials, printing, carriages, and furniture. Textiles was the only large manufacturing industry that was geographically concentrated. It was centred in New England and the middle Atlantic states—and of course it obtained tariff protection.

In a history of economic legislation in the state of Iowa, I. L. Pollock observed:

> 'Throughout its history Iowa has been primarily an agricultural Commonwealth. . . . At the same time, an examination of the statute books reveals the fact that in Iowa relatively little legislation has been enacted for the promotion or regulation of agricultural interests.'[6]

Is it a paradox that the overwhelmingly important class of a community did not use its power over the state to seek economic advantages by legislation? Not at all: there were few economic advantages to be procured by this route. The determinants of the prosperity of Iowa agriculture were not within the jurisdiction of the legislature. Iowa farmers could not use their legislature to increase the prices of their main products, which were set in national or world markets: Liverpool was well beyond the reach of either Iowa or the federal government. Farmers could not find enough non-farmers to obtain significant benefits through discriminatory taxation and expenditures.

The main area of economic life in which there was large scope for conferring benefits upon particular groups was in transportation. The rivalry between Baltimore, Philadelphia, New York and Boston to become the leading entry and export depot for the Midwest is a familiar theme in the literature on internal improvements. The states conferred large positive and negative capital gains upon landowners by their choices of routes of turnpikes, canals and then railroads. It is regrettable that economic historians have paid little attention to these efforts of regions within states to achieve large gains and avoid large losses in land values.[7]

It is interesting to note that the economic historians do not cite a general rule of *laissez-faire* as a common or important argument employed in the debates of the time over public policy.[8] Andrew Jackson vetoed the Maysville Road Bill in 1830, thus withdrawing the federal government from support of internal improvements for a generation. I doubt that even with its much longer history Britain can find a state document to rival the turgidity of Jackson's veto message, but I would emphasise that he rested his case on the constitutional limits on the federal government, not on the doctrine of *laissez-faire*. The historians of English thought are equally emphatic on the absence of doctrinaire *laissez-faire*: in a famous essay, Brebner challenged Dicey to the extent of calling Bentham the patron saint of intervention.[9]

In short, agricultural America was not a good soil on which to plant extensive governmental functions or expenditures, and that circumstance governed governments. I must note that a fuller discussion would force me to face the uncomfortable fact that numerous agricultural nations today have extensive governmental programmes regulating agriculture. As a first

approximation I would explain that difference by the absence in these modern societies of effective democracy or freedom of movement.

4 Deregulation of the Financial Markets

The past fifteen years have been held out as a period of wide-ranging deregulation of the financial markets of the United States. The extent of the deregulation is all the more remarkable because of the length of time some of the regulations have been in force. Consider just a few major steps.

1 The commission rates of the New York Stock Exchange had been fixed by a powerful cartel since 1792, and operated under the protection of the Securities and Exchange Commission after 1934. The minimum rate structure was abolished within the period from 1968 to 1975.

2 The gradual, virtually completed, abolition of the controls over maximum interest rates payable by commercial banks and savings institutions has taken place during the past eight years. These maxima had been in effect for over forty years.

3 The geographical expansion of banks over state lines was prohibited until recently. New regional state banking compacts have led to broadening markets.

4 There has been an extensive development of so-called nonbanks, that is, banks that do not have both demand deposits and commercial loans. (I hope the English are appreciative of the additions we Americans make to their wonderful language, of which nonbank banks is a nonsterling example.) These nonbanks can be owned by brokerage houses, insurance companies and even retailers, since they escape the legal limitations which have been placed upon the range of activities permitted to bank holding companies.

5 The barriers protecting the specialisation of financial institutions have been lowered. Commercial bankers can act as stockbrokers and in turn stockbrokers can act as banks through their money-market accounts.

Has this rapid and sweeping reorganisation of the financial markets been due to a change of opinion? Have the inefficiencies of the previous structure, well-documented in a hundred economic studies, and the preachings of Keynes's academic scribblers brought about a renewed appreciation of the free market? What support is there for the alternative explanation that these policy changes were dictated by the changing economic conditions of the nation?

I shall identify five large changes in the economic environment of the capital markets in the past half-century. Each is of a magnitude essentially unprecedented in the history of American financial markets.

1 Surely pride of place, or rather shame of place, has to go to the inflation, which brought the Consumer Price Index in 1980 to over *six* times the level of 1940, and in 1985 to *four* times the level of 1953. Nor were these vast increases achieved by a steady rise of prices: in each of the years 1974, 1979 and 1980, prices rose by more than 12 per cent—approaching the levels of the pent-up inflation of 1946.

2 As a result of this major inflation, interest rates reached new levels:
(*a*) Three-month Treasury bills yielded 1.2 per cent in 1950 and 16.3 per cent in May 1981.
(*b*) The rate on long-term AAA corporate bonds rose from 2.6 per cent in 1950 to 14.2 per cent in 1981.
Correspondingly, the real rate of interest was negative from 1973 to 1980.

3 Pension fund and insurance company investments in common stocks grew at a rate that taxes one's vocabulary. In 1945 these investments were $3 billion; in 1970, $96 billion; and in 1983, $452 billion. This is an annual rate of increase of 14.1 per cent. For reference, Malthus expressed fear at the ominous potentialities of a population growth of 2.8 per cent per year.

4 Largely because of the growth of institutional stockholdings, institutional trading on the New York Stock Exchange rose from 30 per cent of all trading in the 1950s to 70 per cent today. Block trades of 10,000 shares or more rose from 3.1 per cent of shares traded in 1965 to 41.0 per cent in 1982. Americans increasingly shifted to intermediary institutions the task of investing in equity securities.

5 I surmise that the development of the modern computer, which has revolutionised the processing of data, has had substantial effects on the financial system. My colleague, Robert Graves, has pointed out that if the automobile industry had progressed at the same rate as the computer industry in the past twenty-five years, a Rolls-Royce would cost $2.00 and it would give about 100,000 miles to the gallon. The efficiency in multiple uses of data has fostered both large-scale and diversified scope of operations.

These five developments, to repeat, are without precedent in American history.

Let us now examine how these fundamental changes in the environment of the financial markets were related to the acts of deregulation.

1 Prior to 1968 the New York Stock Exchange forbade any quantity discounts for large trades, and set commissions that rose rapidly with the price of the traded shares. The profits on large block transactions were enormous at these rates, and brokers competed for these transactions by supplying elaborate investment analyses. Soon, to accommodate the fact that exchange traders and investment analysts were different groups, the 'give-up'

appeared, whereby the trader gave up much of the commission to a broker specialising in investment analysis. The 'third market' (an over-the-counter market) and the institutional memberships of financial enterprises in regional stock exchanges further eroded the New York Stock Exchange's position. The eventual prohibition of the setting of minimum commissions in 1975 merely recognised the impossibility of adhering to unrealistic commission rates.

2 Savings institutions necessarily accumulated large stocks of ageing mortgages during the 1970s with average interest rates of perhaps 7 per cent, but the average interest rate on new mortgages reached 16.7 per cent by 1981. Meanwhile, these same institutions were losing their ability to attract new savings at the legally permissible interest rate ceilings, so eventually they approached universal insolvency, concealed only by federal assistance. The limitations on the interest rates paid on savings accounts, and the savings institutions themselves, could not both survive. In many cases neither survived.

3 Similarly, the commercial banks lost their ability to attract or hold deposits under the ceilings on interest rates, forcing the elimination of interest rate ceilings, the authorisation of interest-yielding checking (NOW) accounts, and eventually money-market accounts.

4 The sudden termination of a major inflation has proved as painful as the inflation itself. The values of many durable assets, among them agricultural land and several energy resources, collapsed once the price level began to stabilise. The widespread failures of lending institutions followed, calling forth a measure of interstate banking as solvent financial institutions were assisted by bank regulators in taking over insolvent banks and savings institutions.

This terse recital is sufficient, I believe, to justify the claim that the main contours of the recent evolution of the financial markets in the United States can be explained without recourse to a revulsion against public regulation. In explaining why one does not walk from Dover to Calais it should suffice to point to the Channel, without adding that such a long walk would be fatiguing.

Not only do we dispense with an emergent ideology of deregulation to explain the acts of deregulation, but also we cannot fail to observe that much, much regulation of the financial markets has survived and new regulatory actions continue to be taken. As a tiny instance: after twenty years of hard fighting, the commercial banks are still not allowed to underwrite revenue bonds of state and local governments, although they have long been able to underwrite general obligation bonds. Paul Volker, riding on the glory that comes from financing a major inflation and then its stabilisation, is prepared to have the Federal Reserve System regulate much of the capital markets.

The nationalisation of the Continental Illinois Bank should be viewed as a powerful new regulation. There is immense controversy among academic economists today on how to reconcile deposit insurance by the federal government with the liberalisation of the area of bank activities, with the reconciliation quite possibly involving increased public regulation.

Moreover, I predict that when the economic environment has stabilised for a time, we shall see new regulations serving to shelter the new financial markets that will develop. Neither the desire of industries to obtain governmental favours nor the willingness of governments to confer such favours on influential industries will have changed.

5 A Role for Economists?

I have not concealed my deep scepticism of the role of opinion, and the leaders of opinion, in bringing about basic changes in direction of a society. Does that leave any important role for the academic scribblers whose influence Keynes assessed so high? I believe it does—in fact as an economist I had better believe so—and in a thoroughly old-fashioned way.

When a scientist discovers something that is new and true, a rational society must accept that finding whether it be benevolent or hateful. A rational person cannot disregard an established finding such as that X is a wonderful antibiotic, Y a lethal poison and Z a reliable pattern of human behaviour under governmental price-setting. Different people may wish to use a new finding in different ways, but only at one's own peril may it be ignored.

Therefore, the truly established findings of economists are incorporated into all economic policies. No one disputes the fundamental law of demand, that buyers will seek to purchase more of a thing when its price is reduced. When a government introduces effective price ceilings without formal rationing, it does not disregard the law of demand: it simply decides that it prefers the pattern of purchases that will result with queuing. I would claim that a modest role in the deregulation of the financial markets has been played by the modern theories of efficient markets and of economic regulation.

It follows that the most important economists are those who discover and prove general relationships in economic life. They are vastly more influential in the long run than those other economists who become famous on the stage of public discussion.

This second role of the economist—the formulating of desirable public policy—fills a different and less influential function.

Whether the circumstances of a society dictate little or extensive use of the state in any area of economic life, it is appropriate to devise philosophies or theories to describe these general practices. When the state makes few interventions in economic affairs, it is natural for this practice to be

articulated in a philosophy of *laissez-faire*, and that philosophy is then the first, general reaction to any new proposals for state action. When the state is vigorous and far-ranging in an area (as, for example, is presently true in my country as regards environmental protection), it is equally natural for new extensions of that programme to be welcomed, and attacks upon it to be repulsed, by a philosophy of state responsibility.

These philosophies are useful summaries of the general state of contemporary political equilibrium: they provide a first answer to proposed changes in policy that are reasonably good predictors of how the new proposals will fare. If they are widely used, we may be confident that they will not be rigorous and abstract, and therefore they are better named philosophies than theories.

The philosophies are constructed out of actual practices and trends in these practices, by spokesmen of the groups that support or oppose the practices. These spokesmen are representatives of the affected groups, and they include political representatives and that class with the flattering name of 'intellectuals'. The philosophies or ideologies are not simply descriptive of actual (or desired) policies: inevitably they codify and put a measure of consistency in the approved practices, and therefore exert an influence on what is acceptable.

Consider, for example, the laws passed by the British Parliament in 1824 to legalise the exportation of machines and the emigration of skilled workers. Probably neither of these attempts to hamper foreign competition was effectively enforceable, but the chief power groups in that Parliament would not be eager to repeal them. Yet the repeal was in keeping with the general tendency to repeal legislation that was restrictive of free trade, and that policy was a primary goal of the rising industrial classes.

This second role of articulating and preaching the philosophies of important groups in society is obviously useful, and commands both prestige and income. Nor is it a role that requires a spokesman to support policies that he personally does not wish to be followed: there are many groups from which one can choose. A good measure of the integrity of the spokesmen of the various classes is whether they are earning approximately equal rewards.

6 Conclusion

The interests of the various groups in a society are durable: there have been identifiable farm blocs, unionised workers, urban poor, manufacturing and other such interests for many years or even many decades. Opinions usually change more rapidly than these economic and social classes. It therefore follows that shorter-term changes in public policies may be due to the changeable winds of opinion as well as to the shorter-term changes in economic environments. If I believed that an economist could say much that

was useful about the short-term changes in public policy, I would have given more time and especially more thought to opinions.

On this reading of the nature of the fundamental forces in the political process, the scope for reformers is narrowly confined. That should hardly be news to anyone, and especially to economists whose two-century-long efforts to achieve freer international trade have seldom prospered. Yet I find a consoling merit in the dominance over long-term social and economic policy by the social and economic structure of the society. If our nations will not listen closely to the excellent advice we economists give, these same nations will be equally deaf to the score of nonsensical and pernicious proposals that spring up with the frequency of general elections. If we cannot achieve authority, perhaps we should be satisfied with predictability.

References

1 *Law and Public Opinion in England* (2nd edn), Macmillan, 1914, p. 1.

2 ibid, p. 7.

3 ibid, p. 10.

4 *Free to Choose*, Harcourt, Brace Jovanovich, 1980, p. 285.

5 In fact Dicey makes a fatal concession to the alternative theory we shall soon present:

> 'Now it must at once be granted that in matters of legislation men decided in the main by their real or apparent interest. So true is this, that from the inspection of the laws of a country it is often possible to conjecture, and this without much hesitation, what is the class which holds, or has held, predominant power at a given time' (ibid, pp. 12-13).

If opinion is the expression of the interests of the effective political participants, why then emphasise opinion instead of interest as the prime mover? Dicey's reply is that interest no doubt plays a powerful role in fixing one's political goals, but that interest is not nakedly revealed (ibid, pp. 14-15).

6 *History of Economic Legislation in Iowa*, Iowa City: State Historical Society, 1918, p. 67. A similar remark is made about coal mining (ibid, p. 81).

7 See, for example, Carter Goodrich, *Government Promotion of American Canals and Railroads, 1800-1890*, Columbia University Press, 1960, pp. 8 and 46 and Chapter 3; C. Goodrich, *Canals and American Economic Development*, Columbia University Press, 1961, pp. 69, 129-31, 178, 253 and especially 234-35:

> 'Between 1820 and 1846 the value of land and improvements, adjusted for changes in the general price level, in the fourteen counties bordering the Erie Canal increased by ninety-one percent. During the same period the real value of property in the non-canal counties, excluding New York and Kings counties (Manhattan and Brooklyn), increased by only fifty-two percent while property values in the state as a whole increased by sixty-six percent.'

See also J. A. Durrenberger, *Turnpikes*, privately printed, Columbia Dissertation, Valdosta, Ga., 1931, pp. 47, 127.

8 See O. Handlin, '*Laissez-Faire* Thought in Massachusetts, 1790-1880', *Journal of Economic History Supplement: The Tasks of Economic History*, III, 1943, pp. 55-56; and *Commonwealth: Massachusetts, 1774-1861*, New York University Press, 1947; M. Heath, '*Laissez-Faire* in Georgia, 1732-1860', *Journal of Economic History Supplement*, 1943, pp. 78-100; *Constructive Liberalism: The Role of the State in the Economic Development of Georgia to 1860*, Harvard University Press, 1954; and L. Hartz, *Economic Policy and Democratic Thought: Pennsylvania, 1776-1860*, Harvard University Press, 1948.

9 J. B. Brebner, '*Laissez-Faire* and State Intervention in Nineteenth-Century Britain', in *The Tasks of Economic History*, VIII, 1948, pp. 59-73. A survey of much of the modern literature

is given in a book by Taylor repeating Brebner's title: A. J. Taylor, Laissez-Faire *and State Intervention in Nineteenth-Century Britain*, Macmillan, 1972. See also H. Scott Gordon, 'The Ideology of *Laissez-Faire*', in *The Classical Economists and Economic Policy*, edited by A. W. Coats, Methuen, 1971, pp. 180-205, and the interesting essay by W. D. Aydelotte, 'The Conservative and Radical Interpretations of Early Victorian Social Legislation', *Victorian Studies*, December 1967.

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