Introduction

The nature of government is to expand; very rarely do we see governments become involved in a matter and then become completely disengaged at a later date. Historical examples of such range from the growth and corruption of the Roman Empire to the modern expansion of the welfare state across the globe; governments simply grow. Specific to American history, the late 19th and early 20th century contains many remarkable points in the American economy: the abandonment of the gold standard, the creation of the Federal Reserve, and the New Deal policies, to name just a few. These time periods, and these policies, are remarkable as some of the first major steps the American Federal Government took to establish a mixed economy. Given that every trend must have a beginning, this paper will seek to examine some of the first major steps towards modern government involvement in the economy; to that end, this paper will focus on the financial changes, and large scale subsidization, that began during the American Civil War. Specifically, this paper will examine a timeline from the late 1850’s to the early 1870’s as necessary to make a complete analysis of the topic.

Books can, and have, been written on the massive federal changes that occurred during this time period; from Lincoln’s suspension of habeas corpus to the issuance of the greenback as a fiat currency backed by federal law, federal power asserted itself and evolved tremendously during this time period. Due to the massive changes that occurred during this era, this paper will limit itself to two categories in studying the seeds of federal economic intervention: the expansion of government subsidy of business
enterprises, and the growth of government financial controls. In each of these categories, this paper will cover specific examples; for finance the creation of federal national banks will be examined, and for government subsidy the creation and operation of the first transatlantic railroad will be reviewed. Each of these actions stand as a template that was used for further government action, and each will grant specific insights into the evolution of government action within a market economy.

Business Subsidization:

The first transcontinental railroad was many things; an impossibility, an adventure, a dangerous investment, and finally a man-made marvel. One overarching category, however, that fits the expedition from the cradle to the grave, is that of government investment. From its beginning, the transcontinental railroad was motivated, constructed and fueled by government subsidy. As such, it stands as one of the seminal and defining large scale acts of government intervention into a private economy. To examine the subsidization for this paper, the railroad’s overall construction will be recounted, and then contrasted with the privately financed and controlled Great Northern rail line.

Subsidies for transportation projects were a common trend of the antebellum period; states would issue tax breaks, purchase or guarantee bonds, and provide terminal facilities to ease construction for canals and railroads.\(^1\) Some states even bought stock in

the company, hoping to both aid in the construction and also gain in the profits.\textsuperscript{2} The main reason the Civil War period was chosen for this examination of subsidy is because a fundamental shift occurred during this time; financial aid for railroad construction during this time dwarfed the state and local aid grant, in both monetary units and land grants.\textsuperscript{3} As such, this shift should present the perfect opportunity to see how large scale subsidization affects business.

Government subsidization always has as its intended outcome a growth in business that otherwise would not have occurred without government aid; the whole reason for government aid is to spur economic activity that the government proposes would not have occurred otherwise. This argument is often made and applied to never before attempted or particularly large endeavors; when it is a particularly large never before attempted endeavor, many people will leap straight to the conclusion that it cannot be attempted without government aid. To illustrate this mindset, John Garraty said: “Unless the government had been willing to build the transcontinental lines itself, some system of subsidy was essential.”\textsuperscript{4} For a transcontinental railroad, government involvement was assumed almost form the start; it was assumed the benefit of the railroad to the country would be massive but the risk to individual investors would be too great to justify the cost.\textsuperscript{5}

\textsuperscript{2} Ibid.
\textsuperscript{3} Ibid.
\textsuperscript{4} Folsom, Burton Jr. \textit{Entrepreneurs VS. The State}. (Young America's Foundation, 1987), 17
\textsuperscript{5} Walton, Gary M, and Hugh Rockoff. \textit{History of the American Economy, 10th edition}. (Thomson South-Western, 2005), 308
By 1862, with the exodus of Southern Congressmen, the largely Northern congress passed the Pacific Railroad Act. This ideological shift, due to representatives walking, out is noteworthy in shaping precedent for federal business policy, while the confederate government had a very different ideology. The constitution of the Confederate States started by taking the original U.S. constitution and then removing the welfare clause, barring tariffs, restricting business subsidies, running the post office deficit-free, require that waterway projects be funded by those who benefit from them the most, and also giving the president the line item veto power. Here we see a very hands-off approach to economic intervention; the Confederate central government was very restricted in its handling of economic affairs, while the actions of the north, here exemplified by railroads, showed a great willingness to support economic activity with government money. Thus, the Southerners’ exodus and subsequent defeat solidified the northern themes of a stronger federal government, and set it as the model for government activity moving forward.

As a first step, Congress passed the Pacific Railroad Act of 1862; this act led to the creation of the Union Pacific and Central Pacific companies, and granted them alternating sections of land for each mile of track laid, as well as granting them subsidies for each mile of railroad track laid. The Central Pacific Company (CP), founded in California, was to build the track from Sacramento to the Nevada border, while the Union

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6 Folsom, Burton Jr. *Entrepreneurs VS. The State*. (Young America's Foundation, 1987), 18
8 Folsom, Burton Jr. *The Myth of the Rober Barons*. (Young America's Foundation, 2007), 18
Pacific (UP) company was to build from Iowa to Nevada.\textsuperscript{9} The 1862 act failed to attract sufficient investment, and an additional act was passed in 1864 to increase the amounts of the both the land grants and the financing per mile of track.\textsuperscript{10} To quote Iowa representative Hiram Price speaking on the Railroad Act of 1862: “I do not believe that there is one man in five hundred who will invest his money, and engage in the building of this road, as the law stands now.”\textsuperscript{11}

Subsidies per mile of track were $16,000 per mile on normal terrain, $32,000 per mile of hill terrain, and $48,000 per mile in mountainous terrain.\textsuperscript{12} From these directives, it is easy to see the eventual incentive structure: the company that lays the most track the fastest gets the most payout from the government. As will be shown in the coming pages, this incentive perverted the usual course of business. It is also worth mentioning here that a later examination and contrast will be made in this paper between the first transcontinental and the later Great Northern Railroad, a private endeavor that also sought to span the United States. To first set the contrast, a quote that makes manifest the beliefs of James Hill, the owner of the Great Northern Railroad: “The government should not furnish capital to these companies, in addition to their enormous land subsidies, to

\begin{thebibliography}{9}
\bibitem{9} Walton, Gary M, and Hugh Rockoff. \textit{History of the American Economy, 10th edition.} (Thomson South-Western, 2005), 308
\bibitem{10} Ibid.
\bibitem{11} Ambrose, Stephen E. \textit{Nothing like it in the world: the men who built the transcontinental railroad, 1863-1869}. (Simon and Schuster, 2000), 94
\end{thebibliography}
enable them to conduct their business in competition with enterprises that have received no aid from the public treasury.”

From the start, the UP and CP behaved in a manner to maximize the amount of profit from government subsidy, rather than profit from the efficient operation of a railroad: “The UP and CP, then, would compete for government largess. The line that built the most miles would get the most cash and land. The land, of course, would be sold; and this way the railroad would be financed. In this arrangement, the incentive was for speed, not efficiency. The two lines spent little time choosing routes; they just laid track and cashed in.”

A demonstrative impact of the subsidies was the rush to lay not just as much track as possible, but to lay it faster than the other company; the sense of hast imparted by the race for government money lead to some interesting decisions for materials. As one of the simplest examples, the UP Company selected cheaper wrought iron rails, and occasionally used lighter, weaker, but more readily available cottonwood trees to cut railroad ties. They also made a practice of paying large numbers of lumber cutters to roam the land ahead of them, cutting trees even on other people’s property, which occasionally ended in violence. The rush also lead to poor construction in general; in

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13 DiLorenzo, Thomas J. How Capitalism Saved America. (Three Rivers Press, 2004), 112
14 Folsom, Burton Jr. Entrepreneurs VS. The State. (Young America's Foundation, 1987), 18
15 Ibid.
16 Ibid, 19
Nebraska tracks were laid on ice and snow so that the pace of building would not be
slowed, meaning that the tracks were ruined in the spring thaw and had to be laid again.\textsuperscript{17}

One of the biggest changes was in choosing routes; as they were now being paid
per mile of track, money could now be made by laying the greatest amount of
track.\textsuperscript{18} This, when we later contrast with the Great Northern Railroad, shows how
government subsidy can affect the most basic development of business. Rather than
promote efficient building routes and construction plans, the payment per mile of track,
as we have seen, led to long, circuitous routes that increased travel time and did not seek
to minimize the distance traveled. However, the construction deficiencies seem to pale
when compared to the loss of life due to Native American raids; according to Dr. Folsom:
“by pushing rail lines through unsettled land, the transcontinentals invited Indian attacks,
which caused the loss of hundreds of lives and further ran up the cost of building… in
some cases, such as the Plum Creek Massacre, in Nebraska, the UP attorney admitted his
line was negligent: it had sent workingmen into areas known to be frequented by hostile
Indians.”\textsuperscript{19} These construction choices would later come back to haunt both companies as
they would spend years repairing the tracks after they were “completed.”\textsuperscript{20}

Even the grand finale itself had a different tune because of subsidy money; the
picture painted in traditional history texts tells of a joyous coming together and a peaceful

\textsuperscript{17} Ibid
\textsuperscript{18} Folsom, Burton Jr. \textit{The Myth of the Rober Barons}. (Young America’s Foundation, 2007), 30
\textsuperscript{19} Folsom, Burton Jr. \textit{Entrepreneurs VS. The State}. (Young America’s Foundation, 1987), 19
\textsuperscript{20} Folsom, Burton Jr. \textit{The Myth of the Rober Barons}. (Young America’s Foundation, 2007), 20
celebration of a momentous accomplishment.满满的, a lot of the activity leading up to the historic connection is often left out or downplayed. The facts are that in the months leading up to the meeting at Promontory Point competition for miles of track was so fierce that the UP attacked the CP and destroyed some of their track with gunpowder, and the CP eventually responded in kind. The attacks became so fierce and destructive that only the threat of a government investigation caused both sides to relent and start laying track for Promontory Point.

And even after the gala event, the aftermath of the whole of venture was staggering; despite 44 million acres of free land and $61 million in federal subsidies, the UP and CP were both almost bankrupt. As chief engineer for the Union Pacific, Greenville Dodge himself was quoted thusly: “I never saw so much needless waste in building railroads. Our own construction department has been inefficient.”

As one final effect, subsidy money played heavily into the eventual Credit Mobilier scandal the UP would face; as construction for the railways boomed and subsidy money rolled in, UP executives saw a way to double down on the cash flow:

“Greatly simplified, the process worked this way: The Union pacific awarded construction contracts to dummy individuals, who in turn assigned them to the Credit Mobilier. The UP paid the Credit Mobilier by check, with which the Credit Mobilier purchased from the UP stocks and bonds – at par, the trick to the whole thing – and then sold them on the open market for whatever they would fetch, or used them as security for

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22 Folsom, Burton Jr. The Myth of the Rober Barons. (Young America’s Foundation, 2007), 19
23 Ibid 20
24 Folsom, Burton Jr. Entrepreneurs VS. The State. (Young America’s Foundation, 1987), 20
25 Folsom, Burton Jr. The Myth of the Rober Barons. (Young America’s Foundation, 2007), 20
loans. The construction contracts brought huge profits to the Credit Mobilier, which in turn was owned by the directors and principal stockholders of the UP. In short, it didn’t matter if the UP ever got up and running and made a profit, because the Credit Mobilier would make a big profit on building it; profit that it would pay out to its stockholders in immense amounts."

While these actions are certainly not unique to government subsidized industry, it is certainly arguable that the amount of money thrown around by the government increased the likelihood of corruption.

In sharp contrast, the Great Northern Railway was the privately funded and constructed brainchild of James J. Hill, whose philosophy on government subsidy was quoted earlier. Hill first started into the railroad business when he and his business partners gained control of a bankrupted and mismanaged Minnesota railroad, the North Pacific line. From the start, Hill obsessed over efficiency and cost cutting; he was known to micromanage and become involved in many aspects of his business simply to make sure that the highest quality and the lowest price were being achieved. As a side effect of this, Hill became known as a wanton price cutter, and always acted to disrupt monopoly pricing.

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26 Ambrose, Stephen E. *Nothing like it in the world: the men who built the transcontinental railroad, 1863-1869*. (Simon and Schuster, 2000), 93
28 Ibid, 113
29 Ibid, 113
30 Ibid, 114
Thus, it came as no surprise that in constructing his Great Northern line Hill was just as fastidious about quality, efficiency, reliability and price.\textsuperscript{31} Dr. Burton Folsom puts it best:

“Hill’s quest for short routes, low grades, and fewer curvatures was an obsession. In 1889, Hill conquered the Rocky Mountains by finding the legendary Marias Pass. Lewis and Clark had described a low pass through the Rockies back in 1805; but later no one seemed to know whether it really existed or, if it did, where it was. Hill wanted the best gradient so much that he hired a man to spend months searching western Montana for this legendary pas. He did in fact find it, and the ecstatic Hill shortened his route almost one hundred miles.”\textsuperscript{32}

Hill’s Great Northern was hailed as possibly the best constructed major railway of the time, and was lauded for its low price and high efficiency.\textsuperscript{33} A huge component of this is the fact that the Great Northern was privately held and operated, while those companies that accepted subsidies were answerable to Federal oversight; in the aftermath of the Credit Mobilier scandal, Congress enacted new regulations on the UP and CP that altered the way they financed themselves, or even built new track extensions.\textsuperscript{34} Day to day decisions now required actual acts from congress, which stalled and bogged down the company’s abilities to get things done.\textsuperscript{35} In high contrast, Hill’s railway was free from the avalanche of government regulation, and continued to turn a profit while the UP faltered into bankruptcy.\textsuperscript{36}

\textsuperscript{31} Ibid, 115
\textsuperscript{32} Folsom, Burton Jr. \textit{Entrepreneurs VS. The State}. (Young America's Foundation, 1987), 28
\textsuperscript{33} DiLorenzo, Thomas J. \textit{How Capitalism Saved America}. (Three Rivers Press, 2004), 115
\textsuperscript{34} Ibid, 118
\textsuperscript{35} Ibid
\textsuperscript{36} Ibid, 119
To conclude the subsidy section of this paper, several principles are born out in the evidence:

In retrospect, rather than merely being a tool to spur production, subsidies act as incentives in and of themselves; that is, motivation to claim the subsidy can motivate an action, just as the UP and CP sought to build as much track as possible to earn the maximum amount possible.

Additionally, this motivational switch can cause the business model to assimilate the subsidy as part of its operating assumptions, and thus build a business that relies on the subsidy rather than preparing to operate without a subsidy; this can be seen as the UP and CP made money during construction, but were almost bankrupt when they began operating.

Thus, as the company starts to operate in order to attain the subsidy, it by definition begins discarding operating practices that focus on only market operation; that is, in our example the UP and CP built long and inefficient tracks that were not built to give goods a quick ride from A to B, but to gain the maximum amount from the subsidy.

Finally, large amounts of cash that are not part of operating income or expenditure, but are merely granted by meeting certain conditions, can increase corruption within a business, just as occurred with the Credit Mobilier scandal. Please note that this is not to imply that corruption is a unique occurrence of government or subsidy; corruption is merely a byproduct of any venture where there is room for personal gain. The point to be made is that massive amounts of money that are not necessarily
earned, but are handed out on by meeting conditions, can speed along corruption. In totality an examination of early, and large, subsidization of business shows that the subsidy can at least equal if not subsume the traditional business model; the business can become more interested in gaining the subsidy than in traditional business operation. These implications will be examined more fully in the conclusion; at this point, the topic will shift to federal changes in the banking system during the 1860s.

**Finance**

Changes in the banking system of the United States after its birth were, in monetary terms, fairly rapid; before 1790 there had been 3 banks in the young country, and by 1811 there were 88, and all but a two were private, state chartered banks empowered to issue their own notes, redeemable in gold and silver.\(^{37}\) The system was altered by many factors throughout the years, such as the Currency Act of 1834 changing the gold/dollar ratio, but arguably one of the largest shocks of the century was the issuance of a fiat currency: National Bank Notes, or “Greenbacks”, in 1862.\(^{38}\)

The greenback was supposed to solve two problems: the first was to secure quick war funding after the sale of U.S. treasury bonds fell short, and second was to provide a currency of uniform value throughout the country (as opposed to the many different state issued currencies that dominated at the time.)\(^{39}\) Fiat currency proved popular with congress; the $150 million issued in 1862 was supposed to be the only printing, but it was

\(^{38}\) Ibid, 370
\(^{39}\) Ibid, 370
quickly followed with two more similar issuances by 1863.\textsuperscript{40} As the number of notes increased, Congress passed the banking acts of 1863 and 1864, and thereby fashioned a national banking system based on the uniform greenback currency.\textsuperscript{41}

The new system was a huge overhaul of the current banking landscape; the government would charter banks that would back their reserves with Treasury Bonds, and also promote a unified, more inflationary banking system, thus tying together banks, the national debt, and the federal government as never before.\textsuperscript{42} The new system had three tiers of banks: Central Reserve City Banks (found only in New York), Reserve City Banks (Cities with a population over 500,000), and Country Banks (all other nationally chartered banks).\textsuperscript{43} Each tier of banks was required to hold a certain amount of their cash in reserve (here we see the birth of modern day reserve requirements), which operated as follows:

“Central reserve city banks were required to keep 25 percent of their notes and deposits in reserve of vault cash or “lawful money,” which included gold, silver, and greenbacks. This provision incorporated the “reserve requirement” concept that had been a feature of the “free” banking system. Reserve city banks, on the other hand, were allowed to keep one-half of their required reserves in vault cash, while the other half could be kept as demand deposits (checking deposits) in central reserve city banks. Finally, country banks only had to keep a minimum reserve ratio of 15 percent of their notes and deposits; and only 40 percent of these reserves had to be in the form of vault cash. The other 60 percent could be in the form of demand deposits either at reserve city or central reserve city banks.”\textsuperscript{44}

\textsuperscript{40} Rothbard, Murray N. \textit{A History of Money and Banking in the United States: The Colonial Era to WWII.} (Ludwig von Mises Institute, 2002), 124
\textsuperscript{41} Ibid, 136
\textsuperscript{42} Ibid, 135
\textsuperscript{43} Ibid, 136
\textsuperscript{44} Ibid, 136
The original, decentralized banking system of the U.S. checked against inflation by the fact that any bank that expanded would have its new notes and deposits used at other banks, who then seek redemption form the original bank. This would eventually run up against the specie limit (how much gold they actually had) of the expanding bank, and force it to either curtail its expansion once it reached its limit, or go under. Through this new system of tiered banking and federal oversight, the smaller national banks were able to expand based on a relatively small amount of actual currency reserves, thus issuing more and more notes and deposits on a smaller and smaller amount of actual cash reserves; add to this the fact that reserves could be held in the new Greenback currency, and you begin to paint a picture highly reminiscent of today’s Federal Reserve system.

The system, in simplest form, is as follows:

“This means that, for example, if New York City banks inflate and expand their notes and deposits, they will not be checked by other banks calling upon them for redemption. Instead, reserve city banks will be able to expand their own loans and liabilities by pyramiding on top of their own increased deposits at New York banks. In turn, the country banks will be able to inflate their credit by pyramiding on top of their increased deposits at both reserve city and New York banks. The whole nation is able to inflate uniformly and relatively unchecked by pyramiding on top of a few New York City banks.”

Initially, it seemed as though this would be the end of private, state chartered banks; in 1860 there had been 1,526 state banks operating in the US and by 1868 there were only 247 in the entire country. This was helped along by a 2% tax on state bank notes starting in 1864, which was raised to 10% in 1865 in an attempt to force banks over

46 Ibid, 137
47 Ibid, 138
to the national system; it seemed as if private, state banks were on the way out.\textsuperscript{49}

However, state banks eventually found their niche as checking deposit holders; the fiscal requirements were lower, and the regulation were less of a burden for banks that only held deposits and did not issue notes.\textsuperscript{50} In essence, state banks were now an unofficial expansion of the national bank system; by only holding deposits, and then purchasing notes from national banks to redeem the deposits, they became one more layer of credit expansion for the banking system.\textsuperscript{51} This system was referred to as a dual banking system, and it molded together both national and state banks into one unified, national banking system, with each state’s banks handling only deposits, and national banks handling note issuances, deposits, and reserves.\textsuperscript{52}

The quest for a uniform currency and banking system was over; from this point on, government and the financial operation of the Untied States were inexorably linked. The federal government now had an assured market for its debt in that national banks needed the baking of treasury bonds, and the more bonds they bought the more deposits and notes they could issue.\textsuperscript{53} The state banks were subsumed as a part of this apparatus by issuing deposits backed by national bank notes, and the state bank notes were taxed

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\textsuperscript{49} Ibid, 373 \\
\textsuperscript{50} Ibid, 373 \\
\textsuperscript{51} Rothbard, Murray N. \textit{A History of Money and Banking in the United States: The Colonial Era to WWII}. (Ludwig von Mises Institute, 2002), 144 \\
\textsuperscript{52} Walton, Gary M, and Hugh Rockoff. \textit{History of the American Economy, 10th edition}. (Thomson South-Western, 2005), 373 \\
\textsuperscript{53} Rothbard, Murray N. \textit{A History of Money and Banking in the United States: The Colonial Era to WWII}. (Ludwig von Mises Institute, 2002), 142.
\end{flushleft}
out of existence. So in the end we have a system of banks, holding a government issued and controlled currency, with reserve requirements and currency ratios as defined by the government; here we see a clearly defined framework of what will one day become the Federal Reserve system of the United States.

In concluding this section, I will assume the reader is at least somewhat aware of the Austrian Theory of the Business Cycle; for an in-depth analysis of the cycle and boom/bust theory, readers should refer to works such as Part 1 of America’s Great Depression, by Murray Rothbard. In brief, Austrian theory believes that the boom is caused by government led monetary expansion, which creates “cheap” capital, and also instills beliefs that consumers are saving money and expecting investment from entrepreneurs. Entrepreneurs are then spurred into new investments that would have been unprofitable without the momentary expansion of the government. This causes a cluster of entrepreneurial error; that is, people invest into ventures that people do not actually want, but look more appealing due to the expansion of credit. The market cannot support this error, and eventually these investments begin to fail, and investors start to sell of their capital in order to recoup some of their losses; this is what creates the bust part of the cycle, as mal-investments are revealed, and the market adjusts by shifting capital away from bad investments, and back to good investments. Thus, the bust will always follow the boom, since the boom is not market created, and thus is not market sustainable.

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When full examination of the banking acts is made in light of Austrian theory, the implications become clear; these changes will ease the beginning of the boom/bust cycle. As the national banking system expanded, and state banks began to either convert or work with the national banks, it became a normal expectation; that is, people began to see it as the new standard. As the banks expanded, credit expanded with them; this was partially curtailed in 1879, when the federal government resumed specie payments in gold, and enacted a de facto gold standard. However, the system planted the seeds, and established the framework of credit expansion in the US financial; by creating flexible credit the system set the tone for the Federal Reserve, and by tying government with bank, it set the precedent for the Federal Reserve.

**Conclusion:**

In considering the roots of a mixed economy, this paper has studied textbook examples of subsidy, and financial reform. In each, certain historical precedents can be taken and examined. Each specific example shows how government intervention has altered the way business and the market traditionally operate, but also show how such interventions become permanent, expected staples of an operating economy.

In the case of government subsidy, the subsidy can itself become a prime motivator of business, and later the way in which business is carried out; in doing so, business focuses not on the demands of the consumer, but on the requirement of the subsidy. Government can indeed shape businesses, but the real question to ask is whether

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55 Rothbard, Murray N. *A History of Money and Banking in the United States: The Colonial Era to WWII.* (Ludwig von Mises Institute, 2002), 151
or not government can predictably shape business? The answer, in the case we examined, is no; for this story of subsidy, unintended consequences reigned. The UP and CP, both with massive land grants and monetary subsidies, were shoddily built and poorly operated, while in contrast the private Great Northern was one of the most efficient and profitable of its time.

In the case of the financial sector, we see a fundamentally different government interaction, but still some of the same root effects. The civil war saw huge shock changes in banking; from government issuances of currency to government creation and regulation of national banks, the financial sector changed drastically during this time.\textsuperscript{56} By becoming involved in the financial sector, the government drove out private state banks in favor of a uniform banking system with a uniform currency. By assuming oversight and forcing banks to buy treasury bonds, the government also made the banking system dependent upon the government, and vice versa. Once under its control, the government also allowed expansions of credit by the nature of framework, and laid the foundation for the Federal Reserve System. This, in turn, opened up the entire economy to the unintended consequences of the boom/bust cycle, as the government sought to “spur” growth.

Thus, the roots of the modern mixed economy lie in the framework of original interventions. By creating the subsidy, government motivated business to compete for the subsidy; by subsuming the banking sector and expanding credit, government motivated

\textsuperscript{56} Thornton, Mark, and Robert B. Jr. Ekelund. \textit{The Economics of the Civil War: Tariffs, Blocades, and Inflation}. (Scholarly Resources Inc., 2004), 76
businesses to rely on that credit, and precipitated the boom/bust cycle. When government expands, it very rarely contracts; when the subsidy lead to problems with the Central Pacific and Union Pacific, government did not remove the subsidy, but passed regulations to try and fine-tune the subsidy. When the national banking system ran into trouble during the panics of 1893 and 1907, the government did not withdraw from the banking system and return to state charters; it passed the Federal Reserve Act to try and “fix” the problems, and lead to even larger troubles during the Great Depression.

In the final analysis, we can clearly see the modern mixed economy begin to take shape during the Civil War; government subsidization surpassed local state subsidies, and federal involvement in the financial sector was allowed, and then later on became expected. As the government became more and more involved, unintended consequences flourished, but along with it expectation that the government would “help” flourished as well, both in terms of business aid and financial stability. This has lead, from the Austrian perspective, to a cycle whereby the government causes inefficiencies in the free operation of business, but then asserts that only government can supply the solution. In this cycle lies the advent of the mixed economy, and also its continuation.
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