Solyndra’s Bankruptcy and the Failure of 19th-century Steam Subsidies

Throughout history, government subsidies have aimed to offer a number of "solutions" to the marketplace: to create jobs, keep consumer prices at "favorable" market levels, and endow business entities with capital to survive in markets that are "not sustainable by the private sector." Today, a common justification for such subsidies — which are prevalent in the environmental sector — is to achieve energy independence and curb pollution by funding research and development for emerging technologies.

Such government patronage comes in various forms, including direct financial transfers, preferential tax treatments, price controls, research grants, and trade restrictions. But corporate recipients soon become addicted to such political massaging, as they relentlessly lobby Congress and the White House to negotiate corrupt inside deals that lead to endless, wasteful streams of government largesse.

Government intrusion in private industry is not a new development. In an opinion piece in the *Las Vegas Review-Journal* entitled "Remember the Lesson of Steamship Subsidies," columnist Vin Suprynowicz proposed an interesting scenario: Envision some great entrepreneur back in 1650 who envisioned replacing the sailing craft with a new ship that would cut the amount of workers needed by 90 percent:

> Imagine [that] a powerful government at the time — in London, presumably — had mandated that progressively 3 percent, and then 5 percent, and then 8 and then 12 percent of all goods had to be shipped in craft using "alternative, non-sail technology."
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> Hundreds of thousands of pounds in subsidies (billions of dollars, in today's reckoning) would then have flowed to people attempting to make commercially viable ships powered by enormous rubber bands, or towed by harnessed whales and porpoises, or any other fantastic thing they could persuade these landlocked, technological know-nothings to finance.

Enter Robert Fulton, an American engineer and inventor who is credited with developing the first commercially successful steamboat. Although Fulton later sought state monopolies, his revolutionary development was not spawned through government largesse, but through market innovation and entrepreneurship. Fulton’s motive — as is every other market entrepreneur’s — was to invent a product that would generate wealth by making industry more efficient, and in turn make society more prosperous.

But by the early 19th century, the U.S. government had become too conceited, as it expanded its autocratic governance by shoveling financial influence to steamship transportation. Edward Collins, an American "political" entrepreneur, sought to duplicate England's subsidized steamship tactics by lobbying the U.S. government for federal handouts. Why would Congress agree to subsidize Collin's corporate venture? Because competing on the same level as England, creating steamship jobs and expanding industry, and building a military fleet in case of war could only be achieved through federal assistance, Collins argued.

Congress bought Collins' proposition and in 1847 granted him a $3 million down payment and $385,000 a year to build five ships. The government's intent was to help build an industry that delivered mail and passengers more quickly and efficiently than did England. But instead of building five smaller ships, as he promised, Collins built four massive ships furnished with plush carpet, luxurious furniture, marble tables, and painted glass windows. With a constant stream of government aid, Collins strove for elegance rather than efficiency.

In his thoughtful book, *The Myth of the Robber Barons*, historian Robert Folsom debunked the elaborate myths of 19th and early 20th century capitalism, by distinguishing between "political entrepreneurs" and "market entrepreneurs." Collins was undoubtedly a political entrepreneur, as he bypassed market governance and lobbied the federal government for monopoly status.

Conversely, Cornelius Vanderbilt was a market entrepreneur, who entered the steamship industry with the intent of gaining market share by offering better service, less travel time, and lower prices — all through only *private* efforts. Writing for *The Freeman*, Folsom explained:

> Vanderbilt [had little] insurance on his fleet: he built his ships well, hired excellent captains, and saved money on repairs and insurance. Finally, Vanderbilt hired local "runners" who buttonholed all kinds of people to travel on his ships. These second- and third-class passengers were important because all steamship operators had fixed costs for each voyage. They had to pay a set amount for coal, crew, maintenance, food, and docking fees. In such a situation, Vanderbilt needed volume business and sometimes carried over 500 passengers per ship.

Vanderbilt's hot pursuits crippled Collins, yet the government continued to subsidize Collins' incessant blunders. Finally, after countless failures in attempting to revive his business — and after millions more in taxpayer dollars — the U.S. government conceded, and in 1858 Congress suspended Collins' funding. Virginia Senator Robert Hunter declared, "The whole system was wrong…. It ought to have been left, like any other trade, to competition." Kentucky Senator John Thompson echoed him: "Give neither this line, nor any other line, a subsidy…. Let the Collins Line die…. I want a tabula rasa — the whole thing wiped out, and a new beginning."

Soon after Congress terminated the subsidies, the Collins Line went bankrupt, and Vanderbilt — a market entrepreneur — quickly secured the reins as America's leading steamship operator.

So indeed, a lesson can be learned from history. And the 19th-century steamship industry can be a valuable lesson for the President and all the Washington corporatists who so adamantly push their "green" subsidies. Collins' 19th-century demise was a long-ago prophecy of Solyndra's bankruptcy and that of most other taxpayer-financed venture companies that continue to jostle for position to pluck at the federal government's purse strings.