Interstate Commerce Act (1887)

In 1887 Congress passed the Interstate Commerce Act, making the railroads the first industry subject to Federal regulation. Congress passed the law largely in response to public demand that railroad operations be regulated. The act also established a five-member enforcement board known as the Interstate Commerce Commission. In the years following the Civil War, railroads were privately owned and entirely unregulated. The railroad companies held a natural monopoly in the areas that only they serviced.

Monopolies are generally viewed as harmful because they obstruct the free competition that determines the price and quality of products and services offered to the public. The railroad monopolies had the power to set prices, exclude competitors, and control the market in several geographic areas. Although there was competition among railroads for long-haul routes, there was none for short-haul runs. Railroads discriminated in the prices they charged to passengers and shippers in different localities by providing rebates to large shippers or buyers. These practices were especially harmful to American farmers, who lacked the shipment volume necessary to obtain more favorable rates.

Early political action against these railroad monopolies came in the 1870s from “Granger” controlled state legislatures in the West and South. The Granger Movement had started in the 1860s providing various benefits to isolated rural communities. State controls of railroad monopolies were upheld by the Supreme Court in *Munn v. Illinois* (1877). State regulations and commissions, however, proved to be ineffective, incompetent, and even corrupt. In the 1886 *Wabash* case, the Supreme Court struck down an Illinois law outlawing long-and-short haul discrimination. Nevertheless, an important result of *Wabash* was that the Court clearly established the exclusive power of Congress to regulate interstate commerce. (See Gibbons v. Ogden.)

The Interstate Commerce Act addressed the problem of railroad monopolies by setting guidelines for how the railroads could do business. The act became law with the support of both major political parties and pressure groups from all regions of the country. Applying only to railroads, the law required "just and reasonable" rate changes; prohibited special rates or rebates for individual shippers; prohibited "preference" in rates for any particular localities, shippers, or products; forbade long-haul/short-haul discrimination; prohibited pooling of traffic or markets; and most important, established a five-member Interstate Commerce Commission (ICC).

The law’s terms often contradicted one another. Some provisions were designed to stimulate competition and others to penalize it. In practice, the law was not very effective. The most successful provisions of the law were the requirement that railroads submit annual reports to the ICC and the ban on special rates the railroads would arrange among themselves, although determining which rates were discriminatory was technically and politically difficult. Years later the ICC would become the model for many other regulatory agencies, but in 1887 it was unique. The Interstate Commerce Act challenged the philosophy of laissez-faire economics by clearly providing the right of Congress to regulate private corporations engaged in interstate commerce. The act, with its provision for the ICC, remains one of America’s most important documents serving as a model for future government regulation of private business.