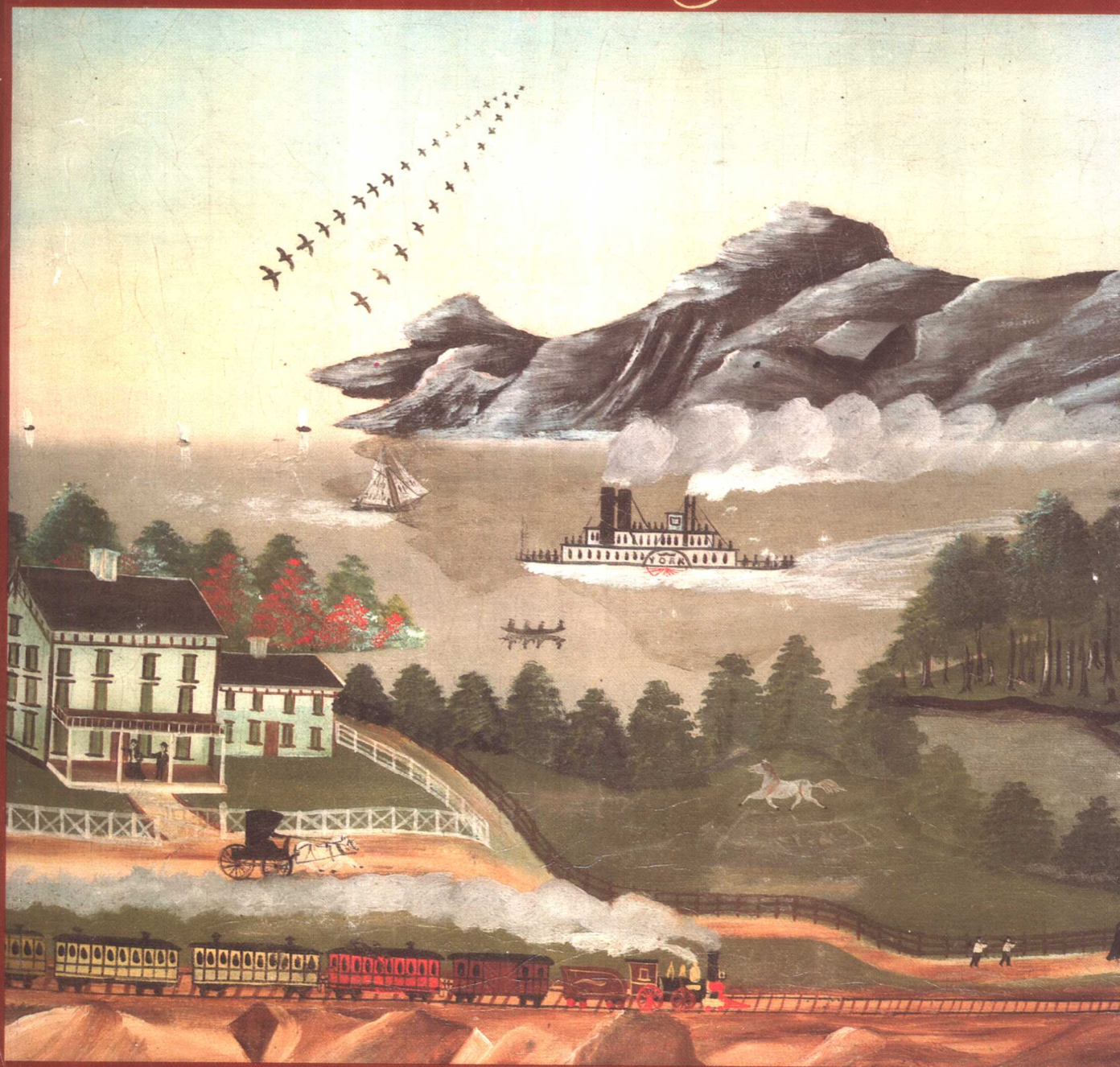
American Economic History

Jonathan Hughes



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Preface

In the past twenty-five years, research in American economic history, the "Cliometric Revolution," has caused considerable modifications in our view of the national past. A key reason for writing this book is to take those contributions into account in a general treatment. But I did not want to "throw the baby out with the bath water"; large parts of our economic biography remain relatively untouched by cliometric revisions. The new research findings have been integrated into the total picture of change and development. The ideal, as Douglass C. North writes, is to "explain the structure and performance of economies through time."[1] To do so, I have included a wide range of relevant information, including legal and other institutional elements.

Another motivation for undertaking the writing of this text is our modern set of problems. A textbook of American economic history should take us from our earliest beginnings to the present. In rare cases, such as the early Norse settlement on this continent, the episode is a dead end. But for the most part, our present is explained by our past. The story of U.S. economic achievement in per capita income, technological leadership, and dynamic entrepreneurship—a thriving free-market economy, together with a generous welfare state securely anchored in a growing economy—is the picture presented in textbooks leading up to, say, 1960. However, it is now the 1980s, and the situation at the present end-state is not as it was. If the roots of the changed economy of the 1980s lie before 1960, we must find those roots and explore them.

1. Douglass C. North, *Structure and Change in Economic History* (New York: Norton, 1981), p. 3.

It is most unlikely, after all, that an entire society could produce one result and then turn in its tracks and, using the same institutional technology, produce an entirely different outcome. The troubles of the early 1980s are as much the product of our past as was the seeming triumph of 1960. So, this enterprise involves a very considerable reappraisal of the entire American past. I do not wish to claim too much. The perspective of our history from the inflationary stagnation of the late 1970s and early 1980s is different than it was when an earlier generation of economic historians chronicled our victorious march through the troubles of the 1930s to the apex of American world prestige at the end of Eisenhower's presidency. The twentieth century is now more than eight decades old and, accordingly, I have devoted more space to the discussion of this portion of our past than have my predecessors.

In addition to integrating entirely new research findings into the story of our economic past, I have shifted the focus slightly to include a more extensive treatment of the law and institutional development than has been the case in more recent textbooks. And, since cliometrics has produced massive and fascinating revisions of our economic history, I have endeavored to include the major conclusions, while not emphasizing the background economic analysis. In doing this, I have tried to make cliometric findings accessible to students and to instructors who are not specialists in economics. While this may seem to slight some of the powerful and elegant work of the cliometricians, I can trust them to reintroduce the cliometric fireworks in their own classrooms, and, meanwhile, everyone else can know, in summary, what the cliometricians have achieved by way of historical revision.

ORGANIZATION OF THE TEXT

The history of America's economy, presented here in mainly chronological order, has been divided into five major sections: the Colonial period (1607–1780); the National period (1781–1861); the Civil War and post–Civil War period (1861–1914); World War I to World War II (1914–45); and the post–World War II era (1945–82). Each of the sections begins with a short "Main Currents" essay in which I introduce relevant political and social themes to give students some background in the time period that is to follow.

I have included four Special Topics chapters, one at the end of each of the first four sections of the book, in order to deal in greater depth with certain subjects that are of perhaps limited interest—either because the material is more, or entirely, theoretical and speculative as compared to that of the more "traditional" chapters or because the topics are still unsettled and being debated in the professional literature. I felt that this material should not "crowd out" other parts of the narrative in the main text. Some instructors will prefer to linger over these chapters; others will not. It is my hope that the Special Topics chapters will be of particular interest to the more diligent student.

Although the text is structured chronologically, there is necessarily some overlap. For example, the second agricultural chapter, Chapter 15, contains a discussion that terminates just about at the outbreak of World War I. However, I have included at the end of that chapter a brief account of the giant water conservation projects we have undertaken in this country. These projects began in the nineteenth century as part of the primary occupation of the land for agricultural development, but in the fullness

of time, have produced "habitat" for great cities and large urban populations in the high plains and the Southwest and Northwest. They are mainly twentieth-century achievements, but in historical perspective, they are immediate outcomes of the initial occupation of the land. To preserve the continuity, I have allowed the discussion to run ahead of the straight chronological sequence.

BENEFITS FOR THE STUDENTS

An additional point might be made here about the strong emphasis on chronological order in this text as compared to many. It is not a rigid framework, as I have just explained, but it does dominate the book's organization. In the past decade of teaching American economic history, I have become increasingly aware of the need to reemphasize chronology since many students have only sketchy memories of their high-school American history classes. The chronological approach gives students a sense of the evolution of events, of how the economic and historical changes have been intertwined throughout the more than three and a half centuries of America's development. I have included the "time line" that appears on the front inside cover of the book as a visual reference for students, to get them thinking in terms of the *sequence* in which these changes occurred.

Important economic terms have been emphasized in the text in boldface type and are defined as they are introduced to help the student with a limited economics background grasp more readily their significance in the discussion. A selection of these terms is also provided as a glossary at the end of the text. Students may wish to scan this glossary before beginning to read the text and again, as need dictates, when the terms reappear in later chapters. I have also compiled lists of Suggested Readings, both articles and entire books, which appear at the end of the chapters. These readings are closely tied to the topics discussed in the chapter and can be assigned as additional readings for class discussions. They also offer the student whose curiosity is piqued the opportunity to pursue a particular issue in the original sources and at a length that I do not have the luxury of affording within the text.

Our economic history is our "clinical experience" in the effort by theorists and policymakers to continue the work of improving the national economic performance and the welfare of Americans. The experience of the past is a vital part of our knowledge of the economy—how it works and how its functioning can usefully be improved as new problems arise. As someone once said, "You can't know where you're going until you know what road you're on."

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Introduction

The subject matter of American economic history is the growth and development of a giant economy from very small, inconsequential beginnings. In quantitative measurements, that economic history is largely a "success story." It is an economy that provides its present population with one of the highest living standards known in history.

It is also an economy with problems. But all economies this side of utopia have problems; ours are mainly the ones we have created for ourselves, very largely as a result of solving earlier problems. For example, our growing population needed an industrialized economy with its huge payoff of manufactured goods. To solve that problem, we built our giant infrastructure of basic metals, chemicals, and energy distribution systems. The resulting standard of life, with its proliferation of employments and consumer options, also produced, as an unwanted side effect, pollution of the air, water, and, in some locations, the earth itself.

The internal-combustion engine—in cars, trucks, and tractors—was a solution to the desire for more flexible and dependable power sources for transportation and other work needs. Better highways served the resulting needs for stable surfaces on which to move cars and trucks. More efficient farm machinery was developed to better utilize the mobile power source in the farm tractor, and some self-propelled equipment appeared. Better roads stimulated suburban living. Convenient neighborhood shopping malls eliminated the need to drive to urban centers for family provisioning. All these changes stimulated demand for more cars and trucks. Coal-fired boilers were replaced by gas- and oil-fired burners to improve the quality of urban air. Such increased demand for

petroleum helped oil producers limit output and raise oil prices. Now we struggle to find solutions to those problems. American economic history provides a continuous record of such problem-solving, problem-producing solutions to the challenges of economic development. It is a study of the down-to-earth processes that lie beneath our larger cultural and political life.

Some who study economic history's gentle art complain of its pedestrian flavor, of its tendency toward dullness compared to other kinds of history. Now, admittedly, there is a certain scarcity of the sublime in economic history. Its great figures, like Josiah Wedgwood and Henry Ford, lack the dramatic flavor. Those who have labored in Mammon's vineyard inspire only small admiration in us compared, say, to the adoration given military heroes like Napoleon or to political figures like FDR. The subject matter of economic history, individuals apart, includes mainly topics like historical demography, technological change, institutional development—pale stuff compared to the movements of armies, the fall of empires, the rhetoric of political campaigns, or the romance of great love affairs. Moreover, the connecting logic of economic history is economic analysis, which can seem like dry stuff.

A tree, standing alone upon a windswept ridge, may inspire the poet to supreme flights of creative genius. To a biologist, though, that same tree invokes a more lowly muse. Yet, the biologist's knowledge is perhaps more important than the poet's if what we desire is an understanding of forest ecology. So it is with economic history, our plain subject. Its relatively everyday facts tell us why economies flourish, why they stagnate, why they die. So, if a flourishing economy is the object of public policy, that economy's history is of vital importance. Where we will go depends a great deal upon what road we have taken in the past.

The existing economy, after all, is an artifact. It is the debris of the past. The distribution of incomes, the location of industry, the dispersion of cities, the networks of transport and communications, the age structure and ethnic composition of population, the balance of private and collective economic interest—all these things and more are, as they stand in our time, the consequences of decisions made in the past. The vast majority of those decisions were made by populations now long dead. If we want to preserve our present, or even to change the course of our future economic affairs intelligently, it is best that we understand why the present relationships came into existence. These relationships are the survivors of history's grinding mill; they were not easily achieved and probably should not be altered without a thorough understanding of why they exist in their present forms. Such knowledge is the meat of economic history, and its importance can scarcely be overvalued. We have an economic past, and a long one.

Oddly enough, though, Americans tend to think of their country as somehow young. Partly this conception is due to a fundamental reality, and that reality is incessant economic and social change. We have been a nation of dramatic change during all our history. Population increase alone has been so powerful a force that every fifty years have produced fundamental alterations in the way we live.

In 1980, we had more than 220 million people; in 1930, 123 million; in 1880, 50 million. In 1980, we worried about the ecology and the continuing energy crisis. In 1930, such problems were only on the horizon; in 1880, they were unthinkable. From 1776 to our bicentenary in 1976, our population increased by an astounding factor of 85, while Europe's population grew only by a factor of 4. We have also undergone an industrial revolution in the past century and

become a predominantly urban people. We now have only about 3 percent of our labor force working on farms, and that number was as high as 25 percent in 1920 or, within living memory. Today, more than two thirds of our labor force is no longer employed directly in the making of either food or goods but is, instead, engaged in services and professions.

As a nation we are lovers of gadgets, so we continually make and buy new things. We move about within the country as much as ever we did during the pioneering epoch, and we have no coherent class structure that can be passed on from generation to generation. Instead, we are a society of socially mobile people, both upwards and downwards. Such constant change motivates us to emphasize how new everything seems to be.

Yet, American economic history actually is the study of a largely European society, continuous on this continent for more than three hundred fifty years in the English-speaking part (Jamestown, Virginia, was settled in 1607), at least as long among French speakers (Quebec City was founded in 1608), and longer still among those who are descended from the Spanish (St. Augustine, Florida, was founded in 1565 and Santa Fe, New Mexico, has been continuously occupied since 1610). For those of Native American descent, an even older North American history can be reached through archaeology. Our federal Constitution (1789) is the oldest document of its kind in continuous use by any major nation, and much of our law, descending directly from its English ancestors, still bears the recognizable stamp of the Magna Carta (A.D. 1215).

So we are a paradox as a nation, as a living society; old in origin, long-lived in continuous institutions, yet continually renewed in structure and spirit. The study of this complex society's economic evolution will necessarily be a taxing one, and we shall come across remote and archaic origins of vital contemporary realities in our study—strange words and ideas transformed into the rules of daily life in the 1980s. To really understand our modern American economy, we need to study over three and a half centuries of continuous social evolution.

Every economy has a history, of course, and to some extent, the knowledge gained in studying any single economy's development is helpful in understanding the history of others. In part, therefore, the study of economic history is of general use, like the study of basic economic theory. But even the most general economic theory has its limits: Supply and demand may not explain price determination in a planned economy; the theory of the firm in competition will not explain output in a regulated industry. Similarly, there are characteristics special to each society that must be learned, by way of background information, before we can understand why that society's economy grows at rates and in structural forms different from others.

When one considers the radically different economies of the U.S. and Mexico, side by side in North America, the need for such background information is painfully obvious. The same is true even of cross sections in American history itself. Land settlement in seventeenth-century New England and Virginia and land settlement in nineteenth-century Iowa were so different in character that we will need to seek out knowledge of legal history as well as of changes in population and technology. Similarly, the labor force participation rates of white females are now so different from those that prevailed even fifty years ago that deep-seated economic and social changes must be considered. The role played by government in the modern economy is so much greater than it was half a century ago that we must ask penetrating questions about political change. Even "high culture" must fall into focus if we are to comprehend fully

the great increase during this century in formal education among the American population.

Other topics—geology, geography, climatology, agronomy, plant and animal genetics, fundamental changes in science and technology—must also be considered. Over the long history of the American economy, the labor contract has changed radically, the form of business organization has been fundamentally altered, and even the relationship between the individual and the state has changed incredibly, despite the continuous use of the same Constitution as the basic law of the land. So, even if economic history may seem to be a relatively narrow subject, in reality it is not.

Finally, we must keep in mind that we use history to understand ourselves. Since we are, in the broadest sense, the product of our past, we should reasonably expect the study of that past to lead to the present, *as it is*, and not as someone might wish it to be. This point is very important. Many who study and write about history try to pull it this way and that to fit preconceived ideas about how it ought to have come out. For example, leftist writers have hoped again and again in our history—in the late nineteenth century, in the 1930s, during the upheavals of the Vietnam War—that our response to the problems of twentieth-century American capitalism would lead to socialism. It did not happen. If logic really were on the side of the development of American socialism, why have we been so bull-headed? American economic history should answer such a question.

Similarly, the developing mixed economy, or "welfare state," of the last forty years has dismayed free-market theorists who believe that the expanding role of government is both wasteful and illogical. So why have Americans persisted in their construction of an economy that so runs against the principles of the free-enterprise economy? We hope to answer such questions. If the mixed economy was supposed to solve our problems, why do we still have those problems? Why, after forty years of progressive taxation and redistribution of income, are wealth and income so unevenly distributed in this country? Why, after electing seven fearless inflation fighters in a row to the White House, do we still have inflation? Our study should provide some answers to those questions, too. All such problems are history's consequences, and it is in the study of history that we will understand those problems. There is no other way.

We begin our journey in the distant past, when the first group of people, complete with their laws and institutions, were transplanted from England. William Penn, the founder of Pennsylvania, wrote about government in 1682 something that could be said of all societies:

> Governments, like clocks, go from the motion men give them; and as governments are made and moved by men, so by them are they ruined too. Wherefore governments rather depend upon men, than men upon governments. Let men be good, and the government cannot be bad; if it be ill, they will cure it. But if men be bad let the government be [ever] so good, they will endeavor to warp and spoil it to their turn . . .[1]

Three centuries after Penn launched his "Holy Experiment," the government and colony of Pennsylvania, we are still testing the wisdom of those propositions, in economics, in law, in morals and justice. In the processes of American economic history we will see the dialectical play, to and fro, of men and their institutions in the unending search for both justice and equity.

1. Francis Newton Thorpe, (ed.), *The Federal and State Constitutions, Colonial Charters, and Other Organic Laws* (Washington, D.C.: Government Printing Office, 1909), p. 3054.

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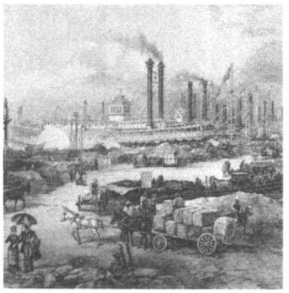

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