

**Readings in
United States
Economic and
Business History
Robertson / Pate**



Readings in United States Economic and Business History

EDITED BY:

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EDITOR'S INTRODUCTION

All disciplines have their history. So do the special phenomena for which each discipline has been particularly fashioned. In some areas of intellectual inquiry, possibly mathematics, the history may be relatively incidental to the substance. In others, the history and the discipline itself are so interrelated that each is an integral part of the other.

Economics, as in the case of all other social sciences, is inseparable from the economic and business affairs that make up economic history. For example, much of the theoretical work on the welfare implications of monopoly was stimulated by the historical fact that in the last quarter of the nineteenth century corporate enterprise in capitalistic economies demonstrated a high propensity to monopolize. And the Keynesian revolution was in response to, and made relevant by, the "Great Depression" of the early 1930's and its attendant wholesale unemployment. Economic theory completely divorced from these historical facts is sterile. The facts divorced from economic theory lose much of their meaning.

In this volume of readings Professors Robertson and Pate provide a selection of articles and documents that greatly enrich our understanding of economics and business. While the selections are designed primarily to meet the needs of students in American economic history, they should be of equal interest to the general economist and historian. Many, such as St. Thomas Aquinas' essay on usury, have long since taken their place among the classics. Some selections, notably the late Professor Joseph Schumpeter's penetrating article, "Economic Theory and Entrepreneurial History," still possesses a freshness that keeps it on current reading lists in general economics and business. The reproduction of important original documents pertaining to vital economic issues is a genuine innovation in a volume of readings all will appreciate. The original text of such documents as the Navigation Act of 1651 and Justice Marshall's famous Dartmouth College decision may not be the sort of selections students and teachers refer to every day, but when they do need them, they find it time consuming to gain access to them without such a source as this.

Finally, a word should be said about volumes of selected readings generally. More and more, in large part because the students entering colleges and universities are becoming brighter and brighter, professors are assigning materials that deal in depth and variety with issues and problems which because of the constraints of space are not fully covered in traditional textbooks. As the reading list grows, the burden on library facilities, especially the reserve desks,

grows heavier and heavier. Wisely conceived volumes of readings immeasurably lighten the burden. The selections included in this volume have met the test of nearly thirty years of teaching and the approval of the numerous students who have read them. Teachers of economics and economic and business history will be grateful to the authors for making such an excellent variety of material available to them and their students in such convenient form.

Princeton University

Jesse W. Markham

PREFACE

This book of readings has emerged from nearly thirty years of teaching. It is clearly designed for beginning students in American economic history, though advanced undergraduates and graduate students should find it helpful. Professor Pate and I have aimed at enriching the beginner's fare rather than providing advanced topics for seminar discussion.

Achieving a proper balance among the traditional parts of a course in American economic history is a formidable and unsettling task. We finally decided upon a substantial list of articles on methodology in the hope that we could convey to the student a sense of the change that has occurred over the past half-century. As a consequence, some teachers may feel that we have slighted this topic or that — labor, transportation, finance — and specialists in different historical periods may feel that their favorite half-century was slighted. We simply plead that we did our best to achieve balance while meeting two or three other major objectives.

One thing we tried to do was to make this volume as entertaining as possible. Most college sophomores are convinced that history is a bore. The unfortunate fact is that it very often is, and students might cite some of these very selections in support of their opinion. Nevertheless, "The Medieval Legacy" as Herbert J. Muller describes it in his limpid prose or "The First Months in the Log Cabin" from John Ise's autobiographical novel are attractive and poignant vignettes. The story of Dr. Gesner's kerosene and the recollections of the year of the old folks' revolt will evoke a little nostalgia even for students born well after the end of World War II.

More important, perhaps, is the embellishment of standard textbooks at points where students often encounter difficulties. In the interest of effective communication, those who undertake the task of providing the narrative of economic history find themselves required to take a position. Effective history writing like effective history teaching often demands that a presentation *not* be dispassionate, that it take a position deemed legitimate after all evidence is weighed. Yet beginning students should quickly be exposed to the pleasures of intellectual controversy, and we have tried wherever possible to present two sides of arguments even though the very latest research seems to have resolved the contention one way or another.

We must confess that some of the following selections are, almost by definition, unexciting. These are the documents appended to Parts Three through Six. Most of these legislative and judicial bits and pieces are cited in standard textbooks in our field and mark critical beginnings or turning

points in our economic history. Yet nothing brings them into the student's consciousness like reading the original text. In the original, the Land Ordinance of 1785 becomes something more than abstract talk about principal meridians and base lines. The Chinese Exclusion Act is no longer a sectional oddity, but a shocking expression of late Nineteenth Century political opinion. The National Labor Relations Act emerges as a major effort towards stabilizing the performance of the American economy rather than an attempt to relieve the plight of the workingman.

The marketplace will in time tell us whether we have produced a useful textbook. In the meantime, we express our thanks to the students who indicated their consumer preference for these particular readings.

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Ross M. Robertson
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PART ONE

□ Methodology

In the following selections, several topics are held up to the light and examined. The writers — some long dead, some still active and vigorous — are of course trying to convey their notions of what economic history and business history are all about and how these subjects can most fruitfully be studied. But observe how over the last several decades ideas about the uses of economic history have changed. Writing in the latter part of the Nineteenth Century, T. E. Cliffe Leslie argued that economic history was simply a type of economic analysis — to be distinguished from the “a priori” method that he so obviously distrusted. On the other hand, Professors Davis, Hughes, and Reiter — expressing the views of many contemporary economic historians — come close to saying that economic history serves the primary function of providing data for the economic theorist.

A second theme seems to have preoccupied economic historians for twenty-five years or a little more. Writing in the early 1940's, Professor Johnson was clearly more concerned than Professors Ashley and Gras about the importance to historical study of quantitative as distinguished from qualitative methods. No one would argue that we have found a substitute for historical judgment. Yet Professor Goodrich implies what Davis, Hughes, and Reiter make explicit, that a rewriting of economic history is going on as a consequence of new developments in data processing and statistical interpretation of data.

The student of business history may be somewhat astonished to discover that between economic and business history there is no clear-cut line of distinction as he may once have thought. Some teachers like to say that business history corresponds to microanalysis in economics and that economic history corresponds to macroanalysis. While such a distinction may have its uses, the line between the two studies — if indeed there is one — is fuzzy at

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best. Actually, a field of study, new or old, encompasses what its students wish to include in it. In the passages that follow, some of the younger historians, two old pros, and the man who pioneered the field examine the values, tangible and intangible, of business history. Each takes a different view, and each casts a different light on current problems of research and writing. Like economic history, business history is in flux, changing to meet the needs of the people who use it. □

Business History and Economic History *

ARTHUR H. COLE

The ensuing remarks are addressed to two topics which seem to me important: (a) what conflicts, if any, are there between business history and economic history; and (b) how can research in the two areas be mutually helpful . . .

Differentiation seems to me to hold advantages, even as the development of specialized libraries has its good points. In both cases, there is the enthusiasm of the active proponents and the capacity to grasp more fully the details of a restricted field. But in both cases there is also the likely danger that each specialty will look too exclusively inward upon itself rather than outward toward the rest of the world: outward toward the whole breadth of historical research and writing or toward the whole library system of a university or a community . . .

The point that I would make today is emphatically that economic history profits richly from all scholarly research and writing in this younger field; and the implication, sometimes voiced, that economic historians are emotionally antagonistic or feel superior to business data or to business history is something which surely I should like to challenge.

Like the business historian, any of us who calls himself an economic historian is concerned with company histories and biographies of businessmen. The business historian wants to know more about the growth of corporate government, about the adoptive process in technological change, about the processes of business decision, about the causes of business failures, about the role of innovation in business success, and a score of other matters connected with the contribution of businessmen to economic progress and to cyclical movements. And, as Mr. Gras with others has advocated, we need more case studies. We cannot safely build conceptual schemes of any considerable scope with so few bricks as we at present possess.

We need studies of the business institutions and their functions at selected periods of the past, studies that I think of as cross-sectional in time. Writing business or economic history without such surveys is both difficult and potentially dangerous. It is somewhat comparable to writing the political party history of a nation without knowledge of the changing structure of its government. I look on such surveys as providing maps so that those engaging in

* Taken and adapted from Arthur H. Cole, "Business History and Economic History," *The Journal of Economic History*, Vol. 5, Supplement, December 1945, pp. 45-50. Used by permission.

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longitudinal inquiries — longitudinal in time — will be conscious of the area through which they are traveling.

Again, the studies of individual companies and individual businessmen, together with a knowledge of the changing environment of business institutions and other appropriate data, should lead to histories of specific business functions: marketing, personnel administration, maintenance of public relations, and so on. For some of these studies, it seems indeed unnecessary to wait for the preparation of numerous histories of individual enterprises or enterprisers . . .

We need histories of changing business thought, both the study of the opinions of particular leading or typical businessmen — like that in which Richard C. Overton is now engaged — and that of businessmen in general over series of decades — a subject that has stimulated Thomas C. Cochran's imagination now for some years . . .

When we progress beyond these four categories or types of studies in business history — biographies of individual enterprises or businessmen, cross-sectional surveys, histories of particular business functions, and histories of business thought — I find myself somewhat puzzled; I am doubtful whether business history can advantageously proceed to more general or broader summaries. Of what would a regional, and industrial or a national business history consist? On what central thread or group of threads would such a history be hung?

Possibly a *region* would be found to have a religious or racial individuality or variant social values sufficiently potent to affect the development of specific business functions or business operations in general in a manner to differentiate it from other parts of a given country — at least for some periods of time. I have in mind the Quaker businessmen in the Philadelphia area or perhaps the Scandinavian farmer-entrepreneurs in the Middle West as presenting possibilities of this sort. Likewise, the force of local custom or the mere fact of physical distance between business communities might affect the evolution of particular business functions in given regions or localized industries.

To be sure, there are threads on which partial industrial or national histories of business might be strung. One is the sharing of stimulus to economic progress between business and government. Lately we have got into the habit of thinking of government solely as a regulating or restraining force; but this aspect of governmental action was not always so prominently displayed. Nor is it all-pervasive today: as witness the T.V.A. and its sisters and brothers, or wartime research on atomic energy. Business has been generally — though not universally — a dynamic force; but it shares this character with government over the whole history of the past. Perhaps here we should have in mind Mr. Innis' oft-tendered injunction that we should think in terms of "political economy," not in those of economics or business alone.

Another basis for the development of a fairly broad theme, largely out of business phenomena, is the history of entrepreneurship: the changing charac-

ter of participants, changing methods, incentives, distributions of risks and the like. The economic historians themselves have manifested some interest in this subject, although admittedly not the attention that the topic deserves: as, for example, in the biographical studies of the Fuggers or, very recently, John D. Rockefeller or Andrea Barbarigo, or the histories of the great English companies. Perhaps adequate treatment has had to await research within the field of business technology itself; that is, until the conduct of business affairs ceased to be considered wholly an art and came to be regarded at least in part as a science. Only further research can determine whether Adam Smith was or was not justified in writing about "the mean rapacity, the monopolizing spirit of merchants and manufacturers" — that is, in treating the businessman as an object not worthy of study — and whether Ricardo did well in spurning the outline of the entrepreneurial function supplied by Jean Baptiste Say.

The history of entrepreneurship differs from business history, at least as I grasp the nature of the latter, chiefly in merging the business into the whole process of economic change. Mr. Gras has defined business history as "primarily the study of the administration of business units of the past,"¹ or, again, as "the story of the systematic and continuous effort to make adjustment to labor situations, market conditions, community feelings, swings in general business, and trends in political thinking."² In a history of entrepreneurship, the "administration of business units" would be studied to find out what changes or innovations in that administration have meant for society. Similarly, in entrepreneurial history, the business leader would be viewed not as merely making "adjustment" to what may for some purposes be regarded as external forces, but as being an integral and highly important part of those forces. He is one half of the "labor situation"; he is one of the forces at work, he himself must be subjected to analysis. In this way an economic historian becomes keenly interested in all the scholarly productions that have flowed or that may in the future flow from research in the area of business history.

Such analyses of development — the relative role of business in economic development of the history of entrepreneurship — may seem to the business historian, however, as smacking much too much of economic history. I must confess that they do possess that savor; but the question that I would raise is whether that propensity is not inevitable; whether, in any broad treatment of business evolution, the central theme introduced to give it significance is not necessarily external to business itself. Even a history of business management, possibly that of particular business functions, seems to need some non-business talisman to differentiate the important from the trivial . . .

Now perhaps we are ready to consider reciprocity. If business history can supply highly important new data for economic history, what can the latter

¹ N. S. B. Gras and Henrietta M. Larson, *Casebook in American Business History* (New York: F. S. Crofts and Company, 1939), p. 3.

² "Are You Writing a Business History?" *Bulletin of the Business Historical Society*, XVII (October 1944), p. 77.

provide that would be of value to those working in the field of business history? Of course, the business historian actually can, and does, employ practically any and all data garnered by the economic historian: such as population movements, changing governmental policies, technological advances, and cyclical movements. Perhaps, in addition, the economic historian can prepare certain primarily business studies more objectively and in a broader framework than can those who are closer to business experience and business sentiment. I have in mind such an investigation as I have already mentioned, the history of business opinion, to which we might add a history of public relations or even a history of industrial relations. Again, economic historians can contribute to advance in business history by inquiries into the history of the corporation, business failures, commercial law, or the theories of profits. Obviously, these are all closely affiliated to, if not included within, the area of research which I think of as the history of entrepreneurship. I have in fact been so audacious as to hope that, here in the history of entrepreneurship, business historians and economic historians could find an intellectual tract which both might cultivate in mutual good will. Surely research in that tract requires knowledge of both business and economic developments . . . □

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On the Philosophical Method of Political Economy *

THOMAS EDWARD CLIFFE LESLIE

. . . In order to form any approach to an adequate estimate of the influence of human desires on the amount of wealth, it must surely be evident that we need an investigation, not only of the motives and impulses which prompt the acquisition of wealth, but also of those which withdrew men from its pursuit, or give other directions to their energies. What abstract political economy has to teach on this subject is stated by Mr. Mill in his *Essay on the Definition and Method of Political Economy*, and also in his logic, as follows: . . .

‘Political economy is concerned with man solely as a being who desires to possess wealth. It makes entire abstraction of every other human passion or motive, except those which may be regarded as perpetually antagonizing principles to the desire of wealth, namely, aversion to labour, and desire of the present enjoyment of earthly indulgences. These it takes to a certain extent into its calculation, because these do not merely, like other desires, occa-

* Taken and adapted from Thomas Edward Cliffe Leslie, “On the Philosophical Method of Political Economy,” *Essays in Political Economy*, Second Edition, Hodges, Figgis & Co. Ltd., Dublin, 1888, pp. 163–90. Originally published in *Hermathena*, Vol. ii., 1876.