THE DEVELOPMENT OF BUSINESS IN THE UNITED STATES DURING THE PERIOD OF EARLY INDUSTRIALIZATION: INDUCEMENTS AND OBSTACLES

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It might seem presumptious of me, whose research is centered on Central European economic history of the twentieth century, to have accepted the suggestion to prepare a paper on a subject that has been of interest to and has been inquired into by a group of eminently qualified American economic historians. The only mitigating circumstance I can think of is that the organizers of the Conference wanted the view of a Central European economic historian to introduce the discussion.

The views of Central European historians, especially in my country, do not on the whole differ very much from those held by the general historian as to the reasons for the development of business and economic growth in the United States during the period of early industrialization. To borrow from Professor Douglass North's terminology, their interpretation of American economic history apparently "has got into a rut" and is probably "old fashioned." If this is so, it is partly due to the fact that hardly any original research has been done in this field by Central European historians, who have been concerned mainly with their own area. Among other things, therefore, their thinking has been influenced by the works of historians of the Anglo-Saxon countries dating back to the end of the nineteenth century and the first three or four decades of the twentieth century.[1] It would be generally true to say that much of the work published by Ameri-

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[1] The work by Charles A. and Mary R. Beard, *The Rise of American Civilization*, published in several editions, became perhaps the standard work of reference in this field.

can economic historians in the fifties and sixties, and especially the latest work of the followers of the "New Economic History," is not sufficiently known or studied to change substantially the accepted ideas about economic development in American history

On this basis I propose first to state some of the widely held opinions among professional historians in my country (we do not have one economic historian whose specialization is American economic history of any period) as to what are traditionally supposed to have been inducements and obstacles to United States enterprise in the first half of the nineteenth century.[2]

Then I shall go on to touch upon some of them in the light of recent trends in American economic history and in conclusion give a suggestion of what I hold to be the most significant single factor in the rapid growth of enterprise in the ante-bellum period.

Limitations to Generalizations

I am well aware of the serious limitations to any generalization, and even more so with regard to the history and economy of the United States. The vast area of the United States of America, which is only slightly smaller than the whole of Europe, and the great diversity of natural, farming, and industrial conditions in the various parts make it imperative to study the major regions separately, each with its peculiar economic development and yet influencing each other in time. There is also the indisputable and unrivaled rapid rate of economic development in the first half of the nineteenth century, and yet the unevenness and complexity of the development holds many pitfalls for generalizations of any nature. If we do this here, it is chiefly for the sake of discussing problems.

[2] In Czechoslovak historiography there is no monograph as a result of original research on the early economic development of the United States of America. The history of the United States has been written as a part of textbooks or general works on world history. Between the two World Wars so-called world history contained almost exclusively European history. The authority on general history at Charles University before 1938, Josef Šusta, in his *Dějiny Evropy v letech 1812–1870 (History of Europe, 1812–1870)*, Part I (Praha, 1922), mentions the United States only in the foreword in relation to the changing balance of power in the world of the nineteenth century and points to the admirable efforts of the American settlers and their fruitful work in building a great federal republic which soon made its strength felt in the rest of the world (p VI). In a recent collective work of general history edited by K Mejdřická, *Dějiny novověku (History of the New Age)*, Vols. 4 and 5 (Praha, 1969), the history of both American continents is analyzed in separate chapters, and the economic growth of the United States in the first half of the nineteenth century is interpreted more or less along the lines contained in this paper.

Another concession to the discussion is the dividing line I need to draw between inducements and obstacles, while realizing fully that these seemingly contradictory phenomena interact, and each obstacle, for instance, also brought about inducements.

There is also considerable danger in isolating economic development from the general context of political and cultural relations, but this too we must subordinate to the matter under discussion as long as we do not lose sight of it.

INDUCEMENTS

The main line of argument widely accepted, at least by Czechoslovak historians, concerning inducements to the development of business in the period under discussion is that in its broadest sense development is believed to have been highly accelerated because it was not held down by the fetters of a thousand years of feudalism as in Europe, or thousands of years of caste or tribal system or feudal despotism as in other continents.[3] It is interesting to note that Lenin disputes this belief, saying very forcefully in his treatise on "Capitalism and Agriculture in the United States of America," written in 1916, that slavery in the South created essentially the same conditions during the rise of capitalism in the United States as feudal serfdom did in other parts of the world, and that slave-owning survivals as undistinguishable from feudal survivals were still very powerful in the South even at the turn of the twentieth century.[4]

Often cited indisputably on the side of inducements are the natural resources of the North American continent, which were available in remarkable abundance and variety to a rapidly increasing population. The spectacular growth in population is

[3] The conquest of America and the rapid economic development, especially of the United States, is seen as an objectively progressive historical factor. In a comparison drawn with the British conquest of India (Cf. Karl Marx, *Articles on India* [Bombay, 1951]), the process in America gives significant evidence for the interpretation that a higher social system was imposed by the new society on old social forms which were unable to survive. This interpretation of the absence of feudal survivals as the fundamental inducement to the highly accelerated rise of capitalism in the United States was taken up by William Z. Foster, whose *Outline Political History of the Americas* (New York, 1951) made a fairly deep impression on historians in socialist countries. He said that "other feudal remnants, so handicapping to European and Latin American capitalism, were conspicuous by their absence—an exception being the slavery plantation system, which was doomed eventually to die." (p. 221)

[4] Cf. V. I. Lenin, *Capitalism and Agriculture in the U.S.A.*, *Collected Works*, (Moscow, 1964), XXII, 24

taken to have sprung mainly from continuous mass immigration of people imbued with the necessary pioneering spirit in every walk of life, especially in business[5] I shall return to the subject of immigration as the main spring of population growth in the United States through the nineteenth century. Here, however, the argument for inducements to economic growth derives from this concept of an increasing pioneering population forming (1) a society of free men with a relatively high cultural level and (2) building a democratic, republican way of life with an extent of political liberties little known in any other country of that time.

In such a political and social atmosphere, business could develop unhampered by the fear of sustained internal unrest or the imminent danger of foreign aggression.[6]

An additional factor spurring on business during early industrialization was the existence of favorable conditions for initiative, inventiveness, and innovations leading to swift organizational and technological advance in production and marketing even in the pre-Civil War period, and in the long run to the adaptation of the most up-to-date machinery to a variety of natural conditions and economic demands. The British-American interchanges of experiences, especially in the 1840s and 1850s, are well known.[7]

In the recently very much disputed field of transportation—which is credited with having opened up natural resources, extended trade (foreign and domestic), and given impetus to further industrialization and unlimited opportunities to business—the railroad has been traditionally regarded as the key to prosperity in the United States[8]

[5] These views are apt to agree with Thomas C. Cochran and William Miller that business has been most important in the Americans' lives Cf. *The Age of Enterprise* (New York, 1942), p. 2

[6] Cf. W. T. Easterbrook, "Long-Period Comparative Study: Some Historical Cases," *Journal of Economic History*, XVII (1957), 584

[7] Nathan Rosenberg and Edward Ames published evidence that the British-American interchange of experience was not merely a one-sided process of American industry adapting British machinery to its special needs and conditions; as early as the 1850s British experts studied American technological experiences. Cf. N. Rosenberg and E. Ames, "The Enfield Arsenal in Theory and History," *The Economic Journal*, LXXVIII (December 1968), 827.

[8] A more recent restatement of the crucial role of the railroad during the industrialization of the United States has been made by Walt W Rostow in his proposal of a theory of stages of economic growth, especially in his article, "The Take-Off into Self-Sustained Growth," *Economic Journal*, LXVI (1956), 45.

Another important inducement to the rise of business has been seen in the inflow of foreign investments into the American economy as a main source for capital formation, especially British capital employed by American business for new enterprises

Topping the necessarily incomplete list of generally recognized inducements to business in the ante-bellum period is the all-pervading development of both interregional and intraregional trade as a process of the formation of the home market (i.e., domestic or national market). I hold this process to be of primary importance for the origin and growth of modern business in the United States and will briefly return to it in my conclusion.

OBSTACLES

On the other side of the balance sheet are the factors more or less traditionally regarded by historians as obstacles to the development of business in the United States during the period of early industrialization.

The great diversity of geographical, economic, and social conditions has been seen as an impediment to progress. Thomas C. Cochran, in a paper published in 1955, seems to enforce this view by saying, "While the United States was nominally one country, the difficulties of doing some kind of business in the first half of the nineteenth century were almost as great as though the boundary lines were those of independent nations."[9]

Southern slavery is still held to be one of the major forces in retarding the development of American capitalism and with it the fuller unfolding of business. As this has been and still is a controversial subject in historiography, I shall return to it presently.[10]

The great Westward Movement has sometimes been associated with affecting the rate of industrialization and growth of business activity negatively. The plentiful supply of land made available to private usage and ownership is said to have created a tendency towards autarky. No doubt, not a few utopian groups going West

[9] Thomas C. Cochran, 'The Entrepreneur in American Capital Formation,' *Capital Formation and Economic Growth*, A Conference of the Universities—National Bureau Committee for Economic Research (Princeton, 1955), p. 362.

[10] Whether slavery was an obstacle or an inducement to the rise of business in the period of early industrialization in the United States is a complex question. In Marxist historiography, slavery, and particularly the slave trade, is essentially regarded as an integral part of the formation of capital. Cf. Karl Marx, *Capital*, (New York, 1947), I, 775; and also H. Aptheker, *The Colonial Era* (New York, 1959), p. 16.

sought millenium in a small-scale, self-sufficient agricultural economy. The character of land distribution in nineteenth century America, however, was such that either the product of the land or the land itself was quickly drawn into commerce, i.e., into a rising market economy. Not chiefly in the West (except for the immediate but rapidly outward-moving frontier), was there a tendency toward self-sufficiency in the first half of the nineteenth century, but in the South and Northeast. As a retarding element to the growth of the market economy, William N. Parker calls this phenomenon "the curse of self-sufficiency,"[11] and in one of his recent papers shows that the Westward Movement—largely related to agriculture—"raised the costs of the settlement process in exchange for advancing the date of the transition into commercial agriculture."[12] The answer to the question whether this process advanced enterprise and business or not seems self-evident.

The scarcity of labor created by the Westward Movement is often listed as an obstacle to the development of business. The possibility of going west in search of land is held to have emphasized the tendency toward scarcity of labor in regions where manufacturing was developing. This seems, however, too simple an explanation of a complicated economic-historical problem.

Perhaps less controversial, although little concrete investigation has been made, are obstacles to the development of business due to low business ethics in this period of expansion (frequency of corruption, default, fraud), and physical insecurity due to a lack of police protection and a certain ineffectualness of law enforcement (robbery, violence).[13] On the other hand, the lack of established governing circles and a decisive leading upper class in the newly settled areas gave the merchants, manufacturers, and bankers a chance to attain leading economic, social, and political positions.

Assuredly, sectional and local rivalries slowed down development of business to a certain degree. These rivalries appeared in a great variety of vested interests, ideological beliefs, ingrained parochialism, etc. It suffices here to mention one of the big struggles of the ante-bellum period, the tariff question.

[11] William N. Parker, "Slavery and Southern Economic Development" (Paper delivered at the annual meeting of the American Historical Association, December 28–30, 1968).

[12] William N. Parker, "Sources of Agricultural Productivity in the Nineteenth Century," *Journal of Farm Economics*, XLIX (December 1967), 1463.

[13] Cf. Cochran, "The Entrepreneur in American Capital Formation," *loc. cit.*, p. 362.

In concluding my rather unorganized list of obstacles to economic and business development, I should like to mention the concept of the United States of America belonging to the category of latecomers in industrialization. That aspect should definitely be examined in our discussion in the light of new evidence and new ideas on this subject. Hand in hand with this comparative view on American development during early industrialization, it is shown that British competition foiled to a large extent attempts by American businessmen to expand manufacturing in the early decades of the nineteenth century.[14] This was supposed to have been reinforced by the maritime phase of the United States economic development and its lingering "maritime" mentality.[15] As this can at the most be applied only to certain sections of Northeastern businessmen (perhaps merchants, shipbuilders, and bankers), it is not of such consequence as a historical interpretation as is the theory of the American economy as a latecomer.

Each problem mentioned here both on the credit side (inducements) and on the debit side (obstacles) to the development of business needs closer investigation and deserves special treatment; they interact upon one another and influence each other. Let me, however, touch on some I feel to be more controversial than others.

Some Factors for Discussion in the Light of Recent Trends in American Economic History

As I understand it, the main aim of the "New Economic History" is to apply retrospective measureability to the methodology of economic history. This puts a question mark to almost all of our statements and forces us to rethink them. Although every historical phenomenon clearly cannot be measureable, some widely and traditionally held concepts, for instance on economic growth, industrialization, and the development of business in the pre-Civil War period have been seriously shaken by the results of researches conducted by the "new" economic historians in the United States. The first serious and complex attempt is shown by the studies contained in W. N. Parker's edition of *Trends in the American Economy in the Nineteenth Century*,[16] to name only

[14] Douglass C. North, *Growth and Welfare in the American Past* (New York, 1966), p. 82. North shows that the Northeast quickly recovered from British competition.

[15] Cf. Easterbrook, *op. cit.*, p. 583.

[16] W. N. Parker, *Trends in the American Economy in the Nineteenth Century*, Studies in Income and Wealth, XXIV (National Bureau of Economic Research, New York, 1960).

one work. This has been followed by more publications applying similar methodology.

The assertion has been questioned that the spectacular increase in population between 1800 and 1840 sprang mainly from immigration. Some authors speak of indications of an enormous increase in the birth rate during this period.[17] The tremendous growth in population in such a short period of time, by natural means and by immigration, must have generated demands for a growing variety of commodities which led to massive increases in manufacturing production.

There is no doubt among economic historians that the development of transportation, especially railroads, was one of the main inducements to economic growth and business activity. The concept of the indispensability of the railroad to this growth has been questioned, however, mainly by Robert W. Fogel.[18] In a closely argued, critical evaluation he finds that the impact of the railroad on the rise of manufacturing during the ante-bellum period was more limited than is usually presumed. The transfer from home- to shop- and factory-made goods seems to have been generally in progress by the 1830s, and all of the shift toward manufacturing indicates that in the decade 1839–1849 industrial and business enterprise was well under way before the railroad could have made a decisive impact.[19] Albert Fishlow, too, does not condone the indispensability concept or Walt Rostow's leading sector concept, but he accepts the historical fact that it was, after all, the railroad that brought lower transport costs, a large return to investments, and induced sequences which must be credited to it.[20] While the railroad did not create a national market before 1860, it left a major imprint on the direction and magnitude of interregional trade and business growth. Other questions have been posed, as to the profitability of the railroad (this seems to have been fairly conclusively answered by Albert Fishlow, who calculated an average return of 15 percent on railroad investments in the ante-bellum period),[21] or whether or not railway construction in advance of demand was premature. Alfred D. Chandler, Jr.,

[17] Cf. Ross M. Robertson, *History of the American Economy* (New York, 1964), p. 209.

[18] Robert W. Fogel, *Railroads and American Economic Growth: Essays in Econometric History* (Baltimore, 1964).

[19] Cf. *ibid.*, p. 235.

[20] Cf. Albert Fishlow, *American Railroads and the Transformation of the Ante-Bellum Economy* (Cambridge, 1965), p. 306.

[21] *Ibid.*, p. 301.

sees railroad enterprise and business organization as pioneering in modern corporate management.[22]

A complicated problem is raised by the wherewithal of capital formation. Was the need for capital primarily met by foreign, mainly British investment, or was capital accumulated and invested from domestic resources? Thomas Cochran maintains that most initial financing in the early phase of industrialization was of local origin, and from the beginning there was a great amount of reinvestment of earnings in family and other closely owned companies.[23] A substantial amount of capital came from public funds, especially in transportation projects. Capital resources from Europe are not always easily assessable. One can certainly regard investments by European bankers as foreign, although foreign borrowing was modest as compared with the foreign borrowing of United States business after the Civil War. The British investors were cautious after the crisis of the 1830s, and the 1840s saw little import of foreign capital into the United States.[24] Some capital formation did occur, however, by immigrants bringing capital and skill, or transplanting their going enterprises to the United States because of more favorable conditions of an expanding market. Douglass North comes out strongly on the side of domestic capital formation against the assumption that foreign borrowing was the major source of capital.[25]

Let us return for a moment to the question of slavery, which is still an open problem. Today's issues are not so much connected with the viability or profitability of slavery, because in relation to cotton production in the South it was demonstrated by John Meyer and Alfred Conrad to be viable and profitable.[26] The major issue, however, seems to be the relationship between slavery and economic growth and business development. Ross Robertson maintains that the slave system effectively prevented a normal accumulation of real capital in the South and consequently delayed indus-

[22] Cf. Alfred D. Chandler, Jr., "The Railroads: Pioneers in Modern Corporate Management," *Business Hitsory Review*, XXXIX (1965), 16–40.

[23] Cf. Cochran, "The Entrepreneur in American Capital Formation," *loc. cit.*, p. 345.

[24] Cf. Kenneth Berrill, "Foreign Capital and the Take-Off," *The Economics of Take-Off into Sustained Growth*, Proceedings of a Conference held by the International Economic Association, ed. by W. W. Rostow (London, 1963), p. 293.

[25] Cf. North, *op. cit.*, p. 86.

[26] Cf. John Meyer and Alfred Conrad, "Economics of Slavery in the Ante-Bellum South," *Journal of Political Economy*, LXVI, (April 1958), 95–130.

trialization.[27] Douglass North does not accept the idea that the South was necessarily a stagnation economy.[28] Although William Parker does not contend this, he points to the peculiar demand structure of the South which was not conducive to an all-round healthy growth of a market economy.[29] The problem is a complex one, as the undoubted profitability of slavery led to an increase in the slave trade in the first half of the nineteenth century at a time when this enterprise was already illegal. Yet by the fifties and sixties slavery had in many respects become an obstacle to the full development of business.

Slavery is also cited in relation to scarcity of free labor. The European view that the Westward Movement and slavery emphasize the scarcity of labor in the American economy is not held in an unqualified way by American economic historians. Thomas Cochran and Robert Zevin point to the existence of pockets of regional immobility in the 1820s and 1830s creating redundant labor, especially in the Northeast.[30] Another question is the relationship between scarcity of labor and technological advance. Though generally acceptable, to a certain degree this seems to be an oversimplification, for Robert Zevin finds considerable evidence that the American innovation of the power loom was primarily a cost-saving response to the depression after 1814 and not a reaction to any acute labor shortage.[31]

These conflicts of ideas illustrate the complexity of the problems influencing the development of business in the first half of the nineteenth century. The theory of the United States economy belonging to the latecomers raises a whole complex of fundamental questions that were brought out into the open in the polemics centering around Walt Rostow's "Take-Off Theory" and his "Theory of Economic Stages."[32] It raises the question: What was the historical economic meaning of the spectacular rise of American enterprise in the first half of the nineteenth century? William Parker does not find particularly striking changes

[27] Robertson, *op. cit.*, p. 123.

[28] Cf. North, *op. cit.*, p. 91.

[29] Cf. W. N. Parker, "Slavery and Southern Economic Development," Paper delivered at the annual meeting of the American Historical Association, December 28–30, 1968.

[30] Cf. Cochran, *op. cit.*, p. 358; Robert B. Zevin, "The Growth of Manufacturing in Early 19th Century New England before the Civil War," *Journal of Economic History*, XXV (1965), p. 682.

[31] Cf. Zevin, *op. cit.*, p. 680.

[32] Rostow, "The Take-Off into Self-Sustained Growth," *loc. cit.*; and *The Stages of Economic Growth*, (Cambridge, 1960).

in incomes before 1840;[33] on the other hand Robert Gallman calculates a rising capital formation together with increasing shifts to manufacturing, mining, and construction in the ante-bellum period.[34] Alfred Chandler does not find changes in structure of a decisive nature before 1850,[35] while Robert Zevin, Robert Gallman, and Robert Fogel show by restrospective calculation a great development in manufacturing of all kinds with cotton textiles in the lead, and a relatively declining rate of growth in shipbuilding and agriculture in the same period.[36] Rostow's "Take-Off Theory" is disputed by most economic historians, as it seems almost certain that industrialization and growth of business were well on the way toward rapid development in the 1840s. Douglass North makes a forceful case for sustained economic growth by the extension of the market economy in the period 1790 to 1860.

I mentioned earlier that I consider the formation of the home market to be, in effect, the underlying greatest single inducement to the development of business in the pre-Civil War period. I suggest in conclusion that perhaps it could be said that all of the economic forces that came into play during the period under discussion reflected as much the diverse needs and varying aspects of the formation of a home market in the United States of America as those same forces contributed to its development.

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[33] Cf. W. N. Parker and Franklee Whartenby, "The Growth of Output before 1840," in *Trends in the American Economy in the Nineteenth Century*.

[34] Cf. Robert E. Gallman, "Commodity Output, 1839–1849," *ibid.*

[35] Cf. Alfred D. Chandler, Jr., *Strategy and Structure, Chapters in the History of Industrial Enterprise* (Cambridge, 1962), p. 19.

[36] Cf. Zevin, *op. cit.*, p. 681; Gallman, *op. cit.*, especially pp. 21–27; Fogel, *op. cit.*, pp. 121–29.

[37] Cf. North, *op. cit.*, p. 78.