The American Economy: A Historical Encyclopedia

Volume One: Short Entries

edited by
Cynthia Clark Northrup

Santa Barbara, California   Denver, Colorado   Oxford, England

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Library of Congress Cataloging-in-Publication Data
The American economy : a historical encyclopedia / edited by Cynthia Clark Northrup.
p. cm.
Includes bibliographical references and index.
ISBN 1-57607-866-3 (2 vols. : hardcover : alk. paper)
ISBN 1-57607-867-1 (eBook)
1. United States—Economic policy—Encyclopedias. 2. United States—Economic conditions—Encyclopedias. 3. United States—Social policy—Encyclopedias. 4. United States—Social conditions—Encyclopedias. I. Northrup, Cynthia Clark, 1959–

HC102.A66 2003
330.973'003—dc22

2003020334

07 06 05 04 03 10 9 8 7 6 5 4 3 2 1
This book is also available on the World Wide Web as an e-book. Visit www.abc-clio.com for details.

ABC-CLIO, Inc.
130 Cremona Drive, P.O. Box 1911
Santa Barbara, California 93116–1911

This book is printed on acid-free paper .
Manufactured in the United States of America

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Acknowledgments

I would like to thank Dr. James Ciment, who recommended me to ABC-CLIO as editor for *The American Economy: A Historical Encyclopedia.* During the course of this project, numerous people have provided invaluable advice, assistance, and encouragement, for which I am grateful. I offer a special thanks to Drs. Walt Rostow, Sidney Weintraub, Robert Fairbanks, Alfred E. Eckes Jr., and Spencer Tucker for serving on the Board of Advisers.

Throughout the entire endeavor, I have had the support of the Department of History at the University of Texas at Arlington. I would like to extend a special thank-you to the reference librarians at Texas Christian University, the Dallas Public Library, and especially the University of Texas at Arlington, where I took advantage of an extensive library collection to verify the multitude of details and locate the primary source material for this work.

Without the support and impressive effort of the contributors, this work would not have been possible. Many of the authors took their time and energy away from other projects to ensure the success of the encyclopedia. A special thanks to those who assisted during the final stages by writing the last few entries on relatively short notice—and for doing so with such welcomed enthusiasm. For their assistance in typing many of the primary source documents, my deepest gratitude goes to Christopher Nichols and Vonnie Peach.

To my family a special thanks. Through months of telephone calls, correspondence, writing, and editing they continued to provide support and encouragement.

—Cynthia Clark Northrup

A Note on Using the Encyclopedia

During the last half of the twentieth century, scholars have tended to direct their attention away from economics to focus instead on social and cultural issues. But it is important for students and intellectuals to recognize the connection between economics and all other aspects of life. Without significant financial resources, the existence of which is determined by economic policy, the federal government cannot address social and cultural issues such as health care and Social Security. The shift in national economic policy that occurred primarily after the Civil War affected American life from immigration and settlement patterns to the manner in which business was conducted. The long-term effect of a specific act or policy is often complex.

Designed as a reference tool for anyone who wishes to learn more about the role of economic policy in American history, the encyclopedia includes numerous entries dealing with specific issues, longer essays that explore broader topics, and selected primary documents. The first volume contains more than 600 biographical and topical entries arranged alphabetically. The biographical entries provide brief but significant details about key individuals and concentrate on the specific role of each in U.S. economic history. Topical entries describe events, court cases, legislation, and so on in the light of their influence on the economic life of the nation.

Each entry in volume one includes references that lead to more thorough information about the topic and a "see also" section directing the reader to related entries in volumes one and two.

In volume two, essays explore broader topics such as the effect of economic policy on education, insurance, the judiciary, and science and technology. These in-depth essays explore topics from colonial times to the present. Also part of volume two are selected primary sources—the various acts and policies that have established economic policy throughout U.S. history—and a comprehensive bibliography with full citations. A list of biographical sketches of the contributors and a detailed subject index can be found at the end of volume two.

The encyclopedia contains detailed information about each economic policy act and about the individuals and debates that shaped the formation of economic policies in the United States from its infancy to the present day. Although the materials are extensive, space prohibits the inclusion of each individual or action connected to the process. This two-volume set addresses the most prominent matters and presents thorough, yet easy to understand, accounts of issues that continue to dictate both the domestic and foreign economic policies of the United States.

Introduction

The American Economy: A Historical Encyclopedia provides detailed information about the formation and development of economic policy throughout American history and describes its continued importance. Historically, economic issues have played a prominent role in U.S. policymaking. Economic policy has influenced social, cultural, political, and economic events from colonial times to the present.

Economic Policy

Economic policy has shifted many times over the course of American history. During colonial times, the British colonies operated under a mercantilist system in which all trade benefited the mother country. After the American Revolution, the fledgling United States attempted to operate under the Articles of Confederation, but the economic restrictions it placed on the national government caused that system to fail. Delegates meeting at the Constitutional Convention agreed that the federal government must have the power to tax. A decision to tax only imports, not exports or direct income, proved to be decisive in the development of domestic industry. Congress passed revenue tariffs (taxes on imports) during the early years of the Republic; after the War of 1812, a shift to protective tariffs occurred. These tariffs continued to increase reaching their apex during the Civil War under the Morrill Tariff. After the Civil War, tariff rates remained high, ensuring the rise of big business that did not have to compete against foreign manufacturers. The extreme wealth accumulated by captains of industry such as Andrew Carnegie and John D. Rockefeller stood in sharp contrast to the poverty of many Americans, especially new immigrants who crowded into tenements in major cities in the North and East. Public awareness of this economic inequity resulted in a movement to replace the tariff as the primary source of tax revenue with a direct personal income tax. However, Congress lacked constitutional authority to institute such a tax unless the states passed a constitutional amendment to allow direct taxation. Republicans finally agreed to lower the tariff rates if the amendment passed, thinking that the states would fail to pass it. The plan failed, and ratification in 1913 of the Sixteenth Amendment opened the door for direct taxation—a shift that has influenced capital accumulation, investment, and personal savings ever since.

After reducing the tariff rates and increasing personal income tax rates, Congress once again increased import duties because of World War I. After that conflict, European countries that had been carved out of the old empires raised their tariff rates to protect their own industries. Consequently, trade slowed at the same time that the U.S. stock market collapsed under the burden of overvaluation of company worth and market overstimulation due to purchases on margin. Within nine months of the crash, Congress passed the Hawley-Smoot Tariff, which raised tariff rates to a record high. Meanwhile, the Federal Reserve Board increased interest rates, contracting the money supply. The net effect was a prolonged depression that finally ended when the United States entered World War II.

The Great Depression and World War II mark a shift in U.S. economic policy. President Franklin D. Roosevelt followed the economic philosophy of John Maynard Keynes, who advocated deficit spending during periods of financial difficulty. Deficit spending would allow the federal government to initiate programs that politicians had traditionally shunned. For the first time, the federal government assumed the role of employer to thousands of the country's unemployed workers. Programs like the Civilian Conservation Corps and Works Progress Administration created jobs. Social Security was established to promote early retirement and so open up jobs to younger workers. In addition, the federal government funded projects such as the Rural Electrification Administration and the Tennessee Valley Authority to improve the lives of Americans in rural or poverty-stricken areas.

Welfare

From the 1930s to the present, the federal government has increasingly used economic policy to deal with social and cultural issues. In the immediate post–World War II period, Americans experienced an unprecedented period of prosperity because of the accumulation of personal savings and the expansion of industry during the war. But by the 1960s, it was

apparent that although most Americans' standard of living had increased, African Americans and other groups had fallen deeper into poverty. President Lyndon B. Johnson attempted to correct the problem by using tax revenues to fund a new welfare state—the Great Society, which had programs ranging from Head Start to Medicaid that supported health, education, and community development. The Great Society redistributed the wealth but also created a group of people who became dependent on the federal government. After several decades, states including Wisconsin began to experiment with ways to eliminate this dependency on welfare. As of 2003, the number of people on the welfare rolls has dropped because similar efforts have also been undertaken at the federal level. This change in economic policy led to a drop in the number of births to unwed mothers and the number of abortions.

Education

The field of education has traditionally been the bailiwick of local and state governments rather than the federal government. By the second half of the twentieth century, however, the federal government had become a major participant in the education arena. After World War II, Congress passed the Servicemen's Readjustment Act (also known as the G.I. Bill), which gave returning veterans the opportunity to attend college at the government's expense and even to receive a small living allowance to help support themselves and their families during the process. As a result, during the 1950s and 1960s the number of professionals such as engineers, accountants, business executives, lawyers, and doctors increased dramatically. During the 1960s, Congress approved financial aid programs that gave all Americans, including those from poor families, the opportunity to attend college. By 2000, more Americans had attended college than ever before.

Settlement Patterns

Through various acts and economic policies, Congress has influenced settlement patterns. After the American Revolution, when the nation operated under the Articles of Confederation, the government began to encourage the settlement of the old northwest territory, which at the time encompassed the Ohio Valley region. Thomas Jefferson proposed surveying the land into townships and selling property to Americans in 160-acre parcels. Initially only wealthy investors could afford to purchase the land, and they then subdivided the properties into smaller farms and sold them. No credit terms existed between the government and the purchaser. The land sold very slowly, but gradually the population of the region increased.

After the purchase of the Louisiana Territory from France in 1803, Congress attempted to pass legislation to allow homesteaders to claim 160 acres of federal land in the newly acquired territory. The debate over the expansion of slavery prevented the passage of such legislation. Finally, during the Civil War, the Northern Republicans in Congress passed the Homestead Act of 1862, which encouraged western migration. During the 1870s Congress passed two additional acts—the Timber and Stone Culture Act and the Timber Culture Act—that helped more Americans claim land in the western part of the country. By the 1900s the federal government had initiated a series of dam projects to help supply both farms and cities with additional water so these communities could grow. Cities like Las Vegas, Nevada, could have not expanded without the water provided by the Hoover Dam. The government continues to influence settlement patterns by awarding contracts to employers like Lockheed-Martin and other defense contractors who can entice workers into an area like the Southwest by offering them jobs.

Although the government encouraged settlement of some areas, it restricted the use of other land. Beginning in the 1880s, presidents began setting aside public lands as national parks. Theodore Roosevelt set aside more land than all of his predecessors combined.

Science and Technology

Government spending during wartime has led to many breakthroughs in the fields of science and technology. In the post–Civil War period, medical professionals explored the cause of diseases and infections. By the 1900s army surgeons had discovered the cause of malaria and the public learned about germ theory. Wars also resulted in the development of penicillin and other antibiotic drugs. During World War I, Americans improved the airplane, and after World War II an entire aviation industry developed. During the cold war, the federal government funded the missile and space programs, which yielded such inventions as the computer chip and eventually the Internet.

Conclusion

All social, cultural, and political policies must be funded. The economic policies of the federal government affect all aspects of life in the United States. In the future, the nation will have to choose which economic policy to implement in connection with such issues as population growth and the increasing number of elderly citizens, which will place tremendous strain on the health care system. These economic decisions will affect the younger generation, which will have to pay the taxes to support these programs, and will determine the future history of this nation.

The American Economy: A Historical Encyclopedia

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A&M Records v. Napster Inc. (2001)

Court case that challenged federal copyright laws under *United States Code* Title 17.

In 2000, A&M Records and several other plaintiffs filed a civil case against Napster citing infringement of copyright laws. Napster, utilizing the latest MP3 digital music compression technology, allowed members to share music at no cost to the member. The founder, Shawn Fanning, established the Internet website for the purpose of providing "samples" of music from a variety of artists. When the recording industry filed charges against Napster, attorneys for the defendant argued that the company operated under the 1992 Audio Home Recording Act that allowed for the noncommercial reproduction of audio materials. Because Napster provided a free service allowing members to share music, the company argued that it complied with the existing copyright laws. Attorneys for A&M Records and various other plaintiffs within the music industry argued that Napster provided access to copyrighted music that individuals could download and then copy. The lower court ruled in favor of the plaintiffs, and an appeal was filed with the Ninth District Court of Appeals, which upheld the lower court's decision but returned the case to the lower court for the preparation of a revised injunction against Napster. According to the 2001 ruling, Napster must review its files and remove from its website all copyrighted music if the owner of the rights to that music objects to its use by Napster. Napster still retains the right to appeal the decision to the U.S. Supreme Court, but given the conservative nature of the Court, it appears improbable that Napster attorneys will pursue that course of action.

—*Cynthia Clark Northrup*

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See also Volume 2: Intellectual Property.

Acquired Immune Deficiency Syndrome (AIDS)

A disease caused by a retrovirus that mutates so rapidly that the B-lymphocytes and the body's natural antibodies cannot fight it off.

The introduction of AIDS (acquired immunodeficiency syndrome) in the United States occurred primarily in the homosexual and bisexual community. First diagnosed as a disease in 1981, it results in the vulnerability of the human body to disease and malignancies. As AIDS spread to include hemophiliacs and individuals who required blood transfusions, the public pressured the federal government for research funding. Symptoms appear initially like the flu but gradually develop into anxiety, weight loss, diarrhea, fatigue, shingles, and memory loss. Transmission of the disease occurs through the exchange of body fluids such as breast milk, semen, or vaginal secretions or through the exchange of blood and blood products. Kissing and the exchange of saliva do not appear to transmit the disease nor do urine, feces, or sweat.

The primarily economic implications of the disease include the increased health care cost associated with the care of AIDS patients as well as their medical treatments. As of 2002, physicians rely on three drugs—AZT (also known as Retrovir or Zidovudine), ddI (Videx® EC brand didanesine [delayed-release capsules]), and 3TC (Epivir® brand Iamivadine)—to delay the spread of symptoms in patients. In addition, another 30 alternative treatments are being tested. The enormous cost associated with the development of a cure for the disease has taxed the economic resources of private foundations established for that sole purpose as well as the federal government.

In the United States alone, the Centers for Disease Control and Prevention (CDC) estimates that about 850,000 to 950,000 Americans are infected by the human immunodeficiency virus, or HIV. HIV attacks the immune system cells. All individuals with AIDS have HIV, but not all people with HIV have AIDS. AIDS is a fatal disease caused by a rapidly mutating retrovirus that leaves the victim susceptible to infections, malignancies, and neurological disorders. Every

year another 40,000 cases are reported. During the 1980s, a massive public awareness program resulted in a decline in new cases from 60,805 in 1996 to 40,766 in 2000. The majority of the new cases have occurred in the African American community—half of new cases among men and 65 percent of new cases among women occur among this group. As of the end of 2001, the CDC reported more than 467,910 deaths from the disease.

As a result of the continuing crisis, the federal government has appropriated millions of dollars for research. For the fiscal year 1999, Congress approved $110 million just for the African American community. The total figure for research, treatment, prevention, and educational programs amounted to $4.87 billion. During the last year of the Clinton administration that figure declined, but the incoming administration of George W. Bush increased the budget for AIDS once again.

—*Cynthia Clark Northrup*

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See also Volume 1: Disease.

ADC

See Aid to Dependent Children.

Advanced Technology Office (ATO)

Office responsible for the integration of new and future technology into military systems.

In 1957, Congress created the Defense Advanced Research Projects Agency (DARPA) in response to the Soviet Union's launching of *Sputnik I.* The Advanced Technology Office (ATO), functioning under the authority and funding of DARPA, conducts research and integrates advanced technology into existing U.S. military systems. Researchers place special emphasis on maritime, communications, special operations, command and control, and information assurance and survivability mission areas. The goal of the ATO remains the most cost-effective use of technology to assist all branches of the military to fight against existing and future threats by outmaneuvering, gathering more intelligence, and reacting more quickly than the adversary. Current ATO programs include the development of artificial intelligence through the use of robotics, sensors, and satellites. Projects include Airborne Communications Node; Antipersonnel Landmine Alternative; Buoyant Cable Array Antenna; Center of Excellence for Research in Oceanographic Sciences; Future Combat Systems (FCS) Command and Control; FCS Communications; Metal Storm; Robust Passive Sonar; Submarine Payloads and Sensors Program; Tactical Mobile Robotics; Tactical Sensors; Undersea Littoral Warfare: Netted Search, Acquisition and Targeting (Net SAT); and Underwater Fighter (LOKI). Additional programs such as the Self-Healing Minefield system use the most advanced technology to prevent the breaching of minefields by the enemy. Instead of creating a static minefield, the program creates a dynamic minefield with the intelligent capability of physically reorganizing mines to prevent breaches by opposition forces. Government funding of the research has produced benefits for the American public as well because consumer applications for the technology exist and because ATO researchers continue to use high-tech devices developed by the private sector, which receives public funding for its research and development.

—*Cynthia Clark Northrup*

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See also Volume 1: Defense Advanced Research Projects Agency.

AEA

See American Economic Association.

AFDC

See Aid to Families with Dependent Children.

Affirmative Action

Legislative attempt to eliminate economic discrimination by ensuring that blacks and other minorities play "on a level playing field."

Executive Order 10925, issued by President John F. Kennedy, recognized the need for affirmative action. After Kennedy's assassination, President Lyndon B. Johnson pushed the Civil Rights Act of 1964 through Congress. On September 24, 1965, Johnson signed Executive Order 11246, which provided for the enforcement of affirmative action, primarily in education and jobs. The federal government attempted to ensure that blacks and other minority groups played on a level playing field when it came to promotions, salaries, school admissions, scholarship, financial assistance, and participation in federal contracts. Although designed as a temporary measure, affirmative action assumed permanency after the introduction of quotas. (Racial quotas required employers to hire a percentage of their workers on the basis of race.)

Affirmative action's goals were met better in the educational realm than in the workplace. Colleges and universities reserved a specific number of positions for disadvantaged minorities, including women, under the quota system. As a result, some white males who qualified received rejection notices. In 1978, Allan Bakke sued the University of California for accepting less-qualified students to its medical school while refusing to accept him for two years in a row. In

the landmark case *Regents of the University of California v. Bakke,* the U.S. Supreme Court ruled in 1978 that the inflexible quota system violated Title VI of the 1964 Civil Rights Act because it engaged in reverse discrimination. In 1986, the Court heard a second case, *Wygant v. Jackson Board of Education,* in which the justices ruled that white men could not be dismissed to make room for women or minority employees. The following year the Court heard *United States v. Paradise* and issued an opinion that allowed for a one-for-one promotion requirement—for every white male promoted, one minority employee must be promoted.

The debate over affirmative action continued through the 1990s. The federal government initiated programs that would economically support small businesses owned by women or minority groups. Employers attempted to achieve a reasonable diversity among employees without the rigid quotas. Congress even tried, unsuccessfully, to pass an affirmative action amendment to the Constitution, but the measure was defeated in 1979 by a 171 to 249 margin. Affirmative action has achieved some limited success—more women and minorities have reached senior-level positions, and student bodies in universities and colleges have become diverse.

Currently the U.S. Supreme Court is reviewing two cases concerning affirmative action—*Gratz v. Bollinger* and *Grutter v. Bollinger*—involving admission requirements or quotas used by the University of Michigan law school. The outcome of these cases will decide the future direction of affirmative action.

—*Cynthia Clark Northrup*

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See also Volume 1: Civil Rights Movement.

Affluence

Widespread prosperity.

A society in which a large proportion of members possess purchasing power in excess of that required for any necessary level of well-being is categorized as affluent. In an affluent society, most individuals satisfy their basic sustenance, accommodation, and entertainment needs. Beyond that level, sufficient wealth exists for many people to consume goods that offer only trivial value. An affluent society has resources to protect members from problems such as the loss of income and extra expense due to unemployment and health crises.

With the availability of a wide range of goods, many of which consumers do not need, producers are forced to create a demand through marketing and advertising. Continued economic growth requires the continuous creation of new demands to absorb the ever-increasing volume of production. Consumer purchases become increasingly influenced by the marketing of brand images rather than specific products.

Even in the midst of affluence, an inequality of wealth exists, with some people living in great poverty. As the requirements of producers evolve to take precedence over those of consumers, individuals who lack enough disposable income to afford the advertised lifestyle frequently buy on credit, leading them to live beyond their means. Demands by individual consumers, encouraged by marketing, may increase at the expense of the public good. Consumers who move to the suburbs for bigger, newer homes cause increased poverty in the inner urban areas and a crumbling infrastructure in many of the formerly tax-wealthy cities. The tax burden shifts to the expanding suburbs (for road, sanitation, water, and other systems) and lessens the amount of tax money available to major cities.

In the United States, the post–World War II era produced a period of affluence beginning in the 1950s. Most Americans realized an increase in disposable income, even though the majority of women remained outside the workforce. Families during this period purchased automobiles, homes in the suburbs, and modern appliances. Poverty did continue but remained overshadowed by the affluence of the majority.

During the 1960s it became apparent that not everyone in the United States enjoyed a prosperous lifestyle. President Lyndon B. Johnson attempted to address this disparity in wealth through the Great Society program. However, a gap continues to exist into the twenty-first century.

—*Tony Ward*

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See also Volume 1: Consumer Spending.

AFL-CIO

See American Federation of Labor and Congress of Industrial Organizations.

Agricultural Adjustment Act of 1938

Legislation signed by President Franklin D. Roosevelt on February 16, 1938, that focused on the need for long-term consideration of agricultural production and soil conservation as well as the prevention of potential drought periods.

The Agricultural Adjustment Act (AAA) of 1938 was developed in 1937 as basic price-support legislation to replace the recently discredited AAA of 1933. Title I of the act amended the Soil Conservation and Domestic Allotment Act of 1936, and Title II authorized the secretary of agriculture to argue before the Commerce Commission regarding freight rates on agricultural commodities. The remaining three titles addressed loans and parity payments (government funds provided to farmers that help maintain a stable relationship between the level of farm prices and the general price level), cotton pool participation, and crop insurance.

The new act expanded the soil conservation features of the 1936 act with provisions for water conservation and erosion

control in semiarid regions. The 1938 act sought to prevent the displacement of tenants and sharecroppers. Title III of the 1938 act redefined parity prices, creating a more precise formulation that included total interest payments and farm estate taxes as well as freight charges and shifts in prices of commodities. Congress also implemented changes in the method of figuring allotments for individual farmers to limit these to commercial growing areas.

This act provided the secretary of agriculture with three measures for controlling major crop surpluses: (1) Payments could be shifted from "soil-depleting" to "soil-conserving" crops by farming operations termed "cooperators" (those that limited production to established quotas); (2) the secretary could announce marketing quotas; or (3) the secretary could provide nonrecourse loans that enabled farmers and growers to hold market crops until the farmer could sell them at adequate prices. Congress authorized the secretary to continue parity payments after receiving congressional allocation of funds. The federal government sent these payments to cooperating producers to compensate them for the difference between market prices and established parity prices.

The AAA of 1938 included several other sections added as amendments to ensure that the legislation passed Congress. For example, Section 202 provided for four regional laboratories to conduct scientific research into new commercial uses of farm products.

—Lisa L. Ossian

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See also Volume 2: Agricultural Policy.

Agricultural and Mechanical (A&M) Colleges

Postsecondary institutions established to promote the development of the practical arts and sciences.

Agricultural and mechanical (A&M) colleges were formed after the passage of the Morrill Land Grant Act in 1862. Congress granted the states 30,000 acres of federal land for each senator and representative that the state had in the national legislature for the purpose of establishing A&M colleges. The main curriculum would concentrate on agriculture, engineering, and home economics—the practical arts. The act, passed during the Civil War, also required the establishment of a Reserve Officers Training Corps (ROTC) at every land-grant institution. Most of the colleges implemented mandatory participation programs, but after the 1920s, membership in the ROTC became voluntary. Congress expanded the policy of assistance to A&M colleges in 1887 with the passage of the Hatch Act, which made funds available for research and experimental facilities. Additional resources, allocated under the Smith-Lever Act of 1914, extended agricultural and home economics research.

The study and development of a variety of crops and the study of animal husbandry encouraged improved farming techniques, which in turn stimulated the economy through the increase in annual yield. But as farmers exceeded the demands of consumers, prices dropped. Agricultural depressions remained a recurrent theme from the late 1880s through the 1930s until the United States sought markets overseas and implemented domestic policies that included farm subsidies. In recent years, A&M colleges have shifted their emphasis to engineering. As of 1999, more than 10,000 universities and colleges, including 29 Native American tribal institutions, have achieved land-grant status as agricultural and engineering schools.

—Cynthia Clark Northrup

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See also Volume 2: Land Policies.

Agricultural Credit Act of 1987

Legislation that authorized $4 billion in a financial assistance for financially vulnerable institutions of the Farm Credit System (FCS) and protected many farmers whose loans fell delinquent.

Due to the 1980s farm crisis, which was brought on by tight credit and plummeting farm land prices, the FCS experienced deep financial problems. The Agricultural Credit Act required the FCS to establish a new Farm Credit System Assistance Board to take over bad loans and supervise financial assistance to system banks for the next five years (1987–1992). This board would allow these troubled institutions to issue preferred stock eventually purchased by the Farm Credit System Assistance Corporation. Troubled institutions could apply for this assistance when borrower stock, which makes up most of their capital reserves, failed to cover financial losses. The assistance board imposed several conditions on the institutions receiving these loans; it had power over debt issuance, interest rates on loans, and business and investment plans.

The act also required the Farmers Home Administration (FmHA) to modify delinquent loans to the maximum extent possible to avoid losses to the government. It required the secretary of agriculture to provide notice to each FmHA borrower of all loan-service programs available. If foreclosure happens, priority for purchasing goes to previous owners. The secretary also releases income from household and operating expenses for farmers who apply for loan restructuring.

The law mandated that the federal land bank and federal intermediate credit bank in each of the system's 12 districts merge. The 12 districts reorganized to allow for no fewer than 6 districts. This restructuring and consolidation allowed for

more efficiency. Finally, the act created a secondary market for agricultural real estate and certain rural housing loans, establishing a Federal Agricultural Mortgage Corporation (Farmer Mac) within the FCS. System banks could package their agricultural real estate loans for resale to investors as tradable, interest-bearing securities. The Agricultural Credit Act of 1987 saved the FCS and made it financially sound in the 1990s. The FCS has continued to perform efficiently through 2003 and has received high marks from auditors.

—*T. Jason Soderstrum*

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See also Volume 1: Farmer Mac Reform Act of 1995.

Agricultural Credit Improvement Act of 1992

Bill to assist beginning farmer to acquire his or her own farm.

This act required the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) to target a percentage of its direct and guaranteed farm operating and farm ownership loans to beginning farmers and ranchers. In 1992, the average age of farmers had increased to 52 years of age. Twice as many farmers were 60 or older as were under the age of 35. The increased cost of farming since the 1970s and the farm crisis of the 1980s had washed many younger farmers out of the business.

To get the loans, the beginning farmer had to draw up a detailed 10-year plan of action for his or her farm. Once the USDA Farm Service Agency approved the plan, new farmers became eligible for direct, subsidized, operational loans from the FMHA for 10 years and federal loan guarantees for the next 5 years. After 15 years, these farmers became ineligible for the program. The federal government took up liability for 80 to 90 percent of these loans if they were defaulted on.

Another minor change in the law allowed banks, rather than the Farmers Home Administration (FmHA), to decide which farmers met eligibility requirements for this program. Members of Congress believed that this would get money to the farmer faster. The bill also called for special efforts to make loans more available to those who are "socially disadvantaged," including women.

—*T. Jason Soderstrum*

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See also Volume 1: Agricultural Policy; Agricultural Credit Act of 1987.

Agricultural Government-Sponsored Enterprises (GSEs)

Organizations federally chartered, but privately owned and operated, that receive direct and indirect benefits from the government to improve credit availability and enhance market competition.

Congress charters a government-sponsored enterprise, or GSE, when perceived failures in private credit markets exist. Congress established GSEs to improve credit availability and enhance financial market competition in specific sectors of the economy.

GSEs can access a direct line of credit to the U.S. Treasury to achieve their goals, and Congress structures them so that they benefit from an implicit federal taxpayer guarantee on their obligations. The first GSE, the Farm Credit System, dealt primarily with agricultural and rural sectors. It was created by the Federal Farm Loan Act of 1916 (FFLA) and acts as a network of cooperative lending institutions that operates as a direct lender to agricultural producers, agricultural cooperatives, farm-related businesses, and rural residents. Another GSE, the Federal Agricultural Mortgage Corporation, was established in 1988 and acts as a secondary market for agricultural and rural housing mortgages.

—*Jonah Katz*

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See also Volume 1: Federal Agricultural Mortgage Corporation.

Agricultural Policy

The evolution of the federal government's efforts to stabilize agricultural markets.

The federal government had always maintained policies designed to encourage the development of agriculture, but not until the 1920s did it formulate policies to specifically regulate fundamental market forces in the agricultural sector.

Intensifying urbanization at the turn of the twentieth century generated increased demand for American farm products and subsequent improvements in the standard of living for American farmers. World War I further stimulated this expanding market as European allies began to depend on American agricultural exports. However, this wartime demand could not be sustained after the Armistice, and agricultural prices fell precipitously.

As falling commodity prices began to trigger bankruptcies in rural areas, Congress searched for the means to strengthen agricultural markets. An alteration of the mandate of the War Finance Corporation provided credit for farm exports; the Capper-Volstead Act (1922) protected agricultural cooperatives from antitrust prosecution; the Fordney-McCumber Tariff (1922) protected American farmers from foreign competition. The most controversial of these efforts came with the McNary-Haugen legislation. Beginning in 1924, members of Congress attempted to legislate a price support system in an effort to restore to farmers the purchasing power they had during the prewar boom. This system would guarantee domestic prices for key agricultural products and dump any

surpluses on the international market. President Calvin Coolidge's two vetoes (in 1924 and 1928) of the McNary-Haugen legislation sparked a debate over farm policy that formed the groundwork for the New Deal's approach to agriculture in the administration of Franklin D. Roosevelt.

The farm crisis that began after World War I continued to deepen with the Great Depression. Under the New Deal, the federal government responded with the Agricultural Adjustment Act (1933). As it had done with the McNary-Haugen proposals, Congress designed the AAA to guarantee farmers a higher standard of living by enabling the federal government to set prices for key agricultural products. Unlike McNary-Haugen, the bill contained limits on agricultural production. By the end of the 1930s, the government's ability to set minimum prices for agricultural products and to limit the number of acres in production formed the core of federal agricultural policy.

This effort to create stability in prices coincided with support for modernization. Under the Rural Electrification Administration (REA), farmers in remote areas gained access to inexpensive electricity. The REA encouraged diversification by permitting extensive use of technologies, including refrigeration, irrigation pumps, and storage ventilation systems. The federal government built dams and levees to control flooding. These initiatives worked to improve the profitability of farming and raise the standard of living in rural areas.

The goals of agricultural policy set during the New Deal continued during World War II. As had been the case in World War I, demand for agricultural production increased tremendously. The federal government permitted farmers to put more land into production temporarily to meet wartime demand. However, at the end of the war, the government quickly reined in production to prevent agricultural surpluses that would have lowered commodity prices and farmers' income.

During the postwar period, efforts by the federal government to prevent overproduction became complicated due to continued improvements in farm technology. During the Eisenhower presidency, the administration initiated two major adjustments to compensate for this problem. Under the Agricultural Trade Development and Assistance Act of 1954 (PL 480), farmers could export agricultural surpluses to developing nations to alleviate food shortages. Exports under PL 480 projected American influence abroad while absorbing the surplus production of American farmers. To further limit the growing stocks of grain and cotton, the government created the Soil Bank, which permitted farmers to take land out of production for conservation purposes. The Soil Bank initiated a long-term pattern in which overproduction was curbed for reasons of ecological protection.

The construction of agricultural policy presented a conundrum in the postwar era. The ideal of the family farm permeated American culture, and the government remained committed to creating the circumstances under which family farms could provide a reasonable standard of living. However, the costs of agricultural programs remained high. As farmers made up a declining proportion of the American population, price support systems became harder to legitimize.

During the 1960s, federal agriculture policy continued to curtail surplus production and raise farm incomes, but it placed greater emphasis on guaranteeing low food prices to American consumers. The government dropped price support levels to reflect prevailing world market prices, not domestic spending patterns. This action by the government lowered food prices for American consumers and simultaneously pushed American farmers into more competition in the international market. The political effort to link low food prices and agricultural policy expanded under President Lyndon B. Johnson's Great Society, as the U.S. Department of Agriculture (USDA) supervised the food stamp and free school lunch programs.

The debate over farm subsidies intensified during the 1970s and 1980s, as American political rhetoric emphasized the importance of lowering food prices and limiting spending on farm subsidies. The Agricultural and Consumer Protection Act of 1973 reformulated the price support system. Under this new "deficiency payment" system, crop prices were compared with a USDA target price, and farmers received compensation for any shortfall. The deficiency payment system continued to form the basis for federal agricultural policy into the presidency of Bill Clinton, but it did little to curb overproduction or raise income levels for family farms. This failure was further complicated by increasing public support for balancing the federal budget by cutting spending for deficiency payments.

Dissatisfaction with the high costs resulting from federal agriculture policy led to the passage of the Federal Agricultural Improvement and Reform Act in 1996. The product of conservative rhetoric supporting "freedom to farm," the new policy—designed to eliminate federal subsidies and encourage diversification according to international market demands—returned American farmers to a free market system. The act marked the first legislative attempt to abandon the direction of marketplace regulation initiated in the 1920s.

—*Karen A. J. Miller*

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See also Volume 1: Great Depression; McNary-Haugen Bill; Rural Electrification Administration.

Agricultural Programs Adjustment Act of 1984

Legislation that froze target price increases provided for in the 1981 act; authorized paid land diversions for upland cotton, rice, and feed; and provided a wheat payment-in-kind (PIK) program for 1984.

Signed into law on April 10, 1984, this overhaul of the federal crop program sparked controversy between the administration of President Ronald Reagan and members of Congress from the farm belt. With Reagan's approval, Senator Robert Dole (R-Kansas) and budget director David A. Stockman negotiated in private sessions to lessen federal spending by freezing target prices. However, farm groups lobbied for more aid to help with the recovery from the previous year's drought. With the exception of certain wheat interests, no one felt satisfied with the bill.

The act froze target prices so that the federal government paid farmers the difference if crop market prices dropped below a certain level (for example, $4.38 per bushel for wheat) over the next two years. It also maintained 1985 target levels for corn, cotton, and rice and authorized an acreage reduction program in which wheat farmers would take 20 percent of their land out of production to qualify for farm program benefits such as loans and price supports. A wheat farmer could receive compensation if he or she retired another 10 percent of his or her land. A farmer could set aside up to 20 percent more land and receive surplus wheat certificates (PIKs) at a rate of 85 percent of the expected yield. The hope was that this would lessen the nation's wheat surplus and increase prices well above target prices.

The law also stipulated that lenders value farm assets used as collateral for emergency disaster at their value prior to the disaster. Direct loans for economic emergencies such as drought, flooding, or falling land values increased by $250 million in 1984, providing farmers with $600 million in total loans ($310 million for direct loans and $290 for guaranteed loans). The secretary of agriculture made emergency loans available to farmers in counties touched by disaster. The ceiling on Farmers Home Administration (FmHA) farm operating loans increased from $200,000 to $400,000. Finally, the act required the lowering of the interest rate for the balance of rescheduled FmHA loans and the extension of the time period for repayment from 7 to 15 years. As awareness of the 1980s farm crisis deepened, subsequent legislation changed many components of the law and destroyed President Reagan's notion of withdrawing federal support of agriculture.

—*T. Jason Soderstrum*

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See also Volume 1: Agricultural Policy.

Aid to Dependent Children (ADC)

Mid- to late-twentieth-century government program that provided financial assistance to poor families with children.

Aid to Dependent Children (ADC), later known as Aid to Families with Dependent Children (AFDC), was a provision of the Social Security Act of 1935. Although the impulse to assist poor and orphaned children dates to after the Civil War, no formal federal government program aimed at alleviating poverty existed until President Franklin D. Roosevelt's New Deal. The Social Security Act called on states to develop plans to aid the poor, with the federal government matching up to one-third of these expenditures. The states had discretion to determine income eligibility and benefits levels, but they could not place a time limit on benefits or require recipients to work.

Originally intended to enable poor widows to care for their children, the program by the 1960s came to support mostly unmarried mothers. In fewer than 10 years, from 1961 to 1970, AFDC caseloads nearly tripled. Several Supreme Court cases decided in the late 1960s and early 1970s weakened state restrictions that had blocked some from receiving benefits, resulting in a further expansion in AFDC caseloads. Lower courts built on these precedents to expand the concept that citizens were entitled to receive welfare benefits, placing the burden on government to justify eligibility restrictions.

AFDC became the primary method of providing cash assistance to the poor for more than 60 years, and the term became synonymous with welfare. Critics of AFDC claimed that the absence of work requirements and time limits on benefits established a precedent for relief that fostered a culture of dependency. These concerns prompted several attempts at reform in the 1960s and 1970s, including President Richard Nixon's Family Assistance Plan and President Jimmy Carter's Program for Better Jobs and Income, but neither proposal passed Congress.

Passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) eliminated the open-ended federal entitlement of AFDC by establishing time limits on benefits and by requiring recipients to work or participate in job training. Under the PRWORA, the federal government provided block grants to the states for the Temporary Assistance for Needy Families (TANF) program. Opponents of AFDC hailed the new measures and celebrated the precipitous decline in welfare caseloads in the late 1990s, while critics of the reforms of 1996 warned of rising poverty in poor economic times.

—*Christopher A. Preble*

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See also Volume 1: Aid to Families with Dependent Children; Volume 2: Welfare State.

Aid to Families with Dependent Children (AFDC)

Welfare program in the United States intended to provide financial assistance to low-income families.

Initially created in 1935 under Title IV of the Social Security Act as Aid to Dependent Children, the program's

principal objective focused on preventing poor families from placing their children in orphanages in exchange for direct cash payments. The program was renamed Aid to Families with Dependent Children (AFDC) in 1962, and the federal government matched state funds for the program. Although AFDC remained an entitlement of the federal government's budget, individual states determined eligibility and amount of benefits received, resulting in significant variation from state to state.

Typical recipients included single-parent families, especially unmarried mothers and their children. The basic eligibility requirement was that a family include a dependent child 18 years of age or younger, with an exception for 19-year-old high school students. The child must prove U.S. citizenship or possess a legal permanent alien status and must lack financial support from one parent. Two-parent families may receive benefits if one parent remains unemployed.

The American public perceived the ADFC program, customarily identified within the larger context of the welfare system, as flawed. It subsequently remained a target of bipartisan criticism that culminated in varied proposals to reform the system and to address the nation's poverty problem. These proposals typically sought to require the recipient to work, to assume personal responsibility, and to become self-sufficient. In 1988, Congress redefined AFDC through the Family Support Act, a comprehensive reform initiative that focused on employment rather than income support. Then, in 1996, Temporary Assistance for Needy Families (TANF), a component of the Personal Responsibility and Work Opportunity Reconciliation Act, replaced AFDC entirely. TANF differs from its predecessor on several levels. Primarily, it perceives welfare as a temporary circumstance rather than a lifelong situation, and consequently it establishes a five-year time limit for benefits. In addition, the program receives funding from federal block grants, which provide greater flexibility to the states and allow them to address their individual circumstances.

—John Marino

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See also Volume 1: Welfare Economics.

AIDS

See Acquired Immune Deficiency Syndrome.

Alaska

Forty-ninth state of the United States, known for the Trans-Alaska Pipeline.

"Seward's Folly" no longer has a place—if it ever did—in the lexicon as a nickname for Alaska, given the actual and potential reserves of Alaskan oil and gas, not to mention the abundance of coal. The oil field at Prudhoe Bay, discovered by Atlantic Richfield in 1968, has the potential productive capacity of 10 billion barrels—twice as much as the next-largest field ever found in the United States, that of East Texas in 1930. As of 2000, the oil output of Alaska equaled 20 percent of the nation's yield.

During the global oil boom between 1973 and 1985, Alaska gloried in its oil revenues—so much so, in fact, that its legislature abolished the state's income tax in 1979, when oil prices neared their peak.

At the same time came the wrangling between oil companies and environmentalists over the proposal to build a pipeline from Alaska's North Slope 789 miles to the port of Valdez. In support of this objective, a consortium of oil companies formed, known first as the Trans-Alaska Pipeline System and then as the Alyeska Pipeline Service Company. The companies in the consortium saw the proposed pipeline as the most desirable way of solving a major problem—transporting the oil from Prudhoe Bay to distant markets.

Environmental activists protested the plan. They forced the national government to implement the National Environmental Policy Act of 1969, which called for an impact statement to precede the issuance of permits. A federal district court upheld this initiative by environmentalists when it forbade the secretary of the interior to issue the necessary permits.

The legal battle continued from August 1972 through April 1973, and in April 1973 the U.S. Supreme Court upheld a court of appeals decision, which delayed further the issuance of permits. At the insistence of environmentalists, the court of appeals had applied a provision of the Mineral Leasing Act of 1920, which limited rights-of-way across public lands to widths of 50 feet. The oil companies wanted widths up to three times that distance.

Congress then intervened. After a period of protracted debate, a bill finally cleared the Senate, then the House. Signed by President Richard Nixon in November 1973 under the title Trans-Alaska Pipeline Authorization Act, it permitted construction—the result being the completion of the Trans-Alaska Pipeline by 1977, which constituted an economic boon.

For the future, Alaska looks to further development of its petroleum resources, the mining of metals, tourism, and overseas trade with Asia as bases for prosperity. After the terrorist attacks on September 11, 2001, the administration of President G. W. Bush stepped up efforts to gain support for its proposal to drill for oil and gas in the Arctic National Wildlife Reserve, but the Senate rejected the measure April 18, 2003. New initiatives have been proposed to drill on Native American lands, but their future remains uncertain.

—Keith L. Miller

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See also Volume 1: Energy; Oil.

Aldrich-Vreeland Act (1908)

Act meant to remedy perceived inadequacies of the U.S. banking structure revealed during the bank failures and panics of 1873, 1893, and 1907, which occurred because of the lack of regulatory federal legislation.

In January 1908, Senator Nelson Aldrich, Republican from Rhode Island, introduced a bill to permit the creation of emergency currency backed by state, municipal, and railroad bonds. But the currency commission of the American Bankers Association and other banking and merchant interests immediately opposed the Aldrich Bill, which many felt simply raised the value of railroad bonds and thus benefited the large eastern banks. In March, Aldrich—after meeting with George Perkins, a representative of the J. P. Morgan Company—removed railroad bonds as collateral for emergency currency. By the end of the month, the Senate had passed the bill. During the hearings in the House of Representatives, overwhelming opposition arose. Yet many wanted some type of regulation to prevent a financial panic similar to that in 1907. Congressman Edward B. Vreeland, speaking for the Republican caucus in the House, subsequently introduced a compromise bill.

Passed by Congress on May 30, 1908, the Aldrich-Vreeland Emergency Currency Act made available $500 million in emergency currency to certain national banks over the next six years by allowing them to issue circulating notes. The bill also allowed extra currency on bonds of towns, cities, counties, and states. But a graduated tax of up to 10 percent limited the issuance of currency. Moreover, the act established the National Monetary Commission, composed of nine members from the Senate and nine members from the House of Representatives, to investigate the deficiencies in the country's banking system. The commission, with Senator Aldrich as its chair, appointed experts to study the history of banking and the current condition of the industry in the United States. The commission subsequently issued a 49-volume report in 1911 that recommended the establishment of a national reserve association with branches to act as a central bank run by private bankers free of any real government control. The Aldrich-Vreeland Act preceded the Federal Reserve Act of 1913, which established a stable banking system in the United States.

—*Steven E. Siry*

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See also Volume 1: Banking System, Federal Reserve Act; Volume 2: Banking.

Alliance for Progress

Economic program designed to improve relations between the United States and its southern neighbors, thereby combating the spread of communism.

Shortly after John F. Kennedy became president in 1961, he appointed Adolph Berle to establish a commission to investigate ways to improve relations between the United States and Latin American nations. This commission recommended expansive economic and social objectives that became the center of Kennedy's Latin American policy. In August 1961, the United States and the Organization of American States (OAS) signed the Charter of Punta del Este, which formally created the Alliance for Progress. The alliance would provide technical advice and financial assistance to Latin American nations interested in upgrading their economic positions, increasing their agricultural output, and improving their systems of education and health care.

The Alliance for Progress did not realize many of its stated objectives because of Kennedy's short time in office (he was assassinated in 1963), a lack of financial resources, and growing distrust of the United States by many Latin American nations. In the final analysis, the United States spent $10 billion in an unsuccessful effort to limit the influence of communism in Latin America in the decade following the Cuban Revolution and the Bay of Pigs invasion.

—*James T. Carroll*

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See also Volume 1: Organization of American States.

American Economic Association (AEA)

Organization of professional economists established in 1885.

Founded primarily by a group of younger professors led by Richard Ely of Johns Hopkins University, the American Economic Association (AEA) challenged the economic orthodoxy of laissez-faire espoused by David Ricardo. However, to attract membership from a wide range of academics (including the organization's first president, the Massachusetts Institute of Technology's Francis Walker), the organization soon adopted a policy concentrating on the promotion of scholarly and scientific activities while studiously avoiding partisanship and official positions on policy issues. Although individual members have frequently signed petitions and called for the government to adopt or alter specific economic policies, the AEA has consistently maintained its stance of neutrality for more than a century—much more so than professional organizations in other social sciences. The association remains an open society, with no significant membership restrictions such as nationality, education, or ideology.

The AEA holds annual meetings at which economists can socialize, present their research findings, comment on the ideas of others, and search for jobs and job candidates. The organization focuses on the dissemination of research findings. The AEA's publications include the prestigious *American Economic Review,* established in 1911, which includes technical research articles; the *Journal of Economic Literature,* established in 1963, which includes book reviews and surveys of recent research; and the *Journal of Economic Perspectives,* established in 1987, which aims to put economic

research into the hands of college students and educated readers.

Since its early days, the AEA has repeatedly provided expert advice in the design and development of the census and other government statistics. During both world wars, the AEA played a notable role in organizing professional expertise for government service. Presidents of the AEA have included the profession's most noted researchers—including Nobel Prize recipients and governmental advisers.

—*Robert Whaples*

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See also Volume 2: Economic Theories.

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)

Largest labor union in the United States.

The AFL-CIO formed in 1955 when the American Federation of Labor and the Congress of Industrial Organizations merged. During the 1950s and 1960s, the AFL-CIO concentrated on increasing the wages of union members and on improving employee benefits. Collective bargaining, legal under the Wagner Act, provided labor with a powerful bargaining tool, and the prosperity of the times resulted in employers agreeing to most union demands. However, by the 1970s economic stagflation (the coexistence of high unemployment and high inflation) resulted in many workers being laid off.

One of the most difficult challenges faced by the union was that the Japanese automakers flooded the U.S. market with their smaller, more fuel-efficient cars just when the Organization of Petroleum Exporting Countries (OPEC) placed embargoes on oil shipped to western nations. For the first time, AFL-CIO officials petitioned Congress to raise tariff rates on Japanese imports. Congress did not acquiesce to an increase, because tariff officials agreed that Americans wanted smaller vehicles and the Japanese had not engaged in unfair trade practices. The AFL-CIO continued to pressure the government, fearing the loss of American jobs. The Japanese agreed to voluntary export restrictions and began building plants in the United States to address the issue of lost jobs. Since the late 1980s, the union has opposed free trade. During the negotiating process for the North American Free Trade Agreement (NAFTA), the AFL-CIO pushed for provisions that would protect American workers and the environment and expressed its disapproval when Congress ratified the agreement without such provisions.

—*Cynthia Clark Northrup*

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See also Volume 1: Wagner Act; Volume 2: Labor.

American Inventors Protection Act of 1999

Act passed to modify existing patent law.

In November 1999, Congress passed the Intellectual Property and Communication Omnibus Act of 1999. Title IV of the act contains the American Inventors Protection Act. President Bill Clinton signed the bill on November 29, 1999, and it became effective in 2000. The American Inventors Protection Act established a first-to-invent infringement defense that allows inventors who have used the invention for one year prior to the filing date of the patent to defend themselves against this purported infringement. This clause is restricted to methods of doing business, not production or methods of manufacture. The act also authorizes the publication of foreign applications after 18 months and requires filers to make application to the U.S. Patent Office if they wish to restrict publication of their application within a specific time period. If the applicant agrees to have the patent application published, penalties for infringements prior to the issuance of the patent remain restricted to a reasonable royalty. In addition, Congress approved grant extensions of patents due to delays arising from the Patent and Trademark Office. The American Inventors Protection Act reduces patent fees and restricts disclosure of sensitive military or intelligence patent information. It also allows third parties to challenge the validity of a patent but restricts the involvement of third parties—they cannot participate in, nor will they receive a full transcript of, the interview of the patentee, and they cannot file a suit in civil court after the patent board issues a ruling that upholds the validity of the patent.

—*Cynthia Clark Northrup*

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See also Volume 2: Intellectual Property.

American Revolution (1775–1783)

Event that severed the political ties between Great Britain and its 13 North American colonies, setting the stage for the development of the United States of America.

In its Navigational Acts of the latter half of the seventeenth century, England created a closed mercantile system designed to control, regulate, and tax trade with its American colonies and to ensure that New World wealth flowed back to England. This system benefited the English state and economy, but for the American colonies it created problems, as their specie (gold and silver coin used as money) flowed back to England. As the trans-Atlantic trade flourished, the British encountered difficulties enforcing the restrictions on their

distant colonies and failed to maintain a truly mercantile closed system that benefited the mother country. The American colonies quickly discovered that throughout the Atlantic trading world, trading partners other than the English were ready and willing to purchase their commodities. This illegal trade proved extremely profitable, and thus in the late seventeenth and eighteenth centuries, Americans engaged in smuggling on a regular basis. The profits provided Americans with money to consume English goods, while English merchants extended credit to Americans, thus allowing them to purchase even more products.

In 1763, the French and Indian War ended, with Britain as the victorious master of North America. A long series of wars had left the British state deeply in debt and ready to reexamine its empire for new sources of revenue. Parliament and the king's ministers decided that the colonies had not paid enough in taxes for their own support and maintenance. In 1764, Minister George Grenville and the British Parliament passed the Sugar Act as a way to curtail America's smuggling and increase Britain's revenue. This act reduced the tax on molasses, making it cheaper to purchase it legally. Parliament then passed the Currency Act, forbidding the use of paper money as legal tender. For Americans, these acts were intrusive and damaging interference in their economic growth and, when Parliament passed the Stamp Act in 1765, resistance began. The Stamp Act taxed all printed documents in the colonies, such as newspapers, legal documents, and playing cards—another example of England's increasing tyranny.

American resistance stemmed from the slogan "No taxation without representation." Americans believed that when the government created a new tax it took private property away from its citizens. Government could only do this with the permission of the people. Because the colonies held no seats in Britain's Parliament, they lacked representation and therefore could not be taxed. Parliament responded with the argument that all colonies received "virtual representation," as each member of Parliament represented all of the British Empire. Americans resisted the Stamp Act and argued against Britain's tyranny by effectively employing the strategy of nonimportation, refusing to purchase any new British commodities or to pay their debts to British creditors. The Marquis of Rockingham repealed the Stamp Act for this reason.

During the Stamp Act crisis, Americans argued that there was a difference between a tax for revenue and a tax for the regulation of trade—Parliament, the Americans said, lacked the authority to pass the former but not the latter. The Townshend Acts (1767) were Parliament's attempt to establish an external regulatory tax against the colonies, but the Americans responded by implementing a boycott of British goods, as they had done during the previous attempt to implement an external tax. The Townshend Duties hurt British manufacturers and Britain's internal economy.

The Americans continued to combine their political and economic arguments against Britain's tyranny in the years leading up to the American Revolution. Colonists realized that to improve economically they needed a voice in the political process. The events that led to the Declaration of Independence and the war allowed American patriots to reject an imperial motherland thousands of miles away in favor of developing a political and economic ideology that better suited their needs. Americans fought against Britain to gain control over their own destiny, realizing that political sovereignty would eventually provide economic prosperity.

During the American Revolution, Americans struggled with a limited supply of specie (gold and silver). At the same time, many long-established trade relations between England and the colonists were disrupted, creating a trade deficit. Americans attempted to negotiate favorable trade relations with France and Spain, but the lack of economic and political strength forced the struggling U.S. government to accept terms that were less than favorable.

—*Ty M. Reese*

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See also Volume 1: Colonial Administration; Mercantilism; Navigation Acts; Non-Importation Act; Smuggling; Stamp Act; Stamp Act Congress; Sugar Act of 1764; Volume 2: Taxation.

American Stock Exchange (AMEX)

Second-oldest stock exchange in the United States.

The American Stock Exchange (AMEX) originally began as an outdoor trading center for government securities and for other companies in the mid-1850s. Known initially as "the Curb" because all transaction occurred outside, by 1908 it organized formally under the name of the New York Curb Agency after federal legislation tightened control over trading activities. In 1921, the exchange moved indoors to its present location at 86 Trinity Place in New York City. The New York Curb Agency traded commodities, monetary instruments, and the stocks of smaller companies not traded on the New York Stock Exchange. In 1953 the name changed again, this time to the American Stock Exchange. By the 1960s, the exchange had introduced state-of-the-art computer technology that by the 1970s included display screens with data about the equities market. Always aware of the need to remain on the cutting edge, the American Stock Exchange entered into an agreement in 2000 that allows investors to trade in AMEX stocks through the Singapore Exchange. The exchange continues to move toward the decimalization of price quotes from eighths to tenths of a point, a system commonly used in the United States. The major index of the American Stock Exchange is the American Composite. The exchange currently lists more than 800 companies.

—*Cynthia Clark Northrup*

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See also Volume 1: Nasdaq; New York Stock Exchange.

American System

Term used by Henry Clay, representative from Kentucky, in a speech before the House of Representatives on March 31, 1824, in favor of a protective tariff and a federal program designed to stimulate the nation's economic growth and reduce economic dependency on Europe.

During the "Era of Good Feelings" from 1816 to 1824, businesspeople in the North implemented the factory system, which was characterized by water-powered machinery and interchangeable parts. Factory owners wanted protection against European-made goods. At the same time, a transportation revolution occurred, with the extensive use of steamboats on major inland waterways and the state-supported construction of canals to link these waterways with coastal rivers that emptied into the Atlantic Ocean. The admission of six new western states also motivated public support for economic nationalism and the use of federal power to stimulate the expanding frontier.

Clay's speech on the 1824 protective tariff bill helped to ensure its passage in the House of Representatives by the narrow vote of 107 to 102. A conservative Senate modified the bill, but the average rate ended up at 37 percent—although some items, like imported wool, were as low as 30 percent. Clay believed that a protective tariff would greatly assist the growth of American industries and also provide a domestic market for farm produce. Because the protective tariff would generate surplus revenue for the federal treasury, Congress could use the funds to extend the National Road and construct turnpikes and canals to link northern factories to distant western markets.

Earlier, in 1816, to further promote economic nationalism, Clay had joined John C. Calhoun of South Carolina to recharter a Second Bank of the United States. Stepping down from the Speaker's chair, Clay told his colleagues that although he had opposed the rechartering of the First Bank of the United States in 1811, he believed Congress possessed the "constructive power" to incorporate such an institution. The House passed the bank bill by 80 to 71, and President James Madison signed it into law on April 10, 1816.

Clay's American System of protective tariffs, federal internal improvements, and a national bank aroused increasing opposition after the panic of 1819—a depression exceeded in severity only by the Great Depression of the 1930s—among planters, farmers, and land speculators, all of whom feared the consolidating power of the national government. They embraced an agrarian philosophy that feared the federal government growing stronger and aligning itself with manufacturing and financial interests against the interests of the farmer. Beginning in 1824, a political realignment began over the American System that led to the creation of two new political parties out of the old Jeffersonian-Republican consensus of the "Era of Good Feelings." One group, led by Clay, John Quincy Adams, and Daniel Webster, eventually called themselves Whigs; they believed in the American System and its economic nationalism. The Democrats, led by Andrew Jackson, Martin Van Buren, and John Calhoun, championed agrarian interests and states' rights against federal consolidation. In the 1832 presidential election Henry Clay, the Whig candidate, ran against incumbent Andrew Jackson on the strength of the American System, with a special focus on Jackson's veto of the rechartering of the Second Bank of the United States. But Clay carried only six states: Massachusetts, Rhode Island, Connecticut, Maryland, Delaware, and Kentucky. A third-party candidate, William Wirt of the Antimasonic Party, won Vermont. Jackson carried all the rest. The American System, as a viable political program, never recovered from the defeat.

—Robert P. Sutton

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See also Volume 1: Clay, Henry; Jackson, Andrew; Panic of 1819.

AMEX

See American Stock Exchange.

Antidumping

Preventing the placing of goods on the market in large quantities at a price below normal cost to eliminate competition.

Dumping of goods into the United States by foreign manufacturers dates back to the early 1800s. After the Napoleonic Wars, both the British and the French dumped products on the U.S. market, and Congress responded by passing protectionist tariffs. The practice continued sporadically throughout the remainder of the nineteenth century, although not on a large scale. After World War I, American manufacturers and legislators once again feared an increase in dumping. Congress responded by passing the Fordney-McCumber Tariff, which returned the protectionist rates to their prewar level and provided for remedies against unfair foreign competition. The U.S. Antidumping Act of 1921 remained in effect until the adoption in 1967 of the international dumping code during the Kennedy Round of the General Agreement on Tariffs and Trade (GATT). This provision was included in GATT to ensure the acceptance by the signatories of the negotiations and to prevent foreign countries from using antidumping laws as tariff barriers against American manufacturers. In 1979 Congress authorized the secretary of the treasury to use broad discretionary powers to investigate antidumping claims and determine fair value and injury. Traditionally, antidumping laws have dealt with goods; changes in trade during the twentieth century forced Congress to address the social dumping of large labor-intensive surpluses produced overseas—by Japan during the first part of the twentieth century and, more recently, by China.

—Cynthia Clark Northrup

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See also Volume 1: General Agreement on Tariffs and Trade; Protective Tariffs; World War I.

Anti-Imperialist League

Organization composed mainly of old-fashioned liberal New England politicians, publicists, and intellectuals, who challenged America's overseas territorial expansion at the close of the nineteenth century.

Members founded the Anti-Imperialist League at a meeting in Faneuil Hall in Boston on June 15, 1898, in direct response to U.S. expansion in the Caribbean and Pacific at the dawn of the new century. At the conclusion of the Spanish-American War of 1898, the government secured possession of Puerto Rico, Hawaii, and the Philippines. Many Americans feared that the nation's industrial growth would lead to an imperialist course of action in foreign affairs.

The center of the movement remained located in Boston, although local branches existed in Chicago, which became national headquarters briefly before the movement relocated back to Boston, St. Louis, San Francisco, and other cities. League leaders stoutly defended the Declaration of Independence and believed that all government derived its power from the consent of the governed. Gamaliel Bradford, Moorfield Storey, Edward Atkinson, Erving Winslow, and William A. Croffut led the battle against overseas territorial expansion. Political allies such as George S. Boutwell, Senator George F. Hoar, Representative Samuel W. McCall, and William Jennings Bryan combined forces with other prominent figures including David Starr Jordan, Samuel Gompers, William James, Andrew Carnegie, Carl Schurz, William Graham Sumner, and General Nelson A. Miles to argue that imperialism remained detrimental to the free-trade basis of competitive capitalism and diverted attention from the urgent need for domestic reform.

Writers William Vaughn Moody and Mark Twain lent their pens to the cause. Twain's powerful essay "To the Person Sitting in the Darkness" remains one of the most persuasive pieces of anti-imperialist literature published in support of the league's objectives.

Specifically, the league sought to discourage the McKinley administration from seizing the Philippines. Senate ratification of the Treaty of Peace Between the United States and Spain (known as the Paris Peace Treaty) on February 6, 1899, however—followed two days later by the eruption of the Filipino-American War—transformed the league into a national movement with a mass constituency. The league worked with other anti-imperialist elements, and its membership expanded to more than 30,000 members. By October 1898, its campaign had reached close to 30 states. Finding receptive audiences, anti-imperialists distributed literature and placed speakers around the country as they pursued two simple goals: an immediate suspension of hostilities in the Philippines and a congressional pledge of Philippine independence.

The league's periodical, the *Anti-Imperialist,* and pamphlets like Atkinson's *The Cost of a National Crime* and *The Hell of War and Its Penalties* provided ample illustrations of the "repulsive and ghastly slaughter in the guerilla warfare in the Philippines." But the league's most original and compelling arguments focused on economic issues. Atkinson, a retired textile manufacturer, refuted the arguments of businesspeople who maintained that America's industrial economy would profit from the nation's outward thrust. He pointed out that American sugar and hemp growers would face competition from Philippine producers and that American laborers would experience competition as well. New England jurist Storey boldly declared his opposition to the use of foreign capital to develop the Philippines since it would impose foreign influence on the islands. General Miles weighed in by observing that Wall Street would benefit the most from U.S. control of the Philippines.

Despite leveling a multitude of compelling economic arguments, the league's movement had several contradictory elements. Southern anti-imperialists observed that American boys had not enlisted "to fight niggers" (referring to nonwhite Filipinos), while in Chicago the Black Man's Burden Association objected strenuously to the Filipino-American War's Anglo-Saxon racist overtones. Many in the movement had supported the Spanish-American War and failed to object to the colonial annexation of nearby Puerto Rico. Others opposed to colonial annexation rested their beliefs not so much on the principle of self-determination but rather in the conviction that economic imperialism would proceed more safely and smoothly if it was not burdened by the tasks of colonial administration. Whatever the position, the anti-imperialist effort rested more on abstract political and ideological principles than on strictly economic, religious, constitutional, or humanitarian considerations.

Marked by contradictory positions, the Anti-Imperialist League and its accompanying movement quickly dissolved, even with the revelation of atrocities committed in the Philippines by American troops. During the winter of 1899–1900, anti-imperialist efforts slipped from a campaign of mass mobilization into the utter confusion of electoral politics. Unable to halt war through popular agitation, the leaders of the league toyed with the prospect of mounting a third-party effort for the 1900 presidential election.

Surprisingly, most decided to support the candidacy of William Jennings Bryan, the Democratic leader who, though grudgingly, supported Senate ratification of the Paris treaty, which granted the United States control over the Philippines. This fact, combined with the rejection of Bryan's candidacy by noted industrialist Andrew Carnegie (who thought Bryan a demagogue) and the success of American military forces in grinding down the "insurrection," resulted in a McKinley victory even more decisive than in the election of 1896.

Between 250,000 and 600,000 Filipinos died as a result of the war, compared with 7,000 American troops. Early in February 1902, U.S. troops captured Filipino leader Emilio Aquinaldo. Within a few months Theodore Roosevelt, who

had become president upon McKinley's assassination the previous year, declared the war over. Congress immediately declared that the Philippines were to be constituted an unorganized territory of the United States. The Anti-Imperialist League's influence proved ineffective in subsequent matters involving foreign policy.

—*Charles F. Howlett*

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See also Volume 1: Philippines; Roosevelt, Theodore; Spanish-American War.

Anti-Inflation Act of 1942

See Emergency Price Control Act, 1942.

Antitrust Suits

Lawsuits arising when competitors engage in prohibited practices like fixing prices, rigging bids, or allocating customers, which causes prices to rise to artificially high levels or reduces competition.

Antitrust laws prohibit practices restraining trade, reducing competition, and promoting or maintaining monopoly power in virtually all industries. The Sherman Anti-Trust Act, the Clayton Anti-Trust Act, and the Federal Trade Commission Act enable the Department of Justice to enforce federal antitrust laws through criminal and civil actions. The Federal Trade Commission (FTC) and private citizens may also sue civilly. Similar laws ratified as early as 1880 in some states are enforced through the offices of state attorneys general. The 1890 Sherman Act outlaws all contracts, combinations, and conspiracies that unreasonably restrain interstate and foreign trade. Violations are usually punished as criminal felonies. The 1914 Clayton Act prohibits mergers or acquisitions likely to lesson competition. The Federal Trade Commission Act, implemented in 1914, empowers the president or Congress to investigate and report facts regarding alleged antitrust violations by any corporation.

Antitrust acts embodied popular political viewpoints in the late nineteenth and early twentieth centuries. Presidents Benjamin Harrison, Theodore Roosevelt, William Taft, and Woodrow Wilson advocated government oversight of large corporations and trust busting. In 1912 Supreme Court Justice Louis Brandeis argued that industrial giants were potentially dangerous forces capable of controlling politicians and undermining consumer interests.

Greater resources bolstered the Justice Department's antitrust enforcement in the 1930s. Under Chief Thurman Arnold, a Roosevelt appointee, the division's budget quadrupled within three years. Cartels and monopolies were investigated, and a landmark 1945 case against Alcoa found that the company unlawfully wielded monopoly power over the aluminum industry. In the 1950s and 1960s, the Warren Supreme Court interpreted the Celler-Kefauver Act of 1950 as establishing a presumption of illegality for mergers in concentrated industries between competitors with a combined market share as low as 30 percent. Some mergers with combined market shares below 10 percent were condemned. Historian Richard Hofstadter noted in the mid-1960s that businesspeople are always cognizant of antitrust laws.

The Johnson, Nixon, Ford, and Carter administrations proceeded with vigorous antitrust enforcement. Seed money for state investigations provided by the Ford administration in the mid-1970s established a formidable army of populist state attorneys general under the umbrella of the National Association of Attorneys General (NAAG). They challenged mergers approved by federal agencies and launched *parens patraie* (the state acting as "the father of the country") suits against manufacturers guilty of vertical price maintenance. The conservative, antipopulist "Chicago School" of antitrust theory also surfaced in the 1970s. Robert Bork's 1978 book, *The Antitrust Paradox: A Policy at War with Itself,* recommended that the sole objective of antitrust law should be maximization of "consumer welfare." The Chicago School viewed attempts to curtail industrial consolidation as undermining economic efficiency.

The Reagan administration consistently appointed Chicago School scholars to federal courts, and Justice Department Antitrust Division Chief William Baxter disposed of a massive case against IBM and announced the settlement of the historic AT&T breakup. He also called for "merger guidelines" designed to determine whether prices were unilaterally or collectively raised above competitive levels. Beginning in the early 1990s, antitrust policy shifted toward moderate domestic pursuits and aggressive international protections. Federal and state interaction was encouraged, and United States officials asserted the right to employ federal antitrust laws against anticompetitive foreign conduct, which critics labeled antitrust imperialism. In 1991 the Antitrust Division of the Justice Department, the FTC, and the European Union's competition authority jointly announced the execution of an Antitrust Enforcement Cooperation Agreement.

Clinton administration appointees advocated the "post-Chicago School"—a movement championing consumer welfare standards to preserve competition rather than unfettered freedom for producers. In the late 1990s the Antitrust Division pursued Microsoft Corporation with the help of

state attorneys general, signaling the most significant government legal challenge in more than 20 years.

Issues of intellectual property complicate modern antitrust designations. Although past antitrust attention focused on exorbitant prices and the reduction of competition, scholars in the twenty-first century are investigating whether high-technology mergers result in less innovation. In the early nineteenth century, Standard Oil Company violated antitrust rules by controlling petroleum transportation, refining, and distribution. Conversely, software maker Microsoft protects the source code to its computer operating system and all adjoining application interfaces, leading to claims of predatory abuses. Determining how to assess the consequences of this power and the implications for competitive firms will decide which companies struggle or survive in emerging markets that dominate the domestic and world economies.

—*R. Jake Sudderth*

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Antiunion Policies

Position taken by the federal government toward labor unions during the nineteenth century.

After the Civil War the start of the industrial revolution in the United States led to dramatic changes in labor. Traditionally, Americans owned small proprietorships or worked as apprentices for a skilled master. With the introduction of automated machinery and the specialization of tasks, workers found their economic position declining. Employers hired unskilled laborers for many of the positions and increasingly demanded longer and longer hours at a lower wage from their workers. Consequently, various occupations formed societies similar to the guilds of Europe. At first these organizations focused on a particular skilled craft, but eventually unions accepted unskilled workers to their ranks as well.

The rise of labor unions led to an increase in demands on the part of the workers for shorter hours, better pay, and safer working conditions. Employers realized that any concessions to labor would ultimately reduce profits, so negotiations usually proved futile to the labor unions. By the 1880s labor strikes began to occur with some frequency, often resulting in violence and bloodshed. The first of the big strikes occurred in 1892 at Andrew Carnegie's Homestead Steel Plant, where workers staged a sit-in until management agreed to their demands. The manager of the plant called in Pinkerton detectives to remove the strikers, and violence erupted. When the management asked the federal government for assistance, the president authorized the use of the National Guard. From this first involvement through the end of the nineteenth century, the federal government continued this policy of assisting business owners against the workers.

The Supreme Court maintained a similar policy. As reformers within the government fought for increased restrictions on the monopolistic practices of big business, Congress debated and passed the Sherman Anti-Trust Act, which outlawed such monopolies. On several occasions the Supreme Court heard cases involving alleged monopolistic practices, the most famous being *United States v. E. C. Knight & Co.* In this case, the high Court ruled that the company had not violated the Sherman Anti-Trust Act since it only controlled 98 percent of the sugar market—that left 2 percent for the competition. Yet when the American Railways Union went on strike against the Pullman Palace Car Company in 1894, the Court ruled that the union had violated the act and held the union president, Eugene V. Debs, responsible. The majority opinion declared that because the union had joined with other unions to shut down the entire railroad, it had in essence created a monopoly.

As the era of big business passed and legislative reformers successfully reduced the high tariffs that had protected these businesses, labor unions earned more respect from the government. By the time of the Great Depression, Congress had passed measures such as Section 7a of the National Industrial Recovery Act, allowing unions to picket, strike, and engage in collective bargaining. The Supreme Court declared the entire act unconstitutional, but Congress replaced Section 7a with the Wagner Act, thus ensuring continued protection of union activities. Although the federal government restricted some of the power of the unions in the immediate post–World War II period, no efforts have occurred to deny unions protection under federal law.

—*Cynthia Clark Northrup*

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See also Volume 1: National Industrial Recovery Act; New Deal; Pullman Strike; Sherman Anti-Trust Act; *United States v. E. C. Knight & Co.;* Wagner Act.

Arab Oil Embargo (1973–1974)

An embargo—a stoppage of oil shipments from OPEC countries to the West—that created a severe energy crisis among the western industrialized nations.

Arab displeasure with the pro-Israeli policy of the United States and some European countries during the October 1973 Yom Kippur war in the Middle East occasioned the imposition of an oil embargo by the Organization of Petroleum Exporting Countries (OPEC) on October 18, 1973. This embargo remained in effect until March 18, 1974.

The ramifications, especially for the United States, soon became evident. The most visible sign in the United States was long lines at service stations, many of which, if not all, began to close on Sundays as their supplies of gasoline dwindled.

Another major consequence of the embargo involved the phenomenal increase in the per-barrel price of crude oil worldwide. That inflation, while important during the five months of the actual embargo, continued to affect prices until the end of 1985, when the per-barrel cost of oil finally began to moderate. Oil prices reached their peak levels in 1980 and 1981, when they ranged between $35 and $40 per barrel—the latter figure prevailing during the Iranian Revolution of 1981.

With this global oil boom triggered by the Arab oil embargo, oil companies, particularly in the United States, garnered tremendous earnings. American companies showed record profits in 1973, up on average 48 percent from 1972. Profits continued to rise, too. In the first six months of 1974 they jumped 82 percent over their level a year earlier.

The American public, including most of its congressional representatives, raised a groundswell of opposition. Congress implemented two pieces of legislation of paramount importance. The first came in 1975, when Congress disallowed the 27 percent depletion allowance for the major oil companies, retaining it only for small producers. This allowance, dating from 1926, had permitted American oil companies to reduce their taxable income by as much as 27 percent per company. The second action took place during the administration of President Jimmy Carter. In 1980 Congress, responding to recurring energy shortages, rising energy costs, and the reports of record profits by major American oil companies, imposed the Windfall Profits Tax. The act included the largest tax ever imposed on a single industry and was expected to increase federal revenues by at least $227 billion during the 1980s.

Congress also created the Strategic Petroleum Reserve (SPR) in 1976. The SPR provided for the storage of crude in underground reservoirs to be held in reserve and used only in the event of a future crisis in oil supplies. The SPR attained its maximum storage in 1994 of 592 million barrels.

—Keith L. Miller

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See also Volume 1: Energy.

Articles of Confederation (1776–1789)

Document that established the interim government in power from the American Revolution in 1777 until the ratification of the U.S. Constitution in 1789.

The Confederation operated as a loose arrangement, rather than a federal system. It was a central government that could ask for funds, supplies, and troops but had no method to compel the states to comply. The executive under the Confederation, an elected leader of the Congress who held a one-year term, remained extraordinarily weak. Amendments to the Confederation required a unanimous vote of the participants, making it difficult to add measures like federal courts, trade regulations, or uniform taxes. This system, given time, might have matured into one resembling the British parliamentary cabinet, with increasingly powerful departments.

Financial pressures doomed the Confederation. With the central government unable to dictate trade policy, the colonies engaged separately with foreign powers, much to their detriment. Meanwhile, the colonies issued separate money, competed for resources, and laid different tariffs on incoming foreign goods. The shortage of cash and lack of infrastructure hindered growing industry, while foreclosures on mortgages outraged many war veterans, and debtors demanded increased circulation of paper money. Shays' Rebellion, an uprising in Massachusetts against poll and land taxes and protesting that citizens were unable to pay for goods using commodities like corn and whiskey, illustrated the flaws of the Confederation and sparked calls for a stronger central government.

The revolutionary spirit that had prompted the Confederation and that feared the tyranny of a strong central authority faded when merchants, bankers, and crafts workers demanded a steady money supply, central planning, and use of resources to encourage American manufacturing and business. Additionally, some of the revolution's leaders, for example, John Adams, George Washington, and James Madison, disapproved of the regionalism and ruthless competition among the new states, reevaluating their assumptions that the new nation would be governed best by being governed least. Against the wishes of the Anti-Federalists, many of them farmers, the Articles of Confederation were eventually relegated to retirement in favor of the new U.S. Constitution. Interim steps toward a federal government included the 1786 Annapolis Convention, arranged by George Washington to decide the navigation rights to the Potomac River and Chesapeake Bay, and the Constitutional Convention of 1787.

Despite its weaknesses, the Confederation calmed Americans' fears of tyranny, provided a government through

the Revolutionary War, negotiated the Treaty of 1783, and prevented the seizure of the infant state by any clique of politicians. Although economically disadvantageous, the Confederation survived the fires of the revolution and 12 years of execution before being replaced by a stronger, centralized system.

—Margaret Sankey

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See also Volume 1: American Revolution; Constitution.

ATO

See Advanced Technology Office.

Automobile

A typically four-wheeled automotive vehicle designed for transportation invented in the late nineteenth century and destined to have a profound influence on the American economy.

The modern automobile first appeared on the market in the 1880s, although it is impossible to credit a single inventor with its creation. Key inventors included Germans Gottlieb Daimler, who produced the first modern gas engine and mounted it on a carriage in 1886, and Karl Benz, who patented a gas-powered vehicle that same year and integrated it into a three-, then four-wheel, chassis. Though Panhard and Levassor became the world's first automobile company, the Benz Company became the world's largest producer of automobiles by 1900. Charles and Frank Duryea started making automobiles in the United States as early as 1888, but the U.S. automobile industry did not really start until the turn of the twentieth century. In 1899, Ransom Olds moved to Detroit and started the Olds Motor Works, and in 1901 he began to manufacture a standard, relatively affordable, automobile. In 1903, Henry Ford formed his own company, and in 1908 he revolutionized the American automobile industry with his Model T. Ford designed the Model T for the average American, seeking to sell the car to farmers and small business people. This design became even more affordable when Ford moved production to a new assembly-line factory in Highland Park, Michigan. With this new system of production, which he coined "mass production," the Model T became increasingly affordable, even to the factory workers who produced the cars. By 1922 it cost just $225. Nearly as important as the Model T's mass-producible design was the network of local dealers and consumer loan opportunities Ford created. Ford brought production of the Model T to an end in 1927 after 15 million Model Ts had rolled off the assembly line. Ford and the Model T inspired a host of competitors, including General Motors (1908).

By 1925 a majority of Americans owned cars. The proliferation of the automobile in the United States led to fundamental cultural, social, and economic changes. Because the car made cities accessible from greater distances, suburbs dependent on automobile traffic began to develop in the 1920s; they had another explosive growth period after World War II. The car spawned a host of leisure and lifestyle institutions, from the self-service grocery store (1916) to the shopping mall (1923) to the drive-in movie (1933). Car travel became a vacation activity, and in 1926 the first motel opened in San Luis Obispo, California.

With the flood of cars came the need for new infrastructure and regulation. The Federal Road Act of 1916 began the federal government's effort to transform muddy roads into a network of interconnected paved highways. In the 1954 Federal-Aid Highway Act, President Dwight D. Eisenhower authorized $175 million in federal funds on a 60–40 matching basis to states for the construction of the interstate highway system.

Cars themselves became the target of increased safety engineering in the 1950s and 1960s with the introduction of technologies borrowed from race cars, such as seat belts, disc brakes, the collapsible steering column, and head rests. Following the lead of California, the first state to pass emission controls, Congress passed the 1970 Clean Air Act banning leaded gasoline and requiring catalytic converters to reduce the toxic emissions of automobiles. Taking advantage of this legislation and the oil crises of the 1970s, smaller, more fuel-efficient Japanese cars challenged Detroit, and by 1980 they had captured nearly 30 percent of the American market.

American manufacturers regained a portion of their former market share in the 1980s as consumers demanded larger, more powerful cars. Through mergers and partnerships with German and Japanese automakers, American manufacturers introduced cars designed with German influence and produced using Japanese quality control techniques. In addition, globalization has redistributed the American automobile industry to new regions such as Toyota's Kentucky plant, BMW's South Carolina operations, and Daimler-Chrysler's Alabama factory. American manufacturers also moved some production to Mexico and Canada. A major trade policy issue arose in the 1990s with U.S. interests pushing for access to protected Asian markets.

—Ann Johnson

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See also Volume 1: Federal Highway Act of 1956; North American Free Trade Agreement.

Aviation

An industry focused on the manufacture, design, development, and operation of aircraft that had its birth in the early years of the twentieth century.

From 1917 to 2002, the American aviation industry consisted of a relatively small number of firms that enjoyed a high degree of government patronage. These industries benefited from a de facto industrial policy: The U.S. government has, subsidized plant construction, funded research and development (R&D), provided guaranteed markets, protected weak firms, promoted the industry's global competitiveness, and collaborated with it on strategic planning.

Before 1914, aircraft were essentially produced by hand. The outbreak of World War I precipitated the creation of an aviation industry, which produced some 14,000 aircraft and 20,000 engines from 1917 to 1919 (compared with 411 aircraft in 1916). Government procurement imploded in 1919 with the end of the war, and commercial aviation was as yet economically unavailable. Thus, government contracts to deliver mail by air and to produce military aircraft provided an essential subsidy, constituting 60 to 90 percent of the aviation industry's total sales between the world wars. This patronage permitted nine airframe and two engine manufacturers to dominate the industry, but it encouraged tremendous innovation in the production of long-range, all-metal monoplanes with excellent engines and instruments.

During World War II, American production rose from 2,141 aircraft in 1939 to 96,318 in 1944. The U.S. wartime total of 300,000 aircraft far exceeded that for the other Allies and for the Allies' opponents. The aviation industry hired more than 2 million workers (12 percent of the workforce), including many women and blacks, and built massive production facilities, particularly in the South and West. Infrastructure and skilled labor that developed during the war placed American aviation in a commanding postwar position, and companies that produced bombers soon retooled to build passenger transports.

After the war, military aviation sales contracted dramatically, and the workforce shrank to 10 percent of wartime levels. However, the onset of the cold war and expanding commercial markets partly offset these difficulties. Demand for civil aviation doubled in the 1950s and increased again when jet transports entered service in 1958. America produced 87 percent of all jet airliners from 1958 to 1985. Nevertheless, most aerospace firms depended on military contracts for 50 to 90 percent of their business during the cold war. These contracts centered on the production of supersonic fighters, long-range jet bombers, and ballistic missiles. Aerospace companies absorbed 20 to 30 percent of all government R&D expenditures until 1965, and the aerospace industry became the nation's largest employer. Aerospace also drove a major expansion of the related computer, communications, and electronics industries, giving rise to the integrated circuit chip, among other products.

The 1990s brought new challenges to the aerospace industry, as military budgets fell after the cold war. Major corporations were forced to merge (e.g., Northrop and Grumman, Lockheed and Martin Marietta) and the workforce declined 40 percent (to 790,000) between 1990 and 2001. Aerospace corporations often "teamed" with ostensible competitors and collaborated with foreign companies to penetrate foreign markets. The industry sought to shift emphasis to commercial production (government contracts accounted for 40 percent of total revenue in 2001, down from 60 percent in 1990), and exports proved particularly important (commercial exports accounted for about 27 percent of aerospace revenue in 2001). This strategy may prove difficult to sustain in the face of increasing competition from heavily subsidized European and Japanese manufacturers.

—James D. Perry

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B

Baby Boom

Explosive population increase that occurred between 1946 and 1964.

After World War II, the United States experienced an abnormal number of births per year. In 1940, records indicate that about 2.6 million Americans were born. As servicemen and servicewomen returned home after World War II, married, and had more children, traditional living arrangements changed. Previously, young married couples had lived with their parents, but the availability of affordable housing in the suburbs created a demographic shift. By 1946, the number of births had increased to 3.4 million, and it peaked in 1957 with 4.3 million births. In 1964 the number of children born remained high (4 million); the following year, the figure dropped to 3.7 million, signaling the end of the baby boom generation.

This population expansion produced numerous economic consequences. As the baby boom generation entered the workplace, their wages generated more wealth in the United States, and the deduction of their Social Security tax ensured the continuation of the program for elderly Americans. In 1964, the baby boomers made up 40 percent of the population. Such a large concentration of young people altered American culture and society in ways ranging from rock and roll music to increased use of the automobile. Because there were more consumers and more disposable income, marketing techniques also changed to create a need for more consumer goods, which in turn fueled the economy.

Between 1940 and 1994, 202 million Americans were born, about 28 percent of the population as of the year 2002. Another major economic impact of this generation will most likely be felt as these workers retire. Because Congress has continuously (since the 1960s) borrowed money from the Social Security fund, payout of future benefits will place an added burden on the federal budget over the next several decades. Consequently, younger Americans will be forced to pay higher taxes, which will reduce their disposable income and reduce consumer spending.

—Cynthia Clark Northrup

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See also Volume 1: Levittown; World War II.

Bacon, Nathaniel (1647–1676)

Colonist responsible for the outbreak of Bacon's rebellion in the Virginia Colony in the 1670s.

Born January 2, 1647, in Suffolk, England, to wealthy parents, Nathaniel Bacon graduated from Cambridge University. His family, staunch supporters of Oliver Cromwell and the Puritans, who gained control in England after the beheading of Charles I during the Great Civil War, fell out of favor, and Bacon himself had already earned the reputation of being a hot-tempered, landless young man with little future. Unwelcome in England, Bacon was sent to the Virginia Colony to make his fortune. He arrived well-connected in 1674—his cousin was the wife of the governor, William Berkeley. Bacon soon had a seat on the governor's council and a generous land grant. But he gravitated toward the rivals of the long-serving, royalist Berkeley, especially those newly arrived in the colonies or recently freed from indenture. Many of these people became squatters on the Western frontier, and they clashed with Berkeley over his policy of fur trade with the Native Americans, a policy that limited new settlement on Indian lands.

Following a series of squabbles between settlers and Indians in 1676, in which his overseer died, Bacon assumed command of a large force of vigilantes who pushed for all-out war on the local Native American population after the government refused to retaliate against an Indian attack. When Berkeley refused to grant Bacon official command and declared him a rebel against the colonial government, Bacon attacked Jamestown and burned it, forcing Berkeley to flee to safety and summon help from England. Meanwhile, Bacon and his men ruthlessly pursued all of the natives they could find to fight, pushing the Pamunkey into the Great Dismal Swamp, where Bacon caught a terrible swamp fever and died

on October 26, 1676. Without Bacon, the movement fell apart, and Berkeley executed many of its leaders. Although Bacon's rebellion failed, it opened new lands on the frontier belonging to the defeated Indian tribes, and it opened the corridors of power in Virginia to newer arrivals because the Crown removed Governor Berkeley from office after the rebellion.

—Margaret Sankey

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See also Volume 1: Bacon's Rebellion.

Bacon's Rebellion (1676)

Uprising in the Virginia Colony over the government's refusal to retaliate against an Indian attack—the rebellion ultimately opened up Western lands for the settlers.

By the 1670s, Virginia society suffered under the strain of new immigration from England, which pushed the frontiers of the colony into land belonging to the Powhatan Confederation and other Native American neighbors. The former indentured servants and new arrivals had little patience with the policies of long-serving royalist governor William Berkeley, who advocated a policy of trade with the tribes, particularly in fur, from which he and his political allies profited. Under the leadership of a young, Cambridge-educated émigré, Nathaniel Bacon, whose plantation overseer had died in a raid by the Doeg tribe (a raid stemming from a series of misunderstandings and attacks by settlers), many discontented Virginia settlers wanted to wage war against the Indians and seize their land.

Berkeley refused, citing cost and the disruption of relations with the natives. Bacon responded by marching his vigilante army on the capitol at Jamestown, capturing it, and driving the governor from his residence into the safety of a sheltered plantation, where he waited for help from England. Meanwhile, Bacon burned Jamestown and led his men on an all-out attack on the Pamunkey Indians, who had nothing to do with the attacks that had provoked Bacon in the first place. The rebels chased the Pamunkey into the Great Dismal Swamp, where Bacon and many of his men caught swamp fever, of which Bacon died shortly thereafter. Berkeley restored order with the help of troops from England and hung 23 of the rebels before being retired by Charles II. Bacon's rebellion failed, but it opened Virginia politics and land to new arrivals and the recently freed indentured servants, who took much of the land conquered by Bacon from surrounding tribes.

Paranoia like that of Bacon's toward the natives also broke out in 1692 in Salem, Massachusetts, manifesting itself in the Salem witch trials, which targeted recently emigrated settlers who were considered outsiders by the Puritan colonists.

—Margaret Sankey

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See also Volume 1: Bacon, Nathaniel.

Bakke v. Board of Regents of California (June 28, 1978)

Controversial 5 to 4 decision handed down June 28, 1978, in which the Supreme Court declared unconstitutional rigid racial quotas, or "set-asides," for admission to a university medical school.

Seeking greater racial diversity, in 1978 the University of California Medical School at Davis set aside 16 of the 100 freshman slots (out of 2,664 applicants) for African American, Asian, Native American, and Latino applicants, and the school established lower academic requirements for these individuals than for the 84 regular-admission candidates. Alan Bakke, a white male, had twice applied to the medical school, and both times the admissions board rejected his application. He then discovered that he had higher scores on the medical school examination than those who had been admitted under the set-aside quotas. He filed a lawsuit that went to the California Superior Court, arguing that the set-aside program violated his rights under Title VI of the 1964 Civil Rights Act, which forbids racial or ethnic quotas in any state program receiving federal funds. He also claimed that the Davis admissions program violated the equal protection clause of the Fourteenth Amendment. The California court agreed with Bakke but refused to order the university to admit him, claiming he had not proven that he would have qualified for admission without the restrictions of the quotas.

Bakke appealed to the U.S. Supreme Court, which heard arguments on October 12, 1977. Although the Court issued six opinions, Justice F. Lewis Powell Jr. announced the decision. He wrote that the "plain meaning" of Title VI of the 1964 Civil Rights Act prohibited the exclusion of any individual solely on racial grounds in federally funded state programs. He further asserted that the set-aside program at the Davis medical school "totally excluded" Bakke from competing "with applicants from the preferred groups for the special admission seats" and therefore denied him the "equal protection" required by the Fourteenth Amendment. However, Powell justified a less rigid, competitive program of admis-

sion in which the university could consider race and ethnicity as one of many factors in the goal of establishing a "diverse student body."

The decision had little immediate impact on set-aside programs at other university postgraduate schools. It only restricted the use of quotas in admissions in state medical schools and left open later challenges of quotas in law schools and graduate schools.

—*Robert P. Sutton*

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See also Volume 2: Education.

Balance of Payments

Financial summary of all international transactions.

The Bureau of Economic Analysis (BEA) under the U.S. Department of Commerce records transactions involving the international transfer of goods, services, income, financial claims, or gifts. Used as an indicator of the flow of goods and services between the United States and other parts of the world, the strength of the balance of payments affects the credit standing of the federal government. The stronger the financial statistics, the better the nation's position.

The transfer of goods and services—or unilateral transfers—is recorded in the current account; the capital account consists of the transfer of financial assets and liabilities. Using the traditional accounting method of double-entry record keeping, entries are recorded in a manner in which the debits and credits always balance. When recording the balance of payments for the United States, the BEA includes all transactions for the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, Midway Island, the Virgin Islands, Wake Island, and all other U.S. territories and possessions (Marshall Islands, Federated States of Micronesia, Northern Marianas, and Palau). Under the terms of the Bretton Woods agreement signed in 1945, section 8, the U.S. government has the legal authority to collect the data on the balance of payments. The Office of Management and Budget publishes the balance of payments report on a quarterly basis ten weeks after the end of each quarter. The International Monetary Fund uses the information provided by the BEA to establish currency conversion rates.

—*Cynthia Clark Northrup*

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See also Volume 2: Trade Policy.

Balance of Trade

Difference between the value of total imports and exports of a country over a specific period of time.

The merchandise balance of trade refers to the difference between a country's merchandise exports and merchandise imports. If exports exceed imports, a trade surplus or favorable balance of trade is being realized. If imports exceed exports, a trade deficit or unfavorable balance of trade occurs. Since the early 1980s, the United States has experienced a rapidly growing international trade deficit, in which imports exceed exports. The *Survey of Current Business,* published in March 1985, showed that during the previous year the U.S. merchandise exports of $220 billion did not earn the nation enough foreign monies to finance its merchandise imports of $328 billion. In March 2003 the United States imported $126.3 billion and exported $82.8 billion for a trade deficit of $43.5 billion.

Causes of the trade deficit included an appreciated dollar, relatively rapid expansion of the American economy, and curtailed purchases of U.S. exports by less-developed countries. The effects of this expanding trade deficit have been manifold. It has had a contractionary, anti-inflationary impact on the U.S. domestic economy. American export-dependent industries have experienced declines in output, employment, and profits, thereby generating political pressures for protection. However, the trade deficit has also meant an increase in the living standards of American consumers.

The basic theory of trade explains trade patterns in terms of competitive supply and demand. Three variants of the basic theory emphasizing the supply side are Adam Smith's theory of absolute advantage, David Ricardo's principle of comparative advantage, and the Heckscher-Ohlin theory stressing factor proportions. Smith challenged the principles of mercantilism, which promoted the interests of the mother country at the expense of the colonies, and argued for free trade on the basis of cost-efficiency, with the only exception being national defense. Ricardo argued that, under the principle of comparative advantage, a country benefits by producing more of those goods in which it is relatively efficient and exporting them in return for goods that could only be produced inefficiently. The principle of comparative advantage assumed constant marginal costs (a rate that barely covers cost). Dropping Ricardo's constant-cost assumption to allow for increasing marginal costs makes it easier to explain why countries do not specialize completely. Heckscher-Ohlin explained trade patterns based on the fact that different goods use the factors of production (such as cost of raw materials and labor) in different ratios and that nations differ in their relative factor endowments. The theory also explains that trade patterns predict that nations tend to export the goods that use their abundant factors more intensively in exchange for the goods that use their scarce factors less intensively.

International trade has been slowly drifting toward trade among similar countries and toward trade in similar goods rather than trade between very different industrial sectors. A greater and greater share of world trade consists of intra-industry trade (IIT), or two-way trade within industrial

categories. A challenge for trade theorists is to explain what is special about trade of knowledge-intensive goods such as software, why we have so much IIT, and whether the conclusions of the standard model (used to determine the standard for profits) about the gains from trade still hold in a world of IIT in knowledge-intensive goods.

—*Albert Atkins*

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See also Volume 1: Export Control Act; Free Trade.

Bank Failures

Recurring problem in the United States until the creation of the Federal Reserve Bank.

Bank failures occurred often throughout American history as a result of the federal government's reliance on the states to regulate banking activities. The first major bank crisis occurred during the panic of 1819. The director of the Second Bank of the United States, Captain William Jones, allowed and participated in the speculation of bank stocks (the purchase of stocks with the expectation of increased value), and so value of the stock in the national bank dropped. State banks responded by printing unsecured paper currency. Langdon Cheves, the new director, implemented strict policies calling in loans owed by the state banks. The state banks, scrambling to cover their responsibilities, called in the notes of their customers, many of whom were Western and Southern farmers. Although the Bank of the United States survived, many of the state banks faced difficult times, and some were forced to close. Western farmers had the most difficulty because of the constricted economy.

After President Andrew Jackson did away with the Second Bank of the United States, the federal government deposited millions of dollars from its funds in state banks. This money was lost in the panic of 1837, during which hundreds of state banks failed; for the next three years, the remaining banks struggled. Federal money was finally placed in an Independent Treasury—basically a safe for federal funds that did not allow the circulation of currency—but only until after the 1840 election, which Whig candidate William Henry Harrison won. They repealed the act that had created the Independent Treasury, and the federal funds were returned to the state banks.

In the post–Civil War period, banks failed more frequently. As speculators sought to take advantage of the advances in technology and business, bankers loaned money carelessly. No federal authority or oversight existed. After the panics of 1873, 1893, and 1907, Congress began examining the issue. During the presidential election campaign of 1912, successful Democratic candidate Woodrow Wilson pledged to create a new banking system designed to create elasticity in the money supply and to be a lender of last resort for banks when no other sources of funds are available. In 1914 Congress passed the Federal Reserve Act. The legislation created 12 branch banks, all equal in status, with shares owned by the federal government and the national banks. Stricter accounting methods and lending requirements, as well as the requirement that a minimum amount of funds be held in reserve, created new confidence in the banking system. Although these federal regulations have prevented panics of the type experienced in the nineteenth century, even they did not prevent another banking crisis during the Great Depression.

After Franklin D. Roosevelt's election to the presidency in 1932 and before he took the oath of office, many financial investors and businesspeople voiced concern over the radical New Deal that he had promised, and their rising pessimism resulted in runs on a few banks. To prevent the situation from becoming a crisis, Roosevelt closed all U.S. banks for a four-day bank holiday. Institutions found financially solvent reopened at the end of four days, while other banks opened later, and some were forced to close their doors. Roosevelt then asked for legislation that would protect depositors' funds, and Congress created the Federal Deposit Insurance Corporation (FDIC). With confidence restored and the continuation of government oversight, the United States has not experienced another mass bank failure since the Great Depression of 1932. The widespread failure of savings and loan institutions in the 1970s was not originally covered by the FDIC; these institutions are different than banks. They are now covered.

—*Cynthia Clark Northrup*

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See also Volume 1: Federal Reserve Act; Great Depression; Panic of 1819; Panic of 1837; Panic of 1873; Panic of 1893; Panic of 1907; Wilson, Woodrow.

Bank of the United States (BUS), First: 1791–1811

Central federal bank that was an integral part of Secretary of the Treasury Alexander Hamilton's economic recovery program for the new nation during the administration of the first American president, George Washington.

Treasury Secretary Alexander Hamilton submitted a "Report on the Bank of the United States" to Congress on December 13, 1790, almost a year after he sent legislators his "Report on Public Credit," a plan to fund federal and state debts at face value. He argued that this debt—$38 million for the federal government and $25 million for the states—needed a central bank to carry through on the funding of the debts. Hamilton also believed in the necessity of a national bank because the existing medium for circulating currency remained inadequate and private businesspeople needed a better way to get credit. He wanted Congress to charter a bank with a capital of $10 million, one-fifth of the funds to be provided by the federal government and the other four-fifths by private investors. On the basis of this capitalization,

the bank could issue its own bank notes up to $10 million. A board of directors of 25 people, 5 of them named by Congress, would govern the bank at its Philadelphia headquarters and through the presidents of eight state branches. Lastly, the BUS could act as an agent for the federal government and be the depository for federal funds.

Hamilton's plan was for an institution with a mixture of public and private aspects—essentially a private institution with a special relationship to the federal government. Despite the opposition of James Madison and others in the House of Representatives, the bill establishing the First Bank of the United States passed Congress and went to President Washington on February 25, 1791. In the ensuing Cabinet discussion, Secretary of State Thomas Jefferson continued the opposition and advised Washington not to sign the bill because it was unconstitutional; that is, Congress had exercised a power not specifically given to it by the Constitution. Hamilton argued that it was constitutional because the federal government could do anything not specifically prohibited by the Constitution if it was "necessary and proper." Washington agreed with Hamilton and signed the bill into law. The first BUS proved salutary and stimulated investment, especially in the North. It also ushered in a period of growth for state banks and served as a safe depository for federal funds. Despite the contributions of the first BUS to the economy, Congress allowed its charter to expire in 1811, largely because of the approaching War of 1812.

—Robert P. Sutton

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See also Volume 1: Constitution; Hamilton, Alexander; War of 1812.

Bank of the United States (BUS), Second: 1816–1836

Central bank modeled on the First Bank of the United States and signed into law by President James Madison, who stated that the bank had justified its constitutionality "by usage."

Three years after the Bank of the United States (BUS) received its second charter, the Supreme Court in *McCulloch v. Maryland* confirmed the bank's constitutionality. The Second BUS resembled the first in structure but not size; the Second BUS tripled the capitalization of its predecessor, with $35 million in funds invested. The bank was severely criticized because of the panic of 1819, particularly in the West, where many Americans held it responsible for a large number of foreclosures. The reputation of the Second BUS improved under the able management of its president, Nicholas Biddle, from 1822 to 1836.

Unfortunately, Biddle's political connections with President Andrew Jackson's opponents, Whig leaders Henry Clay and Daniel Webster, caused Jackson to view the power of the bank suspiciously. Biddle, urged by Clay, submitted for an early rechartering of the bank in the summer of 1832—hoping that, on the eve of the upcoming presidential election, Jackson would not risk a veto. But Jackson perceived this move as a personal challenge and issued a precedent-making veto that he justified by declaring the BUS unconstitutional, calling it a monopoly uncontrolled by the people and a "hydra of corruption." The veto was sustained and, in 1833, President Jackson removed all federal funds from the BUS, effectively forcing it to close its doors, and distributed the money to numerous "pet" state banks in regions that had supported him in the 1832 election. This transfer led to runaway speculation in the purchase of federal lands and in part brought on the panic of 1837, when the economy experienced the "Great Contraction." After the federal charter for the Second BUS expired in 1836, Biddle had Pennsylvania charter the bank as a state institution. It was an important financial institution in that state's economy until 1841.

—Robert P. Sutton

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See also Volume 1: Clay, Henry; Jackson, Andrew; Panic of 1837.

Bank Protection Act (1968)

Act established in 1968 with the agenda to maintain minimum-security measures for banks.

The principal objective of the Bank Protection Act focuses on discouraging robberies, burglaries, and larcenies and aiding in the capture and prosecution of those who commit such acts. This measure attempts to deter future crimes and to protect banking institutions and society. The act initially outlined detailed provisions for installation, maintenance, and

operation of security devices, and it specified limitations on the amount of time taken to accomplish this.

Federal supervisory agencies enforce the rules establishing minimum standards for protection. These regulations demanded that all banks and savings and loan associations follow the regulations on installation, maintenance, and operation of security devices and procedures. They also included the expectation that all banking institutions would address the stated matters with efficiency and with reasonable cost. New amendments to the act have recently addressed two issues: requirements for using surveillance cameras and restrictions on cyber-banking (banking over the Internet).

In 1981, both minor and major changes occurred when the act was further amended. One new provision eliminated the need for mandatory annual reports. This action helped reduce the complexity of constantly updating the required security devices because of changes in technology. The Bank Protection Act now requires that each institution designate a security officer to launch a security program that would require the installation of specific security devices in banking establishments. The minimum requirements stated by the Bank Protection Act require resources to protect liquid assets, a lighting system for nighttime hours, an alarm system, and tamper-resistant locks. Congress also required the documentation of all suspicious activity in banking institutions—such as unusually large transactions, apparent money laundering, and other curious acts.

—Sandra L. Willett

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See also Volume 1: Banking System; Volume 2: Money Laundering.

Banking Act (1933)

A federal statute signed into law by President Franklin D. Roosevelt on June 16, 1933, to help stabilize America's banking system and promote recovery during the Great Depression.

After the stock market crash in 1929, many people who had deposited money in banks began withdrawing their funds. However, because of the decentralized nature of American banking in the 1920s, many banks had overextended their loans or lost depositors' money by speculating in the stock market. To preserve their liquidity (their ability to convert assets to cash), banks began calling in their loans in the early 1930s—but because they had made loans to people now unable to repay them because of the Great Depression, many financial institutions ran out of money and shut down or were left barely solvent. Consequently, many Americans lost their savings, and the nation's banking system neared collapse.

President Herbert Hoover attempted to resolve the crisis by creating the National Credit Administration and later the Reconstruction Finance Corporation (RFC) to stabilize banks and other institutions. But these efforts failed to stem the tide of bank failures, and the crisis became the problem of the newly elected president, Franklin D. Roosevelt. Once in office, Roosevelt immediately declared a national bank holiday and convened a special session of Congress to consider emergency banking legislation. The Emergency Banking Act, which Congress passed on March 9, 1933, used RFC loans to increase the liquidity of struggling banks, authorized the government to issue emergency currency, and allowed the secretary of the Treasury to determine which banks were sound and should reopen.

Although confidence in American banking rose, many people argued that the Emergency Banking Act did not correct the underlying flaws in the nation's banking system. Thus, in May 1933, Democratic Senator Carter Glass of Virgina and Democratic Congressman Henry Steagall of Alabama introduced the Banking Act of 1933 in Congress. This act separated commercial and investment banking, increased the powers of the Federal Reserve, recognized the Open Market Committee (a Federal Reserve committee that decides economic policy), and more effectively coordinated the Federal Reserve's open market operations. It also gave commercial banks until July 1, 1935, to relinquish their private securities, prohibited them from underwriting additional private securities, and created the Federal Deposit Insurance Corporation (FDIC) to protect depositors' savings.

Although many bankers believed that the Banking Act was an unwarranted federal intrusion into the banking system, public opinion favored these reforms. Two years later, Congress modified and extended the Banking Act of 1933 when it passed the Banking Act of 1935.

—David W. Waltrop

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See also Volume 1: Banking System; Volume 2: Banking.

Banking System

Largest financial intermediary with historically important role in money supply process and transmission of monetary policy.

Commercial banks received state charters primarily between 1789 and 1863. Their liabilities (sources of funds) consisted mostly of banknotes but included some deposits. Their assets (uses of funds) consisted of specie (gold and silver) and short-term commercial loans intended for financing inventories or accounts receivable.

The federal government chartered the First Bank of the United States (1791–1811) and the Second Bank of the United States (1816–1836). These banks attempted to control the money supply and improve the soundness of commercial banks by redeeming banknotes of state banks. Particularly in western and southern states, bankers disliked these activities and successfully prevented an extension of the Second Bank's federal charter.

Between 1837 and 1863, states exclusively regulated banks. Banking regulations and the extent of supervision differed substantially among states, resulting in a heterogeneous currency with numerous banknotes circulating at varying discounts. The federal government reestablished a regulatory role through passage of the National Banking Act of 1863 and its subsequent amendments. The act's objectives included providing a uniform national currency and strengthening the government bond market. It established nationally chartered banks, the reserves of which included gold and United States government bonds. It imposed a 10 percent tax on state banknotes, thereby eliminating banknotes as a source of funds for state-chartered banks.

However, state-chartered banks survived by acquiring funds through deposits. They thrived after 1880 because many bankers saw profit opportunities in obtaining a state bank charter, which had lower capital requirements, lower reserve requirements, more flexibility regarding loans, and less supervision than national banks. A dual banking system developed in which a bank could have either a national charter or a state charter.

The dual banking system resulted in a complex structure of regulation as each state established its own set of rules for banks operating in that state. Many states became unit-banking states, in which a bank could operate at only one location, because many people feared that large banks would engage in monopolistic practices if allowed to expand geographically. Restrictions on national banks reinforced these state banking laws. Because this legal environment limited where a bank could operate, the United States developed a system with many more commercial banks—and typically smaller banks—than banking systems of other industrialized nations.

The national banking system provided a uniform currency, which reduced transactions costs, but it remained subject to significant fluctuations in the money supply and frequent bank panics that resulted in many bankruptcies and business failures. In 1913, Congress established the Federal Reserve System to act as a lender of last resort when no other sources of funds are available to ensure the banking system's stability.

Between 1930 and 1933, the Federal Reserve failed to prevent a financial collapse as approximately one-third of commercial banks went bankrupt. To rebuild the banking system and to prevent its future collapse, Congress passed the Glass-Steagall Act (1933) and the Banking Act of 1935. This New Deal economic legislation of President Franklin D. Roosevelt, reflecting the view that too much competition existed in the banking industry, separated commercial banking from the investment banking and securities industry, created the Federal Deposit Insurance Corporation (FDIC), restricted checkable deposits to commercial banks, and regulated interest rates paid on deposits.

The legislation established a restrictive legal environment in which commercial banks operated during the next five decades. Although commercial banks gradually lost market share among financial intermediaries, the banking system would not substantially change until the 1970s. Ultimately financial innovation resulted from improved technology that lowered costs of providing certain financial services/instruments, from banks seeking improved profit by avoiding existing regulations, and from rising and more variable inflation, which increased both interest rate risk and cost of regulations.

The problems caused by rising inflation throughout the 1970s forced major changes in the legal environment in which banks operated. Some savers withdrew funds from depository institutions to purchase direct claims by borrowers (for example, certificates of deposit or money market accounts) as market interest rates rose above legal interest rate ceilings placed on banks; the rapid growth of money market mutual funds intensified loss of deposits. As many banks faced dwindling profits and even bankruptcy, Congress passed the Depository Institutions Deregulation and Monetary Control Act (1980) and Garn–St. Germain Depository Institutions Act (1982). These acts allowed depository institutions to provide interest-bearing checkable deposits, to issue more competitive savings accounts, and to broaden permissible activities of thrifts (mutual savings banks/saving and loan associations).

The legislation was too late to prevent numerous bankruptcies among thrifts, which had losses from withdrawal of funds or bad loans. Bankruptcies became less common among commercial banks, which were concentrated in oil-producing states. These banks had poorly diversified loan portfolios and had to deal with fluctuating oil prices, but because oil was in short supply in the 1970s the banks did not experience a withdrawal of funds. Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act (1989) to bail out thrifts and passed the Federal Deposit Insurance Corporation Improvement Act (1991) to improve soundness of commercial banks by establishing new categories of capital adequacy.

During the 1970s and 1980s, banks expanded across state lines as interstate compacts developed. During the 1990s, they obtained greater flexibility, expanding geographically and broadening their range of activities. The Riegle-Neal Interstate Banking and Efficiency Act (1994) established nationwide interstate banking. During the 1980s and 1990s, the Federal Reserve allowed specific bank holding companies to expand activities. Because restrictions on commercial banks' securities and insurance activities placed U.S. banks at a competitive disadvantage to foreign banks, bills to repeal Glass-Steagall appeared regularly in Congress during the 1990s. The Gramm-Leach-Bliley Financial Services Modernization Act (1999) repealed Glass-Steagall to allow consolidation of financial services. Numerous mergers among banks from the mid-1990s to 2003 indicate that some banks believe their best strategy is to become large diversified financial service firms by growing geographically and increasing the range of products they offer. However, other banks stress local ownership and personal service as their strategy for survival.

The share of assets in financial intermediaries such as commercial banks and securities dealers has continued to fall, particularly since 1985, because of the rising importance of mutual funds and pension plans. However, banks remain

the most important source of funding for small and medium-sized businesses, the financial intermediary used most often by the general public, and a major player in the money supply process. Although credit unions have existed in the United States since 1909, their primary function is to serve members as credit cooperatives. Credit unions were healthy into 2003, but they do not fulfill many of the functions of banks.

—Robert Herren

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See also Volume 1: Bank of the United States, First; Bank of the United States, Second; Bank Protection Act; Banking Act; Federal Reserve Act; Glass-Steagall Banking Act; Volume 2: Banking.

Beard, Charles Austin (1874–1949)

Author of *American Government and Politics,* supporter of the New Deal, and remembered for emphasizing the impact of other fields, including economics, on history.

Born November 27, 1874, to a prosperous farmer in Knightstown, Indiana, Charles Beard grew up discussing and debating public affairs. Beard's father bought his son the town newspaper, the weekly *Knightstown Sun,* when Beard was just 18. After four years as a newspaperman, Beard attended DePauw College, graduating in 1898. He spent the next few years enrolled in graduate study divided between Columbia in New York and Oxford in England.

Beard received his doctorate from Columbia in 1904 and began a career teaching at Columbia. Although credited with founding Columbia's school of politics, Beard's academic career ended abruptly. He believed firmly in the principles of academic freedom and resigned after the college dismissed three of his colleagues for disagreeing with the college president's views on American participation in World War I. Beard did not take another academic appointment.

Throughout his career Beard authored several books that would become standard texts in political science and history including *Economic Interpretation of the Constitution.* His textbook *American Government and Politics* had ten editions in Beard's lifetime. He also wrote a series of history books with his wife, historian Mary Ritter Beard, geared toward the general public.

Beard supported President Franklin D. Roosevelt's New Deal program during the depression. However, he soundly rejected Roosevelt's foreign policy and began supporting an isolationist stance on World War II. At one point, he accused Roosevelt of manipulating the Japanese attack on Pearl Harbor.

Beard continued to write and speak publicly until his death September 1, 1949. His views and mountain of work changed the way professors have taught history and political science. By emphasizing the impact of other fields, including economics, on history, Beard demonstrated the importance of a broad view of the past to the study of any field.

—Lisa A. Ennis

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See also Volume 1: Constitution; *Economic Interpretation of the Constitution.*

Berlin Wall

Physical barrier separating East and West Berlin that was a symbol of cold war between the United States and the Soviet Union.

A few months after settling into the White House, President John F. Kennedy met Soviet Premier Nikita Khrushchev at Vienna in June 1961. During that meeting, Kennedy sought cooperation, but the tough-talking Russian adopted a belligerent attitude, threatening to make a treaty with East Germany and cut off Western access to Berlin. Kennedy was visibly shaken but refused to be bullied. On returning to the United States, he requested an increase in the military budget and called up reserve troops for the possible defense of Berlin. The Soviets backed off from their most bellicose threats but suddenly began to construct the Berlin Wall August 13, 1961; it was built virtually overnight. Until 1961 East German citizens had been able travel to West Berlin, although it became difficult after the Soviets closed the border between East and West Germany in 1952. A barbed wire and concrete barrier, the Berlin Wall was designed to stop the heavy population drain of skilled workers from East Germany to West Germany (more than 2.6 million East Germans from a total population of about 17 million escaped to West Berlin or West Germany from 1949 to 1961). After the construction of the Berlin Wall, many East Germans attempted to scale the wall and flee to West Berlin. On August 24, 1961, Günter Litwin became the first of 171 people who died trying to escape by scaling the wall or tunneling under it. Another 5,000 people managed to escape to freedom.

Another problem involved the two currencies in Germany and especially in Berlin. Germans exchanged the West German DM into East German DM at a rate of 1:6 (1 DM West = 6 DM East) in West Berlin. People with West German DM could get goods very cheaply in the eastern part of Berlin. The East German government saw no other way to prevent funds and people from escaping to the West via

Berlin than closing the border between East and West Berlin on August 13, 1961.

In 1984, Mikhail Gorbachev started to change the Soviet Union's policies by instituting *perestroika* (a reorganization and movement toward an open economy) and *glasnost* (openness that included a movement toward free speech and a loosening of control by the USSR national police, the KGB). The Soviet reforms also influenced other communist countries, especially Poland and Hungary, which had established a nonphysical but effective Iron Curtain that prevented free travel out of those countries. On August 23, 1989, Hungary opened the Iron Curtain to Austria, allowing East German tourists to escape to Austria through Hungary, and in September 1989 more than 13,000 East German escaped via Hungary within three days. The event marked the first mass exodus of East Germans after the erection of the Berlin Wall in 1961. Mass demonstrations against the government and the economic system occurred in East Germany starting at the end of September and finally ending in November 1989. Erich Honecker, East Germany's head of state, finally resigned on October 18, 1989, and the new government issued a new law that lifted travel restrictions for East German citizens.

At 6:53 P.M. on November 9, 1989, a member of the new East German government responded to a press conference question about when the new East German travel law would take effect. The official answered: "Well, as far as I can see, . . . straightaway, immediately." That moment signaled the end of the Berlin Wall. That night East Germans opened the deadly border peacefully at 10:30 P.M. During the ensuing weeks, citizens helped tear down the wall. Official demolition began on June 13, 1990, and most work was completed by November 30, 1990.

—*Albert Atkins*

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See also Volume 1: Cold War.

BIA

See Bureau of Indian Affairs.

Biddle, Nicholas (1786–1844)

Director of the Second Bank of the United States.

Born January 8, 1786, in Philadelphia to a wealthy Quaker family, Nicholas Biddle entered the University of Pennsylvania at the age of 10 and graduated three years later. Biddle then enrolled in the College of New Jersey at Princeton to study classics and was graduated as valedictorian in 1801. Although his family expected him to pursue writing, Biddle decided to pursue law and went to work with his brother William, also a lawyer.

In 1804, Biddle accompanied General John Armstrong to France as his secretary. Only 18 years old, he received the responsibility of the monies associated with claims from the Napoleonic Wars. He spent the next few years traveling through Europe. In 1807 he returned to the United States and resumed his law studies; in 1809, he rediscovered writing, joined a literary group, and wrote his *History of the Expedition of Captains Lewis and Clark* (1814).

Biddle helped Secretary of War James Madison secure loans for the War of 1812. He assisted Madison in securing the recharter for the Second Bank of the United States (BUS). In 1819, President James Madison appointed him as one of the government directors of the Second Bank of the United States. At Madison's request, Biddle compiled a digest of international exchange, *Commercial Regulations* (1819), and he served five years as a BUS director, working to keep the bank politically neutral.

Under President Andrew Jackson, Biddle pushed bank issues to the center of the presidential campaign. Jackson, believing the bank to be unconstitutional, strongly opposed renewing its charter. An effort in 1832 to renew the bank's national charter failed, but Biddle obtained a state charter and the bank continued as the Bank of the United States of Pennsylvania. Biddle retired in 1839 to Delaware, where he busied himself with intellectual pursuits. He died on February 27, 1844, at the age of 58.

—*Lisa A. Ennis*

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See also Volume 1: Bank of the United States, Second.

Bison (Buffalo)

Largest mammal in North America extensively slaughtered in the 1870s and 1880s for hides, meat, and tongues.

When Europeans arrived in the new world, two subspecies of bison roamed much of the North American continent—north to south from present-day Canada into northern Mexico and west to east from present-day California to the Appalachian Mountains, northern Florida, and Pennsylvania. The most prolific of the species was the Plains bison *(Bison, bison, bison)*, which roamed the plains and prairies. The wood or mountain bison *(Bison, bison, athabascae)* thrived in the Rocky Mountains. Bison population peaked in the mid-nineteenth century. Although scientists and historians have had difficulty determining exact numbers, most accept that the plains species totaled between 30 and 70 million and the mountain variety between 3 and 5 million.

The bison was critical to the survival, advancement, and development—both physical and spiritual—of the indigenous populations of the North American plains. Native peoples organized massive hunts and then used all parts of the animals for everything from food to shelter to utensils. Immediately following a kill, the tribes had what some have described as a feeding frenzy, eating some parts of the bison raw. They made jerky and pemmican via a process somewhat

like canning that used the hide as the container and fat for curing. Hides provided clothing, shelter, canoe-like floating vessels, and even shield and decoy material in battle. Dung proved an excellent source of fuel. Hair, horns, tails, and other body parts made cooking utensils, shoes, saddles, tools, containers, and much more. Bison hair made jewelry and rope, and the heads were used for ceremonial dress. Perhaps no animal proved more important to the development of North American indigenous populations than did the bison.

When white settlers began the westward rush to the plains, they, too, recognized the utility of the Great Plains animals. Most of the great travel routes were trails that the bison had trekked for centuries. Railroads, too, followed the overland trails of the great bison herds, and bison were food for the men who built the rails. Soon after the land rush of the mid-nineteenth century, buffalo robes and the delicacy of bison tongues became popular in both the Eastern U.S. and European cities.

With leather supplies from the South American market dwindling, bison products filled consumer needs. Between 1870 and 1883, hide hunters decimated the plains bison population. Between 1872 and 1874 the major rail companies shipped more than 1,378,000 hides and 6,751,000 pounds of meat to Eastern markets, representing $4,823,000 in hides alone, which sold for $3.50 apiece. These shipments represented more than 3,158,700 slaughtered bison. The carcasses proved useful as well: they attracted wolves, which were dangerous to cattle operations booming in the West, so ranchers laced the decaying bison with poison and helped eradicate the predator from the plains. Entrepreneurs also shipped carcasses east, where bones were used for fertilizer, horns for sugar refining, and hoofs for glue. Between 1872 and 1874, the major rail lines shipped roughly 32,380,000 pounds of bison bones, representing approximately 550,000 animals and more than $161,900 in revenue (at an average of $10 per ton).

By 1880, a few well-intentioned laws forbade the hunting of bison in several Western states, but by all accounts the legislation was too little, too late. In 1900 only a handful of bison remained on the Great Plains. Private individuals began to ask for federal intervention in saving the nearly extinct animals; success came slowly and at the expense of the mountain species when the U.S. Army introduced a tame herd of plains animals into Yellowstone National Park in 1902. They eventually mixed with the mountain herd to form a hybrid species. Today Yellowstone boasts the largest free-ranging bison herd in the world, with a population of more than 3,000.

The nineteenth-century market for buffalo robes and meat died as quickly as the herds had died. Several marketing operations have developed since, including the raising and sale of "cattalo," a mixed breed of domestic cattle and bison, and the breeding and selling of domestic bison.

—Elaine C. Prange Turney

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See also Volume 1: Homestead Act; Timber and Stone Act; Timber Culture Act.

Bland-Allison Act (1878)

Legislation that provided for the freer coinage of silver and placed the money supply of the United States on a bimetal standard.

Authored by Democratic Representative Richard P. Bland of Missouri and passed in 1878, the Bland-Allison Act attempted to satisfy the demands of Western interests for the free and unlimited coinage of silver. The bill passed the House of Representatives but underwent major modifications by Republican Senator William B. Allison of Iowa. The final version of the act, passed over the veto of President Rutherford B. Hayes, required the U.S. Treasury to purchase between $2 and $4 million worth of silver bullion each month at market prices. The government would use this silver to coin a limited number of silver dollars at a ratio of 16 to 1 with gold and to back the issuance of paper money called silver certificates.

Reversing the Coinage Act of 1873, which had placed the country on the gold standard, the Bland-Allison Act provided a compromise for conflicting sectional interests in monetary policy. The financial forces of the East favored the contraction of the money supply and the gold standard. The indebted agrarian classes in the South and West demanded inflation and cheap money to ease the burden of debt caused by falling prices for farm products. Also, Western silver miners favored bimetalism (the use of silver as well as gold as specie, or hard metal currency) because the price of silver had declined drastically because of overproduction, and they required a steady and reliable market.

The act did not have the effects that conservatives feared or "silverites" hoped. Its provisions proved insufficient to halt the decline of silver prices or to increase the amount of money in circulation, primarily because government officials purchased only the minimum amount of bullion required by law. The Sherman Silver Purchase Act of 1890 replaced this act.

—Peter S. Genovese

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See also Volume 1: Populist Party.

Block Grants

Federal funding and regulation that combine several categorical grants into one grant.

Block grants incorporate categorical grants into a larger package called grants-in-aid, in effect reducing the regulations formerly attached to each individual categorical grant. Block grants have fewer regulations because they remain administered under general, less-specific guidelines. State

and local governments receive less money through block grants, but they have increased latitude to administer funds in the deregulated policy environment and to craft their own strategies for using the funds. The relative decreases in funding and the increased responsibility create incentives for local governments to use funding more strategically as incentives or subsidies to encourage private-sector participation in areas where the public sector had formerly performed.

Block grants were significant in the administration of President Ronald Reagan, reflecting the broader strategy of the Omnibus Budget Reconciliation Act (1981) to decrease the federal budget and deregulate funding. The block grant as used by Reagan served as a model for efficiency to consolidate categorical funds, eliminate regulations, and devolve responsibility for programs from the federal government to the local government. Devolution meant that Congress cut or eliminated programs that directly assisted the poor, instead encouraging private and public partnerships that included local business interests. Local governments administered their own programs with less federal support money, relying more heavily on markets and less heavily on the public sector to solve the nation's economic problems. The August 1981 publication of the *Governor's Bulletin* reported that block grants "represent some progress toward greater flexibility for state and local officials at a time when aid to the state and local governments is shrinking."

The effects of federal funding in the form of block grants in the 1980s remain institutionalized 20 years later. Actions by Congress under the Reagan administration consolidated more than 57 federal categorical programs into nine block grants. Congress also created six new block grants, three of which involved the transfer of federal funds to state administration in the existing block grant programs. In terms of policy areas, four of the block grants deal with health services, two focus on social services, and one addresses low-income energy assistance, education, and community development.

—Eileen Robertson-Rehberg

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See also Volume 1: Reagan, Ronald.

Board of Governors of the Federal Reserve System

The highest authority in U.S. central banking since 1914, with members appointed by the president.

The Federal Reserve System, consisting of 12 regional reserve banks and a central Federal Reserve Board, began operation in 1914 as lender of last resort for banks when no other sources of funds are available during periods of economic stringency. The Federal Reserve Board consisted initially of five members appointed by the president (subject to Senate confirmation) for 10-year terms, the first members serving for terms of 2, 4, 6, 8, and 10 years. The board includes a governor and vice governor, two ex-officio members, the secretary of the Treasury, and the comptroller of the currency. The number of appointed members increased to six in 1922, and Congress lengthened the terms to 12 years in 1933.

The Banking Act of 1935 changed the formal name to Board of Governors of the Federal Reserve System, with 7 members appointed for 14-year terms, 2 being designated for four-year terms as chair and vice chair. The ex-officio members ceased to serve from February 1, 1936, and voting membership was increased to 12. The board remains popularly known as the Federal Reserve Board. Its 12 voting members—the president of the Federal Reserve Bank of New York, and four of the presidents of the other 11 reserve banks, chosen by rotation (with the other reserve bank presidents as observers)—make up the Federal Reserve's Open Market Committee, which decides economic policy.

The 12 regional Federal Reserve banks had considerable independence in setting discount rates (the rates they charged for loans they made to commercial banks and other depository institutions) until integration of financial markets during World War I forced uniform discount rates. In the 1920s, the Federal Reserve Board disclaimed any responsibility for inflation or deflation, claiming to passively accommodate the needs of trade.

Benjamin Strong was president of the Federal Reserve Bank of New York and a member of the Federal Reserve Board from the bank's inception until his death in 1928. He overshadowed the board's decision-making process during the entire time. Under Marriner Eccles, governor and chair from 1934 to 1948, the board became both more prominent within the Federal Reserve system and more concerned with macroeconomic stability—that is, stability in overall aspects of the economy such as income and output and the interrelationship among such aspects. Ironically, Treasury Department pressure on the board increased after the Treasury secretary ceased to be an ex-officio member, and during World War II monetary policy remained dominated by the government's financing needs. The Treasury–Federal Reserve accord of March 1951 freed the Federal Reserve from the wartime commitment to maintain the market value of government securities (and thus peg interest rates at a certain level). Paul Volcker and Allan Greenspan, the successive chairs of the Board since 1979, have dominated the Federal Reserve System and have become influential public figures, promoting central bank independence and acting to diminish and control inflation.

—Robert Dimand

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See also Volume 1: Federal Reserve Act (Owen-Glass Act) of 1913; Volume 2: Federal Reserve Bank.

Bond Sales

Sales of treasury bonds, notes, and bills, which play an integral role in fiscal and monetary policy.

The conventional view assumes the government must sell securities to finance the difference between its spending and its tax revenues (deficit spending). However, this view overlooks the crucial role that bond sales play in managing aggregate bank reserves and in the administration of short-term (overnight interbank) interest rates.

When government spends, recipients of Department of the Treasury checks deposit them into banks, which adds reserves to the banking system. When government taxes, reserves decrease. The Federal Reserve does not pay interest on reserves, so if government deficit spending (spending that exceeds tax revenues) causes excess total bank reserves, the overnight interbank interest rate quickly falls to 0 percent. To maintain a positive overnight rate, the government can sell securities to drain the excess reserves from the system. Thus, logically, government spending precedes bond sales and functions to support interest rates, not to fund expenditures as generally assumed. In this sense, the imperative of treasury bond sales should not be thought of as borrowing, since the sales do not finance or fund government expenditure.

The national debt in this sense provides a record of government action to maintain a positive short-term interest rate and functions as an interest rate maintenance account.

Modern (state) money remains fiat currency (irredeemable paper currency that derives its purchasing power from the declaratory fiat of the issuing government), with the national government the monopoly issuer. Treasury bonds thus differ from other, nongovernment types of debt, because no financial constraint restricts the issuer of the currency. Government debt denominated in another currency or debt issued by parties not acting as currency monopolists constitute very different matters.

—Mathew Forstater

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See also Volume 1: Deficit Spending.

Bonus March (1932)

Depression-era protest.

In 1924, Congress approved a deferred $1,000 bonus for veterans of the American Expeditionary Force as a reward for their service during World War I. The government scheduled payment of the money to begin in 1945, but financial hardships brought on by the Great Depression led many veterans to demand their payments early. In 1932, President Herbert Hoover, concerned with balancing the federal budget and overwhelmed by the nation's economic woes, refused to support the early disbursal of the bonus funds and effectively killed off the required legislation. In response, a group of unemployed veterans, led by ex-sergeant Walter Williams and calling itself the Bonus Expeditionary Force, marched on Washington in protest in May 1932. They built crude camps around the city and vowed to remain in the nation's capital until the government paid the bonuses. By June 1932, the "Bonus Army" numbered about 20,000 men, many of whom had their wives and children with them. After Congress refused to comply with their request, many of the veterans left the city, but several thousand remained to continue the lobbying effort.

By mid-July the veterans' camps had become a political embarrassment to Hoover, and he issued orders to have the protestors evicted from the capital. He first called in the Washington police, but their efforts only led to a riot during which two veterans died. Hoover then called in the U.S. Army. Hurling tear gas and brandishing bayonets, federal troops led by General Douglas MacArthur chased the overmatched protestors out of town, burning their camps and injuring more than 100 veterans. The idea of U.S. soldiers attacking U.S. war veterans appalled the general public, and the political consequences for Hoover were disastrous. Though MacArthur had exceeded the president's orders with regard to excessive use of force, many Americans blamed Hoover personally for the entire episode, further damaging his already tarnished political image.

—Ben Wynne

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See also Volume 1: Great Depression.

Boston Tea Party (December 16, 1773)

Protest against English taxation that sparked the American Revolution.

The British East India Company, facing severe financial reverses, convinced the British Parliament to allow it to sell tea in the American colonies at a price that would undercut even smuggled Dutch tea and would raise revenue while clearing the company's warehouses of a huge surplus. Unfortunately, this tea would still carry the despised per-pound tax, which had remained as a token duty, and would be sold through only a handful of dealers in America. This high-handed policy united small merchants who were left out of the deal with patriot organizations that protested the tax. The arrival of the tea ships *Eleanor, Dartmouth,* and *Beaver* sparked public protest in Boston, including public meetings, distribution of fliers, and harassment of the consignees, who took shelter in Castle William (a fort on an island in Boston Harbor) to avoid the crowds.

The Sons of Liberty, led by Samuel Adams, decided on December 13, 1773, that no one could unload the tea, nor could it remain on board 20 days, at which time customs officials would seize the tea for sale. On December 16, the night

the Sons of Liberty planned their raid on the ships to destroy the tea, a public protest at the Old South Meeting House turned rowdy after several people suggested dumping the tea in the harbor. As protesters stormed out of the meetinghouse, they met Sons of Liberty, costumed as Narragansett Indians, on their way to do the same thing. Followed by a huge crowd of perhaps 1,000 Bostonians, the "Indians" and volunteers stormed the three ships and, in a three-hour fracas lasting from 6:00 until 9:00 P.M., broke open all of the tea chests and dumped them into the harbor.

The attack had been conscientiously planned, and the protesters disturbed no other ship or cargo. Only one injury occurred, when a collapsing winch knocked a man unconscious. However, participants had ruined £18,000 worth of tea and infuriated the British government and particularly the king. Boston authorities arrested a barber named Eckley who had been caught bragging about his participation, but they could not find anyone who could identify the protestors, and sympathizers tarred and feathered Eckley's accuser in retaliation. George III specifically noted the Tea Party in his address to Parliament, and he and Lord North pushed through the Coercive Acts by April 1774, sparking further protests and eventually war between Britain and its American colonies.

—*Margaret Sankey*

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See also Volume 1: American Revolution.

Boxer Rebellion (1898–1900)

A violent antiforeign revolt that occurred in north and northeast China between 1898 and 1900, launched by "the Righteous Harmony Fists" (*Yihequan* in Chinese) or Boxers.

A secret society that originally emerged in Shandong Province, the Boxers represented rural Chinese nativist resentment against increased Western enterprise and missionary activity, which it saw as posing a fatal threat to traditional Chinese village life. With peasants and lower classes as the backbone of membership, the Boxers detested the weak-kneed policy that the Qing (Manchu) government pursued toward foreign powers. The organization deemed Chinese martial arts and traditional superstitious rituals as the means to terminate foreign presence and influence in China. Pressed by foreign powers, the Qing court austerely suppressed the antiforeign terror committed by the Boxers under the slogan "Oppose the Qing Dynasty, Exterminate the Foreigners." In 1900, the main forces of the Boxers shifted to Hebei Province, especially the Beijing and Tianjin regions, and undertook as their the strategy "Uphold the Qing, Exterminate the Foreigners." This attitude won the support of conservatives in the Qing nobility and officialdom then under the ruling Empress Dowager Cixi, who seized the opportunity to rid China of foreign powers through this rebel group. With the Qing government's connivance and acquiescence, the Boxers launched a large-scale rebellion against railroads and telegraph lines that stood as symbols of Western imperialism, burned churches, and massacred foreign diplomats, missionaries, Chinese Christians, and other Chinese with foreign ties. The uprising culminated in a siege of foreign diplomatic legations in Beijing. To protect their interests and citizens, foreign powers including the United States dispatched an international expeditionary force to China in June 1900 and broke the siege in August. They forced the Qing government to accept the Protocol of 1900, which banned antiforeign activities in China and allowed foreign troops to be stationed in Beijing to protect the diplomatic legation and in 12 other major cities along the railroad from Beijing to Shanghai Guan Pass. In addition, it called for China to pay for the damages caused by the Boxers.

—*Guoqiang Zheng*

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See also Volume 1: China; Foreign Policy.

Boycotts, Colonial

Method used by colonists to protest and influence British commercial policies.

A boycott is the act of abstaining from using, buying, or dealing with something or someone as a means of protest and coercion. During the late colonial era, Americans commonly used boycotts as a powerful way of expressing disagreement with and anger over England's attempt to regulate commerce and increase its revenue. As the colonies grew, Americans came to realize that they provided a major market for English manufactures and believed they could easily exert real leverage on economic policy by boycotting British products rather than appealing through political channels. Boycotts spread through nonimportation agreements, in which groups organized in opposition to British actions and persuaded individuals not to buy, or merchants not to sell, British goods. These "agreements" appealed to a person's sense of patriotism but were also commonly enforced via threats and overt acts of violence against violators.

The influence of boycotts on British policymaking remained indirect yet effective. The Stamp Act provides the best example of a boycott influencing imperial policy. Generally, Parliament demonstrated little concern with colonial opinions about fiscal measures or commercial regulation. However, government officials remained sensitive to and greatly influenced by the economic interests of British merchants and manufacturers, who suffered economically when American colonists boycotted British goods. The widespread colonial boycott that emerged in 1765 coincided with an economic depression in England, which compounded problems for British industry and shipping. With profits plummeting and warehouses full of unsold merchandise, British merchants generated strong political opposition to

the act, forcing Parliament to repeal it the following year. The repeal of the Stamp Act by the British further fueled the belief among colonists that economic coercion would influence commercial policy. Colonists repeatedly implemented boycotts over the next decade in response to Parliament's tightening of the imperial system.

Although they were ineffective in changing the long-term course of British policy concerning taxation, boycotts remained important to the development of social and political cohesion in the 1760s and 1770s. Boycotts politicized the population by making the individual's decision to import or purchase an item a political statement and proved crucial to creating widespread opposition to British rule. They enabled leaders to consolidate and direct opposition to the imperial system. Although boycotts were initially local efforts in seaport cities, after 1765 they became government policy as colonial legislatures imposed nonimportation acts. These acts forged a sense of common identity across colonial borders and stimulated a commitment to domestic manufacturing and economic self-sufficiency.

—*Peter S. Genovese*

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See also Volume 1: Non-Importation Act; Non-Intercourse Act of 1809.

Bretton Woods Agreement (1945)

Post–World War II agreement for international economic cooperation.

Bretton Woods, New Hampshire, was the site of the 1944 United Nations Monetary and Financial Conference in which the United States, the United Kingdom, and 44 of their allies (plus Argentina) agreed to establish international monetary and financial institutions to promote peace and prosperity in response to the destruction wrought by World War II. The agreement was actually signed in 1945. Much of the conference was dominated by the emergence of two rival plans, one put forth by Henry Dexter White of the U.S. Treasury Department and the other by John Maynard Keynes of the United Kingdom. The compromise that emerged after the negotiations reflected the dominance of the preeminent postwar power, the United States.

In principle, the countries agreed to establish a multilateral institutional framework that created an international monetary system based on stable and adjustable exchange rates. Nations agreed to (1) submit their exchange rates to international discipline; (2) avoid the classical medicine of deflating their domestic economy when faced with balance-of-payment deficits; (3) establish the U.S. dollar as the standard to which other currencies were pegged, and; (4) create supranatural organizations—the International Monetary Fund (IMF) and the World Bank—whereby member countries could establish protocol and procedures to coordinate international monetary cooperation. These four points would become known as the "Bretton Woods System" that governed international monetary cooperation.

In the years after World War II, the IMF would come to regulate currency values and convertibility, supply monetary liquidity (ability to convert assets to cash), and serve as a consultative forum for its members. In fact, the Bretton Woods system soon became equivalent to the dollar exchange standard, a system under which dollars could be traded for gold at the Federal Reserve. The United States became the source of global liquidity growth through the deficits in its own balance of payments. Then, in the late 1960s, America's net gold reserves dropped, undermining the confidence of investors, who feared that the dollar was overvalued and not convertible to gold. The Bretton Woods system eventually broke down on August 15, 1971, when President Richard Nixon suspended the convertibility of the dollar into gold, thus floating the dollar against other currencies.

—*Keith A. Leitich*

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See also Volume 1: Cold War; World War II.

Budget and Accounting Act of 1921

Legislation that delineated the responsibility and authority for the annual federal budget between the executive and legislative branches of the federal government.

Before the passage of the Budget and Accounting Act of 1921, the president and Congress each had sought to exercise increased control over the budget process. The Budget and Accounting Act of 1921 eliminated that recurring struggle by establishing specific mechanisms and procedures to be used. It calls for the Bureau of the Budget (now the Office of Management and Budget) to accept requests from government departments for funds. This information is reviewed before it goes to the president, who then formulates the annual budget ultimately submitted to Congress. Because Congress receives the proposed budget from the president, legislators may adjust it, but the budget's overall structure remains shaped by the executive branch. Between 1921 and 1974, Congress had to contend with the power of the president to appropriate funds at whatever rate he deemed appropriate—a power that has often led to a delay or termination of funded programs. Congress finally corrected this flaw with the passage of the Budget and Impoundment Control Act of

1974. Another issue that has arisen as a result of this budget process involves the inconsistency between the spending budget and revenue budget. Because the two budgets are arrived at separately, the spending budget often exceeds annual revenue projections—a trend that contributes to deficit spending.

The Budget and Accounting Act also established the General Accounting Office (GAO—an agency that conducts independent audits of government expenditures), which reports to Congress.

—Cynthia Clark Northrup

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See also Volume 1: Budget Deficits and Surpluses.

Budget Deficits and Surpluses

Discrepancies, either actual or structural, between government expenditures and tax revenues over a delineated period of time.

Since the popularization of the Keynesian idea of the "full-employment budget" (and its corollary, stabilization analysis) in the late 1940s, the Committee on Economic Development (CED), budget planners, and economists have emphasized the need to gear the federal budget for full employment (defined in terms of the nonaccelerating inflation rate of unemployment, or NAIRU). Accordingly, budget planners have distinguished between the actual and structural dimensions of the federal budget. Whereas the actual budget accounts for the variation of tax revenues and transfer payments with the cyclical fluctuations of the economy, the structural budget represents discretionary fiscal policy (that is, the domain of tax rates, government spending on goods and services, and transfer payments).

As a rule, actual (cyclical) deficits emerge when the economy is functioning below full employment. Under such conditions, tax revenues decrease while transfer payments (for example, unemployment compensation and welfare benefits) increase. In contrast, actual (cyclical) surpluses emerge when the economy is functioning above full employment. Under such conditions, tax revenues increase while transfer payments decrease. Finally, the actual (cyclical) budget is considered "balanced" when the economy is functioning at full employment (NAIRU).

Setting aside the impact of cyclical economic fluctuations, the structural budget estimates the deficit or surplus under the following conditions: the continuation of existing spending and tax policies; the maintenance of a given trend in gross domestic product; and the perpetuation of full employment (NAIRU). Thus, in principle, the structural budget can be used to anticipate the influence of government fiscal policy on the performance of the economy. In addition, budget planners use the structural budget to assess the extent to which increased public investment reduces private investment (a phenomenon known as the "crowding-out effect").

Throughout the postwar period (1945–1973), the U.S. economy operated beyond full employment. As a consequence, the United States maintained relatively negligible actual deficits (despite the ascendancy of Keynesian economics, increased expenditures on the social programs of the Great Society, and, ultimately, the high cost of the Vietnam conflict). Only with the fiscal crisis of the 1970s did the United States experience higher actual deficits. In fact, owing to the recession of 1981–1982, tax cuts during the administration of Ronald Reagan, and the augmentation of defense spending, the actual deficit reached unprecedented levels in the early 1980s. Since the 1980s there has been considerable debate on the effects—desirable and pernicious—of actual deficits. These debates culminated in the passage of a series of legislative initiatives designed to institutionalize a balanced budget: the Balanced Budget and Emergency Deficit Control Act of 1985, the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, and the Budget Enforcement Act of 1990.

Since the recession of 2001 and the terrorist attacks of September 11, 2001, the economy has experienced difficulty. President George W. Bush has proposed tax cuts and deficit spending to stimulate the economy. Although a balanced budget is ideal under normal circumstances, the domestic and international events of the past several years have shifted priorities.

—Mark Frezzo

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See also Volume 1: Deficit Spending; Keynesian Economics.

Buffalo

See Bison.

Bunau-Varilla, Philippe Jean (1859–1940)

French engineer who helped to orchestrate the separation of Panama from Colombia and the construction of the Panama Canal.

Philippe Bunau-Varilla worked his way up to become the head engineer for the French company that held the rights to construct a canal through Panama, which was a possession of Colombia. When this company went bankrupt in 1889, he formed a new company that obtained the rights of the failed enterprise. Technical difficulties, disease (men building the canal died from yellow fever and malaria), and funding problems led Bunau-Varilla to turn to the United States. He persuaded President William McKinley—and after McKinley's assassination, President Theodore Roosevelt—to pursue the

idea of the United States purchasing the rights of the company and constructing the canal. When negotiations between the United States and Colombia failed, Bunau-Varilla coordinated efforts with insurrectionists within Panama. When the rebels declared their independence from Colombia, Roosevelt ensured the success of the revolution by sending U.S. warships to protect Panama City. Bunau-Varilla appointed himself Panamian Minister to the United States and proceeded to negotiate the Hay-Bunau-Varilla Treaty, which granted the United States the authority to construct the canal. The completion of the canal substantially shortened oceanic voyages from the West Coast of the United States to the East Coast, increasing trade and development throughout the nation and the world.

—Cynthia Clark Northrup

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See also Volume 1: Panama and the Panama Canal; Roosevelt, Theodore.

Bureau of Corporations

Bureau established in 1903 to determine whether U.S. companies were acting in the public interest.

Congress established the Bureau of Corporations as a division of the Department of Commerce and Labor on February 14, 1903. The bureau was assigned to gather information about companies and to determine whether they were acting in the public interest.

As a repository of industry data, the Bureau of Corporations deterred illicit business activities by sharing corporate information. It was empowered to inspect and publish reports about the operation of interstate corporations (except common carriers of people or property), predating the Federal Trade Commission (FTC). When the Department of Commerce and Labor was divided into two departments in 1913, the Bureau of Corporations was assigned to the Department of Commerce.

The bureau's inspection power provided evidence for antitrust lawsuits. Following the passage of the Sherman Anti-Trust Act in 1890, courts were tolerant of vertical integration. However, in 1906 bureau officials conducted an in-depth investigation of Standard Oil Company of New Jersey that resulted in the company facing charges of monopolization in United States Circuit Court. In May 1911, the court ruled that Standard Oil was guilty of gaining through its stocks as a result of its monopoly, a violation of the Sherman Act. The decision forced Standard Oil to release the stocks of 36 independent companies and ended its domination.

In 1909, Bureau of Corporations officials concluded that the American Tobacco Company (ATC) prevailed against competitors because of astounding financial resources as opposed to superior organization or technology. The Supreme Court agreed in 1911, finding that the ATC had unfairly used vertical integration (a business structure in which a company owns its suppliers and buyers) to facilitate the creation of a monopoly by "foreclosing" competitors from sources for materials or outlets.

Detractors criticized the bureau for providing "sunshine" regulation, a system in which the regulator disingenuously cleansed corporate practices through the medium of public scrutiny while simultaneously educating the business community about efficient methods of competition. In 1914, the bureau was abolished and superseded by the FTC.

—R. Jake Sudderth

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See also Volume 1: Carnegie, Andrew; Rockefeller, John D.; Standard Oil.

Bureau of Freedmen, Refugees, and Abandoned Lands

Reconstruction-era relief agency.

Congress established this temporary agency, commonly called the Freedmen's Bureau, in March of 1865 as part of the U.S. War Department. Its primary function was to provide practical assistance to four million former slaves as they made the transition from bondage to freedom. The task proved daunting, to say the least. The bureau operated in a region ravaged by war and acutely conflicted by competing visions of postwar Southern society, one white and one black. Although Southern whites accepted the act of emancipation, they feared a new order that included full social and political equality for African Americans. The former slaves craved true freedom, which they interpreted as independence from white control through land ownership, franchise, and the establishment of their own institutions.

General Oliver Otis Howard, a devout Evangelical Christian wounded during the Civil War, led the bureau as commissioner with the aid of assistant commissioners in each Southern state. Although the agency distributed badly needed food and medical supplies to destitute blacks and whites alike, insufficient resources coupled with the highly charged political climate of the period retarded its long-term effectiveness. Nevertheless, the bureau played an active role in the lives of the freedmen for several years. Freedmen's Bureau agents negotiated labor contracts between whites and blacks, adjudicated labor disputes between white landowners and their black employees, supervised state and local courts in their general treatment of the freedmen, and helped reunite black families separated by slavery and the war. The greatest accomplishments of the bureau were in the field of education: It paid teachers' salaries, supported school construction,

and established black colleges and a system of schools that would survive Reconstruction and lay the foundation for public education in the South.

With the notable exception of its education programs, the bureau's efforts to provide long-term aid to former slaves lasted only a short time. Ambitious plans to redistribute land never materialized. By the time he left office, President Andrew Johnson, who opposed the bureau, had pardoned most of the ex-Confederates and restored to them hundreds of thousands of confiscated acres once earmarked for sale to freedmen. In 1866 the Supreme Court unanimously ruled in *ex parte Milligan* that military courts had no authority in areas where civilian courts functioned, thus casting serious doubts on the legality of martial law and the Freedmen's Bureau courts. A lack of funding and staff (for instance, at any given time no more than 20 agents operated in the state of Alabama) continued to plague the agency, as did growing apathy among Northern politicians with regard to the entire Reconstruction process. As the white Democratic Party grew stronger in the South, its leaders stepped up their resistance to the bureau, disparaging it as nothing more than a corrupt political tool of the Republican Congress. Ultimately crushed under the weight of the social and political struggles of the period, the Freedmen's Bureau ceased operation in 1872, leaving a mixed legacy.

—Ben Wynne

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See also Volume 1: Education; Volume 2: Education.

Bureau of Indian Affairs (BIA)

Agency responsible for planning and executing federal policies concerning Native Americans.

Congress established the Bureau of Indian Affairs (BIA) in 1824 as part of the War Department. In 1849 it became part of the newly formed Department of Interior. In the nineteenth century, the BIA negotiated treaties with various Indian tribes, supervised Indian agents and other employees, formulated federal Indian policies, conducted on- and off-reservation Indian schools, monitored annuity payments, and protected Indian interests with federal and state authorities. Until 1933 the Bureau of Indian Affairs focused on programs of cultural assimilation intended to eventually break down the barriers between Native Americans and their Euro-American counterparts. After the passage of the Indian Reorganization Act in 1934, the BIA focused on preserving and cultivating Native American culture and identity. Today it remains committed to providing technical assistance to more than 500 federally recognized Indian tribes without compromising the government-to-government relationship that exists between tribal authorities and the federal government.

The BIA is headed by an assistant secretary of the interior who holds the title Commissioner of Indian Affairs and supervises 84 agency offices on Indian reservations and more than 14,000 employees.

—James T. Carroll

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See also Volume 1: Indian Policy.

BUS

See Bank of the United States, First: 1791–1811; Bank of the United States, Second: 1816–1836.

Bush, George Herbert Walker (1924–)

American statesman, forty-first president of the United States (1989–1993), Republican.

The presidency of George H. W. Bush provides a vivid recent example of how lack of success in dealing with economic problems can dramatically erode political support for a leader despite his effectiveness in other spheres of statecraft.

Born June 12, 1924, in Milton, Massachusetts, Bush earned a degree in economics from Yale University in 1948, moved to Texas, and went successfully into the oil business. Between 1948 and 1950 he worked as a salesman for Idec, an oil-field equipment supply company. He founded Bush-Overly Oil Development Co. and Zapata Petroleum Corp. From 1964 to 1966 he worked as a chief executive officer of Zapata Petroleum Off Shore. Bush served as a Congressman (1967–1971), U.S. ambassador to the United Nations (1971–1973), chair of the Republican National Committee (1973–1974), chief of the U.S. liaison office (a quasi-embassy) in Peking (1974–1975), and director of the Central Intelligence Service (1976–1977).

During the Republican presidential primary campaign of 1980, Bush ran as a moderate candidate, criticizing the conservative economic program of Ronald Reagan and advocating governmental activism in the social sphere. Reagan won the party's nomination and Bush compromised his approach with Reagan's program, accepting the nomination for vice presidency. Serving as vice president from 1981 through 1989 in the Reagan administration, he contributed to the success of Reaganomics (or supply-side economics), particularly in heading a task force to reduce federal regulations. In 1988, Bush won his second bid for the Republican presidential nomination and defeated Democrat Michael S. Dukakis in the election. Bush lost the 1992 election to Bill Clinton.

As president, George H. W. Bush tried to consolidate the main accomplishments of the Reagan era. The end of the cold war in 1989 allowed him to cancel the annual inflation-adjustment spending increase of the military budget. He also

initiated some important social measures including an increase in the minimum wage (from $3.80 per hour in 1990 to $4.25 per hour in 1991), and he championed two laws that imposed significant requirements on business: the Americans with Disabilities Act, which broadened the rights of disabled Americans; and a comprehensive Clean Air Act, which envisaged tighter control on auto emissions, use of fuel, emissions by utility plants, and so on, and would cost business more than $20 billion annually.

As the lengthy recession began in the summer of 1990, the economy also experienced some long-range negative consequences of the Reagan era, particularly a huge deficit. Hoping to spark a solid economic recovery, the Bush administration tried to negotiate a deficit-cutting budget with Congress, which was controlled by the Democrats. Bush had to accept tax increases, particularly for those paying top individual tax rates, as well as taxes on gasoline, beer, and luxury items, as a part of the budget compromise—even though during the campaign of 1988 he had issued a categorical pledge not to raise taxes.

Although the weakened economy kept tax receipts down and precluded expected deficit reductions in 1991 and 1992, the president's tax concessions to the Democrats alienated his conservative Republican supporters. These factors highlighted his ineffectiveness in dealing with domestic issues despite his strong leadership at the end of the cold war (the Berlin Wall fell in 1989, and the Soviet Union ended in December 1991) and after the U.S. victory in the Gulf War of 1991, and he lost his bid for reelection in 1992 to Bill Clinton.

In the international arena, Bush tried to manage commercial economic conflicts with main U.S. rivals (particularly Japan), promoted global economic coordination within the Group of Seven (the world's seven largest industrialized nations), and supported the idea of free trade. On December 17, 1992, he signed the North American Free Trade Agreement with Canada and Mexico, which created a free trade zone in the northern part of the Western Hemisphere.

—Peter Rainow

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See also Volume 2: Trade Policy.

Bush, George W. (1946–)

Forty-third president of the United States, the son of former President George Herbert Walker Bush, Republican.

Born in New Haven, Connecticut, July 6, 1946, George W. Bush moved with his family to Midland, Texas, and then to Houston, where his father, George H. W. Bush, owned and operated an oil company. George W. Bush attended Yale University, receiving a bachelor's degree in 1968. After serving in the Texas Air National Guard during the Vietnam conflict, he earned his master's degree in business from Harvard Business School in 1975. He returned to Texas, worked in the energy industry, and helped his father win the presidency in 1988. Bush then formed a partnership that purchased the Texas Rangers baseball team in 1989. He became the general manager of the team and remained in that position until he won the Texas governor's race in 1994 and again in 1998. In 2000, Bush was the Republican candidate in the national presidential election, facing Democrat Al Gore. The election was close and, after a court battle that went to the Supreme Court, Bush was awarded Florida's winning Electoral College votes. His opponents charged him with "stealing" the election. Bush was inaugurated in 2001.

In 2001 the economy was in a recession that had begun the previous year when technology stocks plummeted, and Bush proposed a tax cut as a means of stimulating the economy. But before the tax cut could be implemented, terrorists attacked in New York City and Washington, D.C., on September 11, 2001, using passenger jets as weapons. The economy suffered as the country fought to rebound after the attacks. The airline industry was particularly hard hit. Bush insisted on a tax cut, and rebate checks were issued to many taxpayers in 2002. On May 28, 2003, Bush signed the Jobs and Growth Plan, which increased child tax credits from $600 to $1,000 per child; in July 2003 the Internal Revenue Service was to begin issuing checks for the difference to 25 million eligible families. The legislation also reduced the "marriage penalty," in which married couples pay a higher tax rate than two single individuals filing two separate returns. It reduced the amount of taxes withheld from employees' paychecks; this reduction applied to everyone who has to pay taxes based on wages. By June 2003 the Federal Reserve Board indicated that the U.S. economy is showing signs of recovery.

Bush has also implemented several other economic policies including those to expand home ownership (through creation of a federal fund to assist low-income families with down payments, a tax credit for the construction of single-family housing in the inner city, and simplification of the home closing process), increase international trade (through negotiations with foreign countries on free trade and the reduction of trade barriers), and develop a sound energy policy that encourages the development of alternative energy and reduces the dependence on foreign oil. The House of Representatives passed a comprehensive energy bill in April 2003 but at this writing the Senate continues to debate the issue. Meanwhile, the price of oil has dropped slightly. After the 2003 war in Iraq and the lifting of a UN embargo against that country, Iraqi oil can now freely be sold on the international market.

After accounting scandals at Enron (December 2001) and several other U.S. corporations revealed profiteering by top executives and the loss of retirement funds of workers, Bush introduced legislation designed to improve corporate responsibility. In 2002 Congress passed the Public Company Accounting Reform and Investor Protection Act, which charges the Securities and Exchange Commission with stricter enforcement of accounting and stock market practices and requires stiff penalties for violators. Bush has proposed health care reforms including improved availability of affordable prescription drugs for the elderly. Education

reforms, including an early childhood initiative and school vouchers (which allow parents to use tax money to send their children to the school of their choice) are also on the president's agenda. Many of these policies are still being debated by Congress. Meanwhile, the Bush administration continues the international "war on terrorism," which began with the destruction of terrorist training camps in Afghanistan following terrorist attacks on the United States in 2001. Additional resources are being allocated to the new Homeland Security Agency, which now operates as the umbrella agency for many other departments in the domestic war against terrorism.

—*Cynthia Clark Northrup*

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See also Volume 1: Education; Volume 2: Education; Energy Policy.

Business

Companies that generate revenue and employee labor and that pay many of the taxes that fund the operation of the American government.

Historically, the business community maintained the tax base in the United States through the twentieth century and as the twenty-first century began. Companies that imported goods paid an import duty ranging from about 2 percent to more than 50 percent depending on the product. After ratification of the U.S. Constitution, the federal government relied on these revenue tariffs to pay off the fledgling nation's debt. As early as 1792, Secretary of the Treasury Alexander Hamilton in his *Report on the Subject of Manufactures* encouraged Congress to assist businesses, especially manufacturers, by erecting high protective tariffs. Although Congress rejected Hamilton's recommendations, by 1816 it recognized the need for a stronger manufacturing base in the United States to provide for the home market. Passage of the first protective tariff in 1816 signaled the beginning of a period of high protectionism that intensified during and after the Civil War.

When the United States emerged from the Civil War, Congress continued to repeatedly increase tariff duties and thus stimulate business, even though the government experienced many years of fiscal surpluses. As a result, big business flourished. Individuals such as Andrew Carnegie, John D. Rockefeller, and J. P. Morgan operated businesses freely without the threat of foreign competition. However, abuses experienced by laborers during this period eventually created a backlash against business that pushed Congress into passing such acts as the Sherman Anti-Trust Act and the Clayton Anti-Trust Act. Even with government prohibition of monopolies, the tendency remained to encourage big business, especially up to 1913, when a large portion of government revenue shifted from the tariff to a graduated personal income tax. Ratification in 1913 of the Sixteenth Amendment, which authorized a personal income tax, transferred a large portion of the burden of taxation from the business community to individuals. However, business continues to constitute a large portion of the taxes. During the Great Depression, despite the fact that the government now collected the personal income tax, tariff rates again increased as a result of the Hawley-Smoot Tariff—reaching an average level of about 50 percent on many items. Because many economists believed that the Hawley-Smoot Tariff of 1930 led to World War II because of the disruption of international trade and a worldwide depression, American officials after that war advocated free trade over protectionism. By this time, however, business in the United States had matured and no longer required government protection.

Because the United States operates under a capitalist system and business continues both to stimulate the economy and to provide revenue for the federal government, business will continue to enjoy a position of importance in the United States.

—*Cynthia Clark Northrup*

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See also Volume 1: Antiunion Policies; Clayton Anti-Trust Act; Protective Tariffs; Sherman Anti-Trust Act; Sixteenth Amendment; Volume 2 (Documents): *Report on the Subject of Manufactures.*

Canada, Invasion of (1812–1813)

Attempt by the United States to acquire Canada in the early nineteenth century.

In the first years of the nineteenth century, many Americans, especially westerners, enviously eyed the natural resources of their northern neighbor, Canada. The lands around Lake Erie and Lake Ontario were a prime timber region, and those along the St. Lawrence River were exceedingly fertile. In November 1811, a new group of southern and western representatives arrived at the Twelfth Congress in Washington, D.C. Led by Henry Clay of Kentucky, John C. Calhoun of South Carolina, Peter B. Porter of New York, and Felix Grundy of Tennessee, this faction fanned the flames of the coming War of 1812 with Britain. They were outspoken advocates of defending American honor at sea, ending the threat of Indian attacks on the frontier, and incorporating Canada into the United States. Thus one element of the War of 1812 was a feeble, poorly planned, and uncoordinated attempt by U.S. forces to capture Canada. The strategy was to make a three-pronged attack against Montreal. All three attacks, carried out in the fall of 1813, failed. In the first, General William Hull ended his advance and returned to Detroit, fearing attacks by Indians in both countries. A second attempt failed when New York militiamen refused to enter Canada, and the final invasion under General Henry Dearborn ended for the same reason. Although these attempts failed, the desire to acquire more territory remained important to the United States.

The attempted invasion of Canada demonstrated the importance that territorial expansion played in America's vision of economic development. Acquiring new land would increase agricultural production and expand the nation's economy. The invasion also reflected the growing hunger for land among western farmers and speculators and the role their interest played in fueling the nation's expansion across the continent.

—*Peter S. Genovese*

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See also Volume 1: War of 1812.

Capitalism

An economic system stressing free markets and enterprise that played a vital role in the development of the United States.

Capitalism first arose in Europe and stemmed from the decline of feudalism, the rise of private property, and the placing of the individual good over the common good. It developed over hundreds of years in combination with various internal and external factors including state building, an agricultural revolution, a demographic revolution, a price revolution, and, in the 1800s, the Industrial Revolution.

Elements of capitalism have always existed, but beginning in the 1400s, as Europe started to expand outward, the means of production and mercantile activity slowly concentrated in the hands of private individuals. Europe's expansion into the Indian and Atlantic Oceans integrated its economy into those of the Far East and the Americas while introducing it to new sources of wealth, commodities, raw materials, markets, and consumers. The wealth of New Spain, for example, flowed back to Europe, initiating a price revolution as Europe moved away from a subsistence and barter economic system to a moneyed and market-driven economic system. This increase in the money supply corresponded with growth in the European population, which created both more workers and more consumers.

As more European states became involved in colonizing the Americas, they developed an economic system—termed *mercantilism* by economic theorist Adam Smith—designed to increase the power of the state. This system saw land, gold, and silver as the major forms of wealth and believed that wealth remained finite. Therefore, if a state gained or lost wealth, it gained or lost power. One issue stressed by Smith and many other early theorists was that a nation could increase its power by establishing colonies and foreign trade. They believed that monopolies allowed the state to acquire its revenues but that they limited the full potential of this developing economic system. In the mid-seventeenth and early eighteenth centuries in England, a debate began between supporters of monopolies and supporters of free trade. This debate culminated in the 1776 publication of Adam Smith's

Wealth of Nations exploring this new capitalist economic system. In his work, Smith argued that wealth, in the form of commodities, remained infinite and that a free market system created more wealth than a closed system. Smith and the political economists who built upon his work created the theoretical foundations of capitalism and expanded our understanding of how the economy works.

England's economic development set the stage for the rise of capitalism in the Americas. During the American Revolution, the American colonists hoped to establish free enterprise. After the creation of the U.S. Constitution, Secretary of the Treasury Alexander Hamilton used the powers it granted to further expand America's economic development. From the eighteenth century onward, capitalism played an important role in forming the American political, economic, social, ideological, and cultural system.

—*Ty M. Reese*

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See also Volume 1: Hamilton, Alexander; Industrial Revolution.

Captains of Industry

Business leaders, industrial magnates, and entrepreneurs of the late nineteenth century.

Men like John D. Rockefeller, Andrew Carnegie, and John Pierpont (J. P.) Morgan, among many others, owned and coordinated large business enterprises such as oil production, steel manufacture, and investment banking. These captains of industry introduced products and employed methods of organization that fostered national economic growth while allowing them to accumulate massive fortunes and wield tremendous power. Though they achieved great wealth, status, and power, these men routinely risked significant financial loss. Ironically, a primary motivation for their risk-taking included their desire to bring order to an environment of chaotic competition.

The original entrepreneurs of sixteenth-century France did not take risks in commerce but operated rather as "fortune captains" who hired mercenaries for wars of gain and plunder. American captains of industry often pursued their economic goals with the same creativity and ruthlessness of military leaders. Via innovation, intense competition, and new organizational processes, captains of industry both eliminated competitors and changed the rules of doing business. Sociologist Joseph Schumpeter argued that, although entrepreneurs differed fundamentally from military leaders, they nevertheless acted out of a desire for conquest and control and remained capable of astounding innovation. The captains of industry generally did not create the industries in which they excelled, but they achieved success because of organizational, promotional, and administrative skill.

John D. Rockefeller manifested these skills at his company, Standard Oil. By eliminating competitors through horizontal integration (that is, merging with or controlling other organizations that produce the same product), Rockefeller mastered the use of the holding company, in which one company controls other companies by holding the majority of their stock. Rockefeller also achieved astounding success through vertical integration by controlling the sources of production and outlets of sale for a particular product. For instance, in addition to building his own tankers and pipelines, Rockefeller obtained railroad rebates that gave him a significant cost advantage over competitors.

Few captains of industry proved more skillful than Andrew Carnegie, who used vertical integration to outmaneuver competitors and create Carnegie Steel, the largest steel business in the world. Obsessed with reducing costs, Carnegie acquired not only his own sources for the raw materials used in steel production but also sales outlets for that production.

The investor and financier J. P. Morgan imposed a similar order on his business environment through investments and financial control. Morgan provided capital for the nation's rapidly expanding industries, thereby acquiring control of company management decisions and ultimately controlling entire economic sectors. Believing that unfettered economic competition led to chaos, Morgan acquired partial or full control of such key economic concerns as railroads, American Telephone and Telegraph, a host of financial and banking concerns, and even Carnegie's steel empire.

Through horizontal or vertical integration or through financial maneuvering, Rockefeller, Carnegie, and Morgan imposed stability and predictability on the highly competitive business environment of the late nineteenth century.

—*Eric Pullin*

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See also Volume 1: Carnegie, Andrew; Morgan, John Pierpont; Rockefeller, John D.

Carey Act (1894)

The federal government's inadequate first effort to underwrite water reclamation projects by selling public lands and blending federal and state responsibilities.

After the Civil War, the growing agricultural needs of industrial America and the population's westward surge encountered a harsh reality—arid lands beyond the 100th meridian could not sustain eastern forms of agriculture. Inspired by Jeffersonian ideals of an agrarian society, generous rains in the 1870s and 1880s, and a fantasy that "water

follows the plow" (and forests), the federal government determined to promote irrigation. The Timber Culture Act (1873) gave land to anyone planting trees; the Desert Land Act (1877) bestowed additional acres on those irrigating land. These measures benefited mostly speculators; individual farmers lacked the capital necessary to purchase any land.

John Wesley Powell's *Report on the Lands of the Arid Region of the United States* (1878) advocated that laws be appropriate to the environment. Arid land required larger homesteads, whose shape and location must depend on available water—irrigation remained essential. By the 1880s and 1890s, droughts and the panic of 1893 gave his proposals urgency.

Irrigation advocates feuded. Should the federal government undertake reclamation (as many western congressional representatives wanted) or simply support reclamation by land cessions? Eastern states feared the reclamation cost, so in 1894 U.S. Senator Joseph Carey (Wyoming) authored a law mixing federal and state responsibilities. Any arid state might receive up to one million acres for reclamation, though neither it nor its assignees (such as an heir or prospective buyer) could receive title to that land until after 10 years of irrigation. State or private companies could build the reclamation projects using the land as collateral. Settlers must irrigate 20 of every 160 acres. The federal government approved all plans, and states chose the land, supervised settlement (preventing monopolies and speculation), and regulated water prices. Several projects started, most notably one by William F. "Buffalo Bill" Cody. Yet this experiment in cooperative federalism failed. By 1958, only a million acres had been distributed. States feared indebtedness as in the canal debacles of the 1830s; Populist suspicions of big government, localism, and sectionalism hampered progress; and projects exceeded westerners' technical and capital resources. It remained for the federal government to undertake reclamation itself after the passage of the Newlands Reclamation Act of 1902.

—*Everett W. Kindig*

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See also Volume 2: Land Policies.

Carnegie, Andrew (1835–1919)

Scottish-born immigrant who made a fortune in the iron business but is best remembered for his generosity and philanthropy.

Andrew Carnegie was born November 25, 1835. In 1848, the Carnegie family left the poverty of Scotland in hopes of a better life in America. They joined other family members in Pittsburgh, Pennsylvania, where young Andrew held a series of odd jobs. At age 14 he acquired a job with the telegraph, where he excelled, earning an astounding $4 a week. In the telegraph office Andrew met Thomas A. Scott, who had just started his railroad career as a station agent with the Pennsylvania Railroad. Scott hired Andrew as his secretary and personal telegraph messenger at a salary of $35 a week.

Carnegie remained with Pennsylvania Railroad for 12 years, working his way up until he succeeded Scott as superintendent. He acquired his first large profit from his stock in the Woodruff Company, holder of the Pullman sleeping car patent. In 1865, he resigned from the Pennsylvania Railroad to take advantage of a new field that had blossomed during the Civil War—the iron industry. Using his connections in Europe and the railroad business, Carnegie amassed a fortune in iron and steel.

A shrewd and talented businessman, Carnegie had a passion for learning and reading. He wrote several books and papers on wealth and its uses. In 1901 he sold his company, Carnegie Steel, to J. P. Morgan's United States Steel Corporation. With the money from the sale, he established a retirement and benefit fund for his employees.

Carnegie believed any wealth above $50,000 per year should be spent giving back to the community. He donated money to colleges, trusts, and other causes he felt were important. The Carnegie Library Project remains one of his most visible projects. Many small and rural libraries throughout the country were gifts from the Carnegie Foundation. Carnegie continued his good works until his death August 11, 1919, at the age of 83. He had been so influential that his life reflected the development of industrial history as a whole.

—*Lisa A. Ennis*

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See also Volume 1: Steel.

Carpetbaggers

Term given to Northerners who traveled south during Reconstruction hoping to make a fortune by taking advantage of the South's weakened economy following the Civil War.

Southern states, essentially bankrupt and starved for capital at the close of the Civil War, hoped Northern investors would revitalize the Southern economy. Reassured by the Southern press that the Northerners meant no harm, Southerners welcomed Northern investors, who were drawn to the potential for wealth. Among these "carpetbaggers" were well-educated businesspeople, political leaders, teachers, and soldiers who worked in partnerships with southern planters. Some bought abandoned or repossessed land, hoping to take advantage of the South's agricultural opportunities. Northern investments helped raise land prices and allowed the Southern planters to maintain their standard of living. Some carpetbaggers became involved in reform and politics, seeking to modernize the South through various internal improvements. Several carpetbaggers served in Congress during Reconstruction.

Although most people recognized the importance of the carpetbaggers in stabilizing the Southern economy, they remained unpopular outsiders in many areas. The carpetbaggers' confidence and their disregard for Southern opinions

and culture often created tensions. Another area of strain involved race. Carpetbaggers and their Southern counterpart, Scalawags, tended to vote along Republican lines aligned with the newly freed slaves, some working as Freedmen's Bureau agents. This antagonism helped promote the vicious image associated with the carpetbagger. (The name itself was negative and came from rumors that the Northerners were from lowest class and moved south with everything they owned put in one bag made of carpet.) Most carpetbaggers either returned to the North or joined Southern society after the compromise of 1877, which resulted in Rutherford B. Hayes becoming president with the understanding that Reconstruction would end.

—*Lisa A. Ennis*

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See also Volumes 1, 2: Slavery.

CCC

See Civilian Conservation Corps.

CCW

See Committee on the Conduct of the War.

CEA

See Council of Economic Advisers.

Census

A systematic accounting of persons, demographics, and economic resources of the nation.

Since ancient times, governments have recorded census information in an effort to determine the composition and condition of the nation or empire, primarily for taxation purposes. Under the U.S. Constitution, the United States conducted its first census in 1790 and has continued to do so every 10 years. Early census records focused primarily on population statistics—for example, the number of free persons and slaves, family size, and average age groups. Not until the 1820s did the government include additional categories to glean information about agriculture, commerce, and manufacturing. (Just four years prior to the 1820 census, the government had enacted the first of many protective tariffs designed to encourage the growth of manufacturing. Consequently, the figures were important as the government sought to track economic changes.)

By 1840, the census expanded to include information on transportation (sea navigation, canals, and lakes), mining, churches, libraries, schools, education, literacy, marriages, births, and deaths. Also included was information pertaining to newspapers and printing. The inclusion of these facts reflects the onset of the market revolution and its accompanying transportation, communication, and social revolutions. The 1840s and 1850s were a period of tremendous change as a result of the move from subsistence to a market economy, and through the census the government attempted to record these changes.

The next major change in the census occurred in 1870, when categories were added for race and place of birth in an effort to track the origins of foreign-born peoples residing in the United States. Other categories added concerned taxation (federal, state, and local) and property. Significantly, it was not until the 1900 census that adequate figures appear on labor—not surprisingly, well after the major labor strikes of the late 1800s. After a period in which divorce rates increased rapidly, the government included questions about the marital status of Americans in the 1930 census. By the 1940s, the census questionnaire also included categories for retail and wholesale establishments, reflecting expansion of the nation's commerce during World War II. By the 1960s the census sought a wealth of information that enabled the government to discern the economic and social condition of the country. Congress uses the statistics to determine the allocation of funds and programs. The primary concern in recent decades is the undercounting of homeless and minority groups, a fact that could reduce federal expenditures in the areas most in need of funds.

—*Cynthia Clark Northrup*

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See also Volume 1: Population; Slavery; Volume 2: Labor; Slavery.

CENTO

See Central Treaty Organization.

Central Treaty Organization (CENTO)

Organization in existence from 1955 until 1979 that attempted to unite the northern tier of Middle Eastern states in the face of the Soviet threat to the region during the cold war.

The Central Treaty Organization (CENTO) grew out of the Baghdad Pact, a mutual assistance and defense arrangement signed by Iraq and Turkey on February 24, 1955; the United Kingdom on April 5, 1955; Pakistan on September 23, 1955; and Iran on November 3, 1955. Originally dubbed the Middle East Treaty Organization (METO) and then called the Baghdad Pact, CENTO also reflected the West's growing concerns over potential threats emerging from within the region—for example, Gamal Abdel Nasser's Egypt with its pro-Soviet leanings. The United States actively promoted the Baghdad Pact as a key indicator of the West's commitment to the region and induced Pakistan to join the Baghdad Pact in 1955. The United States became an associate member of

METO in 1956, revealing its overt interest in supporting the organization. Following Iraq's withdrawal from the Baghdad Pact in the aftermath of its 1958 revolution, METO headquarters moved from Baghdad to Ankara, Turkey, and the organization changed its name to CENTO.

Conceived as a part of U.S. Secretary of State John Foster Dulles's "pactomania" along with the formation of the North Atlantic Treaty Organization and the Southeast Asia Treaty Organization, CENTO attempted to surround the Soviet Union with defensive alliances. The organization closed the geostrategic gap between NATO and SEATO that exposed to potential attack Persian Gulf oilfields and vital transit routes like the Suez Canal. Never challenged militarily, CENTO proved a reliable though not always effective conduit for U.S. financial assistance to CENTO members. USAID (the United States Agency for International Development) remained CENTO's most significant American contributor, underscoring the U.S. government position that CENTO operated primarily as a political tool and, at best, a marginal military alliance. CENTO collapsed in 1979 during the Iranian Revolution when Iran, Pakistan, and Turkey withdrew.

—Robert Rook

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See also Volume 1: Cold War.

Charles River Bridge v. Warren Bridge (1837)

A court case pitting the public good against private property rights.

In 1785, the Massachusetts legislature granted a corporate charter to John Hancock and other investors to build a toll bridge over the Charles River from Boston in the south to Charlestown in the north. The bridge quickly proved a profitable venture, and the value of the original shares increased tenfold. The high profits of the Charles River Bridge Company were threatened in 1828 when the Massachusetts legislature granted a corporate charter to the Warren Bridge Company to build another bridge across the Charles River. The new bridge would charge a toll only until the original investors had recouped their initial investment. The Warren Bridge would then be free to all travelers who crossed it.

The owners of the Charles River Bridge sued the owners of the Warren Bridge, arguing that their original corporate charter gave them a vested right to control bridge traffic across the Charles River. Because the new Warren Bridge would eventually charge no tolls, it would inevitably destroy the business of the Charles River Bridge and thus impair the original charter. Massachusetts, argued owners of the Charles River Bridge, had therefore violated the contract clause of the U.S. Constitution that clearly states in Article 1, Section 10: "No State shall … pass any Law impairing the Obligation of Contracts." The owners of the Charles River Bridge hoped that the Supreme Court would follow the precedent set in *Dartmouth College v. Woodward* (1819) and decide the case in their favor.

Although the case was originally argued in 1831 before the Court of Chief Justice John Marshall, the justices could never reach a decision. When Roger B. Taney became chief justice in 1836, he ordered that the case be reargued in January 1837 and ruled in favor of the Warren Bridge on February 12, 1837. In a 4-to-3 decision, Taney held that the 1785 charter did not explicitly state that the Charles River Bridge had an exclusive right to carry traffic. He reasoned that if monopoly rights were read into every corporate charter, the American people would be unable to benefit from technological improvements in the future. Taney laid down an even more important precedent when he ruled that the public good must prevail whenever the rights of the community conflict with the rights of private property. Justice Taney's decision did much to promote the growth of American business in the early nineteenth century.

—Mary Stockwell

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See also Volume 2: Judiciary.

Checkers Speech (September 23, 1952)

Nationally televised speech delivered by Republican vice presidential candidate Richard Nixon.

During the 1952 presidential election campaign, in which he ran as Dwight D. Eisenhower's vice presidential candidate, Richard Nixon appeared on national television in response to Democratic charges that he had accepted payments for political expenses from a secret fund managed by a group of dubious businesspeople. The fund and the transactions associated with it were legal and commonplace, but the publicity generated by the charges threatened Nixon's place on the Republican ticket and his long-term political plans. Nixon gave a masterful performance. He disclosed his financial situation to the television audience, assuring millions of viewers that he was not a wealthy man and that he had never profited from public service. He also boasted that his wife Pat, in contrast to the mink-coated wives of officials in President Harry S Truman's administration, wore a "respectable Republican cloth coat." The speech received its name because of Nixon's admission that his family did plan to keep one political contribution—a black and white cocker spaniel that his young daughter Tricia named Checkers. The televised appearance was a great success for Nixon. He remained on the Republican ticket and served as vice president under President Dwight D. Eisenhower for eight years. Throughout the rest of Nixon's political career, his detractors would recall the performance as a brazen exercise in manipulation.

—Ben Wynne

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See also Volume 1: Corruption.

Checks and Balances

A system designed to protect individual rights against possible violation by government; part of the theory of balanced government in which powers are separated, a theory that can be traced back to ancient times.

The theory of checks and balances rests on a system of separation of powers or balanced government. Historians can trace government consisting of a separation of powers back to the ancient Greeks. Aristotle prescribed a system of "mixed government" composed of monarchy, aristocracy, and democracy. The system of the ancient Romans relied on a "balance of interests" among the monarchical, aristocratic, and democratic parts of the government.

The American system achieves a balance of powers or functions among the three branches of government: the executive (the president), the legislative (the two houses of Congress), and the judicial (the Supreme Court). This system predates independence from England. It operated in several of the colonial provincial governments, including those of Virginia, Massachusetts, and New Hampshire. During the period of the Articles of Confederation, Thomas Jefferson advocated a system of balanced government to avoid corruption, tyranny, and despotism.

The Americans, when drafting the U.S. Constitution, adopted these ideas from the eighteenth-century French philosopher Charles de Secondat, Baron de Montesquieu (1689–1755), who wrote *The Spirit of the Laws* (1748). Montesquieu bequeathed to the American founding fathers the principle of separation of powers necessary for the system of checks and balances to function.

The founding fathers believed that to maintain a government that is free from tyranny and corruption, the government must have more than simple separation of powers. Thus, they prescribed a system of checks (each government branch watches the other two to restrain them from usurping power) and balances (power remains equally divided among the three government branches). The U.S. Constitution specifically delineates these checks and balances: The two houses of Congress, the Senate and the House of Representatives, legislate separately but require at least minimal cooperation of the other. Congress can pass a bill into law, but the president can veto it. The Congress and president can agree on passing a law, but the judiciary can declare it unconstitutional. The president is in charge of foreign and military policy, but the Senate must ratify the president's treaties if they are to become law. Congress must agree to raise the funds to support the military. Under this system, each branch of government has its own authority to make decisions on specific issues; however, it often requires the consent of the other two branches.

The American system of a federal government further ensures the working of a system of checks and balances. State governments share power with the federal government; thus, neither has supreme power. The fact that the people directly elect politicians is another check on power.

—*Leigh Whaley*

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See also Volume 1: Constitution.

Child Labor

The employment of youths under the age of 18 years.

From colonial times through the mid-1840s, the United States experienced a scarcity of laborers. Families relied on their children to assist with agricultural chores or with the family-owned business. Usually young boys between the ages of 10 and 14 would be apprenticed outside the home for additional wages. This system remained in place and unchallenged until the 1840s, when educational reformers sought to regulate work hours in an effort to ensure that children would have enough time to attend school and complete their studies. The beginning of the movement for child labor regulation coincides with the transformation from a subsistence economy to a market economy in the United States—a change that demanded a literate citizenry. States including Connecticut and Massachusetts passed legislation requiring employers to provide a minimum of three hours of educational instruction to children, but these laws remained relatively ineffective because of a lack of enforcement.

Just as factories began to expand rapidly, a wave of immigrants arrived in the United States. Employers often hired adult immigrants who had many children so that their children would also be available as laborers. In these factories, children worked from 10- to 13-hour days in unhealthy conditions. Because women filled most of the positions in the textile industry, children moved into other, more hazardous, occupations, such as coal mining. Employers realized that children could be paid a lower wage and that they usually proved more controllable than adults, especially because unions had a difficult time organizing them.

By the beginning of the twentieth century, the Progressives, who advocated a wide range of political, social, and economic reforms, began advocating the regulation of child labor at the federal level. They championed their cause by initiating a public awareness campaign, distributing photographs of the deplorable conditions under which many children worked, and raising the level of public sympathy for the children. Proponents of federal legislation distributed pamphlets, lobbied Congress, and employed experts to conduct studies. Congress finally passed child labor laws in 1916 and 1918, but the U.S. Supreme Court declared the laws unconstitutional.

As a result of increased unemployment during the Great Depression, Congress passed the Fair Labor Standards Act of 1938, which proved to be the first effective measure that would regulate the number of hours worked by, and wages paid to, children. Upheld by the U.S. Supreme Court as con-

stitutional, the act meant to ensure that adults had jobs by restricting the employment of children. Children under the age of 14 were forbidden to work for commercial agriculture or in other places of employment other than their family farm or business. Children between 14 and 16 could only work 18 hours a week during the school year and 40 hours a week during the summer. In addition, the Department of Labor in 1938 issued a list of hazardous occupations in which child labor is prohibited, with the imposition of stiff penalties for violators. Currently, federal law allows for the minimum payment of $4.25 an hour for the first 90 days of employment for youths, with an increase to the minimum wage standard after the probationary period. Children cannot work prior to 7 A.M. or after 7 P.M. except in the summer, when the latter time is extended to 9 P.M.

Restriction of child labor has resulted in a general increase in wages for the lower-paying jobs. It has also encouraged children to concentrate on their education. Consequently, more employment opportunities exist for adults. Overall, the legislation has proved effective except for migratory agricultural laborers and in the textile industry, where the children of illegal immigrants work long hours for less than the minimum wage.

—*Cynthia Clark Northrup*

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See also Volume 2: Labor.

China

World's most populous country and third-largest country in size, with increasing importance for U.S. trade and investment since the 1880s.

Formal U.S.-China economic relations began with the 1844 Treaty of Wangxia, which granted most-favored-nation trading status to the United States. American economic interests rapidly expanded in China during the late nineteenth century, when the United States emerged as a major world power and its influence grew in the Pacific. By acquiring the Philippines in the Spanish-American War of 1898, the United States founded a stronghold for American trade in Asia and gained convenient proximity for American commercial gains in China. But given the exclusive spheres of influence that other Western powers and Japan had carved out based on the unequal treaties with the Qing government since 1840, the United States faced the danger of being cut off from the China trade. To protect American interests without risking conflict, U.S. Secretary of State John Hay, in 1899 and 1900, respectively, delivered diplomatic notes to the major powers (England, Germany, Russia, France, Japan, and Italy) that possessed spheres of influence in China. He demanded equal and fair chances for all nations that wanted to compete in the China market and asked the major powers for their commitment to Chinese sovereignty and territorial integrity. These notes established an "open door" as the international policy pursued by the United States toward China until 1949, and they were important for U.S. relations with other imperial powers in East Asia until World War II. When the Communist Party of China (CPC) defeated the Nationalist Chinese forces and took power in China's mainland in 1949, economic contact between mainland China (the People's Republic of China) and the United States was suspended, not to be renewed until 1978.

After the fall of mainland China to communist forces under Mao Zedong, the United States formally recognized Taiwan as the legitimate government of China under Chiang Kai-Shek, the leader of the Nationalist Chinese forces. Although Richard Nixon visited the People's Republic of China in 1972 after the U.S. government initiated a policy of détente toward communist countries, the United States continued to recognize Taiwan as the legitimate government of China until 1979. In 1979 the United States transferred recognition to the government of the People's Republic of China.

Chinese-American economic relations developed rapidly in the 1980s when the new CPC leadership under Deng Xiaoping pursued pragmatic modernization for China and initiated continuous economic reforms in the name of building "socialism" with Chinese characteristics. Through economic decentralization and by opening up to foreign investments, China has improved its productivity and its people's living standard and has made its national strength more comprehensive.

Vital to China's economic growth are exports to the United States and American investment in Chinese technology. Since 1980 the United States has become a foremost market for Chinese exports, and China has generated increasing trade surplus—more than $103 billion in 2002. Meanwhile, American investment in China has been growing rapidly. In 1997 alone, Americans had investments in 22,240 Chinese projects the total contractual value of which was worth $35.17 billion. Despite the trend toward greater economic intercourse with China, the United States has long been protesting China's unfair trade practices (high tariffs and market closings to certain American industries) and piracy of intellectual property rights (especially in U.S. movies, computer software, and compact discs). Contention on these issues led the United States to threaten tariff retaliation against China in 1992. To avoid a trade war, the two countries negotiated and signed the 1992 Intellectual Property Protection Memorandum. In 1995, China promised to lower certain tariff barriers and open markets to several American products in exchange for American support of China's entry into the World Trade Organization (WTO). In 2000, the U.S. Congress voted to give China permanent most-favored-nation status.

—*Guoqiang Zheng*

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See also Volume 1: Boxer Rebellion; Open Door Notes; World Trade Organization.

Civil Rights Act of 1968

Act that reinforced the end of racial segregation.

The Civil Rights Act of 1968 passed Congress on April 11, 1968, after a two-year struggle to include an open housing act under the broad umbrella of civil rights. The assassination of civil rights leader Martin Luther King on April 4, 1968, guaranteed the passage of this law and prompted members of Congress to attach a provision to the act that made crossing state lines for purposes of inciting disorder a federal crime.

This legislation prohibits housing discrimination in sales and rentals based on race, color, national origin, or religion. It also eliminated a major legal obstacle to racial equality and concluded an important legislative epoch that began with the U.S. Supreme Court decision in *Brown v. Board of Education* (1954) that ended segregation in public schools.

—*James T. Carroll*

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See also Volume 1: Civil Rights Movement.

Civil Rights Movement (1955–1968)

Attempts by the African American community to achieve political and economic equality.

Although the Civil War ended with the freeing of all Africans from the institution of slavery and the passage of the Thirteenth and Fourteenth Amendments, which ended slavery and defined citizenship, due process, and equal protection, blacks in the United States continued to experience discrimination. Jim Crow laws in the South between the 1880s and 1960s, which enforced segregation, and the 1896 Supreme Court decision in *Plessy v. Ferguson,* which determined that blacks must have equal facilities even if they were separate facilities, resulted in widespread discrimination against black citizens. Not until after World War II and the dismantling of the colonial empires of the world did the United States begin the slow process of ending segregation. In 1954, the Supreme Court heard arguments in the case of *Brown v. Board of Education,* in which attorneys for the plaintiffs argued that separate schools for black children could not provide an education equal to that available to white children. They based their arguments on a study conducted among black and white children in which the children invariably favored white dolls over black dolls because they were "prettier" or "richer" or "better." The Supreme Court accepted the argument and ordered that the states desegregate the public schools. This decision was later extended to higher education. Access to better educational opportunities became a key economic tool for advancement by African Americans.

Brown v. Board of Education provided an impetus to the Civil Rights movement. On December 1, 1955, Rosa Parks, a black seamstress, refused to give up her seat to a white passenger on a public bus in Montgomery, Alabama. Parks, a member of the National Association for the Advancement of Colored People, was arrested. Blacks in Montgomery, led by a charismatic young preacher named Martin Luther King Jr., initiated a boycott of the Montgomery bus system that lasted for a year and ceased only after an edict was issued ending segregation on public transportation. The boycott's success can be attributed to economic pressure placed on the municipality by loss of revenue, because blacks comprised the largest percentage of fare-paying passengers.

Nonviolent civil disobedience became the hallmark of the Civil Rights movement throughout the rest of the 1950s and the first half of the 1960s. Students engaged in sit-ins at lunch counters after being refused service based on the color of their skin. The first of these occurred in 1960 when students of the North Carolina Agricultural and Technical College refused to leave a drugstore lunch counter or offer resistance when white patrons spat at them, poured drinks and catsup on them, and verbally harassed them. In the meantime, the lunch counter lost revenue because the seats were occupied.

The Civil Rights movement gained national attention in 1963 when the Student Nonviolent Coordinating Committee (SNCC) organized a campaign in Birmingham, Alabama. Television cameras captured the events as police used dogs, fire hoses, and clubs against nonviolent demonstrators, some of whom were children. The violence in Birmingham led President John F. Kennedy to push for legislation that would ensure rights for black citizens. After Kennedy's assassination, President Lyndon B. Johnson secured passage of the Civil Rights Act of 1964, which prohibited discrimination based on race, sex, or creed, and the Voting Rights Act of 1965. After Johnson's Great Society speech in which he demanded an end to poverty and injustice, many blacks believed that the federal government would move quickly to improve their economic plight. When new economic opportunities failed to materialize and both Martin Luther King and former Attorney General Robert F. Kennedy, a powerful supporter of civil rights, were assassinated in 1968, several U.S. cities experienced riots. After 1968, the Civil Rights movement became more violent with the rise of groups like the Black Panthers, who advocated a more militant approach.

During the 1970s, the Supreme Court once again became involved in civil rights, ordering school busing of children as a way of ending school segregation caused by "white flight," in which great numbers of white families left cities to move to more expensive suburbs, leaving the urban core to poorer black families. Over the past several decades, the national Civil Rights movement has declined as more black Americans have achieved new levels of economic, social, and political acceptance.

—*Cynthia Clark Northrup*

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See also Volume 1: Montgomery Bus Boycott.

Civil Works Administration (CWA)

A federal depression-era program that put out-of-work Americans to work on public projects.

President Franklin D. Roosevelt signed Executive Order 6420-B creating the Civil Works Administration (CWA) on November 9, 1933. This entirely federal program was headed by Harry L. Hopkins, a federal emergency relief administrator who recruited people from relief and unemployment lists. Keeping in mind people's emotional and psychological wellbeing, Hopkins created a system in which people worked on public works projects throughout the nation rather than simply receiving a regular relief check. By early 1943, the CWA employed 4.2 million people. Roosevelt would remember this successful model in future relief projects. The program became an extraordinary and immediate success. In the West, CWA workers helped cope with a serious drought. With help from Eleanor Roosevelt, the president's wife, Hopkins also focused on providing work for artists and actors, despite the president's doubts about the idea's validity. For instance, Hopkins sent opera singers on tour in the Ozark Mountains, providing people in an economically disadvantaged region with a cultural event they would otherwise never have experienced. Unemployed teachers also benefited from the CWA. Overall, the CWA remains responsible for building 40,000 schools, 469 airports, and miles of streets and roads. The most important result of the program, however, was the morale boost it gave the nation.

Hopkins and Roosevelt tried to keep politics out of the CWA, but it was hurt by rumors of political patronage and illegal profits. During the harsh winter of 1933–1934, Roosevelt wanted to end the program despite its success, worried about the political problems and enormous cost associated with the program and about creating a permanent poor class dependent on welfare. Overall, the program infused the economy with more than $1 billion dollars and played an important part in helping the American people survive the 1933 winter. In 1939 the CWA became known as the Works Progress Administration.

—Lisa A. Ennis

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See also Volume 1: New Deal; Roosevelt, Franklin D.

Civilian Conservation Corps (CCC)

A depression-era program designed to provide employment relief for young men and as an emergency conservation measure.

On March 21, 1933, President Franklin D. Roosevelt asked Congress to create the Civilian Conservation Corps (CCC). One of the first and most successful of the New Deal programs, which were designed to initiate political, social, and economic reforms, the CCC provided jobs for 17- to 24-year-old single men whose families already received some sort of relief. Eventually, some 2.5 million young men would serve in the CCC. Organized and administered by the U.S. Army, the CCC consisted of companies of 200 men. Each volunteer received a monthly paycheck of $30, a portion of which they sent home. Much like army recruits, the CCC volunteers lived in camps or barracks and received uniforms, meals, and medical care. The agency stressed education, and many men learned to read and write in CCC camps. When Congress removed age and marital restrictions in 1935, participation in the CCC increased markedly. The Corps was open to all races, and many Native Americans and African Americans volunteered. However, African Americans were segregated in all-black camps.

One of the most expensive of the New Deal programs, the CCC was also one of the most beneficial. CCC volunteers restored national historic sites, built various facilities in national parks, worked on dams and reservoirs, and helped fight forest fires. The group receives credit for their reforestation efforts; nicknamed "Roosevelt's Tree Army," the CCC planted more than two billion trees. Under the authority of the Tennessee Valley Authority, the CCC also worked to prevent topsoil erosion. As the economy improved, the CCC's numbers began to decline, and in 1942 Congress cut funding.

—Lisa A. Ennis

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See also Volume 1: New Deal; Roosevelt, Franklin D.

Class

Collection of people with commensurate economic or social standing.

The term *class* was known to the Romans, who categorized people according to wealth. During the modern period, which began in the eighteenth century, the term's definition was refined by Physiocrats, classical political economists, and Marxists. In the writings of the Physiocratic School, particularly in François Quesnay's *Tableau Oeconomique* (1758), the term was used to designate farmers (*classe productive*), landlords (*classe distributive*), and merchants (*classe sterile*). Though familiar with the works of the Physiocrats, economic theorist Adam Smith preferred to describe social relations in terms of ranks and orders. Thereafter, David Ricardo's *Principles of Political Economy* (1817), written during the economic, political, and social ferment of the Industrial Revolution, demarcated the classes of capital and labor. Finally, Karl Marx's critique of classical political economy, which reworked the categories of Smith and Ricardo, emphasized the irreducible conflict between the capitalist class (the owners of the means of production) and the working class (the sellers of labor power).

In Marx's view, the existence of classes was linked inextricably to "particular, historic phases in the development of production." Accordingly, Marx anticipated the intensification of class struggle (and hence the progressive polarization of society). In theory, this historical process would produce a socialist revolution followed by the consolidation of a provisional workers' state. However, the electoral success of socialist parties (for example, the German Social Democratic Party)

dampened the revolutionary fervor of the working-class movement. Consequently, Eduard Bernstein and other revisionists came not only to advocate the parliamentary path to socialism but also to elaborate a more nuanced conception of class conflict. In essence, Bernstein argued that the rising standard of living of the working class and the growth of the middle class testified to the success of parliamentary socialism. (Arguably, Bernstein's vision was vindicated by the advent of the welfare state—the historic compromise between capital and labor—in the aftermath of World War II.)

With the emergence of sociology as an academic discipline early in the twentieth century, the concept of class received further elaboration. Fittingly, the putative founders of sociology, Emile Durkheim and Max Weber, engaged in an implicit dialogue with Marxism. Durkheim—influenced by the positivism of Auguste Comte, who created the field of sociology, and the utopian socialism of philosopher Claude Henri de Rouvroy, Comte de Saint-Simon—isolated two forms of social cohesion: mechanical solidarity (deriving from common beliefs, sentiments, rituals, and routines) and organic solidarity (deriving from participation in the division of labor). Influenced by neo-Kantianism, Weber introduced three terms to designate social standing: class situation (i.e., economic or material prospects), status situation (i.e., honor or prestige), and power (i.e., access to the legitimate use of force). Thus, in effect, the contributions of Durkheim and Weber compensated for the class reductionism inherent in orthodox Marxism.

In the United States, the absence of a significant socialist movement led sociologists to postulate "American exceptionalism." Though indebted to Marx, C. Wright Mills rejected the idea of the working class as the motor of social change. His intervention had a lasting influence on American sociology.

—*Mark Frezzo*

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See also Volume 1: Marxism; Socialism.

Clay, Henry (1777–1852)

American politician and diplomat who dominated U.S. politics during the antebellum period (the years preceding the Civil War).

Henry Clay was born April 12, 1777. He was first elected to Congress in 1806 as a senator from Kentucky, Henry Clay represented the state for nearly 30 years, serving both as a senator and a representative. Clay typified the ardent nationalist and, during his early career, advocated a staunch defense of American territorial and trade rights against British interference. In 1812, as Speaker of the House, Clay joined other "War Hawks" in supporting America's declaration of war against England. An economic nationalist, Clay supported an active government intervention in the economy. He supported federal assistance for roads and canals, the Second Bank of the United States, and a protective tariff in the belief they could bring the American people "additional security to their liberties and the Union." This program, called the American System, became a central feature of the Whig Party's political platform in the 1830s. It also furnished targets for American politicians, like Andrew Jackson, concerned about the potentially intrusive and unconstitutional role of the federal government.

Clay ran for the presidency on five separate occasions but failed in each of his attempts. Although unsuccessful as a presidential candidate, Clay proved a masterful and prescient politician, particularly with regard to America's future social and economic development. A slaveholder, Clay regarded the institution as a necessary but temporary evil, one to be ended by gradual emancipation. He also advocated economic development as a means of uniting the nation and reducing its dependence on imports.

Clay's leadership of the Whig Party in the 1830s and 1840s remains a testament to his belief in economic expansion and political union, concepts that he considered were threatened by escalating sectionalism, in which different geographic regions competed for political and economic dominance. Clay regarded any potential dissolution of the union as "the greatest of all calamities" and worked assiduously to defuse several crises during the antebellum period. Instrumental in crafting the Missouri Compromise of 1820 that temporarily settled the issue of slavery in the Louisiana Territory, Clay also played a key role in negotiating a compromise tariff bill in 1833 that ended the South Carolina nullification crisis, during which South Carolina threatened to secede from the Union because of its objection to a large increase in tariff rates that discriminated against Southern agricultural states. In 1850, Clay cobbled together a series of proposals to quell a sectional crisis generated by the Mexican-American War—a war that he opposed because he foresaw, correctly, its potential to increase tensions between the North and South. This final effort, the Compromise of 1850, once again temporarily reduced sectional tensions but ultimately failed to forestall a civil war. Nonetheless, Clay's history of success in crafting political compromise amidst national crisis won him the monikers "the Great Compromiser" and "the Great Pacificator." He died June 29, 1852.

—*Robert Rook*

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See also Volume 1: American System.

Clayton Anti-Trust Act (1914)

Act meant to reinforce the Sherman Anti-Trust Act of 1890.

In 1914, when Congress passed the Clayton Anti-Trust Act, it completed the initial New Freedom legislative program of President Woodrow Wilson, who had campaigned in 1912 on a platform to renew competition in the economy by creating more specific prohibitions against restraint of trade. Congress passed the act partly as a response to revelations of the Pujo committee in the House of Representatives, which documented how the financial empire of J. P. Morgan and John D. Rockefeller sat atop a massive power structure of interlocking directorates in control of companies worth one-tenth of the national wealth. The Clayton Anti-Trust Act, drafted by congressman and jurist Henry De Lamar Clayton, prohibited interlocking directorates in industrial corporations capitalized at $1 million or more and in banks with assets of more than $5 million. In addition, it banned unfair trade practices, such as pricing policies that created a monopoly. But legislators exempted trade unions and agricultural organizations seeking legitimate goals from the provisions of the act. Indeed, the act limited the use of injunctions and restraining orders in labor disputes, while also seeking to legalize boycotts, picketing, and peaceful strikes. Decisions by federal courts soon rendered these provisions of the act almost useless. By the time Congress passed the Clayton Act, President Wilson had appeared to lose interest in the measure and almost completely accepted Theodore Roosevelt's New Nationalism idea of a powerful trade commission to regulate business.

—Steven E. Siry

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See also Volume 1: Sherman Anti-Trust Act; Volume 2 (Documents): Clayton Anti-Trust Act..

Cleveland, Grover (1837–1908)

An American statesman, twenty-second (1885–1889) and twenty-fourth (1893–1897) president of the United States, first Democratic president after the social and economic turmoil of the Civil War and Reconstruction.

Born March 18, 1837, in Caldwell, New Jersey, Grover Cleveland studied law in Buffalo, New York, and in 1859 commenced his law practice. He represented many clients including Standard Oil; Merchants and Traders Bank; and Buffalo, Rochester and Pittsburgh Railroad. He served as a mayor of Buffalo (1881–1882) and governor of New York (1883–1884).

During his first presidential administration, Cleveland expanded federal involvement in economic and commercial affairs. On February 4, 1887, Congress passed the Interstate Commerce Act, and on March 22, 1887, the first Interstate Commerce Commission received its appointments to administer it. Although the act primarily regulated railway transportation, it also served as the first major step in establishing federal control over business. In February 1889 Cleveland created the Department of Agriculture as an executive department. To strengthen the Treasury Department, Cleveland tried to reevaluate and limit expenditures for pensions, particularly for Union army veterans. His numerous vetoes on pension bills antagonized influential veteran interest groups. This policy, as well as his unsuccessful fight to lower protective tariff rates in 1887 and 1888, contributed to his defeat to Benjamin Harrison in 1888.

During his second presidential term (1893–1897), Cleveland faced a severe nationwide economic and financial crisis and the worst economic depression up to that time following the panic of 1893. Viewing the economic and financial policy of the Harrison administration as the major cause of lowering governmental revenues and the dangerous depletion of the U.S. Treasury, Cleveland in 1893 persuaded a special session of Congress controlled by the Democrats to repeal the Sherman Silver Purchase Act of 1890. The revision of the protectionist McKinley Tariff of 1890, also initiated by the president, led to bitter strife in the Senate. The compromise Wilson-Gorman Tariff Act, which appeared in 1894, combined some adjustments in the tariff rates with important concessions to protectionism. Cleveland denounced the final tariff bill while allowing it to become law without his signature.

To keep the nation on the gold standard and strengthen U.S. finances, Cleveland placed bank loans with the J. P. Morgan syndicate and August Belmont Jr., the representative for the Rothschild Bank in America in 1895. Although Cleveland's anticrisis measures brought about some relief to the Treasury, at the same time they alienated western and southern farmers and split the Democratic Party. Cleveland also alienated labor by remaining reluctant to provide direct governmental help to a growing number of unemployed. He also took a hard line toward a series of labor protests when public order or federal interests became endangered. In July 1894, federal troops dispatched by the president, despite opposition from the governor of Illinois, put down riots in the Chicago area that developed from the Pullman strike.

The Cleveland administration also believed that the enlarged American foreign trade could provide a key to economic revival for the nation, and he tried to expand U.S. commerce in Latin America. In doing so, between 1893 and 1895, the U.S. clashed with European rivals in Brazil, Nicaragua, Santo Domingo, and Venezuela. Grover Cleveland died in Princeton, New Jersey, on June 24, 1908.

—Peter Rainow

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See also Volume 1: Morgan, John Pierpont; Protective Tariffs; Sherman Anti-Trust Act; Wilson-Gorman Tariff.

Clinton, William Jefferson (1946–)

Forty-second president of the United States, who came to office as a "new Democrat" and ended up completing the Reagan revolution in economic policy.

William Jefferson Clinton was born August 19, 1946. He graduated from Georgetown University and earned a law degree from Yale University in 1973. In 1976 he became attorney general for the state of Arkansas, and in 1978 he was elected governor. He lost a reelection bid for the governorship but later regained the office; he was Arkansas governor when he ran for the U.S. presidency in 1992.

During his presidential campaign and immediately after the election, Bill Clinton identified five failures of the economic policies of the 12 previous years from 1981 to 1992: (1) the anemic nature of the economic recovery from the 1990 recession; (2) stagnation in the standard of living for the majority of the population since the early 1970s; (3) increased income inequality and the shrinking of the middle class; (4) the run-up of the national debt as a result of high deficit spending, even in years of prosperity; and (5) the failure of the government to use borrowed funds productively during the same period—more specifically, the neglect of infrastructure and education. He promised to fix these problems and to deliver sweeping reforms in the delivery of health care and in the welfare (Aid to Families with Dependent Children, or AFDC) system.

Clinton focused on the following to address these issues:

1. To accelerate the recovery, he proposed a stimulus package that would add $30 billion in spending increases and tax cuts to the government budget during the fiscal years of 1993 and 1994.
2. To raise income for the majority of the population, he proposed to vigorously pursue a full employment policy. He promised to promote education and training to prepare low-income workers for good, high-paying jobs.
3. To combat the worsening economic inequality, he proposed raising taxes on high-income people and expanding the earned income tax credit, which cut taxes and increased transfer payments (a form of wealth redistribution) to low-income workers.
4. Even while proposing the stimulus package, he made a commitment to reducing the federal budget deficit by combining tax increases and spending cuts that would reduce the budget deficit over five years by $148 billion—still not enough to bring the budget into balance.
5. Although focusing on deficit reduction, he promised to redirect government expenditure to what he called "investments"—infrastructure, training, aid to education, and targeted tax cuts.

Faced with unanimous opposition from Senate Republicans, who all signed a letter promising to filibuster the stimulus package, Clinton quickly abandoned that part of his program and devoted his entire attention in his first year to getting a deficit reduction plan passed. He succeeded without a vote to spare. This victory actually masked an important change in American economic policymaking. The argument that in 12 previous years the government had not provided the solution but instead remained the problem and that deficit reduction should only come from spending cuts instead of tax increases obviously had an effect. This Democratic president, working with Democratic majorities in both house of Congress, found himself shackled by the intellectual baggage from the so-called Reagan revolution in economic policymaking. Even tax increases that focused on very few Americans, those who had experienced dramatic increases in their incomes in the previous dozen years, barely won approval from that Democratic majority. This experience set the stage for Clinton's failures in achieving a balanced budget and surrender to budget cuts over the next three years.

In 1994, Clinton proposed a sweeping reform of the delivery of health care to all Americans. Rejecting the simple but radical idea of a Canadian-style single-payer system of health insurance, which would effectively eliminate the role of the private insurance industry in the delivery of health care, the administration opted for a system of universal coverage through that same private insurance industry—a fatal mistake. Instead of frightening the insurance industry into supporting a rather moderate health care reform proposal that limited their incomes but left them with at least half a loaf, the proposal emboldened them to opt for no change at all because it posed no real threat to them. This reaction was despite the fact that all scientifically conducted studies of the attitudes of ordinary Americans indicated they remained quite sympathetic to the specifics of the Canadian single-payer plan, absent the pejorative socialist label that ideologues and shills for the insurance industry hung on it. The result was predictable. The complicated Clinton proposal confused people so much that they fell prey to television advertisements featuring an Everyman and his wife ("Harry and Louise") discussing the Clinton plan with worried looks on their faces, exclaiming, "There's got to be a better way!" It never even came to a vote in Congress.

Welfare reform began for Clinton as a program to move able-bodied welfare recipients into the labor force with a carrot and a stick. The carrot increased expenditures on education, job training, and particularly child care. The stick placed time limits on how long an individual could continue to collect AFDC payments. The proposal never even came to a Congressional hearing.

With memories of the tax increases of 1993 and the failure to accomplish anything on health care reform in 1994 fresh in their minds, voters decided by the 1994 midterm Republican Congressional and Senatorial campaigns (under the banner "contract with America," which set forth a Republican agenda for dealing with a variety of issues) to "throw the rascals out." The Democrats lost control of both houses of Congress for the first time since 1954. The Republicans immediately proposed a massive tax cut combined with even bigger spending cuts (most of the actual dollars would come from reductions in the Medicare budget), which—based on the projection of 2 percent growth in gross domestic product (GDP) per year for seven years—would lead to a balanced budget by 2002. Republicans also passed a much more draconian version of welfare reform. President Clinton vetoed both bills. With no agreement on the budget for fiscal year 1996, government shutdowns in December 1995 and January

1996 occurred before public opinion forced the two sides to compromise. Although all eyes focused on the supposed "overreaching" of the Republicans, the Clinton administration accepted the goal of budget balance by 2002. In 1996 President Clinton also signed a slightly modified version of the Personal Responsibility Act (the Republican version of welfare reform) that he had previously vetoed. These two actions, one in February and the other in June, ensured Clinton's reelection and guaranteed that virtually everything he had promised in terms of reversing the 12 years of failure against which he had campaigned would be forgotten. By 1996, the economy had started to grow much more quickly than it had in Clinton's first three years, and he did claim responsibility for that rapid growth because he had created what he called "fiscal discipline." Certainly, there is strong support for the view that holding down spending and raising taxes pointed the economy toward a budgeted balance and caused long-term interest rates to decline, which stimulated investment. However, much of the investment that it spurred remained purely financial investment in the stock market and in start-up companies (the so-called "dot-coms"). The result was what became known as "irrational exuberance," which fueled a stock market boom that raised price:earnings ratios to historic highs. Although the stock market rose between 1996 and 2000 (it peaked in early 2000), consumption also rose as a percentage of GDP. In 1999 and 2000, in fact, consumption exceeded personal income. This stock market boom produced a consumption boom that also produced a windfall of increased revenues for the federal government, resulting in a balanced budget in 1998 instead of 2002.

By the time Clinton left office, the economy appeared to be in great shape, but income inequality had barely moderated. The federal government deficit had become a surplus, but private borrowing both by individuals and businesses increased faster than government borrowing decreased, thereby reducing national savings. The stock market boom that caused the dramatic increase in consumption pushed price:earnings ratios to three times their previous historic highs—a clearly unsustainable situation.

Some take issue with this rather negative judgment. For them, the fact that poverty rates declined, that low-wage Americans increased their incomes faster than the average American, and that unemployment fell to a 30-year low without accelerating inflation provides evidence of the correctness of Clinton's economic policies. Only time will tell whether these were short-run phenomena built on the unsustainable run-up in private debt and a giant stock market bubble or whether something significant had changed in the economy. Only with the hindsight of history will we know what in Clinton's policies contributed to these positive trends or whether he was just lucky to occupy the White House at the right time.

—*Michael A. Meeropol*

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See also Volume 1: North American Free Trade Agreement.

CoCom

See Coordinating Committee for Multilateral Export Controls

Cohens v. Virginia (1821)

Case resulting in decision that Supreme Court may rule on state court decisions.

Even though Virginia had banned all lotteries not approved by its state legislature, Philip and Mendes Cohen of Baltimore, Maryland, sold tickets in Norfolk for a lottery approved by Congress to benefit the District of Columbia. They were subsequently arrested and convicted under the Virginia state law. Although the state courts ruled in favor of Virginia, the Cohens took their case to the U.S. Supreme Court in the hope that the Court would rule a national law must always take precedence over a state law. They also argued that the Court had the authority to rule on the constitutionality of a state court decision under the Judiciary Act of 1793. The state of Virginia countered that the Supreme Court was precluded from hearing the case under the Eleventh Amendment, which states that a federal court cannot rule on suits brought against a state by citizens of another state or by foreign nationals.

Issuing the Court's decision in a 6-to-0 decision, Chief Justice John Marshall used the case to make one of the strongest statements of his career on the nature of the federal union. Although he ruled against the Cohens on the grounds that the lottery in question applied only to the District of Columbia, he reminded Virginia and all other states that they belonged to a union under the rule of the Constitution. "We are one people," wrote Justice Marshall, "in commerce, in war and peace, and in so many other ways." Marshall also stated that all federal questions must ultimately be decided in the federal courts. Even when a state court has ruled on the constitutionality of a state law, the Supreme Court must have the final word if the underlying issue is federal. The Eleventh Amendment does not preclude the Supreme Court from ruling in such cases.

—*Mary Stockwell*

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See also Volume 2: Judiciary.

Coin's Financial School (1894)

A 1894 tract in support of bimetalism that sold a million copies.

In the post–Civil War period, the U.S. government used both gold and silver as specie (coined money) until 1873 when only gold was accepted. This policy hurt farmers and the poorer classes, who wanted silver used again because it would expand the money supply and lower interest rates. William H. Harvey's *Coin's Financial School,* published by the author in June 1894, became the most effective and most

widely read free-silver tract, laying the foundations for William Jennings Bryan's "cross of gold" speech and 1896 presidential campaign. The author wrote the book while Jacob Coxey's "army" of the unemployed marched in protest on Washington, and he published it the same month the Pullman strike began, at a time of economic depression and falling prices. *Coin's Financial School* advocated raising prices by increasing the quantity of money and recommended accomplishing this by coining silver as well as gold at a mint ratio of 16 ounces of silver to 1 ounce of gold. The book contains six public lectures on the money question given by the fictitious Coin, a young financier wise beyond his years. In addition to the lectures, the author interspersed dialogues in which Coin bested advocates of the gold standard, including businessmen Phillip Armour and Marshall Field, banker and future Treasury Secretary Lyman Gage, Senator Shelby Collum, and J. Laurence Laughlin, founder of the Economics Department of the University of Chicago. Stung by being made the butt of a fictitious character's arguments, Laughlin engaged Harvey in a genuine public debate in 1895 and wrote one of many replies to *Coin's Financial School,* none of which sold nearly as well as the original. Laughlin and other economists denied that a higher price level would produce lasting real benefits or that the government (especially the government of one country acting unilaterally) could fix the relative price of two metals without driving one out of circulation.

Harvey and his readers remained unimpressed by such criticisms. The National Silver Party (the executive committee of which included Harvey) bought and distributed 125,000 copies of *Coin's Financial School* during the Bryan campaign of 1896. Gold discoveries in South Africa and the Alaskan Klondike and the new cyanide process of extracting gold from low-grade ores caused price levels to rise under the gold standard after 1896, muting the agitation for free silver. In 1900, the Virginia-born Harvey moved from Chicago to Rogers, Arkansas, later founding the Ozark Trails Association to mark and promote interstate highways. In his last years, Harvey denounced Franklin Roosevelt's silver purchase policy, designed to increase the price of silver by inflating the currency, as too timid and therefore unable to achieve the desired goal.

—*Robert Dimand*

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See also Volume 1: Populist Party.

Cold War (1947–1991)

A global conflict between the United States and the Soviet Union, the two superpowers that emerged from World War II, that for more than four decades had a central bearing on the political, economic, and strategic nature of international relations.

The cold war was a lengthy struggle from 1947 to 1991 between the United States and the Union of Soviet Socialist Republics (USSR, or Soviet Union), two superpowers that perceived a post–World War II international order differently. Washington, with a vision for a U.S.-led liberal capitalist structure for world peace and prosperity, resented the communist totalitarianism that Moscow imposed on Eastern Europe and feared growing Soviet ideological hostility toward the capitalist West, as exemplified by the formation of a Soviet-dominated Communist Information Bureau in 1947. Based on its Marxist-Leninist ideology, meanwhile, Moscow resented the aggressive advance of capitalism in the postwar world in areas such as the Middle East, Western Europe, and Southeast Asia. The Soviet leadership believed that the USSR's survival as a socialist state relied on a solid sphere of Eastern European communism under Soviet control. At the same time, the Soviet Union would do its utmost to ensure its national security and compete for the upper hand in a global struggle between the progressive forces of communism and the reactionary forces of imperialism.

The Truman Doctrine emerged in March 1947 as America's fundamental policy to contain Soviet expansion, occasioned by the crisis of civil war in Greece between the oppressive but pro-Western government in place and communist guerrillas. The Marshall Plan ensued as one dimension of containment; it entailed America's all-out approach for Western European economic recovery and unity. In response, Moscow imposed its own communist command economy on the Eastern European nations. Following the failed Berlin blockade initiated by Moscow in late 1948, in which the Soviet Union attacked to prevent Western democracies from having access to West Berlin, the United States created the North Atlantic Treaty Organization (NATO) in 1949 to rival Soviet strategic strength in Europe. The United States initiated an airlift to resupply West Berlin from June 1948 to May 1949, when the Soviet Union ended the blockade.

The cold war spread to Asia with the rise to power of the Chinese Communist Party in 1949 and was particularly manifest in the Korean War (1950–1953), which was brought on by the communist North Korean invasion of South Korea. To stop the thrust of Soviet-backed communist aggression in Asia, the United States enforced both its military commitment and substantial economic assistance to the safety and welfare of friendly pro-American governments like Taiwan, South Korea, and Japan. Nourished by American economic aid and protected under the American military umbrella, Japan—a former enemy but now a front-line ally—began its journey toward becoming a major world economic power.

For six years following the death in March 1953 of Soviet leader Joseph Stalin, the United States and the Soviet Union de-escalated their contentious relationship, replacing conflict with peaceful coexistence and competition toward the capitalist West. Intending to confront each other without threatening the survival of the world with nuclear war, Moscow and Washington worked through diplomatic channels, ultimately hold-

ing the Camp David talks in 1959 between President Dwight D. Eisenhower and Soviet Premier Nikita Khruschev. These talks resulted in a statement that renounced the use of force. Meanwhile, though, the two superpowers covertly and overtly intensified their struggle for influence in the Third World, where the collapse of old colonial system left a vacuum.

The early 1960s brimmed with crises as the scope of U.S.-Soviet rivalry extended. The threat to cut off access to West Berlin (1960–1961) provoked Washington into a dangerous face-off with the potential for open armed conflict. After the Soviets launched the first *Sputnik* in 1957, the United States strengthened its effort to blunt the advantage in outer space technology that Moscow had allegedly gained. In 1962 as a result of an intensified race for nuclear deterrence, the USSR attempted to position nuclear weapons in Cuba, and the resulting Cuban missile crisis brought the two countries to the brink of a nuclear war. This crisis was eased through an agreement whereby the USSR would remove missiles under construction in Cuba and the United States would remove its intermediate-range missiles located in Turkey.

After that crisis, to allay the danger of direct confrontation and nuclear catastrophe, both governments felt it appropriate to ease tensions via negotiations and to contest each other in areas where neither had vital interests at stake. The United States, for instance, turned to Vietnam, but U.S. involvement in the Vietnam conflict (1954–1973) drained American resources and undermined American prestige in world opinion. The price of fighting in this peripheral region, coupled with U.S. economic policies of the late 1960s and early 1970s, largely triggered the lessening of the U.S. competitive lead in the world economy, whereas Japan and Western Europe assumed a growing edge.

The cold war eased during the 1970s when the United States pursued the flexible policy of détente with the Soviet Union and China. In the 1980s, the administration of President Ronald Reagan resolved to use America's economic and military strength (through Reagan's Strategic Defense Initiative [SDI]) as well as moral leadership in a renewed bid to win the cold war. At the same time, reforms by the new Soviet leader, Mikhail Gorbachev, failed to rejuvenate the Soviet Union's decadent political and economic system. Although costly for the United States, the SDI drove the Soviet Union into bankruptcy; the USSR could not afford to keep up with the United States in the arms race while also waging a costly war in Afghanistan. This situation quickened the Soviet Union's collapse and caused the downfall of Soviet domination in Eastern Europe. The breakup of the Soviet Union in 1991 finally concluded the cold war and left the United States as the sole—but wounded—superpower in the world.

—*Guoqiang Zheng*

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See also Volume 1: World War II.

Colonial Administration

System by which England attempted to exert commercial and fiscal control over its American colonies and eventually led to the separation of the colonies from Britain.

The ideological foundation of the British imperial system rested on mercantilism, which dictates that the state direct all economic activity within its borders, subordinate private profit to public good, and increase national wealth by encouraging exports over imports. Mercantilism required England to maintain continuous supervision and control over all economic activities in the colonies. Although England passed measures to control colonial trade, a consistent policy developed slowly because of the distance between England and America, British indifference toward the colonies prior to the end of the French and Indian War in 1763, and the conflict between the Crown and Parliament over political authority.

By the mid-seventeenth century, England began to create a coherent system designed to increase government revenues and to benefit certain special-interest groups in Britain. Although altered over time, the Navigation Acts of 1660 and 1663 provided the foundations of this new system. They required the carrying of colonial trade in English ships, the direct shipment of a list of enumerated goods to England, and the strict regulation of colonial imports. These and other acts attempted to establish the control required by mercantilism.

Problems of enforcement plagued the imperial system. Corruption, bribery, and colonial political structures hindered the Crown's ability to exert its authority. In the last half of the seventeenth century, England attempted to address this failing. In 1675, King Charles II appointed a special committee of the Privy Council (the King's advisory council) called the Lords of Trade to assess and enforce colonial policies. The committee recommended more stringent measures and, in 1686, under King James II, created the Dominion of New England, an administrative division that stretched from Massachusetts to New Jersey. As governor of the Dominion, Sir Edmund Andros revoked colonial charters, dissolved assemblies, and generated fervent opposition from the colonists.

The Glorious Revolution of 1688, in which Parliament replaced King James II with King William and Queen Mary, overturned this policy, but Britain's concern with enforcement did not wane. In 1696, Parliament provided stricter enforcement by requiring governors to take an oath to enforce the Navigation Acts, establishing a custom service with increased authority, and organizing admiralty courts to try violators. Also in 1696, the Privy Council created the Lord Commissioners of Trade and Plantations, or the Board of Trade, to inform and advise the king on colonial matters. This group played a crucial role in shaping policy for the rest of the period. Although completely restructured, the system did not greatly limit the economic opportunities open to colonists.

This system remained fundamentally unchanged until after the French and Indian War (1756–1763). In 1763, because of war-related increased national debt, Britain began to view the colonies as a source of revenue. Over the next decade, Parliament passed numerous acts to regulate trade

and generate revenues. The tightening of the system after midcentury clashed with the growing desire of colonists to exert greater control over their own economic activity. This clash exacerbated tensions that already existed in the system and led to the separation of the American colonies from England.

—*Peter S. Genovese*

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See also Volume 1: American Revolution; Stamp Act; Sugar Act of 1764.

Commission Government

A form of municipal government that consolidates administrative and legislative power in a single body.

Commission government is an alternative to the traditional mayor-council form of municipal government and was pioneered by Galveston, Texas, and Des Moines, Iowa. A product of the municipal reform movements of the Progressive Era in the late nineteenth century, commission government remained modeled on the business corporation and touted for its putative enhancement of economy, efficiency, and expertise. Its essential feature involved the consolidation of administrative and legislative power in a single body—the commission as a whole making ordinances and each individual commissioner simultaneously managing a specific department. Municipalities frequently adopted commission government as part of a reform package that also included the short ballot, at-large and nonpartisan elections, the separation of local from state and national contests, civil service, initiative, referendum, recall, and home rule.

The coupling of commission government with at-large, nonpartisan elections separate from state and national contests virtually guaranteed that the commissioners would be businesspeople and professionals. Although early reformers (e.g., the National Municipal League) contented themselves with modifications to the mayor-council system, the hurricane that devastated Galveston in 1901 provided the opportunity for more drastic restructuring of that city's government. Buoyed by the apparent success of that experiment, municipal reformers in Des Moines adopted a slightly modified version after a protracted and often bitter political campaign. By 1917, nearly 500 cities had adopted some form of commission government. However, adoptions remained largely limited to small and medium-sized cities, many of which eventually abandoned the experiment. Larger cities generally stuck with the mayor-council system, while the number of municipalities adopting the newer city manager system rapidly outpaced those with commission government. By 1976, only 215 cities, with a combined population of about 5 million, still used the commission form, compared with the council manager form, which prevailed in 2,441 cities, including 70 in the over–100,000 population class.

—*John D. Buenker*

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See also Volume 2: Urbanization.

Committee on the Conduct of the War (CCW)

Committee created in response to early Civil War military disasters.

Early Civil War military disasters provoked Congress to create the Joint Select Committee on the Conduct of the War (CCW) in December 1861. Radical Republicans dominated the CCW, membership of which consisted of Senators Benjamin Wade, Zachariah Chandler, and Andrew Johnson and Representatives George Julian, John Covode, and Daniel Gooch. Moses Odell was the single Democrat on the committee. From 1861 until 1865, the CCW investigated the conduct of military operations, military contracts, alleged enemy atrocities, treatment of prisoners, confiscation of enemy property, and government corruption. It agitated relentlessly for a more energetic prosecution of the war, for emancipation, and for the use of black troops.

The initial CCW investigations of the Battles of Bull Run and Ball's Bluff showed that the Republicans intended to use the CCW for partisan purposes. The CCW excoriated conciliatory Union officers—like Generals Robert Patterson and Charles Stone—who considered that respecting Southern property and the institution of slavery would convince Southerners to reenter the Union. The CCW severely criticized West Point graduates, many of whom were conservative Democrats. The CCW successfully lobbied on behalf of General John C. Fremont, who favored freeing slaves and confiscating Southern property. Fremont had been relieved for corruption and incompetence, but after the outcry from the CCW, President Abraham Lincoln appointed him to a minor post.

In 1862, the CCW focused its wrath on General George McClellan, commander of the army of the Potomac, whose conciliatory views infuriated the committee. McClellan devoted considerable time to organizing, training, and supplying the army, and CCW criticism of his "inaction"—which was interpreted as cowardice or disloyalty—reflected vast ignorance of the difficulties of this process. McClellan's cautious prosecution of the Peninsula campaign against Richmond that led to the Battle of Seven Pines and the campaign's ultimate failure prompted Lincoln to remove McClellan from command. The CCW sought to blame the failures of his successors on subordinate commanders who remained loyal to McClellan.

In 1864 and 1865, the CCW attempted to boost Northern morale by publicizing radical views that focused on Southern battlefield atrocities and mistreatment of prisoners. The CCW continued to agitate on behalf of military leaders such as Benjamin Butler, who endorsed these radical views, and attacked those who favored a "soft peace" with the South.

CCW investigations exposed cases of venality, mismanagement, and war crimes. However, CCW ideological bias, reflected in attacks on Democratic generals and support for incompetent Republican generals like Fremont and Butler, promoted discord and undermined the Union war effort.

—*James D. Perry*

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See also Volume 1: War and Warfare.

Commonwealth v. Hunt (March 1842)

Supreme Court decision declaring that labor unions are legal.

The first labor unions in the United States were organized in the early national period (1800–1830) among skilled workers in trades such as shoemaking, weaving, and printing. These unions worked to keep wages high in the face of growing industries that relied on cheap labor. Employers reacted to the rise of labor unions by arguing in the courts that these organizations were conspiracies and therefore illegal. Following precedents set in English common law, lawyers hired by employers defined a conspiracy as a combination of two or more persons who banded together to harm society. Influenced by Adam Smith's *The Wealth of Nations,* they reasoned that unions hurt society by demanding higher wages, which in turn raised the price of goods, slowed demand, and eventually brought unemployment.

The first conspiracy case was brought against the shoemakers of Philadelphia in 1806. The prosecutor argued that while one man could set the price of his own labor, a group of men could not do the same without harming society. Men grouped together in unions hurt society in two ways. First, unions drove up the price of goods by demanding higher wages. Second, union members intimidated workers who refused to join. The prosecutor also argued that unions should be outlawed in the United States because they were illegal under English common law. Lawyers for the Philadelphia shoemakers countered that no evidence had been provided to prove that unions harmed society. Instead, a case could be made that unions actually helped society by raising wages and so improving the lives of workers. They also argued that English common law no longer applied to the United States. The jury, comprising mainly merchants and shopkeepers, agreed with the prosecution and ruled that the union was illegal.

The precedent set in Philadelphia in 1806 was followed in other eastern cities including Baltimore and New York during the next 30 years. Juries handed down numerous decisions finding unions to be illegal conspiracies. However, unions continued to grow and even won the support of Andrew Jackson and the rising Democratic Party. By the late 1830s, many Americans openly sympathized with the plight of the unions. Workers even had enough public support to organize mass demonstrations in New York and Washington against judges who had condemned labor unions. The nation's changing political climate came into play when members of the Boston Journeymen Bootmakers Society went on trial for conspiracy in 1842. The bootmakers had walked off the job when a shop employed nonunion members. Found guilty of conspiracy, the bootmakers appealed to the Supreme Judicial Court of Massachusetts and then to the U.S. Supreme Court.

After hearing many of the same arguments that had been debated for more than 30 years, Chief Justice Lemuel Shaw handed down the most important ruling in American labor history to date in *Commonwealth v. Hunt.* He argued that the case posed two questions: First, were unions illegal? Second, were the actions of this union illegal? Shaw answered that although an organization of workers might exist for "pernicious" reasons, it might also exist for "highly meritorious and public-spirited" ones. Although a union's battle to raise wages might harm some, its true purpose was to improve the lives of the workers and so improve society. He further explained that even if an individual union member committed illegal acts, the union could not be blamed. The individual must be prosecuted, and not the union. Although Shaw's ruling in *Commonwealth v. Hunt* served as a precedent for unions to organize and collectively bargain, American workers did not fully win these rights until the passage of the Wagner Act in 1935.

—*Mary Stockwell*

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See also Volume 1: National Recovery Administration; Wagner Act.

Communism

Political ideology developed by V. I. Lenin and installed in Russia after the Revolution of November 1917 in which labor is organized for the advantage of the worker and there is collective ownership of property. Opposition to communism throughout the world shaped the direction of the U.S. economy from 1950 to 1990.

The United States in 1917 appropriated troops and weapons to assist the White Army in overthrowing the usurping Bolshevik power in Russia. However, the United States would not become preoccupied with communism until after World War II, which left the world in an economic vacuum. Great Britain, which in the past had assumed the role of the economic giant that both assisted and profited from the rest of the world, found itself unable to remain in that position.

Two nations with separate political ideologies emerged: the Union of Soviet Socialist Republics (USSR) and the United States. If the United States was to ensure that it would assume the role of economic superpower, it would need to support reconstruction of the nations that World War II decimated and would need to install a free market economy in these nations.

The USSR began making great strides in expanding communism to the rest of Europe after World War II through active political participation and organization in countries devastated by war. Realizing that the United States lagged behind in its efforts to combat the spread of communism, President Harry S Truman proclaimed the Truman Doctrine in 1947 that gave economic and military aid to any nation of free people threatened by a foreign power. The United States appropriated $400 million for Greece and Turkey, two countries struggling against communists within their respective borders. The Truman Doctrine led to the Marshall Plan (1948), also known as the Economic Cooperation Act. Under this act, countries devastated by World War II qualified for funds from the United States after they had met and coordinated expenditures to achieve recovery through a free market system. Congress appropriated $34 billion for the Marshall Plan.

European countries responded favorably to the Marshall Plan, and their positive response prompted other U.S. economic aid programs for Europe and Asia. These were established under the Foreign Assistance Act (FAA) in April 1948, which supplemented the Marshall Plan. The FAA appropriated $5.3 billion for the first year of recovery, of which China received $338 million. The Columbo Plan of 1950, an international and British legislative effort, provided military and economic relief specifically for Asia and Southeast Asia; the plan appropriated $203 million in economic aid. The United States during this time continued to promote free trade, which would benefit the United States, while attempting to stifle the USSR and its communist aims.

The United States also set up military protection for the states under the Marshall Plan. Congress appropriated $1.34 billion for the Mutual Defense Assistance Act (MDAA) in 1949, which supplied the countries with weapons, training, and other military needs. Along with MDAA, the United States asked the countries that received monetary assistance to join the North Atlantic Treaty Organization (NATO), which was formed in 1949. NATO kept the free market nations under the sphere of influence of the United States. Therefore, NATO protected the U.S. economic investment while assuring the economic growth of its economy.

The U.S. economy, after these acts, appropriated funds to fight communism in the Chinese Civil War (1947–1949), the Korean War (1950–1953), and the Vietnam conflict (1954–1973). Congress approved President John F. Kennedy's request for funds to close the missile gap, a perceived disparity in missile technology that developed after the launching by the USSR of *Sputnik*. This spending sparked a strategic arms race that, even through President Richard Nixon's détente, or thawing of relations, continued with fervor until Soviet communism collapsed in 1989 after Soviet Premier Mikhail Gorbachev initiated a policy of openness and economic restructuring.

—Shannon Daniel O'Bryan

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See also Volume 1: Cold War; Marshall Plan; North Atlantic Treaty Organization; Truman Doctrine.

Community Action Programs

A policy initiative in the mid-1960s that sought to empower the poor by granting them a major stake in the implementation of antipoverty measures.

The concept of using community-based initiatives to address social problems traces its origins to the Progressive Era in the late nineteenth century, but community action remained untested until the early 1960s. Drawing on the findings of Columbia University scholars Lloyd Ohlin and Richard Cloward, who developed the Mobilization for Youth test program for the slums of New York City, the administration of President John F. Kennedy employed community action in a program begun in 1962 aimed at reducing juvenile delinquency. David Hackett, an aide to Attorney General Robert F. Kennedy in the Justice Department who participated in the Kennedy administration's Committee on Juvenile Delinquency and Youth Crime, championed the concept.

In the administration of President Lyndon B. Johnson, the national War on Poverty incorporated many principles of community action. The keystone of the Community Action Program included within the Economic Opportunity Act (EOA) of 1964 (one piece of the legislation that became known as the War on Poverty) was the stipulation that the poor be afforded "maximum feasible participation" in the design, implementation, and administration of community-based antipoverty programs. The ramifications of community action included within the EOA legislation remained unclear to many who initially supported its passage. Within short order, however, the "maximum feasible participation" provisions aroused the ire of local leaders who had expected to use War on Poverty funds to reward political allies. These seasoned politicians especially distrusted the notion of granting political power to the dispossessed, which included many racial and ethnic minorities many of whom pledged to overthrow established political institutions dominated by white men.

Due largely to the political threat posed to individuals who would have normally championed antipoverty measures, a firestorm of controversy erupted around community action in its many forms, tarnishing the historical record of the War on Poverty, as well as the image of R. Sargent Shriver, the former Peace Corps director named head of the Office of Economic Opportunity in 1964 who had achieved a successful record in his former position.

Although the War on Poverty ultimately failed to achieve the lofty goals suggested by Lyndon Johnson's rhetoric, the Community Action Program spawned the creation of nearly 2,000 Community Action Agencies in cities and towns across the United States. More than 1,000 of these remain active in the twenty-first century, promoting antipoverty measures and acting as advocates for the poor.

—*Christopher A. Preble*

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See also Volume 1: Civil Rights Movement; Economic Opportunity Act.

Company Towns

Company-owned settlements (built around company-owned industries) that became embroiled in labor disputes during an era of rapid unionization in response to employer domination over workers.

Company towns, owned by and built near industries, were a phenomenon of the Industrial Revolution and grew up along with industries burgeoning in the late nineteenth and early twentieth centuries. Company towns existed widely in the textile mills of the Southeast, the coal mines of the Appalachians, western oilfields, steel mills, and lumberyards. Located in far-flung places, the companies needed to establish permanent settlements to accommodate a daily workforce. To promote good worker relations, companies leased housing to workers and their families and sometimes provided stores, schools, groceries, doctors, and churches. Company bosses often adopted paternalistic attitudes toward their workers, who inevitably became quite dependent on the company.

Working and living conditions in company towns, although not squalid, were often extremely difficult and unsafe. Workers could do little about their lot, however, because the boss directly controlled leases and employment. During the 1920s, as workers tried to form unions within companies, company towns became hot spots for labor disputes. In some cases, as in the towns of the Borderland Coal Company, bosses resorted to evictions and violence to subvert unionization, as well as layoffs. The National Labor Relations Act of 1935 legally ended such abuses by outlawing yellow-dog contracts (in which employers required workers to sign a pledge that they were not, nor would they become, a union member) and establishing the National Labor Relations Board to hear workers' complaints against owners and to end antiunion practices. Company towns began to give way in the 1950s because of industry depression, increases in worker mobility, and ultimately the mechanization of manufacturing processes.

—*John Grady Powell*

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See also Volume 1: National Labor Relations Board.

Computer

An electronic programmable device that can store, process, and retrieve data and that has its roots principally in devices produced during World War II.

Although the computer has antecedents in the business machines of the nineteenth and early twentieth century, the electronic computer's origins date to World War II. Several machines were simultaneously produced during that war, intended for such military tasks as calculating ballistics tables; the computational work of the Manhattan Project, which resulted in the atomic bomb; and code breaking. The United States, Great Britain, Germany, and the Soviet Union created computers. J. Presper Eckert and John Mauchly designed the most important of these—the electronic numerical integrator and computer, or ENIAC (1946)—at the University of Pennsylvania. Like other machines of the era, ENIAC was a behemoth, filling a large room and requiring immense electrical power. It required several operators to program it. John von Neumann became inspired by this machine to invent a new conception of the computer, allowing the program to be stored in the computer's memory along with the data. Von Neuman's "architecture," as this arrangement is called, persists to the present day.

After the war, Eckert and Mauchly formed UNIVAC, a private company, to produce computers for commercial use. The federal government's Census Bureau became their first customer. The business difficulties of producing a computer with limited time and financial resources proved more complicated than Eckert and Mauchly anticipated, and in 1951 they sold their company to Remington Rand.

A competing business machine company's interest in computing, plus the Korean War, drove Tom Watson Sr., the president of International Business Machines (IBM), to invest in computer design and production in the 1950s. In 1953, IBM introduced the 701 Defense Calculator, IBM's first commercially available scientific computer. IBM also announced it would produce a smaller computer for accounting applications, the 650. The 650 became the best-selling computer of the 1950s; nearly 2,000 were sold. In 1957, IBM introduced the FORTRAN programming language, which allowed programmers to write their instructions in a code similar to English or algebra. Although not the only programming language of the 1950s by any means, FORTRAN dominated scientific computing and helped lead IBM to a dominant position in the computer industry.

The first computers relied on electronic tubes. In the 1950s, small transistors replaced the tubes and made computers not only considerably smaller but also more reliable and cheaper. In the 1960s, companies like Fairchild and Intel pioneered the design of integrated circuits, in which hundreds of transistors

are etched onto a single silicon chip. In 1971 Intel announced with its 4004 microprocessor the production of the first computer on a chip. With these developments, computers became cheap enough to use in dedicated industrial applications, beginning with electronic systems for spacecraft and aircraft navigation and guidance, spreading to automobiles and industrial machinery in the 1970s, and then moving to home appliances in the 1980s.

In 1975, the Altair 8800 appeared as the first microprocessor-based computer. At less than $400, this unit became the first computer cheap enough for individuals, although the user actually purchased a kit from which to build the machine. Although the Altair remained extremely limited in its functions, it developed into the personal computer (PC). Within two years, several companies were competing for the new PC market—the best-known being Tandy, Commodore, and Apple Computer.

By 1980 these upstart companies threatened the business market of established companies, particularly IBM. If IBM was to enter and successfully compete in the rapidly changing PC market, its bureaucracy had to change. To compete with Apple and other small computer manufacturers, IBM needed to speed production of new designs, outsource components, and use retail outlets instead of its own sales force. IBM launched the sale of its PC in summer 1981. The product used the Intel 8088 microprocessor, which operates on a central processing unit (CPU) contained on one integrated circuit and came packaged with an operating system and BASIC compiler from Microsoft, a leading software manufacturer. The consumer also received software programs that run applications for a spreadsheet, word processing, and a game. IBM's entry into the PC market proved so successful that it quadrupled production almost immediately. Some competitors, like Compaq, took advantage of the hot market and produced "clones" of the IBM PC, which used the same Intel microprocessor and ran the same Microsoft software.

The key developments of the 1980s were in software, not the machines (hardware) themselves. In 1981 the market for PC software was $140 million; by 1985 it topped $1.6 billion. The software industry developed on different business models than did the hardware industry, depending more on the marketing than on manufacturing—analogous to entertainment, not machines. Microsoft remains the great success story of the 1980s software boom. Because manufacturers packaged its operating system with every IBM PC and every clone, Microsoft constituted the link between hardware and software. MS-DOS (Microsoft disk operating system) acted as Microsoft's revenue engine, creating $10 million in revenue within just two years. With MS-DOS as a guaranteed revenue source, Microsoft's software failures simply faded into the background.

Two machines launched in the early 1980s offered different kinds of operating systems, systems that provided users with more than a blinking cursor ready to accept formal commands. The Xerox Star and Apple Macintosh introduced graphical user interfaces, or GUIs, to the PC market. Neither became especially successful—the Macintosh was slightly more successful—but they generated a series of projects in other companies to create a GUI operating system for the dominant IBM PC. Although several companies made such operating systems, Microsoft held a distinct advantage because of its existing contractual connection to IBM. In 1985 Microsoft launched Windows, a GUI-based operating system for the PC. A second version, Windows 2.0, appeared in 1987. But the hardware of the PC was not yet powerful or fast enough to make the early Windows operating system practical. That limitation did not stop Apple from filing a copyright infringement suit against Microsoft in 1988 for copying the appearance of the Macintosh interface. Still, Microsoft grew rapidly with the continued success of MS-DOS, new spreadsheet and word processing programs, and new versions of Windows capitalizing on the growing power and speed of new hardware. Later in 1988 Apple dropped its suit.

In 1990, Microsoft's legal problems escalated when the Federal Trade Commission announced it would investigate Microsoft on the grounds of antitrust violations. Although the Justice Department reached an agreement with Microsoft in 1994 requiring Microsoft to change some of its business practices, Microsoft has continued to be vulnerable to antitrust suits and investigations from governments (including the European Union) and competitors.

Since the use of PCs has become widespread, more than 21 million workers complete their office work at home, although most are not paid for this additional time. Also, many workers employed by businesses now telecommute—that is, they work mainly from home. In 2003, 4.1 million self-employed workers used computers in their home-based businesses, and 1.8 million people work at a second job from home using their computers. Scheduling flexibility and the reduction in travel time and cost have helped to increase the work-related use of computers outside the workplace. Overall, computers have not replaced people in the workplace but have increased the functions that people perform.

—*Ann Johnson*

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See also Volume 1: Microsoft.

Confiscation Acts (1861–1864)

Several acts passed during the Civil War that dealt with the confiscation of property (August 6, 1861; July 17, 1862; March 12, 1863; July 2, 1864).

Before the Civil War began, the North and the South had already split over the issue of slavery. Many Northerners opposed the Federal Fugitive Slave Act, which transferred trials involving supposed runaway slaves from state to federal courts. They actively promoted personal liberty laws, which made it difficult for supposed runaway slaves to be returned to the South, and the Underground Railroad, a net-

work of sympathizers that helped runaway slaves escape. After the Southern states (Confederates) seceded from the Union in 1860 and 1861, Northerners, who now dominated Congress, seized the opportunity to pass a series of confiscation acts. On August 6, 1861, Congress authorized the seizure of Confederate property and declared that any slaves who fought with or otherwise assisted the Confederate army would be declared free. Because Union forces had not yet won a major victory, and fearing the secession of border states that still had slavery, President Abraham Lincoln opposed the first confiscation act and urged a program of gradual emancipation of the slaves instead. The following year, Congress passed a second confiscation act. On July 17, 1862, Congress declared that all slaves of military or civilian Confederate officials were free forever, but the act was only enforced in areas controlled by Union forces. Once again, Lincoln opposed the measure on the grounds of possible secession by the border states. By January 1, 1963, Lincoln finally issued the Emancipation Proclamation, which freed all slaves who lived in areas that were in open rebellion against the Union. Two more confiscation acts—one on March 12, 1863, and one on July 2, 1864—combined with the Emancipation Proclamation resulted in freedom for slaves who had been worth $2 billion to the economy of the South.

—*Cynthia Clark Northrup*

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See also Volume 2: Slavery.

Congress

Every piece of legislation passed by the U.S. Congress—the supreme legislative body of the federal government, made up of the House of Representatives and the Senate—produces economic consequences.

The framers of the U.S. Constitution included in it Article I, Section 8, which grants Congress power to tax, grant copyrights, and regulate interstate and foreign commerce—that is, the power of the "purse." Traditionally, certain congressional committees have been particularly attuned to economic policy, most notably the prestigious Ways and Means Committee of the U.S. House of Representatives, which can trace its lineage to the late eighteenth century, and the Senate Finance Committee, formed as a standing committee in 1861 and is considered the most prestigious and powerful committee in the U.S. Senate. The Constitution requires that all money bills originate in the U.S. House of Representatives, and so the Ways and Means Committee, which determines which bills will be sent to the full House for a vote, typically acts before the Senate Finance Committee. Interest groups, or lobbyists (those representing business associations are generally the best financed and most influential), observe what has been produced and then lobby the Senate Finance Committee accordingly. At this writing, Democratic Senator Max Baucus of Montana chairs the Senate Finance Committee.

The state of Louisiana, which beginning in the twentieth century became dependent on oil and natural gas for much of its economic strength, has for decades maintained a seat on the Senate Finance Committee—a fine perch from which to look after the oil depletion allowance, which allows a 15 percent deduction for fossil fuels. Louisiana Democrat Russell Long (son of Louisiana Governor Huey Long, who formed the Win or Lose Oil Company, which reputedly never lost) chaired the committee for many years. During his last six-year term (1981 to 1987), when the Republicans controlled the U.S. Senate, Long served as ranking minority member on the committee. His direct successor, Democrat John Breaux of Louisiana, serves on the committee at this writing. Recent Republican chairs of the Senate Finance Committee have included Bill Roth of Delaware (best remembered for lending his name to the Roth Individual Retirement Account, which allows investments to be tax-free at retirement), who lost his bid for reelection in 2000, and Republican Charles Grassley of Iowa, who served four months in 2001 before turning the reins of the committee over to Baucus. Presidential candidates who have served on the committee include Democrat Bill Bradley of New Jersey and Republican Bob Dole of Kansas.

An issue that dominated Congress in the last two decades of the twentieth century but that has disappeared in the twenty-first century is passage of a constitutional amendment requiring a balanced budget. Ironically (because the president did not push a balanced budget), two members of the administration of President Ronald Reagan—Director of the Office of Management and Budget David A. Stockman, himself a former Michigan representative, and U.S. Secretary of the Treasury Donald T. Regan, who presided over massive peacetime increases in the national deficit—testified in favor of such an amendment in 1982. Adoption of the proposed amendment became part of the Republican Party's "Contract with America" in 1994, an agenda that dealt with various issues and was credited with helping the Republicans take control of the U.S. House of Representatives for the first time in 40 years. In 1997, a balanced budget amendment missed being sent to the states by a one-vote margin when Democratic U.S. Senator Robert Torricelli of New Jersey switched his position from one he had held in an earlier Congress.

Since the formation of the federal government under the U.S. Constitution, Congress has addressed a multitude of economic issues. Until the 1930s it handled trade issues exclusively; since then, the executive branch has assumed more responsibility for negotiating trade agreements. During the nineteenth century, Congress supported western migration by providing inexpensive or free land for Americans, land grants for agricultural colleges, and financing and land for railroad companies. Congress has continued to support business, because most congressional representatives believe that a strong economy must be protected to ensure the economic well-being of the country. By the mid-1900s, Congress finally began addressing social issues, resulting in dramatic economic consequences. The Social Security Act guarantees financial protection for the elderly; Aid to Dependent Children (later known as Aid to Families with Dependent

Children) protects single mothers and children; the Civil Rights Act and affirmative action safeguard minority groups against discrimination in hiring or admission to universities; and the Americans with Disabilities Act ensures that individuals with physical or mental disabilities can enjoy basic human rights including the right to work if they are able. Congress has also stimulated the economy through acts that promote transportation and protect labor. Most recently, Congress has engaged in the North American Free Trade Agreement, the World Trade Organization, and the World Intellectual Property Organization in an effort to encourage trade and protect property rights. Congress continues to struggle with health care and environmental issues, both of which affect American society economically.

—*Henry B. Sirgo*

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See also Volume 1: Aid to Dependent Children; General Agreement on Tariffs and Trade; North American Free Trade Agreement; Sherman Anti-Trust Act; Social Security Act of 1935; Wagner Act; World Intellectual Property Organization; World Trade Organization; Volume 2: Trade Policy.

Conservation

Policy of using natural resources judiciously to ensure perpetual sustainability of the commodities and services on which humans depend.

Conservation involves both restrictions on demand for resources and efforts to replenish supply whenever possible. As such, it necessitates management based on sound ecological and economic principles, emphasizing the role of processes and interconnections. Touching on every variety of threatened natural resource, conservation often requires consideration of entire habitats or ecosystems. It mandates efficiency and cost-effectiveness and requires constant data collection and monitoring.

The policy of conservation emerged during the Progressive Era in the late nineteenth century, when industrial growth strained supplies of valuable raw materials such as minerals and timber. The western frontier, once assumed limitless, appeared almost depleted, prompting a reform movement culminating in the administration of President Theodore Roosevelt, conservation's earliest champion. Out of this era emerged the National Park Service and the U.S. Forest Service—the former created to ensure protection of sites historically and ecologically significant and the latter meant to ensure reforestation and a continual supply of lumber. Irrigation and other reclamation efforts sought to use water wisely. During the administration of President Franklin D. Roosevelt, as the dust bowl ravished much of the Great Plains, soil conservation became a national priority.

The need to conserve natural resources is extensive today, and a wide array of federal, state, and local agencies implement conservation initiatives. These agencies range from the Fish and Wildlife Service, charged with protecting threatened species in a system of wildlife refuges, to the National Oceanic and Atmospheric Administration, charged with managing ocean resources. The Bureau of Land Management controls almost one-third of America's land, constantly balancing the needs of ranchers, miners, and others seeking to utilize its extensive holdings. Several private industries also practice conservation, either for their own economic self-interest or because of legal requirements dictated by agencies such as the Environmental Protection Agency. Conservation legislation at all levels of government influences the lives of millions, regulating every activity from hunting to the use of electricity. Laws designed to stimulate recycling of plastics, paper, and tin, for example, have created new industries. As economic growth continues to deplete finite energy resources, conservation will grow in importance as a national priority.

Balancing the needs of conflicting interests, conservation has often provoked debate. This conflict has pertained not only to questions of utility—who, when, and how the resource in question should be used—but more basic issues such as whether the resource should be used at all. Finding value in undisturbed nature, preservationists often challenge conservationists. Today many federal agencies operate under "multiple-use" mandates, attempts to define clearly and balance priorities, facilitating conservation and, it is hoped, diminishing conflict.

—*Brooks Flippen*

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See also Volume 1: Roosevelt, Theodore.

Constitution (1788)

The document that serves as the basis for the American political system while clearly delegating most economic policy decisions to the congressional branch.

A convention created the Constitution in 1787 (ratified by the required number of states in 1788) to alleviate the problems caused by the American Revolution and to resolve the inadequacies of the Articles of Confederation, under which the fledgling country had been governed. Although some have argued that the founding fathers drafted the Constitution as an economic document designed to protect minority interests, most see it as a republican document that allowed for the rise of democracy. The first mention of the federal government's economic power occurs in Article 1,

Section 2, in the "3/5ths Compromise." This compromise allowed direct taxation apportioned to the states in relation to population, with a slave counting as 3/5ths of a person. Section 7 mandates that all bills concerning revenue taxes must begin in the House of Representatives and receive approval by the Senate. Section 8 and 9 define the federal government's economic power. Section 8 grants Congress the power to create and collect a variety of taxes, duties, and excises equally spread throughout the Union. Congress also receives the power to borrow money, create trade agreements with foreign nations, develop universal bankruptcy rules, mint coins, regulate the value of America's currency, standardize weights and measures, punish those who counterfeit currency, allow people to patent their inventions, and punish piracy. Section 9 further defines Congress's ability to tax while limiting its ability to withdraw money from the Treasury unless allowed by law. This section requires the federal government to keep and publish records concerning its spending of public money.

One of the most debated aspects of Section 9, at its creation, involved the slave trade. Here the Constitution prohibited the federal government from stopping the importation of slaves until 1808 and allowed Congress to tax each imported slave in an amount not to exceed $10. The last section of Article 1, Section 10, defines how these federal economic powers will relate to economic powers possessed by each individual state. This section clearly asserts that federal economic policy remains superior to state economic policy. Article 6 deals with economic policy and guarantees that all debts created under the Articles of Confederation would be transferred to the new government. The framers of the Constitution believed that if they refused to pay these previous debts, creditors would remain reluctant to lend the government money.

Although the Constitution spelled out the economic powers of the federal government, it did not specify what type of economy the new nation needed. The discussion over interpreting the Constitution in this regard was best exemplified by the debate between Secretary of State Thomas Jefferson and Secretary of the Treasury Alexander Hamilton. Jefferson believed that the Constitution best served an agrarian state, while Hamilton believed it supported a manufacturing and mercantile state.

—*Ty M. Reese*

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See also Volume 1: Articles of Confederation.

Consumer Credit Protection Act, Title I

See Truth-in-Lending Act.

Consumer Price Index (CPI)

Index that measures the average level of prices of the goods and services bought by a typical family.

The chief purpose of the consumer price index (CPI) is to calculate the rate of inflation facing consumers. Economists first select a base period and measure consumer spending patterns to determine the contents and cost of a "basket" of goods and services that people bought during the base period. Economists define the cost of this basket as 100. Prices of the items in the basket are updated as years pass, and occasionally the items in the basket must be changed to account for changing buying patterns. The Bureau of Labor Statistics (BLS) first began measuring prices early in the twentieth century and publishes the official CPI for the United States, which goes back to 1913 and which is updated monthly. Economic historians have extended unofficial consumer price indices for the United States back to 1665 (available online at http://www.eh.net/hmit/).

Historical price indexes show that overall relative costs remain fairly constant during much of American history, with prices rising during wartime and generally drifting downward between wars. In 1900, the CPI remained about the same as it had been during the late 1600s and most of the 1700s, but it was half of what the rate was at the end of the Civil War. During the twentieth century, the CPI rose tremendously—consumer prices were about 18 times higher in 2001 than in 1913, having risen strongly during the world wars and from the late 1960s to the early 1980s. Although the CPI does not provide a true cost-of-living index, economists often use it for calculating inflation-adjusted wages and incomes, thus measuring changes in the standard of living over time.

There is no perfect way to measure the overall consumer price level, and the official CPI has received criticism over the years because of inadequacies. In 1996 the Senate Finance Committee established a commission of leading economists, headed by Stanford University's Michael Boskin, to examine flaws in the official CPI. The commission estimated that the CPI overstated inflation by about 1.1 percentage points per year, primarily because of three types of bias: (1) substitution bias (overstatement of inflation, because consumers actually have the ability to switch away from goods the prices of which rise the most quickly), (2) new goods bias (overstatement because of the introduction of new goods into the standard consumption basket several years after they become available), and (3) quality change bias (failure to account for improvements in goods and services over time). Before adjustments were made in 1985, the CPI also received criticism for overstating inflation through its assumption that homeowners' costs remained directly tied to interest rates.

Federal law has required that, unlike other macroeconomic measures, the BLS cannot revise the CPI after its publication because many governmental policies remained tied to the CPI, including payments of Social Security benefits (beginning in 1972), Supplemental Security Income, and military and civil service retirement. Since 1981, the government has indexed individual income tax brackets and personal exemptions to the CPI's rate of inflation. Private

contracts, especially union contracts, have also been indexed to changes in the CPI.

—*Robert Whaples*

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See also Volume 1: Macroeconomics.

Consumer Spending

The value of individual or household expenditures on final goods and services.

The Bureau of Labor Statistics' most recent consumer expenditure survey (CES) tells us that in 2000, the average American "consuming unit" (which included 2.5 persons, of whom 1.4 earned some sort of income and 0.7 were children) received $41,532 in after-tax income and consumed $38,045 of this income. Of this amount, 13.6 percent ($5,158) was spent on food, 32.4 percent ($12,319) was spent on housing, and 5.4 percent ($2,066) was spent on health care.

How does the level of consumption or the pattern of expenditure shares compare with those in the past? Drawing on Jacobs and Shipp's (1990) historical review of CES data, household expenditures at the turn of the twentieth century were $791, based on a pretax income of $827. Of this amount, 43.0 percent ($340) was spent on food and alcohol, 22.5 percent ($178) was spent on housing, and 2.7 percent ($21) was spent on health care. By mid-century, the average household consumed $3,925, of which 32.5 percent ($1,275) was spent on food, 25.8 percent ($1,101) was spent on housing, and 5.1 percent ($200) was spent on health care.

This does not mean, of course, that household consumption increased fifty-fold between 1901 and 2000. In real or price-adjusted terms, the actual increase for the representative household was less than five-fold. However, the decline in household size— from 5.3 persons in 1901 to 3.4 persons in 1950 to 2.5 persons in 2000—implies that consumption per member rose more than this. An increase in the number of household members in the labor force was required to support the increase in consumption.

Reckoned in either current or constant prices, it is clear that on the one hand the proportion of household expenditures devoted to food has decreased over time, to much less than half its 1901 value. The share devoted to shelter, on the other hand, has increased from about one-fifth of the household budget to one-third. The share devoted to health care more than doubled between 1901 and 1950 but has not increased much since then. It is important to interpret these data with care: The last of these, for example, does not mean that the share of national income spent on health care has also remained constant, but rather that much of the increase assumes the form of job-based insurance premiums.

In addition to this sort of descriptive data, the Bureau of Labor Statistics and other government agencies also construct prescriptive consumption data for the purposes of economic policy. The earliest consumer expenditure surveys, for example, calculated the costs of minimum and fair standards of living for a representative "working man" and his dependents and led to the construction of the first consumer price index (CPI). One of the most famous prescriptive measures is the Social Security Administration's poverty line, which defines the threshold to be three times the cost of a minimum adequate diet for all the members of a household. In 2001, 13.4 percent of all families with children under 18 fell short of this threshold, but this number obscures some disturbing differences: for African Americans, the proportion was 26.6 percent, and for those of Hispanic origin, the proportion was 23.7 percent.

—*Peter Hans Matthews*

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See also Volume 1: Economic Indicators.

Continental Congress

The confederate system of government that led America through its revolution, while its weaknesses set the stage for the creation of the Constitution.

The First Continental Congress met in September 1774 at Philadelphia in response to the British Parliament's passing of the Intolerable Acts (known as the Coercive Acts in Great Britain) in response to the Boston Tea Party. At the congress, 55 delegates from 12 colonies (no delegate arrived to represent Georgia) met to decide the best course of colonial action. The calling of the congress signaled the culmination of years of colonial resistance and organization, and very early on they debated the creation of a union. One action the delegates agreed on involved the establishment of the Continental Association, which recommended that each community form a committee to boycott English commodities. The Continental Congress then recommended the mobilization of the local militia and started to prepare for war.

The Second Continental Congress began in May 1775 after the hostilities of Lexington and Concord, and it quickly faced the challenges of fighting a war for independence. It created an army, making George Washington commander, and then quickly searched for ways to pay for this army. Soon after the publication of Thomas Paine's "Common Sense," which argued that the Americans would be better off economically if they broke away from England, the second congress created, debated, and passed the Declaration of Independence, which served as a formal declaration of war. The major war-related problems that the congress encountered centered on finance and supply. The supplies needed, both food and military,

remained expensive and hard to come by, and as the British mercantile system forbade the development of American industry, most colonial military supplies came from abroad. The congress supported its operations by making each state provide supplies, by giving certificates to farmers whose crops quartermasters confiscated for the army's use, and by using the printing presses to print documents such as "Common Sense." Another cost the congress had to deal with was paying its soldiers and, when fewer people than necessary willingly enlisted, it needed to create enlistment bonuses. The congress succeeded in creating an alliance with France, which provided America with money and supplies.

The Continental Congress faced a major problem in that it operated as an ad hoc body that needed to create a national system of government. In 1781, members ratified the Articles of Confederation, under which the government operated until 1789. The Continental Congress served its purpose in holding the colonies together and winning the Revolutionary War.

—Ty M. Reese

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See also Volume 1: American Revolution.

Continental Impost

Tax measure proposed during the Confederation Era (1777–1789) to supply Congress with a consistent source of revenue and increased powers.

By 1780, Congress, deep in debt to foreign and domestic creditors, believed that the requisition system of taxation had proven inadequate to meet the demands that had been placed on the new U.S. government by the Revolutionary War against England. That year, Congress debated various financial schemes to alleviate the government's desperate situation. In a political environment wary of taxes, an impost (or import tax) provided the only method of raising revenue agreeable to the majority of states. In 1781, Congress proposed to place a 5 percent duty, or tariff, on all goods imported into the country. Because the Articles of Confederation, under which the government operated, did not grant Congress the right to regulate trade, the measure required unanimous consent of the states. In 1781, Rhode Island's opposition defeated the impost and, in 1783, New York's refusal to ratify ended the impost's political viability.

The controversy over the impost reflected the tensions in American politics that resulted from the Revolutionary War. Supporters argued that the impost would provide Congress with a source of income under its own control, which would facilitate and guarantee regular payments of its debts and place the United States in good standing with foreign governments. Opponents, however, rightly believed that passage would lead to an attempt by a powerful aristocratic element within the national government to increase the powers of Congress. Because of difficulties in fighting the war, the impost's strongest advocates envisioned the measure as the first step in creating a more powerful and fiscally independent central government to overcome the government's shortcomings. Their adversaries feared this concentration of authority and believed that the attempt to subvert the role of the states posed a threat to the liberties of the American people.

—Peter S. Genovese

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See also Volume 1: Congress.

Continental System

A method of economic warfare in the early 1800s in Europe during the Napoleonic Wars that forced the United States to fight Great Britain for its economic independence.

The Continental System emerged from Napoleon's 1806 Berlin Decrees, which declared Britain under blockade, forbade all commerce with Britain, and ordered the seizure of British goods and all vessels trading with the British Empire. Britain responded with the Orders in Council, which declared a blockade of the Continent and required neutral vessels to obtain licenses to trade with France. France countered with the 1807 Milan Decrees, which ordained confiscation of all ships and goods complying with the Orders in Council. In sum, Britain and France hoped to use economic pressure to bankrupt each other, to force other powers into conflict with their opponent, and to transfer some of the financial burdens of war from themselves to the rest of the world.

The Continental System permitted France to exploit Europe economically and politically. French ministers dictated foreign and trade policies, and even the laws, of subject countries, and forced them to open their markets to French goods while maintaining French trade barriers. European trade and maritime industries suffered serious losses, especially in northern Germany, and prices and shortages of various consumer goods increased. However, the Continental System promoted European industrialization and construction of nonmaritime infrastructure.

Extensive smuggling undermined the system, which France never enforced effectively. In 1810, to generate revenue, Napoleon even permitted French trade with Britain. Although denied access to the Continent, Britain expanded into new markets, especially in South America after France occupied Spain in 1807. Most significantly, the Continental System created considerable friction between France and other powers. Russia defected from the system in 1810 and increased duties on French imports. Franco-Russian relations quickly deteriorated, leading to war in 1812. War led to the collapse of the system in 1813 and the fall of Napoleon in 1814. In short, from 1807 to 1813, Britain's credit and financial system proved superior to France's, and thus the Continental System as a method of economic warfare proved a failure.

—James D. Perry

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See also Volume 1: War of 1812.

Convict Lease

System of involuntary labor that developed after the Civil War in the South.

At the close of the Civil War, Southern states found themselves essentially bankrupt. The emancipation of slaves had dissolved the South's workforce in one motion. Practically overnight, the free population of the South more than doubled. Coping with double the number of free persons strained the South's economy and justice and political systems. The already weakened prison system now dealt with black as well as white lawbreakers. With few or no resources remaining, the South and Reconstruction governments attempted to rebuild the region physically and financially.

With the loss of slaves as a workforce and a growing prison population, Southern states decided to use prisoners as a cheap labor force. Individual states turned the potential financial drain of rebuilding their prison system on a larger scale into a money-making venture by leasing convicts. States leased convicts to private companies for use as labor. The companies in turn took over the maintenance of the convicts. Thus, the state spent nothing on the convicts. Convicts usually worked for plantation owners, railroad companies, and mining companies, but any operation that needed a large labor force could lease convicts. In Georgia, for example, the governor leased the entire population of the state penitentiary in Milledgeville to a railroad company. Even the disabled, women, and the aged could be leased for less physically demanding work such as that of camp cook.

Although the convict lease system proved a perfect solution for the financially pressed South, the system had little or no state supervision. The convicts were abused and neglected and received minimal care and sustenance. Extreme working and living conditions coupled with a wholly inadequate diet ensured high mortality. Eventually, reformers began to publicize the abuses and misuses of convict labor. The system did not end, however, until Herbert Hoover's bid for the presidency in 1928.

—*Lisa A. Ennis*

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See also Volume 1: Slavery.

Coordinating Committee for Multilateral Export Controls (CoCom)

A nontreaty organization formed by the United States with its allies to prevent the transfer of western technology and hardware that would augment the military strength of communist nations.

In the opening phase of the cold war, the Marshall Plan (1947) bestowed on the United States enormous authority to channel the economic life of Europe in a manner that reflected U.S. concerns over the Union of Soviet Socialist Republics (USSR) and the Soviet bloc of eastern European countries under Soviet control. One manifestation of this authority appeared in November 1949 when France, Great Britain, Italy, and the Low Countries (Belgium and the Netherlands) agreed to join the United States in founding the Coordinating Committee for Multilateral Export Controls (CoCom). Membership in the unchartered, informal group extended to include Canada, Denmark, Japan, Norway, Portugal, and West Germany in 1950. In August 1953, Greece and Turkey also joined.

CoCom recognized the West's boycott of military-related technologies imposed against the USSR and its allies in Europe and Asia. It received direction for its work when the U.S. Congress approved the Mutual Defense Assistance Act in 1951 (called the Battle Act in honor of its sponsor, Democratic Congressman Laurie C. Battle of Alabama). The legislation mandated that the executive branch withhold military and economic aid from any country that ships strategic goods to a nation or group of nations that threatened the security of the United States. Understandably, most American products denied the Soviet Union through the Export Control Act (February 1949) reappeared on CoCom's commodities list of embargoed items that were prohibited.

As the cold war matured and Western Europe recovered from the economic devastation of World War II, U.S. leadership of CoCom declined. The United States simply failed to understand its allies' opinion on the subject of commerce with communist nations. American policymakers from the late 1940s to the late 1980s viewed such trade almost exclusively in political terms, whereas the non-U.S. CoCom members favorably weighed trade's economic benefits. The most egregious violation of CoCom's policy occurred between 1981 and 1984 when the USSR bought several proscribed computer-controlled milling machines from a subsidiary of Toshiba Corporation of Japan and numerical controls from the state-owned Kongsberg-Vaapenfabrikk of Norway. Soviet industry employed the machines and controls to manufacture silent propellers for submarines. With the collapse of the Soviet bloc in 1989 and the Soviet Union in 1991, the rationale for CoCom evaporated, and the organization disbanded in 1994.

—*James K. Libbey*

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See also Volume 1: Cold War.

Corruption

Bribery, smuggling, graft, extortion, or other illegal activity.

Since colonial times Americans have engaged in various forms of corruption. During the period of the Navigation Acts, these activities usually involved smuggling goods into the country to avoid the payment of customs duties. The practice, which resulted in a net loss of £700,000 a year to the British treasury, led to the passage by Great Britain of the Sugar Act, which authorized trials for suspected smugglers in vice admiralty courts.

Government officials operating under the new Constitution, some of whom had engaged in smuggling during their prerevolutionary days, feared corruption. The founding fathers instituted a series of checks and balances among the three branches of government that were designed to prevent corruption at the federal level. During the early years of the republic, the system worked well, but as the nation moved from subsistence to a market economy, the opportunity for corruption resurfaced.

During the administration of President Andrew Jackson (1828–1836), the issue of the spoils system—that is, the political appointment of supporters—was raised. Jackson ordered an audit of all government departments—a move that frightened anti-Jackson forces because they feared he would fire all political opponents. Fewer than 300 employees were fired, or 9 percent of the total government bureaucratic positions. During Jackson's time, the area in which theft and graft occurred most often was the Customs Service. Several collectors in the larger port cities of New York, Boston, and New Orleans were charged with theft, and a couple of them fled the country with $1 million of public monies.

In the post–Civil War period, during the administration of President Ulysses S. Grant, the practice of patronage became the primary corruption issue. During the presidency of Chester Arthur, Congress passed the Pendleton Civil Service Act. The legislation, limited at first to a small percentage of positions, required that applicants for government jobs take a civil service exam and that employment be based on merit instead of bribes, kickbacks, or patronage. Eventually under this act, most nonappointment jobs fell into this category. Elimination of corruption among political appointees at the federal level coincided with the rise of political party bosses who controlled local politics. The "boss system" dominated state and local politics, with Tammany Hall in New York City operating as the most powerful boss ring in the country, controlling politics in the city through bribery and corruption. Many bosses courted new immigrants, who were unfamiliar with the democratic process—most had arrived from countries ruled by autocratic leaders and readily accepted this familiar form of governing. By the end of the 1800s, many governors and city mayors had initiated political reforms to counter bossism. Both Grover Cleveland, as mayor of Buffalo and then as governor of New York, and Theodore Roosevelt, as the head of the U.S. Civil Service Commission and as the president of the New York City Police Commission, gained national recognition for their efforts to root out bossism.

Early in the twentieth century, the anti-immigrant sentiment that developed as immigrants flooded into the United States after World War I, coupled with an existing Prohibition movement that focused on the drinking of Europeans, led to the ratification in 1920 of the Eghteenth Amendment prohibiting the manufacture, sale, or distribution of alcohol. In 1920 Congress passed the Volstead Act to enforce the amendment. The federal government hired 1,500 agents to patrol U.S. borders and investigate illegal activities. In the major cities, gangsters found it very profitable to smuggle in liquor from Canada. When rival gangs competed for distribution areas (such as in Chicago, where Al Capone was powerful) the situation often became deadly as rival suppliers fought over distribution territory. Local police and customs officials accepted bribes, and corruption became rampant.

Crime and corruption decreased in 1933 with the ratification of the Twenty-first Amendment to the Constitution repealing Prohibition. During the period of corruption prior to the passage of this amendment, the U.S. Treasury lost tax revenues while having to spend scarce resources on the enforcement of the Volstead Act. Corruption occurred again in the last two decades of the twentieth century in connection with the "War on Drugs," when the government pursued drug sellers and users in an effort to reduce crime, which led to the illegal importation of marijuana, cocaine, and heroin. Local customs officials, members of law enforcement, and judges accepted bribes in exchange for protecting drug traffickers from prosecution. In 1988 alone, the estimated gross sales of illicit drugs exceeded $120 billion.

At the federal level, the issue of corruption led to the passage of the 1978 Ethics in Government Act. Brought on primarily because of obstruction-of-justice charges stemming from the Watergate political scandal and the bribery charges that led to the resignation of Vice President Spiro Agnew, the act sought to prevent officials from engaging in illegal activities. Since then, many government officials have been accused of and charged with corruption on charges including mail fraud, check kiting (in which checks are written without funds available and are covered by the deposit of another check from an account that also lacks sufficient funds at the time), bribery, and illegal lobbying. Strict financial disclosures under the Ethics in Government Act have resulted in closer scrutiny of officials by government agencies. During the 1990s, campaign finance reform attempted to deal with corruption related to excessive political contributions, in which contributors of large amounts gained influence over politicians whereas other groups were denied such access. Individuals and political action committees (U.S. corporations, labor unions, or associations formed to raise money for political purposes) were forced to limit their contributions, thus restricting their influence on politicians. Although Congress continues to deal with the issue of corruption, the number of corruption cases has diminished in recent years.

—*Cynthia Clark Northrup*

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See also Volume 1: Cleveland, Grover; Pendleton Act; Roosevelt, Theodore.

Cotton

A plant that produces a soft fibrous substance that can be processed into cloth, arguably the single most significant agricultural commodity influencing U.S. political, economic, and social development.

Cotton, more than any other single agricultural commodity, is identified with an entire socioeconomic system: the plantation system and concomitant slavery of the Deep South from 1800 until the end of the Civil War. Slavery had started to decline in the South when Eli Whitney invented the cotton gin in 1792. The widespread adoption of the cotton gin and expansionist land policies combined to stimulate both the cotton and slave trades. By 1820, cotton had eclipsed tobacco as the nation's top export commodity. Exports rose dramatically from approximately 20 million pounds in 1800 to 128 million pounds in 1820, peaking at 1.8 billion pounds in 1860. To put these numbers in context, cotton comprised 42 percent of all American exports in 1820, rising to 67 percent of total exports in 1840. After 1840, manufactured products from the Northeast began to comprise a larger share of total exports. Nonetheless, cotton remained the dominant export commodity until 1880.

Expansion of cotton production paralleled the rise of slavery and the large plantation system in the Deep South states of Georgia, Mississippi, and Alabama. Large plantations subsidized production costs through slavery. The long summers and mild winters of the Deep South meant that the costs of social reproduction—that is, the goods and infrastructure needed to maintain the political and economic lifestyle of the area—were quite low, enabling large plantations to operate almost self-sufficiently. This occurred at the long-term expense of the region, however, as the plantation-system did not require investment in social and physical infrastructure. This self-sufficiency operated in contradistinction to the mid-Atlantic and especially New England states, which benefited in less direct, but more substantial ways from the slave and cotton industries, as the South supplied the raw material for New England's textile mills.

Cotton's role as the top export commodity of the early 1800s should not be underestimated. Cotton strengthened U.S. economic bonds with England. The rapid expansion of cotton exports to the English Midlands meant rapid expansion of the plantation system, which required ships and financial services (financing, insuring, and marketing) provided primarily by New England and the mid-Atlantic states. This commerce stimulated their economic development and urbanization and funded many of their industrial and academic centers. Strong global demand for cotton cloth, technological innovations in processing, the expansion of lands favorable to cotton production, and slavery combined to make cotton a global commodity within a few years.

Cotton production and productivity did not undergo significant change until the 1940s, when mechanized harvesting was introduced in the form of single-row pickers pulled behind tractors. The 1950s and 1960s saw a significant rise in productivity (the amount of labor required per acre dropped from about 150 hours to almost 25 hours) as larger, self-propelled cotton pickers were widely adopted. Likewise, yield per acre increased slowly from 174.2 pounds in 1870 to 185.5 pounds in 1935, increasing rapidly with mechanization to 508.0 pounds per acre in 1965. Cotton declined in socioeconomic significance as the United States became the world's dominant manufacturing power after World War I.

—W. Chad Futrell

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See also Volume 1: Protective Tariffs; Volumes 1, 2: Slavery.

Council-Manager Government

A popular form of city government in the early twentieth century.

The council-manager form of government became a popular form of government in the early twentieth century and has persisted into the twenty-first with no signs of abatement. It stands in contrast to the commission form of government introduced in Galveston, Texas, following the devastation of a hurricane and that no longer functions even in the city of its origin.

The rise of the council-manager form of government coincided with the massive industrialization and urbanization that marked life in the United States in the first decades of the twentieth century. It was part of a series of ideas prevalent in business and municipal government that included Frederick Taylor's theory of scientific management, nonpartisan elections, and the use of direct party primary for the nomination of candidates. Political scientist and future Democratic president Woodrow Wilson argued that politics and administration could be separated, an idea that no longer holds sway in the field of public administration. Rather, citizens assume that city managers will have considerable input into the policymaking process.

Middle- and upper-class reformers of the early twentieth century believed that there was neither a Republican nor a Democratic way to dig a ditch—one of the mundane but essential functions of local government. Upper- and middle-class policymakers had little use for the social welfare services that political machines provided for working-class and lower-class individuals. The municipal corporation ideally would be run as a business and optimize efficiency.

The council-manager form of government has been most commonly employed in medium-sized cities averaging a homogenous population of 80,000 residents of middle- and

upper-class income. Frequently these medium-sized cities are bedroom communities where white-collar and blue-collar workers live who commute to larger nearby cities in which they are employed.

Large cities and most municipalities with heterogeneous populations have found the coalition-building skills of elected mayors to be indispensable. Villages and towns have not had substantial enough budgets to adequately compensate full-time city managers with advanced degrees. In Louisiana, no municipality uses the council-manager form of government.

On average, the city manager holds her or his position for about seven years before moving on to a similar position in another city. Educational attainment by city managers increased over the course of the past century as their focus of study shifted from a focus on engineering skills to a greater emphasis on management and organizational skills. City managers usually hold a master of public administration (MPA) degree. The major professional organization for both public administrators and practitioners, including many city managers, is the American Society for Public Administration. Among its regional affiliates is the Southeastern Conference of Public Administration (SECoPA).

The council-manager form of government resembles the structures routinely used to govern school districts throughout the United States. Just as the elected school board members hire and usually defer to a full-time superintendent, who typically holds a master's or more advanced degree in education, the city council hires and usually defers to the city manager. Council-manager forms of government commonly have a mayor, who, however, is usually a council member who for a certain period of time serves when needed at ceremonial functions.

Responsibilities that have been increasingly added to the work of city managers since the 1960s include the need to engage in collective bargaining with municipal employees and to reorganize and consolidate management structures in response to increased resistance to property tax burdens on the citizenry and business. A spillover effect of Executive Order 10988 issued by President John F. Kennedy on January 17, 1962, included increased collective bargaining at the local level of government. A. E. Bent and R. A. Rossum (1976) observed that "it required federal agencies to deal with employee organizations and to grant them official recognition for negotiation or consultation." As is frequently the case in a federal system, what takes place at one level is emulated at another level. A fairly typical organizational scheme, as noted by R. T. Golembiewski and Michael White (1983), would have the city manager responsible for supervising her or his assistant, the city attorney, the finance department, the planning department, the public works department, the police department, the fire department, and the housing department. The council-manager form of government promises to persist as a common structure of municipal governance well into the twenty-first century, although its responsibilities may change.

—Henry B. Sirgo

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See also Volume 2: Urbanization.

Council of Economic Advisers (CEA)

Group that provides expert information to the president about the future of the economy.

New Dealers, who sought to address economic problems during the Great Depression through the implementation of government programs, passed the Employment Act of 1946. Although they saw a need for a full employment bill, the 1946 legislation shifted the policy emphasis to economic growth and away from the entitlement of a job for every citizen. The mature economy thesis, a legacy from the Great Depression concerning the means of attaining economic growth, remained the major ideological concern of the supporters of the law. Leon H. Keyserling, a Keynesian economist, suggested forming a special committee that eventually became the Council of Economic Advisers (CEA). Historically, the CEA expressed the concern about the future of the economy. As progressives, CEA members assumed that experts could play a major role in governmental policies. The council's first staff consisted of one statistician and nine economists. The CEA became operational by August 1946, six months after the Employment Act became law.

Not as far-reaching as many reformers desired, the law provided a policy and ideological battleground for struggles over the federal government's response to the business cycle.

After 1946, the CEA dealt with the issue of "guns and butter." The "guns" referred to the need for a strong military budget as the cold war emerged from the ashes of World War II. The "butter" was slang for domestic reform, for extending the New Deal to the Fair Deal (Harry S Truman's policies promoting full and fair employment and economic assistance for farmers and the elderly) and beyond. Members of the CEA expressed concern over the threat of a major economic recession.

A moderate economist from the Brookings Institution, Edwin G. Nourse, served as the CEA's first chair. Leon H. Keyserling, a New Dealer, assumed the office of vice-chair, and John D. Black, a wealthy businessman who had a successful academic career, became the third member. From the beginning, Nourse and the other members clashed over issues dealing with the nature of their advice to the president, their relationship to politics, and finally whether the administration should focus on price stability (Nourse's fear of inflation) or economic growth (Keyserling's concern about economic maturity). By October 1949 Nourse had resigned, and Keyserling became chair for the remainder of the presidency of Harry S Truman.

Under Keyserling's leadership, the CEA proved instrumental in holding down inflation during the Korean War. Keyserling also supplied data and narrative for a document known as NSC-68, which was the economic basis for the containment policy against communist expansion. That document also argued that the American economy could provide both guns and butter.

The CEA lost favor in presidential administrations after the Truman administration. The more conservative presidents disliked its New Deal/Fair Deal origins. Until the late 1960s the CEA figured prominently in disputes about the federal government's response to the business cycle. As the post-1968 years brought stagflation—increased unemployment and inflation simultaneously—the conservative supply-side ("trickle-down") "revolution" curtailed the CEA's appeal to politicians, and political and cultural conservatism reduced the CEA's influence. The Federal Reserve Board became the center of economic forecasting for the public and for politicians.

—Donald K. Pickens

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See also Volume 1: Federal Reserve Act; Keyserling, Leon; New Deal.

Coxey's Army (April 1894)

A movement that called for government action to alleviate the problems of the economic depression of 1893.

In April 1894, Populist Jacob Coxey led his army of 400 into Washington, D.C., to demand that the federal government help the unemployed. Coxey, a wealthy Ohio quarry owner, had passionately debated monetary reform. In 1893, at a Chicago monetary reform meeting, he encountered a man named Carl Browne and found that they shared common views on the subject of monetary reform. Browne returned with Coxey to his home in Ohio, and the two—who cofounded an organization called the Commonweal of Christ—developed a plan to march on Washington to focus awareness on America's economic problems and spur government action.

The federal government believed in an economic "invisible hand" and thus believed the depression was a natural event that it could not change. Thus, during the 1893 depression, also known as the panic of 1893, America's unemployed relied upon private charity that, although it tried, failed to meet their needs. Coxey and Browne hoped to convince the federal government to begin a public works program that would provide jobs for America's unemployed. Their plans remained small until a local Ohio reporter sent the story to the national wire, where it was quickly picked up by America's largest newspapers. This publicity created nationwide interest in the Commonweal of Christ, and letters of support, financial assistance, and recruits started to arrive. The march was small to begin with—it did include Coxey's son, whose name was Legal Tender, and 44 journalists. But as it moved toward Washington, its numbers expanded. When the army finally arrived, many government officials feared violence and, when Coxey attempted to read his speech on the U.S. Capitol's steps, officers arrested him for walking on the grass. Coxey's march focused national attention on the plight of America's poor and stressed the belief that the federal government could end a depression.

—Ty M. Reese

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See also Volume 1: Panic of 1893.

CPI

See Consumer Price Index.

Credit

An agreement that allows a buyer to take possession of goods, services, or funds with the understanding that in the future he or she will compensate the seller.

In the United States until the beginning of the twentieth century, extension of credit consisted primarily of business credit or personal loans granted by banking institutions or private individuals. The scarcity of specie such as gold and silver restricted the use of credit for the most part to purchases of goods for resale or of land. Beginning with Henry Ford's establishment of an installment plan for the purchase of automobiles in 1916, consumers started purchasing all types of household items on installment credit. During the 1920s, with the employment rate high and most Americans experiencing prosperity, retailers offered durable goods such as appliances, radios, and furniture on credit. During the Great Depression, the availability of credit diminished, and during World War II the rationing of goods continued to restrict its use. During the prosperous 1950s, use of credit expanded, primarily for home purchases and automobiles. The government provided low-interest home loans to veterans through the Servicemen's Readjustment Act (1944), but nonveterans could obtain credit on easy terms as well.

The use of credit cards began in 1950 when Diner's Club made a card available that could be used at 27 New York City restaurants. By 1958, Americans could charge their purchases

on their BankAmericard (Visa). By the mid-1960s, more than 5 million credit cards were being used in the United States. That number has continued to increase and by 2002 over 1.4 billion cards were used to purchase more than $991 billion worth of goods annually. Total U.S. credit card debt in 2002 amounted to $60 billion. Technological advances have resulted in the widespread use of credit cards for purchases via the Internet. The low monthly payment allows consumers to enjoy more conveniences, but the interest rate remains high on most cards, and in the long run consumers' purchasing power is diminished. The abuse of credit cards accounts for a large percentage of bankruptcies filed each year in the United States.

—*Cynthia Clark Northrup*

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See also Volume 1: Ford, Henry; Great Depression; Volume 2: Banking.

Crédit Mobilier

An 1872 scandal, one of the most notorious financial scandals of American history involving governmental corruption.

During the mid-nineteenth century, both commercial interests and government—spurred by the new technology of steam locomotives, the intense public desire to construct and promote public improvements, and the push to develop the West following the acquisition of Oregon and California—promoted transcontinental railroads linking the Atlantic and Pacific seaboards. To facilitate construction, Congress passed the Pacific Railway Acts of 1862 and 1864, permitting the national government to make direct land grants of 20 sections of public land for every mile of track laid as well as a 30-year guaranteed, subsidized loan to private construction companies at below market interest rates.

The Union Pacific Railroad Company, organized in 1862, laid track from Omaha to the state line of California. The Union Pacific trustees knew that construction fees provided the true profits; therefore, they contracted with themselves—through a separate construction company—to build the railroad and maximize their profits. They chose an already existing corporation, the Pennsylvania Fiscal Agency, to achieve that goal. The trustees of the Union Pacific, who controlled the majority of the stock in the newly purchased company, changed the name to Crédit Mobilier.

Oakes Ames, a member of the House of Representatives Committee on Railroads, invested heavily in the company and played a key role in financial affairs. Ames sold or assigned Crédit Mobilier stock to members of Congress at prices substantially below market value in an apparent attempt to influence them in the corporation's favor. Information identifying those members of Congress came to light during the 1872 presidential election (five or six years after the events) and triggered an intensive congressional investigation. The revelations badly damaged the reputations of leading government officials including Vice President Schuyler Colfax, Republican Speaker of the House James Blaine, Democratic Representative James Brooks of New York, and Republican Senator James W. Patterson of New Hampshire. No prosecutions occurred.

The direct effects of this scheme produced immense profits ($30 to $40 million) for the investors—coming primarily from public funds—and smeared the reputations of several national leaders. The public, disgusted about the bloated profits and perceived waste of taxpayers' money and repulsed by the political corruption, had an lingering distrust of corporate influence on public officials. It also contributed to the judicially created rule that restricted the use of public money for public purposes only.

—*Susan Coleman*

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See also Volume 1: Corruption; Railroads.

Crime

Unlawful activities ranging from violent crimes such as murder and rape to nonviolent "white-collar" crimes.

During colonial days, public humiliation served as the primary form of deterrence for nonviolent crimes. Time confined to the public stocks, dunking, or the wearing of a scarlet letter "A" for adultery dissuaded many from engaging in unacceptable social behavior. Murderers were confined in a stone structure until they had served their time or were executed. Society expended very few resources on the construction or maintenance of jails. As the U.S. population increased during the nineteenth century, crime rates edged upward, and prisoners were forced to perform hard labor as punishment for their crimes. During the Jacksonian Era (1828–1836), several reforms such as the asylum and reform school movements occurred, including the penitentiary movement, which was favored by reformers who believed that criminals who had a chance to reflect on the error of their ways while confined in solitary cells would become penitent and would not want to commit future crimes. Extended periods of confinement without human interaction produced severe psychological problems among the prisoners, a flaw corrected by placing two men in the same cell and initiating programs that included periods of exercise as well as work. Since federal and state penitentiaries were first formed in the mid-1800s, the system has required the allocation of resources for the construction, maintenance, and staffing of the facilities. Billions of dollars per year are spent on a system that has largely proven ineffective; the number of repeat offenders remain high.

Beginning in the 1960s and especially during the 1990s, the number of prisoners in the system dramatically increased because of the prosecution of drug offenders. By 2001 more

than 1.96 million Americans were incarcerated in federal, state, and local prison facilities. That figure represents an increase between 1995 and 2001 of 3.8 percent annually. In 1989, 57 percent of the prison population were confined as a result of the War on Drugs initiated by President George H. W. Bush. The government loses tax revenues when drug dealers commit their crimes while at the same time the taxpayers must pay for the additional law enforcement personnel and facilities necessary to combat the problem.

Another financial drain on the public treasury involves the detention of illegal immigrants. Between 1990 and 2000, the number of immigration violators within the system increased by 691 percent, again resulting in increased expenditures within the Immigration and Naturalization Service.

Based on recent statistics, a disproportionate number of African American males are incarcerated—46.5 percent of all prisoners are African American, although only 10 percent of the U.S. population is African American. Crime has become a class issue.

—*Cynthia Clark Northrup*

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See also Volume 1: Class; Poverty.

Cuba

Caribbean nation south of Florida that for several centuries was part of the Spanish empire.

Spain claimed possession of Cuba from 1492 through 1898, managing to hold the island longer than it held most of its other colonies. However, a rebellion against Spanish control began in Cuba in 1895. The Spanish used brutal tactics against the revolutionaries, and the conflict was much written about in American newspapers. Without a solution to the fighting in sight, the United States went to war against Spain in 1898 in support of Cuban independence fighters, quickly defeating Spain but giving the Cubans little credit for their role in the fighting. United States troops remained in Cuba after the war, but the Teller Amendment (passed in April 1898 before hostilities began) prohibited American annexation of the island. Therefore, the United States gave Cuba independence but insisted that the Cubans incorporate into their constitution the Platt Amendment, which gave the United States the authority to intervene in Cuban affairs if the American government believed Cuba's independence was in jeopardy. It also prohibited the Cuban government from contracting a debt, and it gave the United States the rights to a naval base at Guantanamo Bay on the western end of the island.

In 1934, the Platt Amendment was abrogated, and the United States passed the Jones-Castigan Act, which lowered the tariff on Cuban sugar entering the United States. Cuban sugar output increased dramatically, but the island became dependent on American sugar purchases and failed to develop a diverse economy. Because of mismanagement and lack of diversification, the Cuban economy began to steadily decline throughout the 1940s. Even so, Havana became famous for its nightlife and was a popular destination for American travelers.

In the face of a sinking economy and charges of government corruption in the mid-1950s, a rebel guerrilla movement led by Fidel Castro moved against the Cuban leader, Fulgencio Batista. In 1959, Castro took control of the government, and economic reforms soon followed. Castro reduced utility rates and raised workers' wages. Of more interest to the United States, his government seized property and began import restrictions on luxury items that Cuba typically imported from the United States.

Cuba, still largely dependent on the United States, avoided offending its northern neighbor until it began to receive Soviet economic assistance in 1960. Once Cuba developed close ties to the Soviet Union, the administration of President Dwight D. Eisenhower slashed the Cuban sugar quota to zero and the United States stopped importing the product. Cuba remained a communist nation and, in 1962, the United States instigated a full economic boycott against the island following the Cuban missile crisis in October 1962. The crisis occurred when the United States initiated a quarantine of the island after spy flights discovered the construction of ballistic missile silos for which the Soviet Union was providing missiles. After a tense standoff, the Soviets removed all missiles from Cuba in exchange for the United States removing its missiles from Turkey. In the early 1980s, the administration of Ronald Reagan tightened the blockade. The United States refused to import goods that had been transshipped through Cuba or even finished goods that contained materials originating in Cuba. Even travel to and from Cuba was prohibited. The boycott has had a disastrous effect on the Cuban economy that has only increased since the collapse of the Soviet Union in 1991. The embargo and travel restrictions remain in effect. Only academics conducting research, U.S. and international politicians, athletes performing at recognized events, journalists, and family members returning one time per year are allowed to travel to the country.

—*John K. Franklin*

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See also Volume 1: Cold War; Spanish-American War; Sugar.

Currency Act (1764)

British act that restricted the ability of colonists to conduct economic transactions.

The British government, lobbied by merchants in London, worried about the circulation of paper currency in the American colonies. Following the Seven Years' War between Britain and France, most of the colonies issued paper bills, a practice tolerated during the war for its convenience in purchasing supplies and paying colonial militia troops. In 1751, Parliament had passed the Currency Reform Act, which regulated colonial paper currency, but in the war years from 1754 to 1763, New York, Pennsylvania, and Maryland had

issued technically illegal currency. However, by 1764, much of this currency fluctuated so wildly in value that it threatened the stability of the trade and debts between colonists and the trading houses in England that handled their accounts. To make matters worse, many private banks and companies issued paper money that depreciated even more rapidly than that of the colonial governments.

The Currency Act, passed by British Parliament September 1, 1764, prohibited any colony from issuing paper currency in any form, including bills of exchange. This action met with colonial protest, since a shortage of hard currency existed, particularly on the frontier, which sometimes made paper currency necessary for any trade to take place at all. It also frustrated tobacco planters accustomed to storing their crops in government warehouses while receiving bills of exchange with which they paid tithes, taxes, and salaries. The harshest criticism occurred because of the bills' enforcement measures, which included a fine of £1,000 and the dismissal of any governor whose administration allowed the circulation of paper money.

—*Margaret Sankey*

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See also Volume 1: American Revolution.

Currency Act of 1900

Act through which the United States abandoned a bimetal (silver and gold) backing of the currency and converted to gold.

The Currency Act of 1900 dominated and affected the economic growth of the country for three decades. It reduced by 50 percent the minimum capital needed for a small national bank, thus increasing the number of bank establishments, and it increased the limitations on the issue of banknotes. In 1878, with the discovery of silver in the West and the Free Silver Movement advocating the unlimited coinage of silver, the federal government passed the Bland-Allison Act, which authorized it to buy a limited amount of silver, between $2 million and $4 million, each month and convert it into dollars. In an attempt to pacify silverites (silver mine owners, western farmers, and the lower laboring classes that benefited from an expanded currency) and not alienate eastern investors, Republicans passed the Sherman Silver Purchase Act of 1890, which doubled the amount of silver purchased. Because money is a medium of both domestic and foreign exchange, many Republicans felt it was essential to maintain the gold standard if U.S. businesses were to compete internationally. They also believed that Gresham's Law (overvalued species will drive out undervalued species) would lead to a depletion of gold in federal mints as individuals sold gold in European markets.

With the discovery of gold in Alaska, which increased the nation's currency supply, President William McKinley persuaded Congress to pass the Currency Act of 1900. The government backed all currency with gold and fixed the price at $20.67 an ounce. By going to this standard, the nation found itself facing several disadvantages in the first three decades of the twentieth century. A growing economy needs a growing gold reserve to back it up. If such reserves decline, the money supply slows and economic growth is restricted. People can also decide to convert their currency into gold in a speculative move, thereby draining the federal reserve of gold and reducing the money supply. Many historians and economists contend that the gold standard led to the Great Depression. In 1933, the federal government feared a depletion of its gold supply, and President Franklin D. Roosevelt decided to go off the gold standard.

—*T. Jason Soderstrum*

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See also Volume 1: Bland-Allison Act; Gold versus Silver.

CWA

See Civil Works Administration.

D

Dams, Construction of

The building of barriers across a water source that results in the formation of a reservoir to store water; in the United States, stored water provided irrigation, drinking water, and electricity to 17 western states and allowed for the production of crops and the growth of cities and industries in previously uninhabited areas.

The construction of dams in the United States became a coordinated federal goal with the passage of the Reclamation Act of 1902. Congress created the U.S. Bureau of Reclamation to oversee the development of water resources in the semiarid and arid region of the western United States. Although the Homestead, Timber Culture, and Timber and Stone acts had attracted settlers farther west, hundreds of thousands of acres remained uninhabitable or uncultivable because of the lack of water. The bureau designed a system of dams on numerous rivers to be used both for irrigation and the generation of hydroelectric power. Working with the U.S. Army Corps of Engineers, the Bureau of Reclamation constructed most of these dams between 1909 and 1947. On the North Platte River, the Pathfinder Dam (1909) and the Guernsey Dam (1927) provide water and power to western Nebraska and eastern Wyoming. The Shoshone Project, which includes the Buffalo Bill Dam (1910), services northwestern Wyoming. In Colorado a series of dams including the Granby and the Green Mountain dams form reservoirs from which water is pumped into a tunnel that descends the slope of the Continental Divide, providing water and power to the eastern slope of the Rocky Mountains.

Between 1933 and 1943, the U.S. Corps of Engineers constructed the Bonneville Dam and the Grand Coulee Dam on the Columbia River between Oregon and Washington. Special consideration for the salmon that spawn upriver resulted in the inclusion of fish ladders. In California the dams along the Sacramento and San Joaquin rivers provide water for the farmlands of the Central Valley and for municipalities that desperately need water and power for their growing populations. In 1944 Congress authorized the construction of the series of 112 dams throughout the Missouri River basin that provided water and power to Nebraska, Montana, South Dakota, North Dakota, Wyoming, Kansas, Missouri, Colorado, Iowa, and Minnesota. Since the 1950s the North Platte, Shoshone, Colorado, and Missouri projects have been integrated. One of the most dramatic results of dam construction was in Nevada, where the U.S. Corps of Engineers built the Hoover Dam (1933–1947), one of the world's largest. Designed to harness the Colorado River, the dam created Lake Mead, which provides water for the growing Las Vegas area as well as other parts of Nevada—area that would have otherwise remained a barren desert.

The two largest dam projects in the United States were the Tennessee Valley Authority (TVA) and the St. Lawrence Seaway. The TVA, built during the Great Depression, provided irrigation and inexpensive hydroelectric power for one of the country's poorest regions. The project has proven successful in terms of providing local inhabitants with a higher standard of living through the creation of jobs, education programs, and soil conservation. The St. Lawrence Seaway, authorized in 1954 and constructed jointly with Canada, opened up the American industrial and agricultural heartland to oceangoing vessels. A series of canals, dams, and locks allows ships to travel the Great Lakes all the way to Chicago. Other major cities that benefit from the seaway include Buffalo, Duluth, Milwaukee, Detroit, Toledo, and Cleveland. Important commodities shipped through the seaway include iron ore from Michigan and Minnesota as well as wheat and coal. In addition to opening up a new trade route, the St. Lawrence Seaway also generates power for New York and Ontario.

—Cynthia Clark Northrup

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See also Volume 1: Electricity; Homestead Act; Tennessee Valley Authority; Timber and Stone Act; Timber Culture Act.

DARPA

See Defense Advanced Research Projects Agency.

Dartmouth College v. Woodward (1819)

Early Supreme Court case that upheld the validity of contracts under the U.S. Constitution.

In 1769, King George III granted a charter to Dartmouth College in the colony of New Hampshire. The charter established that 12 trustees and their successors would direct the college "forever." By the early nineteenth century, the trustees of Dartmouth College were well known as staunch supporters of the Federalist Party during a period involving a power struggle between the Federalists and the newly dominant Democratic-Republican Party—a fact that William Plumer, the newly elected Democratic-Republican governor of the state, decided to no longer tolerate. With the support of a Democratic-Republican majority in the legislature, Governor Plumer passed a series of laws in 1816 that changed Dartmouth from a private college to a public university. The new laws would allow the governor to appoint more trustees to the college, as well as a board of overseers. The college immediately sued the state of New Hampshire for impairing its original charter and hired Daniel Webster to argue its case before the Supreme Court.

Webster believed that New Hampshire had clearly violated the contract clause of the Constitution, which says that no state may pass a law "impairing the Obligation of Contracts." Ruling for the Court in a 5-to-1 decision, Chief Justice John Marshall agreed with Webster and went even further by extending the protection of the contract clause to all private corporations. Marshall first argued that Dartmouth College was a private and not a public corporation, since its founders were individuals who hoped to spread the Christian faith among the Indians. As a private corporation, Dartmouth College had the right to direct itself through its trustees in accordance with the original charter. The new laws passed by the state of New Hampshire had impaired the original charter and thus violated the Constitution. By extending the protection of the contract clause, Marshall helped to make private corporations the main tool of business expansion in America.

—Mary Stockwell

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See also Volume 2: Judiciary.

Dawes Plan

A plan designed to stabilize the European economy after World War I by facilitating monetary stabilization in Germany.

After World War I, the Reparations Commission, an Allied-controlled agency created under the Versailles Treaty, established the system of reparations. The German hyperinflation that emerged after the French occupation of the industrial center of the Ruhr River valley forced European leaders to reconsider that system.

In November 1923 the Reparations Commission called for the formation of two independent advisory panels comprising financial experts from the United States and Europe. At the suggestion of the administration of President Calvin Coolidge, the Reparations Commission invited the American banker, Charles G. Dawes, to lead the effort.

The Americans dominated this effort to reconfigure German reparations. They convinced the Europeans to adopt a system based on German "capacity to pay." Germany would pay in full, but only at a rate consistent with the elimination of inflation. By stabilizing the German monetary system, investor confidence would increase, restoring trade balances and improving economic conditions for all of western and central Europe.

The Dawes Plan required that Germany return to the gold standard and establish a new central bank. These reforms would curb inflation, discourage German deficit spending, and encourage foreign investment in Germany. A new office, agent general, determined rates for reparations payments that would not provoke inflation or reduce the standard of living in Germany.

The Dawes Plan did temporarily stabilize the German economy. However, it did not make the German economy strong enough to withstand a series of global financial shocks between 1929 and 1931.

—Karen A. J. Miller

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See also Volume 1: World War II.

Dawes Severalty Act (1887)

Act ending policies that had provided reservations to Indian tribes, instead providing 160-acre tracts of land to individual Native Americans and weakening the cohesiveness of the tribes.

By the late 1880s, a series of wars with Native Americans had convinced many reformers that programs designed to concentrate Indians on reservations had failed. Without access to traditional lands and cultural practices and with the decline of the buffalo, tribes slowly became dangerously dependent on governmental aid for their survival. Moreover, whenever whites wanted access to Indian lands, they often violated treaties with impunity, as railroad companies so often did when they ran tracks across a reservation. Against this backdrop Congress passed the Dawes Severalty Act in 1887. The act ended the policy of placing tribes on reservations, attempting instead to assimilate Native Americans into the cultural and economic habits of mainstream white Americans by undermining their communal structure, parceling out and privatizing their land, and setting them up as farmers. To prevent whites from swindling Indians out of

their land, the Dawes Severalty Act placed the federal government in a position to hold title to the land for 25 years. The stipulation worked poorly, however, as Indians "leased" land to unscrupulous speculators, and any reservation land not given to Indians remained available to non-Indian homesteaders. Native Americans also proved fiercely loyal to their languages, religions, and cultures. Few succeeded as traditional farmers and, by 1933, almost half of the Native Americans living on reservations whose land had been allotted found themselves landless. Many who retained allotments found themselves working mainly desert land. Under the Dawes Severalty Act, Indian poverty only deepened, as assimilation efforts continued apace, culminating in the 1920s with the Bureau of Indian Affairs outlawing Indian religious ceremonies, banning polygamy, and even imposing limits on the length of a man's hair.

—James E. McWilliams

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See also Volume 1: Indian Policy.

Debs, Eugene Victor (1855–1926)

Popular labor union activist, founder of the Social Democratic Party, and 1919 presidential candidate.

Born November 5, 1855, in Terre Haute, Indiana, to French immigrant parents, Eugene Debs had nine siblings. He attended a local school until he turned 14, when he went to work on the railroad, eventually becoming a locomotive fireman. He left the railroad four years later to work as a grocery clerk. Debs stayed active in railroad, however, first by joining and participating in the Brotherhood of Locomotive Firemen and then as editor of the *Firemen's Magazine.* Debs married Katherine Mezel in 1885 and served briefly in the Indiana legislature.

Debs remains most remembered for his work with labor unions. In 1893 he helped to form an industrial labor society called the American Railway Union (ARU), and he was the organization's first president. The ARU gained national exposure during the Pullman strike of 1894, which turned into a walkout of all ARU members who served the Great Northern Railway out of Chicago. When all railroad employees went out on strike, the courts—under the Sherman Anti-Trust Act—convicted Debs and others for obstructing the mail. Debs served six months in jail, during which time he read and studied, emerging from his jail term a socialist. He then organized the Social Democratic Party of America from what little remained of the ARU; the union had lost many members after the government issued an injunction against it.

Debs made several runs for president as the Socialist Party candidate. He also wrote for and edited socialist publications. On June 16, 1918, during a speech at a socialist convention in Canton, Ohio, he encouraged listeners to oppose the war by any means. Charged with sedition and indicted for violating the Espionage Act, Debs received a 10-year sentence on two counts of disobeying an injunction issued by the federal government that ordered workers to return to their jobs or be in violation of the Sherman Anti-Trust Act. In 1919 Debs, while still a prisoner, received the nomination for president by the Socialist Party; he received 919,799 votes. President Warren G. Harding paroled Debs in 1922, but the Atlanta penitentiary had taken a toll on his health. Debs returned home to Indiana and continued to write. His syndicated column on prison life was compiled and published as a book, *Walls and Bars,* in 1927. Debs died October 20, 1926, at a sanitarium; more than 10,000 people attended his funeral.

—Lisa A. Ennis

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See also Volume 1: Railroads.

Defense Advanced Research Projects Agency (DARPA)

Federal agency established in 1958 to ensure U.S. world leadership in military technology; the agency that originated the Internet.

DARPA's mission ("to engage in such advanced projects, essential to the Defense Department's responsibilities in the field of basic applied research and development") and organizational structure are unique among government agencies. DARPA reported directly to the secretary of defense but remained independent of the military research and development divisions. One of DARPA's primary objectives was to deliberately avoid traditional ways of thinking and approaches to problems. Acceptance of the possibility of failure is another important founding principal of DARPA. These characteristics allow the agency to work quickly and decisively.

Throughout its history, DARPA has clung to most of its original principles and ideals. The organization remains small and flexible with a flat organizational structure with few levels of management, and it has retained its autonomy from traditional bureaucratic entanglements. The technical staff includes world-class scientists who rotate in and out every three to five years.

The organization has changed little, except in terms of its reporting chain and its name. DARPA has reported to secretary, deputy secretary, and undersecretary of defense; most recently DARPA reports to the director for defense research and engineering. The name changes are more complicated. Established in 1958 by Department of Defense directive 5105.15 in response to the Soviet launch of *Sputnik,* it was called the Advanced Research Projects Agency (ARPA). In 1972 the name changed to Defense Advanced Research Projects Agency (DARPA), and it became a separate defense agency. In 1993, President Bill Clinton changed the name back to ARPA in an effort to focus on its role in general economic growth, and in 1996 the name reverted back to DARPA under Title IX of the Defense Authorization Act. Its operating philosophy has also changed over time—originally it focused on microelectronics and computing and network

technologies, then on research and development business practices, and most recently on joint-service solutions that coordinate efforts among various agencies.

DARPA's most visible influence has been on the evolution of computing and computer networks. Its structure and flexibility allowed for the creation and promotion of ARPANet, a means by which scientists and researchers could share information over computer networks using packet switching—a procedure in which "packets" of information are transmitted over various routes and then reassembled at the destination in complete form. The success of ARPANet and other DARPA research led to the creation and development of the Internet. Within 35 years, computers had spread beyond the highly expensive realm of a few and were connecting millions through desktop PCs. Consumers gained access to a multitude of Internet services from purchasing products to paying bills online.

The success of DARPA, however, is derived from the implementation of its technology and ideas into military abilities. For instance, the F-117 stealth fighter, the Joint Surveillance Target and Attack Radar System (JSTARS), and Uncooled Infrared Sensors—all used in the 1991 Gulf War—had their origins in DARPA research. The M-16 assault rifle, the standard issue for all U.S. troops, also has its roots in DARPA. From the military standpoint DARPA has proven highly successful.

—Lisa A. Ennis

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See also Volume 1: Computer; Volume 2: Communications.

Defense Plant Corporation (DPC)

A federal agency and subsidiary of the U.S. government's Reconstruction Finance Corporation (RFC) that led to acquisition by the federal government of a dominant position in several large industries.

On August 22, 1940, Congress chartered the Defense Plant Corporation (DPC) in anticipation of war hostilities and assigned it the task of expanding production capabilities for military equipment. Its charter permitted both the building and equipping of new facilities and the expansion of existing structures.

Previously, in 1932, Congress had established the RFC as an independent government agency whose original purpose was to facilitate economic activity by lending during the Great Depression. The RFC would make and collect loans and buy and sell securities. At first it lent money only to financial, industrial, and agricultural institutions, but the scope of its operations widened greatly as a result of revised legislative amendments. These amendments allowed for the making of loans to foreign governments, providing protection against war and disaster damages, and financing the construction and operation of war plants. Approximately two-thirds or $20 billion of RFC disbursements went toward U.S. national defense, especially during World War II.

The RFC financed much of American industrial expansion during World War II. Various government departments such as the War and Navy Departments, the Office of Production Management, the War Production Board, and the Maritime Commission would request what they needed from the RFC, and in turn the DPC would ensure that the plants (mostly new factories and mills) were constructed, equipped, and operated. Jesse H. Jones, with Emil Schram and Sam Husbands, managed the DPC. From its inception in 1940 through 1945, the DPC disbursed over $9 billion on 2,300 projects in 46 states and in foreign countries. In general, the government owned the plants and then leased them to private companies to operate. In spending these billions of dollars, the government acquired a dominant position in several industries including aircraft manufacture, nonferrous metals, machine tools, synthetic rubber, and shipping. The materials and supplies produced during the war ranged from bearings to giant guns, tanks, ships, and airplanes. About half of the spending of funds went directly or indirectly for aviation. One of the DPC's largest projects involved a $176 million Dodge-Chicago plant that manufactured aircraft engines for the B-29 and B-32 airplanes. The plant's 19 one-story buildings stretched over 1,545 acres of floor space. It was so large that it had its own steel forge and aluminum foundry and could take in raw materials at one end and turn out finished engines at the other. Congress dissolved the DPC on July 1, 1945.

—Albert Atkins

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See also Volume 1: World War II.

Defense Sciences

An agency under the Defense Advanced Research Project Agency that develops military technologies.

The tremendous influence of science and technology on war during the second half of the twentieth century mirrored the equally momentous influence that war had on science and technology. The U.S. Army Research Laboratory (ARL) played a key role in the Department of Defense and army research and development programs. The dynamic organizational structure of ARL provides insight into army research and development programs and technological core competencies including some basic research, a substantial exploratory development program, and a continuing effort to "field" technology through a succession of advanced technology demonstrations.

Other agencies draw on expertise in computer science, mathematics, operations research, electrical engineering, and

physics. The Advanced Information Technology Center concentrates on access to the Defense Information Systems Agency (DISA), College Financial System (CFS), and Information Technology Standards Library. In addition, the DISA mission is to plan, engineer, develop, test, and manage programs; to acquire, implement, operate, and maintain information systems for C4I (an Air Force geographic information system for communication planning and modeling); and to provide mission support under all conditions of peace and war. It also contains information about the Defense Research and Engineering Network, which is the networking component of the Department of Defense (DOD) High Performance Computing Modernization Program.

The Defense Technology Information Center provides access to and transfer of scientific and technical information for DOD personnel, for example, to the Office of Naval Research (ONR). The ONR coordinates, executes, and promotes the science and technology programs of the United States Navy and Marine Corps through universities, government laboratories, and nonprofit organizations.

—Albert Atkins

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See also Volume 1: World War II.

Deficit Spending

Government expenditure in excess of tax revenue over a specific period of time.

By definition, deficit spending entails recourse to government borrowing (typically through the sale of bonds). Since 1945, it has been widely acknowledged that the Keynesian revolution, which witnessed the overthrow of classical economics, produced a theoretical justification for deficit spending. Nevertheless, there has been considerable debate on the extent to which John Maynard Keynes himself favored deficit spending as a policy option. In contributing to the debate, J. A. Kregel has contended that Keynes never explicitly proposed "government deficits as a tool of stabilization policy." It is necessary, therefore, to trace the evolution of Keynes's ideas on the subject.

Amidst the economic chaos produced by World War I and the draconian Treaty of Versailles, Keynes critiqued not just classical economic theory but also British economic policy. In the 1920s, Keynes attacked the "treasury view," held by Ralph Hawtrey and Winston Churchill, that increased public expenditure would crowd out private expenditure. Accordingly, he advocated loan-financed public works as a remedy for unemployment. Subsequently, in "An Open Letter to President Roosevelt" (1933), Keynes criticized the U.S. government for striving to maintain a balanced budget in the midst of an unprecedented crisis. More precisely, Keynes pointed to "the increase of national purchasing power resulting from governmental expenditure . . . financed by loans and not by taxing present incomes." Finally, in *The General Theory of Employment, Interest and Money* (1936), Keynes attributed the Great Depression to deficient aggregate demand. Thus, in an effort to explain the multiplier effect (in which the monetary supply expands through banks' lending), he argued that "public works even of doubtful utility [would] pay for themselves over and over again in times of severe unemployment." It is not surprising that Alvin Hansen's *Full Recovery or Stagnation* (1938) stressed the "income-stimulating expenditures of the federal government." In a similar vein, Abba Lerner's "Functional Finance and the Public Debt" (1943) attributed the idea of functional finance (as distinguished from the more orthodox sound finance) to Keynes.

To recapitulate, owing to the exigencies of the depression, Keynesian revolutionaries (especially in the United States) interpreted Keynes's *General Theory* as a justification for countercyclical demand management (or stabilization policy). In the Keynesian view, stabilization would be achieved by manipulating the balance between spending and taxation. Thus, faced with the threat of recession, the government would increase public spending and/or decrease taxes. Conversely, faced with the threat of inflationary expansion, the government would decrease public spending and/or increase taxes. By alternating between deficit and surplus, the government would regulate the business cycle.

Throughout the "Keynesian consensus"—a period of time between the end of World War II (1945) and the year the United States went off the gold standard (1973) when scholars and economists believed that deficit spending would help the economy—the United States employed a version of functional finance in the regulation of the business cycle (despite the inflationary pressures the policy seemed to produce). In recent years, however, deficit spending has fallen into disrepute across the political spectrum (not least because deficits have been equated with deferred taxation).

—Mark Frezzo

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See also Volume 1: Budget Deficits and Surpluses; Keynes, John Maynard.

DeLima v. Bidwell (1901)

Case that determined if newly acquired territories were foreign governments and therefore subject to import taxes.

The case of *DeLima v. Bidwell* questioned if newly acquired territories were considered foreign governments, therefore subject to import taxes, or if they were part of the United States. The firm of D. A. DeLima & Co. sued George

Bidwell, the New York port tax collector, in 1899 to recover import taxes collected on Puerto Rican sugar. In early January 1901, the Supreme Court heard the case along with *Downes v. Bidwell* and, on May 27, 1901, it decided both cases. DeLima received a 5-to-4 vote stating Puerto Rico was not a foreign country and therefore not subject to foreign import duties, entitling DeLima to recover the exacted duties. The decision of the Court was debated publicly and bitterly. The way the decision read, Congress would need to incorporate any acquired territory into the general revenue system to eliminate any questions about the territory's statutes in trading partnerships. Only issued Congressional legislation could make the territory "domestic" and part of the internal trading system.

This case is one of the Insular Cases, a collection of Court cases heard between 1900 and 1904 that established how the U.S. Constitution would apply to acquired island territories. In 1957 the Insular Cases were seemingly overturned by *Reid v. Covert,* which determined that U.S. citizens residing abroad are under the same jurisdiction as U.S. citizens at home in matters of their civil and legal rights. The assumption that citizens are under U.S. laws was endorsed by *Examining Board of Architects, Engineers and Surveyors v. Flores de Otero* in 1976, which stated that a dependent of a U.S. citizen can be tried by U.S. courts. However, with *United States v. Verduigo-Urquidez* in 1990, the Supreme Court declared that the Insular Cases still governed how the U.S. Constitution applied to island territories and that property owned by a nonresident alien located in a foreign country is not subject to U.S. search and seizure laws.

—*Deana Covel*

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See also Volume 2: Judiciary.

Democracy

Political concept denoting a form of government by and for the people, exercised either directly or through elected representatives, and essential for the functioning of a modern capitalist economy.

In a democracy, the sovereign power resides in the people rather than in an elite group. In the case of U.S. democracy, the people on the basis of universal suffrage elect both the executive and the legislative branches of government. Modern democracy is characterized by individual freedom, including economic freedom. This freedom allows citizens of democratic nations such as the United States to engage freely in economic pursuits.

American democracy rests on the revolutionary democratic principle of "no taxation without representation." The colonists who revolted against Great Britain did so on the premise that Parliament had violated their economic interests. Economic freedom involved the freedom of trade and the freedom of a people to tax itself rather than being taxed by an outside power. This principle of economic freedom lies at the heart of the American Revolution. Ordinary people in colonial ports formed democratic organizations such as the Sons of Liberty in the 1760s. These mechanics, tradesmen, and artisans came together to boycott British goods.

American democracy has evolved over the 225 years since the signing of the Declaration of Independence. However, the essential features proclaimed in this founding historic document, which asserted the right to life, liberty, and the pursuit of happiness, and which included the freedom to own private property, remain key to American democracy to this day. The crucial concept is the freedom of the individual to be the owner of goods and services intended for sale. Individuals and private corporations also control the dynamic of production.

Today the American economy functions as a part of a democratic system of government comprising free and equal people; a free marketplace; and complex businesses, labor unions, and social organizations. The economy remains democratic in the sense that people can vote as citizens on public issues and for the political leaders who set policies that have a major effect on the economy.

—*Leigh Whaley*

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See also Volume 1: Constitution.

Democratic Party

Political party formed in 1792 by Governor George Clinton of New York and Virginians Thomas Jefferson and James Madison.

The economic policy of the Democratic Party favored the small yeoman farmer. Originally called the Jeffersonian Democratic-Republican Party, the group dropped "Republican" during the age of Andrew Jackson (1828–1836) when property-holding requirements for voting vanished throughout most of the United States. In Thomas Jefferson's view, an individual who worked for an employer lost his or her freedom. This favoring of modest folks continued as President Andrew Jackson fought the establishment of the Second National Bank of the United States, although Democratic-Republican president James Madison had come to support the idea of a national bank. Democrats had little in the way of electoral competition in the first half of the nineteenth century as the merchant-oriented Federalists fell from favor because of their support for such unpopular measures as the Alien and Sedition Act, which overturned the right to freedom of speech and the press. The Whigs, the successors of the Federalists, only managed to win a couple of presidential elections.

A new Republican Party, founded in 1854, competed strongly with the Democrats from the beginning and achieved hegemony in the late nineteenth century that endured until 1930, when Democrats assumed control of the U.S. House of Representatives. The competitiveness of the Democratic Party was dampened because of an economic downturn during the second administration of President Grover Cleveland and the populist campaign of 1896 Democratic presidential nominee William Jennings Bryan, who supported helping alienated city dwellers—mostly underpaid workers and immigrants who operated outside the mainstream political system—in a rapidly urbanizing nation. Following the economic crash of 1929, which came during a period of unified Republican control of the national government, the Democratic Party gained favorable recognition.

Although Americans continued to perceive the Republican Party as better able to conduct foreign policy during most of the twentieth century, the Democrats had the edge on handling the economy, and this doubtless contributed to the pattern in U.S. politics after the 1930 midterm elections. For the remainder of the century, the Republicans controlled both the presidency and both houses of Congress for a total of just four years—whereas the Democrats dominated Congress for 32 years running at the end of the twentieth century. Key to Democratic success was disproportionate support for its candidates by members of the working class, many of whom lived in large urban areas. In presidential elections where class polarization existed, such as in 1936, 1940, and 1976, Democratic candidates emerged victorious. In the presidential election of 1972, when the correlation of voter choice with class status approached zero, Republican Richard M. Nixon handily defeated Democratic U.S. Senator George McGovern. Interestingly, Nixon identified himself as a Keynesian, a theory of economics more closely identified with Democratic policies than with Republican ones. The Republican Party continues to define itself as a party that recognizes Keynesian economics but within a balanced budget.

—Henry B. Sirgo

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See also Volume 1: Great Depression; Republican Party.

Depression, The

See Great Depression.

Depression of the 1890s

Severe economic downturn after cotton-growing regions of the South and agricultural areas of the Great Plains began experiencing significant decline in prices, increases in expenses, and a precipitous spike in farm foreclosures.

The depression of the 1890s arrived at Wall Street on May 5, 1893, when stock prices declined in the face of uncertainty about the gold supply and the failure of the Philadelphia and Reading Railroad. This economic crisis reached its nadir in 1894 but endured until mid-1897. A depression in Europe, low agricultural prices, deflated monetary prices, watered railroad stocks, and a lack of government regulation precipitated this economic crisis. The Panic of 1893 began because of a financial crisis in the railroad industry, the most important component of the national economy, and quickly affected virtually every sector of American economic life. The unemployment rate reached 20 percent, 156 railroads and 400 banks failed, and 16,000 businesses went bankrupt.

This economic crisis revealed class differences when Jacob Coxey's army of unemployed Americans marched toward Washington, D.C., in March and April 1893 in search of jobs and government relief. The desperation of union members became evident in Chicago during the Homestead (1892) and Pullman (1894) strikes.

—James T. Carroll

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See also Volume 1: Pullman Strike; Railroads; Volume 2: Labor.

Depressions

Sustained periods of economic contraction, characterized by high and persistent levels of unemployment accompanied by falling prices, investment contraction, financial crises, reduced demand, and general decline in business activity.

Although some economists view depressions as random aberrations, most agree that they remain inherent to capitalist economies. Throughout the long-term evolution of capitalism, the type and nature of depressions has changed. The structural and institutional development of the economy has played an important role in the types of depressions that have emerged. The United States has experienced six major depressions in its economic history since the early 1800s—all similar in length and severity. Prior to that, economic declines had occurred largely because of wars, natural disasters, and other noneconomic factors.

During the early nineteenth century, merchant capitalism, in which depressions remain largely commercial and speculative in character, ended. Small proprietorships made up the economy at this time. This raw-materials economy resulted in depressions accompanied by speculation and sharp declines in prices for agricultural and raw materials. With the advent of the Industrial Revolution in the late nineteenth century and diminished contribution of agriculture to economic growth, crisis became associated with the rise, expansion, and financing of industrial activity. The profit incentive became even more important in an era of increased demand

and mass production. Corporations replaced proprietorships, and new financial institutions emerged to facilitate factory production. The development of competitive markets frequently led companies into price wars, which undermined profitability and hence firms' ability to meet financial obligations. This uncertainty led to the emergence of a different type of company—one with great market power and control characterized by cartels, trusts, and mergers. Investment banking evolved to service these organizations, acquiring a large stake in their control by securing a large number of firm shares and positions on governing boards. The depressions in the era of what may be called "banker capitalism" during the 1920s occurred as a result of the aggressive expansion of these firms and accompanying financial speculation. The authority of investment banking over the firms and lack of internal control are closely related to the massive financial speculation that brought about market instability and played a pivotal role in the deepest and most severe depression of our time, also referred to as the Great Depression, in the 1930s. In the post–World War II era, financial sector development and innovation, increasing globalization, and increasing financial instability have triggered several global financial crises or recessions, but no depressions.

Although economists disagree on the exact causes of each depression, the nature of depressions has changed with the evolution of capitalism. Whether linked to a collapse in agricultural prices or speculative financial attacks, all depressions include a sharp decline in demand. Each of the six major U.S. depressions has followed periods of sustained government surpluses and sharp debt reductions, thereby stifling aggregate demand. Price shocks, stock market crashes, and banking-sector crises act as catalysts that bring about the fast, sharp decline in economic activity that is typical of depressions.

Depressions are protracted and severe because it takes a while for business confidence to return. Sharp declines in demand or overinvestment (or both) lead to cutbacks in production, involuntary inventory accumulation, and massive layoffs. Declines in employment further depress aggregate demand, leading to a downward spiral in economic activity. Business confidence falls so that expected future returns do not warrant any new investment, even in the face of falling prices, wages, and interest rates. As markets fail to bring about a recovery, policy proposals have emerged for governments to implement countercyclical measures. The suggested remedial policy responses include "priming the pump," large public infrastructure investment, public service employment programs like those of the New Deal era, and job guarantee schemes, such as making the government an employer of last resort or making public service employment available. The emergence of big government, in which the federal government assumes control over a major portion of the U.S. economy, has contributed to the lack of depressions since World War II.

—*Pavlina R. Tcherneva and Mathew Forstater*

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See also Volume 1: Captains of Industry; Great Depression.

Deregulation

The loosening of government controls over vital industries such as the airline, utility, and communications industries.

The legal cartel theory (in which some companies control pricing and supply although competitors exist), increasing evidence of waste and inefficiency in regulated industries, and the contention that government was regulating potentially competitive industries all contributed to the deregulation movement of the 1970s and 1980s. Since 1980, important legislation has been passed that deregulates in varying degrees the airline, trucking, banking, railroad, and television broadcasting industries.

Deregulation has proven controversial, and the nature of the controversy remains quite predictable. Basing their arguments on the legal cartel theory, in which certain companies control a near monopoly but some competitors exist, proponents of deregulation contend that it will result in lower prices, more output, and the elimination of bureaucratic inefficiencies. Some critics of deregulation, embracing the public interest theory, argue that deregulation will result in the gradual monopolization of the industry by one or two firms, which in turn will lead to higher prices and diminished output or service. Other critics contend that deregulation may lead to excessive competition and industry instability, and that vital services (for example, transportation) may be withdrawn from smaller communities. Still other critics stress that as increased competition reduces each firm's revenues, companies may lower their standards with respect to safety and risk as they try to reduce costs and remain profitable.

Perhaps the most publicized case of deregulation involves the airlines. The Airmail Act of 1925 provided for the encouragement of the air carrier industry; the Civil Aeronautics Act in 1938 established economic and other regulations upon which the industry matured and developed. Many factions and individuals representing the aviation industry, government, and the general public continued to express dissatisfaction after Congress passed the Civil Aeronautics Act in 1938 and again after the Federal Aviation Act became law in 1958. Dissent against and criticism of federal aviation regulation continued with increasing force until the 1970s. As early as 1975 a law was proposed that was also known as the Federal Aviation Act. Congress did not pass the act, but opposition grew regarding the economic regulation of the aviation industry. In the early 1970s, many academic economists questioned the need for economic regulation of air carriers. As a result, President Gerald Ford began to press for deregulation. Then President Jimmy Carter appointed Alfred Khan as Chairman of the Civil Aeronautics Board, and he moved quickly toward deregulation in areas of pricing, entry, and exit.

In 1975, Senator Edward Kennedy began an investigation of the regulatory practices of the Civil Aeronautics Board and the effects of these practices upon the air carrier industry. As a result, President Carter signed the Airline Deregulation Act of 1978 into law on October 24, 1978. Some believe that deregulation is the best thing to ever happen to the United States air transportation industry, whereas others believe that it is the most disastrous. Airline fares have decreased in the face of competition within the industry. At the same time, with fewer passengers flying after the terrorist attacks on September 11, 2001, rates dropped to a level that forced some airlines near or into bankruptcy, required the permanent reduction of staff, and required wage concessions from union members who remained with the airlines. External factors have contributed more to the industry's decline than has deregulation.

During the past 25 years, the federal government, in an effort to reduce the cost of government bureaucracies overseeing specific industries, initiated a policy of deregulation in areas other than the airline industry. The trucking industry was deregulated in 1980, and rates were adjusted from below market price to become competitive. The telecommunications industry was deregulated in the early 1980s, resulting in a variety of new providers—for example, Sprint, MCI, and later the cellular networks—entering the marketplace. The natural gas industry was deregulated in 1985. Also in the 1980s, the railroad industry deregulated to maintain control over its market share of freight and passenger services. Deregulation is designed to encourage competition and reduce prices for the consumer. In all but the energy industry, costs appear to be trending downward.

—Albert Atkins

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See also Volume 1: Aviation.

Desert Land Act (1877)

Legislation to encourage settlement and irrigation of western arid lands.

In 1877, Congress passed the Desert Land Act. Any citizen, person who had applied to become a naturalized citizen, head of household, or male over the age of 21 who had never been an enemy or aided an enemy of the United States could claim 160 acres of land in the public domain for a cost of $1.25 per acre. At the time the claim was placed, the claimant had to pay 25 cents, with the balance due in two years. Unlike the Homestead Act, the Desert Land Act did not include a residency requirement, but it did stipulate that title would be transferred after three years if irrigation had been accomplished within that time. Whereas the amount of land granted under the Homestead Act exceeded 287.5 million acres, the Desert Land Act failed to entice large number of settlers into the vast territory of the West and resulted in the granting of only 10.7 million acres to settlers. Consequently, Congress later passed the Newlands Reclamation Act of 1902, which provided that 95 percent of the funds derived from the sale of public lands in the western states would be used for irrigation projects such as the construction of dams, which would entice more settlers.

—Cynthia Clark Northrup

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See also Volume 2: Land Policies.

Digital Millennium Copyright Act of 1998

U.S. act that implemented two world treaties—World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performances and Phonograms Treaty—and also dealt with other copyright-related matters.

Legal recognition of the commercial value of the products of the intellect and the need to protect that value are often attributed to the guilds of the Middle Ages and their proprietary attitudes toward craft knowledge. The U.S. Constitution provides that Congress "promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." Since 1790 Congress has passed many statutes to meet that responsibility, with the Digital Millennium Copyright Act (DMCA) the most recent.

The chief exception to copyright infringement is the "fair use" doctrine, which permits others to copy and distribute the creator's work within limits. In determining if a work is fair use, courts consider such factors as nature of the copyrighted work, purpose and character of the use, the relative proportion of the work used, and the effect of the use on the potential market of the work. However, advanced computer technology and the inherent openness of the World Wide Web (an Internet communication system that allows individuals to communicate and share information via the computer) pose unique problems for protection of an author's work when copyright can be infringed simply by clicking a computer mouse.

The DCMA limits the liability of online Internet service providers (companies that operate computers that facilitate the connection of PC users to the Internet) and nonprofit educational institutions for copyright infringement when they merely act as a data conduit or conduct system cacheing, when the information resides on the system or network at the direction of users, or when referrals to websites such as search engines or hyperlinks contain infringing material. The remedy remains an injunction preventing further use of the material, but the awarding of monetary damages is not legislated. Yet the DMCA does not offer much guidance for Web users and website managers or for those seeking to prevent copyright infringement on the Internet. For example, are the standards for fair use the same for the Web as elsewhere?

Under the WIPO treaties, the United States recognizes copyrights from other nations that have not fallen into the public domain, just as other signatories must accept U.S. copyrights. In addition, nations must prevent circumvention of technological measures used to protect copyrighted works. The DCMA is the start of that effort.

—*Susan Coleman*

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See also Volume 2: Intellectual Property.

Dingley Tariff (1897)

Legislation that created a record level of tariff duties.

By 1897 nearly all factions of the Republican Party wanted the prompt passage of a new protective tariff to restore confidence in the economy following the panic of 1893 (precipitated by a crisis in the railroad industry) and the subsequent depression. Nelson Dingley Jr., a Republican congressman from Maine, developed a tariff bill that removed raw wool from the free list but left hides and copper on the list. It also placed high duties on linens, woolens, and silks while leaving the main steel and iron tariff schedules mostly untouched. The bill's most significant change involved the doubling of the duty on sugar, an important revenue-producing item, as a way to end the treasury deficits created by the panic of 1893.

The Senate, however, added 872 mostly insignificant amendments and in the process altered the House's tariff rates. In conference committee, the more protectionist House resisted the Senate changes, and the final bill closely resembled Dingley's original proposal. Signed into law by President William McKinley on July 24, 1897, the Dingley Tariff raised average duties to a record level of 52 percent, mainly because of the new sugar duty. With the return of prosperity in the latter half of 1897, many high-tariff Republicans became convinced that the Dingley Tariff remained essential for maintaining the nation's economic health. Representing a final burst of nineteenth-century protectionism, the tariff remained in effect until the passage of the Payne-Aldrich Tariff Act in 1909.

—*Steven E. Siry*

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See also Volume 1: Sugar.

Disarmament

Reduction or limitation of weaponry, specifically nuclear arms, among world powers designed to reduce worldwide tensions.

The objectives of disarmament are to reduce the likelihood of war, to reduce military costs in peacetime, and to reduce the destructiveness of war should it occur. The theoretical basis for disarmament is the belief that arms races involve action/reaction cycles that escalate international tensions, and in times of crisis these tensions become destabilizing—they combine with accidents or misperceptions to cause wars. Many disarmament advocates regard World War I as the classic example of an arms race leading to an accidental war.

In the interwar period (1919 to 1939), forced disarmament of a defeated enemy and a voluntary disarmament through international agreement both occurred. The Versailles Treaty demilitarized the Rhineland, limited the size of Germany's army and navy, and prohibited Germany from operating tanks, combat aircraft, and submarines. The 1922 Washington Naval Conference limited the size of battleships, proclaimed a ten-year moratorium on expending capital to build new battleships, and set a 5:5:3 ratio for British, American, and Japanese battleships and aircraft carriers. The 1930 London Naval Conference awarded Japan a 7:10 ratio compared with the United States and Britain in cruisers and destroyers and awarded Japan parity with the United States in submarines. Germany and Japan first violated and then abrogated these treaties, and Britain and the United States lacked the will to enforce the treaties or to rearm. Thus, interwar agreements disarmed the democracies and emboldened the dictatorships, contributing to the outbreak of World War II.

During the cold war, U.S. negotiators sought to prevent or limit the Soviet counterforce threat to U.S. land-based intercontinental ballistic missiles (ICBMs). The Strategic Arms Limitations Talks (SALT) I and II, both treaties of the 1970s, failed to achieve this goal, instead only codifying the buildup in Soviet offensive forces. However, the superpowers agreed to disarm themselves of biological weapons and antiballistic missile forces in 1972 and of intermediate-range nuclear forces in 1988. Multilateral treaties prohibited placing nuclear weapons in Antarctica (1961), outer space (1967), or the seabed (1970). The 1963 Test Ban Treaty prohibited nuclear testing in the atmosphere, outer space, or the seabed, and the 1968 Non-Proliferation Treaty obligated states with nuclear weapons not to transfer the weapons or their technology to third parties.

On the whole, cold war disarmament remained hostage to the political relationship between the two superpowers. Once the Soviet Union collapsed, large-scale disarmament was not merely possible, but inevitable. The 1992 Conventional Forces in Europe (CFE) Treaty established a formula for the reduction of nonnuclear forces in Europe, and the Strategic Arms Reductions Treaties (START) negotiated during the 1990s called for the United States and Russia to both reduce their nuclear arsenals to about 2,000 strategic warheads each over the decade to come. Moreover, significant multilateral disarmament treaties were negotiated in the 1990s, including

regional nuclear-free zones, bans on chemical weapons and land mines, and a Comprehensive Test Ban Treaty. Multilateral export control agreements seek to prevent proliferation of nuclear, biological, chemical, and ballistic missile technologies—and "dual-use items" such as nuclear power—to certain countries.

Unfortunately, despite these agreements, several "rogue states" including North Korea, Iran, Iraq, and Libya continue to seek nuclear, biological, and chemical (NBC) capabilities. NBC technology and expertise continue to flow from Russia and China to these countries and possibly to terrorist groups. The problems of how to verify violations of these agreements—and how to respond once violation has been proven—remain unresolved.

—James D. Perry

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See also Volume 1: Cold War; Strategic Defense Initiative (SDI).

Disaster Assistance Act of 1988

Amendment to the Stafford Act of 1974 that provided new guidelines for federal funding of natural or emergency disasters.

Under the Disaster Assistance Act of 1988, the federal government assumed liability for funding not less than 75 percent of the cost of a natural disaster or an emergency disaster in any given state under the direction of the Federal Emergency Management Agency. That amount could increase to 100 percent for the first ten days of the emergency, but Congress placed a limit of $5 million on that portion of the assistance package, to be exceeded only if the president declared that continued assistance was required or that there was a sustained threat to life, property, health, or safety or that no other timely assistance could be provided. The federal government could also assume responsibility for 100 percent of the cost of temporary housing as well as other associated expenses.

Although the act was designed to shift financial responsibility more toward the states and local communities, the net result has been a greater expenditure on the part of the federal government. Much of this increase has occurred because of the rise in the number of disasters that have occurred. Between 1985 and 1989 more than 119 disasters were declared, whereas between 1990 and 1994 more than 195 declared disasters occurred. In addition, the dollar value of each disaster has substantially increased over time because of increased population density and inflation.

—Cynthia Clark Northrup

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See also Volume 1: Federal Emergency Management Agency.

Disease

A medical disorder with recognizable symptoms that may or may not have a known source and that creates an economic burden on society, including the medical community.

During the colonial period, colonists experienced relatively few outbreaks of disease. Low population levels combined with distribution of cities and farms over a large geographical area prevented the spread of infections. Northern regions, where the temperature falls to freezing or below, had fewer outbreaks than the southern colonies, where the temperature reaches near-tropical levels during a substantial portion of the year. In the southern colonies, especially in South Carolina, the diseases that appeared most frequently were yellow fever and malaria—both carried by the mosquito. African slaves who carried the sickle-cell trait proved resistant to malaria, so southern planters invested in the costs of slaves as workers in the low, swampy regions throughout the South.

Another disease, smallpox, decimated the Native American population in particular. Entire villages in New England were often wiped out by the disease, leaving the land open for European settlement. In some instances, it was reported by colonial authorities and government agents that the blankets and other items given to the Indians were purposely infected with the smallpox virus.

As the population of the country multiplied and urban areas grew during the late eighteenth and early nineteenth centuries, disease became more frequent. Unsanitary conditions, for example, the lack of clean water and sewage systems, aided the spread of diseases such as cholera, an often fatal intestinal disease that results in severe diarrhea, vomiting, dehydration, and gastric pain. These outbreaks spread throughout the country either along rivers or along the coast since the primary mode of transportation was still by ship. Inadequate food preservation and unsanitary conditions also led to increased outbreaks of diseases such as diphtheria, whooping cough, fevers, and influenza. Mortality rates climbed to levels comparable to those in Europe for the first time since colonization had begun in the early 1600s.

During the late nineteenth century, urban areas experienced a high incidence of tuberculosis, especially in overcrowded tenements where immigrants congregated. Efforts to prevent the disease proved somewhat successful by the end of the 1880s, although it has not yet been eradicated in the twenty-first century.

After the Civil War, the U.S. Army initiated a series of experiments that led to significant breakthroughs in disease control. After the Spanish-American War, funded by the federal government, American surgeon Walter Reed focused on the problem of typhoid; his research yielded positive results and future outbreaks were prevented.

Next, Reed assembled a team of army doctors, including Major James Carroll, Major Jesse W. Lazear, and Major Aristides Agramonte of Havana (a Cuban national who was a member of the U.S. Army Medical Corps), to investigate the cause of yellow fever, which was a serious problem in late nineteenth-century Cuba, especially after the Spanish-American War. Basing their investigations on previous research by Dr. Carlos Juan Finley, they discovered that the mosquito carried the disease. Specifically, the mosquito had to bite an infected person during the first 3 days of the person's illness, and the disease had to mature in the mosquito for 12 days before it could be transmitted to another host. Reed announced the findings at the 1900 meeting of the American Public Health Association. The army successfully eradicated yellow fever from Cuba through the systematic destruction of mosquitoes on the island; it initiated a similar program in Panama during the construction of the Panama Canal. The French had experienced extremely high death rates from yellow fever when they began construction on the canal. As a result of the work of Walter Reed, the Americans experienced dramatically fewer fatalities after they assumed control of canal construction from the French in 1903. Reed's work emphasized the need for future research to discover the cause and the epidemiology (spread) of epidemic diseases.

From 1918 to 1920, the United States experienced an influenza epidemic. In 1918 and 1919 more than 400,000 Americans died of the disease—more than the number of U.S. soldiers killed during World War I. Infectious diseases such as whooping cough, measles, mumps, and polio spread throughout the nation between World War I and World War II. Outbreaks of these diseases affected children primarily, although polio hit old and young alike. With the beginning of World War II, the federal government funded medical research on a much larger scale. Sulfa drugs, penicillin, and antibiotics yielded promising results. The discovery of the polio vaccine by Jonas Salk and Albert Sabin, in which patients developed immunity to polio after receiving injections of small doses of the disease, lessened the number of people who were infected.

By the 1960s, the U.S. medical profession was focusing on noncontagious diseases such as heart disease, cancer, and strokes. Funding for research into these diseases expanded the medical field and created new jobs, but the costs for operations and treatments strained the existing health system and health care costs began to increase. Then, in the 1980s, the medical profession faced one of its greatest challenges with the outbreak of acquired immune deficiency syndrome (AIDS). At first the disease primarily affected gay men and intravenous drug users, and society placed a lower priority on funding research. However, as AIDS spread to the heterosexual population—and to children during birth via their infected mothers or through the use of tainted blood used for transfusions—society recognized the need for research into its cause and prevention. As of 2000, the Centers for Disease Control and Prevention estimated that between 850,000 and 950,000 Americans were infected with the virus. That same year, the United States spent about $4.87 billion on research, treatment, prevention, and education for this disease alone. During the administration of President George W. Bush, funding for AIDS research increased after a reduction in funding during the administration of President Bill Clinton.

The medical profession faces another challenge, Alzheimer's disease, which is suffered by prominent individuals including President Ronald Reagan and actor Charlton Heston and so is in the forefront of public attention. As of 2003, medical research has yielded few results, and costs to businesses and caregivers have continued to skyrocket. Businesses contribute about $176 million annually for research into Alzheimer's while spending an additional $24.5 billion annually on health care treatment. In addition, the cost to caregivers—counting time lost from work, lost jobs, and sale of homes and other assets to pay the costs of medical care—has reached about $36.5 billion. As the baby boom generation ages and as medical research finds cures for other diseases, research into Alzheimer's—which has replaced heart disease and cancer as the number-one killer of elderly Americans—must expand to prevent the escalation of health costs for the elderly.

—*Cynthia Clark Northrup*

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See also Volume 1: Acquired Immune Deficiency Syndrome (AIDS); Medicaid; Medicare.

Distribution Act (1836)

Act to distribute federal surpluses to select state banks passed by Congress on June 23, 1836, after the charter of the Second Bank of the United States expired.

The Distribution Act of 1836, spearheaded by Senator Henry Clay, provided for a system of distributing federal surpluses to state banks and restricting legal tender to gold and silver. This plan received support by those who wanted to quickly replace the functions performed by the Bank of the United States, whose charter had expired in 1836. Supporters of hard money (or specie, i.e., gold and silver) opposed the bill, fearing speculative banking and the contraction of the money supply.

The law stipulated that $5 million in surplus treasury funds be distributed to the state banks beginning January 1, 1837, in four quarterly installments as interest-free, unsecured loans. No one expected the repayment of the loans. The influx of federal monies to the states further stimulated an overheated economy in 1836 and early 1837. The panic of 1837 occurred because of overspeculation in western lands,

poor banking procedures, and a decline in farm prices, all of which the distribution system (which called for the distribution of surplus funds to the states) further compounded. Americans abandoned the provisions of the act in 1842 when Congress passed the protectionist Tariff of 1842, which greatly slashed federal revenues.

—*James T. Carroll*

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See also Volume 1: Bank of the United States (BUS), First; Bank of the United States (BUS), Second.

Divorce

The dissolution of a marriage and the separation of economic interaction between the spouses.

Throughout most of American history, it was not easy to obtain a divorce. Courts required evidence that one partner had breached the contract of marriage as a result of adultery, desertion, abuse (either physical or mental), mental incapacity, incarceration, nonsupport, or substance abuse. Each state determined the requirements for divorce. Divorce rates soared during the prosperous 1920s, and the number of divorces has escalated since 1945, when 35 percent of marriages ended in divorce. By 1979, 53 percent of marriages ended in divorce. Since then the divorce rate has remained constant at between 43 percent and 47 percent of marriages. Beginning in the late 1900s, states began granting "no-fault" divorces based on grounds of incompatibility.

Divorce financially affects the family as well as society. Mothers with young children and no adequate job skills find themselves in a downward economic spiral, especially if the father fails to pay court-ordered child support. (In 1998, more than 16 million noncustodial parents owed back child support to more than 32 million children.) These women turn to government-sponsored entitlement programs such as Aid to Dependent Children and Aid to Families with Dependent Children for assistance. Until recent changes in the laws following the passage of the Personal Responsibility Act of 1996, once in the welfare system women found it difficult to break the cycle of economic dependency on the government. The children of divorced parents also suffer. Many of them experience difficulty in school or simply drop out. During the 1990s the dropout rate declined, but it was still more than 381,000 students annually out of 3.4 million students. Most of these children are forced to accept jobs at minimum wage or slightly above. Consequently, their economic opportunities are limited. Fathers also suffer financially if they remarry and have to assist in supporting both their previous and current households. Many divorces result in one or both partners being forced to file for bankruptcy. In 1980 only 300,000 divorces resulted in bankruptcy, but by 1998 more than 1.4 million divorces ended in bankruptcy proceedings.

—*Cynthia Clark Northrup*

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See also Volume 1: Aid to Dependent Children; Aid to Families with Dependent Children.

DOD

See U.S. Department of Defense.

Dollar Diplomacy

Term used to describe certain elements of U.S. foreign policy during the presidency of William Howard Taft (1909–1913).

President William Howard Taft, like his predecessor Theodore Roosevelt, sought to increase America's influence as a world power. Part of his foreign policy strategy involved extending American financial investments and institutions into less-developed regions. To accomplish these goals, the Taft administration concentrated on promoting and protecting American corporate interests in Central America and the Far East. Theoretically, by "substituting dollars for bullets," as Taft phrased it, both the United States and the underdeveloped nations would benefit. United States trade would increase while the smaller countries would enter a new era of political stability and improved social conditions. Taft chose Philander C. Knox as his secretary of state and charged him with implementing the policy of dollar diplomacy. Knox, a wealthy conservative corporate lawyer who had represented the Carnegie Steel Corporation, remained sympathetic to the needs and goals of big business.

Taft and Knox believed that the best way to control Central American countries involved taking over their customs houses where import duties are collected and arranging for the countries to repay European debts through loans from American businesses. The United States introduced financing schemes in Honduras, Guatemala, and Haiti. Nicaragua provided the clearest example of the practical value of dollar diplomacy. Taft and Knox believed the small nation had great strategic importance because of its proximity to the Panama Canal. The United States helped topple longtime Nicaraguan dictator Jose Santos Zelaya, who had refused to cooperate with the administration's plans to establish a neutral Honduras, in 1907. The United States subsequently supported Adolfo Diaz as the head of the Nicaraguan government, made loans to the new regime, and seized control of the country's customs houses. The situation left Nicaragua a virtual U.S. protectorate and generated resentment among the Nicaraguan people. The American policy failed to create stability in the country, and sporadic violence led Taft to send in troops that would remain in Nicaragua for years.

Under pressure from American bankers, Taft and Knox also sought to implement dollar diplomacy in China. There they hoped to dilute Japanese and Russian influence in

Manchuria, strengthening both the Open Door Policy (which called for the territorial integration of China and the establishment of free trade in China) and the weak Chinese government. Knox worked to include the United States in a consortium of western powers formed to construct railroads in Manchuria. When English, French, and German bankers reluctantly agreed with the plan, Knox carried it a step further by trying to exclude the Japanese completely from any role in the enterprise. The Japanese responded by forming a loose alliance with Russia, and the railroad project quickly collapsed in 1910.

Taft abandoned dollar diplomacy during the final year of his administration, and in 1913 his successor, Woodrow Wilson, publicly repudiated the policy. Taft's economic interventionism had been an outright failure in China and created ill will and social turmoil in Central America that would last for decades. Today the term *dollar diplomacy* has negative connotations and is used to refer to the needless manipulation of foreign affairs for economic gain.

—Ben Wynne

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See also Volumes 1, 2: Foreign Policy.

Dominican Republic

Nation located on the eastern half of the island of Hispaniola in the Caribbean Sea.

The Dominican Republic declared its independence in 1844 after more than two centuries as a Spanish colony and a brief stint as part of Haiti. In its early years of independence in the latter nineteenth century, the Dominican Republic experienced a great deal of chaos and government instability. The instability created poor economic conditions, and the nation was unable to make debt payments to European lenders. With the beginning of construction on the Panama Canal in 1904, the United States had a strategic interest in the Caribbean, and American leaders believed that the fighting and poor economic conditions in the Dominican Republic could lead to European military action there. As a result, in 1905, the United States convinced the Dominican Republic to sign an agreement that gave the United States responsibility for all Dominican Republic debt and the right to collect customs duties in order to repay that debt. Many citizens of the Dominican Republic protested, and the chaos worsened. To protect American interests, U.S. Marines occupied the island, and the U.S. maintained military control from 1916 until 1924. The United States gained several economic benefits from this intervention. Previously the republic had exported most of its tobacco, cocoa, and sugar to Europe, but after U.S. intervention it exported these goods to the United States. Additionally, American sugar companies took control of large portions of the Dominican Republic's economy. After American withdrawal, the Dominican Republic continued to have close economic ties with the United States, and throughout much of the twentieth century, sugar exports to the United States were a mainstay of the Dominican Republic's economy.

—John K. Franklin

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See also Volume 1: Panama and the Panama Canal; Wilson, Woodrow.

Dow Jones Industrial Average

Economic indicator for stocks.

Charles Dow and Edward Davis Jones created the Dow Jones Industrial Average in 1884 to measure 11 blue-chip stocks, most of which involved railroad companies. On May 26, 1896, they published the first Dow-Jones average, which consisted of 12 stocks. (The railroad stocks were made part of a separate transportation index in 1970.) The Dow originally equaled an average of the stock price for each company divided by the number of companies. However, with the passage of time, stock splits and other changes made comparisons of averages both impractical and unreliable. (When a company splits its stock, it decreases the cost of a share by half, making share purchase more attractive to smaller investors. However, the number of stocks is doubled in this illusionary tactic, and market capitalization remains the same.) On December 31, 1927, the editors of the *Wall Street Journal* modified the Dow-Jones index with a divisor that made allowances for stock splits and to ensure comparative continuity among stock prices. On October 1, 1928, the Dow expanded to include 30 stocks which, except for the transportation and utilities sectors, represented the U.S. economy.

The utilities average appeared in 1929. The railroad average created in 1896 was renamed the transportation average in 1970. The Dow Jones Industrial Average with the railroad and utilities averages provides a broad overview of the U.S. economy and remains the most popular index of market growth and contraction.

—James T. Carroll

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See also Volume 2: Stock Market.

Downes v. Bidwell (1901)

One of several Supreme Court "Insular Cases" that determined the legal relationship between the United States and several of its territories.

Congress passed the Foraker Act in November 1900, which provided a temporary civil government in Puerto Rico

and provided it with revenue without declaring it a territory of the United States. However, the act also imposed a 15 percent tariff on items from foreign countries, leaving unclear whether Puerto Rico was considered a foreign country. The case of *Downes v. Bidwell* questioned if Puerto Rico and other territories were subject to Article I, Section 8 of the United States Constitution, which requires that "all duties, imposts, and excises shall be uniform throughout the United States."

Downes v. Bidwell was heard at the same time as *DeLima v. Bidwell.* In *DeLima* in a 5-to-4 decision, the Court decided that Puerto Rico was not a foreign country and therefore not subject to foreign duties. *Downes* extended the question to if new territories had the same rights as the states. On May 27, 1901, in *Downes,* the Supreme Court ruled 5–4 that Puerto Rico was not part of the United States but was subject to its jurisdiction. Therefore, the revenue tariff clause did not apply, and duties could be collected on items coming from Puerto Rico that could not be collected on items shipped between states.

This case is one of the Insular Cases, which are a collection of Supreme Court cases heard between 1900 and 1904 that established how the United States Constitution would apply to island territories that were acquired during the Spanish-American War.

It seemed that the Insular Cases were overturned by *Reid v. Covert* in 1957, when their continuing vitality was questioned for U.S. citizens and dependents living abroad. The assumption that anyone in a foreign country fell outside the jurisdiction of the United States government was endorsed by *Examining Board of Architects, Engineers and Surveyors v. Flores de Otero* in 1976, which stated that the Insular Cases were overturned. However, with *United States v. Verduigo-Urquidez* in 1990, which also considered the issue of how far the Constitution extended, the Supreme Court declared that the Insular Cases still governed how the U.S. Constitution applied to island territories.

—Deana Covel

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See also Volume 1: Insular Cases; Volume 2: Judiciary.

DPC

See Defense Plant Corporation.

Dust Bowl

An environmental and economic disaster that occurred because of drought and poor farming practices in the Southwest.

Little rain fell over the United States in the summer of 1930, and fulvous dirt began to blow. The center of drought shifted to the Great Plains by early 1931, combining with both dust storms and intense heat to batter a bowl-shaped area of Kansas, Colorado, New Mexico, Oklahoma, and Texas. Various areas were affected from year to year during the "dirty thirties," as the weather pattern occasionally moved as far north as Nebraska and the Dakotas. Dust storms in 1935 carried away wheat—half of the crop in Kansas, one-fourth in Oklahoma, and the entire Nebraska planting. By 1938, the peak year for wind erosion, 10 million acres had lost at least the upper five inches of topsoil and another 13.5 million acres had lost at least two and one-half inches. One sample of dirt deposited in Iowa contained 10 times as much organic matter and nitrogen—the basics of plant fertility—as did the sand dunes left behind in Dallas County, Texas. Oklahoma law allowed farmers to take out a chattel mortgage (third-party financing) on crops not yet planted, and many did so. Because of the widespread crop failures, many farmers were now hopelessly in debt, and many declared bankruptcy and placed all their possessions on the auction block. Others simply loaded what they could into a truck and drove away during the 1930s—the "Okies" famously portrayed in John Steinbeck's *The Grapes of Wrath.* Under the New Deal of President Franklin D. Roosevelt, the dust bowl states received more federal dollars than any other region, most coming from the Agricultural Adjustment Act of 1933. Farmers who stayed on were encouraged by the government to practice scientific farming methods including the planting of shelterbelts of trees to protect crops from the wind and the contouring of furrows, which allowed rain and snow to stay in the soil rather than disappearing as runoff.

—Caryn E. Neumann

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See also Volume 1: Great Depression.

E

Earnings

The real or inflation-adjusted pretax wages, salaries, and benefits that workers receive.

A complete picture of the historical evolution of earnings in the United States, and of the effects of economic policies on this evolution, must distinguish among the earnings' level, rate of change, and distribution. Expressed in constant 1988 dollars, for example, the mean wage was $12,225 in 1927 and $31,422 in 1998, consistent with an average annual growth rate of 1.6 percent. However, earnings have sometimes increased more or less quickly than this. Between 1950 and 1970, a period some have called the golden age of American capitalism, mean wages increased more than 2 percent per annum, a rate that, if sustained, would have allowed earnings to double from one generation to the next. Between 1970 and 1995, on the other hand, the average annual growth rate was less than 0.5 percent.

Conventional economic wisdom holds that much, perhaps most, of the growth in mean earnings is the result of technological change. In this context, it comes as no surprise that the period of slow earnings growth between 1970 and 1995 coincides with a productivity slowdown. Unfortunately, it is difficult to influence the rate of technological change, even with targeted economic policies.

The effect of economic policies on the distribution of earnings is perhaps more visible, and there are three distinct historical episodes to be explained. From the Civil War to the Great Depression, earnings distribution tended to become more unequal, but this inequality was reversed in the subsequent great compression of the economy, the effects of which continued to resonate until the 1970s, after which the distribution again became more lopsided—a trend that has lasted to and intensified in the present. Those in the top 10 percent of earnings level received 30.3 percent of all wage income in 1932, 25.2 percent in 1950, 25.7 percent in 1970, 31.8 percent in 1990, and more than 35 percent in 2000.

A list of the immediate institutional causes of the great compression would include both the National Industrial Recovery Act of 1933 and the National War Labor Board (NWLB), which was established in 1942 and dissolved in 1945. What is more difficult to explain is the persistence of wartime compression decades after the end of the war. Some recent research suggests that a robust set of compensation norms (the average expected compensation) emerged in the aftermath of the Great Depression and World War II and that these norms persisted even if their codification—in the "little steel formula" (which allowed wage increases to 15 percent of January 1941 levels during a period of rapid inflation at the beginning of World War II) and other practices of the NLWB—proved to be short-lived.

Both the slowdown in the growth of earnings since the 1970s, which was mirrored in the experiences of other advanced capitalist economies, and the increasing unevenness of the earnings distribution, which was not mirrored in other economies, have also received considerable attention from social scientists. The second of these seems to contradict the hypothesis of Simon Kuznets (1955), which claims that after some threshold level of economic development has been attained, the distribution of earnings tends to become more equal.

—Peter Hans Matthews

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See also Volume 1: Great Depression; National Labor Relations Board.

Economic Cooperation Administration (ECA)

U.S. agency created by the Economic Recovery Act of April 1948 to administer postwar American aid to Western Europe; widely known as the agency that administers the Marshall Plan.

U.S. Secretary of State General George G. Marshall announced the Marshall Plan in a famous speech at Harvard University June 5, 1947. The plan sought to stabilize Europe politically and to help Western European economies recover by integrating them in a U.S-dominated international economic order. The provision of financial aid to Europe is framed within this broader context and defines U.S. foreign economic relations after World War II. Before the creation of ECA, in July 1947, 16 Western European nations created the Committee of European Economic Cooperation (CEEC), later renamed Organization for European Economic Cooperation (OEEC), a body charged with assembling a coordinated proposal for the use of funds in Europe. Throughout the autumn and winter of 1947, the U.S. administration and Congress discussed the best way to help Western Europe and decided to grant both interim and long-term aid. Congress approved the European Recovery Program (ERP) on April 3, 1948, and called for the plan to be administered by the ECA, the government oversight agency, and the OEEC, which would actually distribute funds in Europe. Over the next four years, the ECA administered $12 billion in aid. Basically, the ECA granted the OEEC two kinds of aid—on one hand a great number of direct grants (food, fertilizer, machinery, shipping, raw materials, and fuel) and on the other the equivalent of more than $4.3 billion in counterpart funds—that is, the local currency receipt of sales of ERP supplies on national markets. These currency receipts were placed in a special fund used to invest in the industrial sector and aid the recovery of European infrastructure under agreements between European governments and the ECA.

The ECA administrators encompassed both liberal academics and politicians working according to Keynesian ideas and forward-looking businessmen like ECA's first administrator, Paul Hoffmann. He hoped to modernize the Western European economies and help them to recover, both to support social stability and to shape a continent-sized market. In turn, setting up intra-European trade would have reduced Europe's need for American aid and increased European productivity. However, European nations did not see the OEEC as a supranational body that would distribute aid across the continent on a rational basis and improve national economies by building intra-European trade. Instead, each European nation tended to help its own economy to recover by using OEEC funds within its own nation.

In 1951, Congress replaced the ECA with the Mutual Security Agency (MSA), which had an aid policy aimed at increasing military supplies and coordinating economic and military plans. The MSA was abolished in 1953 when its functions were transferred to the Foreign Operations Administration.

—Simone Selva

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Economic Indicators

Statistical measures of economic activity used to gauge the health of the economy.

In the United States, the federal government and private agencies generate more than 250 economic indicators. The most notable include the consumer price index (CPI), producer price index (PPI), unemployment rate, corporate profits, industrial production index, money supply, interest rates, personal income and saving, inventory:sales ratios, consumer confidence index, productivity, import and export indexes, and gross domestic product (GDP). The Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), Bureau of the Census, Internal Revenue Service (IRS), National Bureau for Economic Research (NBER), and the Conference Board publish economic indicators monthly, quarterly, and yearly.

Economic indicators are used to identify, analyze, and evaluate current and past economic performances with the ultimate goal of predicting and controlling business cycles. However, economic indicators are more than statistics. They lie at the heart of all public policy. People's economic and social well-being depend on the accuracy of these indicators and on the way policymakers use them. Expectations concerning changes in these indicators are also of critical importance for corporations and investors.

For the United States, the NBER has selected 30 leading economic indicators that reach peaks or troughs before the peak or trough in economic activity. These leading indicators are used by the NBER to predict economic performance. The NBER's prediction is based on a diffusion index (DI). When the DI is higher than 50, the economy is said to be in an expansion; when the DI is lower than 50, the economy is said to be in a decline. The larger the DI number, the stronger the basis for predicting expansions.

Economic indicators have improved economic analysis a great deal with regard to business performance. However, these indicators are more useful when their users are aware of their limitations. In fact, economic indicators are highly aggregated and averaged numbers. Even though they do tell us about past economic conditions, we must not assume that these conditions will remain the same in the future. Therefore prediction involves more than the mere reliance on economic indicators; it involves a lot of common-sense judgments based on expectations of future economic conditions.

—Fadhel Kaboub

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See also Volume 1: Consumer Price Index.

Economic Interpretation of the Constitution (1913)

A 1913 study by Charles Beard that initiated a firestorm of debate over one of America's most cherished documents.

Charles Beard, part of a group of professional historians known as the Progressives who were greatly influenced by the Populist movement, ascribed to the theory of economic determinism. In his work *An Economic Interpretation of the Constitution,* Beard challenged the idea that the founding fathers, placing the nation's common good over their own individual interests, designed the Constitution to create a democratic and equal society. Instead, Beard argued, four groups—the money, public securities, manufacturers, and trade and shipping interests—called for and supported the Constitution's creation because they thought it in their best interest, and those who created the Constitution planned to gain economically from it. Even though it could be accepted that the founders had an economic motivation, Beard argued that the process of creating the Constitution thwarted the democratic process by disenfranchising a large group of Americans. He noted that a popular vote never occurred to see if American society wanted a new government. Consequently, a small group of private interests, not the common good, guided this political change. When the founding fathers assembled at the Constitutional Convention in 1787 in Philadelphia, the majority of Americans enjoyed no form of representation and thus their ideas and hopes remained silent. Beard also argued that the framers of the Constitution all shared the belief that they must protect private property at all costs; hence, the wealth of a minority must remain protected against the basic needs of a majority. Finally, Beard argued that most American voters (at this time adult white males) refused to vote for their convention delegates and refused to vote on the issue of ratification or could not vote because they did not meet property qualifications. Beard believed that approximately one-sixth of America's voters ratified the Constitution and that the document offered neither a democratic nor representative expression of the desires of American society as a whole.

Beard's work created a maelstrom of controversy and was publicly both praised and condemned. President William Howard Taft, especially, hated it. Since the publication of Beard's book, scholars have continually worked both to expand and refute his argument. But what Beard wrote made many people aware of the private motivations that lie behind public decisions.

—*Ty M. Reese*

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See also Volume 1: Constitution.

Economic Liberalism

Doctrine of nonintervention by state in economy.

Economic liberalism developed as a reaction against an older system called mercantilism, in which government controlled commerce, industry, and trade. Under economic liberalism, industry, agriculture, and trade operate free from governmental supervision and regulation (free trade). The doctrine seeks maximum freedom for individual entrepreneurs; removal of tariffs, monopolies, and trade restrictions; and opposition to factory legislation (which benefits labor through concessions on wages or working conditions) and to trade unions. The doctrine originated with the work of Adam Smith in the late eighteenth century and the French economic philosophers of the Enlightenment, commonly known as the Physiocrats. Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* (1776) put forth the idea of an invisible hand that operated in the economy, permitting self-interest (if enlightened) to work for man's good—in short, laissez-faire economics. (Smith was not the first person to use this term: it had been introduced before the end of the seventeenth century by Pierre Boisguillebert, a wealthy French landowner and economist, who spoke of laissez-faire and laissez-passez [unrestricted travel].)

A group of Englishmen including the utilitarian Jeremy Bentham developed the classic doctrine of free trade. Economist David Ricardo, author of *Principles of Moral Economy* (1817), provided the basic labor theory of value, which ties the value of a product to the cost of labor. Ricardo apparently believed much less than Smith in a natural order of harmony in economic affairs. But his passionate support for free trade and his hostility to landlords helped give classical political economy an even firmer place in liberal ideology.

The liberal thinker John Stuart Mill also wrote on the subject of economics in his *Principles of Political Economy* (1848). Mill recognized the significant role played by the entrepreneur—what he called the "undertaker" in economic development. Profit rewarded hard work and skill.

—*Leigh Whaley*

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Economic Opportunity Act of 1964

Major legislation designed to achieve the promises of the Great Society of President Lyndon B. Johnson.

When Lyndon B. Johnson assumed the presidency after the assassination of President John F. Kennedy, he announced his desire to create a Great Society, in which all citizens could share in the wealth of the United States. Working with lawmakers to achieve this goal, Johnson persuaded Congress to pass the Economic Opportunity Act of 1964. The act established the Economic Opportunity Office and created several federally funded programs designed to "eliminate the paradox of poverty in the midst of plenty in this Nation by opening to everyone the opportunity for education and training, the opportunity to work, and the opportunity to live in decency and dignity." Agencies established included the Job Corps, the Neighborhood Youth Corps, Head Start, Adult Basic Education, Family Planning, Community Health Centers, Congregate Meal Preparation, Economic Development, Foster Grandparents, Legal Services, Neighborhood Centers, Summer Youth Programs, and Senior Centers. Between 1964 and 1968, more than 1,600 Community Action Centers were built around the country to encourage maximum participation from the community to help realize the Great Society. By the late 1960s, when minority groups realized that the promises of the federal government had not been realized, Congress passed several amendments to the Economic Opportunity Act. In 1981 the Economic Opportunity Office was abolished, although many of its programs still exist after being transferred to other agencies.

—Cynthia Clark Northrup

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See also Volume 1: Great Society.

Economic Stabilization Act of 1970

Law that gave the president power to impose wage and price controls to stem inflation caused by the Vietnam conflict and by escalating transfer payments (funds distributed to an individual or organization without an equivalent exchange of goods or services).

Signed on August 15, 1970, during the administration of Richard Nixon, the Economic Stabilization Act gave the president power to impose wage and price controls to stem inflation caused by federal efforts to finance its operations. It extended a law that had provided the executive with similar authority during the Korean War; the earlier law, in turn, had precedents in controls imposed during World Wars I and II.

Richard Nixon, a Republican and economic conservative, declared when he signed the Democrat-inspired bill that he would not exercise the authority granted. In his memoirs, he would disavow wage and price controls on the grounds that "tampering with the orthodox economic mechanisms" remained unwise. Nevertheless, on August 15, 1971, he announced a new economic policy that included a 90-day freeze on all wages and prices except those for raw agricultural products and finished imports. He initiated the action at the urging of Secretary of the Treasury John Connolly and Arthur Burns, who headed the Council of Economic Advisers; it enjoyed substantial support among consumers who wanted price relief and business leaders who wished to curb wages. Moreover, Nixon was operating under pressure to show improvement in the economy before his bid for reelection in 1972.

The Cost of Living Council, the Office of Emergency Preparedness, and the Internal Revenue Service administered the controls, followed later by a Price Commission and Pay Board. After the 90-day period, the initial sweeping controls shifted to somewhat more limited sector controls. In January 1973, the first attempt to remove controls altogether saw a sharp increase in prices—particularly food, which shot up 4.5 percent in two months. This increase resulted in a second 60-day freeze. Controls were gradually phased out by April 1974.

—Laura Seeley Pangallozzi

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See also Volume 1: Wage and Price Freeze.

Economy Act (1933)

A federal statute signed into law by President Franklin D. Roosevelt on March 20, 1933, to help reduce the federal budget and promote economic recovery during the Great Depression.

By the time Franklin D. Roosevelt assumed the presidency in March 1933, the United States had been suffering through the Great Depression for nearly three years, and many of the nation's key institutions were on the verge of financial collapse. Believing that the expanding federal budget during the administration of President Herbert Hoover was hampering economic recovery, President Roosevelt sent an emergency measure to Congress on March 10, 1933, requesting the authority to cut $500 million from the federal budget. Drafted largely by budget director Lewis Douglas and Grenville Clark, a private lawyer and presidential adviser, the Economy Act called for the elimination and reorganization of several federal agencies, a 15 percent pay cut for the vice-president and members of Congress, additional salary cuts for other military and civilian federal employees, and a nearly 50 percent cut in veterans' benefits.

However, the bill was extremely controversial. Veterans' benefits represented almost one-quarter of the nation's $3.6 billion budget, and many people, including the House Democratic caucus, refused to support the bill on the grounds that large cuts in these benefits were unduly cruel to America's World War I veterans. Indeed, many lawmakers

remembered the political backlash that occurred when U.S. troops forcibly expelled the Bonus Army (a group of veterans who demanded concessions from Congress at the beginning of the depression) from Washington, D.C., in July 1932, and they wanted to avoid antagonizing this politically powerful constituency.

Yet, despite this controversy and the fact that 92 House Democrats voted against the bill, the Economy Act passed through Congress and became law. The Economy Act successfully cut about $243 million from the federal budget, far less than the $500 million the president had intended, but many of these reductions in federal spending were offset by the large increases in federal relief spending during Roosevelt's first term. In 1934, Congress rescinded some of these cuts when it passed the Independent Officers Appropriation Act, which increased the salaries of government employees and raised veterans' benefits. Although President Roosevelt vetoed this bill, claiming that it would unnecessarily expand the federal budget, the election-year demands of veterans and government employees were too powerful, and Congress overrode the President's veto.

—*David W. Waltrop*

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See also Volume 1: Great Depression.

Ecosocialism

Social movement and body of thought developed in the 1970s that views capitalism as inherently unsustainable and promotes a socialist society based on principles of ecological sustainability.

Ecosocialists view capitalism much as did Karl Marx—competition requires that firms expand or go bust, where "expand" means to earn profits and reinvest them in production on an ever-larger scale. Maximizing profits by whatever means results in tremendous social costs in the form of environmental degradation, pollution, and unsustainable use of exhaustible and renewable resources. Ecosocialists also emphasize capitalism's negative impact on the social as well as natural environment. Capitalist social relations are alienating, with unemployment and poverty the usual state of affairs. According to ecosocialists, these aspects of capitalism remain unreformable, and democratic socialism provides the only alternative.

Ecosocialists recognize that Soviet-style socialist economies, like capitalist economies, also had a bad record on the environment, as well as other problems. Large-scale industrialization remains problematic worldwide, whether private companies or the government owns the means of production. Ecosocialists often look to some writers and activists in the anarchist tradition, such as Peter Kropotkin, an early proponent of small-scale sustainable production and alternative relations of production, and they anticipated later authors such as E. F. Schumacher (author of *Small is Beautiful*, 1973) and Murray Bookchin (author of *The Ecology of Freedom*, 1982). But ecosocialists tend to see a much greater role for the state than do ecological anarchists.

Ecosocialism has been criticized for assigning privilege to class relations, overemphasizing the environmental crisis, and overlooking the ways in which a postcapitalist society might still fail to address racial domination and patriarchy—which could also prevent a full transition to sustainability. These shortcomings have led to the development of ecosocialist feminism, and ties have developed to the environmental justice movement, which focuses on environmental racism.

—*Mathew Forstater*

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See also Volume 1: Capitalism.

Edison, Thomas Alva (1847–1931)

Self-educated inventor who became famous for applying the principles of chemistry and electricity to America's industrial development in the late nineteenth and early twentieth centuries.

Born in Milan, Ohio, on February 11, 1847, Thomas Edison was the youngest of seven children. His father owned a prosperous shingle manufacturing business, and his mother was a former schoolteacher. In 1854 the family moved to Fort Huron, Michigan. Educated by his mother because his public school teachers considered him "too slow," Edison developed an early interest in chemistry. At age 15 he set up his own basement laboratory where he dabbled regularly in scientific experiments.

During the Civil War, Edison worked as a telegraph operator in various parts of the Midwest. At the same time, his inventive genius took shape. He invented electrical machines such as a vote recorder, pneumatic stencil pen, and stock printer, while also perfecting the stock ticker and typewriter. His practical inventiveness enabled him to improve the functioning of the automatic telegraph as well. In 1869, he became a partner in a New York City electrical engineering company and the following year established his own business.

Between 1870 and 1890, Edison invented numerous and widespread products. During his lifetime he applied for 1,093 patents. Although he discovered the application of alternating current (AC), he did not see its advantage over direct current (DC). His abandoning the "Edison effect" (the discovery that an independent wire placed between two filament legs would control the flow of current) would cost him dearly later on. Yet he continued working, devising a carbon transmitter to improve telephone communications and inventing the phonograph, and, most importantly, the incandescent lamp. In 1887, he built a large research plant in West Orange, New Jersey, where he and his team of experts—including

mechanical engineers, clockmakers, and glassblowers—continued overseeing a host of inventions and promoting sales of his products.

Edison achieved fame in the field of applied electricity, and the Edison General Electric Company amassed a huge fortune for its namesake. Although first and foremost a practical inventor, Edison also became a shrewd businessman who jealously guarded his fortunes. In the late 1880s and early 1890s, when Westinghouse Electric promoted the use of AC as being more efficient and cheaper—thus becoming Edison's chief rival in the industry—Edison responded harshly. Edison, who had built the first central electric station in New York City in 1881 using DC, feared that his transmission system stood to lose millions of dollars if AC took over. At West Orange, Edison set up an experimental laboratory and invited visitors from the metropolitan area to witness the electrocution by AC of cats, dogs, and even an elephant. The "electrical shootout," which was set up to illustrate which form of current was safer, became so intense that chief scientists from both companies hooked themselves up to their type of electrical transmission to see who would last the longest. The challenge using human guinea pigs ended, but Edison's scare tactics failed. AC proved more economically efficient, and New York City eventually converted to its use. In 1892, in need of finances, Edison sold the rights to many of his inventions to the General Electric Company.

Though smarting from his defeat by Westinghouse, Edison continued working on new patents as the century turned. He made a motion picture machine and a fluoroscope still used by the medical profession today; manufactured Portland cement to build highways and houses; produced the alkaline nickel/iron storage battery, a dictating machine, a mimeograph machine, and disk records; and devised his own processes for manufacturing phenol and benzol. During World War I, Edison worked on improving the operation of submarines and methods of torpedo detection. A few years before his death he collaborated with Henry Ford and Harvey S. Firestone to produce rubber from domestic plants.

Edison's contributions significantly influenced American economic life. His contribution of applied science to industry helped to streamline labor (many of his inventions, including electricity to move the assembly line, reduced manufacturing time) and to improve the areas of communications, transportation, and housing. The invention of the incandescent lamp helped eliminate the dangers associated with petroleum or gas lighting. In 1923 his inventions were worth $16 million. On August 1, 1931, still working in his lab, he collapsed from a stroke. He died on October 18, 1931, and his family buried him in Orange, New Jersey. When asked to describe genius, he once remarked that it consisted of "one percent inspiration and ninety-nine percent perspiration."

—*Charles F. Howlett*

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See also Volume 1: Electricity.

Education

A learning process that develops a skill or knowledge and is one of the primary mechanisms for socialization and the driver of technological innovation and economic expansion.

The philosophical basis, policy relevance, and implementation of education in the United States have evolved tremendously over the last 200 years. Originally based on the Bible, education was seen as the safeguard of liberty by Thomas Jefferson, and it has been seminal in creating America's national identity as well as its technological and economic prowess.

Education has been and continues to be one of the most contentious areas of politics. Thomas Jefferson, Benjamin Franklin, educator Horace Mann, and philosopher and educator John Dewey are just a few who have debated the need for public school education. These ideological battles have continued in part because the states, not the federal government, have historically controlled education. Because schools in colonial times were decentralized and rural, the founding fathers failed to expressly delegate federal authority over education in the Constitution. Local and state governments have provided the majority of funds for education and have thus wielded an immense amount of power in terms of educational practices and curriculum.

Small schools in rural areas, where one teacher taught students of all ages in the same classroom, characterized education in the eighteenth and nineteenth centuries. The rise of free publicly funded elementary schools in the Common School Era (1820s and 1830s) and the spread of compulsory education to high school during the Progressive Era in the late 1800s both led to greater standardization in education. By 1918, all states had compulsory education laws for all children. Unfortunately, the Supreme Court's infamous ruling in *Plessy v. Ferguson* in 1896 meant that schools operated under a policy of racial segregation; the schools remained separate but certainly were not equal. The Supreme Court attempted to remedy this inequality through its landmark 1954 decision in *Brown v. Topeka Board of Education,* an example of the federal government superseding states' sovereignty to right a social injustice. The Elementary and Secondary Education Act of 1965 continued this shift toward a greater emphasis on equity and equal educational opportunity.

In 1974, in *Swann v. Charlotte-Mecklenberg Board of Education,* the U.S. Supreme Court ordered busing—the transporting of students from ill-equipped, primarily African American schools in poor urban black neighborhoods to

better-equipped schools in middle-class, primarily white neighborhoods, and vice versa. Busing would have ended segregation in schools while leaving housing patterns segregated. By the 1970s, whites had begun to leave the major cities for the suburbs—a phenomenon called "white flight"—in an attempt to circumvent the Court-ordered busing. During the last 25 years of the twentieth century, busing continued among schools in primarily African American school districts, and few white suburbs were integrated in the process. Currently, many urban school districts are arguing that their schools have become as integrated as they can be without the inclusion of students from the suburbs. Equal educational opportunity has still not been fully achieved.

Finally, the *Sputnik* launch in 1957 led to a greater emphasis on mathematics, science, and engineering in U.S. schools as the United States attempted to close the perceived missile gap (difference in rocket technology between the United States and the Soviet Union). President John F. Kennedy vowed in 1992 that the United States would land a man on the moon by the end of the 1960s—a feat that was accomplished in July 1969. The space program was the source of a wealth of new inventions, from the calculator to the personal computer.

Regarding higher education, the Morrill Act of 1862 expanded the number of public universities by creating a system of land grant universities. These provided a remarkable investment in the national economy as they raised agricultural and industrial productivity by encouraging the discovery of technological innovations. And after World War II, the GI Bill enabled those who otherwise could not afford it access to a university education. This rapid expansion of higher education fueled much of the economic prosperity of the last half of the twentieth century.

Given education's central role in the social and economic progress of the United States, it is not surprising that education continues to be a controversial subject. One contentious issue is school vouchers, which would allow parents to spend federal tax money intended for the public schools on private-school tuition for their children. Democrats have argued against the plan on the basis that the public school system needs more, not less, funding if it is to excel. Republicans, on the other hand, have pushed for school vouchers so parents in poorer and middle-class areas have the option of providing the best possible education for their children. On July 27, 2002, the U.S. Supreme Court upheld the constitutionality of school vouchers. Public schools will have to compete and prove they offer an excellent educational program to attract students under this competitive arrangement. Debates about vouchers and national standards that compel students to meet basic requirements in science, math, and technology remind us that many of the issues raised by educators including Horace Mann and John Dewey, two pioneers in the field of modern education, remain relevant today.

—*W. Chad Futrell*

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See also Volume 1: Cold War; Servicemen's Readjustment Act; U.S. Department of Health and Human Services.

Electricity

Source of power that propels the U.S. economy.

Electricity is generated in the United States by two kinds of utilities: investor-owned (privately owned) and public. With the advent of the Great Depression, privately owned facilities generated most of the electricity. A wave of regulatory reform in the 1930s saw Congress pass, among other legislation, the Public Utilities Holding Company Act of 1935, which restrained geographical integration (concentration of raw materials, processing facilities, and distribution facilities), vertical integration (control of upstream suppliers and downstream buyers), and horizontal integration (control of two or more companies in the same line of business) ostensibly to ensure that electric utilities, among others, remained unable to evade regulation at the state level. This "anticapitalist" measure virtually froze the organizational form of electricity generation in the United States for almost six decades, although there was a shift in type of energy source from coal- to oil-fired plants between the 1930s and 1960s and a later shift to the present oil-gas-coal-nuclear mix.

In 1978 Congress passed the Public Utility Regulatory Policy Act (PURPA). This act provided tax benefits that encouraged the building of small-scale electricity plants that ran on alternative energy sources like wind, solar, and small hydroelectric. PURPA also required utilities to buy this power—and power generated from industrial cogeneration units (which use multiple fuel sources to produce power cheaply)—at rates as high as the most expensive source of marginal power available to the utility. PURPA encouraged diversifying the mix of energy sources. Many cogeneration projects are competitive at today's electricity rates even without tax or other benefits. However, some states applied PURPA in a way that encouraged an oversupply of uneconomic energy. This practice caused the problem of stranded costs (costs that cannot be recovered in a competitive marketplace).

The Federal Energy Policy Act (FEPA) of 1992 required utilities to permit their customers to have access to other utilities and to a growing number of independent power producers. This change signaled the beginning of a new era of competition in electricity markets. Customers served by a local utility at high rates could buy power from other lower-cost sources by paying a small transmission user fee.

The FEPA of 1992 paved the way for restructuring and deregulating energy markets at the state level. In 1996 California enacted a comprehensive deregulation act (Assembly Bill No. 1890), and restructuring has spread; half of U.S. states have issued restructuring legislation or regulatory orders at the Public Utilities Commission (PUC) level. A major rationale for electricity restructuring remains to provide stronger incentives for efficiency in both generation and distribution than is possible under the regulated monopoly

regime. However, results vary among the deregulating states. In California, the state legislature deregulated the energy industry in 1996, requiring electricity providers to sell off much of their generating capacity, prohibiting companies from signing long-term contracts for supplies, and restricting customer rate increases until 2002. During 2001, California experienced an energy shortage and rolling brownouts that critics of deregulation blamed on deregulation. However, subsequent investigations into the Texas-based energy company Enron, after its financial collapse in 2001, revealed that Enron had hidden energy reserves until the restriction against rate increases expired in 2002. As of 2003, only eight states have begun electricity deregulation, and in all eight—California, Texas, Pennsylvania, Rhode Island, New York, Illinois, Maine, and Massachusetts—the cost of electricity exceeds the national average. The United States provides a fascinating test case for deregulation policy, because each state is largely free to determine its own restructuring subject to approval by the Federal Electricity Regulatory Commission.

—*Warren Young and Eli Goldstein*

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See also Volume 1: Energy.

Electronic Commerce (E-Commerce)

Business-to-consumer trade and business-to-business transactions using the Internet platform, particularly the World Wide Web.

Between 1995 and 2001, e-commerce became the fastest-growing form of commerce in the world. In the United States alone, it grew from virtually nothing in 1995 to a volume of almost $65 billion in business-to-consumer trade and roughly $700 billion in business-to-business transactions in 2001. Despite astoundingly rapid growth, e-commerce had mixed success. In 1994, entrepreneur Jeff Bezos launched Amazon.com, an Internet book retailer that lacked the traditional “brick and mortar” infrastructure. Although Amazon.com had annual sales of over $2 billion by 2000, it suffered significant losses from its inception until the fourth quarter of 2001, when it finally reported a “pro forma operating profit” (a profit that excludes amortization of goodwill stock–based compensation and any restructuring costs).

Amazon.com’s troubles were not unique. Between 1995 and 2000 more than $125 billion of venture capital was invested in more than 12,500 Internet start-up companies, or “dot-coms.” However, by 2001 only 10 percent of those start-ups had survived as independent companies and, of those that survived, few operated profitably. Expectations for initial public offerings (IPOs) of dot-coms remained high, and many investors hoped these IPOs would yield great profits. Between 1986 and 1995, only 1 percent of dot-com stocks traded at less than $1 per share. By 2001, 12 percent of the dot-coms that had gone public between 1998 and 2000 traded at $1 or less per share. For instance, Ask Jeeves.com and IVillage.com, once trading at highs of $190.50 and $130.00 per share respectively, both fell to less than $1.00 per share in April 2001 because of overvaluation in the high-tech stocks that had become apparent by the beginning of the year.

Business-to-consumer e-commerce developed in the early 1980s, when Prodigy (the largest Internet service provider in the United States) and Boston’s Citinet (a communications provider that closed in March 2003), among other innovators, began offering information services such as electronic mail, real estate listings, and home banking. However, given the limited access of consumers to personal computers (PCs) at the time, e-commerce remained unpopular. Promising joint ventures like the collaboration between Chase Manhattan Bank and AT&T, which would have used telephone lines for electronic communication, failed because consumers rejected the high costs and awkward technology. In the 1990s, the reduced price and improved quality of PCs (by 2000, more than 60 percent of U.S. households had PCs), along with the increasing availability of Internet connections and bandwidth, changed consumer attitudes and created numerous opportunities for the growth of e-commerce.

Business-to-business e-commerce developed in the 1960s as companies realized that electronically exchanging common pieces of information such as bills of lading, invoices, and shipping orders could result in great savings compared with repeatedly producing the same information on paper. Businesses such as American Airlines, General Electric, Wal-Mart, and American Hospital Supply and Products (AHSP) established electronic data interchanges or interorganizational systems to exchange information with other firms with whom they did business. For instance, AHSP set up an e-commerce system in which customers, not AHSP employees, made and tracked product orders. This system enhanced operational efficiency by improving customer relations and saving AHSP significant time, labor, and shipping costs. In the 1990s, companies such as SAP, Cisco, and Federal Express improved on these pioneering efforts by providing direct access to services and retail outlets, creating information exchange networks, and establishing customer tracking systems.

—*Eric Pullin*

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See also Volume 1: Computer.

Emancipation Proclamation (January 1, 1863)

A proclamation by President Abraham Lincoln freeing slaves in states still in rebellion against the United States and designed to keep Great Britain, which had abolished slavery within the British Empire, from providing economic and political support to the Confederate states, with which Britain had traditionally had a strong trading relationship.

At the beginning of the Civil War, President Abraham Lincoln's major objective remained the restoration of the Union—not the abolition of slavery. Although personally opposed to slavery, he believed it was important politically to consider the feelings of those in loyal slave states as well as those who favored abolition. Although most people in the North opposed slavery, many Northerners believed that blacks were an inferior race and therefore were not willing to fight to end slavery. As the war progressed, some of Lincoln's abolitionist friends urged him to free the slaves. He was advised by members of Congress and his own Cabinet that such a move would destabilize the South's economy. Confederate slaves had been working in the South's farms and factories, allowing whites to serve in the military. Slaves produced the cotton crops that the South was trying to sell overseas. They had also seen frontline service as orderlies and military laborers. With the war going against the North in the first part of 1862, Lincoln began drafting, in the latter part of the year, a proclamation to free slaves.

On August 6, 1861, Congress passed the First Confiscation Act, which authorized Union forces to seize rebel property and freed slaves who had worked as cooks or laborers for Confederate forces. In 1862 Congress passed the Second Confiscation Act, which freed slaves living in rebel states. But Lincoln rejected both acts as emancipation proclamations for fear of alienating the border states. A preliminary emancipation document from Lincoln initially warned that slaves would receive their freedom on January 1, 1863. The final proclamation did not free all slaves but kept slavery intact in the loyal states of Delaware, Missouri, Kentucky, and Maryland. Slave owners remained exempted in the 48 counties now known as West Virginia and in several parishes and cities in Louisiana and Virginia.

The proclamation had the desired effect. The South's economy collapsed, and more than 500,000 slaves fled to Northern states. About 200,000 former slaves served the North in the Civil War, offsetting diminishing manpower in the Northern forces. Congress eliminated the presence of slavery anywhere in the United States after the states ratified the Thirteenth Amendment to the Constitution in December 1865.

—*David E. Walker*

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See also Volumes 1, 2: Slavery; Volume 2 (Documents): Emancipation Proclamation.

Embargo of 1807

Act that restricted U.S. trade with Great Britain and France and led to the War of 1812.

During the Napoleonic Wars in which France and Great Britain were enemies, the United States became increasingly frustrated by demands from France and Great Britain for the United States to cease trade with one or the other, limiting American ability to realize a profit from both sides as well as from neutral countries. Napoleon's Continental System (which blockaded Great Britain and threatened to confiscate American ships that refused to trade with France) and the British practice of impressing American sailors and seizing ships thought to carry war material outraged the American public. Then, in 1807, the British HMS *Leopard* fired on the USS *Chesapeake,* forcing President Thomas Jefferson into action. Jefferson, who opposed a war, believed that an embargo against both France and Britain (which Congress passed in December 1807) would impress foreign nations with the value of neutral American trade and that Americans would willingly accept the inconvenience.

Instead, American exports fell from $108 million in 1807 to $22 million in 1808, while U.S. ships lay idle and many lost their jobs. The embargo also encouraged smuggling and evasion by otherwise law-abiding Americans and bitterly alienated the seafaring states of New England. The 1806 Non-Importation Act had removed British goods from the American market, and the embargo simply pushed the nation into economic recession. The president lifted the embargo three days before he left office. President James Madison replaced it in 1809 with the Non-Intercourse Act, which allowed the U.S. to trade with all countries except Britain and France unless either country promised to stop harassing American trade. Napoleon Bonaparte, the leader of France, issued such a promise, and Madison then asked Congress for a declaration of war against Great Britain. The War of 1812 was fought over issues of national honor, freedom to trade on the high seas, and U.S. economic independence.

—*Margaret Sankey*

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See also Volume 1: Non-Importation Act; Non-Intercourse Act; War of 1812.

Embargoes

Prohibition by one country of the importation of goods by and/or exportation of goods to another country.

When Great Britain attempted to exercise tighter control over the American colonies after the French and Indian War, colonists used embargoes several times between 1763 and 1776 to pressure Great Britain to repeal the hated Stamp Act and Townshend Duties. After the American Revolution, as the United States attempted to remain neutral in the conflict

between Great Britain and France during the Napoleonic Wars, the only option that seemed available was to place an embargo against both countries. Although the embargo lasted more than a year, it created financial difficulties for American citizens and merchants while proving ineffective against the intended targets. The severity of the economic losses resulted in the delegates to the Hartford Convention—a meeting of Federalists held during the War of 1812—to demand that Congress pass any future embargoes by a two-thirds vote, not a simply majority, and restrict embargoes to 60 days. These demands were never implemented; the Federalists were completely discredited by the end of the conflict because of what most Americans perceived as traitorous activity during wartime.

After the U.S. embargo of 1809 on Great Britain and France in response to those countries' violation of American neutrality during the Napoleonic Wars, the United States rejected embargoes as a diplomatic tool until the twentieth century, when it used the embargo as a diplomatic tool against aggressor nations. In 1941 the United States placed an embargo on the shipment of oil and scrap metal to Japan that ended in the attack on Pearl Harbor. In 1962, an embargo was placed on Cuba after the Cuban missile crisis, in which the Soviet Union attempted to place in Cuba intermediate-range missiles that could reach U.S. soil. Other Central and South American countries joined in the embargo but have since repealed the measure. As of 2003 the U.S. embargo continues. Another international embargo that included members of the United Nations began against Iraq after the Persian Gulf War in 1991. The United Nations modified the embargo in 1996 to allow the sale of oil for food and medical supplies. As of May 2003, after the toppling of Saddam Hussein's government, the UN sanctions have been lifted. Other embargoes have existed between the United States and Yugoslavia (1992), Rhodesia (1970s), and South Africa (1980s). All failed to achieve the level of success officials had hoped for.

—Cynthia Clark Northrup

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See also Volume 1: Embargo of 1807; War of 1812; United Nations.

Emergency Price Control Act (1942)

An effort on the part of the federal government during World War II to limit the severity of wartime inflation that had plagued the nation during World War I.

Congress charged the Office of Price Administration (OPA), established on April 11, 1942, with the responsibility of controlling prices and wages during World War II. On January 30, 1942, President Franklin D. Roosevelt signed the Emergency Price Control Act, which gave OPA the authority to impose price ceilings on a wide range of consumer items, fine those in violation of the law, and impose rent controls in defense areas, where plants producing military equipment were located. In April 1942, OPA issued a memorandum, "General Maximum Price Regulation," which froze prices at their March 1942 levels. The policies related to wage controls and rationing proved unpopular, but nearly 90 percent of Americans approved of price controls. During World War II this legislation limited inflation to a little over 2 percent, and many considered the act one of the great home-front successes of the war. This legislation expired on May 29, 1947.

—James T. Carroll

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See also Volume 1: Office of Price Administration; Roosevelt, Franklin D.; World War II.

Employment Act of 1946

Legislation that indicated the concerns of twentieth-century economic policy and that called for full employment, an end to racial discrimination in hiring, and an increased minimum wage.

The Great Depression was the impetus for the Employment Act of 1946. In the 1930s, economists feared a mature economy, which is characterized by chronic unemployment and underemployment. Economic growth had stopped. New Deal theorists began a campaign for a full employment policy in which the federal government played a major role. Because the New Deal equaled "groceries plus liberty," the idea developed that a job remained not only a necessity for economic recovery but also an entitlement for every citizen.

Congressional New Dealers after World War II wanted a bill in which the government guaranteed the full employment ideal. Fearing a major recession, elements of the Roosevelt coalition sought legislation. A full employment bill passed the Senate, but the House compromise bill—the version that was enacted—adopted only the goals of maximum employment, production, and purchasing power, not full employment. Drawing on the notion that expert advice is valuable, Congress created the Council of Economic Advisers (CEA), established by the Employment Act of 1946, to help President Harry S Truman draft economic polices. The CEA worked with a Joint Economic Committee to generate an *Economic Report of the President* regarding the economy's future.

Ironically, the failure of a full employment bill created a vacuum in postwar economic policy in which forms of military Keynesianism, resulting from the cold war, dominated the public agenda until end of the twentieth century. The Congressional Budget and Impoundment Act of 1974 effectively reduced the power of the congressional Joint Economic Committee in formulating policy, although, in the tradition of the Employment Act of 1946, the Humphrey-Hawkins Bill (the Full Employment and Balanced Growth Act of 1978)

became law and the 1974 act was subsequently ignored. Legislative compromise, administrative disregard of the law, and cold war Keynesianism reduced the high idealism of the full employment ideal to a very limited role in American economic policy.

—*Donald K. Pickens*

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See also Volume 1: Council of Economic Advisers; Great Depression; Keynesian Economics; New Deal.

Energy

A source of usable heat or power such as petroleum or coal.

Human civilization depends on energy. Until the 1770s, the only available energy sources were manpower, animal power, lumber, water, and wind. The invention of the steam engine ignited the Industrial Revolution initially fueled by wood, which remained the dominant energy source until about 1885. Coal then became the primary energy source, replaced by oil in the 1950s. Coal and oil are burned today to generate electricity, which is the primary engine that drives the modern economy. Each energy transition has had revolutionary social and economic consequences.

Heavily forested America was relatively slow to switch from wood to coal. Exploitation of the Pennsylvania coalfields after 1850 to fuel railroads and steel mills enabled America to become the world's leading industrial power by 1900. Coal first powered transportation and industry, but after 1960 it primarily powered electric utilities. In 2000, the United States produced more than a billion tons of coal, and coal accounted for one-third of U.S. energy production and one-third of U.S. generation of carbon dioxide.

Subsurface oil was first extracted in Pennsylvania in 1859. Used primarily as an illuminant and lubricant, oil proved more versatile and transportable than coal, and manufacturers quickly adapted it for industrial use. Oil fueled mass-produced automobiles and the vehicles of modern military forces after 1914, and the world's great powers—the United States, Great Britain, the Soviet Union, Germany, and France—thus struggled to control world oil supplies. The United States dominated world oil production for decades but became a net importer in the 1960s. Some argue that oil prices must soon rise dramatically, as new discoveries cannot keep pace with increased demand, especially in Asia. Oil production, controlled for decades by the Organization of Petroleum Exporting Countries (OPEC), may change as the United States takes a more active role in the Middle East in countries such as Iraq and Kuwait in 2003.

Natural gas remains clean and cheap but requires extensive pipelines for distribution. First used for illumination, today natural gas is primarily used in industry and for home heating and cooking. Gas use increased dramatically in the 1990s, but reserves for 93 years remain in North America.

Nuclear energy as a source of electric power became popular in the 1960s as dependence on imported oil grew, but its popularity declined in the 1970s due to safety and environmental concerns. Construction of many proposed nuclear plants was canceled after 1980, partly because fossil power plants remained cheaper to build and operate. Nuclear energy produced 20 percent of U.S. electricity in 2000, but nuclear power will diminish in importance as plants are retired and not replaced. In 2003, 104 nuclear units continue to operate; 28 units have been permanently shut down. No new nuclear plants are scheduled to be built in the next few years. Nuclear energy continues to power large ships and submarines that travel long distances before refueling or that need the stronger propulsion capabilities that nuclear power provides. At the end of the cold war, there were 400 nuclear-powered military vessels around the world; in 2003 only 160 remain, and half of those belong to the United States.

Estimates of fossil fuel reserves vary widely, but approximately 40 years' reserve of oil, 93 years of natural gas, 250 years of coal, and thousands of years of uranium exist at current rates of consumption. Oil shale (a black or brown shale containing hydrocarbons that yield petroleum by distillation) may provide additional energy. Improved technology for finding, extracting, and using fossil fuels will extend effective reserves even further. Ultimately, however, scarcity of fossil fuel and environmental concerns, particularly over greenhouse gas emissions, which trap solar radiation and cause global warming, will force a transition to renewable energy sources—wind, solar, and geothermal power, which are not now cost-competitive—in the near future.

—*James D. Perry*

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See also Volume 1: Electricity; Oil.

Energy Crisis

Twentieth and twenty-first century problem involving a reduced production of oil.

The energy crisis dates from October 1973, when the Arab

oil embargo, which prohibited sale of Arab oil to Western industrial nations, began. Since then, industrialized countries have experienced a certain uneasiness from time to time regarding future supplies of energy, especially of oil.

The United States continues to depend on coal and oil for its energy needs. As recently as 1999, oil supplied 34 percent of the Earth's energy. Natural gas furnished another 23 percent, while coal contributed 22 percent of mankind's energy needs. Despite efforts, especially in recent years, to harness more power from the wind, water, sun and, in certain circumstances, from nuclear reactors, fossil fuels (oil, gas, and coal) still supply 79 percent of the world's requirements.

We must prepare for a much different energy future, particularly through governmental action including legislation. That will mean lesser reliance on fossil fuels (other than natural gas) and a greater recourse to alternative energy sources, especially from solar power, biomass (the processing of plant life into fuel), the wind, and water. If these efforts are successful, carbon emissions (from carbon dioxide, methane, and nitrous oxide) into the global atmosphere would be greatly abated, if not eliminated, and so would the fears of a growing number of people regarding the effects of the so-called greenhouse gases on the climate.

Until the world's peoples reduce their heavy dependence on coal and oil and at the same time begin to use renewable, nonpolluting forms of energy, natural gas should provide for a period of transition. It remains an abundant (the Earth's proven reserves amounted to 5,145 trillion cubic feet as of January 1, 1999) and relatively clean-burning fuel. Moreover, processes exist for converting it into liquid fuel. In fact, enough recoverable natural gas exists to supply the world with 500 billion barrels of synthetic crude oil—more than twice the total of oil ever produced in the United States.

Another potential supply of gas (mainly methane) exists in the form of hydrates—gas locked in an icelike, crystalline condition beneath the continental margins of the oceans and in permafrost regions on land. These hydrates may well make up the world's greatest single storehouse of usable energy.

—*Keith L. Miller*

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See also Volume 1: Oil; Oil Embargoes.

Entitlement Programs

Government-sponsored benefits provided for individuals based on their age, need, or other criteria.

In the United States, the federal government established the first entitlement program in 1935 with the passage of the Social Security Act. Not surprisingly, this initial program was designed to be self-funding through the additional tax paid on income by all income-generating Americans. The first Social Security checks were sent out in 1939, and from then on the number of elderly who receive benefits under the program has continued to mushroom. Social Security taxes are placed in a trust that would have provided enough revenue for the large baby boom generation born in the late 1940s and 1950s, except that Congress has repeatedly used the funds to meet other budgetary needs; Social Security is expected to become insolvent by 2032. Retirees from some occupations, for example, government worker and teacher, will be covered by non–Social Security programs.

Entitlement programs that followed the Social Security Act were not self-supporting. During the administration of President John F. Kennedy, the United States set up the Medicare program, which was designed to provide limited medical assistance to the nation's elderly. More than 40 million Americans including individuals 65 or older, disabled individuals of all ages, and people with end-stage renal disease have Medicare coverage. The coverage pays for long-term care, hospice care for terminally ill patients, doctors' visits, hospital stays, surgery, and durable medical equipment such as wheelchairs for qualifying recipients. During the 1980s and 1990s Congress revised the Medicare program, and participants now pay a small fee to participate in the program, which covers a percentage of the health care costs. In 1999 federal net outlays for Medicare amounted to $190.5 billion. During the administration of President Lyndon B. Johnson a similar program, Medicaid, was established to provide health benefits for qualified low-income families. Although Medicaid is a federally funded program, states establish their own eligibility guidelines. During the 1960s, the number of children born out of wedlock or living in single-family homes due to divorce prompted the federal government to also establish the Aid to Dependent Children (ADC) and the Aid to Families with Dependent Children (AFDC) programs. AFDC issues cash payments to recipients for rent, transportation, and other basic needs. The system was designed in such a way that a mother would lose benefits if she was married to or lived with the father or if the father earned more than a certain state-defined income. In some cases, as many as three generations of women on assistance chose to live together and pool their assistance checks to avoid such penalties. In this way, women were forced into a cycle of dependency once they became pregnant. This situation forced state legislators who controlled the program to reform the AFDC benefits eligibility in September 1997. Wisconsin initiated the first welfare-to-work AFDC program, which required women to actively look for work and restricted the number of eligible benefit years. Opponents argued that the measure would create a disaster when the time limit arrived, but the program's success has resulted in most states adopting this approach. The program continues to assist with child care for women employed in low-paying jobs, and it also provides some training assistance. In 1999 Congress appropriated $2.3 billion for AFDC; $16.5 million went for child care and $319.5 million for block grants to

states to fund the welfare-to-work programs. In addition to AFDC, low-income families are also eligible for food stamps. Initially recipients received coupons that could be exchanged for food, but the sale or exchange of the coupons for drugs or nonfood items led states to establish a system in which a card similar to a credit card is scanned at the checkout counter and the balance deducted electronically. In 2002 Congress earmarked $1.3 billion for the food stamp program.

Since the 1960s, Congress has established many entitlement programs. Federal Housing Assistance, known as Section 8 housing, provides low-cost dwellings for eligible Americans. School breakfast and lunch programs ensure that children receive proper nutrition so they are capable of learning. Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC) operates for the same purpose but for pre- and postnatal women and young children. The Head Start program provides opportunities for early childhood learning so that when the children begin kindergarten they have the fundamental knowledge required to function at the appropriate level. The government also provides energy assistance through the Low-Income Home Energy Assistance Program.

Veterans also receive health, education, and other benefits through a variety of acts. Veterans Administration (VA) hospitals provide essential medical services to a high concentration of disabled veterans. Veterans can also receive up to $1,000 a month toward a college education and can qualify for low-interest mortgages through VA programs.

Each year the federal government expends billions of dollars on entitlement programs. Some are funded by special taxes or employer contributions, but many are paid for with taxpayers' dollars.

—*Cynthia Clark Northrup*

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See also Volume 1: Aid to Dependent Children; Aid to Families with Dependent Children; Medicaid; Medicare; Social Security Act of 1935; Volume 2: Welfare State.

Environment

External physical conditions that affect growth, development, and survival of plant and animal organisms.

Industrial growth characteristic of post–World War II affluence threatened the nation's natural environment and made environmental quality an overriding national value with significant import for the economy. Environmental protection, previously the domain of state and local governments, became a federal mandate during the 1960s and 1970s, primarily during the administrations of Presidents Lyndon B. Johnson and Richard Nixon. In the early 1970s, as the first wave of environmental regulations took hold, total capital outlays plus operating expenditures for pollution control amounted to about 15 percent of the gross domestic product. Thirty years later, this figure has risen to over 20 percent and is expected to increase in the future. The Environmental Protection Agency (USEPA), the chief regulatory body for environmental protection, today employs about 18,000 people and has an annual budget of more than $7 billion. As such, it ranks as one of the largest federal agencies, its regulatory functions emulated by similar agencies at the state level.

Environmental legislation over the past 40 years has established a regulatory framework that touches on almost every aspect of the economy. Modern clean water and air laws, for example, regulate emissions from factories and automobiles, often at considerable cost to the regulated industry. The National Environmental Policy Act established a clean environment as a national priority and mandated extensive environmental impact statements before the completion of any large federal program. Unlike most of the previous federal legislation in American history, this wave of environmental legislation applied to all industries, and environmental regulators were not held responsible for the economic impact of regulations on specific industries. This regulatory climate helped to exacerbate a growing tension between the nation's two stated goals: a healthy environment and a growing economy. The effect of economic policies on environmental quality and the effect of pollution control on the nation's economy and industrial competitiveness have been controversial from the outset, often pitting competing environmental and industry lobbies in a struggle for public opinion and congressional votes. In addition, local and state governments often complain of "unfunded mandates" from Washington, in which Congress imposes administrative and fiscal burdens without compensating financial support.

In another respect, environmental protection also demands international cooperation. Considerable diplomacy remains necessary, as Third World and developing nations perceive international environmental controls as a hindrance to their economic advancement. To these nations, developed countries such as those in Western Europe and North America are the principal environmental polluters. Under the Kyoto Protocol, industrialized countries must reduce emissions by 5.2 percent of 1990 levels. Only 1 country out of the 55 countries required to implement the agreement has ratified the agreement—in the case of the United States, the Senate voted 95 to 0 against ratification. In March 2001, the administration of President George W. Bush abandoned the Kyoto Protocol entirely because it did not require India and China to reduce their emissions and because, the administration claimed, it was not in the best interests of the United States to operate under the protocol. Despite these objections to the 1997 protocol, negotiations among participants of the General Agreement on Tariffs and Trade have continued. As of 2001, 156 countries had signed the agreement.

Today, industries and governments at all levels struggle to reconcile these two legitimate preconditions—a healthy environment and a growing economy—for human prosperity and happiness. Many government agencies, including the USEPA, conduct extensive cost-benefit and risk assessment

analyses before they implement a policy. Others perceive environmental regulations as providing tremendous economic opportunity in "environment-friendly" industries. There is a way, they claim, to have both economic growth and environmental protection.

—*Brooks Flippen*

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See also Volume 1: Conservation; U.S. Environmental Protection Agency.

Environmental Protection Agency

See U.S. Environmental Protection Agency.

EPA

See U.S. Environmental Protection Agency.

Equal Pay Act of 1963

Legislation mandating that women and men would receive equal pay for the same work.

The Equal Pay Act had its roots in anger among women at the ongoing and widespread practice of paying women half the wages of men, a practice that dates from the early 1800s, when factories were founded in the United States. Many male workers opposed equal pay because they believed that if employers had to pay the same for women workers as for men, they would hire women. However, supporters including feminists and their sympathizers sought fairness in the workplace, calling for equal pay for equal work. In 1945, feminists introduced a bill to protect women's pay, but the measure gathered little support. In 1963, president John F. Kennedy's Commission on the Status of Women (CSW) was established, championed by Esther Peterson, head of the Women's Bureau of the Department of Labor. The CSW agreed that fairness demanded equal pay and it endorsed the concept. Debate soon arose over whether equal pay meant that all workers at a particular job or a particular level would receive the same wages. Employers opposed the bill, and members of Congress voiced fears that equal pay would take jobs away from men, but the bill's opponents surrendered when they became convinced that the bill would be more symbolic than effective because of widespread job segregation by sex. The Equal Pay Act (1963) provides that employers may not pay workers of one sex at rates lower than they pay employees of the opposite sex employed in the same establishment for equal work. It applies to jobs that require substantially equal skill, effort, and responsibility and that are performed under similar working conditions. Exceptions permitted under the law include when sex differences in pay occur due to seniority, merit, quantity or quality of production, or any factor other than sex. In 1972, the provisions of the law extended to cover management and professional employees and state and local government workers. Employers with fewer than 25 employees remain exempt.

—*Caryn E. Neumann*

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See also Volume 2: Labor.

European Recovery Plan

See Economic Cooperation Administration; Marshall Plan.

Export Control Act (1949)

First post-World War II legislation authorizing the U.S. government to restrict exports via a system of licenses.

Although the U.S. Congress had enacted export control measures in wartime, the national legislature approved and President Harry S Truman signed into law in February 1949 the first bill to hand the government broad powers over exports in peacetime. The legislation can only be understood within the context of the cold war, which pitted the United States against the Union of Soviet Socialist Republics (USSR). Twelve months earlier, the USSR had backed a communist coup in Czechoslovakia that removed the last semiautonomous government in the Soviet sphere of influence in Eastern Europe. On the heels of this event the Soviets challenged American, French, and British access rights to Berlin between June 1948 and May 1949 (a blockade of Berlin, in effect, in which the USSR cut off land access to West Berlin).

The Czech coup and Berlin blockade provoked sharp restrictions on the shipment of American goods to the Soviet Union and its communist allies. The USSR retaliated against U.S. export policies by curbing in December 1948 the sale of such items as manganese and platinum. These Soviet materials possessed strategic value through their use in U.S. armaments, aircraft, and communications equipment. The Soviet reprisal encouraged Congress to sanction the sweeping Export Control Act. It established, through the U.S. Department of Commerce, comprehensive licensing procedures for all exports. It also created commodities lists to limit or prevent the sale or transfer of specific products or technologies that might enhance the strength of U.S. adversaries.

In the hothouse atmosphere of confrontation over Berlin—the United States had to airlift supplies to the city for more than a year—American officials deemed most U.S. products to be of military value. By 1950, U.S. sales to the USSR fell below $1 million, marking the virtual end to

America's export trade with the world's largest country. Congress reapproved the Export Control Act in 1962 and then revised or reauthorized it through the Export Administration Acts of 1969, 1979, and 1985. Each adjustment reflected shifts in U.S. policy that mirrored the evolution over time of America's relations with communist nations. Despite the collapse of the Soviet bloc in 1989 and the Soviet Union in 1991, U.S. economic controls continued to prevent the transfer of cutting-edge technologies to other countries and the sale of military hardware to so-called rogue nations. Congress, for example, renewed the Export Administration Act in 1999 to prevent the proliferation of weapons of mass destruction and their means of delivery to the nations of Iran, Iraq, Libya, and North Korea.

—James K. Libbey

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See also Volume 1: Cold War: Coordinating Committee for Multilateral Export Controls.

F

FAIR Act of 1996

See Federal Agricultural Improvement and Reform Act of 1996.

Family Assistance Plan (FAP)

Welfare reform proposal first introduced by President Richard Nixon in 1969 that would have guaranteed a minimum income for poor families.

The idea of a guaranteed minimum income gained acceptability in conservative circles in the mid-1960s when libertarian economist Milton Friedman suggested adopting a negative income tax to provide a safety net for the poor while also rewarding work. President Nixon liked the boldness of a proposal that would abolish the current welfare system, and he presented the Family Assistance Plan (FAP) in a nationally televised address on August 8, 1969.

The FAP included an increase of about $2.5 billion in federal welfare spending, with the average family of four expected to receive $1,600 in monthly benefits. The plan also promised to provide benefits for more than 13 million working men and women whose wages remained insufficient to lift them above the poverty line but who failed to pass eligibility requirements for other federal welfare benefits.

Nixon's public support for the FAP was not matched by decisive action to ensure passage of the FAP. The proposal failed to pass Congress in 1970 and again in 1972, as the votes in support of the plan proved insufficient to overcome the opposition from both sides of the ideological spectrum: Conservatives thought the proposal too generous, but liberal politicians and welfare rights activists, most notably the National Welfare Rights Organization, characterized the benefits under FAP as being too stingy. Liberals also opposed the work requirements inherent in FAP, the very feature of the program that conservatives found most appealing.

Although the Family Assistance Plan never became law, efforts to raise the incomes of low-wage workers persisted. The Earned Income Tax Credit (EITC), first enacted in 1975, followed in the ideological tradition of the FAP by seeking to provide working families with greater after-tax income.

—*Christopher A. Preble*

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See also Volume 2: Welfare State.

Fannie Mae

See Federal National Mortgage Association.

FAP

See Family Assistance Plan.

Farm Credit Amendments Act of 1985

Act that reorganized and rescued the Farm Credit System, a network of borrower-owned lending institutions and service organizations for farmers, ranchers, producers, or harvesters of agricultural products.

Because of the 1980s farm crisis in rural America—caused by farming overexpansion, overinvestment in land and technology, and a 1979 wheat embargo against the Soviet Union that hurt U.S. wheat farmers—the Farm Credit System (FSC) remained in a precarious situation. Congress designed the Farm Credit Amendments Act of 1985 to centralize the process for obtaining credit and to optimize lending efficiency among the Farm Credit System's five credit banks and one agricultural bank. The Farm Credit Administration (FCA) assumed responsibility for regulating the FSC. A three-member board of directors nominated by the president

and confirmed by the Congress, each of whom serves a single six-year term, governs the FCA. The board regulates the Farm Credit System in much the same way that the Federal Deposit Insurance Corporation regulates commercial banks. The president names a chair to oversee the agency instead of the board appointing a FCA governor. The three-member board of directors has become an advisory panel stripped of almost all its power. The FCA sets loan security requirements and interest rates, regulates the transfer of funds, oversees annual independent audits of each institution, and approves bond issues. The act establishes and enforces minimum levels of capital reserves for each member institution. The FCA can also issue cease-and-desist orders against officers or institutions for violation of regulations and can correct these violations. It can remove any directors or officers of the institutions as it deems necessary.

The act also created a new institution called the Farm Credit System Capital Corporation, owned and controlled by participating banking institutions, which has the power to redistribute capital resources among the institutions to resolve financial problems. The Farm Credit System Capital Corporation took over bad loans and centralized about $7 million in surplus reserve. A five-member board of directors—including three members elected by the farm credit banks, which own voting stock in the corporation, and two members appoint the FSC chair—oversees the corporation's operations. This basic system currently governs the Farm Credit System.

—*T. Jason Soderstrum*

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See also Volumes 1, 2: Agricultural Policy.

Farm Credit System Reform Act of 1996

Act that permitted the Federal Agricultural Mortgage Corporation (Farmer Mac) to serve as an agricultural mortgage marketing facility.

In the aftermath of the 1980s farm crisis, which was set off by the wheat embargo against the Soviet Union in 1979, Congress created Farmer Mac (the Federal Agricultural Mortgage Corporation) in 1987. Its purpose was to help bail out the Farm Credit System—which was designed to provide low-interest loans to farmers—with the purpose of forming a secondary market for, and to guarantee securities based on, farm real estate loans. These securities failed to establish a growing niche in farm credit markets, and the Farmer Mac capital base began to decline by the mid-1990s. The Farmer Mac charter required changes to allow it to become more beneficial.

Signed into law on February 10, 1996, the Farm Credit System Reform Act (1996 Reform Act) allowed Farmer Mac to become a direct purchaser of mortgages in order to form pools of financial resources. Previously Farmer Mac had just guaranteed securities formed from loan pools. The 1996 Reform Act amended the Farm Credit Act of 1971 by modifying the definition of *certified facility* to allow Farmer Mac to purchase loans for pooling (collecting) and securitization (backing) directly from sellers. It also eliminated the rule that Farmer Mac must keep a 10 percent subordinated interest [funds under the control of another authority] or cash reserves for loan pools. Farmer Mac now uses Federal Reserve banks as depositories, fiscal agents, or custodians. Regulatory oversight has increased, and timetables for recapitalization have been set. All of these measures made it more attractive for banks to participate in Farmer Mac.

In 2001, farmers and ranchers have more than $3.1 billion in mortgages that back securities guaranteed by Farmer Mac. The 1996 Reform Act allowed Farmer Mac to achieve profitability for the first time in its history, and its performance has improved every year since. It increased its capital from $12 million in 1995 to more than $100 million by 2001.

—*T. Jason Soderstrum*

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See also Volumes 1, 2: Agricultural Policy.

Farm Crisis of 1982

An economic crisis in rural America in the 1980s caused because the U.S. government had encouraged farming overexpansion and overinvestment in land and technology during the previous decade and exacerbated by the Soviet wheat embargo of 1979, which resulted in oversupply and devalued farm prices.

In light of expanding markets in the 1970s, the federal government urged farmers to farm "fencerow to fencerow." Land used in corn production increased by 38 percent from the late 1960s to 1981, climbing from 56 million acres to 74.6 million acres. Wheat-cultivated land made a similar jump of 48 percent. Improved technology enormously increased the cost of items such as tractors. From 1970 to 1980, non–real estate debt of U.S. farmers increased by $67 billion, almost tripling. Yet as farming costs increased, so did the value of the land. Between 1970 and 1982, in some areas of the country, land values increased by 400 percent. In the 1970s, banks also liberalized their lending practices toward the agricultural community. Bankers, like farmers, assumed that land prices would keep increasing at the double-digit rate of inflation of up to 20 percent. Based on this assumption, many banks made shaky loans.

On October 9, 1979, the Federal Reserve Board implemented several policies to reduce inflation. These changes made farmland less attractive as an investment, contributed to the decline in land value, caused lower returns on farmers' equity, and adversely affected exports. By the end of 1981, leveraged landowners, whose loans were based on inflated land rates, began to realize that they could not make their high-interest-rate loan payments. Lending institutions began to retract their easy credit policies and called in their problem loans. As the value of farm acreage decreased, those in risky credit positions began to wash out—generally younger, more progressive farmers.

In reaction to the credit problem, the federal government began several programs to reduce production and provide financial assistance to farmers. One of the most famous of these acts, the Food Security Act of 1985, authorized more than $52 billion in farm supports. By that point, however, most of the farmers in financial straits had already left the land. The farm crisis of 1982 devastated rural America, forcing family farms out of the picture and replacing them with large agribusiness corporations.

—*T. Jason Soderstrum*

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See also Volumes 1, 2: Agricultural Policy.

Farm Disaster Assistance Act of 1987

Law that provided assistance to farmers who lost crops because of natural disasters in 1986.

The Farm Disaster Assistance Act of 1987 expanded the number of farmers who were eligible to receive disaster relief assistance. This measure was the first legislation that Congressional opponents to the administration of President Ronald Reagan and the 1985 Farm Bill could use to boost farmers' incomes. The Democratic leadership opposed the president's plan to cut back and restructure basic price and income supports for agriculture.

The Farm Disaster Assistance Act provided a one-time disaster payment of payment-in-kind (PIK) certificates, redeemed from government-owned grain, to farms in counties designated as disaster areas. Farmers could get up to $100,000 in a PIK certificate to cover any losses that exceeded 50 percent of their 1986 harvest. Those who farmed federally subsidized crops such as wheat, cotton, rice, and feed grains could apply, as well as those raising "nonprogram" specialty crops. Farmers only had to prove that "drought, excessive heat, flood, hail, or excessive moisture" afflicted their crops.

Two hundred thousand farmers in 38 states applied for the $400 million in benefits, most of them residents of the drought-ridden Southeast or flooded areas in the Midwest. The amount they applied for exceeded $500 million, and Oklahoma winter wheat farmers had not originally been part of the program, so Congress agreed to provide an additional $135 million to cover the shortfalls. It also gave PIK certificates to those unable to plant their winter crops. Although many in Congress tried to help farmers hurt by the farm crisis of 1982 (a period of depressed agricultural prices and overproduction), most such farmers had given up farming by 1987. The Reagan administration and Democratic members of Congress both understood that the Farm Disaster Assistance Act only signaled the first step in reversing the administration's "decoupling" plan to reduce farmers' reliance on the federal government.

—*T. Jason Soderstrum*

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See also Volumes 1, 2: Agricultural Policy.

Farm Security Administration (FSA)

One of several programs of President Franklin D. Roosevelt's New Deal designed to ease hardships endured by farmers and sharecroppers during the Great Depression.

The Farm Security Administration (FSA) was created by the Bankhead-Jones Farm Tenancy Act of 1937, itself inspired by an alarming report on the spread of farm tenancy filed earlier that year by the Special Committee on Farm Tenancy chaired by Secretary of Agriculture Henry A. Wallace. (In farm tenancy, farmers remain in debt to landowners and exchange a portion of the harvest for use of the land, seed, and supplies.) Rexford G. Tugwell, a close adviser to President Franklin D. Roosevelt and a professor of economics at Columbia University, headed the FSA. Along with taking over the work of the 1935 Resettlement Administration, which had as its purpose the elimination of migrant and tenant farming, the FSA set up decent migrant labor camps and helped to establish cooperative homestead communities to assist farmers driven off their land by bankruptcy and foreclosure and exploited by large growers. It also extended long-term, low-interest loans to farmers and sharecroppers to help them regain their independence, although these loans were spread thinly over more than 650,000 recipients.

The historical section of the FSA's Information Division became well known during the Great Depression by employing more than a dozen first-rate photographers to generate sympathy and support for the FSA by documenting harsh rural conditions. Led by Roy Emerson Stryker, this notable group included John Collier, Jack Delano, Walker Evans, Dorothea Lange, Russell Lee, Carl Mydans, Arthur Rothstein, John Vachon, and Marion Post Wolcott. Lange's "Migrant Mother" became arguably the most famous image from the Great Depression.

The FSA attracted sharp criticism, especially from large commercial farmers who feared losing cheap labor. In reaction, in 1941, Stryker's photographers shifted their focus from farming to patriotic subjects related to the impending world war. The agency's funding was cut dramatically in 1942, and it was abolished in 1946, its programs taken over by the Farmers Home Administration.

—*David B. Sicilia*

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See also Volume 1: Great Depression; New Deal; Roosevelt, Franklin D.

Farmer Mac

See Federal Agricultural Mortgage Corporation.

Farmer Mac Reform Act of 1995

Act that eased the regulatory requirements for the Farm Credit System and gave the Federal Agricultural Mortgage Company, or Farmer Mac, the authority to pool (collect) loans.

Designed to improve the efficiency and operation of the Farmer Mac (Federal Agricultural Mortgage Corporation), the Farmer Mac Reform Act of 1995 made substantial changes to the Farm Credit Act of 1971, which governed agricultural real estate and rural housing loans. Farmer Mac guaranteed these loans from commercial banks, insurance companies, and the cooperative farm credit system.

Congress had originally established Farmer Mac to bring lower-cost, long-term real estate financing to farmers and ranchers who had survived the 1980s farm crisis, a period of higher interest rates and lower agricultural prices. The federal government intended Farmer Mac to become a new source of credit by creating government-supported programs for farm mortgages, as other government-sponsored enterprises such as Fannie Mae and Freddie Mac had done for the housing sector. Farmer Mac failed in its goals. Initially capitalized with $21 million in private investments by nonprofit institutions, that equity declined by more than $9.5 million, and the Office of Secondary Market Oversight (OSMO) estimated that Farmer Mac would fall short of sufficient core capital by the end of 1996.

The Farmer Mac Reform Act liberalized Farmer Mac's charter. It eliminated the requirement that banks back each pool of loans by 10 percent subordinated interest [funds under the control of another authority] or cash reserves. During three years following the enactment of the Farmer Mac Reform Act, Congress also liberalized the statutory minimum capital requirements. The Farm Credit Administration (FCA) and the OSMO received an additional three years to implement risk-based capital requirements for Farmer Mac. In addition, the legislation required Farmer Mac institutions to streamline their business operations, for example, by requiring Federal Reserve banks to act as depositories and fiscal agents for Farmer Mac's securities and providing for Farmer Mac's access to the book-entry system of the Federal Reserve system.

—T. Jason Soderstrum

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See also Volume 1: Federal Agricultural Mortgage Corporation (Farmer Mac).

FDA

See Food and Drug Administration.

FDIC

See Federal Deposit Insurance Corporation.

Federal Agricultural Improvement and Reform Act of 1996 (FAIR Act of 1996)

Legislation that scaled back government-subsidized agricultural production and gave farmers more flexibility in relying on market forces to decide the type and amount of crops they produced.

Congress passed the Federal Agricultural Improvement and Reform (FAIR) Act of 1996 during a period of economic prosperity in the United States and reflected a desire to significantly lower the influence of government agricultural assistance programs. The FAIR Act discontinued payments to farmers based on differences between target and market prices and put an end to production-adjustment programs. The act established a schedule of declining payments given to farmers heavily dependent on government aid, which aided them in making a gradual transition toward relying on market forces instead of government programs to determine the extent and types of crops they produced.

Other important provisions of the act addressed conservation and rural development. Congress promoted more environmentally responsible farming not only by limiting government-subsidized production but also by increasing funds for U.S. Department of Agriculture conservation programs. The FAIR Act of 1996 also created the Rural Performance Partnership Initiative to provide states more flexibility in how they use federal agricultural aid money, and it allocated $300 million for rural development and agricultural research. The act cut back or simplified many complex federal government agricultural programs. However, many in Democratic and liberal circles criticized the bill for not being able to provide enough financial security to U.S. farmers in tougher economic times. In addition, Congress omitted from the final legislation more effective conservation measures, such as paying farmers directly for environmentally responsible farming practices.

—Jonah Katz

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See also Volume 1: Clinton, William Jefferson.

Federal Agricultural Mortgage Corporation (Farmer Mac)

Federally chartered secondary market for agricultural and rural housing mortgages, owned and capitalized privately, formed to attract financing for agricultural real estate and to provide liquidity to rural lenders.

The formation of the Federal Agricultural Mortgage Corporation (Farmer Mac) came about after the growing crisis occurring within the Farm Credit System through the 1980s, when increased land and interest prices were combined with lower agricultural prices. A secondary market for farm mortgage loans proved necessary to help ease the burden of the Farm Credit System by offering opportunities for commercial banks and insurance companies to buy high-quality agricultural and rural housing mortgages. Congress formed Farmer Mac through the Agricultural Credit Act of 1987 and modeled it after other federal mortgage programs such as the Federal National Mortgage Corporation (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). As an agricultural government-sponsored enterprise (GSE), Farmer Mac was granted specialized lending powers by Congress and allowed access to a credit line of more than $1 billion from the U.S. Treasury under certain conditions. Farmer Mac's share of the secondary market remained small after its inception, mainly because of regulatory constraints placed on it to use as little taxpayer money as possible for its activities. Farmer Mac was also criticized for only helping large-scale, financially healthy farmers. In 1990, it was authorized to form an additional market for farm and rural development loans guaranteed by the U.S. Department of Agriculture (USDA). This market, known as Farmer Mac II, tended to aid farmers who were more financially strapped. Dealing with the regulatory constraints blamed for Farmer Mac's tiny share of the secondary loan market, the Farm Credit System Reform Act of 1996 made major changes to Farmer Mac, establishing its current operating structure in order to attract more investors.

—Jonah Katz

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See also Volume 1: Farm Credit System Reform Act of 1996.

Federal Deposit Insurance Corporation (FDIC)

Independent agency of the federal government established in 1933 to restore and maintain confidence in the nation's banking system by insuring bank deposits.

Support for federal deposit insurance coalesced during the early 1930s when many banks failed, creating a liquidity crisis (a shortage of available funds) for thousands of communities throughout the United States. In an effort to reverse the economic hardships caused by these bank failures and to restore public confidence in the nation's financial institutions, Congress included the creation of the Federal Deposit Insurance Corporation (FDIC) as a key provision of the Glass-Steagall Banking Act of 1933.

Under a plan established by the Glass-Steagall Banking Act, the Temporary Federal Deposit Insurance Fund began insuring deposited funds on January 1, 1934, up to a maximum of $2,500 per depositor, with insurance protection increased to $5,000 on July 1, 1934 for most deposits. The positive effects on the battered banking system became immediately apparent: Only 9 insured banks failed in 1934, compared with more than 9,000 in the preceding four years, and total bank deposits increased by over 20 percent as people regained confidence in banking institutions.

In accordance with the recommendations of the FDIC, Congress passed the Banking Act of 1935 to finalize the terms of the permanent insurance plan. From 1934 though 1941, the FDIC handled 370 bank failures, with total insurance losses totaling nearly $23 million. Banking expanded during World War II, and the number of bank failures remained low during the 1950s and 1960s.

Increased fluctuation in the value of U.S. currency and interest rates and a higher threshold for risk in the banking industry during the 1970s and 1980s resulted in an increased number of bank failures. The greatest crisis of the modern era involved the savings and loan (S&L) associations, also known as thrifts, which were originally excluded from the FDIC system. The Federal Savings and Loan Insurance Corporation (FSLIC) had covered these institutions, but the failure of several thrifts in the late 1980s because of inflated loan values prompted Congress to grant the FDIC authority to regulate investments in savings and loan associations under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. These actions stemmed the tide of thrift failures and reassured S&L investors in the same way that FDIC insurance had reassured bank customers during the Great Depression.

Coverage limits increased during the life of the fund and kept pace with inflation. The individual insured amount rose from $5,000 to $10,000 in 1950, to $20,000 in 1969, and to $40,000 in 1974. In 1980 Congress raised the coverage limit to $100,000 over the objections of the FDIC. In 2002, Congress again considered raising the coverage threshold and also contemplated formally indexing the coverage level to inflation.

Some critics charged that the system of federal deposit insurance undermines the workings of the free market by creating a federal subsidy for poorly managed or inefficient banks. Despite these concerns, the FDIC system enjoyed widespread support from both the public and members of the business community.

—Christopher A. Preble

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See also Volume 1: Great Depression; New Deal.

Federal Emergency Management Agency (FEMA)

Federal agency established in 1979 responsible for emergency planning and for coordinating disaster relief efforts.

The origins of federal disaster relief can be traced to the Congressional Act of 1803, which provided financial aid to a New Hampshire town devastated by fire. In subsequent years, the federal government provided ad hoc legislative assistance to communities hit by hurricanes, floods, earthquakes, and other natural disasters.

Federal action widened in the 1930s, first when Congress granted authority to the Reconstruction Finance Corporation (an agency that provided assistance to banks and businesses) to provide loans to repair facilities damaged by natural disasters, and then when the Bureau of Public Roads and the Army Corps of Engineers assumed responsibility for repairing roads and bridges and for developing flood control projects.

Efforts to better coordinate federal relief efforts among executive agencies accelerated in the 1960s and 1970s in the wake of several major hurricanes and earthquakes in Alaska and California. By the late 1970s, more than 100 federal agencies participated in aspects of emergency planning and disaster relief.

Led by the National Governors Association, state and local officials appealed to President Jimmy Carter to centralize and consolidate federal disaster relief efforts. Prompted by these and other concerns, Carter issued an executive order in 1979 creating the Federal Emergency Management Agency (FEMA). FEMA absorbed the functions of many federal agencies responsible for dealing with natural disasters, such as fires, floods, and severe weather, and it also assumed responsibility for civil defense formerly held within the Defense Department's Defense Civil Preparedness Agency. The comprehensive nature of federal disaster planning continued into the twenty-first century, as FEMA planned to take a leading role in response to terrorist attacks such as those of September 11, 2001. FEMA is now part of the Department of Homeland Security, which was created after those attacks.

—*Christopher A. Preble*

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See also Volume 1: New Deal.

Federal Emergency Relief Administration (FERA)

Government agency established to coordinate the relief effort during the early years of the Great Depression.

After his inauguration as president, Franklin D. Roosevelt initiated a shift in government involvement to end the Great Depression. He encouraged Congress to establish the Federal Emergency Relief Administration (FERA) in 1933. The agency, headed by Harry Hopkins, sought to provide relief for the unemployed masses through direct aid. After two years, the president and Hopkins agreed that a name change was necessary—that direct aid was not the most effective allocation of resources because it eliminated the motivation of workers, who wanted work rather than direct assistance. On May 6, 1935, Roosevelt issued an executive order renaming FERA, calling it instead the Works Progress Administration (WPA), and began providing jobs on public works projects instead of simply giving direct aid to unemployed people. The WPA became known as the Works Projects Administration on July 1, 1939.

FERA funds and the funds of its successor agencies were used for the white-collar and construction projects of the Civil Works Administration and the Civilian Conservation Corps as well as the WPA. During the Great Depression, the agency provided work for unemployed artists, writers, and teachers, as well as construction workers who helped build or repair airports, schools, playgrounds, bridges, and other infrastructure during the 1930s.

From 1935 on, Roosevelt focused on employment as a means of ending the Great Depression. The agency existed until 1943, when unemployment rates fell after the onset of World War II.

—*Cynthia Clark Northrup*

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See also Volume 1: New Deal; Roosevelt, Franklin D.

Federal Highway Act of 1956

The act that funded the sprawling interstate highway system that crisscrosses the United States today.

The Federal Highway Act of 1956 authorized what was then the largest public construction project in U.S. history and ensured America's reputation as the most automobile-dependent society on earth. Even so, passage of the legislation involved intense political battles that dated back decades and became caught up in the cold war politics of the early 1950s.

Federal highway legislation before and during World War II recommended the construction of interstate highways but allocated no special federal funding. A 1952 highway act authorized $25 million in federal funds on a 50–50 matching basis with states. By the time President Dwight D. Eisenhower took office in 1956, more than 6,200 miles of interstate highway had been constructed. Eisenhower's military experience had made him a champion of modern highways. In 1919 he served in the U.S. Army's first transcontinental motor convoy, and as a World War II general he was impressed by Germany's autobahns. But several political issues stood in the way of

easy congressional approval: whether the highways would be sited according to population, distance, or land area; the formula for state/federal cost sharing; whether construction would be financed mainly or exclusively by bonds or tolls; and wage rates for highway construction workers. Several competing bills were introduced and debated. Democratic Representative George H. Fallon of Maryland gained strong support for his plan by calling it a "National System of Interstate and Defense Highways," thereby linking it with cold war concerns about national security.

The final version of the bill was approved by the House and Senate June 26, 1956, and signed into law by Eisenhower three days later. It allocated more than $30 billion for construction of 41,000 miles of interstate highways with uniform design standards, limited access, and no highway or railroad crossings. The Highway Act was the first federal aid project to adhere to local wage standards as stipulated by the Davis Bacon Act of 1931, thus resolving the debate about construction wage rates.

The highway network profoundly influenced the American economy, society, and culture. Construction began almost immediately, employing tens of thousands of workers and consuming billions of tons of concrete and asphalt. Interstate trucking surged as the nation's fleet of long-haul trucks converted from gasoline to diesel engines and further eclipsed railroads in domestic freight shipping. The interstate highways also fostered the spread of American roadside culture—new franchise fast-food restaurants, hotels, and amusement parks sprang up at highway exits and interchanges to serve the millions of Americans who toured the country each year by automobile. By the 1960s, an estimated one in seven Americans was directly or indirectly employed in the automobile industry. Many historians consider the highway program President Eisenhower's most important legacy. Unlike President Franklin D. Roosevelt's similar but less ambitious public works projects, the highway program, once enacted into law, generated little political controversy. Along with roads, canals, railroads, shipping ports, and airports, the interstate highway system stands as a major component of the nation's transportation infrastructure.

—David B. Sicilia

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See also Volume 2: Transportation Policy.

Federal National Mortgage Association (Fannie Mae)

Government-sponsored enterprise created to increase the supply of money available to lend to homebuyers.

Congress created the Federal National Mortgage Association, or Fannie Mae, in 1938 as a subsidiary of the Reconstruction Finance Corporation, which provided funds for banks and businesses. Fannie Mae initially focused on the purchase of long-term mortgages insured by the Federal Housing Authority. Fannie Mae does not lend money directly to homebuyers; the corporation buys mortgages from banks in order to increase the lending capacity of the banks.

After World War II, the corporation's mission expanded to include developing a secondary market for mortgages guaranteed by the Veterans Administration. Fannie Mae received a charter from Congress in 1948 that regularized its position as a government corporation. The Federal National Mortgage Association Charter Act of 1954 started the process through which the corporation became more reliant on private capital than funds from the federal Treasury. In 1968, Congress amended the 1954 law to make Fannie Mae a government-sponsored enterprise—a private company with stockholders and some government connections and protections.

Mortgage lenders have opposed the activities of Fannie Mae since World War II. They argue that the corporation has an unfair advantage because of its ties to the federal government. It does not have to register with the Securities and Exchange Commission like other publicly traded companies. In addition, Fannie Mae does not have to pay state and local corporate income taxes. The federal government also is willing to assist Fannie Mae in case of financial difficulty. In 2001, Representative Richard Baker, a Republican from Louisiana, introduced a bill that would restrict Fannie Mae's activities and place the corporation under the regulation of the Federal Reserve. Some critics argued for the privatization of the corporation and the severing of its lines of credit with the federal government. Baker's bill failed to pass.

—John David Rausch Jr.

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See also Volume 1: Federal Reserve Act; Securities and Exchange Commission.

Federal Reserve Act (Owen-Glass Act) of 1913

Financial system intended to "furnish an elastic currency [and] … to establish a more effective supervision of banking."

The Aldrich-Vreeland Emergency Currency Act of 1908 created the National Monetary Commission to recommend reforms for the nation's banking system. In 1911 the commission, with Republican Senator Nelson Aldrich of Rhode Island as chair, issued a 49-volume report that called for the creation of a National Reserve Association run by private

bankers and free of any real government control. The proposal never passed, and in 1912 the Democrats won control of the presidency and Congress. After his inauguration in 1913, President Woodrow Wilson called for extensive banking reforms. After a six-month debate, Congress passed the Owen-Glass Act on December 23, 1913, creating the Federal Reserve system. This system consisted of 12 regional banks coordinated by a central Federal Reserve Board. The act required all national banks to become members of the system, and state-chartered banks that met membership requirements could join. The act also required member banks to transfer a percentage of their capital for stock in the Federal Reserve system that holds members' deposits, creates new credit with additional reserves, and makes loans. After mid-1917, the Federal Reserve Bank required member banks to keep all of their reserves in their Federal Reserve district banks. The Federal Reserve raises and lowers the interest percentage that member banks must pay the Federal Reserve to borrow money, thus exercising great influence on the availability of credit for private borrowers.

The seven-member Federal Reserve Board assumed office in August 1914, and the Federal Reserve banks started to provide service three months later. By 1923 the Federal Reserve system controlled 70 percent of the banking resources in the United States. In 1933 and 1935 Congress passed acts that increased the Federal Reserve's power to control credit. In 1963 Congress amended the Federal Reserve Act to permit the Federal Reserve to increase the amount of money in circulation by issuing Federal Reserve notes instead of silver certificates. As a result, nearly all U.S. paper currency now consists of Federal Reserve notes backed by neither gold nor silver.

—*Steven E. Siry*

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See also Volume 1: Banking System; Volume 2 (Documents): Federal Reserve Act.

Federal Trade Commission Act (September 1914)

Act creating the Federal Trade Commission (FTC), which had the power to control monopolistic practices by corporations.

The introduction of the Clayton Bill in 1914 provided enforcement for the Sherman Anti-Trust Act regarding monopolies. The introduction of the Clayton Bill ended the "new freedom" phase of antitrust legislation (which had emphasized individualism and states' rights) during the presidency of Woodrow Wilson. Soon Wilson had major doubts that the Clayton Bill would provide an effective solution to unfair business competition and monopolies. Relying on advice from Boston lawyer Louis D. Brandeis, Wilson supported a Federal Trade Commission bill that embraced Theodore Roosevelt's "new nationalism" idea of a powerful commission to regulate business. The passage of the Federal Trade Commission Act served to kill monopolies at their source. The president appointed the five members of the commission to seven-year terms with the Senate's approval. The act authorized the commission, which replaced the Bureau of Corporations, to use investigations and cease-and-desist orders to prevent people, partnerships, or corporations other than banks and common carriers from using unfair business practices. Banks and common carriers remained exempt because they were supervised by the Federal Reserve Board and Interstate Commerce Commission, respectively. Initially, however, the Federal Trade Commission suffered from poor leadership and Supreme Court rulings. Indeed, the Supreme Court would stay cease-and-desist orders because it did not accept the commission's facts, and in 1921 the Court ruled that the federal courts, not the commission, should define unfair competition. Nevertheless, many Americans often praise the Federal Trade Commission for improving business ethics and curtailing price fixing and false advertising.

—*Steven E. Siry*

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See also Volume 1: Wilson, Woodrow.

Federal Trade Commission (FTC) (1916)

Government agency charged with oversight of antitrust and consumer protection legislation passed by Congress.

Established in 1916 under the administration of President Woodrow Wilson, the Federal Trade Commission (FTC) is another example of the continuing emphasis that progressives placed on the dissolution of trusts and monopolies. The FTC assumed the role of the former Bureau of Corporations but with expanded powers that allowed it to examine all corporate records and to grant cease-and-desist orders. The commission consists of five members who are appointed for seven-year terms. Once a commissioner is appointed and confirmed, the president cannot remove him or her from office. To ensure that the FTC fulfills its functions, Congress appropriates its funds on a yearly basis.

The FTC scrutinizes the nation's corporations for antitrust activity through the examination of records, and it monitors mergers to provide the formation of future trusts. The FTC also examines trade practices to ensure that business is conducted without any unfair or deceptive tactics. If businesses threaten to adversely affect the consumer, the commission intervenes. Members also consult with the executive branch, Congress, and regulatory agencies.

—*Cynthia Clark Northrup*

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See also Volume 1: Antitrust Suits; Trusts; Wilson, Woodrow; Volume 2 (Documents): Federal Trade Commission.

Federalist Papers (1787–1788)

Series of essays by Alexander Hamilton, James Madison, and John Jay defending the Constitution.

Once the delegates to the Constitutional Convention in Philadelphia formally adopted the Constitution in September 1787, the battle over ratification began in earnest. The nation soon divided into two groups: the Federalists, who supported the Constitution, and the Anti-Federalists, who opposed it. The greatest battlegrounds between the two camps were in New York, Virginia, Massachusetts, and Pennsylvania. Some of the bitterest opposition to the Constitution could be found in New York. Like the other large states, New York had become a power in its own right under the Articles of Confederation. The state had grown rich by imposing tariffs on goods imported from other states and foreign nations.

Alexander Hamilton, a delegate to the Constitutional Convention from New York, decided that a newspaper campaign could persuade his fellow New Yorkers to support the Constitution. He enlisted John Jay of New York and James Madison of Virginia, both delegates to the convention, to help him write a series of essays defending the Constitution. Jay wrote only a handful of the 85 articles, and Hamilton and Madison wrote the vast majority. These essays ran several times a week in four out of the five New York newspapers throughout the spring of 1788. Collectively they became known as *The Federalist Papers.* Although the articles themselves had little direct effect on the ratification of the Constitution, they remain to this day the single greatest defense ever written of the Constitution and the government it brought to life.

The essays were constructed into two sections. The first half attacked the weak national government created under the Articles of Confederation. Hamilton and Madison reminded their readers that this weak government had led to the Constitutional Convention in Philadelphia. The Congress under the Articles of Confederation had few powers, whereas the individual states retained full sovereignty in almost every important political matter. The greatest flaw in the Articles of Confederation remained the inability of the Congress to lay (assess) taxes. This restriction meant that the national government could not raise an army or navy and thus could not provide for the common defense. Equally important, the Congress had little control over domestic or foreign trade, because each state could set its own policies. If this weak government continued, the essays theorized, the United States would soon be on the brink of foreign invasion, domestic unrest, and financial ruin.

In the second half of the essays, Hamilton and Madison emphasized the strengths of the new government formed under the Constitution. Both men stated that experienced and competent men had written the Constitution in a spirit of compromise. The new government they had created would provide the nation with the best form of republican government possible while preventing the worst abuses of uncontrolled democracy. They lauded the separation of powers into the legislative, executive, and judicial branches. Hamilton especially emphasized the fact that the bicameral national legislature would provide the checks and balances necessary for a stable government. The second half of *The Federalist Papers* profoundly influenced later interpreters of the Constitution, especially Chief Justice John Marshall during his Court tenure from 1801 through 1835.

—*Mary Stockwell*

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See also Volume 1: Articles of Confederation; Constitution; Hamilton, Alexander.

FEMA

See Federal Emergency Management Agency.

FERA

See Federal Emergency Relief Administration.

Fletcher v. Peck (1810)

Supreme Court case leading to the custom of making states' laws subject to federal judicial review.

In 1795, the Georgia state legislature voted to sell 35 million acres in the Yazoo district in present-day Alabama and Mississippi to four land companies for 1.5 cents per acre. The land companies had bribed every member of the Georgia legislature, along with several senators and judges. After angry voters turned out the legislature in 1796, the newly elected representatives rescinded the original grant of land to the four companies. All subsequent sales made by the land companies were therefore nullified. Robert Fletcher had purchased land in the Yazoo district from John Peck and now sued in the hope that the Supreme Court would overturn Georgia's decision to rescind the original grant of land to the corrupt Yazoo land companies.

Chief Justice John Marshall ruled for the Supreme Court in favor of Robert Fletcher in a 4-to-1 decision. Although Marshall admitted that bribery had influenced the first vote on the Yazoo land grant, he argued that this could not be an issue for the Court when determining the constitutionality of Georgia's decision to rescind the original sale and nullify all subsequent sales. Marshall found that the state of Georgia had clearly violated the contract clause of the Constitution, which states in Article I, Section 10, that no state may pass laws "impairing the Obligation of Contracts." Along with upholding the vested rights of contracts, the chief justice also held in this decision that the Supreme Court had the right to rule on the constitutionality of all state laws. In fact, this case became the first time that the Supreme Court had declared a state law unconstitutional. Marshall's decision thus strengthened the power of the nation over the states by reminding them that they were not sovereign but were instead part of a union that existed under the rule of the Constitution.

—*Mary Stockwell*

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See also Volume 2: Judiciary.

Flex Acres

Key component of the 1990 and 1995 Farm Bills aimed at reducing government expenditures on agriculture by allowing farmers greater flexibility in production.

Federal expenditures on agriculture ballooned in the mid-1980s as exports and market prices declined across almost every agricultural commodity. The Food, Agriculture, Conservation, and Trade Act of 1990 (Farm Bill) sought to improve U.S. competitiveness in the international agricultural market while trimming the budget by giving farmers greater flexibility in their production decisions. The 1990 Farm Bill gave farmers greater freedom by allowing them to plant any crop on up to 25 percent of their base acres (land enrolled in commodity programs of the U.S. Department of Agriculture [USDA]). Farmers could then respond to the market by planting their designated crop, receiving deficiency payments if the market price fell lower than the government's target price, or planting a more profitable crop and thus forfeiting the government payments for that acreage. Previously farmers held rigidly to the historically determined commodity of their base acres. If they planted another crop, they permanently lost that amount of base acreage and thus government support. The Omnibus Budget Reconciliation Act of 1990 (Budget Act) followed the 1990 Farm Bill by cutting income support payments on 15 percent of base acres, regardless of whether the designated crops were planted. The 1990 Farm Bill and Budget Act thus jointly established the policy known as "flex acres." Proponents claim that flex acres reduce government costs, promote efficiency and crop rotation practices, and may increase farm income. Critics charge that flex acres hurt small and medium farms that lose a substantial portion of their income in the form of deficiency payments, whereas large farms have enough production to both farm flex acres and receive their maximum allotment of deficiency payments.

—W. Chad Futrell

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See also Volumes 1, 2: Agricultural Policy.

Floating Exchange Rates

System of monetary exchange between countries.

The exchange rate is the rate charged for the changing of one currency for another one. Floating exchange rates vary depending on the market value of the currency on a daily basis instead of remaining at a fixed rate. Economist Milton Friedman constructed the classic case in favor of a system of floating exchange rates shortly after the establishment of the Bretton Woods system to stablilize the international movement of money in 1944. Friedman argued that the presence of flexible, or floating, exchange rates encourages multilateral trade and that such economic mechanisms would permanently solve the balance of payments problem created by the lack of a global standard currency value system, allowing rates to fluctuate wildly. He argued that laissez-faire government policies, in which the government only minimally regulated business, provided the best solution.

The supporters of the Bretton Woods system tended to deny that a floating exchange rate regime offered the best alternative to their system. In the Bretton Woods agreement, Robert Roosa argued that the alternative to Bretton Woods guaranteed "the anarchy of an entire world on flexible exchange rates, or (and this would be the more probable) the protectionism and economic autarchy of the sort of currency blocs that prevailed in the 1930s," an experience that was "all too searing still in our memories to forget." Roosa regarded the Bretton Woods system of fixed exchange rates as the peace treaty or "armed truce" that prevented a return to the anarchy of the 1930s. Countries could use flexible exchange rates as either a defensive barrier or as an aggressive instrument of economic warfare. The choice was not between fixed or floating but between stable or unstable rates. Indeed, Roosa denied that a market in foreign exchange would actually exist without fixed exchange rates. He predicted that large banks would create an undesirable situation for foreign exchange traders.

In early 1973, the crisis-prone par value system, which fixed the U.S. dollar value as $32 per ounce of gold, collapsed and was replaced by a generalized float of the major currencies. President Richard Nixon reflected that Friedman's solution of floating exchange rates provided an attractive solution. But subsequent events revealed that neither position proved entirely correct. During the 13 years of fixed exchange rates from 1960 to 1972 (the Bretton Woods system), the seven leading industrial countries experienced real growth rates at double the rate of the 1973–1990 period (floating exchange rate system), and as growth rates fell by 50 percent, inflation and unemployment more than doubled. Moreover, the post-1973 period also exhibited larger and more persistent inflation differentials than under the Bretton Woods system. But after the collapse of fixed exchange rates, governments failed to prevent jobs from being transferred to less-developed countries where labor received lower wages. Instead, the adoption of domestic monetarism (the reduction or expansion of the money supply to control inflation) led to soaring interest rates and, in effect, to competitive currency appreciations. At the beginning of the twenty-first century, questions relating to optimal currency areas (an area that uses one currency—for example, the European Union) and, at a practical level, to the nature of a future international monetary system potentially dominated by just a handful of major currencies (for example, the U.S. dollar, Eurodollar, German mark, and Japanese yen) have superseded the debate between floating and fixed currency exchange rates.

—Robert Leeson

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See also Volumes 1, 2: Monetary Policy.

FMD

See Foot and Mouth Disease.

Food and Drug Administration (FDA)

Agency of the executive branch that conducts research on the safety of and oversees the federal laws regarding the manufacture, transportation, and sale of food, drugs, and cosmetics.

Part of the Department of Health and Human Services, the Food and Drug Administration (FDA) regulates the supply of drugs and ensures the safety of manufactured and processed foods. The agency tests food for pesticide residues and harmful chemicals. Researchers also investigate medicated feed for livestock, the blood supply, and drugs. The agency ensures the safety of medical devices, insulin, and vaccines. Each must gain agency approval before being allowed on the market. Cosmetics and dyes undergo a rigorous testing process to prevent the possibility of adverse reactions among the American public.

In 2002 the FDA was operating with about 9,000 employees and was regulating roughly $1 trillion a year worth of products—or 25 percent of the nation's economy—at an annual cost to the taxpayer of about $3 per person. From district and local offices in 157 U.S. cities, 1,000 inspectors and investigators oversee 95,000 businesses and visit more than 15,000 facilities. In Washington, D.C., 2,100 FDA scientists, including 900 chemists and microbiologists, work in 40 laboratories to check approximately 80,000 products a year. If a company violates FDA rules, the agency can take the company to court, force it to stop selling the product, and charge it with criminal penalties. The FDA finds nearly 3,000 products a year detrimental to public safety, and most manufactures and distributors voluntarily withdraw the products from market. With one-quarter of the nation's economy under its jurisdiction, the FDA has a profound economic influence in the United States.

—*T. Jason Soderstrum*

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See also Volume 1: U.S. Department of Health and Human Services.

Foot and Mouth Disease (FMD)

A highly communicable viral disease of cattle, swine, sheep, goats, and deer that has caused great economic damage to agricultural and livestock operations throughout the world.

Foot and mouth disease (FMD) occurs in hooved animals and is characterized by blisterlike lesions around their mouths and hooves, which cause slobbering and lameness. Most adult animals recover but are left severely debilitated; having had the virus reduces their ability to produce milk and high-quality meat and leaves them commercially worthless. People who have had contact with infected animals or animal products can spread the disease through their equipment and clothing, and some studies have even shown that the virus can drift up to 40 miles on the wind. To contain the disease, exposed animals are typically destroyed; livestock markets and dairies are closed; premises and equipment are disinfected; and the transportation of livestock and livestock products is halted. A vaccine is also available.

One of the largest outbreaks of FMD in the United States occurred in California in early 1924. By the time the outbreak was eradicated in the summer of 1925, 17 California counties had been quarantined and more than 100,000 domestic animals destroyed. Moreover, 36 states, the territory of Hawaii, and several foreign countries placed embargoes against Californian goods. Ultimately, eradicating the outbreak cost the federal and state governments more than $6 million, not including the indirect losses to Californian businesses.

FMD has not occurred in the United States since 1929. However, when the disease broke out in Mexico in 1946, many people feared it might cross the border and infect American livestock. Thus, America and Mexico created a joint commission that eliminated the outbreak in 1951. FMD is currently widespread in Africa, Asia, South America, and Europe. In places where the disease is rare, tough import restrictions, mandatory quarantines, and effective inspection of livestock have prevented the disease from spreading.

—*David W. Waltrop*

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See also Volumes 1, 2: Agricultural Policy.

Force Act (1833)

Act passed by Congress in 1833 authorizing President Andrew Jackson to use military force to override South Carolina's Ordinance of Nullification.

On November 24, 1832, South Carolina passed the Ordinance of Nullification to stop the enforcement of the Tariff of 1828 within its borders. This tariff, which placed a 41 percent tax on imports in the middle of a national economic depression, severely hurt the South. John Calhoun of South Carolina claimed that it amounted to the federal government taking one-third of the South's cotton crop in federal taxes, only for the benefit of Northern factory owners. This argument was based on the fact that the South depended on the sale of cotton to English textile mills since the Northern factories could not process all the cotton. In return, the South imported British manufactured goods but had to pay high tariff rates. When Congress only slightly modified the import duties in the Tariff of 1832, South Carolina took action and nullified the tariff.

President Jackson responded swiftly and decisively. First, on December 10, 1832, he issued a "Proclamation to the People of South Carolina" in which he denounced nullification as a threat to the Union and emphasized that the Constitution formed a government of the people, not a league of states. This Union remained perpetual, Jackson asserted; no state had the right to secede, and "disunion by armed force was treason." He ordered General Winfield Scott to go to Charleston and take command of the federal troops in the state and dispatched a navy warship and seven revenue cutters (government customs ships) to take up a position in the harbor. He then requested Congress for further authority to proceed with the collection of the tariff. Congress responded with the Force Bill—called the "Bloody Bill" in South Carolina—which the House Judiciary Committee sent to the Senate on January 21, 1833. The bill authorized the president to use the army and the navy to force South Carolina to pay the tariff if court action to achieve compliance failed.

But Jackson eagerly sought a compromise, because he and others in the administration believed that the entire South would stand against the Force Bill unless Congress enacted a tariff acceptable to South Carolina. Accordingly, when the Ways and Means Committee of the House reported out a compromise tariff on January 8 that reduced the tariff by 50 percent in one year, it received the support of a number of Jacksonian Democrats. But in the Senate, Henry Clay offered his own version of a compromise tariff, less dramatic that the House version. Introduced on February 12, 1833, it would have gradual reductions of the 1832 tariff at two-year intervals up to 1842 until all duties reached 20 percent. Despite some opposition in the House, where Democrats claimed that the Senate could not initiate a revenue bill because that remained the House's constitutional prerogative, the bill passed the House on February 26, 1833, by a vote of 119 to 85, and on March 1 the Senate approved the measure by a vote of 29 to 16. The next day Jackson signed both the compromise tariff and the Force Bill. South Carolina immediately accepted the tariff and repealed its Ordinance of Nullification. Then the South Carolina legislature promptly nullified the Force Bill, and the Force Act was never used by Jackson against South Carolina.

—Robert P. Sutton

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See also Volume 1: Clay, Henry; Jackson, Andrew; Protective Tariffs; *South Carolina Exposition and Protest*; Tariff of Abominations.

Ford, Henry (1863–1947)

American industrialist who invented the moving assembly line.

Born in Dearborn, Michigan, to Irish immigrant parents on July 3, 1863, Henry Ford displayed a mechanical proclivity at an early age through the repair of machinery including watches. In 1879 Ford started working as an apprentice in a machine shop. After working his way up to chief engineer for the Detroit Edison Company, Ford founded his own automobile company with other investors including the Dodge brothers. Ford's success hinged on the invention of the moving assembly line, which allowed him to reduce the cost of the Model T from $850 to $290. The reduction in price coincided with an increase in demand. In 1915 the Ford Motor Company sold one million automobiles. At this point Ford decided to increase the wages and decrease the hours of his workers so that they received $5 for an eight-hour workday. By paying higher wages than other employers, Ford ensured that he would attract reliable workers who could then purchase his product. The affordability of the automobile ushered in a new era in transportation. By the 1920s the industry had given rise to ancillary industries such as glassmakers, roadside restaurants, motels, and tire stores.

During World War I, Ford—a proponent of peace for political reasons and because war interfered with international trade—funded a peace mission to Europe that ultimately failed. After the United States entered the conflict, Ford's factories produced many of the war vehicles used, such as tanks, jeeps, and ambulances. In 1918 Ford ran for the U.S. Senate but lost. During the remainder of his life he devoted a large portion of his wealth to the Ford Foundation and also funded the establishment of Greenfield Village, a historical replica of his workshop in Dearborn, Michigan. Ford died on April 7, 1947.

—Cynthia Clark Northrup

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See also Volume 1: Automobile; Volume 2: Transportation Policy.

Fordney-McCumber Tariff (1922)

Tariff system created in 1922 to protect American products from foreign competition.

In response to the recession at the close of World War I, the administration of President Warren G. Harding sought increased tariff protection as part of a stimulus package to lower unemployment and reduce the number of bankruptcies. The Fordney-McCumber Tariff abandoned the pattern of reform set by the Democrats in the Underwood-Simmons Tariff—a tariff passed in 1913 that provided the first deep cuts in the tariff since the Civil War—and gave American products protection from foreign competition.

Conservative Republicans in Congress advocated a return to higher protection. Republican members of the Farm Bloc, who argued that tariff protection would bolster high prices for manufactured goods and favor urban businesspeople over workers and farmers, initially opposed an increase in duties. Fearing a divide between rural and urban constituencies, the Republican leadership in Congress offered substantial protection to agricultural goods.

This effort to placate rural concerns with a protective barrier for agricultural goods succeeded because of a shift in the balance of trade. After World War I, the American farmer faced substantial foreign competition for the first time. In an effort to protect key sectors of the agricultural economy, such as wheat, most Republicans from rural constituencies abandoned their reservations concerning tariff protection and supported passage.

The Fordney-McCumber Tariff protected established industries at about the same level as the earlier Payne-Aldrich Tariff (1909). In addition, it constructed substantial barriers against imported agricultural products and emerging industries, such as chemical dyestuffs. Its proponents pointed to the provisions for flexibility that allowed the president to raise or lower barriers on specified products as a response to changing patterns in international trade. Nonetheless, the Fordney-McCumber Tariff quickly became characterized as a conservative document that reversed the direction of progressive tariff reform.

—*Karen A. J. Miller*

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See also Volume 1: Agricultural Policy; World War I; Volume 2: Agricultural Policy.

Foreign Policy

American diplomatic relations with foreign powers traditionally stressing security, neutral rights, commercial reciprocity, and expansion of markets.

After gaining independence, the United States sought an end to the mercantile system, in which the colonies supplied raw materials for the mother country and operated for its benefit. Freed of British colonial restraints, foreign ships were able to enter U.S. ports freely, and the United States attempted to develop extensive trade that was as free as possible throughout the world. American merchants placed more focus on trade with the Spanish colonies in the Americas, and Asian trade grew after the first American ship reached China in 1784. Even so, England remained the principal trading partner of the United States despite the recent war for independence.

Although continuing to trade with America, the British government no longer allowed the United States the privileges of membership in the British Empire. England imposed tariffs on the new nation and forbade American trade with the British West Indies. Under the Articles of Confederation, each state created its own customs and tariff schedules, so the government was unable to coordinate commercial policy. The fragmentation kept the United States from being able to negotiate favorable commercial treaties.

Economic relations proved frustrating, and one goal of the 1789 Constitution was to place commercial power in the hands of a centralized federal government. Once the people ratified the new Constitution, the U.S. government gained greater control of commercial relations. With centralized control, the government sought commercial expansion while repaying the national debt created during the revolution. Import tariffs and a tax on shipping initially made funding the debt possible, and to promote commerce, early navigation laws discriminated only mildly against foreign merchants.

The French Revolution and the following Napoleonic Wars quickly brought American foreign relations into a new phase. In 1793, England and France went war. The United States maintained neutrality and desired trade with each power. Both sides seized American cargoes and ships that they determined to be in violation of trade with the enemy, and the United States vigorously defended neutral commercial rights. Ultimately, the United States had more trouble with Britain. Merchant ships seized within sight of the American coast and the impressment of American sailors into the British navy finally proved to be too much, and the United States declared war on Britain, thereby beginning the War of 1812. The war ended in 1815, but the British did not acknowledge neutral rights in the peace settlement. However, the United States had proved its willingness to fight to protect its rights, and British depredations did not continue.

After the War of 1812, the United States focused on events in Latin American as the Spanish colonies began fighting for their independence in the early nineteenth century. Fearful that other European powers would move into Latin America, the United States warned against new European colonization in the Americas and, with the Monroe Doctrine in 1823, forbade European intervention in the Americas. The United States issued the doctrine to prevent other European powers from taking over portions of the Spanish empire, and the United States increased its trade and influence in Latin America as the Spanish lost control.

Continental expansion was another major focus of American foreign policy in the nineteenth century. In 1803, the United States acquired the vast Louisiana Purchase from France, doubling the size of the nation for $15 million, and the nation subsequently added Florida, Texas, Oregon,

California, and the American Southwest to its territory in the decades before the Civil War. The United States purchased and made diplomatic arrangements for as much territory as possible, but in order to seize California and the Southwest, the United States fought a war with Mexico in the 1840s.

Following the Civil War, the United States grew as a regional power and expanded its influence in the Caribbean and the Pacific. After the Spanish-American War in 1898, the United States became an imperial power and gained Puerto Rico, Guam, and the Philippines as colonies. The United States did not annex Cuba after the war, but American power on the island increased dramatically after Cuban independence from Spain. Completion of the Panama Canal boosted American interest in the Caribbean and increased American commerce in Latin America and Asia. The United States also grew more involved in Asian trade at the turn of the century and vigorously promoted equal commercial access, or an "open door," for American and European merchants in China.

After issuing the Monroe Doctrine, the United States remained fairly aloof from European affairs until World War I. The British blockade of Germany and German submarine attacks on merchant shipping caused the United States to once again stress neutral commercial rights. The United States entered World War I in April 1917 on the side of the Allies primarily in protest of German submarine tactics. American economic and mercantile support helped the Allies achieve victory in 1919, and the United States emerged from the war as one of the great military and industrial powers of the world. But President Woodrow Wilson failed in his attempt to create a lasting international organization designed to prevent future wars through diplomacy when Congress rejected U.S. participation in the League of Nations. Congress feared that this supranational organization would lead to a loss of U.S. sovereignty and would be unconstitutional, even though Wilson had proposed the organization and worked tirelessly to secure its passage. The League of Nations operated from 1920 to 1946 and became primarily a tool of British and French foreign policy, so failing to achieve its larger objective; it was replaced in 1945 by the United Nations, in which the United States did participate.

Many Americans had been disillusioned by the bloody conflict of World War I (called then the Great War), and the United States entered a period of isolationism in the 1920s and 1930s. Although it stayed aloof from conflicts, the United States remained heavily involved with international trade during this period. The 1934 Reciprocal Trade Agreements Act promoted a policy of free trade and open markets and deemphasized protectionism with its tariff barriers designed to eliminate or restrict foreign competition in trade. Freer trade has remained a vision of the United States since that time.

The rise of Nazi Germany and Japanese militarism ended American isolationism, and with the December 7, 1941, attack on Pearl Harbor, the United States entered World War II. American industrial power grew rapidly during the war, and American industry ensured an Allied victory. By 1945, the United States had become the world's foremost industrial and military power, and the United States and the Soviet Union emerged from the conflict as superpowers unrivaled by any other nation.

World War II changed the direction of American life and foreign policy in several ways. The conflict destroyed isolationist sentiment in the United States, and Americans believed more than ever in a U.S. mission to help the world through economic, social, and political programs and to prevent the spread of communism that would have produced a negative effect on American trade. The United States took an active part in the newly created United Nations, and American funds given through the Marshall Plan helped to rebuild Europe. The United States also sponsored closer international ties and the elimination of tariffs through the General Agreement on Tariffs and Trade (GATT) in 1947.

Vigorous opposition to the Soviet Union emerged as the second major direction of American foreign policy after World War II, when Eastern Europe fell under the Soviet sphere of influence and former Allies—the USSR, the United States, France, and Great Britain—divided Germany. U.S.-Soviet relations rapidly declined after the war and, driven by a desire to stop the spread of communism around the world, the United States entered the cold war.

During the cold war, the United States formed several international alliances. None proved more important than the North Atlantic Treaty Organization (NATO), which linked the United States and the nations of Western Europe in 1949. Even as the United States made alliances, international communism was rapidly spreading, and communists claimed control of China in 1949. Fearful that communism would soon spread all over the globe, the United States moved to oppose communist expansion. This rigid anticommunist stance would bring the United States to war in Korea and Vietnam, and caused the nation to increase its foreign aid budget dramatically to bolster anticommunist nations in Asia, the Middle East, and Latin America.

One of the most significant foreign policy developments after World War II was increased American activity in the Middle East. During the war, the United States realized that its own oil reserves would be insufficient in the case of a future conflict. As a result, the United States cultivated a relationship with Saudi Arabia and opposed Soviet expansion into the rich Middle Eastern oilfields.

When it sponsored the creation of Israel in 1948, the United States became even more heavily involved in Middle Eastern affairs. The close American relationship with Israel created difficulty for the United States in the heavily Arab Middle East. Arab nationalists resented the political and military presence of Western European countries and the United States, which exercised control over the region under mandates from the League of Nations. The situation grew worse following the 1956 Suez Crisis, when Egyptian ruler General Abdul Nasser nationalized the British and French–owned Suez Canal and the French, British, and Israeli governments responded with a military attack that President Dwight E. Eisenhower demanded be stopped. The Soviet Union developed diplomatic relations with Egypt, and the United States, in return, built up Israel. When Israel attacked Egypt with American military equipment in 1967, American-Arab rela-

tions plummeted. Despite Arab objections, the United States has maintained close relations with Israel, one of the chief recipients of U.S. foreign aid. As a result, U.S. relations with Arabic nations have remained poor.

With the collapse of the Soviet Union in 1991, the cold war ended, although the Middle East remains a troublesome area for the United States. In 1991 the United States went to war against Iraq, which had invaded Kuwait, to protect Kuwait and its oilfields. In 2003 the United States again invaded Iraq to topple the administration of Saddam Hussein because of his suspected production of weapons of mass destruction. Even so, American military funding was reduced until the presidency of George W. Bush, who increased the size of the military substantially, and fear of communist expansion no longer provides the basis for American aid commitments to developing nations. Free trade and an end of protectionism remain an American goal, and in 1994, the United States, Mexico, and Canada created the North American Free Trade Agreement (NAFTA), a free trade zone designed to offset the creation of the European Union.

After the terrorist attacks of September 11, 2001, the George W. Bush administration initiated a "war on terrorism." Its first battle was the 2001 invasion of Afghanistan, an effort to destroy terrorist bases. The 2003 invasion of Iraq was intended to topple Saddam Hussein's government, which had sponsored suicide bombers against Israel and which was suspected of possessing weapons of mass destruction that terrorists might use in future attacks. Since the end of the cold war, terrorism and the international drug trade have replaced communism as the chief global problems for the United States, and these concerns are increasingly shaping the direction of American foreign policy. Most countries have agreed with the United States' decision to fight global terrorism, although some countries such as France, Germany, and Russia have objected to the methods employed.

—*John K. Franklin*

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See also Volume 1: Cold War; General Agreement on Tariffs and Trade; War of 1812; World War I; World War II.

Forest Reserve Act (1891)

A codification of land laws that created the first forest reserves, or national forests, in the United States.

The advent of national parks and growing concern over the alarming rate of timber resources consumption created a movement led by Bernhard E. Fernow, head of the Division of Forestry, that secured passage of the Forest Reserve Act in 1891. This act marked the beginning of the National Forest System. The act contained an inconspicuous provision that authorized the president at his discretion to withdraw public lands from private entry if "wholly or in part covered with timber." This provision would protect the forest areas from sale or homesteading by designating them as forest reserves (they were later renamed national forests). President Benjamin Harrison set aside 13 million acres including the Yellowstone Timber Reserve in western Wyoming and the White River Plateau Timberland Reserve in Colorado.

The Forest Reserve Act, however, only made the reserves into closed areas; it did not provide a plan of operation. Thus in 1896 the secretary of the interior proposed that the president of the National Academy of Sciences create a commission to report on issues concerning the protection and use of the reserves. When the National Forest Commission subsequently urged the expansion of the forest reserve, President Grover Cleveland set aside an additional 20 million acres despite strong opposition from many westerners. Before the end of his presidency in March 1897, Cleveland had substantially increased the number of acres in national forest reserves. Moreover, Congress passed the Organic Act in 1897 to establish a system of administration for the forest reserves and to declare the reserves secure for "favorable conditions of waterflows and to furnish a continuous supply of timber for the use and necessity of citizens of the United States." Between 1897 and 1901, President William McKinley withdrew 7 million acres from the public domain. But his actions were dwarfed by President Theodore Roosevelt, an ardent proponent of conservation, who withdrew 141 million acres of forest land, thus establishing the precedent of aggressive presidential leadership for conservation.

By 1974 the national forests, which included grazing areas, had grown to 184,276,463 acres. The Forestry Service in the Department of Agriculture administers both forests and grazing areas. As of 2002, more than 192 million acres of forests and grasslands are protected by the National Forest System.

—*Steven E. Siry*

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See also Volume 2: Land Policies.

Fort Knox

Federal gold depository originally established in 1917 during World War I as an army base.

The U.S. Army base called Fort Knox lies 31 miles southwest of Louisville, Kentucky. Although the army's armored force calls this base home, the American public recognizes Fort Knox as the site of the U.S. Bullion Depository. The U.S. Mint, which is part of the Treasury Department, operates the facility, which was completed in December 1936 during the Great Depression. Construction cost the federal government more than $560,000. Materials used included 670 tons of

structural steel, 750 tons of reinforcing steel, 4,200 cubic yards of concrete, and 16,000 cubic feet of granite. Fort Knox received most of its gold from storage sites around the country during the first six months of 1937. At the time, national financial systems operated on the gold standard, and so the government desired an inland storage facility relatively safe from foreign attack. During World War II, other important items were stored there as well, such as an original copy of the Magna Carta, President Abraham Lincoln's Gettysburg Address, the Declaration of Independence, the U.S. Constitution, and the Articles of Confederation. President Franklin D. Roosevelt visited the site on April 28, 1943. Except for some small samples, no gold has been transferred to or from the facility for many years. The most gold ever held there (on December 31, 1941) weighed 649.6 million ounces; the current gold holdings amount to more than 147 million ounces, with a value of $42.22 per ounce. (The balance was transferred to other vaults or to foreign countries in payment of U.S. debt.) Because of public rumors the gold had been secretly sold off, U.S. Mint Director Mary Brooks allowed a small group of congressional representatives to briefly visit the depository to inspect the gold supply in September 1974. Although closed to visitors, the public can take pictures from outside the fence. The Philadelphia Mint, the Denver Mint, the West Point Bullion Depository, and the San Francisco Assay Office also hold U.S. government gold supplies. Gold is now used to secure a portion of U.S. currency, but the currency is now valued on a floating exchange rate.

—*Daniel K. Blewett*

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See also Volume 1: Gold Reserve Act.

Forty Acres and a Mule

A post–Civil War idea, ultimately unsuccessful, that called for the heads of freedmen households (former slave households) to receive 40 acres of land and a mule.

On January 16, 1865, Union General William T. Sherman issued Special Field Order No. 15 calling for land that had been abandoned by displaced whites to be redistributed to black freedmen families. Sherman's plan was that each head of a freedman household would receive 40 acres of farmland and a government mule—a means of support after the abolition of slavery. Sherman's order referred to a 30-mile-wide, 274-mile-long plot of land along the Atlantic seaboard stretching from Charleston, South Carolina, to Jacksonville, Florida. Within two months after Sherman issued his order, former slave families—which found it safest to stay on the land because of strict vagrancy laws—had farmed 400,000 acres of land, raising mainly foodstuffs. Following the war, these families learned that Sherman's order had not had the support of the government and of law. In July 1865, Major General Oliver O. Howard of the Freedmen's Bureau proposed to remedy that by implementing Sherman's plan with Circular Thirteen, which called for setting aside 40 acres of land for each freedman family and providing the freed slaves with economic tools for their survival. The problem was that the plan required the confiscation of private property from whites (who had fled from Sherman's army or been displaced by the war) and its redistribution to blacks. Many whites opposed this idea, and when President Andrew Johnson began to pardon prominent Confederate leaders, the idea faced increased opposition because it would have threatened the sanctity of property. The idea convinced many freedmen that they deserved land, but Johnson's policy of issuing pardons and preserving the sanctity of property meant that they did not receive any land. Instead, sharecropping arose, a form of tenant farming in which freed slaves farmed land in exchange for a percentage of the harvest. Under this system, blacks lacked the economic tools to escape dependency on white Southern landowners.

—*Ty M. Reese*

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See also Volumes 1, 2: Slavery.

Fourteenth Amendment (1868)

Amendment to the U.S. Constitution that defined the rights of all federal citizens, both blacks and whites; prohibited states from abridging rights for citizens in the state; but did not define the relationship between citizens and private entities.

Congress submitted to the states the Fourteenth Amendment to the U.S. Constitution on June 13, 1866. The states ratified the amendment on July 9, 1868, and Congress officially made it part of the Constitution on July 18, 1868. This amendment overturned the Supreme Court ruling in *Dred Scott v. Sandford* (1857) that had declared blacks were not citizens. The Fourteenth Amendment provided citizens, both black and white, with the right of due process—that "no State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States." It guaranteed equal protection under the law, and it excluded from federal office any state or federal official who violated his oath to the U.S. by participating in the Confederate rebellion.

However, the Supreme Court effectively nullified the provisions of the Fourteenth Amendment in 1873 with its decision in *The Butcher's Benevolent Association of New Orleans v. the Crescent City Live-Stock Landing and Slaughter-House Company* restricting the reach of the Fourteenth Amendment by severely limiting its due process clause to national citizenship, again lessening the rights of black citizens. (Although the Fourteenth Amendment declared that states could not discriminate against individuals, it did not prohibit private companies or individuals from doing so.) Then, in 1886 in *Santa Clara County v. Southern Pacific Railroad,* the Supreme Court asserted that the due process clause of the Fourteenth Amendment applied to corporations, which the Court defined as legal persons with rights that cannot be alienated.

This interpretation severely limited the ability of the federal government to pursue antimonopoly actions against corporations in the early twentieth century. Since the early twentieth century, the federal government has not been able to discriminate against citizens or entities (corporations).

—*James T. Carroll*

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See also Volumes 1, 2: Slavery.

Free Market

An economic ideal dependent on free choice, private property, and the minimization of government intervention.

Synonymous with laissez-faire, a French term meaning "allow to act," the concept of the free market assumes that the collective, yet independent, decisions of individual buyers and sellers will determine the most efficient and just allocation of resources for a society. Free markets operate through freedom of choice and private ownership of the means of production and consumption: Owners of private property freely determine what is produced, how it is produced, who consumes what is produced, and at what price. Advocates of the free market consider this system not only just (because buyers and sellers exchange property at freely negotiated prices) but also economically efficient (because sellers meet buyer's needs by producing only demanded goods, services, and resources). The free market thus creates efficiency by encouraging a conflict between self-interested buyers and sellers. For instance, sellers compete to offer and produce goods, services, and resources for buyers who seek to obtain them at the lowest cost. Moreover, a free-market system functions most effectively when decisions remain decentralized and coordinated through markets rather than the government; government should be limited to maintaining the legal system and protecting property rights.

Although the United States has never had a completely free market, its economy remains free of government intervention compared with most other nations. Still, federal and state governments since the American Revolution have variously tried to regulate and encourage economic activity in hopes of improving economic justice or efficiency. For example, beginning in 1816, Secretary of the Treasury Alexander Hamilton tried to shield American businesses by promoting exports and establishing tariffs to protect native industries (textile mills, for example) and other manufacturers. On the other hand, taxation, immigration restriction, and fetters on domestic trade in the early American republic remained relatively minimal. Many Americans regard the nineteenth century as the height of laissez-faire or free-market economics. Yet, during this period, both the federal and state governments often directly interfered with markets. Governments invested heavily in transportation infrastructure and internal improvements, for example, the building of the Erie Canal in 1825. Moreover, the federal government temporarily erected protective tariffs and encouraged economic growth by distributing nearly 300 million acres of land to citizens and businesses in the form of land grants. Land grants occurred primarily between 1861 and 1900, although some land grants continued until 1976 in remote areas such as Alaska. In the late nineteenth and early twentieth centuries, both federal and state governments hoped to regulate perceived economic injustices and inefficiencies by establishing sometimes competing and overlapping regulatory laws and agencies, such as the Interstate Commerce Commission (1887), the Sherman Anti-Trust Act (1890), the Federal Trade Commission (1914), and the Federal Reserve Act (1913). In the 1930s, the federal government's expansive New Deal used the crisis of the Great Depression to justify a great number of programs that variously tried to impose greater market efficiencies; protect various interest groups such as farmers, unions, and businesses; and redistribute wealth. The high point of federal involvement in the economy occurred during the 1960s with President Lyndon B. Johnson's Great Society, which provided for distribution of wealth through such programs as Medicaid, food stamps, Aid to Families with Dependent Children, and Head Start. Since then, Americans have increasingly debated whether the free market or government provides the more just and efficient way to order the economy. As a rule, Republicans prefer less government intervention and Democrats push for more government programs.

—*Eric Pullin*

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Free-Soil Party

Third-party political organization influential in the United States from 1848 to 1854.

During the 1840s, the Jacksonian Democrats in New York split over the issue of slavery. Many Northerners expressed concern over the annexation of Texas, which they feared would result in the creation of as many as six slaveholding states. The faction that supported slavery, the Hunkers, opposed the antislavery Barnburners. When the Democratic nomination for president in 1848 went to James K. Polk, a slaveholding Tennessean, the Barnburners left the Democratic Party and joined forces with the antislavery members of the Whig Party and the Liberty Party to form the Free-Soil Party. The coalition opposed the extension of slavery into the territories, advocated a revenue-only tariff, and promoted federal funding for internal improvements such as roads and canals as well as a homestead act. The Free-Soil Party nominated Martin Van Buren as its presidential candidate in 1848.

The group focused on preventing the expansion of slavery on the grounds that free labor would then have to compete with slave labor and that, because economically the two systems of labor remained incompatible, only a system of free men and free soil would guarantee the economic future of whites. Although the Free-Soilers failed to win the election, they did elect 9 members of Congress and helped secure a victory for Zachary Taylor because the free-soil Democrats split from the pro-slavery Democrats and supported Taylor. The Free-Soil Party continued for another six years, electing a senator and 13 congressional delegates between 1848 and 1854. By 1854 the Republican Party had absorbed most of the Free-Soil Party members and had co-opted the party platform.

—Cynthia Clark Northrup

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See also Volumes 1, 2: Slavery.

Free Trade

A policy of minimal or zero trade barriers between countries—on the trade policy spectrum, at the opposite end from protectionism.

The idea of free trade was popularized by the classic liberal economist David Ricardo in his *Theory of Comparative Advantage.* Ricardo argued that the wealth of all nations would be greater if each country specialized in creating the goods and services it produced most cheaply and effectively and then traded those products for products that it did not make as efficiently. These ideas stand in sharp contrast to the mercantilist and imperialist policies that governed trade for most Western countries in Ricardo's lifetime (1772–1823).

The idea of free trade has been at the base of much of America's trade policy, especially since the close of the nineteenth century. Secretary of State John Hay's Open Door notes of 1899 were an early articulation of the American vision of free trade. Hay called for all powers with spheres of influence in China to relinquish their special trading privileges and allow the commerce of all countries to trade on terms equal to those of the power controlling the sphere. Although Hay's idea was rejected at the time, achieving a system in which no nation's trade was discriminated against became a cornerstone of American policy.

Since the 1934 passage of the Reciprocal Trade Agreements Act, which permitted President Franklin D. Roosevelt to reduce tariff rates by up to 50 percent, free trade has been the more or less dominant trend in American trade policy, although occasionally individual industries have been able to secure protectionist relief. Roosevelt's reciprocal trade program sought to bring about free trade through bilateral agreements to remove trade barriers between the United States and other countries. After World War II, the United States extended these agreements with a new approach to trade negotiations embodied in the 1947 General Agreement on Tariffs and Trade (GATT). Countries were invited to participate in rounds of multilateral negotiations to create tariff schedules and mutually-agreed-on trading rules. Most-favored-nation clauses ensured that all participating countries received the benefits of trade concessions given by any other member, allowing for a fairly comprehensive, but often slow, lowering of trade barriers.

Although many nonaligned and a few communist countries participated in GATT, the dynamics of the cold war limited GATT's ability to make free trade the universally accepted guiding principle of the world economy. The cold war's end in 1991 changed that. The eighth round of GATT negotiations, completed in 1994, created the World Trade Organization (WTO), a more comprehensive, permanent, and powerful body through which to coordinate the global adoption and regulation of free trade practices. By the beginning of the twenty-first century, most major countries including the People's Republic of China were well on their way to membership in the WTO. Although some critics of WTO emphasize the numerous exceptions that WTO allows to a strict interpretation of free trade principles, the WTO is expressly set up to facilitate the move to global free trade by offering a forum for discussing conflicts over trade barriers and methods for resolving or reducing them. In that sense, creation of the WTO and its wide acceptance around the world reflects the triumph of the American vision for a world economy operated along the principles of free trade.

—G. David Price

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See also Volume 1: General Agreement on Tariffs and Trade; Mercantilism; Open Door Notes; Reciprocal Trade Agreement Act of 1934; ; World Trade Organization.

Free Trade Area of the Americas (FTAA)

Initiative to establish a free trade zone in the Western Hemisphere involving the United States, Canada, and all Caribbean and Latin American countries except Cuba and French Guiana.

A long-standing goal of U.S. trade policy has been the implementation of a trade system in the Western Hemisphere that would have a minimum of official barriers, promoting interhemisphere trade to the benefit of the United States. An early example of such a system is the the Pan-American schemes of the 1880s. Free trade principles in the hemisphere have advanced since the 1960s. The South American republics experimented extensively with various regional and subregional economic integration schemes, and in the 1980s they also experienced, for the most part, more or less successful political democratization and economic liberalization. Meanwhile, the United States tried to improve

economic and political relations with Latin America by opening its market to its southern neighbors, particularly by lowering tariffs and nontariff trade barriers in the 1970s and 1980s.

In 1990, President George H. W. Bush declared his "Enterprise for the Americas" initiative aimed at promoting free trade within the hemisphere. This program evolved into the North American Free Trade Agreement of 1993, which was signed by the United States, Canada, and Mexico. By the end of the twentieth century, Western Hemisphere trade with its annual sum of $675.6 million accounted for 39 percent of U.S. foreign trade.

At a Summit of the Americas in Miami in December 1994, U.S. President Bill Clinton and leaders of 33 other American states declared their intention to create a free trade area in the Western Hemisphere within the next ten years. Summits of the Americas in Santiago (1998) and Quebec (2001), as well as conferences among trade ministers and other negotiations among American states, formalized the Free Trade Area of the Americas (FTAA). The initiative involves the United States, Canada, and all 31 countries of the Caribbean and Latin America except Cuba, which is communist, and French Guiana, which is under French authority. Participating nations hope to finalize the agreement by January 2005 and implement it by December 2005. Its objective is the establishment of a free trade zone encompassing (as of 2000) nearly 800 million people and more than $11 billion in gross domestic product.

The concept of the FTAA covers trade liberalization (including elimination of tariffs and nontariff trade barriers), transparency and market access, cooperation in the development of infrastructure, customs procedures, agriculture, investment policies, subsidies, intellectual property rights, and settlement of disputes. It envisages the establishment of a hemispheric common market—the world's largest trading block—based on economic integration and free exchange of goods, services, and capital. This concept, also closely linked with the development of a new kind of the hemispheric community, rested upon comprehensive cooperation, shared democratic values, and rule of law.

However, several economic, political, institutional, and cultural obstacles and difficulties exist in the process of developing the FTAA. Economic ties between North America and South America remain significantly unbalanced: U.S. trade with its NAFTA partners is substantially greater than U.S. trade with all of South America and the Caribbean. Political culture, institutions, legal systems, economic traditions, and values still differ between the United States and Canada in North America and the Central and South American nations. A huge gap in the well-being of populations between the Americas also exists. Some Latin American countries, particularly Brazil (which dominated MERCOSUR, the South American common market extant between 1991 and 1995) and Venezuela, have reservations about the FTAA. These reservations are motivated by political concerns about national sovereignty and the two nations' reluctance to open their markets to North American competitors, particularly in the chemical and papermaking industries as well as in machinery and electronics. Some Latin American countries complain about U.S. antidumping rules (which prevent the sale of foreign products at below-cost prices) and farm subsidies (which provide funds for farmers who can then sell their products cheaply. Inclusion of provisions against dumping and farm subsidies allows participating countries to compete on an even basis.

Public and domestic political opposition to the FTAA continues both in the United States and other American countries. Impeding progress are a controversial antiglobalist movement against the World Trade Organization and other entities that promote global trade, environmental concerns raised by associations such as Greenpeace, rudiments of anti-Americanism in Latin America, and concern by organized labor in the United States about possible job losses to cheap foreign labor. To overcome these difficulties, the U.S. government has attempted to strengthen bipartisan domestic support for the FTAA, entice trading partners in the Americas by improving their access to the U.S. consumer market, and promote liberalization of bilateral trade.

—*Peter Rainow*

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See also Volume 1: Clinton, William Jefferson; North American Free Trade Agreement.

French and Indian War (1754–1763)

Last in a series of conflicts between the British and French for control of the North American frontier, concurrent with the Seven Years' War in continental Europe.

During the early stages of the French and Indian War (1754–1763), French troops, with their Native American allies, overran British forts in the Ohio Valley, including Fort Necessity. A force led by British General Edward Braddock in 1755 to recapture the area was ambushed by the French and was a costly fiasco. The British also initiated an abortive invasion of French Canada. The tide only turned after the election in England of William Pitt as Prime Minister, who implemented a program to subsidize the Prussian effort in continental Europe, the primary theater of warfare.

This policy bore fruit at Fort Louisbourg in Canada and Fort Duquesne in western Pennsylvania, both French forts that were captured by the British, and proved correct when General James Wolfe captured Quebec in 1759. Meanwhile, in the backcountry, Roger's Rangers—American colonists fighting for the British—and Iroquois allies of the British regained ground. In 1763, the British forced the French to agree to an advantageous settlement that ceded Canada to Britain and removed the immediate threat of French encroachment into British colonial territory. However, the

British victory had also sown the seeds of colonial rebellion in the American colonies, as the massive war debt had led Parliament to tax the American colonies with acts such as the Stamp Act and the Sugar Act. The continuing presence of British troops in the colonies, although the French enemy was no longer present, annoyed colonists even more since they no longer needed the protection of the British army and were experiencing increased political and economic confidence. British attempts to incorporate French Canada through measures like the Quebec Act, which guaranteed French Canadians the right to practice the Catholic faith, horrified Protestant colonists and further undermined British authority among colonists who had just defeated the French with little assistance from regular British forces. The 1754 Albany Congress, arranged to coordinate war supplies and political support among the colonies as the British focused on the European military campaigns, also contributed to the developing sense of division from Britain. The French and Indian War gave Britain mastery of North America, but the victory also pushed the colonists toward rebellion.

—*Margaret Sankey*

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See also Volume 1: American Revolution; Stamp Act; Sugar Act of 1764.

FSA

See Farm Security Administration.

FTAA

See Free Trade Area of the Americas.

FTC

See Federal Trade Commission.

Fugitive Slave Acts (1793, 1850)

Controversial federal statutes dealing with the treatment of runaway slaves.

Following the American Revolution, Congress passed a Fugitive Slave Act (1793) to protect the property rights of slaveholders and to enforce Article 4, Section 2 of the U. S. Constitution, which states: "No person held to service or labor in one State under the laws thereof, escaping into another, shall, in consequence of any law or regulation therein, be discharged from such service or labor, but shall be delivered up on claim of the party to whom such service or labor may be due." The legislation gave legal support to owners seeking the return of runaway slaves who had fled into other states or into a federal territory. The law met with resistance in the North, where most states had already abolished slavery. Many Northerners contended that the law left free blacks vulnerable to false claims that they were actually runaways. Northerners also refused to accept the idea that Southern slaveholders had the right to recapture their property without the use of the court system. As a response, most Northern states during the antebellum period (1848–1861) passed so-called personal liberty laws that required judicial oversight of the process of returning runaway slaves.

The rise of the antislavery movement during the 1830s focused greater attention on the fugitive slave issue, and the Southern states soon began lobbying for stronger fugitive slave laws. Congress finally passed a stronger Fugitive Slave Act as part of the Compromise of 1850. The new law, which outraged many in the North, called for harsher penalties against runaways and against anyone who aided runaways in their escape. Many Northern states passed stronger personal liberty laws in response, and the fugitive slave issue became one of the most inflammatory sectional issues over which Northern and Southern states disagreed during the 1850s.

Because of Northern resistance and the difficult logistics involved in capturing runaways, the Fugitive Slave Act actually had little practical effect. If anything, its passage bolstered the resolve of antislavery factions in the North. The Civil War and the Emancipation Proclamation ultimately rendered the Fugitive Slave Act of 1850 moot, and Congress officially repealed it on June 28, 1864.

—*Ben Wynne*

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See also Volume 1, 2: Slavery.

Full Employment

The absence of any excess supply of labor, so that any worker willing to work at prevailing wages can get a job.

In a fully employed economy, no unemployment would exist because of deficient demand—only frictional unemployment (workers investing time in search for better jobs), voluntary unemployment, or structural unemployment (workers lacking the skills or location now demanded by employers) would occur. Early drafts of the Employment Act of 1946, which established the president's Council of Economic Advisers and the Economic Report of the President, would have committed the U.S. government to a Keynesian policy of managing aggregate demand to maintain full employment, a proposal shaped by experience with mass unemployment in the 1930s. The final version of the Employment Act of 1946 only established high levels of

employment as a goal. The Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act) set seven national goals: full employment and production, rising real income, balanced growth, a balanced federal budget, productivity growth, an improved trade balance, and reasonable price stability. It set numerical targets for unemployment (3 percent by 1983) and inflation, and it required a representative of the Federal Reserve Board to testify annually before congressional banking committees on how Federal Reserve policy for the coming year would achieve these goals. The stated numerical targets proved unrealistic, given the economic situation of the late 1970s (simultaneous high unemployment and high rates of inflation), and policymakers generally ignored them.

Beginning in the late 1960s, many economists—influenced by the future Nobel laureate Milton Friedman's argument that a natural rate of unemployment could not exist—accepted Friedman's argument that monetary policy can reduce unemployment below its natural rate only temporarily and at the cost of permanently higher inflation. During the 1970s another future Nobel laureate, Robert Lucas, argued that no systematic monetary policy could stimulate employment, even temporarily. Lucas's "new classical economics" held that monetary policy could reduce unemployment below its natural rate only by fooling workers into working for lower real wages than they expected (because higher prices reduced the purchasing power of their money wages), and that agents with rational expectations cannot be fooled systematically. These natural-rate theories persuaded many central bankers, including those who were part of the U.S. Federal Reserve system, to concentrate on price stability and abandon full employment as a policy goal. Keynesian economists including Nobel Prize winners James Tobin and William Vickrey continued to insist that to maintain full employment, active government management of aggregate demand must occur.

—*Robert Dimand*

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See also Volume 1: Keynesian Economics; Unemployment.

G

G-7

See Group of Seven.

G-8

See Group of Seven.

Gadsden Purchase (1854)

Major land transaction between the United States and Mexico in 1854.

The Treaty of Guadalupe Hidalgo ended the Mexican-American War (1845–1848) and ceded vast western territory to the United States, but it left the precise boundary between the United States and Mexico vague. The area in dispute lay south of the Gila River and north of the current border. Hoping to settle the matter and at the same time secure the best route for a southern transcontinental railroad, President Franklin Pierce appointed James Gadsden, a railroad entrepreneur, as minister to Mexico and instructed him to negotiate the purchase of the disputed area.

Gadsden's original mission also included negotiating the purchase of lower California, but his abrasive personality offended Mexican authorities to such an extent that the country's president, Antonio Lopez de Santa Anna, refused to consider the sale of additional territory. Gadsden eventually reached a tentative agreement with the Mexican president, and the issue went before the U.S. Senate. After making some modifications and engaging in heated debate along North/South sectional lines, the Senate narrowly approved the purchase. Under the agreement the United States received 30,000 square miles that would form the southern portion of New Mexico and Arizona. In return, Mexico received $10 million, and both countries agreed to rescind or assume any additional claims against each other.

Although the Gadsden Purchase added significant territory to the United States, it generated a great deal of controversy. Many Americans, particularly in the North, viewed the entire episode as a brazen attempt by Southern politicians to advance their own interests. Debates in the Senate over the purchase further aggravated sectional tensions within the United States, and the issue did little to improve U.S.-Mexican relations. In Mexico the sale proved so unpopular that it helped topple Santa Anna's government.

—*Ben Wynne*

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See also Volume 1: Railroads; Volume 2 (Documents): Gadsden Purchase Treaty.

Gallatin, Albert (1761–1849)

Secretary of the Treasury during the administrations of Thomas Jefferson and James Madison.

Albert Gallatin was born January 29, 1761, in Geneva, Switzerland. He emigrated to the United States and settled in Pennsylvania in 1795, where he founded New Geneva. This colony was meant to house émigrés from the French Revolution and support itself with the production of glass products overseen by German glassmakers. Gallatin first made a name for himself as one of the moderate members of the Whiskey Rebellion in 1791, public protests and rioting that occurred after the federal government placed a tax on whiskey (a primary method of converting grain into a non-perishable commodity). He subsequently won election to the House of Representatives (where he served as chair of the House Ways and Means Committee) and the U.S. Senate from Pennsylvania. During the presidencies of Thomas Jefferson and James Madison, Gallatin served as secretary of the treasury (1800–1813), a post in which he planned to reduce the $80 million national debt in 1800 to $45 million in 1812 by the planned sale of federal lands and collection of customs revenue. The measure failed because of slow land sales and the cost of the War of 1812.

Gallatin strongly advocated building a federal infrastructure and pushed for the construction of the National Road—

built using federal monies exclusively—and the beginning of the canal network in the Northeast. (The National Road began in Cumberland, Maryland, and ended first at Wheeling, West Virginia; it was later extended to St. Louis, Missouri.) Gallatin supported the Louisiana Purchase and found the money necessary to pay for it without raising the national debt; he also pushed for the immediate exploration of the new area by Meriwether Lewis and William Clark and by Thomas Freemont, an experienced astronomer, and Peter Custis, a medical student, who mapped the Red River area of Louisiana. Lewis and Clark named rivers for Madison, Jefferson, and Gallatin. After 1813, Gallatin served as minister to France and Great Britain before retiring to found the National Bank of the City of New York in 1817 and the American Ethnological Society in 1842. A keen scholar of Native American languages, Gallatin wrote several books on ethnography, including the 1826 *Table of Indian Languages.* He died August 12, 1849.

—*Margaret Sankey*

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See also Volume 1: U.S. Department of Treasury.

GATT

See General Agreement on Tariffs and Trade.

General Agreement on Tariffs and Trade (GATT)

Free trade agreement of the post–World War II period that initially included 25 countries.

Created in 1947 and guided by the United States, the General Agreement on Trade and Tariffs (GATT) reflected both the continuation of long-standing attitudes in U.S. trade policy and the realization of greatly changed circumstances necessitating a more involved and sustained role for the United States in world affairs. GATT represented many of the same concerns expressed at the Bretton Woods Conference in 1944—namely, the need to promote and to sustain postwar economic recovery generally and world trade specifically. GATT targeted tariffs, and European trade barriers particularly, as impediments to this process.

In all, GATT included eight rounds of negotiations: Geneva (1947), Annecy, France (1949), Torquay, England (1951), Geneva (1956), Geneva (1960–1962), Geneva (1962–1967), Tokyo (1973–1979), and Punta del Este, Uruguay (1986–1994). The final two Geneva rounds of the negotiations are sometimes referred to as the Dillon round (named for Undersecretary of State Douglas Dillon) and the Kennedy round (named for the recently assassinated President John F. Kennedy). Five rounds of negotiations between 1947 and 1962 reduced tariffs by 73 percent. Although primarily a U.S.-led initiative, GATT became affiliated with the United Nations after the Geneva round in 1956. Subsequent rounds of negotiations in Geneva during the administrations of Presidents John F. Kennedy and Lyndon B. Johnson reduced tariffs by an additional 35 percent. Moreover, although negotiations were dedicated to tariff reduction, by the mid-1960s the final stages of the Kennedy round produced a preliminary, yet significant, antidumping agreement (an agreement that prohibits the sale of foreign goods at below-market prices and thereby eliminates unfair competition between countries).

Focused primarily on manufactured goods, the early rounds of GATT negotiations reached no agreement on agricultural subsidies and nontariff trade barriers. European agricultural interests successfully frustrated attempts to broaden the talks to address agricultural products. Additionally, Japan unabashedly maintained a series of procedural and structural barriers to foreign firms seeking to penetrate its market. The Tokyo round of GATT negotiations (1973–1979) involved more than 100 participating countries and represented a major attempt to address many of these nontariff trade barriers. These negotiations produced agreements (subsequently referred to as codes) on subsidies, technical barriers to trade, import licensing procedures, customs valuation, and other aspects of international trade. Wide disagreement continues over the actual effectiveness of these codes. The talks further reduced the average tariff on manufactured goods to 4.7 percent. However, the Tokyo round failed to reach any significant agreements on agricultural commodities. Also, technology issues created further problems, particularly with regard to copyright and other intellectual property issues.

The final round of talks, the Uruguay round (1986–1994), proved particularly problematic for these reasons. Nonetheless, this final round of negotiations proved successful in further reducing tariffs on manufactured goods. The Uruguay round also attempted to address some of the many issues pertaining to agriculture, services trade, and intellectual property rights. After the Uruguay round, the GATT was transformed into the World Trade Organization (WTO) in 1995.

—*Robert Rook*

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See also Volume 1: Protective Tariffs.

George, Henry (1839–1897)

American political economist and author of *Progress and Poverty* (1879) who proposed a single tax on land to eliminate rent monopolies and poverty and inspired American and European reformers.

Henry George was born September 2, 1839, in Philadel-

phia and sailed with his family for the Pacific Ocean and America's West Coast after the panic of 1873. Failing as a miner and publisher, he resorted to begging in San Francisco streets. His fortunes rebounded when he became a reporter. His article condemning Chinese immigration won Californians' praise and launched George's career as reformer and railroad critic. Though drawn to political economics, most of his ideas evolved before he wrote *Our Land and Land Policy, National and State* (1871), which owed more to Christ and Thomas Jefferson's ethics than to studies by economists David Ricardo and John Stuart Mill. Labor alone creates wealth, George insisted, when applied to land or resources. But if producers pay rent to idle landowners, that unearned increment will impoverish society unless completely taxed.

The 1870s depression and panic of 1873 strengthened his beliefs and led to his great work *Progress and Poverty* (1879). Expanding Ricardo's law of rent, George argued that economic misery results from social evils, not inevitable cycles. Only the product of labor or capital should compose property. That excludes land, to which all need access. But ground rents increase with the population, especially in cities. Income shrinks; overproduction and land speculation in increasingly marginal soils squeeze producers further. Conversely, a single tax absorbing rents—and financing services—would generate prosperity and brotherhood.

Speeches in Ireland (during rent boycotts there) and Britain increased George's fame; Europeans considered him to be land reform's main spokesman. He returned to New York in 1886, and Labor selected him as its candidate for mayor of New York City that year. He lost to Democrat Abram S. Hewitt but outpolled Republican Theodore Roosevelt. In 1887, followers organized an Anti-Poverty Society and a Single Tax League that claimed hundreds of clubs. Wanting the tools of production in private hands, George feuded with socialists and embraced the Democrats and William Jennings Bryan. After suffering a stroke, George concentrated on *The Science of Political Economy* (published posthumously). He also ran for mayor again in 1897 but died during the campaign on October 29, 1897.

Americans never adopted George's single tax. Yet his critique of plutocracy (government by the wealthy) galvanized reformers from George Bernard Shaw and Leo Tolstoy abroad to Tom Johnson, Frederic Howe, and Brand Whitlock, who were single-tax reformers, at home.

—*Everett W. Kindig*

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See also Volume 2: Taxation.

Gibbons v. Ogden (1824)

Supreme Court decision giving Congress control of interstate commerce and serving as a precedent for federal regulation of the economy.

In 1811, the New York legislature granted Robert Fulton, the inventor of the steamboat, and Robert Livingston, former ambassador to France, a monopoly on steamboat traffic in state waters. The two men gave Aaron Ogden, the former governor of New Jersey, a license to operate ferryboats from his state to New York. Thomas Gibbons set up a competing steamboat line from New Jersey to Manhattan seven years later. Although he had no license from Fulton and Livingston, he did have a coasting license, obtained from the United States government in 1793, that allowed him to operate coastal transportation vessels. Ogden sued Gibbons in the state courts of New York for interfering with his trade. The state courts consistently ruled in favor of Ogden.

When the case made it to the Supreme Court in 1824, Daniel Webster argued on behalf of Thomas Gibbons. He broadly interpreted the commerce power granted to Congress under Article 1, Section 8 of the Constitution. In contrast, lawyers for Aaron Ogden argued that a state's power to regulate interstate commerce is concurrent with the national government's power to regulate the same commerce. In a 6-to-0 decision, Chief Justice John Marshall ruled in favor of Gibbons. He broadly defined the commerce clause by stating that it meant Congress had the power to prescribe the rule that governed all business dealings between nations or parts of nations. With this definition in mind, Marshall concluded that the coasting license granted to Thomas Gibbons by the federal government took precedence over the license that Fulton and Livingston had granted to Aaron Ogden under the laws of the state of New York. Marshall's ruling has been credited with strengthening national business interests during rapid expansion in the nineteenth century and with serving as a precedent for federal regulation of the economy in the twentieth century.

—*Mary Stockwell*

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See also Volume 2: Judiciary.

G.I. Bill of Rights

See Servicemen's Readjustment Act.

Glass-Steagall Banking Act (1933)

Depression-era legislation that prohibited banks from underwriting or selling stocks and that created the Federal Deposit Insurance Corporation.

During the Great Depression, thousands of banks failed. In response, Senator Carter Glass, a Virginia Democrat, and Representative Henry Steagall, a Democrat from Alabama, crafted a bill to separate the commercial and savings banks from investment banking. The Glass-Steagall Act prohibited banks from underwriting or selling securities (stock) and remained virtually unchallenged for about four decades. In the 1970s, brokerage firms such as Merrill Lynch began to take on

banking functions, offering money-market accounts that pay interest and allow check-writing privileges on the accounts.

As the differences between brokerages and banks began to disappear, the Glass-Steagall Act came under attack from the legislative and executive branches in the federal government. In 1983, President Ronald Reagan, a Republican, proposed that banks should be allowed to engage in securities, real estate, and insurance activities. Congress did not act on the proposal. Congress repealed a part of Glass-Steagall in 1988 by allowing banks to participate in securities activities while continuing to limit insurance activities. In 1991, the House of Representatives defeated a proposal to repeal parts of Glass-Steagall and to allow banks to establish nationwide branches. Legislation introduced in Congress in 1995 and reworked in 1996 failed because banks opposed the continued prohibition on insurance activities. Repeal efforts nearly succeeded in 1998; a bill passed the House by one vote but failed in the Senate.

President Bill Clinton, a Democrat, signed the Financial Modernization Act into law on November 12, 1999. The legislation, crafted by Senator Phil Gramm (R-Texas) and Representative Jim Leach (R-Iowa), repealed the Glass-Steagall prohibition on banks selling stocks and insurance. The financial services industry welcomed its new capability to provide one-stop shopping for consumers.

—*John David Rausch Jr.*

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See also Volume 1: Banking System; Clinton, William Jefferson; Great Depression; Reagan, Ronald; Volume 2: Banking.

Globalization

The highly controversial process by which the world economy is moving toward a more homogenous and unified structure dominated by the principles of capitalism and free trade.

The integration of the global economy has been under way for much of modern history, and the current incarnation of that process is called globalization. It is distinct from previous integration phases in several ways and has elicited a sizable amount of criticism.

Contemporary globalization involves spreading the economic structure of the industrial West—with capitalism and free trade as the underpinnings of that structure—to the rest of the globe. Not only are these principles quite different from the economic ideas and values traditionally practiced in much of the non-Western world, they are also different from the mercantilist policies (designed to economically benefit the mother country at the expense of a colony) and imperialist policies (which benefit the controlling national economy) used earlier by the West to control the world economy. Nevertheless, the effect of these policies is often similar to the effect of earlier policies, leading to a continuation of many of the earlier conflicts.

The contemporary phase of globalization emerged as the dominant force in international economic relations in the aftermath of World War II. American policymakers had great faith that capitalism and free trade would bring about the economic stability the industrial world so desperately craved after the deprivation and horrors of the Great Depression and World War II. Because the economy of the industrial world had long since become dependent on imported commodities and markets of the non-Western world, American policymakers believed that their ideals had to be extended to these areas as well. There was also an idealistic hope that the American way of organizing international trade would remake countries in the non-Western world into prosperous democracies that mirrored the United States in ways of living and political and economic values. To facilitate this, the United States helped create several international organizations and programs including the World Bank, International Monetary Fund, General Agreement on Tariffs and Trade (GATT), and the Marshall Plan.

The U.S. plan for globalization encountered opposition from the beginning. Communist countries balked at its presupposition that capitalism and market-directed free trade were the only acceptable bases for international economic activity. This disagreement became one of the underlying causes of the cold war. Other industrial countries were reluctant to give up special privileges they had in their empires or to reduce the tariff barriers that protected their domestic industries.

As the cold war came to dominate the tone of international relations, the United States was able to achieve limited success in its vision of globalization. The roughly one-third of the world's population that was communist formally rejected participation in the global economy; however, trade was never completely cut off between East and West during the cold war, and by the 1970s communist countries were allowing controlled marketing of Western-made consumer goods in their countries.

America's fellow capitalist countries proved reluctant about the U.S. plan as well. Many were slow to release their empires from the imperialist restraints they had established over them. Although they agreed in principle with the American idea of freer trade, they established economic blocs and customs unions like the British Commonwealth and European Economic Community (EEC), which went against the full spirit of the U.S. plan. Although the Europeans did not fully embrace the American vision of global free trade, they did take steps toward it. They cooperated with the tariff reduction agenda of GATT, and international organizations like the EEC—which became the European Union (EU) on November 1, 1993—did promote trade liberalization and economic integration among their members. Trade liberalization and economic integration were vastly different policies than the pre–World War II trade policy of industrial countries. Also, by the mid-1960s most colonial possessions of the industrial world had been granted at least formal independence, with some countries—for example, Australia and Canada—still functioning with the British monarch as head of state.

As the empires of the industrial world receded, new voices

emerged in the non-Western world that also questioned the American vision. One of the greatest objections to globalization was that those in the non-Western world did not agree that capitalism and freer trade would lead to industrialization and prosperity; rather they saw them as solidifying the existing inequities between the industrial and nonindustrial worlds. Under capitalism and free trade, they argued, areas with the most capital, most highly developed markets and technologies, and most diverse economies are in a much better position to grow than others. This attitude led to calls from the non-Western world for preferential treatment in trade, for economic and technological development assistance, and for other types of aid from the industrial world, to which the industrial world responded with both direct foreign aid programs and international organizations such as the World Trade Organization and the International Monetary Fund.

Human rights and environmental groups also criticized globalization. Access to Western markets often led to an increasing push by ruling elites or dictators in non-Western countries to force populations to move from subsistence agriculture to sweatshop-style wage labor. As this occurred, dramatic changes occurred in the daily lives of people that many claim adversely affected people's health and the environment. Urban areas swelled in population as people left rural areas to work in factories. Often governments paid little attention to housing and sanitation standards in these rapidly growing areas. In attempts to obtain much-needed foreign exchange (cash), some countries began aggressively exporting raw materials and engaging in large-scale slash-and-burn agricultural practices, wreaking havoc on sensitive ecosystems.

Toward the end of the twentieth century, criticism of globalization came even from within the industrial world. Social activists echoed many of the criticisms made by the non-Western world. Organized labor in industrial countries opposed the loss of jobs as some industries relocated factories to the non-Western world to take advantage of cheaper production costs.

It is difficult to make a normative judgment about whether globalization is a positive or negative development for the world. Certainly, for the industrial world, it has improved the quality of life in terms of diversity and quantity of goods available and living standards. Some non-Western countries have seen dramatic improvements in those measures as well, whereas others have experienced overwhelming social problems.

Despite these conflicts, globalization has pressed forward. The World Trade Organization, created in 1994 as a replacement for GATT, has become the primary vehicle driving the globalization process. At the same time, however, a trend toward regional, as opposed to global, economic integration has appeared, exemplified by NAFTA and the European Union. As the twenty-first century begins, scholars are torn as to whether globalization will triumph or there will be a retrenchment toward the development of regional economic blocs.

—G. David Price

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See also Volume 1: Capitalism; Cold War; General Agreement on Tariffs and Trade; Great Depression; International Monetary Fund; Marshall Plan; Mercantilism; World Trade Organization; World War I; World War II.

GNP

See Gross National Product.

Gold Reserve Act (1934)

Federal law signed by President Franklin D. Roosevelt January 30, 1934, authorizing him to fix the price of gold in the United States after his controversial and ill-conceived gold-buying program failed to raise U.S. commodity prices.

Overproduction during the 1920s and the Great Depression of the 1930s drove farm prices in America to extremely low levels in the 1930s. Realizing that the economic situation facing American farmers in the 1930s had become desperate, President Franklin D. Roosevelt overruled the objections of his more conservative advisers, like Henry Morgenthau Jr., and embraced the highly questionable "commodity dollar" theories of economists Irving Fisher, George Warren, and Frank Pearson that large government purchases of gold would deflate the value of the dollar (because it was tied to the value of gold), which in turn would raise commodity prices and give American farmers a greater share of the world market.

On April 14, 1933, President Roosevelt abandoned the gold standard, and on October 19, 1933, he decided that the United States would begin buying gold. Each day the president met with Warren, Jesse Jones, Morgenthau, and other advisers to set the daily price of gold. However, the program was extremely controversial, and some of the president's closest advisers resigned in protest because of the program's deflationary effect.

Ultimately, the gold-buying program failed to open markets, and commodity prices continued to fall. In January 1934, the government stopped buying gold and on January 30, 1934, Roosevelt signed the Gold Reserve Act, which authorized the president to fix the price of gold. The next day, he set the price of gold at $35 an ounce, thereby fixing the value of the dollar at 59 percent of its pre-1933 level. Although it failed, the gold-buying program did satisfy farmers' desires for immediate federal action, emboldened monetary inflationists, and led to the Silver Purchase Act—which

authorized the president to buy silver rather than gold to back U.S. currency—the following year.

—*David W. Waltrop*

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See also Volume 1: Great Depression; Roosevelt, Franklin D.

Gold Rush, California (1849)

Frantic search for gold in 1849 in the California Territory.

On January 24, 1848, James Marshall discovered gold on the American River while building a sawmill for John Sutter, who sought to create an agricultural empire in the California Territory. In December 1848 President James Polk verified the discovery and precipitated one of the largest human migrations in American history. By 1852 more than 200,000 gold seekers had traveled to the California Territory by sea around the tip of South America, by sea and land crossing at Panama, and by land via the Oregon Trail or California Trail. In addition to European Americans, the prospect of great wealth attracted Chinese, Chileans, Mexicans, Irish, Germans, French, and Turks in significant numbers. The initial success of the placer miners, who panned for gold in the rivers, ended when the surface gold disappeared and extraction was necessary, requiring advanced technology and significant financing.

The California Gold Rush lasted about six years, during which time California gained admittance to the Union; major businesses responded to the demands of the miners, including Wells Fargo (stagecoach) and Levi Strauss (clothing); cultural diversity created tensions and xenophobia; and miners extracted over $200 million in gold.

—*James T. Carroll*

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See also Volume 1: Gold versus Silver.

Gold Standard

Monetary system used by the United States during the nineteenth and early twentieth centuries that backed U.S. currency with gold.

Beginning in the nineteenth century, the United States backed its currency with gold. Investors or citizens could convert the currency for the precious metal at any time. The government relied on the gold standard to maintain stability in the currency system, both domestically and internationally. Nations with an unfavorable balance of trade (that is, where imports exceed exports) would settle the account by transferring gold to the other country (the one that is owed the money and that has the trade surplus); the increased amount of gold within the recipient country would cause prices to rise and lower the demand for exports, thereby creating a balance of trade once again. Problems with this system only arose when the discovery of a mother lode of gold would dramatically increase prices. The system worked well until after World War I when the United States adopted the gold bullion standard, in which nations agreed to no longer mint gold coins and fixed the price of gold. In 1934 Franklin D. Roosevelt modified the gold standard to prevent the outflow of gold. The Gold Reserve Act of 1934 ended the use of gold as a medium of exchange within the United States. Countries around the world fixed their currencies to the dollar instead of to gold. According to the Legal Tender Act of 1933, all debts could be paid with any American coin or paper money then in circulation, which then consisted of primarily Federal Reserve notes. This modified system continued into the 1960s, when inflation and diminishing gold reserves forced the government to adopt a two-tier system. Beginning in 1968, the price of gold was set at $34 an ounce, and the United States only transferred gold between central government (first-tier) gold bankers at this rate. Private investors paid the price established by supply and demand. As the drain of gold continued, President Richard Nixon decided to remove the United States from any future gold conversions—ending the gold standard. After 1976, the international economic system moved to a floating exchange rate monitored by the International Monetary Fund. In this system, the market determines the value of each currency.

—*Cynthia Clark Northrup*

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See also Volume 1: Gold versus Silver; Volume 2: Currency.

Gold versus Silver

Nineteenth-century argument between Democrats and Republicans over the issue of bimetallism, the use of gold and silver to back currency.

In 1873 Congress decided to demonetize silver—that is, to make silver no longer legal tender for currency or debt—a shift that resulted in a constriction of the money supply. The two groups most adversely affected were silver miners and southern and western farmers. The debate over the use of silver as specie (coin currency) continued for the next two decades. During the administration of President William Henry Harrison, Congress passed the Sherman Silver Purchase Act of 1890, which required the U.S. Treasury to purchase 4.5 million ounces of silver per month. After the election of President Grover Cleveland, the country experienced a financial panic in 1893, in which hundreds of banks, railroads, and companies went bankrupt. Foreign investors feared the United States might abandon the gold standard and therefore rushed to convert their dollars into gold. Cleveland sought to repeal the Sherman Silver Purchase Act as a means of restoring confidence. With the drain on federal gold deposits reaching critical levels, the president authorized the sale of bonds to replenish the Treasury reserves. When the

government failed to sell all of the bonds, Cleveland turned to financier J. P. Morgan, a decision that drew criticism from the American public. The public believed the president had sold out to banking concerns after Morgan purchased bonds with "greenbacks" (paper currency) and then exchanged the bonds for gold from the U.S. Treasury.

By 1895 Democrats in the South and the West, led by Senators William Jennings Bryan of Nebraska and Benjamin "Pitchfork" Tillman of South Carolina, began advocating a policy of free silver. They sought to establish the value of the dollar at 16 ounces of silver or 1 ounce of gold. Since the established rate of value was pegged at 32 to 1, this shift would have created rapid inflation and brought relief for debt-stricken miners and farmers as well as other groups, including labor. During the Democratic National Convention in 1896, Bryan (also supported by the newly formed Populist Party) delivered his rousing "cross of gold" speech, in which he stated that the people would not allow themselves to be crucified on the wealthy's cross of gold. The Republicans, with William McKinley as their candidate, campaigned in support of the gold standard. The Republicans won the election, and the United States remained on the gold standard. In the twentieth century, the financial difficulties of the Great Depression forced the country into modifying the gold standard, and eventually the system was abandoned in the 1970s.

—Cynthia Clark Northrup

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See also Volume 1: Currency Act of 1900; Gold Standard; Volume 2: Currency.

Good Neighbor Policy

Term used to describe U.S. policy in Latin America in the 1930s and early 1940s employing mainly economic and political influence.

Early in the twentieth century, the United States was still following its traditional policy of direct intervention in and domination of other nations in the Western Hemisphere to maintain U.S. positions. Reversal of this policy toward a more flexible one employing mainly economic and political instruments of influence took shape under President Herbert Hoover, who introduced the term *Good Neighbor Policy.* Among early attempts to ease tensions with Latin American neighbors by renouncing earlier U.S. coercive protectionism and military control were Hoover's goodwill visit to several countries, withdrawal of U.S. Marines from Nicaragua, and ideas to repudiate the "Theodore Roosevelt corollary," which made the United States the policeman of the Western Hemisphere. However, the realities of American economic policy in the Western Hemisphere, particularly the high tariff policy including the protective Hawley-Smoot Tariff of 1930, precluded radical changes.

President Franklin D. Roosevelt, who usually receives credit for the shift to the use of economic and political influence, more clearly declared the new Latin American policy in his inaugural address of March 4, 1933, calling for abandonment of armed intervention in Western Hemisphere nations and for the recognition of equality, strengthening of confidence, and economic cooperation among republics in the Americas. The Roosevelt administration's devotion to concentrating resources domestically to combat the Great Depression rather than continuing expensive interventions in Latin America motivated this policy shift. At the Seventh Pan American Conference in Montevideo in 1933, U.S. Secretary of State Cordell Hull formally abandoned the interventionist policy by signing the Convention on Rights and Duties of States. Between 1934 and 1936 the United States terminated or limited its rights to intervene in Cuba and Panama and finally withdrew the Marines from Nicaragua, as well as from Haiti and the Dominican Republic, where they had been stationed to protect U.S. business interests. The government resolved land and railroad disputes with Mexico in 1936 and 1938 in a friendly manner and in 1938 restrained itself from intervening when the Mexican government nationalized the oil industry and vast holdings of American oil companies. Following the principles of the Good Neighbor Policy, the Roosevelt administration accepted the conflict as being between Mexico and the oil companies only.

The Reciprocal Trade Agreements Act passed by Congress in 1934 and Cordell Hull's persistent pursuit of a liberalized trade policy were formidable instruments for strengthening U.S. economic influence in Latin America. Under this new trade policy, an integral part of the Good Neighbor Policy, the U.S. share in the aggregate exports of Latin American countries grew from 31 percent in 1937 and 1938 to 43.7 percent in 1940 and 54.3 percent in 1941. At the same time, in 1938 the United States furnished about 35 percent of total Latin American imports. This figure rose to 54.6 percent in 1940 and 60.5 percent in 1941. At the Havana Pan American Conference of 1940, many Latin American countries remained unwilling to accept U.S. proposals to institutionalize new trade relations by establishing the Hemispheric Trade Cartel. For its part, the U.S. government created several new agencies to promote continental economic cooperation.

During World War II, the Good Neighbor Policy provided the inter-American strategic partnership with a solid economic foundation. The United States secured access to resources—particularly to the raw materials of Latin America—that were critically important for its military efforts, while Latin American countries as a group received almost $263 million for armaments. By the end of the war, the United States had participated in some 50 multilateral and 25 bilateral agreements with the republics of Latin America.

—Peter Rainow

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See also Volume 1: Roosevelt, Franklin D.; Roosevelt, Theodore; Wilson, Woodrow.

Government Budgets

The balance sheets of national, state, and local governments displaying the relationships between government spending and tax revenues in one year.

Government budgets have two elements: spending (G) and tax revenues (T). A budget can be balanced (G = T), in deficit (G < T), or in surplus (G > T). The summation of all past federal budget deficits and surpluses constitutes the national debt. Three views on federal government budgets (and debt) are "deficit hawk," "deficit dove," and "functional finance." Deficit hawks view government deficits as causing inflation and/or high interest rates. Many argue that public spending crowds out private spending, because any increase in government spending must be financed through either taxes or bond sales, both of which would decrease private consumption and/or investment. In addition, deficit hawks view the national debt as a financial burden on future generations. Thus, deficit hawks recommend a balanced budget (or a surplus) in every single year, and many support a constitutional amendment to require a balanced budget.

Deficit doves believe deficits can be useful when used appropriately and responsibly. The government can run deficits during recessions, they believe, but it should also run surpluses during economic booms so that the budget is balanced over the business cycle. Deficit doves also argue that many measurement and accounting problems are related to deficits and the debt. The most important issue they emphasize in this regard is that the federal government keeps no capital account to hold a surplus of funds. Deficit doves argue that deficit/gross domestic product (GDP) ratios and debt/GDP ratios are more important than the absolute size of the deficit or the debt. According to deficit doves, high interest rates cause bigger deficits (not vice versa) because interest payments on the debt increase as interests rates rise. They also argue that there is no financial burden on future generations because government spending is simultaneously creating assets for the future. Furthermore, deficit doves point out that unemployment generates bigger deficits because of its association with lower tax revenues and higher government spending on things like unemployment compensation.

The functional finance view suggests that both hawks and doves are wrong. In a modern (state) money system in which government is the monopoly issuer of fiat currency (useless currency that is accepted as a medium of exchange), the state does not need the public's money in order to spend. Taxes and bond sales do not finance government spending. The purpose of taxes (and the requirement that taxes be paid in government money) is to create a demand for the fiat money. Bond sales drain the excess reserves created by deficit spending to maintain short-term (overnight) interest rates. In the functional finance view, the particular relation of G and T does not matter in and of itself; what matters are the effects of the budget stance. Deficit hawks treat the modern money system as though it were a gold standard, whereas deficit doves emphasize that the deficit is not really as big as it seems or that we can afford the deficit or the debt. According to the functional finance view, deficit and the debt are accounting information on the one hand and policy instruments on the other. Deficits can be too big, but they can also be too small, depending on the economic context. Debt is not a burden, because the monopoly issuer of the currency never has any problem settling an obligation denominated in that currency.

—Fadhel Kaboub and Mathew Forstater

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See also Volume 1: Budget Deficits and Surpluses.

Gramm-Rudman-Hollings, Balanced Budget, and Emergency Deficit Control Act (1985)

Failed effort to legislate a balanced budget in response to a conservative movement that strongly opposed increased government spending.

Before 1985, congressional majorities necessary to pass a balanced budget amendment to the Constitution were lacking. The Gramm-Rudman-Hollings Act (GRH) was second best for some "deficit hawks," who recommended a balanced budget or surplus in every year and felt the legislation would provide the president and Congress with an important incentive to come to budget agreements. GRH, named for its sponsors, Senators Phil Gramm (R-Texas), Warren Rudman (R–New Hampshire), and Ernest Hollings (D–South Carolina), mandated a timetable of reduced budget deficits beginning in 1985 and ending with a balanced federal budget in 1991. In 1987, that target date changed to 1993. In 1990, the Omnibus Budget Reconciliation Act repealed GRH.

GRH required automatic spending cuts divided equally between defense and nondefense spending should the president and Congress not agree on a budget that reached that year's target. Social Security expenditures, interest on the national debt, and some programs targeted at the poor remained exempted from those automatic cuts.

In the mid-1980s, the administration of Republican President Ronald Reagan accused Congress of being unable to control spending. Congressional Democrats blamed the ballooning deficit on a big tax cut in 1981 (which lowered taxes for those in the highest tax brackets and was designed to produce a trickle-down effect in the economy) and a defense buildup. The GRH compromise promised Democrats that

Reagan would have to scale back defense spending if he wanted a balanced budget, and the Reagan administration thought it would force Democrats to be even more willing to cut nondefense expenditures. Meanwhile, some traditional Republicans thought Reagan might have to modify his refusal to raise taxes if he wanted a balanced budget.

As economic policy, GRH was a procrustean bed that made no distinction between useful and essential government activities on the one hand and government actions that were marginal at best, usually pork-barrel expenditures. Also, had it not been rescinded, GRH would have been bad policy in the face of a recession in 1985 and 1986. Although it had an escape clause that could be activated in response to recession, it called for spending cuts to resume in the first year of recovery. The first year of recovery is the worst possible year to reduce a deficit; a deficit reduction cuts the recovery short before the recovery has a chance to produce a long-term effect.

In 1986, the Supreme Court ruled unconstitutional the GRH mechanism for making automatic budget cuts, saying that the office of Comptroller of the Currency remained vested with this authority. The 1987 revision of GRH transferred that authority to the president. The old and new versions of the targets and the deficits that actually occurred are detailed in Table 1.

Table 1. Gramm-Rudman-Hollings Proposed and Actual Budget Reductions, 1985–1987

Fiscal year	*1985 target ($ billion)*	*1987 target ($ billion)*	*Actual deficit ($ billion)*
1986	$171.9 (billion)	$171.9	$221.2
1987	144.0	144.0	149.8
1988	108.0	144.0	155.2
1989	72.0	136.0	152.5
1990	36.0	100.0	221.4
1991	0	64.0	269.2
1992	0	28.0	290.4
1993	0	0	255.1

When Congress repealed GRH, the Council of Economic Advisers asserted that despite its failure to achieve its numerical goals, it had nevertheless restrained the growth of deficits. A much better epitaph is the tongue-in-cheek view of Warren Rudman, one of the bill's sponsors. He dubbed GRH a "bad law whose time has come." He was only half right, because the economic recession of the late 1980s forced an increase in taxes as well as an increase in spending.

—Michael A. Meeropol

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See also Volume 1: Reagan, Ronald.

Great Depression (1929–1941)

Worldwide economic slump characterized by international tariff barriers, the breakup of former empires, and destruction wrought by the loss of life and property during World War I in Europe that began, at least symbolically, with the collapse of stock prices on the New York Stock Exchange in 1929 and ended in the United States with widespread deficit spending on public works and rearmament in the late 1930s.

Owing to its severity, scope, and duration, the Great Depression has been the object of considerable debate among economists, sociologists, and historians in the United States and Europe. Although there is no consensus on how to explain the U.S. economic crisis, which had global repercussions, the following questions figure prominently in the literature on the subject: Did the Great Depression originate in the United States? If so, how did it spread to the rest of the world? Was the Great Depression a unique event? What, if anything, did the catastrophe reveal about the structure of the capitalist system?

The Federal Reserve Board adopted restrictive monetary policies as early as February 1929 aimed at curtailing speculation on the stock exchange, leading to a recession in the middle of 1929. However, the Great Depression itself began with a dramatic plunge in stock prices on October 24, 1929 (known thereafter as Black Thursday); the Federal Reserve Board continued to raise rates after that date. The crash not only produced widespread panic among firms and individual investors, but it also placed excessive strain on banks and other financial institutions. Within three years, stocks lost 80 percent of their value and 11,000 of the country's 25,0000 banks became insolvent. In the same period, the U.S. gross domestic product declined from an index of 163 to an index of 115, while unemployment climbed to 30 percent. Owing to the status of the United States as the world's most significant creditor and financier, the crisis soon spread to Europe (particularly Germany and Great Britain) and the rest of the world. Although the New Deal in the United States and similar public works programs in other countries reduced unemployment and increased purchasing power, the depression abated only with the preparations for war.

In retrospect, the period 1914 to 1945—which witnessed World War I, the failure to rebuild the European interstate system (a cooperative economic system that would have coordinated tariff rates and other trade issues), the Great Depression, and World War II—can be understood as the interregnum between the Pax Britannica (or British hegemony) and the Pax Americana (or U.S. hegemony). In *The World in Depression, 1929–1939*—an influential contribution to an ongoing debate between Keynesians (who favored deficit spending) and monetarists (who subscribed to the theory that market forces would control inflation, unemployment, and production)—Charles Kindleberger (1973) attributed the gravity, range, and length of the slump to the inability of the United States or Great Britain to achieve free market trade at a time when the international economy lacked a source of lending or a means of discounting.

After World War II, the lessons of the Great Depression were codified not only by Keynesian economics (with its

emphasis on government intervention in the economy to prevent crises of underconsumption) but also by a set of new international institutions: the International Monetary Fund, the World Bank, the United Nations, and the General Agreement on Tariffs and Trade.

—*Mark Frezzo*

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See also Volume 1: Keynesian Economics; Public Works Administration.

Great Railroad Strike of 1877

The first national labor uprising in the United States, which alerted the federal government to its inadequacy in handling labor disputes.

On July 16, 1877, the day of a 10 percent wage cut, workers in Martinsburg, West Virginia, began a strike against the Baltimore & Ohio Railroad. In one week similar uprisings had immobilized rail hubs in Philadelphia, St. Louis, Indianapolis, Buffalo, Cincinnati, Columbus, and Kansas City. Strikers demonstrated by halting freight and passenger trains, but violence and rioting often broke out, as in Chicago, Pittsburgh, and Baltimore. Many state governors lacked sufficient militia to suppress the insurgents and quickly appealed to President Rutherford B. Hayes for federal military support.

Before 1877 the United States had no precedent or policy for dealing with labor disputes, which had been considered outside of federal jurisdiction. Hayes eventually deployed troops, but his action only restored law and order and did not deal with the underlying labor conflict. Federal Judge Thomas S. Drummond set the most significant legal precedents in the strike, holding Indianapolis strikers in contempt of court for obstructing the operation of federal receiverships (bankrupt railroads directed by federal courts for the public good). Hayes and his cabinet spurred other federal courts into similar action to restore railroad operation. By July 29, troops and judicial indictments had effectively ended the uprising. Railroad workers did not receive their wages, and many participants lost their jobs or ended up in jail. The strike resulted in no specific policy but set the precedent for federal executive and judiciary primacy in labor disputes. It also ushered in a decade of national labor struggles that culminated in the 1894 Pullman strike.

—*John Grady Powell*

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See also Volume 1: Pullman Strike.

Great Society

Title given to the series of domestic programs during the presidency of Lyndon B. Johnson that tried to improve the quality of life for all Americans.

President Lyndon B. Johnson used the image and moniker of a Great Society to enlist support of Americans for his civil rights legislation, Medicare and Medicaid programs, environmental protection policies, and war on poverty and consumerism. The president first used the term in a speech at graduation ceremonies at the University of Michigan on May 22, 1964. He stated, “We have the opportunity to move not only toward the rich society and the powerful society, but upward to the Great Society.” Using the highest ideals of society, he envisioned “an end to poverty and racial injustice,” “a place where every child can find knowledge to enrich his mind and enlarge is talents,” and “a place where the city of man serves not only the needs of the body and the demands of commerce but the desire for beauty and the hunger for community.”

Johnson saw the role of the federal government as helping people overcome their disadvantages. He signed two major civil rights acts to help African Americans. The Civil Rights Act of 1964 prohibited discrimination in hotels, restaurants, and public facilities and authorized the Justice Department to initiate desegregation suits. The Voting Rights Act of 1965 outlawed discriminatory practices in elections and authorized programs for voter registration. Several other pieces of legislation tried to help those in poverty. The Economic Opportunity Act (1964) established the Office of Economic Opportunity to administer myriad poverty programs including the Jobs Corps for training young people, Work-Study Programs for low-income college students, a domestic Peace Corps called Volunteers in Service to America (VISTA), and a Work Experience Program to provide child day care and other services to the working class. Congress also created programs to increase food stamps and unemployment compensation during this time. Johnson established two new executive branch departments—the Department of Housing and Urban Development and the Department of Transportation. In 1965, his administration also sought to address the medical needs of the elderly through the Medicare and Medicaid programs. In addition, environmental protection legislation was a priority. Laws passed during these years including the Water Quality Act of 1965, the Clean Air Act of 1965, the Clean Water Restoration Act of 1966, and the Air Quality Act of 1967. Finally, several pieces of legislation designed to protect all Americans—such as the Highway Safety Act of 1966, the Fair Packaging and Labeling Act of 1966, and the Wholesome Meat Act of 1967—also passed.

Even though Johnson would have to give up or cut back on many of his programs in the face of the Vietnam conflict, the Great Society transformed the nation. In 1961, only 45 domestic social programs existed; when Johnson left office, 435 programs helped the American people. Spending on social programs increased from $9.9 billion at the beginning of the decade to $25.6 billion by the time Johnson left office. During his term the poverty rate fell from 22 percent to 13 percent of the population. The Great Society expanded the

federal government, gave economic opportunities to a wide variety of Americans, and increased the standard of living of many stuck in poverty.

—T. Jason Soderstrum

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See also Volume 1: Welfare Economics; Volume 2 (Documents): Lyndon B. Johnson's Great Society Speech.

Green Party

A national reform party formed in 1989 that rejects the political status quo (the Democratic and Republican parties) as dominated by corporate interests.

Green Party members stress environmental protection, social and economic justice, nonviolence, and participatory democracy. The party argues that treaties such as the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT) limit the participation of individuals in trade and adversely affect the economic and environmental health of local communities. Inspired by the success of the German Green Party, American activists formed the Green Committees of Correspondence in 1984, which grew rapidly but evolved in many diverse directions. By the late 1980s, a grassroots movement had begun to unite these factions into a national political party, ultimately culminating in 1989 with the Green Congress in Eugene, Oregon. The following year in Estes Park, Colorado, the nascent Green Party adopted its first international platform, which reflected the demands of a worldwide reform constituency with allied parties in many countries. Holding to the vision of a just, peaceful, and environmentally safe society, the party grew rapidly throughout the early 1990s as a fragile coalition of liberal activists. In 1996, however, a schism occurred as several members left to form the Association of State Green Parties (ASGP). This group argued that the party had become too radical and activist and too harsh in its criticism of capitalism; it said the party should emphasize more conservative tactics such as legislation and lobbying. Although the two sides agreed in the nomination of Ralph Nader in the 2000 presidential election, an attempt by the ASGP to control the national convention failed. Today both groups lay claim to the title of Green Party. The original faction is known as "the Greens/Green Party USA" and in 1996 the ASGP filed with the Federal Elections Commission as a separate party, "The Green Party of the United States." The Green Party of the United States, which advocates more activism and grassroots involvement, supported more than 550 Green candidates in 2002.

—Brooks Flippen

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See also Volume 1: General Agreement on Tariffs and Trade; Nader, Ralph; North American Free Trade Agreement.

Greenpeace

An international organization dedicated to protecting and preserving the natural environment through direct action.

In 1971, members of the Don't Make A Wave Committee in Vancouver, Canada, gained extensive attention in their effort to stop the United States from conducting atmospheric nuclear tests on a small island off the Alaskan coast. The island, Amchitka, supported many endangered sea otters as well as eagles and falcons. A small group of volunteers in an old fishing boat eventually brought a halt to the testing in 1972 and established Amchitka as a bird sanctuary. The organization chose the new name Greenpeace to better reflect its mission.

Public interest sparked by the Vancouver organization led to the formation of Greenpeace groups in other countries. Together these independent groups formed a loose coalition. In 1977 the Canada group, the largest of the organizations, began to formalize ties with the other groups. The various Greenpeace groups tend to be autonomous and work together without the need for a strict hierarchy.

Using nonviolent direct action, Greenpeace focuses on six areas: preserving ancient forests, stopping global warming, exposing toxic pollutants, protecting the ocean, ending genetic engineering dangers, and halting the proliferation of nuclear production. The organization also conducts research and promotes educational programs that inform the public and government officials about environmentally sound solutions to current problems. Greenpeace has taken the lead in several "Earth-friendly" projects including the ozone-safe refrigerator, alternative fishing technologies, and alternative power sources (for example, its 1998 solar pioneers project in Canada promotes solar energy). Since 1971, Greenpeace's membership has swelled to 2.5 million members worldwide. The organization receives all of its support from its members; Greenpeace does not accept donations from governments or corporations.

—Lisa A. Ennis

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See also Volume 1: Environment.

Greenspan, Alan (1926–)

Since 1987 head of the nation's central bank with a pivotal role in the formulation of U.S. monetary policy.

Alan Greenspan was born March 6, 1926, in New York City and attended New York University, from which he received three economics degrees—a B.S. in 1948, an M.A. in 1950, and a Ph.D. in 1977 with published articles substituting for a dissertation. Greenspan also pursued graduate studies at Columbia University, where leading economist Arthur Burns influenced him. He entered the financial world as an economist with the National Industrial Conference Board and then partnered with bond trader William Townsend in 1954 to form the economic consulting firm Townsend-Greenspan and Company, which was financially successful for more than 30 years. Greenspan dissolved the company in 1987 after he failed to find a qualified buyer.

Although philosophically a Republican, Greenspan has never held an elected office; nonetheless, he has had an extended public service career. He first ventured into the political world as director of domestic policy research for Richard Nixon's presidential campaign team in 1968. He has advised Presidents Richard Nixon, Gerald Ford, and Ronald Reagan and served on several commissions including the Commission for an All-Volunteer Armed Forces and the National Commission on Social Security Reform, which he chaired. From 1974 through 1977, he was chair of the president's Council of Economic Advisers. Since 1987 he has been chair of the Board of Governors of the Federal Reserve Bank. With a reputation as an "inflationary hawk" who fought inflation and a proponent of laissez-faire economics, Greenspan became chair of the Federal Reserve Board in 1987. He was first nominated to that position by President Ronald Reagan and was renominated by President George H. W. Bush (1991 and 1996) and President Bill Clinton (2000). Since 1987, in his capacity as Federal Reserve Board chair, he has also chaired the Federal Open Market Committee of the Federal Reserve System, a group that determines economic policy.

The Federal Reserve Board of Governors chair, who is independent of both the president and Congress, has far-reaching powers in his function of directing monetary policy. Many perceive Greenspan as the second-most-influential person in the United States as demonstrated by his capacity to move markets simply by speaking at a press conference. His approach as chair has been marked by caution, pragmatism, and reliance on empirical evidence. Because he is a member of Washington, D.C., social circles and so is in the public eye, members of the public have become more aware of the Federal Reserve system than they once were.

—John Marino

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See also Volume 1: Federal Reserve Act of 1913; Volume 2: Federal Reserve Bank; Volume 2 (Documents): Federal Reserve Act.

Gross National Product (GNP)

Market value of the flow of final goods and services produced in a country.

The gross national product (GNP) measures a nation's output. A flow per unit of time (an annual or quarterly rate), the GNP equals the output of final goods and services produced in a nation valued at market prices. Final goods and services exclude intermediate products bought by firms and used up in the production of other goods and services within the period, so the GNP consists of goods and services sold to the final consumers plus additions to the initial capital invested to buy the stock of the company or bank. The government measures GNP either at current prices (nominal GNP or current-dollar GNP) or at the prices of some specified base year (real GNP or constant-dollar GNP). A related concept, gross domestic product (GDP), values the output of factors of production owned in a country rather than factors of production located in the country; it differs from GNP by the flow of investment income between countries. The net national product (NNP) equals the GNP minus depreciation (the cost of replacement investment needed to keep the capital stock constant by making up for wear and tear of machinery and buildings).

GNP has several well-recognized limitations as a measure of economic welfare and as a basis for economic and social policy. Its exclusion of nonmarket activities means that it undervalues housework and child care (except when these activities are bought in the market). GNP and NNP also neglect degradation of the environment and natural resources resulting from production and consumption. Changes in relative prices and the availability of new products complicate comparisons of real GNP over time. Gross private domestic investment, as measured in the national income and product accounts, counts only money spent on tangible, physical capital; it neglects spending on the acquisition of intangible human capital (knowledge and skills) through research and development and education, and it neglects government spending on physical capital (infrastructure investment such as highways and airports). Analysts have devoted considerable effort to improving the measurement of economic welfare—for example, by constructing "green accounts" for the environment and valuing housework—but traditional GNP figures continue to dominate political and journalistic debates over economic policy.

—Robert Dimand

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See also Volume 1: Economic Indicators; Volume 2: Trade Policy.

Group of Seven (G-7)

An association of seven major industrialized nations of the world whose heads of governments meet annually to coordinate their economic policies.

The Group of Seven, or G-7, was formed in 1975 and includes the United States, the United Kingdom, Germany, France, Italy, Japan, and Canada (since 1976). Since 1977 the president of the European Commission has also attended the G-7 summits. By the end of the twentieth century, the other six members of the G-7 had accounted for 46 percent of U.S. foreign trade ($695.9 billion of U.S. exports to and $1,024.6 billion of U.S. imports from foreign countries, respectively). From 1975, when the first economic summit took place in Rambuillet, France, to 2001, the G-7 has held 27 summits. Four of these meetings were in the United States: San Juan, Puerto Rico (1976), Williamsburg, Virginia (1983), Houston, Texas (1990), and Denver, Colorado (1997).

In the 1970s and 1980s, the G-7 summits provided a high-level negotiating forum for discussion of numerous issues of mutual concern in international economic relations—for example, increased oil prices, inflation and economic stagnation, anticrisis economic measures, stabilization of finances including the U.S. dollar, liberalization of international trade, North-South relations in both the Western and Eastern Hemispheres, and the problem of debt of developing countries. The 1986 Tokyo summit established a framework for special consultations among finance ministers of the G-7 countries and the managing director of the International Monetary Fund to coordinate monetary policies of the industrialized world.

Since the 1978 Bonn summit, the United States and its industrialized trading partners Great Britain, France, Germany, and Japan have broadened the G-7 agenda, discussing topical political, strategic, and environmental issues. At the 1990 Houston summit, the G-7 began to develop a collective strategy to assist in the transformation of former communist economies. The G-7 invited the Soviet Union/Russia to participate in the 1991 London summit to discuss matters within Russia's competence, particularly its debt and economic reforms. The 1997 Denver summit institutionalized Russia's participation, and the Birmingham summit of 1998 officially renamed the group G-8, although the United States, its European trading partners, and Japan continue major economic and financial consultations within the traditional G-7 framework. With the progressive and expanding globalization of economy and trade in the information age, the G-7/G-8 has evolved from an informal economic forum to an effective directorate of leading powers, participation in which strengthens the global leadership of the United States. Even though globalization continues to progress, the meetings among the heads of state often draw protesters who oppose such globalization.

—Peter Rainow

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See also Volumes 1, 2: Foreign Policy.

GSEs

See Agricultural Government-Sponsored Enterprises.

H

Hamilton, Alexander (1755–1804)

America's first secretary of the Treasury, an ardent supporter of the Constitution, and to that end coauthor of the *Federalist Papers.*

Born January 11, 1755, on the island of Nevis in the Caribbean Sea, the illegitimate son of a Scottish peddler, Alexander Hamilton spent his early life working as a clerk throughout the Caribbean. When he was still a boy, he sought his fortune in America. He attended King's College in New York and later served as an aide to General George Washington during the American Revolution. After the war, he became a lawyer in New York City. He attended the Constitutional Convention in Philadelphia in 1787 and became an ardent supporter of the Constitution during the ratification process. Along with Constitutional Convention delegates James Madison of Virginia and John Jay of New York, Hamilton authored *The Federalist Papers,* a series of newspaper articles that brilliantly defended the principles underlying the Constitution.

In 1789, Hamilton became the first secretary of the treasury. In a series of important reports to Congress, he laid out his plans for the nation's economy. First he introduced a proposal that led to the 1791 Funding and Assumption Act, which made further provision for the payment of the debts of the United States under which the U.S. government would pay at full value all debts incurred by the nation during the American Revolution. The nation would also assume the remaining state debts. Next Hamilton called for the creation of the Bank of the United States ("Second Report on the Public Credit"). Both the American government and private investors would own stock in the new institution. The bank would control the nation's credit while its notes would serve as the nation's currency. Hamilton also proposed the establishment of a mint to coin money along with a duty on imported spirits and an excise on domestic whiskey to generate revenue. Finally, Hamilton laid out specific measures that the Congress should take to encourage manufacturing, including premiums, bounties, and protective tariffs.

Hamilton quickly made an enemy of Thomas Jefferson, secretary of state under President George Washington. He won Jefferson's support for the funding and assumption program by promising to build the national capital along the Potomac River in Virginia. However, Jefferson could never accept much of Hamilton's remaining financial program. He remained convinced that Hamilton sought only the good of the wealthiest Americans at the expense of farmers, tradesmen, and laborers. The conflict between these two men led to the creation of America's first two-party system. Hamilton's supporters became known as the Federalists, and Jefferson's followers became the Democratic-Republicans.

In 1796, Hamilton left public service and returned to private law practice in New York City. He remained interested in politics and defended many cases in the New York Supreme Court that guaranteed freedom of the press. When Thomas Jefferson and Aaron Burr deadlocked in the 1800 presidential race, Hamilton threw his support to Jefferson because he considered Burr a dangerous man. Burr later challenged him to a duel in the summer of 1804. Hamilton shot in the air, but Burr took deadly aim. After spending an agonizing day in terrible pain, Hamilton died on July 12, 1804. Though Hamilton was less well known than beloved leaders like George Washington and Thomas Jefferson, his economic nationalism has remained a model for politicians as different as Henry Clay, Abraham Lincoln, and Franklin D. Roosevelt.

—*Mary Stockwell*

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See also Volume 1: Bank of the United States, First; *The Federalist Papers;* Volume 2 (Documents): *Report on the Subject of Manufactures.*

Harris Treaty (1858)

First commercial treaty between the United States and Japan.

Appointed by President James Buchanan as the U.S. consul to Japan, Townsend Harris arrived at his post in 1856. For two years the military rulers of Japan, the Tokugawa Shogunate, refused to welcome Harris into the diplomatic

circle, but he stayed at a Buddhist temple in Shimoda while quietly establishing informal relations with some members of the Tokugawa government. Meanwhile, the British and the French had established military presences in Japan and had been pressuring the Japanese government to agree to trade terms that would be unfavorable to Japan. Harris persuaded the Japanese that a treaty under favorable terms with the United States would provide them with leverage in their negotiations with the European powers. On July 29, 1858, the United States and Japan signed their first commercial treaty.

Under the terms of the treaty, the United States gained access to five ports in Japan and received the right of extraterritoriality for American citizens, and Americans could worship without interference—a right that included the construction of churches and a pledge not to excite religious animosity. The terms concerning the tariff arrangements favored the United States with a low rate of 5 percent set for machinery and shipping materials as well as raw materials. The treaty also allowed the Japanese to purchase warships, whale ships, cannons, munitions, and other war matériel from the United States as well as to engage the services of mariners, scientists, and military experts.

The treaty became effective July 4, 1859. Each party reserved the right to revoke the treaty after giving the other party one year's notice. Terms could also be renegotiated after July 4, 1872. As a result of the treaty, the United States and Japan established commercial and diplomatic relations that lasted until 1937 and resumed after the Japanese surrender in 1945 that ended World War II.

—*Cynthia Clark Northrup*

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See also Volume 1: Japan; Japanese Oil Embargo.

Hawaii

South Pacific island kingdom that became the fiftieth state of the United States in 1959.

During the nineteenth century, the kingdom of Hawaii provided a substantial amount of sugar to the United States. U.S. planters controlled a large percentage of the island's production. During the 1840s the British and the French sought to incorporate the sugar-rich islands into their own empires. King Kamehameha III turned to the United States for assistance, and in 1851 the kingdom became a U.S. protectorate. After several failed attempts, the United States and the kingdom of Hawaii concluded a reciprocal trade agreement in 1885. Many Republicans opposed the agreement, which allowed the duty-free importation of Hawaiian sugar into the United States at the expense of domestic sugar producers and European sugar beet producers. The estimated loss of revenues for the United States from the tariff on Hawaiian sugar amounted to $12.8 million. The United States more than recouped this amount two years later when Hawaii granted the United States the right to establish a naval base at Pearl Harbor. During the first administration of Grover Cleveland (1885–1889), the United States attempted to annex the islands, and during the presidency of Benjamin Harrison (1889–1893) Americans in Hawaii briefly overthrew the government of Queen Lilioukaliani. However, the United States refused to recognize the new republic and the coup failed. Finally, in 1898, President William McKinley annexed Hawaii, and by the turn of the century the Pacific island kingdom had become a U.S. territory via the Treaty of Annexation of Hawaii.

During the first half of the twentieth century Hawaii continued to produce sugar and pineapples for American consumption, and it served as the naval base for the Pacific fleet during World War II. In 1959 Hawaii became the fiftieth state of the Union. Since the 1960s Hawaii has relied on tourism to boost its economy; most of its visitors are from Southeast Asia.

—*Cynthia Clark Northrup*

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See also Volume 1: Sugar.

Hawley-Smoot Tariff (1930)

Protective tariff on both industrial and agricultural products created as an initial response to the Great Depression.

Throughout most of the 1920s, the Fordney-McCumber Tariff protected the U.S. economy. The Hawley-Smoot Tariff of 1930 strengthened the provisions of Fordney-McCumber that protected medium-sized manufacturing concerns and agriculture.

During the 1928 presidential campaign, Herbert Hoover promised heightened protection for American farmers still suffering in connection with global surpluses of agricultural products. The Hawley-Smoot Tariff was part of an effort to placate Republican farmers, who had denounced Hoover's opposition to McNary-Haugen legislation. The McNary-Haugen legislation (1927) had attempted to establish agricultural parity based on 1919 agricultural prices.

The Hawley-Smoot Tariff marked a transformation of the debate over American tariff protection. Politicians from rural constituencies advocated its passage. Its opponents came from the American Bankers Association and from boardrooms of large corporations like General Motors and the Pennsylvania Railroad. Despite substantial pressure to the contrary from the business community, Herbert Hoover defended the Hawley-Smoot Tariff and signed it into law. In his arguments on its behalf, Hoover pointed to changes that would provide greater flexibility in altering barriers to trade. He had successfully requested provisions to enhance the capability of the bipartisan Tariff Commission to respond quickly to changes in international trade patterns: In the event a foreign government abandoned or initiated practices of unfair trade, the Tariff Commission could respond in kind. In this way, the United States could curb foreign government subsidies, which paid producers the difference between the

producers' low selling prices and normal selling prices, and the formation of cartels, which controlled pricing by agreeing to restrict production. The administration of President Franklin D. Roosevelt strengthened the provision for flexible response with the passage of the Reciprocal Trade Agreements Act, an amendment to the Hawley-Smoot Tariff.

Provisions for tariff flexibility failed to allay the concerns of critics of the Hawley-Smoot Tariff. Foreign governments protested that high American tariffs slowed world trade and impeded recovery from the global recession. In particular, relations with agricultural exporters, such as Canada, suffered.

The reputation of the Hawley-Smoot Tariff deteriorated as the Great Depression continued. The early complaints by American businesses and foreign governments took on greater weight as economic nationalism lost its allure. By the presidential campaign of 1932, the Hawley-Smoot Tariff had become a target of derision. Democratic candidate Franklin D. Roosevelt claimed that Hoover's refusal to veto the bill caused the Great Depression. Hoover rebutted Roosevelt's argument, but the bad economy led to Roosevelt's election.

—Karen A. J. Miller

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See also Volumes 1, 2: Agricultural Policy; Volume 2 (Documents): Franklin D. Roosevelt on Hawley-Smoot Tariff; Herbert Hoover's Response to Franklin D. Roosevelt on Hawley-Smoot Tariff.

Hay-Pauncefote Treaties (1900, 1901)

Two separate treaties signed by the United States and Great Britain that granted the United States the exclusive right to build, control, and fortify a canal across Central America.

American interest in an isthmian canal increased when the United States emerged from the Spanish-American War as a power in the Caribbean and the Pacific. A canal across Central America seemed necessary so that the U.S. fleet could participate easily in two-ocean operations and so Americans could take full advantage of trade opportunities in the Pacific. But the Clayton-Bulwer Treaty (1850) required a joint Anglo-American protectorate of any isthmian canal. In January 1900, a bill introduced into Congress called for the construction of a canal across Nicaragua despite the Clayton-Bulwer Treaty. British officials, involved in the Boer War in South Africa and facing several unfriendly European nations, deemed it unwise to jeopardize Britain's friendship with the United States. Thus on February 5, 1900, Secretary of State John Hay and British ambassador Sir Julian Pauncefote signed the first Hay-Pauncefote Treaty abrogating Clayton-Bulwer and giving the United States the sole right to build and control, but not fortify, a canal connecting the Atlantic and Pacific Oceans. Governor Theodore Roosevelt of New York and Republican Senator Henry Cabot Lodge of Massachusetts led the attack on the first treaty because it did not give the United States the right to fortify the canal. Before ratifying the treaty on December 20, 1900, the Senate amended it to allow for fortification of the canal. But on March 11, 1901, Pauncefote informed Hay that the British government would not accept the treaty. In the following months, much talk in the United States called for the unilateral abrogation of the Clayton-Bulwer Treaty or even for going to war with Great Britain over the issue of the isthmian canal. British leaders, greatly disturbed by such talk, agreed to sign a second Hay-Pauncefote Treaty in November and December 1901, and both the U.S. Congress and British Parliament ratified the agreement that allowed the United States to build, control, and fortify a canal across Central America.

—Steven E. Siry

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See also Volume 1: Panama and the Panama Canal; Volume 2 (Documents): Panama Canal Treaty of 1903.

Hepburn Railroad Regulation Act (1906)

A 1906 act that increased the power of the Interstate Commerce Commission over interstate common carriers such as railroads and ferries.

Under the leadership of Chief Commissioner Thomas M. Cooley, the Interstate Commerce Commission (ICC), which was established in 1887, attempted to halt harmful effects of competition such as rebates. Rebates were offered to large suppliers that were charged the same price for long-haul as smaller shippers received for short-haul; the large suppliers then received a rebate, which actually lowered their costs and allowed them to cut their prices and drive the smaller competitors out of the market. But during the late 1890s, the Supreme Court greatly circumscribed this type of regulation and, by 1900, the ICC was virtually powerless to end the abuses it was established to control.

In 1903, Congress began to strengthen the ICC with the Elkins Antirebating Act. This act prohibited rebates, or volume discounts, that benefited large shippers such as John D. Rockefeller, who would pay the same rate as a smaller shipper but would later receive a rebate from the railroad company. In 1904, the Supreme Court voided the railroads' solution to ruinous competition when it ordered the dismemberment of the Northern Securities Company (which monopolized the railroads in the Northwest and thereby controlled pricing). Thus, by 1905, shippers, railroads, politicians, and especially President Theodore Roosevelt began working toward a different approach to railroad regulation. With the active support of Roosevelt, whose ideas about the role of the federal government were consistent with expanding both regulatory and corporate power, Congress passed the Hepburn Act in 1906.

The Hepburn Act changed many regulations. Its "commodity clause" prohibited railways from transporting commodities in which they had an interest. This act attempted to

eliminate unfair competition by railroads that hauled their own products, especially coal and iron ore. The act lengthened the time for notice of rate changes from 10 to 30 days. It established stiff monetary and prison penalties for rebating. It expanded membership in the ICC from five to seven members and lengthened the term of service to seven years. It required the railroads to standardize accounting practices and gave the ICC the right to inspect railroads' books, an essential power it needed to uncover rebating abuses, which often remained hidden through nonstandard accounting practices.

Most importantly, the act granted the ICC power to establish maximum rates that were "just, fair, and reasonable" (terms not defined in the act), and it granted the commission enforcement power. Thus railroads had to obey the ICC under penalty of fines or imprisonment, or bring suit. The act expanded the scope of the ICC to cover express (package-shipping) companies, sleeping car companies and other private car lines, and interstate pipelines. Finally, the ICC received the authority to control its own administration and to appoint agents and investigators. The ICC staff quickly ballooned.

The Hepburn Act signaled a change in U.S. regulatory policy toward one that recognized the monopolistic tendency of railroad transportation; the act regulated that monopoly, rather than attempting to control the harmful effects of a lack of competition, which had been Chief Commissioner Cooley's focus. Congress codified this view of the role of regulation in subsequent legislation. The Hepburn Act transferred regulatory power from the courts to the independent oversight commission. It transformed the ICC from a quasi-judicial body into an investigative agency and made it the dominant regulatory body of the U.S. government and the model for future regulatory agencies.

—*Russell Douglass Jones*

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See also Volume 1: Interstate Commerce Commission; Railroads.

High-Tech Industries

Research-intensive industries that produce innovative technological products, formed in the 1980s with the invention of the personal computer and the rise of the Internet.

During the 1980s, high-technology (high-tech) industries in the United States grew rapidly. The average growth rate for four major research-intensive fields—aerospace, computers and office machinery, electronics and communication equipment, and pharmaceuticals—is twice that for other manufacturing firms. Since 1980 the average growth for high-tech companies has been 6 percent annually compared with 2.4 percent for other companies. Between 1992 and 1996, high-tech industries experienced an 8 percent annual growth rate—primarily because of the rise of the dot-com companies, which were entirely based on computer technology. By 1990, output from high-tech companies accounted for 13 percent of all U.S. manufactured goods.

The rise of high-tech industries coincided with the development of the personal computer (PC). Companies such as Microsoft, Dell, and Apple produced smaller computers for both office and home. Increased sales of PCs in turn stimulated the software industries. Video games and accounting, graphic design, and word processing packages allowed consumers to use the computer for more and more tasks. Manufacturers realized the need for backup data storage and addressed the problem with the development of the floppy disk, the zip drive, and the CD-ROM (compact disc read-only memory). The development of the CD-ROM in turn influenced other fields, such as music and movies. Each change in technology spurs the development of new products, which in turn stimulates the economy.

The high-tech industry created millions of jobs during the last two decades of the twentieth century. Although projections were that an additional 2 million jobs would be created between 2001 and 2006, that number may not be reached because of the recession that began in the United States in 2000. Some high-tech industries have been extremely hard hit, whereas others continue to show a more moderate growth and profit rate.

The U.S. government continues to encourage growth in this sector for several reasons. First, companies that produce innovative products generally increase their market share both domestically and internationally. New research-intensive products (for example, a software program) that support high value-added products (for example, a spreadsheet or word processing program), in which the original product is improved and the value is increased, do well overseas, and as profits increase, employees receive higher wages and subsequently have more disposable income and personal savings. New manufacturing processes generally are more efficient, resulting in the expansion of business and the creation of jobs—primary goals desired by the federal government, which then benefits from high tax revenues.

—*Cynthia Clark Northrup*

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See also Volume 1: Aviation; Computer, Microsoft.

Homestead Act (1862)

First of a series of acts designed to encourage settlement on the western frontier.

On May 20, 1862, while the Civil War raged, the Northern Republican Congress passed "An Act to secure Homesteads to actual Settlers on the Public Domain." The federal government allowed U.S. citizens—or individuals who had immigrated to the United States and had applied for citizenship—to file a preemptive claim on a maximum quarter section of land in the public domain. Any man or woman who was the head of a household or had reached the age of 21 and who had never borne arms against the United States could reside on the property for five years, then receiving title, or could buy 160 acres of public land at $1.25 per acre or 80 acres for $2.50 per acre. If, at the end of five years, the person had moved his or her residence—that is, had left the land—for more than six months, the land reverted back to the government.

Between 1862 and 1986, the United States granted or sold more than 287.5 million acres to homesteaders. This figure represents approximately 25 percent of all public lands disposed of by sale or other means. The opening of western lands created a safety valve for Americans. Those from overcrowded cities or immigrants who had lived in the United States for several years had the opportunity for "free land." Many moved west who would not have otherwise. In the process, the U.S. government consolidated control over the area and new states were formed. Improvements in agriculture and the invention of barbed wire spurred the western movement.

Throughout the years, the Homestead Act has been modified often. For instance, veterans could deduct the time they served from the five-year requirement. Congress repealed the Homestead Act on October 21, 1976—extending, however, the effective ending date for public lands in Alaska 10 years to October 21, 1986.

—*Cynthia Clark Northrup*

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See also Volume 2 (Documents): Homestead Act.

Horseshoe Bend, Battle of (1814)

Battle that opened Alabama and Mississippi to American settlement and led to the establishment of the southern Cotton Belt.

The Creek War was a war of the U.S. government against the Creek Indians, who had allied themselves with the British during the War of 1812. On March 27, 1814, Major General Andrew Jackson—leading the Tennessee militia and the 39th Regiment of the U.S. Army and accompanied by Native American allies from the Lower Creek and Cherokee tribes—had pushed the Muskogee tribe into a defensive position in a large bend in the Talapoosa River, across the neck of which the Muskogees constructed a barricade. In the early stages of the battle the allied Native Americans crossed the river upstream in stolen canoes and attacked the Muskogee village, taking the women and children prisoner, and then proceeded to attack the barricade from the rear. Jackson commenced a frontal assault on the barricade and succeeded in taking it after fierce fighting.

The subsequent Treaty of Fort Jackson, which Jackson negotiated without authorization from Congress, ended the Creek War and ceded to the United States 23 million acres of land owned by Creeks and other tribes, including some land belonging to tribes allied with the U.S. government. This victory opened much of the lower South to settlement by European Americans, and the white population of Alabama boomed from 9,000 in 1810 to 310,000 in 1830. This victory and the gain in territory cemented Jackson's popularity with the American public and contributed to his election as president in 1828.

—*Margaret Sankey*

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See also Volume 1: Indian Policy.

Housing Act of 1949

Federal legislation designed to fund inner-city urban redevelopment by razing existing slum structures and building new structures in urban areas.

The Housing Act of 1949 addressed issues related to urban redevelopment. After World War II, the white urban population moved to the suburbs, taking advantage of low-interest government-backed housing programs such as Fannie Mae, the Servicemen's Readjustment Act, and Veterans Administration mortgages. Inner-city housing was deteriorating and the private sector could not afford the costs of demolition and rehabilitation; therefore, to correct for market failure, Congress passed the Housing Act of 1949, creating a substantial federal subsidy for urban redevelopment. The act funded property acquisition, demolition of structures, and site preparation. To be eligible for federal funds, local governments had to take responsibility for one-third of a project's costs, a commitment they often realized by acquiring public works projects in local budgets.

The Housing Act of 1949 established a national legislative goal to provide "a decent home and a suitable living environment for every American family." The legislation equated housing with community development and the "general welfare and the security of the nation." Here, the concept of community development included the physical redevelopment of a community as an indicator of increased social welfare. This connection is cited as the rationale for legislation in the introduction to the act: "The Congress hereby declares that the general welfare and security of the Nation and the health and living standards of its people require housing production and related community development…"

—*Eileen Robertson-Rehberg*

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See also Volume 2: Urbanization.

Housing Act of 1954

Amendment to the Housing Act of 1949 that initiated city urban renewal projects and displaced poor residents.

The federal Housing Act of 1954 increased the flexibility of the Housing Act of 1949, specifying that the earlier act's funding for property acquisition, demolition of structures, and site preparation be expanded to include commercial and industrial development. The shift in emphasis from replacement residential housing (urban redevelopment) to commercial and industrial development (urban renewal) meant that poor neighborhoods could be demolished and replaced with businesses or apartments that did not necessarily provide residences for former neighborhood residents. After passage of the 1954 amendment, applications for federal funds increased significantly compared with what had been experienced after passage of the 1949 legislation, and politicians and business interests combined private funds with municipal and federal funds toward redeveloping core areas of big cities. These areas had experienced deterioration as new homes were built in the suburbs for young families seeking to live in their own homes rather than living with their parents. As more people moved to the suburbs, the inner city was abandoned and the tax base diminished, causing some areas to become slums.

Urban renewal legislation initiated a period of contention between advocates for the poor and local business interests. Frequently, cities pursued redevelopment plans that eliminated many poor neighborhoods and left others overcrowded. Poor inner-city neighborhoods were affected by practices such as redlining, a process of exclusion in which financial institutions denied development capital to neighborhoods designated as poor investments. Pockets of inner-city poverty and unemployment were increasingly evident within areas of relative prosperity. By the end of the 1950s, many large city governments were aggressively pursuing urban renewal in the interest of establishing more vital business districts rather than improving the living conditions of poor residents.

—*Eileen Robertson-Rehberg*

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See also Volume 2: Urbanization.

HUD

See U.S. Department of Housing and Urban Development.

Hull, Cordell (1871–1955)

Secretary of state under President Franklin D. Roosevelt from 1933 to 1945 who promoted reciprocal trade agreements.

Cordell Hull of Tennessee graduated from law school in his home state and then served as a captain during the Spanish-American War. He became a circuit judge after returning to the United States and in 1907 was elected to the House of Representatives, where he served until 1931, except for a hiatus between 1921 and 1923. He resigned from the House in 1931 to successfully run for the Senate. Two years into his Senate term he was appointed secretary of state by President Franklin D. Roosevelt.

While he was in Congress, Hull focused primarily on the tariff. His fascination with the subject began during the Mills Bill debate in 1888 on the reduction of tariff rates. Hull viewed the tariff as a domestic evil that contributed to the rise of big business, the loss of competition, and the cause of poverty among workers. He not only spoke out against high tariffs, but he proposed a series of "pop-gun bills"—pieces of legislation that addressed single tariff issues—and opposed passage of the Payne-Aldrich Tariff of 1909. After the election of President Woodrow Wilson, Hull helped draft the tax legislation that accompanied the Underwood-Simmons Tariff Act of 1913. The act decreased the tariff but added a personal income tax. Before the effects of the downward revision of the tariff could be realized, World War I disrupted international trade.

Hull realized that the high tariffs caused conflict, including World War I, in international affairs. He worked to lower rates in an effort to stabilize and improve foreign relations. He spoke out passionately against the proposed record-high Hawley-Smoot Tariff during congressional debates in 1929. After Congress passed it in June 1930, the Great Depression worsened and the country elected Franklin D. Roosevelt president after Herbert Hoover failed to implement policies to help individuals hit hard by the depression. Roosevelt appointed Hull as his secretary of state in 1933.

Hull attended the London Economic Conference in 1934 but could not cooperate with other European nations because of the restrictions placed on him by the Hawley-Smoot Tariff. When he returned to the United States, he persuaded Roosevelt to propose that Congress allow the administration to negotiate reciprocal trade agreements with individual countries in an effort to stimulate international trade. Congress passed the Reciprocal Trade Agreements Act of 1934, and Hull began negotiating agreements with countries that were willing to lower tariff barriers on a reciprocal basis with the United States. He continued to push for the reduction of tariffs throughout Roosevelt's presidency. His efforts set the United States on the course toward free trade. In recognition of his efforts to bring about peace and stability to the international community, Hull received the Nobel Peace Prize in 1945.

—*Cynthia Clark Northrup*

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See also Volume 1: Great Depression; Protective Tariffs; Reciprocal Trade Agreements Act; Roosevelt, Franklin D.

ICC

See Interstate Commerce Commission.

IMF

See International Monetary Fund.

Immigration

The process of voluntary migration to the United States during the nineteenth and twentieth centuries.

During the late nineteenth and early twentieth centuries, immigrants to the United States tended to come from southern and eastern Europe. Although many chose to emigrate on the basis of cultural factors such as educational opportunities or political and religious freedom, immigrants generally benefited economically, having calculated the costs of emigrating, differences in the cost of living, and differences in wages and income between the home and host countries. However, during the late nineteenth and early twentieth centuries, many immigrants—often as many as half by nationality—returned to their native countries after realizing that temporary economic gains made in the United States would provide them with permanent investments back home.

The U.S. economy also benefited from immigration. The availability of relatively cheap, low-skilled immigrant labor helped fuel the rapid industrial expansion and development of the United States. Many immigrants' willingness to work longer hours for less pay reduced the price of labor for rapidly growing industries. However, the nation's economic gains did not come without social costs—anti-immigrant bigotry, racial tensions, and labor conflicts. The Know-Nothing (American) Party opposed immigration in the mid-1800s; the Molly Maguires (Irish coal miners) arranged for an end of Chinese immigration in the late 1800s; and the Ku Klux Klan of the 1920s was extremely anti-immigrant after World War I race riots occurred when returning veterans demanded jobs held by African Americans.

The Immigration Act of 1924, a result of the determination of the Ku Klux Klan and other groups to stop immigration after World War I, significantly diminished mass immigration until after World War II, when immigration resumed its steady increase. Like their predecessors, immigrants in the latter half of the twentieth century based the decision to emigrate on economic and cultural factors. For example, people were more likely to relocate to the United States if their native countries had less political freedom than the United States or if their country became involved in crisis or conflict. In addition, proximity to the United States, fluency in English, and levels of higher education increased the likelihood of immigration. On the other hand, immigration slowed when wages in source countries became higher than those in the United States. On arrival in the United States, immigrants often lagged behind in terms of earning potential, but they usually caught up with and sometimes surpassed native-born Americans of similar socioeconomic backgrounds within a generation.

After the passage of the Immigration Act of 1965, which removed restrictions on immigration to the United States from non-European nations, immigration began to increase from developing regions including India, China, the Middle East, and sub-Saharan Africa. In addition, the number of illegal Mexican immigrants looking for employment and a better life increased dramatically. Since the 1990s, the United States has offered amnesty programs allowing many illegal Mexican immigrants to file for citizenship. The increasing population of unskilled immigrants has sometimes burdened state and federal welfare systems and contributed to a decline in domestic unskilled wages. However, the number of highly skilled and educated immigrants from the same regions has also increased, a "brain drain" that has significantly benefited the United States. Taking into consideration both low-skilled and high-skilled immigrants, the United States has enjoyed a net benefit from immigration during the period since 1980.

—*Eric Pullin*

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See also Volume 1: Immigration; Volume 2: Labor.

Indentured Servants

European immigrants who were willing to trade a specific period of their life's labor in exchange for the opportunity to begin a new life in the Americas.

The system of indentured servitude originated in the English contractual systems of husbandry and apprenticeship, in which youths worked without wages in exchange for learning to care for animals or develop a specific skill. The system also developed in the American colonies because Britain, like other European states that attempted to colonize the Americas, quickly discovered that the New World contained a vast amount land that it hoped to make productive but had a dearth of willing laborers. The abundance of land, which the Europeans claimed because they believed the Native Americans did not own it, required settlers in British North America to develop effective labor systems to meet their needs. Colonial settlement in America coincided with the enclosure movement in Europe, which came about as farming became more efficient and forced many peasants off of the land and into overcrowded cities in search of jobs. Those displaced from European farms constituted a ready labor supply for the Americas, where as colonists and laborers they could become productive elements of society. However, because many could not afford to pay their passage across the Atlantic, they agreed that in exchange for passage they would labor for their employer in the colonies for a specific number of years to pay off their debt for passage. Many of these contracts included a benefit called "freedom dues," payable to the servant at the end of their contract. These dues might include tools of their trade or land. The servants' contracts could be bought and sold after their arrival in America if their services were no longer needed. As the number of English willing to become indentured servants diminished, the colonies started to accept indentured servants from throughout Europe. Virginia employed most of the indentured servants as field hands in the labor-intensive tobacco industry until the widespread use of slavery after the 1670s.

—Ty M. Reese

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See also Volume 2: Labor.

Indian Policy

Official treatment of Indians by the U.S. federal government.

The relationship between various Indian tribes and white settlers predated the formation of the U.S. government in 1781. Spanish, French, and English settlers followed different policies in relating to native populations: The Spanish advocated an aggressive approach to assimilation; the French sought a middle ground of mutual accommodation; and the English pursued the removal of native peoples from areas of white settlement.

After the Revolutionary War and the establishment of a government in the United States, federal authorities assumed responsibility for Indian policy under powers outlined in Article 1, Section 8, of the Constitution: "The Congress shall have power . . . to regulate Commerce with foreign nations, and among the several states, and with the Indian tribes." Since then, the Indian policy of the United States has been characterized by seven distinct and contradictory phases: annihilation, removal, concentration, assimilation, revitalization, termination, and self-determination.

Between 1789 and 1830, the federal government followed an unstated policy of annihilation of Indian tribes, although little such action by the federal government occurred because of extremely limited contact between white settlers and Indians. In 1830 the pressures of a growing European population and increasing demand for land prompted the promulgation of a removal policy by President Andrew Jackson, who wanted to move all native peoples to an Indian territory far from white settlement. This policy reached its zenith in 1838, when the U.S. government forced five civilized nations—the Cherokee, Chickasaw, Choctaw, Seminoles, and Creek—to move from North Carolina and Georgia to Indian territory in present-day Oklahoma along the Trail of Tears—a forced march during which a great many people, especially infants, children, and the elderly, died.

In 1850 the federal government responded to pressure from settlers by concentrating Indians on reservations and placing them under the jurisdiction of the Bureau of Indian Affairs (BIA). This policy opened vast tracts of Indian lands to white settlement and sparked tensions between settlers and Indians who were unwilling to live on reservations. In 1880, 141 Indian reservations existed in the United States.

In 1887 the Dawes Act altered policy by legislating private land ownership, formal education, and citizenship for Indians. The act's intent was to break up tribal power and culture and accelerate complete assimilation of Indians into the dominant culture. Most government officials and Indian rights organizations supported this policy, believing it would improve conditions for Indians. Ultimately it did not, and the result of the Dawes Act was that the Indian culture began to disappear and Indians began to be absorbed into mainstream U.S. culture.

The policy of assimilation persisted until the passage of the Wheeler-Howard Act in 1934, which called for the conservation of Indian lands and resources and limited home rule for Indians. Commissioner of Indian Affairs John Collier, a social worker with extensive involvement with Indian tribes, believed Indian culture could be revitalized by organ-

izing tribal governments, holding reservations in common, promoting Indian traditions and practices, and ending the practice of allotment, which called for the provision of land to individual Indian families rather than to the tribe. The Indian New Deal, as it was known, was introduced by Collier and remained an idealistic and culturally sensitive policy that stayed in place as long as Collier served as the commissioner of Indian affairs. In 1945 Collier left office, and the most important policies of the Indian New Deal quickly disappeared.

President Harry S Truman and Commissioner of Indian Affairs Dillon Myer endorsed the policy of termination, which sought to end the reservation system, eliminate the trust relationship (in which the federal government was the trustee of Indian reservations), and terminate federal responsibility for Indian affairs. Between 1950 and 1970 the federal government and various Indian tribes became embroiled in legal battles over termination; only a small percentage of Indian tribes terminated their relationships with the federal government.

On July 18, 1970, President Richard Nixon ended termination and initiated the current policy of Indian self-determination. This approach called for reducing the influence of the Bureau of Indian Affairs in the daily lives of Indians, increasing the authority of tribal governments, and honoring treaties and annuity agreements (provision of a yearly income) between the federal government and Indian tribes. Since 1970 Native Americans have regained control over their educational system, pushed through legislation requiring the adoption of Native American children by Native American families, and gained more political and economic control of their affairs. Native Americans work in the Bureau of Indian Affairs and have helped ensure that their rights and grievances have been addressed more than they were in previous decades.

—James T. Carroll

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See also Volume 1: Trail of Tears.

Industrial Heartland

The Midwestern United States, where a major portion of industry is concentrated.

The term *industrial heartland* has been applied primarily to Ohio, Indiana, Illinois, Wisconsin, and Michigan—the area identified by the Census Bureau as the East North Central region. However, the concept has also been extended as far west as the Twin Cities (Minneapolis and St. Paul, Minnesota); as far south as St. Louis, Missouri; and as far east as Pittsburgh, Pennsylvania, and Buffalo, New York. According to urban historian Jon C. Teaford, the people of this region have in common their isolation from both the Atlantic and Pacific Oceans. The region's lifelines to that outside world have been primarily the Great Lakes, the Mississippi and Ohio Rivers, and the nation's railroad hub—Chicago. The industrial heartland remains strategically located between the massive iron deposits of the Mesabi Range in northeastern Minnesota and the coalfields of southern Illinois, Indiana, and Ohio, and it contains the huge oil refineries of northwestern Indiana and northeastern Ohio.

Although the Industrial Revolution began in lower New England and the Middle Atlantic states early in the nineteenth century, it gradually expanded to include the industrial heartland encompassing Ohio, Michigan, Illinois, and Indiana, especially as the manufacture of iron and steel products, steam and electric engines, and automobiles became bellwethers of the industrial economy. By 1919, the Pennsylvania and New York region contained 21 percent of its manufacturing establishments, employed one-quarter of its wage earners, processed 27 percent of its raw materials, and accounted for 28 percent of the Industrial Heartland's product value and value added by manufacturing, outstripping New England by two or three to one in each category. Although the Middle Atlantic region actually enjoyed a moderate edge in all of these categories, the concentration of heavy industry in the East North Central states reinforced the area's popular reputation as the nation's "steel belt." During the past several decades, however, the area has declined significantly in economic importance, causing some to dismiss it as the "rust belt." The economy in this region continues to be depressed as U.S. steel companies compete with foreign steel companies. In 2002 President George W. Bush increased the tariff on imported steel in an effort to help the beleaguered industry.

—John D. Buenker

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See also Volume 1: Industrialization.

Industrial Revolution (1780s–1840s)

An economic process that started in England and also occurred in the United States that involved the introduction of technology into manufacturing.

Beginning in the 1500s, England's production of woolen textiles increased, and mechanized work became an important element of England's economic development. After 300 years, nonmechanical production capabilities had reached their limits. Growing demand for textiles and increased capital available for investment contributed to the introduction of technology into England's textile industry in the second half of the eighteenth century. England had already experienced other great changes in its modes of production, including the creation of small workshops and the putting-out system (cottage industries), and its agricultural system produced a surplus of food for a growing population. England's

Industrial Revolution saw the introduction of technology and the reorganization of labor under the factory system; the rise of new power sources, including water and the steam engine; and widespread social, economic, and political consequences of these revolutions. The introduction of technology allowed the English to produce more at lower cost, resulting in higher profits and a concerted effort to protect this technology through prohibition against exporting it.

The American colonies experienced the economic consequences of England's Industrial Revolution as Britain flooded colonial markets with cheap manufactured goods. Even after Americans gained their political independence from England, they remained, to the detriment of many, part of England's economic empire because of U.S. trade restrictions imposed by Great Britain.

Many of the earliest Americans saw the possibilities in England's Industrial Revolution and hoped to accomplish a similar revolution in the United States. President George Washington's secretary of the treasury, Alexander Hamilton, issued a series of reports promoting actions that would make America more economically independent and advanced, including improving public credit, paying off debt from the revolution, minting and standardizing currency, creating a national bank, and establishing tariffs designed to promote manufacturing. In the South, the postrevolutionary period saw a transformation to cotton production as English manufacturers demanded ever-increasing amounts of this raw material. The demand for cotton after the invention of the cotton gin in 1793 revitalized slavery in the South, where the economic system remained agrarian.

The economic and diplomatic problems caused by the Napoleonic Wars, coupled with the War of 1812, unleashed a fever of American nationalism that many citizens and politicians viewed as a call for economic independence and development. The War of 1812 and the expanding size of the United States clearly illustrated the need for an infrastructure, creating a boom in road and canal building followed shortly by steam-powered riverboats and railroads. The most important economic advancement for the United States in the early 1800s—and the one that would begin America's own Industrial Revolution—occurred when the Boston Associates, a group of wealthy New England entrepreneurs, decided to create their own textile mills. Their plan began when American entrepreneur Samuel Slater disguised himself as a sailor and set sail from England to the United States with the plans in his mind to build a spinning mill—plans he had memorized while in England to thwart England's attempts to keep its technological innovations secret. In 1813, the Boston Associates built their first mill in Waltham, Massachusetts, and then sent Francis Lowell, another member of the Boston Associates, to England to steal more technological secrets. In the early 1820s, the Boston Associates started to build a new state-of-the-art textile mill at Lowell, Massachusetts, hoping to improve on England's technology and to avoid the negative social consequences such as drinking and prostitution that were associated with the Industrial Revolution. Their business and social experiment—technological innovation paired with the attracting of qualified and devoted workers—failed, but they had laid the foundations for America's own Industrial Revolution.

From this small beginning America's productive capacities expanded, and a second industrial revolution between the Civil War and World War II expanded the nation's manufacturing capability. The rise and dominance of big business during this period stemmed from continued territorial and demographic expansion, ever-increasing sources of raw materials, an expanding infrastructure, inventions that expanded and cheapened production, and new management techniques and methods of labor organization. The growing population created a ready supply of consumers and cheap labor, and the consolidation and expansion of business gave entrepreneurs increasing political power. John D. Rockefeller's Standard Oil Trust, Andrew Carnegie's steel empire, and J. P. Morgan's financial activities all serve as examples of the productive capabilities of the United States. This capability gave the United States a decided advantage when it entered World Wars I and II and made victory possible. In the twentieth century, this manufacturing solidified America's position as a world power. Since the mid-1990s, the United States and other industrialized nations have been moving into a post-industrial age in which mechanization is being replaced by a revolution in communications and service industries. This era is yet to be completely defined.

—Ty M. Reese

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Industrial Workers of the World (IWW)

A revolutionary labor organization founded in Chicago in 1905 that advocated the overthrow of capitalism by forcible means if necessary.

The Industrial Workers of the World (IWW), a labor union, received much attention and engendered substantial fear in early twentieth-century America among people who believed it was linked to socialism. It was established by William (Big Bill) Haywood, the radical secretary-treasurer of the Western Federation of Miners, with assistance from U.S. socialist leaders Daniel De Leon and Eugene Debs. The IWW welcomed members (known as Wobblies) regardless of race or gender as it tried to organize the skilled and unskilled American working class into a mammoth union that would promote social revolution. The IWW leaders also supported revolutionary movements in Russia and other countries.

Besides Haywood, IWW leaders included Mother Jones (Mary Harris), a famous veteran of labor conflict in the Illi-

nois coalfields, and Elizabeth Gurley Flynn, who joined as a teenager and was a social organizer for the IWW. The IWW made major gains among miners and loggers in the South and Far West, migrant farm laborers on the Great Plains, and immigrant workers in the Northeast. At its peak, however, IWW membership probably amounted to no more than 100,000 at any given time. By 1908 Haywood had begun to promote violent class struggle, and in subsequent years the IWW led several major strikes, including strikes in 1912 at Lawrence, Massachusetts, and Paterson, New Jersey, that attracted national attention. IWW leaders incorrectly believed that capitalist repression of a series of local strikes would lead to a general strike throughout the United States and subsequently create a workers' commonwealth. The IWW's opposition to America's entry into World War I led to the federal government's prosecution of its leaders under the Espionage Acts of 1917 and 1918, which virtually destroyed the union's power. Haywood died in Moscow on May 18, 1928.

—*Steven E. Siry*

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See also Volume 2: Labor.

Industrialization

Process common to capitalist, socialist, and developing regimes that increases the proportion of the workforce engaged in manufacturing and the proportion of national income derived from manufacturing.

Industrialization, understood as the process by which Third World countries could catch up to the West technologically and economically, became the object of intense debate with the launching of the Bretton Woods organizations such as the International Monetary Fund designed to stabilize currency (1944), the United Nations designed to prevent future wars (1945), and Truman's Point Four Program based on his 1949 inaugural address calling for the provision of technological skills, knowledge, and equipment to poor nations (1949). In essence, the debate about industrialization centered on the interpretation of two historical events: the British Industrial Revolution (1780–1840) and Soviet industrialization (late 1920s to early 1950s).

Since the publication of historian Arnold Toynbee's lectures in 1884, which popularized the term "Industrial Revolution," economic historians have tended to conceptualize nineteenth-century Great Britain as the paradigmatic case of industrialization. Known as the "workshop of the world," Great Britain was presumed to have achieved a favorable position vis-à-vis France and other countries as a consequence of three factors: the implementation of the Enclosure Acts, which forced peasants off of the land and into the cities as laborers; the spread of the factory system, which transformed the division of labor into specialized occupations and jobs; and the employment of new machines (e.g., the spinning jenny and the steam engine) and new raw materials (e.g., coal and iron ore). Thus, according to the conventional narrative, the Industrial Revolution began in the 1780s and ended in the 1840s. In the intervening period, Great Britain outstripped the rest of the world.

In *The Modern World-System III* (1989), Immanuel Wallerstein challenged the concept of the Industrial Revolution and by extension the so-called "English model" or path of development. Wallerstein argued not only that "there had been factories (in the sense of physical concentration under one roof of multiple workers paid by one employer) before this time," but also that "the extent of the introduction of the factory at this time can easily be overstated, even for Britain." If, as Wallerstein suggested, the process of industrialization began long before 1780 and ended long after 1840, it cannot be defined as a revolution. It would be preferable, therefore, to examine the uneven industrialization of the world over a longer period of time.

In the Soviet Union, two five-year plans beginning in 1929 and ending in 1938 emphasized the development of heavy industry and produced a dramatic increase in both the proportion of the labor force employed in manufacturing and the proportion of national income resulting from manufacturing. Owing the perceived success of its industrialization, the Soviet Union enjoyed considerable prestige in Africa, Asia, and Latin America. In the aftermath of World War II, the Soviet Union (with its socialist model) and the United States (with its Keynesian model) competed for influence over the industrialization of the Third World. However, as innumerable commentators on efforts to industrialize these regions have noted, there was considerable industrialization but very little wealth created. This remained the case as the twenty-first century began.

—*Mark Frezzo*

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Inflation

The collective increase in prices, money incomes, or the supply of money.

Compared with the less-developed world, the United States usually has enjoyed historically low rates of inflation, typically below 5 percent per year. But inflation is a politically charged issue and at times has been considered the nation's most serious economic problem. Price inflation generally benefits debtors (by allowing them to pay back debts with cheaper dollars) and those on fixed incomes, while harming creditors.

There are several widely accepted economic theories for the causes of inflation. According to quantity theory—dating back to the eighteenth century but made more sophisticated by Milton Friedman and other University of Chicago economists in the 1950s—when the total quantity of money in circulation is inadequate for the level of business activity, inflation results. Cost-push theory states that prices are chiefly determined by their costs, so that rising costs can set off a price-wage spiral. Conversely, demand-pull theory ascribes inflation to an overabundance of purchasing dollars chasing a relatively limited supply of goods. Other theories point to the undesirable wage rate declines and gaps between imports and exports that result in an unfavorable balance of trade and inflation. Most economists see an inverse relationship between inflation and unemployment (a theory known as the Phillips curve).

Since the 1930s, economic policymakers have used a variety of fiscal and, especially, monetary policies to sustain low levels of inflation. Most influential among these policies have been the actions of the U.S. Federal Reserve Bank, which controls the volume of money in circulation and the rate at which member banks can borrow from the central bank. But politics have often interfered with the type of sound macroeconomic management practiced by the Federal Reserve. A great inflation began in the mid-1960s, when the administration of President Lyndon B. Johnson refused to raise taxes while scaling up the Vietnam conflict in an economy with little excess capacity. Hyperinflation (above 10 percent) with slow growth, a combination called "stagflation," occurred in the late 1970s and was brought under control largely by Paul Volcker, chair of the Federal Reserve. His successor, Alan Greenspan, has sustained the policies controlling stagflation.

—David B. Sicilia

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See also Volume 1: Federal Reserve Act; Greenspan, Alan; Stagflation; Volcker, Paul.

Infrastructure

Services provided by physical or human capital along with indispensable social institutions that do not serve any one firm or person in particular.

Infrastructure yields benefits to all who use it. Typical infrastructure services include communications and transport such as roads, railways, harbors, airports, telephone and postal services; distribution systems for water, electric power, and natural gas; medical, educational, police, and correctional systems; and firefighting and other institutions. Most components of infrastructure are subject to economies of scale or scope. In general, one large provider can best organize provision of services, creating in the process a natural monopoly. Although this natural monopoly may cost the least, it can also result in poor service and less flexibility. Items of physical infrastructure include public goods, the use of which is not exclusive. Infrastructure differs from investment in plant and equipment, which generates direct, private benefit to its owner.

Services from infrastructure enable business firms to focus on their individual expertise rather than on providing for all of their basic needs. The private sector continues to provide many of the same infrastructure services but at a cost higher than that of public-sector services. The availability of privately funded infrastructure therefore makes investment by private firms more profitable and therefore more likely to occur. Once the government builds infrastructure such as a railway or highway, the additional cost to serve more firms remains small, encouraging further growth among manufacturing and transportation companies.

Components of American infrastructure have evolved in different ways. Municipal, state, or federal authorities have provided and maintained roads. Railways operate financially as separate entities, but the government often subsidized early construction because of high costs caused by the lack of prior infrastructure. Many harbors and airports are privately owned, though again government money frequently subsidizes construction. Telephone services continue under private ownership and postal services under partly private and partly public ownership, although the U.S. mail now has many private competitors for the more lucrative parts of its services. Water provision remains organized at the municipal level although it is sometimes contracted out to private companies, while electricity and natural gas are privately owned in most cases. Private companies provide medical services, although certain types of patients are directly subsidized by federal or state programs. Public primary and secondary education is available to all, though some choose private alternatives. Provision of tertiary education similarly is divided between public and private institutions. Police, justice, and firefighting systems are all publicly organized.

The many forms of infrastructure that are natural monopolies are not exposed to competitive forces. Such monopolies are frequently controlled by public regulatory bodies that themselves are not competitive, leading to inefficiencies. An important recent worldwide phenomenon has been the drive to privatize many items of physical infrastructure. Utilities and transportation systems, in particular, have been transferred from public to private ownership. The intention is to obtain greater efficiency by exposing the monopolies to competition.

—Tony Ward

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See also Volume 1: Automobile; Railroads; Transportation Revolution.

Insular Cases

Series of Supreme Court cases determining the constitutional status—incorporated or unincorporated—of territorial possessions and dependencies outside of the continental United States.

As the nineteenth century ended, the United States embarked on a bold policy of overseas expansionism. The United States originally acquired territories like Hawaii, Guam, the Philippine Islands, and American Samoa in the Pacific, as well as Puerto Rico and the Virgin Islands in the Caribbean, for strategic purposes. In the case of the Pacific islands, Congress determined that such areas would serve as bases for the development of burgeoning American commerce with countries in the Far East. The United States acquired these territories at about the same time: Hawaii was annexed in 1898; the Philippine Islands, Puerto Rico, and Guam were added as a result of the Spanish-American War of 1898; American Samoa was added through a treaty with Great Britain and Germany in 1899; and the Virgin Islands were bought from Denmark in 1917. Collectively, these acquisitions became known as the Insular Possessions.

The new overseas possessions ultimately posed an important constitutional question: Can Congress exercise jurisdiction over American citizens living in these overseas possessions within the framework of the Constitution? In a series of rulings, the Supreme Court held that such possessions fall into two classifications: incorporated, in which all territories remain bound by the provisions of the Constitution; and unincorporated, in which certain territories are "bound only by certain 'fundamental' provisions of the same." The main issue was whether the revenue clauses of the Constitution and all rights pertaining to U.S. citizens extended to the newly acquired possessions and their inhabitants. In early 1901, in *De Lima v. Bidwell,* the Supreme Court held that "upon the ratification of the treaty of peace with Spain, Puerto Rico ceased to exist as a foreign country and became a territory of the United States, and that duties were no longer collectible upon merchandise brought from that island." However, on May 27, 1901, in *Downes v. Bidwell*—the key case in connection with the Insular Possessions—the justices ruled "that the provisions insuring jury trial and uniformity of tariff duties are not fundamental, but that the guarantee against deprivation of life, liberty and property without due process of law is fundamental and hence applicable in all the possessions of the United States." The Court held that certain fundamental rights guaranteed by the Constitution applied to all territories held by the United States, but it said many other provisions of the Constitution did not apply to possessions not "definitely incorporated as an integral part of the United States." Inhabitants of unincorporated territories lacked all the rights and privileges of American citizens, enjoying only those fundamental rights derived from natural law.

The Supreme Court rulings determined that the rights of inhabitants of the Insular Possessions included those relating to life, liberty, and property but that these inhabitants did not necessarily qualify under the constitutional provision "that all duties, imposts, and excises should be uniform throughout the United States." That is, they enjoyed the rights guaranteed under the constitution but, except in the case of U.S. possessions such as Puerto Rico and Guam, new territories such as Cuba would not be allowed to ship goods into the United States without paying duties. In *Hawaii v. Mankichi* (1903), the Court held that Hawaii and Alaska were incorporated territories. In *Dorr v. United States* (1904), the Court ruled that the Philippine Islands were unincorporated. Interestingly, despite passage of the Organic Act of 1917 granting U.S. citizenship to the people of Puerto Rico, the Court reasoned in *Puerto Rico v. Tapia* (1918) and *Balzac v. People of Puerto Rico* (1922) that the possession be classified an unincorporated territory. For commercial and strategic reasons, the Supreme Court backed the United States policy of overseas expansion while granting carte blanche privileges to certain territories and not others.

The Insular Cases provided a convenient way out of a situation that the Constitution did not address (that is, American expansionism) and enabled the United States to maintain its commercial and territorial expansion. Justice Henry B. Brown best expressed the Court's position by stating, "A false step at this time might be fatal to the development of what Chief Justice Marshall called the American empire."

—*Charles F. Howlett*

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See also Volume 1: *De Lima v. Bidwell; Downes v. Bidwell.*

Interest Rates

Charge for the use of money or capital, usually calculated as a percentage of the principal (money being used) on an annual basis.

Prior to the creation of the Federal Reserve Bank, the federal government could not effectively control the interest rates. State banks and large financial firms like J. P. Morgan and Company set interest rates based on the amount of capital available and the relative demand for that money. During the panics of 1819, 1837, 1857, 1873, 1893, and 1907, interest rates rose dramatically, having the net effect of shrinking the money supply. Passage of the Federal Reserve Act in 1913 gave the Board of Governors of the Federal Reserve the task of setting the prime interest rate charged to banks and other lending institutions for loans. Consumers pay a higher rate

than the prime rate—up to 25 percent. Anything over 25 percent is considered usury under U.S. law.

In recent times, credit cards continue to charge the highest overall rate—usually between 18 and 21 percent. Since the recession of 2000, and especially after the terrorist attacks on September 11, 2001, Federal Reserve Chair Alan Greenspan has continued to cut interest rates in an effort to stimulate the economy. During this time, manufacturers of large consumer items such as automobiles have offered 0 percent interest to entice buyers.

The Federal Reserve system has effectively controlled interest rates since its creation, except in one particular incident. After the stock market crash of 1929, the Federal Reserve increased rates at the same time that Congress elevated trade barriers by passing the Hawley-Smoot Tariff Act. The downturn in international trade coupled with a constricted money supply exacerbated the Great Depression. Since then, the Federal Reserve has maintained a policy of reducing rates during periods of financial difficulty.

—*Cynthia Clark Northrup*

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See also Volume 1: Banking System; Federal Reserve Act; Volume 2: Banking; Volume 2 (Documents): Federal Reserve Act.

International Monetary Fund (IMF)

An organization of 182 countries that facilitates international monetary cooperation throughout most of the world.

Established immediately after World War II, the International Monetary Fund (IMF) maintains stable exchange rates among currencies, thereby promoting the expansion of trade and economic growth. During the 1950s and 1960s, the IMF sought to maintain a system of fixed exchange rates, which would greatly reduce the individual risk encountered with international trade. The U.S. dollar was the key currency against which all others received valuation, with the dollar being convertible to gold at a fixed rate.

In 1971 President Richard Nixon suspended gold convertibility of the dollar because of inadequate U.S. gold reserves. This action resulted in the devaluation of the dollar, initially by 10 percent. Further convertibility adjustments by other countries led most countries to float their currencies based on market prices. The maintenance of fixed exchange rates proved unfeasible, but flexible rates also created substantial problems that included widely fluctuating values of currencies. The IMF adjusted its activities to accommodate these new needs, finding an important new role in stabilizing currencies.

The IMF continuously surveys member countries' exchange rate policies, and it steps in with credits and loans when a member experiences problems with exchange rates. Each member can borrow in units called "special drawing rights" (SDRs) from a combined total of $300 billion. The value of the SDR depends on a weighted combination of the French franc, the German deutschmark, the Japanese yen, the British pound, and the U.S. dollar. Each member nation contributes a quota of funds depending on its ability to pay. The United States contributes 18 percent of IMF total revenues, a significant amount for one nation, and so exerts a great deal of influence over the IMF's activities, but the U.S. does not draw loans from the IMF.

The IMF played an important role in helping many less-developed countries deal with the heavy indebtedness prevalent in the early 1980s. It still offers financial advice to debtor countries, advice that some developing countries consider intrusive. The IMF's promotion of the globalization of trade has led to continuing protests by groups that oppose global trade for reasons ranging from environmental concerns to issues raised by labor organizations.

—*Tony Ward*

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See also Volume 1: Bretton Woods Agreement; United Nations.

International Trade Organization

Proposed organization to regulate world trade, for which a charter was drawn up in the 1940s, but which never came into being; a precursor of the World Trade Organization (WTO).

In 1916, Cordell Hull, Democratic congressional representative from Tennessee, proposed a permanent international trade congress to promote fair and friendly trade relations among nations. Only during World War II, however, did the question of creating such an organization become a matter of practical politics. During and immediately after the war, American and British planners drew up a blueprint designed to promote freer trade on a multilateral, nondiscriminatory basis and to regulate the use of devices such as trade preferences (by assigning most-favored-nation status) and international trade.

In a series of postwar international conferences culminating at Havana in 1947 and 1948, participants agreed to a draft charter for the organization. The agreement allowed exceptions to free trade rules for countries in balance-of-payments difficulties and for the purposes of economic development. All but 3 of the 56 participating countries signed the final act of the Havana conference, but individual nations including the United States still had to ratify the charter. In the United States, free trade purists, objecting to the concessions made at Havana, found themselves pushed into an "unholy alliance" with protectionists who opposed the International Trade Organization itself, in opposition to the charter. Accordingly, the administration of President Harry S Truman delayed putting the charter before Congress until 1950. In December of that year, with its attention distracted by the Korean War, the Truman administration finally announced it would not pursue

the plan further. This rejection sounded the International Trade Organization's death knell.

However, the supposedly "interim" General Agreement on Tariffs and Trade (GATT), negotiated during 1947 in parallel with discussions of the charter, continued as the basis on which world trade was regulated until it was superseded by the World Trade Organization in 1995. Thus, the original attempt to create an International Trade Organization left a lasting legacy.

—*Richard Toye*

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See also Volume 1: General Agreement on Tariffs and Trade.

Interstate Commerce Commission (ICC)

A quasi-judicial body of the U.S. government established to regulate interstate common carriers.

Congress established the Interstate Commerce Commission (ICC) in 1887 under the Interstate Commerce Act to address the problem of rate instability in the railroad industry. Under the leadership of Thomas M. Cooley, its first chief commissioner, the ICC attempted to regulate competition. The Supreme Court circumscribed this approach to regulation in the 1890s, and the power of the ICC subsequently waned.

Congress attempted to strengthen the ICC during the Progressive Era. The Elkins Act (1903) outlawed rebating, a practice in which the shipping concern pays the large supplier the difference between the regular and an agreed-on price in exchange for the supplier's guarantee that it will ship a specific amount of goods under the contract. The Hepburn Act (1906) gave the ICC maximum rate-setting and enforcement authority. The Mann-Elkins Act (1910) gave the ICC power to initiate its own investigations and again outlawed long-haul versus short-haul discrimination in which farmers or manufacturers paid more per mile for short hauls than for long hauls. The Transportation Act of 1920 attempted to deal with the railroad network as a national monopoly; it ordered the ICC to protect weak railroads and establish a national plan of consolidation. It also introduced an ill-defined idea of "the public interest" into the deliberations of the ICC. It gave the ICC power over all railroad construction and service; expansions and abandonments required ICC approval. Last, it gave the ICC power to set minimum rates as well as maximum rates.

The powers of the commission have fluctuated over time. In 1906, it gained authority over private sleeping car companies (such as the Pullman Sleeping Car Company), express companies that shipped directly between cities or locations without intermediate stops, and interstate oil pipelines. In 1910, Congress gave the ICC power to oversee telephone, telegraph, and trans-Atlantic cable companies, but Congress later transferred this power to the Federal Communications Commission. In the Motor Carrier Act of 1935, Congress granted the ICC authority over the trucking industry, and the Transportation Act of 1940 added interstate water carriers to agencies regulated by the commission. In other areas, the ICC had gained authority over transportation safety and had power to order improvements. In 1920, it received power to regulate railroad securities (stocks, bonds, investment annuities, and mutual funds) owned by monopolistic railroad companies.

In 1958, Congress began to liberalize railroad regulation by making it easier for the railroads to abandon unprofitable service lines. But by this time the ICC had become ossified institutionally and was resistant to change. When the boards of directors of the New York Central Railroad and the Pennsylvania Railroad approved the merger of the two companies, the ICC initiated hearings in 1962. If the ICC had investigated both companies thoroughly, it would have found that the New York Central was already on the verge of bankruptcy. Instead, 14 months later, the ICC approved the merger. The ICC received the blame for the northeast railroad bankruptcy crisis brought on by the 1970 collapse of Penn Central—the largest bankruptcy in U.S. history until the twenty-first century. In 1976, Congress began to deregulate the railroad industry with the Railroad Revitalization and Regulatory Reform Act, but the ICC interpreted this action conservatively and rendered it ineffective. The bill, designed to increase competition and improve methods of enforcement, did little of either. During President Jimmy Carter's administration, the commission had a change of heart and voluntarily began to deregulate the industries under its jurisdiction.

In 1980 Congress completed the deregulation of the railroad industry in the Staggers Act, and it partly deregulated the trucking industry in the Motor Carrier Act. In 1994, Congress completed deregulation of the trucking industry, In 1995, Congress ordered the ICC disbanded and transferred all of its remaining functions to the Department of Transportation.

—*Russell Douglass Jones*

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See also Volume 1: Hepburn Railroad Regulation Act.

Intolerable Acts (1774)

Acts passed by England's Parliament designed to punish and divide the American colonies.

The British Parliament passed the Tea Act of 1773 to control that commodity in the American colonies. In December of that year, American patriots, who had been protesting taxation without representation committed a final act of

defiance by throwing £15,000 worth of privately owned tea into Boston Harbor. Known as the Boston Tea Party, this act forced Lord Francis North and Parliament finally to take a tougher stance against the unruly colonists. In 1774, Parliament passed four acts—called in England the Coercive Acts and by the American colonists the Intolerable Acts—to punish Boston for its continued defiance. In addition, by only punishing Massachusetts, Parliament hoped to retain the loyalty of the other colonies and so divide the colonies. The first act, the Boston Port Act, closed Boston's harbor until the East India Company received reciprocity for its tea. Parliament designed this act to hurt Boston's economy, as the port served as an important entrepôt between the larger "Atlantic world" (England, Europe, Africa, and the Caribbean) and the New England hinterland, especially in regard to New England rum production. Parliament followed this measure with an Act for the Impartial Administration of Justice, which allowed Massachusetts's Governor General Thomas Gage to transfer to England the trial of any English official accused of committing a crime in the colony. The Massachusetts Government Act made many of the colonies' elected positions into Crown-appointed positions, and it limited town meetings, which served an important role in colonial organization and resistance. The final act, the Quartering Act, required local officials to find shelter in private homes for British soldiers who occupied Boston. These acts, designed to hurt Boston's economy, divide the colonies, and crush colonial resistance, produced the opposite result. The Bostonians successfully convinced colonists elsewhere in Massachusetts and in other colonies that such treatment by England could easily happen anywhere else in the colonies if it happened in Boston. Continued colonywide resistance led to the calling of the First Continental Congress.

—*Ty M. Reese*

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See also Volume 1: American Revolution.

Iran-Contra (1986–1987)

Scandal in which the administration of President Ronald Reagan illegally provided money to Nicaraguan Contra rebels gained by covertly selling arms to Iran, weakening economic and legislative efforts of the executive branch.

The roots of the Iran-Contra scandal, which occurred during the presidency of Ronald Reagan, lie in the executive branch's reaction to the Boland Amendment Congress passed in 1982. Designed to prevent the president from continuing his support of the Contras in Nicaragua (rebels who opposed the communist-backed Sandinistas during the height of the cold war) the act banned governmental agencies, the Department of Defense, and the Central Intelligence Agency (CIA) from supporting, training, or equipping the rebels after September 1985. The administration decided to continue its aid and circumvented the Boland Amendment by using the National Security Council (NSC), which the amendment had not explicitly mentioned. The NSC covertly sold weapons to Iran and then used the profits to fund the Contras.

Robert McFarlane, former national security adviser, and later Rear Admiral John Poindexter directed administration efforts to uncover private and foreign sources of revenue for the Nicaraguan guerrillas. At about this time, the executive branch was also trying to make inroads with moderates in Iran, hoping to free seven American hostages held in Lebanon and to soften Iran's hard-line stance toward the West after the fundamentalist revolution of 1979. During NSC meetings, staffers came up with a plan to accomplish both of these objectives, because Iranian radicals controlled the terrorist groups that held the hostages. Via Israeli middlemen, the U.S. government would sell arms to Iran at a substantial markup starting in 1985 and divert some of the profit from these sales to the war in Central America. Marine Lieutenant Colonel Oliver North, who worked for the NSC, oversaw the program.

In November 1986, a Lebanese newspaper uncovered the arms deals. In the wake of that discovery, Poindexter resigned and North was fired. Select congressional committees held joint meetings, and Attorney General Edwin Meese uncovered the diversion of funds to Nicaragua. Lawrence E. Walsh, formerly a federal judge, acted as special prosecutor to look into the affair and the roles in it of public officials including President Reagan, Vice President George H. W. Bush, and Central Intelligence Agency (CIA) Director William J. Casey. After seven years of investigation and $47.5 million in costs, Walsh gained convictions only against McFarlane, North, and Poindexter; however, the latter two convictions were vacated because North and Poindexter had received immunity from prosecution in exchange for their testimony at Senate hearings. Secretary of Defense Caspar Weinberger and 14 officials from the Department of State and the CIA pleaded guilty to withholding information. George H. W. Bush who was elected to succeed Reagan as president, pardoned 6 of these officials in 1992; two other convictions were overturned on technicalities. During the last two years of the Reagan administration, the Iran-Contra scandal weakened the executive branch, affecting its economic and legislative efforts.

—*T. Jason Soderstrum*

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See also Volume 1: Reagan, Ronald.

Irrigation

System of supplying land with water by artificial means that transformed the American landscape and brought agriculture to areas previously unable to sustain it.

Fifty percent of the value of a farmer's crop is in the lands he or she has under irrigation. Irrigation accounts for 80 percent of the nation's consumptive water use and more than 90 percent in many western states. Although farmers have irrigated fields for more that 4,000 years, they did not use irriga-

tion on a massive scale in the United States until the 1950s. In 1946, 250,000 acres received water from sprinkler irrigation in the United States, but by 1954, roughly 3 million acres received water by this method. Government sources estimate that 500,000 additional acres of land went under sprinkler irrigation each year throughout the 1950s. On the Great Plains, the center-pivot sprinkler had irrigated 400,000 acres by 1974, a fourfold increase since 1955. Other forms of irrigation had equally dramatic increases throughout the latter half of the twentieth century. Currently 10 million acres are under irrigation; 10 trillion gallons of water are used for irrigation annually. Sixty percent of the nation's vegetables and 25 percent of the nation's fruit and nut crops are irrigated.

Irrigation has allowed lands that were previously marginal or used for dryland wheat and grain sorghum to yield corn, sugar beets, alfalfa, and cotton. By 1954, the use of irrigation and fertilizer increased the per acre yield of crops such as alfalfa by 2.4 tons, forage sorghums by 9.5 tons, grain sorghum by 22 bushels, and wheat by 11 bushels. By 1990, tomatoes increased from 26 to 100 tons per acre and cotton jumped from 930 to 1,000 pounds per acre. These increases in yield brought greater farm income on the Great Plains and in the West. In Kansas alone, by 1966, irrigation had increased farm income by $24 million. This increased irrigation allowed farmers to expand their feedlots and develop a meatpacking industry on the Great Plains. In areas with little or sporadic rainfall, irrigation has led to a larger, more stable, agricultural industry and a cheaper food supply, although it has had environmental costs. One such area is Imperial Valley, California, where irrigation has yielded 115 million acres of annual vegetable production worth $350 million.

—*T. Jason Soderstrum*

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See also Volumes 1, 2: Agricultural Policy.

Isolationism

Stance on foreign relations that opts for noninvolvement in international affairs but nonetheless pushes for a nation's advancement and concerns through diplomatic means.

Isolationism, born when the United States was founded, originally emphasized America's estrangement from European wars and political intrigues to safeguard the young nation's republican virtue, free government, prosperity, and security. Thus, the republic needed to adopt a foreign policy advocating no permanent military and political alliance with foreign countries, save for commercial relations or temporary alliances to meet America's urgent needs, as President George Washington stressed in his farewell address of 1796. American foreign relations before the Civil War demonstrated this strong isolationist sentiment. When the United States became a major power in international affairs during the late nineteenth century, an isolationist tradition still influenced U.S. preference for going it alone in international affairs and for avoiding formal alliances with other nations.

During the Progressive Era, the United States took an internationalist course, but in response to that, isolationism gained momentum in the United States during the years between World War I and World War II (1919–1941). Basing their position on American exceptionalism (the belief that the wilderness transformed Europeans into Americans) and disillusionment with the American involvement in World War I, the isolationists expressed an abhorrence of war and strong aversion to assuming American responsibilities abroad. Plagued by the Great Depression, Americans in the 1930s expressed further isolationist feelings. Anxious to avoid trouble and restore the domestic economy, the United States was extremely passive in the face of expansionist drives undertaken by imperial Japan, Nazi Germany, and fascist Italy. The Neutrality Acts passed by the U.S Congress between 1935 and 1937 even reversed the traditional U.S. position on neutral rights and freedom of trade by forbidding arms sales to any belligerents. After the Japanese attack on Pearl Harbor in 1941, Americans who supported isolationism were perceived as unpatriotic. However, groups such as America First did influence a decision by Congress to restrict immigration. Isolationism as a doctrine has been losing its influence since the early years of the post–World War II era and the onset of the cold war. Since the 1950s, Americans have perceived the need to spread U.S. political and social values around the world in an effort to combat communism and strengthen the United States.

—*Guoqiang Zheng*

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See also Volume 1: World War I; World War II.

IWW

See Industrial Workers of the World.

J

Jackson, Andrew (1767–1845)

Seventh president of the United States (1828–1836) whose economic policies threatened the political and economic stability of the United States.

Andrew Jackson was born March 15, 1767. He lost his 1824 presidential bid in a disputed election against John Quincy Adams. He won the election of 1828, primarily because implementation that year of universal white male suffrage had opened the voting process up to the common man. During his eight years in office, Jackson faced several crises including the "bank war," the nullification crisis, the forced removal of five Indian tribes from the east to an area west of the Mississippi River, and problems within his own Cabinet over Washington society rejecting Peggy Eaton, the wife of his secretary of war, John Eaton.

During his first term in office, Jackson was forced to deal with the nullification crisis. After Congress passed the Tariff of 1828, South Carolina voiced its opposition to the increased duty rates, which hurt the South more than the North because of the trading relationship between the agricultural South and industrial England. Cotton would be shipped to England for processing in the numerous textile mills and, in exchange, the South would import cloth and other manufactured items. The increase in tariff rates made British goods cost-prohibitive when compared with American goods but New England factories did not require as much cotton as the South produced. Therefore, Southern farmers needed to sell their crops overseas. Vice President John C. Calhoun, a native of South Carolina, anonymously published the *South Carolina Exposition and Protest,* in which he argued that the tax was discriminatory and therefore illegal. As such, the state had the right and indeed the responsibility to nullify the law. The South Carolina legislature distributed copies of the document and also formally delivered it to Congress.

When Congress increased rates again with the Tariff of 1832, South Carolina passed the Ordinance of Nullification, in which the state refused to collect the tariff duties and threatened to secede if Congress did not repeal the act. Jackson responded by asking Congress to approve the use of military force if necessary to carry out the collection of duties and to prevent South Carolina from following through with its threat. Henry Clay, Speaker of the House, managed to persuade Congress to pass the Compromise Tariff of 1833 that reduced rates back down to 20 percent over a nine-year period, thereby protecting the interests of investors who had committed funds based on the existing rates. Jackson signed both the Compromise Tariff of 1833 and the Force Act, which authorized the use of military force in South Carolina to ensure the collection of tariffs, on the same day. South Carolina then repealed its nullification ordinance.

By the time the tariff issue was resolved, Jackson was dealing with another economic problem. During the 1832 election campaign Henry Clay—the Whig candidate and lawyer for the Second Bank of the United States (BUS)—had pushed through Congress a bill that authorized rechartering of the bank four years before the current charter expired. The bill was a blatant political move designed to force Jackson to sign the legislation into law or to veto it with the possibility of losing the election over the issue—the bank was extremely popular with the people. Jackson vetoed the measure and won the election anyway. He then instructed his secretary of the treasury, Louis McLean, to remove federal funds from the Second BUS and deposit them in state banks. McLean refused, citing lack of authority to do so, and Jackson received McLean's resignation. Jackson's next appointee also refused to remove the funds. Finally, Jackson appointed Roger B. Taney to the position, and Taney agreed to transfer the money. As the cash reserves of the Second BUS dwindled, bank officials were forced to call in loans to continue operations. Between 1833 and 1836 when the charter expired, the U.S. economy began to experience a contraction. When Martin Van Buren became president in 1837, the United States was plummeted into the panic of 1837, which lasted throughout Van Buren's presidency and earned him the nickname "Martin Van Ruin." Jackson retired to his home, the Hermitage, outside of Nashville, Tennessee, leaving the disastrous bank policy for his successor to handle. He died on June 8, 1845, at his home.

—*Cynthia Clark Northrup*

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See also *Volume 1: Clay, Henry; Nullification Crisis.*

Japan

Eastern Asian nation occupying an island chain east of the Korean Peninsula.

Japan placed heavy restrictions on trade with Europe and the United States until the Meiji Restoration in 1868, when the Meiji Emperor wrested control of Japan's government from the weakened Shogunate rulers. Under the Meiji Restoration, the Japanese government reorganized and made attempts to modernize the Japanese nation. During the late nineteenth century, following the lead of the West, Japan built railroads and improved its industrial infrastructure. This initiative led to moderate economic growth throughout the early twentieth century; even the Great Depression had little effect on the Japanese economy. However, in the 1930s, Japan began a program of imperialist expansion throughout Asia and put much of its industrial wealth to military purposes.

Japan's imperial expansion placed it on a collision course with its principal rival for influence in the Pacific, the United States. In an effort to stop Japanese expansion, the United States instituted an oil and scrap metal embargo against Japan in June 1941. Soon after, on December 7, 1941, the Japanese attacked Pearl Harbor, an action that resulted in the loss of 2,400 American lives and 200 naval ships and brought both Japan and the United States formally into World War II. Japan then took one island after another in the Pacific with little regard for prisoners of war or civilian lives. Six months after Pearl Harbor, the United States began to reclaim the islands in battles that caused extremely high death tolls for both sides. The United States was also striking the Japanese homeland by air, firebombing Tokyo and finally dropping atomic bombs on Hiroshima and Nagasaki in August 1945. The two bombs killed more than 110,000 people and destroyed two industrial cities that had been producing war material. After the bombings, Japan surrendered.

The destruction caused by World War II devastated the Japanese economy—the cost of the war to the Japanese amounted to $562 billion in actual outlays and destruction of infrastructure. In comparison, the United States spent $341 billion on the entire war, and its industrial capacity expanded to provide the needed war equipment and supplies. After the war, the United States helped rebuild Japan's crippled economy. The U.S. military occupied Japan from 1945 to 1952 and, with U.S. help Japan began to rebuild lost industrial capacity after the war. By the mid-1950s Japan's industrial output matched prewar levels. The economic alliance between Japan and the United States came about because of U.S. fears of Soviet communism during the cold war, which began after World War II ended.

The revised Japanese constitution adopted after World War II forbade the creation of another military force. Without military expenditures, Japan developed a diverse economy with varied industrial output including heavy industry, chemicals, automobiles, and shipbuilding. The Japanese economy began to compete internationally by the mid-1960s and, in the 1970s and 1980s, Japan became a major producer in the manufacture of high-tech products including consumer electronic equipment. Many of Japan's exports found their way into the American market, and although the United States developed a balance-of-payments deficit (in which imports exceed exports) in the late twentieth century, protectionist policies that restricted foreign manufacturers from selling in the Japanese market gave Japan a large balance-of-payments surplus (in which exports exceed imports). With a large number of Japanese automobiles being sold in the United States in the late 1970s, the U.S. trade deficit increased dramatically—primarily because Americans chose to buy these smaller, more efficient vehicles in response to the Arab oil embargoes. Despite recession in the 1990s, Japan's economy is one of the world's strongest, and Japan is one of the closest trading partners of the United States. In May 2003 the U.S.-Japanese market resulted in $4.46 billion in Japanese exports and $10.3 billion in imports, for a trade deficit of $5.83 billion. The Japanese government imported $48.42 billion dollars of U.S. products from January through May 2003.

—John K. Franklin

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See also Volume 1: World War II.

Japanese Oil Embargo (1940–1941)

Embargo that prohibited export of fuel and other war materials to Japan in the years preceding World War II.

In 1937 Japan and China began the second Sino-Japanese War, a war that would ultimately last until 1945. Because the fighting encroached on their trade and activities in the region, the Soviet Union, the United States, and Britain experienced a decline in their relations with Japan, and despite their protests Japan was determined to expand its territory. Moving outward from Manchukuo (the portion of Manchuria Japan had taken over in 1932), the Japanese also invaded eastern Mongolia. However, combined Soviet and Mongolian troops won a victory in 1939 that influenced Japan to instead move south toward China and Southeast Asia.

In 1940, Japanese Prime Minister Konoe Fuminaro called for the creation of a Greater East Asia Co-Prosperity Sphere to consist of Japan, China, Manchukuo, and Southeast Asia.

Under this plan, a Japanese-led Asia would be able to compete economically with the West. As a result of Japan's earlier expansion, in July 1940 the United States placed embargoes on war supplies destined for Japan. Specifically, the United States restricted the export of scrap metal and high-octane aviation fuel. Although the embargo was designed to stop Japanese expansion, it was incomplete and so proved ineffective.

Japan's relationship with the United States and Britain further deteriorated in September 1940, when Japan invaded Indochina and joined the Axis powers as a result of the Tripartite Pact. In April 1941, the Japanese signed a neutrality agreement with the Soviet Union and began making active war plans against the United States. Peace talks to avoid conflict deadlocked. Germany's invasion of the Soviet Union in June 1941 ended the Russian threat to Japan near Mongolia and, in July, Japan moved against the Dutch East Indies for its oil and rubber supplies. In response the United States froze Japanese assets in America and began a complete oil embargo against Japan. The British and Dutch did the same, and the cooperative embargo slashed Japanese oil imports by 90 percent.

Initially meant as a deterrent, the embargo rapidly led to economic warfare. Heavily dependent on outside petroleum sources, the Japanese felt pressured to confront the United States and to increase its supply of oil by capturing oil supplies in the East Indies before their stockpiles ran out. In response, the Japanese attacked Pearl Harbor on December 7, 1941, and full-fledged warfare broke out between Japan and the United States in the Pacific as the United States entered World War II against the Axis powers.

—John K. Franklin

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See also Volume 1: World War II.

Jay's Treaty (1796)

First commercial treaty of United States with Great Britain.

Although the Treaty of 1783 had ended the American Revolution and secured the independence of the United States, serious issues remained unresolved between Britain and the new nation, particularly those regarding the status of American shipping, British presence in the old northwest forts in the Ohio Valley, and the commercial relationship between Britain and its former colony. As the French Revolution and the Napoleonic Wars loomed in Europe, President George Washington sent Chief Justice John Jay to London as a special envoy to negotiate a treaty with William Grenville, the British foreign secretary (1791–1801) and son of former prime minister George Grenville. The resulting agreement, Jay's Treaty, called for the British to evacuate the forts within two years, provided for commissions made up of both American and British members to decide matters of debts resulting from confiscations and destruction during the Revolutionary War and between American and British merchants, and allowed for criminal extradition between the two nations.

However, the Americans protested Jay's Treaty. Jay was burned in effigy while Alexander Hamilton, the secretary of the treasury, and Washington pressed for the treaty's passage in the Senate. Americans felt humiliated by limits placed on U.S. trade with the British West Indies and angry that no restitution existed for slaves freed or taken by the British during the war. Americans also disliked that fact that the thriving British fur trade would continue in the old northwest in the Ohio Valley even after the British abandoned their forts. Additionally, the treaty avoided any agreement on the impressment of American sailors into the Royal Navy or the boarding of American ships in U.S. or international waters, a problem that was the main cause of the War of 1812. Despite these problems, on April 30, 1796, Jay's Treaty passed in a bill that provided appropriations to carry out its terms.

—Margaret Sankey

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See also Volume 1: War of 1812.

Jungle, The (1906)

Novel by Upton Sinclair that prompted an investigation into the meatpacking industry and led to the passage of food safety laws.

To promote the cause of socialism, novelist Upton Sinclair decided to write a novel called *The Jungle* that told the story of an ordinary immigrant worker and the capitalist economic system that exploited his labor for profit. He set the story in the Chicago meatpacking industry—the "jungle" of the title. As part of his story, Sinclair described the stages involved in the processing of meat from the slaughter of the animal to its dismemberment, the transfer of body parts to different departments for subdivision, and the final packaging of the meat. He emphasized the inhumanity of conditions experienced by the working class by writing that workers occasionally fell into the huge vats, becoming part of the sausages along with rat dung, poisoned bread used to kill rats, and dead rats themselves. Not a literary masterpiece, the book nevertheless became a bestseller among readers who were more horrified by what might be in their dinners than by the tragedy of wage slavery. Seeking to avert a public relations disaster, representatives of the Beef Trust, a group of companies that monopolized the meat industry, argued that *The Jungle* was a fabrication of lies orchestrated by the author for his personal gain. The decision of the meatpacking producers to fight back against Sinclair's allegations further stimulated sales of the novel, and President Theodore Roosevelt was drawn into the melee. Investigators that Roosevelt sent to Chicago produced a report even more shocking than

Sinclair's novel had been and, in response to the growing clamor for the regulation of meatpackers, Congress hurriedly passed laws to guarantee the safety of the food supply. The Pure Food and Drug Act (1906) forbade the manufacture, sale, or transportation of adulterated or harmful foods, and the Meat Inspection Act (1906) imposed sanitation standards and required federal inspection of meats destined for interstate commerce.

—*Caryn E. Neumann*

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See also Volume 1: Pure Food and Drug Act.

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Keating-Owen Act (1916)

An act of President Woodrow Wilson's New Freedom program intended to regulate child labor.

The National Child Labor Committee initiated the Keating-Owen Act as a special project. The act prohibited the interstate shipping of goods made totally or partly by children younger than 14 or by children aged 14 to 16 who worked more than eight hours per day. It also forbade the interstate shipment of products from mines and quarries that involved the labor of children under 16. On February 2, 1916, the House of Representatives passed the bill. President Woodrow Wilson believed the measure created an unconstitutional invasion by the federal government into the police power of the states, and thus he made no effort for months to overcome opposition to the bill in the Senate because he doubted the constitutionality of the measure. But in mid-July the Congressional progressives (reform-minded Republicans and Democrats) warned him that they considered the bill a test of his progressive sympathies. Wilson had a change of heart because of the progressives' stance and subsequently persuaded Democratic senators that their party's future depended on the passage of the bill. As a result, the Senate passed the measure and Wilson signed it on September 1. In 1918, however, the Supreme Court in the case of *Hammer v. Dagenhart* ruled the Keating-Owen Act unconstitutional because the purpose of the law was not to regulate commerce but to regulate child labor, a power reserved to the states.

—Steven E. Siry

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See also Volume 1: Wilson, Woodrow.

Kennedy Round (1964–1967)

Sixth round of negotiations under the General Agreement on Tariffs and Trade (GATT).

After World War II, the United States pursued a policy of free trade to prevent future wars. To this end, several negotiations called *rounds,* part of the General Agreement on Tariffs and Trade (GATT), occurred between 1947 and 1960. The Kennedy Round, held in Geneva, Switzerland, from May 1964 through June 1967, continued the process of tariff reductions that began in 1947 after World War II. Issues discussed during these talks included eliminating nontariff barriers, reducing all rates by 50 percent across the board instead of negotiating individual items, and including additional agricultural and industrial products. At the conclusion of the talks, participants agreed to reduce rates on industrial items (excluding steel and textiles) by 35 percent over five years. In addition, the United States reduced its rates on chemicals by 50 percent, whereas Europeans only reduced their duties by 35 percent. For agricultural commodities, rates decreased by 15 to 18 percent. Negotiators also agreed to a strong antidumping resolution, which prohibited the sale of goods at below-cost prices, and forbade industrial nations from entering into reciprocal trade agreements with less-developed nations. The United States, which had previously enjoyed a trade surplus, gradually moved toward a trade deficit after the implementation of the Kennedy Round.

—Cynthia Clark Northrup

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Keynes, John Maynard (1883–1946)

British economist known best for his book *The General Theory of Employment, Interest and Money* (1936), which showed theoretically how decisions to consume and invest determine national income and employment.

Born in Cambridge, England, in 1883 and educated at Eton College and King's College, Cambridge, John Maynard

Keynes joined the civil service before becoming a Cambridge academic economist. He accepted a position at the British Treasury soon after the outbreak of World War I. Having resigned in disgust at the harsh Versailles peace settlement after that war, which placed heavy war reparations on Germany, he wrote *The Economic Consequences of the Peace* (1919) and achieved worldwide fame.

Keynes then returned to academe. Mass unemployment between the wars led him to reject strict laissez-faire economics, which is characterized by a hands-off approach from the government. He published several works, but only in *The General Theory of Employment, Interest and Money* (1936) did he show theoretically how decisions to consume and invest determine national income and employment. This revolutionary book attacked the orthodox view that governments could reduce unemployment by cutting wages. It also argued that money operated not as a neutral factor, but as something that could affect the underlying ways in which the economy worked. Keynes saw the rate of interest as a price like any other, but one set in the money markets rather than by the pressure to equate investment with savings. On these assumptions the economy could, Keynes showed, equilibrate below the full employment rate, given insufficient demand in areas such as consumption and investment plans backed by purchasing power. This possibility implied that governments should regulate aggregate demand to achieve full employment.

Keynes attracted followers in the United States among supporters of the New Deal, especially President Franklin D. Roosevelt, who used deficit spending as a means of ending the Great Depression. After the outbreak of World War II, Keynes returned to the British Treasury and, in negotiation with American officials, helped to design the Bretton Woods institutions (1945) to stabilize international currencies. His last major act prior to his death on April 20, 1946, was the negotiation of a U.S. loan to Britain.

—*Richard Toye*

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See also Volume 1: Bretton Woods Agreement; Deficit Spending.

Keynesian Economics

Paradigm devised by John Maynard Keynes that calls for deficit spending.

In *The General Theory of Employment, Interest and Money* (1936), Keynes argued that the classical paradigm (that supply and demand determine the market price) had been nullified by a series of historical events: World War I, the failure of the victorious Allies to reconstruct the international system, and the Great Depression. Because the classical paradigm assumed the validity of Say's law of markets (that is, the maxim that the balance between supply and demand would guarantee full employment), it could not explain the persistence of involuntary unemployment. Accordingly, Keynes proposed a straightforward but revolutionary remedy for chronic unemployment: deficit spending on public works to create jobs and augment purchasing power. More broadly, Keynes advocated government intervention in the economy not only to diminish the probability of a crisis but also to accommodate the demands of the working-class movement. It is worth noting, however, that Keynes did not influence the policies of the New Deal—a massive public works program instituted by President Franklin D. Roosevelt in response to the Great Depression—until the recession of 1937 and 1938. In effect, it was the 1937–1938 slump that convinced Roosevelt not only to use deficit spending as a means of "priming the pump," but also to take the *General Theory* seriously as a blueprint for managed capitalism. Keynesian ideas, having gained footholds in the Roosevelt brain trust (advisers from Ivy League schools) and the Harvard fiscal policy seminar held during the early 1940s, influenced both the financing of the American war effort for World War II and preparations for the Bretton Woods conference held in 1944 to stabilize international currencies that had abandoned the gold standard.

Keynesianism figured prominently in postwar reconstruction and recovery and the expansion of the world into the global economy. By incorporating the popular struggles of labor and the working classes into this expansion, the U.S.-sponsored "Keynesian consensus" of policymakers who supported Keynes's economic theories brought about a golden age in capitalist history. However, the consensus dissolved amidst fiscal crisis, deindustrialization, and stagflation (increased unemployment and inflation simultaneously) in the 1970s. In recent years, economists outside the mainstream have proposed global Keynesianism, a new Marshall Plan for reconstruction of national economies, and a renewed developmentalism or emphasis on social programs and domestic government efficiency as alternatives to neoliberalism (free trade and globalization).

—*Mark Frezzo*

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See also Volume 1: Budget Deficits and Surpluses; Deficit Spending.

Keyserling, Leon (1908–1987)

A New Dealer and second chair of the Council of Economic Advisers who contributed to the policies and politics of the administrations of Franklin D. Roosevelt and Harry S Truman.

Born in Beaufort, South Carolina, on January 22, 1908, Leon Keyserling graduated from Columbia University with a

bachelor's degree in economics in 1928. Rexford Tugwell (an American economist and political scientist) and John Dewey (an American philosopher and educator) significantly influenced his education. He received a law degree from Harvard in 1931 and completed all requirements except the dissertation for a Columbia doctoral degree when he joined the U.S. Department of Agriculture in 1933.

From 1933 to 1937, Keyserling served as the assistant to Democratic Senator Robert F. Wagner of New York, who was known as "the congressional Mr. New Deal" because of his support for the economic recovery programs of President Franklin D. Roosevelt during the Great Depression. For the next four years Keyserling contributed significantly to several pieces of legislation, writing them and lobbying for them. He wrote section 7A in the National Labor Relations Act of 1935; he also worked on the Social Security Act (1935) and the U.S. Housing Act (1937).

From 1937 to 1946, Keyserling served in various federal housing agencies. As general counsel of the National Housing Authority, he contributed to the establishment in 1965 of the Department of Housing and Urban Development. He wrote the National Housing Act of 1949 and guided that legislation through Congress.

Keyserling remained active in Democratic Party politics, writing speeches for President Roosevelt and Senator Wagner. He also crafted the Democratic Party's platform in 1936, 1940, and 1944. After Roosevelt's death and the assumption of the presidency by Harry S Truman, Keyserling was a major contributor at meetings of general counsel Clark Clifford's Monday night supper group, at which ideas and policies were generated that led to Truman's victory in 1948 following the Republican congressional victories in 1946.

Appointed vice chair of the Council of Economic Advisers by Truman in 1946, Keyserling became chair in 1949. He served as a close economic adviser to Truman during the Korean War and helped write NSC-68 (National Security Council 68), a basic document in the containment policy designed to prevent the expansion of communism. The Truman administration kept inflation under control and prevented any significant economic downturn with Keyserling's help.

In 1953, he established the Conference on Economic Progress, a liberal think tank and lobbying organization. He worked for New Frontier and Great Society legislation during the presidencies of John F. Kennedy and Lyndon B. Johnson, respectively. The Full Employment and Balanced Growth Act of 1977 (the Humphrey-Hawkins Act) was his last major contribution to public policy. Keyserling died in Washington, D.C., August 9, 1987.

—Donald K. Pickens

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Knights of Labor

Labor union that attempted to unite all American workers—skilled craft workers, white-collar employees, unskilled laborers, semiskilled workers, females, African Americans, and foreign-born—to improve working conditions.

On December 28, 1869, in Philadelphia, a group of garment cutters founded the Noble Order of the Knights of Labor and elected a tailor, Uriah S. Stephens, as its first president. Founders of the Knights denounced union emphasis on labor based on wages per hour and focused instead on the education of union members and working toward common goals. Their primary goal focused on securing a proper wage for laborers. The Knights favored an eight-hour working day and legislative abolition of child labor. They organized and operated their own cooperative stores and manufacturing plants, although most of their 135 cooperative enterprises failed because they lacked the money necessary to buy the best machinery and hire qualified managers.

The Knights' founders believed that labor organizations that were divided into craft divisions lacked unity and strength to fend off employer resistance, and so they decided to organize all workers regardless of skill. The only basic requirement for joining was the desire to work for their wages. For a period of time members swore an oath of secrecy, but later the group abandoned the oath.

Initially, the Knights of Labor organized on a geographic basis. In the early years it remained largely a local union with three assemblies—two in Philadelphia and one in Pittsburgh. The panic of 1873, when the government ended the use of silver as legal tender, and the accompanying collapse of many trade unions enabled the Knights to move beyond their original organizational structure. On January 1, 1878, in Reading, Pennsylvania, a representative assembly composed of members from Philadelphia and Pittsburgh took the first steps toward the formation of a national organization. In 1881, Stephens resigned to devote his full energies to the political arena. Terrance V. Powderly, a venturesome idealist, replaced him as president.

Powderly directed the affairs of the Knights for more than a decade of organizational highs and lows. Powderly opposed strikes, preferring instead to settle disputes between managers and laborers through industrial arbitration. He felt the organization could employ its resources more wisely in establishing cooperatives that, in turn, could bring an end to wage labor. In time, rank-and-file members forced him to accept the creation of a strike fund. An increasing split between the organization's reformists and hard-line trade unionists highlighted the strike issue.

The Knights' greatest success occurred in 1885 when, for the first time in American labor history, railroad operators met strike leaders on equal terms and acceded to labor's chief demands. The Knight's dramatic confrontation with the Wabash railroad, controlled by Jay Gould, swelled the union's ranks. When the strike started in 1885, the Knights numbered about 50,000 members, but within a year their membership had swelled to 700,000.

This rapid growth ultimately proved disastrous to the inexperienced union members, as a false sense of power

permeated the rank and file. The decline of the Knights occurred almost as rapidly as the rise.

In 1886, the Knights lost an important strike against the Gould system of southwestern railroads. The strike alienated the public because of the violence involved and because shortages of food and coal resulted. An unsuccessful strike in the Chicago stockyards the same year—along with the general antilabor hysteria associated with the Haymarket Square Riot, in which both police and strikers were killed after someone threw a bomb into the crowd—further weakened the once-strong "noble order."

The failed strikes, coupled with the skilled craft unions dislike for and distrust of the all-inclusive policy of taking in unskilled workers, led a group of trade union leaders to form their own organization, the American Federation of Labor, in 1886. The newly created rival union argued for an immediate improvement in economic and working conditions rather than for political and reform measures.

By the summer of 1887, membership in the Knights had dwindled to 250,000. In 1890 membership was at 100,000, and three years later it fell to 75,000. In 1893, James R. Sovereign, an Iowa farm editor, replaced Powderly as president. When socialist members broke ranks and left the order, the Knights of Labor rapidly disintegrated. By the turn of the century, they no longer had an effective voice in the American labor movement.

—Charles F. Howlett

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See also Volume 2: Labor.

Labor Contract Law

Laws governing union activity in the United States based first and foremost on policies and practices related to collective bargaining and its enforcement.

As industrialization began in early nineteenth-century America, courts considered union activity such as strikes, picketing, and reluctance to deal with various employers as equivalent to criminal activity. Courts dealt particularly harshly with workers and their efforts to organize to get higher wages. In *Commonwealth v. Pullis* (Philadelphia Mayor's Court 1806), the courts convicted workers of a criminal conspiracy "for refusing to work except at a specified wage rate and for attempting to prevent others from working at a lower rate." Subsequent cases held that union efforts to improve wages and working conditions represented criminal acts.

The celebrated case of *Commonwealth v. Hunt* (1842) represented a marked departure from criminal to civil liability as a means for controlling union activity. In its decision the Massachusetts Supreme Court permitted a group of workers to use economic weapons to prevent other workers from entering into individual contracts not compatible with the group's interests.

The key application in the *Hunt* decision involved an ends/means test: "The finding of a criminal conspiracy required proof of either an illegal purpose or the use of illegal means." Throughout the nineteenth century, state courts applied the ends/means test in civil suits for injunctions and damages "against concerted worker activity."

By the late 1800s, federal courts entered into judicial regulation of labor-management relations. The judiciary applied the 1890 Sherman Anti-Trust Act's restraint-of-trade provision to most union tactics dealing with organizing and economic pressure. Antitrust laws prohibiting unionizing efforts were highlighted in the Danbury hatters case (so called because it involved the first hatters' factory in the United States, in Danbury, Connecticut), *Loewe v. Lawlor* (U.S. 1908), when the Supreme Court declared the Sherman Act had been violated because a union instigated "a boycott of retail stores that sold hats produced by a struck manufacturer." The Clayton Anti-Trust Act (1914) sought to diminish the exposure of unions to antitrust liability, but in *Duplex Printing Press Co. v. Deering* (U.S. 1921), the Supreme Court narrowed the Clayton Act's provisions protecting labor activity. The Court injunction remained the most commonly used weapon by employers, and union activities were severely curtailed in this manner.

In 1932, however, passage of the Norris-LaGuardia Act withdrew the power of the federal courts to issue either temporary or permanent injunctions in nonviolent labor disputes. Congress declared that picketing and refusals to work remained "specifically immunized from injunctions." The act declared that the federal courts should not formulate "rules to govern labor policy" and that the government must remain neutral, thus permitting union growth. In 1935, the Wagner Act, or National Labor Relations Act, established new practices governing labor contracts. The act marked the beginning of strong support for organized labor and collective bargaining policies by the federal government. Specifically, with respect to unfair labor practices, members of the National Labor Relations Board (NLRB) served both the prosecutorial and adjudicator roles. The NLRB cited violations and then ruled on them under the law. The Wagner Act contained no restrictions on union activities. It functioned as the authority on issues of organized labor.

In 1947 the Taft-Hartley Act was passed in an effort to curb unions' practices including sympathy boycotts and strikes that forced employers to discharge workers because of their union affiliation. The act represented a shift in federal policy away from encouraging unionization to a more neutral posture while also protecting workers from employee coercion. In 1959 Congress passed the last major piece of legislation governing labor contracts. The Landrum-Griffin Act (Labor-Management Reporting and Disclosing Act) contained guarantees for union members and required that unions disclose the use of union funds. It also prescribed how union officers would be chosen and restricted financial abuse by officers. Congress passed the act in response to evidence related to looting of some union treasuries and denials of fundamental rights to members in some unions.

Today, laws regulating labor contracts address the following: organizational picketing, secondary boycotts, jurisdictional disputes, featherbedding (requiring employers to hire more employees than are needed), economic responses by employers to concerted employee activity, obligation to bargain, enforcing collective bargaining agreements, antitrust laws, and regulation of internal union affairs.

—*Charles F. Howlett*

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See also Volume 1: *Commonwealth v. Hunt;* Sherman Anti-Trust Act; Wagner Act.

Labor-Management Relations Act (Taft-Hartley Act) (1947)

Congressional legislation guaranteeing unions the fundamental right of collective bargaining but substantially limiting their other powers.

During the late 1930s and World War II, unions enjoyed a considerable growth in membership and economic power as a result of the passage of the 1935 law sponsored by Republican Senator Robert F. Wagner of New York. The Wagner Act made it illegal for management to refuse to bargain with workers' representatives, encouraged workers to form unions and negotiate collectively through their elected officials, and focused attention on unfair management practices. In addition, the act established the National Labor Relations Board (NLRB) to help determine who "was to be the exclusive representative of all the workers in an appropriate bargaining unit" as well as "to investigate and draw up findings on charges of unfair labor practices." The new law received immediate criticism yet withstood a constitutional challenge in the Supreme Court. Many argued that unions would abuse their newfound strength.

Labor had expressly promised not to disrupt military efforts by calling strikes during World War II, and when the war ended in 1945 and wartime wage and price controls were lifted, a series of strikes ensued in which labor demanded increased wages to match the increase in prices. The public resented these disputes and, in 1947, after five months of deliberation and over President Harry S Truman's veto, Congress unanimously passed the Labor-Management Relations Act, better known as the Taft-Hartley Act. Republican Senator Robert Taft of Ohio, son of former President William H. Taft, sponsored the law along with Republican Representative Fred Hartley of New Jersey. The act upheld aspects of the National Labor Relations Act of 1935, including unions' fundamental right to collective bargaining, but it also stated specifically that strikes that might cause a national emergency can be delayed for 80 days by presidential declaration.

The Taft-Hartley Act replaced the Wagner Act and focused on reducing the power unions had achieved as a result of New Deal programs to revitalize labor during the Great Depression. Specifically, the new law prohibited unions from contributing to political campaigns, restricted the union privilege of having management pay union dues of members without their consent (check-off), required union officials to swear that they were not communists in order to receive assistance from the NLRB, permitted management to seek court injunctions in times of strikes known as the "cooling-off period," allowed the government to sue union officials for violating contracts or engaging in strikes arising from jurisdictional disputes with rival unions, and forbade the closed shop, which prohibited the employment of nonunion workers. Section 301 of the act also made collective bargaining agreements enforceable in federal district court, and section 303 provided a civil damage remedy to private parties injured by secondary boycotts.

The Taft-Hartley or Labor-Management Relations Act marked a significant shift to a more neutral posture away from federal policy encouraging unionization while maintaining the right of employees "to be free from employer coercion." Organized labor attacked the new law and attempted to amend it or eliminate it altogether. Unions referred to it as the "slave labor law," while management insisted that the law appropriately balanced power between employees and employers. Despite union protestations to the contrary, the act did not wipe away the basic right of unions to exist, nor did it permit management to refuse to enter into collective negotiations with representatives of organized labor.

—*Charles F. Howlett*

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See also Volume 2: Labor.

Laissez-Faire

Economic order free of government interference.

The canon of economics without government intrusion originated from the theory of classical economics that emerged and gained influence during European colonial expansion in the eighteenth century. According to the principal advocate of laissez-faire, Adam Smith, society could hardly prosper unless individuals enjoyed full freedom to pursue

self-interests and personal welfare without state restrictions. Challenging mercantilism—a system that European powers adopted at the time to strengthen state controls over industry by restricting all trade between colonies and the mother country—Smith's laissez-faire concept underscored free trade demanded by a rising merchant class. In the U.S. Industrial Revolution of the post–Civil War era, the economic notion of laissez-faire, with its message of individualism and utilitarian ethics, appealed to capitalist entrepreneurs.

The laissez-faire dogma, embraced by the theory of social Darwinism (which justified the increased power of the fittest and the duplication of the political and social beliefs of "the fittest" nations on lesser nations for their benefit), provided a strong stimulus to and justification of America's Industrial Revolution and capitalist accumulation of wealth in the late nineteenth century. The dogma's proponents in the United States—for example, William Graham Sumner of Yale, a Darwinist sociology professor—believed that economic life functioned according to the theory of survival of the fittest, just as in nature, and that the "invisible hand" of competition would more effectively improve the economy than would state regulation. Proponents of laissez-faire believed everyone should have the absolute right to manage their personal property at their own pleasure and should be free to compete, to succeed, or to fail. Laissez-faire advocates also preferred that the law of supply and demand determine all economic variables such as prices, wages, rents, and interest rates. Yet the increasing pattern of monopoly, the social cost of industrialization (with labor living at mere subsistence levels), and entrepreneurs' demand for a well-structured economy made state intervention increasingly necessary. More recently, the laissez-faire approach (which began at the start of the twentieth century and increased, especially after the Great Depression, in the first part of the century) has become less and less feasible as the federal government takes a more active role in taxing and regulating businesses, although the government continues to give a moral boost to individuals' drive for personal prosperity by reducing government involvement, such as via tax cuts.

—Guoqiang Zheng

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See also Volume 1: Free Trade; Trusts.

Lee, Henry (1782–1867)

Author of the influential "Boston report," which challenged the ideas that the government should protect manufactures and that protective duties result in lowering prices.

Born in Beverly, Massachusetts, on February 4, 1782, Henry Lee dropped out of college early to enter business. He traveled to Calcutta in 1811 and, because of the War of 1812, he decided to remain in India, where he made trading acquaintances. A student of political economy, Lee opposed some of the viewpoints held by supporters of the American System, which called for a national bank, protective tariffs, and government funding of internal improvements such as roads and canals. He also wrote for Condy Raguet's *Free-Trade Advocate,* a Philadelphia publication. In the 1820s, Lee turned his attention to the tariff—an issue that was very compelling in New England. Woolen manufacturers there supported protectionist tariffs because they faced strong competition from overseas. Merchants and traders who opposed these protectionist tariffs, fearing they would hinder trading relationships with foreign countries, chose Henry Lee to write the 200-word document *Report of the Committee of the Citizens of Boston and Vicinity, Opposed to a Further Increase of Duties on Importations,* sometimes called the "Boston report." First printed in 1827, it had four printings and was singled out by historian Edward Stanwood, who said in his *American Tariff Controversies in the Nineteenth Century* that "no more powerful document was ever produced in this country." The report challenged the ideas that the government should protect manufactures and that protective duties result in lowering prices, among other ideas. It also discounted the belief that the British government had suddenly altered its system of duties after the United States passed its tariff of 1824, thus undercutting American prices. Lee pointed out that the British had begun petitioning for this change in 1820 and passed legislation that lowered the tariff before they could even have heard of the American bill.

In 1828, Senator Daniel Webster of Massachusetts replied to the Boston report in a disappointing speech in the congressional debate on the proposed Tariff of 1828. He admitted that Britain did not lower its tariff in response to the American 1824 tariff, but he argued, "The effect of that reduction, on our manufactures, was the same precisely as if the British act had been designed to operate against them, and for no other purpose."

In the 1832 presidential election, South Carolina gave its 11 electoral votes for vice president to Henry Lee. He died February 6, 1867.

—David E. Walker

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See also Volume 1: Protective Tariffs; Tariff of Abominations.

Lend-Lease Act (1941)

Strategy calling for the United States to funnel armaments to the Allied powers to support Britain's struggle against Germany after the outbreak of World War II in Europe.

In late December 1940, President Franklin D. Roosevelt championed a strategy calling for the United States to funnel armaments and other materials to Great Britain, which was in a life-or-death struggle with Nazi Germany following the outbreak of World War II in 1939. Roosevelt's persuasion led Congress to pass the Lend-Lease Act—officially entitled "An Act to Promote the Defense of the United States, and for

Other Purposes"—in March 1941. This act anticipated the full use of America's industrial resources and military in World War II.

Roosevelt's lend-lease plan appeared as a resourcefully veiled reversal to a foreign policy of noninvolvement that Washington had been pursuing since the mid-1930s, when the Axis nations—militarist Japan, Fascist Italy, and Nazi Germany—intensified efforts for conquests in Asia, Africa, and Europe. Buttressed by a strong isolationist sentiment nationwide, the neutrality acts passed by Congress between 1935 and 1939 had kept the United States from being dragged indiscriminately into international crises or military conflicts regardless of circumstances. The U.S. propensity for neutrality remained firm even when the Nazi Germany regime, egged on by the British and French desire for appeasement and a Nazi-Soviet nonaggression pact, invaded Poland in September 1939 and catalyzed the eruption of World War II. In 1940, after France had capitulated to German aggression, Britain became the last line of defense against the Nazis. Preparing for its own national defense, a sympathetic U.S. government fine-tuned the neutrality acts to permit the supplying to Britain of arms essential for its survival. Given rampant domestic fear of war, however, the sale of arms to Britain was to be on a cash-and-carry basis. Despite its desperate situation, London depleted its U.S. dollar reserves for American purchases by fall 1940.

Because Britain needed more direct help than the cash-and-carry policy permitted, President Roosevelt contemplated a strategy of conveying armaments and goods to the British on a lend-lease basis. In a fireside chat broadcast December 29, 1940, Roosevelt explained to the American public that British survival was vital to America's own defense in view of the aim Nazi Germany and its allies had to achieve world domination. In his state of the union message on January 6, 1941, Roosevelt officially asked Congress for a lend-lease bill that would help ensure America's own national security as "an arsenal of democracy."

After much animated debate about whether this initiative would lead the United States toward war, Congress passed the Lend-Lease Act on March 11, 1941, and the president signed it the same day. The act authorized the president to implement when necessary immediate transfer—to a value of $1.3 billion—of war supplies (including weapons, munitions, aircraft, vessels, machinery, tools, materials, or any agricultural or industrial commodity) to any countries whose defense he considered critical to the safety of the United States. Altogether, the act appropriated $7 billion and stipulated the recipient nations' obligation to yield reciprocal (either military or commercial) advantages to the United States. The act also empowered Roosevelt to demand of the recipient governments payment or repayment in forms convenient or favorable to the United States.

As a foreign aid program, lend-lease assistance quickly enlarged American responsibility toward countries (at this point, Great Britain and the Soviet Union) fighting the Axis powers and soon led the United States toward direct participation in this international conflict. But the program also served American interests by upgrading Washington's role in influencing the course and direction of World War II and ultimately by helping to forge a postwar international order.

—*Guoqiang Zheng*

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See also Volume 1: Roosevelt, Franklin D.; World War II.

Levittown

The paradigmatic post–World War II American suburb and product of a $50 million housing development constructed by Abraham, Alfred, and William Levitt.

Levittown was a development of mass-produced housing built beginning in 1947 in the Hempstead Plains of Long Island about 50 miles east of Manhattan. At first only returning World War II veterans and their families could purchase homes in the development. The town's progenitors, developer William Levitt and his architect brother, Alfred, capitalized on the housing crunch of the immediate post–World War II years and on their own mass-production know-how, learned from their father Abraham, to make home ownership a reality for the growing ranks of middle-class families. The planned community consisted of assembled homes, mostly Cape Cod and ranch-style single-family detached houses, along curvilinear drives off the parkways leading from New York City. Each unit included a 12-by-16-foot living room with a fireplace, one bath, and two bedrooms, with room for expansion upstairs or outward into the yard. Detractors ridiculed the raw, unfinished quality of Levittown's landscape and the homogeneity of its dwellings. But young, middle-income families responded enthusiastically to the prospect of home ownership made possible by the Levitts' novel approach to home building and new, more active government housing policies, such as mortgage guarantees by the Federal Housing Administration. The first 1,800 houses in Levittown were available only as rentals with an option to buy after a year's residence. Because the mortgage and taxes combined were less than the rent, almost all of the original Levittowners opted for purchase. After 1949, the developers sold all additional units. Levittown ultimately encompassed more than 17,400 separate houses and 82,000 residents. Levittown's restrictive racial covenant barring African Americans from purchasing homes stayed intact until the 1960s.

—*Sayuri Shimizu*

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See also Volume 2: Urbanization.

Lobbying

The act of influencing government decisions through pressure exerted on members of Congress by agents of special interest groups.

The term *lobbying* was first used in the 1830s when advocates of special legislative interests decided to meet in the lobby of the Capitol building. Since then the meaning of the term has expanded to cover all activities designed to influence the votes of representatives and senators. Most Americans accept the practice, although lobbying often leads legislators to introduce or vote for measures their constituents do not support. Lobbyists usually represent large corporations, financial institutions, educational organizations, medical professions, unions, or other industries. In addition, nationwide special interest groups such as Mothers Against Drunk Driving, the National Rifle Association, and Common Cause (a group of citizens formed to combat special-interest groups) push a single-issue or limited-issue program. Lobbyists often provide technical information to the legislators and occasionally draft resolutions for a legislator to introduce. The Regulation of Lobbying Act of 1946 required lobbyists to register—an attempt to limit their influence and reduce the opportunity for corruption. For example, lobbyists must report the gifts and contributions they give to lawmakers, which are limited by law.

Lobbyists use various tactics to ensure the passage of legislation favorable to their cause. Entertaining or becoming close friends with legislators and the use of promises for future favors such as campaign contributions often yield results. If these endeavors fail, lobbyists often turn to threats to withdraw financial support from legislators, mass media campaigns, or grassroots telephone and mail campaigns. The promise of funds from political action committees (PACs) often gets the attention of representatives who have to campaign for reelection every two years. Lobbyists control the funds of some PACs and therefore can use this tool to influence legislators.

Lobbyists have been successful over the decades, but Congress and U.S. citizens continue to monitor their activities to ensure that representatives keep the interest of the people as their primary focus. In 1995, Congress passed more stringent lobbying legislation that increased disclosure requirements.

—*Cynthia Clark Northrup*

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See also Volume 1: Corruption.

Long, Huey (1893–1935)

Charismatic and flamboyant Louisiana governor who posed a significant political challenge to President Franklin D. Roosevelt by advocating sharing of wealth and hatred of the rich.

Born in Winnfield, Louisiana, August 30, 1893, Huey Long never attended college but worked as a salesman and attorney before entering politics. Quickly rising to the governorship of Louisiana in 1928, he established a program of public works and deficit spending. Louisianans loved the Democrat for the free textbooks that he provided for schoolchildren, paid for by severance tax on natural resources (a tax placed by states on extraction of natural resources used in other states). Elected to the U.S. Senate in 1930, Long supported high tariffs because he adamantly advocated protection for Louisiana products such as oil, cotton, and sugar. He generally voted slightly left of center on economic issues, although he never supporting the New Deal. In his most significant speech to the Senate, on April 4, 1932, Long concluded that modern mass production remained oppressive and that America must redistribute its wealth. He introduced a bill to limit annual income to $5 million, but, as happened with all of his proposals, it pulled only a handful of votes. Long believed that the nation possessed only a finite amount of economic resources and that the rich had acquired their wealth by taking it from the poor. He argued that the poor could only escape poverty by confiscating wealth. On February 23, 1934, Long began the Share Our Wealth Society, which grew rapidly and promised more than the New Deal. Through Share Our Wealth, Long proposed that the government confiscate any annual income above $1 million and wealth in excess of $5 million and that it provide each family with an annual income of at least $2,500 and also with a home, car, and a radio whose worth totaled at least $5,000. Long was shot September 8, 1935, in Baton Rouge, Louisiana, by a political opponent and bled to death a day later.

—*Caryn E. Neumann*

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See also Volume 1: Great Depression; New Deal; Roosevelt, Franklin D.; Share Our Wealth Plan; Share Our Wealth Society.

Louisiana Purchase (1803)

Purchase of the Louisiana Territory from France under Thomas Jefferson's administration.

In 1801, newly elected President Thomas Jefferson learned that Spain had surrendered the Louisiana Territory to the French under the secret Treaty of San Ildefonso. Like many other Americans, Jefferson feared that the French would rescind the right of American farmers to deposit their goods at New Orleans. He also worried that a reborn French empire across the Mississippi River would inspire the many Indian nations in the western country to rise up and attack settlements along the entire frontier. He even thought that Napoleon might send French settlers to the region to set up farms that would feed the slaves on the many plantations of France's sugar islands such as Haiti.

One year later, Jefferson instructed Robert Livingston, his

ambassador to France, to purchase New Orleans and western Florida from the French. If the French would not agree, then Livingston was instructed to purchase from them another tract of land along the Mississippi River, where America could build a new port for the deposit of western goods. Before Livingston could negotiate a purchase (and before Spain had surrendered Louisiana to the French), Spain closed New Orleans to American shipping. In response, Jefferson sent James Monroe to France in 1803 as a special minister with instructions to offer the French up to $10 million for New Orleans and western Florida.

Livingston and Monroe were stunned when French Foreign Minister Charles Maurice de Talleyrand offered in 1803 to sell the entire Louisiana Territory including New Orleans to the United States for $15 million. Napoleon, preparing to renew his military campaigns in Europe, needed money quickly. Livingston and Monroe agreed to the sale, and in 1803 Congress approved the Treaty between the United States of America and the French Republic, which made Louisiana, which stretched from the Mississippi River all the way to the Rocky Mountains, a territory of the United States.

—*Mary Stockwell*

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See also Volume 2: Land Policies; Volume 2 (Documents): Treaty between the United States of America and the French Republic with Conventions.

M

Macon's Bill No. 2 (1810)

Temporarily reversed Jeffersonian commercial policy and allowed trade with the warring states of England and France.

Passed into law May 1, 1810, following the failed Embargo of 1807 and the expiration of the Non-Intercourse Act of 1809, Macon's Bill No. 2 attempted to influence the policies of France and Britain. The measure continued the Jeffersonian policy of threatening to sever economic relations to force these nations to respect U.S. neutrality and shipping rights on the high seas. Sponsored by Republican Representative Nathaniel Macon of North Carolina, chair of the Foreign Affairs Committee, the bill lifted all restrictions on trade with France and England and promised to only bar war ships from American ports. It also stated that if either belligerent ended its restrictions against U.S. commerce before March 3, 1811, the president could authorize the resumption of nonintercourse against the nation that refused to change its policy within three months of the first country's declaration to end its restrictions against American shipping.

The bill enabled Napoleon Bonaparte to manipulate American policy to his own advantage, and it increased tensions between the United States and England. On November 1, 1810, Napoleon officially revoked the Berlin and Milan decrees that blockaded England and authorized the seizure of U.S. ships that refused to trade with France. According to the provisions of the bill, England was to revoke its restrictions by February 1, 1811. Although British officials did issue licenses to American ships to enter English ports, Parliament's unwillingness to officially renounce the Orders in Council that blockaded continental Europe forced the United States to reimpose nonintercourse against Britain. Even though Napoleon continued to seize American ships in French ports in violation of Macon's Bill No. 2, the actions of the British Navy proved more threatening and more damaging to U.S. shipping and neutrality and furthered the divide that resulted in the War of 1812.

—Peter S. Genovese

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See also Volume 1: Non-Importation Act; Non-Intercourse Act; War of 1812.

Macroeconomics

Economic analysis that deals with economy as a whole.

Two levels of analysis exist by which economists may derive laws concerning economic behavior—macroeconomics and microeconomics. The level of macroeconomics deals with the economy as a whole or with its basic subdivisions or aggregates such as the government, household, and business sectors. An aggregate consists of a collection of specific economic units, such as businesses, which are treated as if they were one unit—high-tech industries, for example. In dealing with aggregates, macroeconomics is concerned with obtaining an overview or general outline of the structure of the economy and the relationships among its major aggregates. Macroeconomics entails discussions of the magnitudes of total output, total level of employment, total income, total expenditures, general level of prices, and so forth, in analyzing various economic problems.

Unemployment and inflation are important factors that lead to macroeconomic instability. The United States seeks economic growth, full employment, and stable price levels. The broad spectrum of American economic history reflects remarkable economic growth: technological progress, rapid increases in productive capacity, and a standard of living that is a strategic facet of the dynamic character in the U.S. economy. The U.S. economy has been characterized by fluctuations (also called cycles) in national output, employment, and the price level. In addition, unanticipated inflation tends to arbitrarily redistribute income at the expense of fixed-income receivers, creditors, and savers. If inflation is anticipated, individuals and businesses may be able to take steps to mitigate or eliminate its adverse distributive effects.

Economists and researchers use economic models that help them understand why prices rise or fall, what causes unemployment, why shortages or surpluses of products occur, and so on. However, more importantly, economists view

economic theory as the basis for economic policy. Further, economic principles attempt to prove models of reality and hence are abstract—their usefulness depends upon this abstraction. Nonetheless, it is not a simple matter to create specific policies designed to achieve the broad economic goals of the U.S. economy. Economic principles are particularly valuable as predictive devices; they are the bases for the formulation of economic policy designed to solve problems and control undesirable events.

—Albert Atkins

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See also Volume 1: Microeconomics.

Mad Cow Disease

Progressive neurological disorder that afflicts the central nervous system of cattle, the spread of which the U.S. government continues to prevent in the United States.

Bovine spongiform encephalopahy (BSE) causes animals infected with it to die because no vaccine or treatment exists. The source of the epidemic apparently involved animal feed containing contaminated meat and bone meal in Britain in 1985. The disease has affected herds in Europe since 1985, but no case has been found in the United States.

BSE is a variant of transmissible spongiform encephalopathy (TSE). Some forms of TSEs—Creutzfeldt-Jakob disease (CJD), fatal familial insomnia, Gertsmann-Straussler-Seheinker Disease, kuru, and variant Creutzfeldt-Jakob Disease (vCJD)—afflict humans, whereas others affect animals and are often species-specific. In humans, TSEs cause slow degeneration of the central nervous system with dementia and loss of motor skills. According to the World Health Organization, the newly recognized vCJD is strongly linked to BSE and probably comes from consuming contaminated beef. All reported cases of BSE and vCJD have been in Europe, primarily in the United Kingdom. Since 1998 there has been a steady decline in the incidences of both types of cases.

BSE has had far-reaching economic consequences. The most visible outcome has been the destruction of hundreds of thousands of cattle throughout Europe. In addition, producers have experienced losses because of the ban on exporting beef or beef by-products. Other obvious costs include the establishment of government programs to monitor cattle production and to establish prevention programs. Much more difficult to assess are two consequences that are more subtle. The first is the effect of the loss of consumer confidence and the reduction in beef consumption. The second is the tension among nations with the imposition of trade barriers. For example, the United States has not imported beef from the United Kingdom since 1985, has barred importation of ruminant animals and at-risk products from nations with confirmed cases of BSE, has banned the inclusion of mammal-derived animal protein by-products in cattle feed, and has barred all imports of rendered animal protein from Europe without regard to species.

—Susan Coleman

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See also Volume 1: Food and Drug Administration.

Manifest Destiny

Phrase popular in the 1840s referring to an assumed divine intention that the United States should expand from the Atlantic to the Pacific Coast and used to justify American designs on the Pacific Northwest (Oregon), the American Southwest (Texas), and California.

Journalist John L. O'Sullivan coined the phrase *manifest destiny* in the July 1845 edition of the *United States Magazine* and *Democratic Review.* Although the term signifies American territorial expansionism in the 1840s, the concept of manifest destiny has roots deep in American culture and history. Manifest destiny reflected a dynamic and not always stable or consistent blend of Protestant millennialism (which preached the end of the world), ethno-racial attitudes, commercial agenda, and political pragmatism. Historian Anders Stephanson maintains that the term merely served as an expression, saying it involved "a whole matrix, manner of interpreting the time and space of America."

According to O'Sullivan and many like-minded Americans of the period, "providence" had determined America's future and required that the continent make room for the "multiplying millions" of Americans. This fusion of religiosity and demographic destiny can also be found in earlier political generations. Thomas Jefferson's purchase of Louisiana and desire for a continental, republican empire was partly grounded on these principles. Similarly, the widespread acceptance of Anglo-Saxon superiority among the white population in the United States reinforced religious and political motivations for territorial acquisition throughout the pre–Civil War period.

Manifest destiny transcended terrestrial and continental boundaries. The concept wedded American expansion to Western and Christian civilization spanning the Atlantic and the North American continent that, by the 1840s, stood ready to reach across the Pacific Ocean to Asia. Within this context, China merchant Asa Whitney and Whig politician William Seward cast the term in a decidedly commercial and global light. Although American farm families populated newly acquired territories, American entrepreneurs and businesses envisioned a vast financial and transportation network spanning the continent and underwriting U.S. penetration of foreign markets. To these interests, a transcontinental railroad served as the ultimate physical expression of manifest destiny. Within this vision, railroads channeled the agricultural and industrial products of the America's hinterlands through California seaports and on to the Far East, creating a commercial framework that promoted both profit and prophecy. Commerce became a vehicle for expansion of Christianity and Anglo-Saxon civilization. Other, particularly southern, versions of manifest

destiny envisioned similar possibilities for Mexico, Central America, and the Caribbean basin.

—*Robert Rook*

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See also Volume 1: Dollar Diplomacy.

Marshall, John (1755–1835)

America's greatest chief justice.

Born in Virginia on September 24, 1755, John Marshall became a devoted nationalist during his years as a soldier in the Continental Army. He rose to the rank of captain and fought in battles throughout New York, Pennsylvania, New Jersey, and Virginia in the Revolutionary War. Marshall often credited his years as a soldier as the turning point of his life. He was fond of saying that he joined the Continental Army as a Virginian, but he left as an American. His devotion to the nation led him to support the Constitution at Virginia's ratifying convention, and he later joined the Federalist Party. Marshall became a Federalist congressional representative from Virginia and also served as both minister to France and secretary of state under the administration of John Adams. As one of Adams's last acts in office, he appointed Marshall chief justice of the Supreme Court.

When Marshall assumed his new post, the Supreme Court still had no clear purpose. Article 3 of the Constitution gave few details concerning the Court's role in the new government. Justices had struggled for more than a decade with this problem. The new chief justice wasted little time in establishing the Court's precise role. He shaped it as an equal branch of the national government alongside both the legislative and executive branches. In the case of *Marbury v. Madison* (1803), Marshall established the principle of judicial review that allowed the Supreme Court to determine the constitutionality of laws. Later, in the case of *McCullough v. Maryland* (1814), he decided that the Congress did have the power to create the Bank of the United States. In this case, he also established the powerful principle that the nation must always take precedence over the states when their laws conflict. Marshall died July 6, 1835.

—*Mary Stockwell*

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See also Volume 1: *McCulloch v. Maryland;* Volume 2: Judiciary.

Marshall Plan (1948)

Comprehensive project designed and implemented by the Truman administration to underwrite restoration of Western Europe's World War II–ravaged economy.

The Marshall Plan to aid in rebuilding Europe after World War II was proposed in 1947 and signed into law in 1948 during the administration of President Harry S Truman. The Economic Cooperation Administration administered the plan, which also was known as the European Recovery Plan. It aimed to enhance America's long-term economic, political, and strategic interests at a time when Western European economies faced devastation following the end of World War II. U.S. policymakers believed that recovered Western European economies could provide a desired market for American goods and help make the United States a leading economic power in the postwar world. Also, they envisioned Western Europe as part of a multilateral system of world trade crucial to the liberal capitalist economy that Washington had in mind for itself and its allies. Unity in Western Europe would foster an American-type liberal capitalist order able to create high productivity, comfortable living standards, and political stability. Third, Washington saw the Marshall Plan as a means of strengthening shaky pro-American governments in Western European nations and a way of warding off rapid inroads being made by domestic communist parties and left-wing organizations leaning toward the Soviet Union. Thus did the European Recovery Plan emerge as an all-embracing effort for the economic revival of Western Europe as a whole.

U.S. Secretary of State George Marshall first publicized such a plan in a commencement speech at Harvard University on June 5, 1947. To avoid having the Marshall Plan viewed as anti-Soviet, Marshall subsequently invited the Soviet Union and its Eastern European satellite states to participate in its design; all the while, U.S. policymakers calculated Moscow's offhand rejection. The Soviet Union, together with Poland and Czechoslovakia, appeared at the first planning conference (convened in Paris on June 27, 1947) for Marshall's proposal, but as the United States had predicted it quickly withdrew, denouncing the plan as building an anti-Soviet bloc of Western capitalist powers. Lengthy negotiations followed without the Soviets; participants (17 Western European nations in all) laid the groundwork for a four-year recovery plan. On the plan's completion, the United States created the Economic Cooperation Administration and named Paul Hoffman the head. The Organization for European Economic Cooperation established by the 17 Western European states would coordinate the American effort.

From 1948 to 1952, $13.15 billion in Marshall Plan aid helped revitalize Western Europe and ushered it onto a path of durable economic growth and integration. The recharged economies that owed their lives to the Marshall Plan led to more stable political systems that discouraged communist encroachment in Western Europe. In addition, the United States buttressed its economic and political influence over Western Europe. Finally, the Marshall Plan widened the cold war gulf between the United States and the Soviet Union. Rather than surrender communism and its command economy to an American-dominated capitalist system, Moscow began its draconian policy of quarantining its Eastern European client states from the rest of Europe.

—*Guoqiang Zheng*

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See also Volume 1: Cold War; Economic Cooperation Administration; Truman Doctrine.

Marxism

Array of social movements, political parties, theoretical tendencies, and doctrines descending from Karl Marx's writings in philosophy, political economy, and history; a doctrine that the United States spent much effort and money to oppose.

Karl Marx, who was born in 1818 and published his ideas during the 1860s, combined elements of German philosophy (Georg Wilhelm Friedrich Hegel and Ludwig Feuerbach), British political economy (Adam Smith and David Ricardo), and French socialism (Conte de Claude Henri de Rouvroy Saint-Simon and Pierre Joseph Proudhon) to form a coherent worldview that emphasized the inextricability of theory and practice in the struggle against capitalist exploitation. "The philosophers have only interpreted the world, in various ways," Marx said; "the point is to change it." Nevertheless, it was only after the fall of the Paris commune in 1871—the first successful proletarian revolution—and the ensuing dispute between the followers of Marx and Frederich Engels (i.e., the social democrats) and the followers of Mikhail Bakunin (i.e., the anarchists), that the term *marxism* gained currency. Thereafter, the founders of the German and Russian social democratic parties codified marxism as the official doctrine of the working-class movement.

One controversy in the history of marxism merits particular attention. The debate in the Soviet Union between Joseph Stalin and Leon Trotsky, who foresaw the expansion of communism throughout the world that began with Vladimir Lenin's death in 1924 and ended with Trotsky's expulsion in 1927 had its roots in the Soviet Union's ambiguous position as a territorial expansionist state and the "fatherland of the international proletariat." Whereas Stalin advocated "socialism in one country" (the idea that the Soviet Union could achieve socialism on its own), Trotsky advocated "world revolution" (the idea that the Soviet Union could not survive in the absence of revolutions in the West). Stalin's accession to power led not only to the bureaucratization of the Soviet government but also to the calcification of Soviet political doctrine.

After World War II, the term *western marxism* came to designate a range of alternatives to Soviet marxism: the rediscovered Hegelian and humanist marxism of the interwar period (Georg Lukács, Karl Korsch, and Antonio Gramsci); the existential marxism of Jean-Paul Sartre, Simone de Beauvoir, and Maurice Merleau-Ponty in France; the critical theory of the Frankfurt School in Germany; and cultural studies in Great Britain. These schools of thought, which shared an aversion to the economic determinism, objectivism, and scientism of Soviet marxism, revived interest in Marx's critique of alienation of workers and commodity fetishism (in which a commodity becomes so valued that the buyer develops a sense of love or devotion to it—the automobile, for example). Western marxism continues to exert considerable influence in European and American universities, especially in the domains of sociology, history, and literary studies.

—*Mark Frezzo*

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See also Volume 1: Socialism.

Maysville Road Bill of 1830

An act of Congress to fund internal improvements in Kentucky and a political battle over the federal financing of internal improvements.

In 1830, Congress approved a bill presented by Henry Clay, Whig Speaker of the House of Representatives, for federal payment of up to $150,000 in the Maysville, Washington, Paris, and Lexington Turnpike Road Company, a turnpike project in central Kentucky. The turnpike would constitute the first part of a planned larger road that would connect New Orleans via the Natchez Trace and Maysville Road with the National Road in Ohio. The bill also served as an expression of Clay's larger vision of economic nationalism, known as the American System, an aspect of which—the promotion of internal improvements—had strong popular support among westerners.

President Andrew Jackson vetoed the bill in a carefully crafted message designed to appease western Democrats who favored internal improvements. Although he rejected federal funding for transportation projects, he sought to maintain the political approval of westerners. Furthermore, both Jackson and Martin Van Buren, secretary of state, who wrote much of the veto, despised Clay and used the Maysville bill as a way to derail the American System. Thus, the veto remained more politically than economically inspired, an understanding shielded by the language of the veto message, which argued for a strict interpretation of the Constitution regarding federal funding of interstate projects and for fiscal responsibility.

Following the veto, Clay attempted to resurrect the American System by redefining the funding of internal improvements. Trying to circumvent Jackson's constitutional scruples, Clay turned to the idea of linking internal improvements with the sale of federal land, making the proceeds of land sales solely available for internal improvements. In later years, congressional opposition to this policy of monetary distribution to transportation companies solidified its support in favor of land grants, particularly railroad land grants. The Maysville veto marked the end of federal funding of state transportation projects. Americans had by the 1830s come to rely on state funding for transportation projects and had also lost their enthusiasm for Clay's American System.

—*Russell Douglass Jones*

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See also Volume 1: American System; Clay, Henry.

McAdoo, William G. (1863–1941)

U.S. secretary of the Treasury from 1913 to 1918.

Born near Marietta, Georgia on October 31, 1863, William G. McAdoo began to practice law in New York City in 1892. In 1902, he became president of the Hudson and Manhattan Railroad Company and built the first traffic tunnel under the Hudson River. In 1912 McAdoo, who supported Democratic presidential candidate Woodrow Wilson, chaired the Democratic National Committee. During the 1912 presidential campaign, McAdoo wrote articles discussing and defending Wilson's economic policies, and he called for the election of new officials not affiliated with the monopoly of manufacturers. With Wilson's election, McAdoo became secretary of the Treasury, serving from 1913 to 1918. In 1914, he married Wilson's daughter, Eleanor Randolph Wilson. McAdoo served as director general of U.S. railroads, a wartime position, from 1917 to 1919. Dale Shook has contended that McAdoo's endeavors reflected his "ambition, a desire for prestige and respect, a sense of public service, and a secondary goal of making money."

As secretary of the Treasury, McAdoo revised the tariff law—a high-priority item in the Wilson administration. McAdoo believed that tariff laws were overprotective and discouraged the development of new industries. The tariff laws also resulted in higher prices and lower wages, he contended. The Underwood-Simmons Tariff Act of 1913 resulted in lower duties on imports and removed tariffs from (among other items) wool, sugar, steel rails, and iron ore. To replace the lost revenue, the bill proposed a graduated income tax, which the Constitution's Sixteenth Amendment, ratified in 1913, provided.

McAdoo also served as a leader in the creation of a Federal Reserve Board. Working with congressional leaders, he wanted a government bank that would diminish the power of Wall Street banking interests. At the same time, he believed government involvement should encourage individual initiative. McAdoo's ideas and actions raised his popularity and the trust of the public. Shook compared McAdoo's role to that of an assistant president in charge of both the creation of policy and the administration of nonpolitical affairs.

During World War I, McAdoo remained active in supporting the nation's efforts. In his speech "American Rights," he argued, "God has called us as a champion of freedom and democracy." In addressing economic needs, he contended that accepting Germany's attempt to create a zone of about 500 miles in which Americans could not sail their ships would bring disaster to America's farms, factories, mining interests, and labor interests.

McAdoo ran unsuccessfully for president in 1920 and 1924. When he and Attorney General A. Mitchell Palmer deadlocked at the 1920 Democratic convention, the delegates selected Governor James Cox of Ohio. When McAdoo and Governor Alfred E. Smith of New York deadlocked in 1924, the convention chose John W. Davis, former solicitor general of the United States under President Woodrow Wilson. McAdoo served as U.S. senator from California from 1933 to 1938. He is best remembered for having said, "It is impossible to defeat an ignorant man in argument." McAdoo died in Washington, D.C., February 1, 1941, and was buried at Arlington National Cemetery.

—*David E. Walker*

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See also Volume 1: Wilson, Woodrow.

McCulloch v. Maryland (1819)

Case that established the constitutionality of the Bank of the United States.

The constitutionality of the Bank of the United States was debated beginning when Treasury Secretary Alexander Hamilton first proposed the institution in 1790. Hamilton argued that Congress could create the bank under the "necessary and proper" clause of the Constitution. In contrast, Secretary of State Thomas Jefferson had argued against founding the bank because the Constitution did not specifically grant this power to Congress. President George Washington and the Congress agreed with Hamilton and approved the establishment of the Bank of the United States in 1791. Twenty years later, President James Madison allowed the charter of the bank to lapse. But after the War of 1812, Congress chartered the Second Bank of the United States in the hope it would stimulate a failing economy. The directors of the new bank called in many outstanding loans, which helped to bring about the panic of 1819. Several states including Maryland retaliated by levying taxes on the national bank. James McCulloch, the cashier of the bank's Baltimore branch, refused to pay the $15,000 tax levied by Maryland and eventually took his case to the Supreme Court.

When Chief Justice John Marshall ruled in 1819 for a unanimous Court in favor of McCulloch, he made his strongest statement to date for the power of the nation over the states. He argued that the case posed the question of whether the bank was constitutional, and if yes, whether a state could tax the national bank. Closely following Hamilton's original argument, Marshall agreed that although the Constitution did not specifically grant the Congress power to establish a national bank, it nevertheless implied it. As to the second question, Marshall argued that a state could not use taxation to destroy a power rightly given to the Congress.

—*Mary Stockwell*

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See also Volume 2: Judiciary.

McKinley Tariff Act (1890)

Highest tariff in United States history to that point.

Despite a Treasury surplus attributable to previous tariffs, William McKinley, Republican member of the House of Representatives from Ohio and chair of the House Ways and Means Committee, introduced a tariff measure that increased duties on imports so substantially that it barred some foreign-made goods from entering the United States. Moreover, the measure had two other features that particularly differentiated it from previous tariffs: reciprocity (which allows for the reduction of duties charged a specific country in exchange for more favorable tariff rates from the other country) and the promotion of new industries, especially the tinplate industry, which made thin sheet iron or steel coated with tin. Republican Senator Matthew Quay of Pennsylvania, who had comanaged Benjamin Harrison's successful presidential campaign in 1888, strongly supported the passage of the tariff bill partly because of his many campaign promises to industrialists. Quay ensured passage of the bill by gaining Southern support through a compromise that prevented a vote on a federal elections bill concerning the right of African Americans to vote.

Many farmers and urban laborers called the 1890 McKinley measure a "rich man's tariff." Republicans asserted that the McKinley tariff would benefit workers through higher wages, but once the tariff was enacted, prices immediately rose faster than wages. Emphasizing the problems with the tariff, the Democrats soundly defeated the Republicans in the 1890 Congressional elections, and Grover Cleveland, the Democratic candidate, won the presidency in 1892. In 1894 the Wilson-Gorman tariff increased rates once again.

—*Steven E. Siry*

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See also Volume 1: Protective Tariffs.

McNary-Haugen Bill (1924, 1928)

Unsuccessful attempt to create a system of agricultural price supports in the mid-1920s.

To rectify the decline in farmers' purchasing power since 1913, in 1924 Congress passed legislation sponsored by Republican Senator Charles McNary of Oregon and Republican Representative Gilbert Haugen of Iowa. Their plan called for the creation of a Federal Farm Board that would define an equitable price for specified staple crops and guarantee that price to farmers. In return, farmers would pay an equalization fee to cover the costs of selling surpluses on the international market. Congress paired this system of price supports with a protective tariff on agricultural goods. Tariff protection remained relatively easy to achieve under the Fordney-McCumber Tariff of 1922. However, the creation of price guarantees failed to pass in the House in 1924.

Senator McNary and Representative Haugen based their support among congressional Republicans from rural states while encouraging the participation of Southern Democrats. In 1927 Congress passed a version of the McNary-Haugen Bill that would support prices for cotton, wheat, corn, rice, tobacco, and swine. However, President Calvin Coolidge vetoed the bill. Coolidge based his opposition on his belief that the plan would increase the surplus production of protected crops while discouraging diversification into areas of growing market demand such as fruit or threatening stable market sectors such as dairy and poultry. He also expressed concern over the appropriateness of government price fixing.

McNary and Haugen were unable to gain sufficient support to override the Coolidge veto. An adjusted version of the bill passed Congress in 1928 but once again without sufficient support to withstand a veto.

After he assumed the presidency in 1929, Herbert Hoover hoped to placate the supporters of McNary-Haugen legislation. He supported the successful passage of an alternative law, the 1929 Agricultural Marketing Act, which formed a Federal Farm Board, but the board had little authority to regulate prices.

—*Karen A. J. Miller*

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See also Volumes 1, 2: Agricultural Policy.

Media

Agencies of mass communication that have influenced American economic and political development.

During America's first years as a nation, newspapers were the only form of communication. In addition to reporting general news, they helped to stimulate agriculture and business by providing information about new farming techniques and business news. By the late 1880s, foreign newspapers stimulated immigration by publishing ads from railroad companies and investors for cheap land. Foreign workers, enticed by these ads, provided the labor for the Industrial Revolution. Information about government land policies including the Homestead, Timber and Stone, and Timber Culture Acts was published in newspapers in the East and Midwest and encouraged farmers to move westward, resulting in the settling of the West and the use of millions of acres of land for crops or grazing. Editors addressed important economic issues of the post–Civil War period like the tariff and the use of silver as a medium of exchange.

The biggest influence the media had in the late nineteenth century was the result of a newspaper war involving two publishers, Joseph Pulitzer and William Randolph Hearst. Each newspaper attempted to generate more public sensation than

the other. Hearst began a series of articles depicting the brutality and outrages committed by the Spanish against the Cuban people. As tensions among the American people against Spain escalated, President William McKinley dispatched the USS *Maine* to Havana's harbor, where an explosion sank the ship. Hearst claimed that divers had confirmed the cause of the explosion was a mine—this long before the invention of scuba gear, before which diving was impossible. Consequently, the United States declared war on Spain, and in the process of the Spanish-American War became an imperial power by ruling foreign peoples and controlling foreign markets. The United States acquired former Spanish-held territories the Philippines, Guam, Puerto Rico, and Guantanamo Bay in Cuba. Businesses turned their attention to foreign markets as never before.

During the Progressive Era—a period between 1900 and the beginning of World War I during which most middle- and upper-class Americans sought to address social and economic problems—many newspapers sponsored the development of urban areas by encouraging changes in transportation patterns, sanitation systems, and bridges and levee projects. City planning spread across the country as a result of newspaper editors' realization of the importance of clean, orderly communities. Newspapers also promoted the development of social programs, the construction of hospitals, and the establishment of universities, and they attracted potential investors to their communities.

The advent of radio extended the influence of the media throughout the country. Most of the first radio stations were owned by newspapers, which adopted the new technology to maintain their competitive advantage in disseminating the news and limit access to the market by competitors. The radio became very important during the Great Depression as Americans listened to President Franklin D. Roosevelt's fireside chats; the subject of the first one was the announcement of a four-day banking holiday to address the lack of confidence in banking institutions. Radio provided news, music, and other entertainment and was influential in establishing a sense of group identity among Americans. Eventually radio spawned an entire new industry, as entertainment broadcasts became part of the regular programming. Advertisers used radio to reach national audiences and increase their market share.

Television, which became a part of people's lives in the 1950s, has had a much greater influence than radio ever had. In addition to stimulating employment through the development of new jobs, television created a homogenous society whose members wanted what they saw portrayed on commercials and in programs, from clothing to toothpaste. The instantaneous dissemination of news about a new product or problem with a company could create a buying or selling frenzy on Wall Street. The role of the media in providing information as well as the continued display of new products will continue to influence the economic future of the United States.

In 2003 the Federal Communications Commission (FCC) loosened requirements that had restricted ownership by the same company of both newspapers and television stations in the same market area. Opponents contend that presentation of news by a limited number of companies eliminates the responsibility of media to provide all sides of the story. Proponents argue that the Internet and talk radio provide such a balance. By July 2003, a month after FCC announced the new rule, members of Congress were threatening to overturn the ruling through a resolution of disapproval.

—Cynthia Clark Northrup

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See also Volume 1: Immigration; Volume 2: Advertising; Land Policies.

Medicaid (1965)

Program established in 1965 and jointly funded by the state and federal governments to pay for medical care for eligible needy people to improve the health of this population.

Congress established Medicaid in 1965 through an amendment to the Social Security Act of 1935; it is part of the same legislation that created Medicare. The Medicaid legislation called for the federal government to establish guidelines that specify the minimum amounts of medical services covered by each state's Medicaid program and that may include inpatient and outpatient hospital services, physician services, laboratory tests, and X-rays. States may choose to cover additional services and to set the fees for the services they cover. Because states can limit the amount and duration of services offered, Medicaid benefits vary by state. Thus, citizens of one state may receive coverage for more days of inpatient hospitalization, doctor visits, and other services than citizens of an adjoining state.

Federal guidelines also specify minimum eligibility requirements for Medicaid benefits. States must cover pregnant women whose family income is below 133 percent of the federal poverty level (for instance, $13,874 for a family of three in 2000), individuals who would have qualified in July 1996 for a previous federal welfare program called Aid to Families with Dependent Children, recipients of a federal welfare program called Supplemental Security Income, and, as of 2002, all children under the age of 19 who are living in families whose incomes fall below the federal poverty level. Because states may elect to expand Medicaid coverage to other groups of financially or medically needy individuals, citizens of one state are sometimes eligible for Medicaid whereas similar citizens of an adjoining state remain ineligible. Under different eligibility guidelines that prevail nationally, in 2000 Medicaid covers about half of the nation's poverty-level population.

The federal government determines the share of each state's Medicaid expenses by comparing each state's average per-person income level with the national average. States with the highest average income levels may have 50 percent of their Medicaid costs paid for by the federal government, and states with the lowest average income levels may have up to 83 percent of their Medicaid outlays covered at the federal level.

Medicaid spends disproportionately more on some groups of beneficiaries. Spending on children, who make up 51 percent of all beneficiaries, averaged $1,150 per child in 1998. Beneficiaries in nursing homes and other facilities who are receiving long-term care receive 8.2 percent of Medicaid averaged at $12,375 per person in 1998.

—*Saranna R. Thornton*

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See also Volume 1: Medicare.

Medicare (1965)

Provides health insurance for qualified elderly or disabled Americans who meet employment and tax-related qualifications or are married to someone who meets such qualifications.

In the mid-twentieth century, President Harry S Truman tried to establish a health insurance plan for Americans, but medical lobbyists caused his plan to fail. By 1965 spiraling medical costs associated with old age wiped out the savings of many of the elderly, leaving them impoverished. Because this trend was contrary to the goals of the 1935 Social Security Act, President Lyndon B. Johnson asked Congress in January 1965 to make Medicare legislation its first priority. Medicare provides medical coverage for those over the age of 65 and the permanently disabled. Most retired persons are covered under the program, as are the terminally ill. Medicare is different from Medicaid, which provides medical coverage for the poor. Johnson signed the Medicare bill into law in July 1965 and, as of 2000, 40 million Americans were receiving Medicare benefits.

Medicare's Part A hospital insurance program is provided at no additional cost to those who are eligible. Payroll taxes on employers and currently working employees, who each pay half the cost, fund the hospital insurance. In 2001, employers and employees contributed 1.45 percent of each worker's total salary to Medicare's hospital insurance trust fund. Subject to a yearly deductible and per-service copayments of $20 over the $100 deductible, the federal government, through Medicare's hospital insurance, covers inpatient hospital care, care in a facility that provides skilled nursing or by a home health agency following hospitalization, and hospice care for terminally ill beneficiaries with six or fewer months' life expectancy.

Anyone entitled to hospital coverage under Part A can enroll in Medicare Part B, a supplemental medical insurance program. After 2000, enrollment required payment of a monthly premium amounting to $45.50. The premiums paid 25 percent of Medicare Part B's expenses, and federal tax revenues paid the other 75 percent. Subject to deductibles and copayments, the federal government pays for doctors' services, services in the emergency room or an outpatient clinic, laboratory tests, X-rays, physical therapy, and durable medical equipment such as oxygen tanks or wheelchairs.

Despite the fact that Medicare does not cover all the medical needs of the elderly in areas such as prescription medications, the program has remained enormously successful in reducing poverty rates among the elderly. In 1959, 35.2 percent of Americans 65 or older lived in poverty. By 1999 only 9.7 percent of elderly Americans lived in poverty. This change can be attributed to Medicaid, Medicare, and social security.

Although Medicare has helped senior citizens in the past, the program is experiencing problems. Under current guidelines, Medicare Part A is funded by a 2.9 percent payroll tax that is placed in a hospital trust account. As the aging population increases this amount will be insufficient to cover the hospital care of the baby boom generation. By 2008 the program will be unable to meet the financial responsibilities of institutional care for the elderly. In addition, the ever-expanding Medicare bureaucracy, with its 111,000 pages of regulations and guidelines, denies 25 percent of all claims submitted by physicians on the basis that the treatment was not specifically approved under the program even if the doctor believed that it was medically necessary for the patient. Doctors faced increased liability, as fines for unauthorized procedures are $10,000 per incident. Fewer doctors are willing to accept Medicare because of the paperwork and liability placed on them. So the number of physicians using the program are decreasing as the number of elderly patients is increasing.

—*Saranna R. Thornton*

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See also Volume 1: Medicaid.

Medicine

Practice of curing or preventing illnesses that substantially influences the economics of the United States in that more people are living longer lives and costs for their care are increasing.

The federal government got involved in the field of medicine in earnest for the first time after the Civil War in 1865. U.S. Army surgeons, faced with a staggering number of casualties, had only crude equipment and medicines to work with during the war. After the war ended, medicine assumed greater importance. Medical schools taught their students the

latest treatments and procedures, and the practice of medicine was restricted to individuals who had completed formal training. The American Medical Association (AMA), founded in 1847, sought to standardize training and required physicians to be licensed. But it was not until the Spanish-American War in 1898 that breakthroughs in research netted substantial results, especially in the area of germ theory. The discovery of microscopic organisms opened up new avenues of research. The government has funded much of the medical research since the Spanish-American War.

At the beginning of the twentieth century, army surgeon Walter Reed and his medical team, funded by the U.S. Army and the federal government, discovered the cause of yellow fever—the mosquito. Government funding during the two world wars yielded a significant breakthrough in the discovery of penicillin. Throughout the cold war, the United States suspended support of research into medicine and the life sciences for the most part, resuming it when communism in the Soviet Union and Eastern Europe collapsed. From the 1960s throughout the 1990s, the percentage of federal dollars devoted to medical research has continued to increase, one reason being the spread of AIDS in the United States. By the late 1990s about 9 percent of the federal government's R&D budget was spent on drugs and medicine.

In addition to funding research programs, Congress also established the Department of Health and Human Services (HHS). With a 2002 budget of $460 billion and more than 65,000 employees, the HHS is the largest health care provider in the United States. Besides administering the Medicare programs for the elderly and the Medicaid program for the poor, the HHS also conducts medical and social science research, seeks to prevent the spread of infectious diseases through its immunization services, works to ensure food and drug safety, administers maternal and infant health programs, oversees the Head Start education of preschool students, provides in-home meals to elderly citizens, deals with substance abuse and treatment, and addresses child abuse, domestic violence, and mental health.

The high cost of medical insurance combined with the large number of uninsured Americans has sparked a debate over the development of a national health care system. The implementation of national insurance began in the mid-1960s with the creation of Medicare and Medicaid. During the administration of President Bill Clinton, proponents of a national health care system, in an effort spearheaded by first lady Hillary Rodham Clinton, attempted to pass legislation that would guarantee coverage for all Americans. The attempt failed, but the issue continues to be raised in Congress.

—Cynthia Clark Northrup

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See also Volume 1: Cold War; Medicaid; Medicare; Mental Illness.

Mellon, Andrew William (1855–1937)

U.S. secretary of the treasury serving from 1921 to 1932 and advocating federal government incentives to promote maximum efficiency and productivity of business and industry.

Born March 24, 1855, to a banker's family in Pittsburgh, Pennsylvania, Andrew Mellon graduated from the University of Pittsburgh. By controlling the family banking business with his brother and acquiring interests in coke, coal, aluminum, and iron enterprises, Mellon became one of the most important financial tycoons and wealthiest industrialists in the United States and the world. As U.S. secretary of the treasury—first appointed in 1921 by President Warren G. Harding—Mellon strongly supported the expansion of corporate industry. Believing that economic prosperity depended on the willing reinvestment of corporate profits into the economy, Mellon sponsored a federal policy of levying substantially low taxes on corporate profits, personal incomes, and inheritance. Largely because of his effort, Congress reduced personal income taxes by almost 50 percent for the top bracket of taxpayers earning more than $60,000 annually and deeply cut taxes on inherited wealth. The Treasury under Mellon returned considerable tax refunds to large corporations like U.S. Steel in the hope of encouraging the expansion of corporate business. To compensate for the loss in government revenues, Mellon preferred drastically slashing government spending. To pay for the unavoidable expenditures of government, he proposed to increase import duties and modestly raise regressive taxes (taxes that take a larger percentage of income from lower-income than from higher-income people). Aided by this policy, according to Mellon, business would create jobs and foster a better standard of living; economic prosperity, encouraged by government policy, would "trickle down" to the middle and lower classes. Such a government policy would also advance the spirit of enterprise in America, Mellon thought. Mellon died August 26, 1937.

—Guoqiang Zheng

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See also Volume 1: Reaganomics; Supply-Side Economics.

Mental Illness

Disorders associated with the mind, the cost of the treatment of which is often borne by government.

Until the twentieth century, the cost of treating patients with mental illnesses—for example, depression, bipolar disorder (a manic depression that can result in death), schizophrenia, obsessive-compulsive disorder, and Alzheimer's disease—was the responsibility of families or the state in which the patient lived. For the past 100 years, however, more of the burden of treatment has shifted to the federal government. In terms of indirect costs, mental illness results in a loss to the U.S. economy of about $79 billion annually. This amount includes the loss of productivity for the patient, productivity lost

by family members caring for the individual, the incarceration of mentally ill patients, and losses incurred by premature death because of accident or disease. The productivity loss accounts for more than 80 percent of the indirect costs.

The federal government, private insurance companies, and individuals absorb the direct costs for the treatment and care of persons suffering from mental illnesses. In 1996 the total spent on the treatment of mental illness exceeded $99 billion. Of this amount, $13 billion was spent for substance abuse and another $18 billion for the treatment of Alzheimer's disease. As the population in the United States ages, the amount appropriated for the prevention and care of Alzheimer's and other forms of dementia will continue to increase. The federal government pays about 53 percent of the direct costs for mental illness treatment; insurance companies cover more than 24 percent; and private individuals pay the remaining expenses out of pocket. In 1996 the total amount of expenditures on mental illness equaled 7 percent of the health care budget. The cost continues to increase at a rate of 7 percent annually; most of the additional expenses are because of higher costs for prescription drugs.

—Cynthia Clark Northrup

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See also Volume 1: Medicine.

Mercantilism

A body of economic doctrines and policies in the seventeenth and eighteenth centuries advocating government intervention to achieve a trade surplus.

Mercantilism—the "mercantile system" of political economy (named in 1776 by its opponent, the classical economist Adam Smith)—shaped European colonial policy in the seventeenth and eighteenth centuries. Its goal was to increase the power and wealth of the nation-state, notably through an inflow of gold and silver—the "sinews of war" designed to pay for armies and fleets. Nations sought colonies with gold and silver deposits in imitation of Spanish conquests in Mexico and Peru, and governments employed tariffs, embargoes, quotas, export bounties, and grants of monopolies to chartered companies to try to achieve trade surpluses (exports greater than imports). Such policies contributed to conflict between nations, because a country can have a trade surplus only if some other country has a trade deficit. Colonies provided raw materials for manufacturing in the home country and acted as captive markets for manufactures from the home countries. Thus, in the 1750s, Britain banned the manufacture of iron goods in its American colonies while admitting colonial pig and bar iron into England duty free since it was not a finished manufactured product. England restricted all such manufacturing within the Empire to the mother country to promote its industrial base.

The Molasses Act of 1733 attempted to protect planters in the British West Indies by imposing high tariffs on foreign sugar, molasses, and rum, but American colonial merchants who were importing the sugar largely ignored it. The Sugar Act of 1764, which raised the duty on sugar but lowered it on molasses in an effort to stop the smuggling, was enforced more effectively. However, it provoked resistance from the colonials, who vehemently opposed a provision that allowed smugglers to be tried in a military court instead of by a jury of their peers. England's Navigation Acts of 1651, 1660, and 1663 (extended to all of Britain after England's 1707 union with Scotland) provided that commodities originating in the British Empire, shipped between ports within the empire, or imported from Asia, Africa, or the Americas be shipped on British (including colonial) ships with a British captain and three-quarters of the crew made up of British subjects. One aim of the Navigation Acts, approved even by Adam Smith, focused on the maintenance of a naval reserve of ships and experienced sailors. The Navigation Acts raised the cost of shipping, benefiting colonial shipowners, shipbuilders, sailors, and producers of naval timber and tar, but burdening colonial trade in general, motivating some colonists to political activity in protest. But this form of control allowed the British to maintain their mercantile system, which benefited the mother country at the expense of the colonies.

Classical economists such as David Hume and Adam Smith argued that mercantilist policies, if they succeeded in increasing the stock of gold and silver in a country, would raise prices, eliminating the trade surplus, and that mercantilist interference with free trade would misallocate resources. In the twentieth century, John Maynard Keynes argued for the justified use of mercantilist policies to stimulate employment in an underemployed economy.

—Robert Dimand

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See also Volume 1: American Revolution; Colonial Administration; Navigation Acts.

Merchants of Death

Term used to refer to American politicians and businesses that some claimed profited from arms sales during World War I.

When World War I broke out in Europe in 1914, the American public and President Woodrow Wilson insisted that the United States refrain from becoming a participant. After German U-boats sank several passenger ships carrying American civilians, including the *Lusitania,* and did not offer assistance to survivors, the United States moved closer to war. Arms and munitions left American ports bound for Great Britain. The United States profited from arms manufacturing during the first three years of the war until a telegram to Mexican officials from Arthur Zimmermann,

the German foreign minister, revealed that Germany was plotting with Mexico to attack the United States—a strategy that would open a second front for the United States if it were to enter the conflict.

After World War I, the U.S. Senate held hearings chaired by Republican Senator Gerald P. Nye of North Dakota to examine American motives during the war. The Nye Committee argued that American businesses had postponed U.S. participation in the war until the Allies could no longer pay for additional supplies, and the U.S. government had then declared war so the same businesses could continue to profit from the loss of life and destruction in Europe. The committee's findings led to the passage of the Neutrality Acts of 1935 and 1936 just as Adolf Hitler, Benito Mussolini, and the Japanese empire began implementing expansionist plots to conquer their neighbors.

—*Cynthia Clark Northrup*

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See also Volume 1: World War I.

MIC

See Military-Industrial Complex.

Microeconomics

The study of the decision-making processes of consumers and producers and their interaction in markets.

Since the 1930s, economists have contrasted microeconomics with macroeconomics. The latter focuses on the economy as a whole and the determination of aggregates including the price level, unemployment rate, and gross domestic product. Microeconomics is concerned primarily with determining the price of a good, the quantity of the good bought and sold, and the effect of the transaction on the well-being of consumer and producer. Microeconomic theory assumes that individuals act as rational maximizers—that they weigh costs against benefits in making decisions and that they implicitly or explicitly attempt to achieve the highest level of well-being possible in any given situation. Consumers generally maximize utility, whereas firms try to maximize profits. The discipline of microeconomics took its modern form in the late 1800s with the realization that rational maximizers weigh marginal costs against marginal benefits and with the understanding that supply (the quantity producers plan to sell at each price) and demand (the quantity consumers are willing to buy at each price) interact—like two blades of a scissors—to determine price and quantity. Microeconomic theory analyzes product markets ranging from perfect competition (in which there is no interference from government) to monopoly to input markets (markets for natural resources, labor, and capital) with attention to the conditions in which markets will achieve economic efficiency and those in which markets fail to achieve efficiency. In recent decades microeconomics has dominated the social sciences, applying the paradigm of rational maximization to fields ranging from public choice (the decision-making of government itself) to criminal behavior.

During the twentieth century, policymakers increasingly called on microeconomists to assess and construct government policies. Microeconomic arguments and evidence have played important roles in the post–World War II move toward free trade, deregulation of industries such as the airline industry in the late 1970s and 1980s, and debates over the minimum wage, as well as in overhauling the welfare system, formulating antitrust rules, using marketable pollution permits designed to entice manufacturers to work harder for a cleaner environment, and a wide range of other policies.

—*Robert Whaples*

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See also Volume 1: Macroeconomics.

Microsoft

Computer and software company that started the personal computer revolution.

In 1978 Bill Gates and Paul Allen, inspired by an article in *Popular Electronics,* developed the first BASIC computer language program for the Altair 8800, the first personal computer developed with 256 bytes of RAM and using an 8-inch floppy disk drive. They established their company, Microsoft, in 1978. Within three years the sales for the company exceeded $1 million. Gates and Allen set a goal of putting a personal computer (PC) in every home and office and decided that the way to achieve this goal was to create affordable, efficient software (programs that allow those who are not computer programmers to use the computer with minimal training). By the beginning of the 1980s, Americans began to see the first advances in software technology with the development of word processors. By 1981 Microsoft had developed an affordable PC that used the disk operating system (DOS). Development of additional software packages that included operating programs, language programs to create and build applications, and games made Microsoft a billion-dollar company. The introduction of Microsoft Office 95 (an integrated software that contains word processing and spreadsheet capabilities) increased sales once again, and by the mid-1990s there were more than 25 million PCs in homes and offices. Microsoft unveiled Internet Explorer, a program designed for access to and navigation of the Internet, in 1997. By 2000, more than 25 million people owned or used PCs and used the Internet. Microsoft continues to introduce new software and hardware products as communications technology continues its rapid change: Windows software for mobile phones; computer game systems such as XBox and a variety of XBox games; business software such as integrated card services, analytical and reporting software,

and retail management software; and programs for the development of websites and other visual media.

The federal government has charged Microsoft with engaging in monopolistic practices, basing the charge primarily on the way the company "bundles" its software with hardware systems so that computers are sold with Microsoft programs instead of the competition's software. The case was settled in 2002 and the Supreme Court approved the settlement; Microsoft appointed a compliance officer to oversee the requirements of the Court. Microsoft's competitors doubt that the settlement will produce any substantial changes because Microsoft has already achieved market dominance, and breaking it into smaller companies will not reduce its net sales and control of market share.

Microsoft has had a tremendous influence on the U.S. economy. In addition to employing more than 50,000 workers, the company has provided investors with consistent dividends. The use of computers has streamlined business operation and expanded communications capabilities. This, in turn, has expanded business practices and increased company profitability. The explosion of the technology industry can be directly related to the rise of Microsoft as well.

—Cynthia Clark Northrup

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See also Volume 1: Computer; Volume 2: Science and Technology.

Microsystems Technology Office (MTO)

Division of the Defense Advanced Research Projects Agency that coordinates the development of high-tech military equipment.

The Microsystems Technology Office, established in 1958 under the authority of the Defense Advanced Research Projects Agency (DARPA), works to reduce complex system applications that use multiple technologies (computers, for example) into chip-size packages. The three primary areas of focus are electronics, photonics, and microelectromechanical systems. Within these fields, the Microsystems Technology Office (MTO) has several featured programs that include advanced lithography, in which multiple beams of lights are condensed into one column to advance semiconductor technology that includes layered intelligence; distributed robotics based on biological features; microelectromechnical systems, which "merge sensing, actuating, and computing" to achieve "enhanced levels of perception, control, and performance to weapons systems and battlefield environments" (www.darpa.mil/mto); and the development of new technologies that integrate all three fields into advanced computer chips.

Although the advances developed by the Microsystems Technology Office are designed for military applications, many of them will affect businesses and consumers in the long term as the technology becomes available to the public (as transistors did after World War II).

—Cynthia Clark Northrup

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See also Volume 1: Defense Advanced Research Projects Administration (DARPA).

Military-Industrial Complex (MIC)

Reciprocal relationship between government and industry.

Before 1945, America mobilized only after its wars began. During the cold war, however, Soviet capability to launch a surprise nuclear attack or to invade Western Europe required America to maintain large, combat-ready military forces in peacetime. The sum total of the academic, industrial, and government institutions that evolved to meet the requirements of cold war deterrence and defense is called the military-industrial complex (MIC). President Dwight D. Eisenhower first used the term in his 1961 farewell speech when he warned against excessive military and defense industry influence on the scientific world, academia, and democratic processes. Some observers describe the MIC as an "iron triangle" of beneficial relationships among the Defense Department, legislators with jurisdiction over defense programs and budgets, and defense contractors.

Creating and improving qualitatively superior military forces during the long cold war competition with the Soviets required relentless scientific, technological, and engineering innovation. To promote this innovation, the Defense Department sponsored basic and applied research, development, testing, evaluation, and experimentation in academic and industrial laboratories. Government funding of American research and development (R&D) exceeded private industry funding until the early 1980s, and defense generally dominated federal R&D funding after 1945, especially from 1945 until 1963. Defense research declined as a proportion of federal R&D after the Vietnam conflict, but jumped again (from 49 percent to 70 percent) between 1980 and 1987, largely because of research on the Strategic Defense Initiative (SDI), which is a space-based system designed to destroy incoming intercontinental ballistic missiles in space. Universities performed most of the basic defense research, and private industry conducted most of the applied research for SDI. Defense-related industries consistently received about 80 percent of all federal funding for manufacturing R&D from 1945 to 2002, with most of the funds concentrated among the largest contractors.

During the cold war, the U.S. government cooperated closely with defense industries, funding plant construction, providing guaranteed markets, protecting weak firms, and promoting exports. The government cultivated an oligopolistic defense industry in which relatively few aerospace, electronics, and communications firms provided small numbers of highly specialized products to a single customer that cared

more about quality than cost. Defense projects represented about 6 to 10 percent of the private-sector workforce but employed more than half of the nation's aerospace engineers and one-quarter of all electrical engineers and physicists. Defense work also employed large numbers of highly skilled blue-collar workers, particularly aircraft and electronics assemblers, machinists, metalworkers, shipfitters, and aircraft mechanics.

Defense corporations usually hired retired military officers, who had excellent institutional knowledge and personal contacts inside the military, to market to the Pentagon. Defense corporations subsidized lobbying groups and contributed heavily to selected political campaigns. In the 1990s, defense lobbyists urged Congress to provide tax exemptions for arms exporters, to issue government-backed loans to countries importing American weapons, and to lift bans on arms sales to repressive regimes. Defense corporations often organized grassroots lobbying efforts for particular weapons systems that were in danger of cancellation.

The MIC conferred numerous benefits on the American economy and society. It created a military that deterred Soviet aggression and prevented nuclear war, and it ensured American leadership in aerospace, computer, communications, and electronics technologies. Commercial products or ventures that emerged from the MIC included jet engines, widespread civil aviation after the invention of radar, lasers, microchips, computers, satellites, robotics, and the Internet. However, the MIC imposed enormous financial, political, and environmental burdens on the nation. The MIC's costs impaired competitiveness in the post–cold war world and led to government neglect of social programs and the civilian industrial base.

—*James D. Perry*

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See also Volume 1: Cold War.

Minimum Wage

Minimum allowable wage to be paid to workers; first implemented by the U.S. government through the Fair Labor Standards Act of 1938, which set the rate at $.25 per hour.

The forces that led to minimum wage legislation took years to develop. Robert Pollin and Stephanie Luce have written that "one of the early works written on behalf of minimum wage legislation was a 1906 book by Monsignor John A. Ryan titled *A Living Wage: Its Ethical and Economic Aspects.*" Kansas enacted the first prevailing-wage law in 1891. In 1931 President Herbert Hoover signed the Davis-Bacon Act, an equivalent piece of national legislation written by Republican U.S. Senator James J. Davis of Pennsylvania, a former secretary of labor, and Republican U.S. Representative Robert L. Bacon of New York, a banker.

In 1932, Mary "Molly" Williams Dewson, director of the women's division of the Democratic National Committee, became a major advocate of establishing a minimum wage by advocating in a letter to the administration of President Franklin D. Roosevelt that no difference in minimum wage should exist between the sexes and that "time and one half should be paid for all time worked over and above 40 hours per week." The principles supported by Dewson were implemented in the Fair Labor Standards Act of 1938, which included minimum wage requirements. Conditions were auspicious for this national legislation at this time because the U.S. Supreme Court had upheld a state minimum wage law the previous year. The 1938 statute initially set a standard minimum wage of 25 cents per hour, and at first minimum wage laws were confined to government construction projects and referred to as efforts to establish prevailing wages.

The Fair Labor Standards Act was arguably the last major piece of New Deal legislation passed; the Democrats soon after sustained heavy losses in the November 1938 midterm elections, which gave rise in 1939 to a conservative coalition of Southern Democrats and Republicans that controlled the House and Senate. Additionally, World War II naturally shifted President Roosevelt's attention from the New Deal to efforts to win the war. Since 1950, when the minimum wage was $.75 per hour, Congress has increased the minimum wage at least 16 times to rates greater than $5.00 per hour in 1997 and $5.15 per hour in 2003.

—*Henry B. Sirgo*

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See also Volume 1: Great Depression; Roosevelt, Franklin D.

Mixed Economy

An economy under which the government intervenes in certain sectors to compensate for perceived market failure—whether of growth, efficiency, or distribution.

A mixed economy occupies a position between an unplanned economy with no government interference and a command economy of the type that prevailed in the former Soviet Union. In a mixed economy, as in an unplanned economy, prices respond flexibly to supply and demand; competition ensures that firms make intensive use of resources; and financial constraints rather than quotas or production targets

govern the decisions of firms. As under a command economy, however, a mixed economy nationalizes key industries (although fewer than under strict socialism) and imposes at least some central planning (although such planning remains aggregated at the industry or regional level rather than being firm-specific). Much coordination of supply and demand remains left to the market. Government intervention is exercised through control over expenditures, taxes, and social insurance such as Social Security; the use of regulatory authority; the ability to raise or lower barriers to market entry; and the ability to influence the allocation of investment.

Some economists consider that all Western countries including the United States have mixed economies, especially during the period between World War II and the 1980s when the public sector in all such countries expanded sharply. Other economists, though, apply the label to a narrower range of nations in which the government has asserted consistent leverage over economic growth. Under this latter definition, mixed economies include those of Taiwan, Singapore, South Korea, Japan, India, France, Italy, and Sweden—but not Canada, the United Kingdom, Australia, or the United States, because the planning that exists in the latter group is poorly coordinated. One may further distinguish between types of mixed economies: those under which government leverage comes from its welfare state role, as in Sweden, and those under which leverage lies elsewhere—such as a group or industry that exercises control over the economy.

—Laura Seeley Pangallozzi

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See also Volume 1: Government Budgets.

Monetary Policy

Effort to fight inflation or stimulate economy by controlling availability of spending money for consumers and businesses; used to attain stable prices with little or no inflation, maximum employment, and economic growth at the maximum rate the U.S. economy can sustain over a long time.

Most economists believe monetary policy requires stable prices because they are essential if the highest levels of employment and economic growth are to be achieved in the long run. In the United States, the Board of Governors of the Federal Reserve Board steers monetary policy. Increasing the amount of money and credit in the U.S. economy typically triggers a chain of events that causes interest rates to fall. Lower interest rates normally increase demand for items that most people buy on credit, such as new houses and cars. Lower interest rates also encourage businesses to invest in new factories, offices, and machines that they also pay for with credit.

The firms that produce these goods respond to the increased demand of consumers and businesses by increasing production and hiring more workers. The added income these workers earn is then spent on other goods, which other manufacturers must now produce in larger quantities. As they hire more workers to accomplish this, employment and economic growth both rise.

Problems result when the Federal Reserve lets the money supply grow too quickly or too slowly. If the Federal Reserve expands the money supply by too much, increased demand for products outstrips the ability of manufacturers to produce them, and inflation results. Higher rates of inflation ultimately choke off the economic expansion. Too little money growth results in high interest rates, reducing demand for interest-sensitive products and lowering levels of employment and economic growth.

—Saranna R. Thornton

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See also Volume 2: Federal Reserve Bank.

Montgomery Bus Boycott (1955–1956)

Protest against racial segregation that led to a Supreme Court decision banning discrimination in intrastate transportation.

Angered by abusive bus drivers, leaders of the Montgomery, Alabama, African American community resolved to challenge the practice of reserving seats at the front of the bus for whites and, if additional whites boarded, forcing blacks to surrender their seats. Most bus patrons, about 80 percent, consisted of blacks. On December 1, 1955, police arrested Rosa Parks, an African American seamstress, for violating a local ordinance by declining to surrender her seat to a white man. Angered at the arrest, blacks called for a one-day bus boycott that proved a resounding success. The Montgomery Improvement Association (MIA), led by Martin Luther King Jr., then asked all Montgomery residents to refrain from riding buses until the conclusion of an agreement between MIA and the city of Birmingham concerning fare reductions, employment for black drivers, and a policy reserving five seats instead of ten for whites. Throughout the boycott, hundreds of people walked, while those with cars willingly served as chauffeurs. The MIA developed its own transportation service, hiring drivers and paying for the fuel used to transport people to work. Reluctant to lose household help, some white employers increased their employees' transportation stipend to cover taxi fare, while others increased wages. Because the business community had shown little support for the boycott, many black Montgomery residents decided to buy only essentials until the boycott ended because of the difficulty of carrying large purchases home without transportation. Many boycotters decided to trade only with black business operators. Beset by reduced sales, some white-owned businesses began closing early or going bankrupt. The bus company discontinued lines and laid off drivers. Rates were cut for the few buses still in operation, and buses ran much less frequently than they had in the past. The boycotters eventually won when in 1956 the Supreme Court let stand without review an opinion of a lower court mandating integration. The Court

case was the deciding factor that ended the boycott on December 21, 1956.

—*Caryn E. Neumann*

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See also Volume 1: Civil Rights Movement.

Morgan, John Pierpont (1837–1913)

American banker and financier.

Born April 17, 1837, in Hartford, Connecticut, John Pierpont (J. P.) Morgan grew up in a wealthy family. His father controlled J. S. Morgan and Company, an international banking enterprise that invested British funds in the United States and that provided a $50 million loan to the French government during the Franco-Prussian War (1870–1871). As a young man, J. P. Morgan studied in Europe before working for Duncan, Sherman and Company, a New York banking firm. In 1860 he became his father's agent in London. In 1869, the younger Morgan took on Jay Gould and Jim Fisk, gaining control over their Albany and Susquehanna Railroad. From there, Morgan targeted the railroad monopoly of Jay Cooke, who received funds from the United States government for the construction of his railways. Morgan's mastery of reorganization allowed him to consolidate control of the railroads and, in 1901, of the U.S. Steel Corporation. By 1890 Morgan had assumed control over the family business after his father's death.

His accumulation of wealth on such an unprecedented scale made Morgan the banker of last resort for the federal government. In 1895 and in 1907, Morgan provided loans to the United States, for which he was widely criticized because of the profit he gained from the transactions. During the trust-busting activity of the Progressive Era at the beginning of the twentieth century, Congress investigated the money trust (bankers who controlled the financial markets), targeting Morgan personally. In addition to his business activities, Morgan also engaged in philanthropy through donations designed to benefit the public and supported civic organizations. He also actively promoted the rights of women during his lifetime. He died March 31, 1913, leaving his extensive library and art collection to the people of New York. The items are housed in the Pierpont Morgan Library.

—*Cynthia Clark Northrup*

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See also Volume 1: Panic of 1893; Panic of 1907; Railroads; Trusts.

Morrill Tariff Act (1861)

Important legislation that provided revenue for the Northern effort in the Civil War and expressed important principles of Republican political economy.

In the spring of 1860, Justin Smith Morrill, Republican of Vermont, proposed the tariff bill in the House of Representatives. Drafted to draw Northern industrial states to the Republican Party in that year's election, Morrill's bill was not an ordinary protective tariff that placed import duties on finished industrial goods. The act attempted to protect and support many sectors of the economy and all the regions of the country by placing tariff duties on agricultural, mining, fishing, and manufactured goods. Sugar, wool, flaxseed, hides, beef, pork, corn, grain, lead, copper, coal, and zinc all received protection by imposts, as did dried, pickled, and salted fish. In general, the tariff increased duties 20 percent on certain manufactured goods and 10 percent on specified raw materials. The bill reflected the Republican Party's commitment to general economic growth and expressed its belief that business interests interacted harmoniously and positively in the economy.

The tariff also differed in that it distributed the burden of protection across society rather than placing it on specific regions or poorer classes. Morrill instituted a graded system of duties on a series of enumerated goods. The bill placed a 10 percent duty on goods considered necessities and a 20 percent impost on products that were less necessary. Congress authorized a 30 percent tax on luxury items based on their value. Morrill believed that this system did not gouge consumers but taxed their ability and willingness to pay.

The House passed the bill May 10, 1860, when Western states rallied to it. However, Southern opposition defeated it in the Senate. After December 1860 when South Carolina seceded from the Union, Congress passed the tariff bill on March 2, 1861. The government enacted the tariff to raise revenues during the Civil War.

—*Peter S. Genovese*

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See also Volume 1: Protective Tariffs.

MTO

See Microsystems Technology Office.

Multinational Corporations

Companies that operate in more than one country.

During the 1950s and 1960s, American firms of all kinds established offices abroad. According to the U.S. Department of Commerce Bureau of Economic Analysis, the book value of American foreign direct investment rose from $12 billion in 1950 to almost $80 billion in 1970. American companies sought to overcome trade barriers such as tariffs erected by most countries around the world that existed in the 1950s. As trade restrictions eased, however, American companies became more aggressive and tried to link technical, marketing, managerial and financial advantages with cheap overseas

labor. During this period, "going multinational" became the fashionable thing to do, and American companies felt a need to develop global product portfolios to remain competitive.

In 1968, Jean-Jacques Servan Schreiber published *The American Challenge,* predicting that American multinational corporations would soon dominate world business. But large companies in other countries were also part of the international expansion, having begun in 1965 to set up or acquire foreign manufacturing operations at the same annual rate as American multinationals. The 1965 value of foreign direct investment in the United States totaled approximately $7.5 billion; by 1972 it had reached almost $15 billion. Although foreign investment in the United States remained small compared with U.S. investment abroad, the increase represented an important change in the organization of multinational companies, because funds from foreign investment exerted influence on the structure and operation of these entities.

By the 1970s, some of the glamour of internationalization started wearing off, resulting in a period of American divestment during the early 1970s. From 1971 to 1975, American companies sold 1,359 of their foreign subsidiaries (almost 10 percent). During the same period, a substantial decline occurred in the number of new subsidiaries being formed (3.3 for each divestment in 1971 compared with 1.4 in 1975). These divestments were largely in low-tech, high-competition industries such as textiles, apparel, leather, and beverages. Investment in high-tech industries such as pharmaceuticals, machinery, and office equipment increased during the same period. Thus, both investment patterns and the makeup of the multinationals themselves changed. European multinationals had largely caught up with American companies; Japanese firms began to expand internationally; and the developing countries spawned their own multinationals. By 2000, 62 percent of exports and 39 percent of imports involved multinational corporations. Total trade among multinational corporations equaled $363 billion.

—*Albert Atkins*

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See also Volume 1: Protective Tariffs.

Munn v. Illinois (1877)

U.S. Supreme Court case that established that states may regulate business for the public good.

In 1875, the Illinois legislature set the maximum rates that grain elevator operators could charge in Illinois cities of 100,000 or more. This action was in response to a movement among farmers known as the Grange that had asked lawmakers in Illinois and other Midwestern states to regulate the rates grain elevator operators and railroads could charge farmers; they charged low rates to large corporations but high rates to small farmers. Illinois grain elevator operators challenged the constitutionality of the 1875 law. The case came before the Supreme Court, and lawyers for the operators argued that Illinois had surpassed the police power granted to it under the Constitution. They also argued that the law gave the state control over interstate commerce and deprived grain elevator operators of their private property without due process as guaranteed in the Fourteenth Amendment.

Chief Justice Morrison Waite ruled in favor of Illinois in a 7 to 2 decision. Citing England's Lord Chief Justice Sir Matthew Hale, renowned common-law jurist, Waite argued that private property ceases to be exclusively private when it is affected with a public interest. When private property is used in a public way, a state may regulate the property to protect its citizens. Waite admitted that states might abuse their police power over private property, but the best recourse was at the polls and not in the courts. He also dismissed the claim that the law interfered with interstate commerce since the relationship between farmers and grain elevators occurred primarily within the borders of Illinois. Although this decision and those from four other Granger cases set a precedent for future government regulation, most related decisions in the next 60 years followed the dissent of Justice Field, who argued that the Illinois law violated the Fourteenth Amendment.

—*Mary Stockwell*

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See also Volume 2: Judiciary.

Muscle Shoals (Tennessee Valley Authority)

Government hydroelectric project.

At Muscle Shoals in northern Alabama, the Tennessee River drops more than 140 feet along a 30-mile stretch, giving the area huge hydroelectric potential. The government began construction on two dams and two nitrate plants for hydroelectric power to manufacture nitrates for munitions during World War I. The war ended before engineers completed the projects, so the government no longer needed the nitrates for munitions. Since no agreements about postwar usage existed, President Warren G. Harding and Herbert Hoover, then secretary of commerce, developed plans to lease the installation to private companies that planned to use nitrates to manufacture fertilizer. Henry Ford expressed interest in the area and even proposed to build a "Detroit south" at Muscle Shoals.

The issue became heated after World War I when automaker Henry Ford attempted to buy the area and the dam from the federal government. Republican Senator George Norris of Nebraska, the chair of the Agriculture Committee, argued that the Muscle Shoals facilities should become the center of a public works project to develop fertilizer, flood control, and power for the welfare of the people. In 1925 President Calvin Coolidge appointed a committee, the Muscle Shoals Inquiry, to investigate whether private or public administration would operate more efficiently. The commit-

tee members, unwilling to entrench themselves in this controversial issue, declared the problem political rather than technical.

Norris would lead the fight to keep governmental control of the Muscle Shoals property. He demanded that the government administer the facility for the benefit of the people living in the Tennessee River Valley. Norris engineered the passage of two bills calling for governmental control of the facilities, one in 1928 and another in 1931. Both bills fell victim to presidential vetoes. Both Hoover and Norris refused to budge on the issue.

The Democrats remained committed to public ownership of the area, and the stalemate ended in 1933 with the election of Franklin D. Roosevelt to the presidency. Roosevelt visited Muscle Shoals and charged the Tennessee Valley Authority (TVA) with planning the usage, development, and conservation of the natural resources in the Tennessee River basin to the combined advantage of agriculture, forestry, and flood prevention. The TVA served as a model for the nation of revitalization of an area through government projects. Charges of unconstitutionality were lodged by private companies, which said that government ownership of utilities prevented private companies from entering the market. The TVA accomplished many of it goals and objectives and, as one of Roosevelt's most successful New Deal programs, TVA created three million jobs.

—Lisa A. Ennis

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See also Volume 1: New Deal; Roosevelt, Franklin D.; Tennessee Valley Authority.

N

Nader, Ralph (1934–)

American consumer activist, renowned for spearheading a rise in consumer protection since the 1960s.

A lawyer trained at Princeton University and Harvard Law School, Ralph Nader made his first foray into the sphere of consumer advocacy with the appearance of the seminal work *Unsafe at Any Speed* in 1965. This book, the first of several he has written, induced a change in the market philosophy in the United States from "buyer beware" to more of a focus on consumer rights.

Before Nader began his campaigns, corporate aggression and government indifference had seriously eroded accountability of businesses to consumers. Nader was responsible for inducing policy changes during the 1960s and early 1970s in such areas as automobile safety, food and drug quality, pesticides, water pollution, energy consumption, cigarette content, and rates charged by the legal profession. He has also campaigned against government subsidies of nuclear power, aircraft development, and synthetic fuels. His main approach is to empower the consumer side of the market economy, which otherwise would remain fragmented and powerless, by developing citizen advocacy groups. These groups rely on a combination of publicity and court action to pressure firms and government bodies into mending their ways.

To encourage corporations and government agencies to reestablish their accountability, Nader has adopted the strategy of confronting corporate power via consumer activism and the exposing of information about the issue. This approach succeeded in 1974, for example, when Congress passed amendments to the Freedom of Information Act that opened up a wide variety of government data to citizen scrutiny. In 2002, Nader was the presidential candidate for the Green Party, an environmentally minded group, but he failed to win more votes than either major-party candidate.

Nader's legacy to American policymaking has caused many substantial firms and the government, knowing that their actions may be exposed to public scrutiny, to become obliged to more fully consider the interests of ordinary citizens. Newspapers and other media are more empowered to investigate business and government, holding them to account for their behavior.

—*Tony Ward*

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See also Volume 1: Media.

NAFTA

See North American Free Trade Agreement.

NASA

See National Aeronautics and Space Administration.

Nasdaq

Over-the-counter stock exchange established in 1971.

Since the late 1700s, stock traders have transacted purchases on the New York and American Stock Exchanges. The advent and proliferation of computer technology in the 1950s and 1960s led to the first automated price quotation system that provides information on domestic securities not listed on the other stock markets, also called over-the-counter stocks. The Nasdaq, a subsidiary of the National Association of Securities Dealers (NASD), deals with these over-the-counter stocks and operates under the supervision of the Securities and Exchange Commission. In 1986, Nasdaq Europe opened in Great Britain after the deregulation of the securities industry in that country. Because investors and brokers use computers to transact purchases and sales, Nasdaq has had the capability of operating around the clock since 1999. In 1998, Nasdaq's transaction volume totaled $5.8 trillion, making the exchange second in the world only to the New

York Stock Exchange, which conducted $7.3 trillion in business the same year. During the economic decline of 2000, Nasdaq dropped significantly, because most of the computer stocks and dot-com businesses that were overinflated in value trade on this exchange.

—*Cynthia Clark Northrup*

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See also Volume 2: Stock Market.

National Aeronautics and Space Administration (NASA)

Government agency established for the exploration of space.

On October 1, 1958, Congress created the National Aeronautics and Space Administration (NASA) in response to the launching of the first satellite, *Sputnik,* by the Soviet Union during the cold war. As the successor of the National Advisory Committee for Aeronautics, NASA began to explore the feasibility of human space travel. The first flights of Project Mercury (1961–1963) were designed to explore the effects of space travel on humans. These were followed by the Project Gemini flights (1965–1966) in which humans explored space. Project Apollo (1968–1972) resulted in the landing of the first humans on the moon in 1969. Since then, NASA has focused on scientific experiments, the development of the international space station (involving cooperation among the United States, Canada, Brazil, Japan, Russia, and 11 nations of the European Space Agency), and exploring the far reaches of the galaxy using unmanned spacecraft—for example, the Hubble telescope and various unmanned missions to other planets.

Since its inception NASA has conducted experiments that have revealed valuable information on aerodynamics, wind shear, wind tunnels, flight testing, and computer simulations. Many biology and physics experiments have been conducted in space to explore the effect of weightlessness on objects. Long-range probes have explored the outer reaches of our universe, and the Hubble space telescope has revealed the existence of numerous astronomical bodies. In addition, communications satellites have enhanced the opportunities for technology used by telecommunications companies—for example, paging, cellular telephones, and global positioning systems.

NASA's goals include understanding the earth and its weather system in order to predict events such as flooding; exploring the fundamentals of physics, biology, and chemistry in the environment of space; understanding the origin and evolution of life on earth and searching for life elsewhere; encouraging the public, especially the younger generation, to explore space; and enabling revolutionary capabilities through the development of new technologies such as the personal computer.

As of 2003 NASA operates under a budget of $15 billion. Since the space shuttle *Columbia* was destroyed on reentry February 1, 2003, opponents of NASA have argued for an increase in funding to ensure the safety of future missions.

—*Cynthia Clark Northrup*

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See also Volume 2: Science and Technology.

National Bank Act of 1863

Legislation that prohibited the printing of paper money by anyone other than the federal government and established rules for banking structure in the United States.

Until the Civil War, currency was based on gold and silver. State banks printed "money," but it was not always accepted as legal tender or it might be discounted. The National Bank Act of 1863 began as a revision of the National Currency Act of 1863 by Hugh McCulloch, first comptroller of the currency. It was passed by Congress June 3, 1864. The new act granted more control to the federal government over the chartered banks than the original legislation had granted. State banks had not accepted the National Currency Act; they preferred the less-strict regulations of a noncentralized system. The new law raised the tax on state banknotes from 2 to 10 percent; this rate taxed the state banknotes out of existence and allowed for the new uniform currency called greenbacks or National Bank certificates. By 1865 most state banks had either become national chartered banks or had been dissolved.

The new banks had to comply with stricter federal regulations. Requirements included having at least five members on the board, having $50,000 to $100,000 in stable assets, and purchasing U.S. bonds equal in value to at least one-third of the bank's start-up capital. In exchange the Department of Treasury printed currency equaling 90 percent of the bonds' value, which the bank then used for transactions. Banks also received interest payments from purchased government bonds in the form of gold. This was an enticement to the remaining state-chartered banks to file for a federal charter and stop using private currency for daily business.

The National Currency Act and the National Bank Act served as the foundation for the United States banking system until the Federal Reserve Act was passed in 1913.

—*Deana Covel*

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See also Volume 1: Banking System; Federal Reserve Act; National Currency Act of 1863; Volume 2: Banking.

National Cordage Company

Monopolistic corporation that sparked the panic of 1893.

The National Cordage Company, the nation's leading manufacturer of rope and twine, became known as the first failed trust (or monopoly) in American history, one whose demise sparked the disastrous panic of 1893 and the ensuing depression. The company began as a group of rope manufacturers and experimented with the formation of trade associations that would negotiate agreements concerning production of the same or similar products and pools (which fixed prices) before uniting, in 1887, to form the National Cordage Company, a combination trust and corporation. It quickly bought up several smaller competitors, acquiring nominal control of 40 percent of the country's rope and twine production within three years. Reorganizing as a holding company (holding companies control smaller companies by holding the smaller companies' stock or controlling their operations) chartered in New Jersey and increasing its capital stock tenfold to $15 million, the company boasted effective control of about 90 percent of the country's cordage mills by early 1892. Financed by the leading New York banks, National Cordage was touted by the financial press as being one of the nation's rising industrial giants. However, the holding company borrowed large amounts of capital because four-fifths of its production remained in binder twine, a product that generated a cash flow only during harvest time. It also followed the dubious practices of purchasing the entire output of its suppliers on condition that the latter pledge not to equip its competitors, of buying out its competitors on condition that they retire permanently from the field, and of trying to corner the nation's hemp market.

With few actual economies of scale resulting from its reorganization in 1887, and with its recurring dependence on having escalating amounts of working capital, National Cordage encountered increasing difficulty paying its creditors. Adding insult to injury, several companies it had bought out used the proceeds from the sale to start new competing enterprises. During the early months of 1893, National Cordage boldly declared a 100 percent stock dividend in addition to making its usual payments to stockholders of 10 percent per annum. Happy stockholders received extra cash, but the financial press had no reaction. Just a few weeks later, however, the company announced its plans to file for receivership, touching off a selling frenzy among its stockholders. Over the next few months, the value of the company's stock plummeted from $138 to $20 per share. When the receiver put in charge of the company's finances discovered that the company treasury was empty, the *Commercial and Financial Chronicle* proclaimed, "Cordage has collapsed like a bursted meteor." Subsequent attempts to reorganize as the United States Cordage Company and as the Standard Cordage Company also failed by 1912.

—John D. Buenker

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See also Volume 1: Panic of 1893.

National Currency Act of 1863

Act that imposed federal regulation on banks, the first such control since the dissolution of the Second Bank of the United States in 1837.

An economic crisis in 1857 caused several banks to fail because of the inadequacy of the banking system that had been established to replace the Second Bank of the United States. (The Second Bank had operated as the national bank and had provided some stability, but it closed in 1837. Between 1837 and 1857, state banks operated but were not regulated by the federal government.) Once the Civil War began, Abraham Lincoln proposed the first National Currency Act of 1863 to help finance the war by creating a system of national banks that were to issue the only legal paper currency. Congress passed the law on February 25, 1863. Its three main goals were to create a system of national banks, create a uniform national currency, and finance the Civil War.

The law intended to create a stable financial system though stricter supervision of banks by the federal government. The act established new operational standards for banks, established minimum amounts of capital to be held by banks in reserves, and defined how banks were to make and administer loans.

The law's second aim was to eliminate the more than 10,000 types of paper money issued by individual banks and to guarantee that legal paper currency could be exchanged for gold or silver currency. A uniform currency made transacting business easier. The new currency was issued against federally backed bonds, as is modern money. The government financed the war by selling these bonds and the limited printing of the new "greenback" banknotes.

The act established the Office of Comptroller of the Currency under the direction of the Treasury Department. Hugh McCulloch, the first appointed comptroller, wrote a revised version of the National Currency Act known as the National Bank Act of 1863. These two acts served as the foundation of the United States banking system until the Federal Reserve Act was passed in 1913.

—Deana Covel

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See also Volume 1: National Bank Act of 1863.

National Defense Education Act of 1958

Legislation enacted to provide financial assistance to students, states, and schools and so ensure a supply of people trained to meet future national defense needs.

In 1957, the Soviet Union launched the satellite *Sputnik* into space, spurring Congress to pass the National Defense Education Act of 1958. The bill, introduced by Senator Lister

Hill and Representative Carl Elliott, both Alabama Democrats, was an education bill framed as a measure to improve national defense. The act states, "The Congress hereby finds and declares that the security of the Nation requires the fullest development of the mental resources and technical skills of its young men and women. The present emergency demands that additional and more adequate educational opportunity be made available." Twenty-four Republicans voted for the expansive bill, although they had voted against similar legislation previously, before the *Sputnik* launch.

The act included provisions for the creation of the first federal student loan programs, as well as fellowships for graduate education in the sciences and engineering and increased federal assistance for teacher education. The act also called for the federal government to fund capital improvements at institutions of higher education, primarily the construction and renovation of science laboratories and buildings for expanded schools of education. Congress made money available for curriculum development in the sciences, mathematics, and foreign languages.

Public education benefited from additional money available to grade schools and high schools to improve science, mathematics, and foreign language instruction. The bill also expanded guidance, counseling, and testing in high schools. Although the act provided funding for kindergarten through twelfth grade education, its greatest influence was on higher education. Some observers argue that the National Defense Education Act, which is still in force, surpassed all other legislation for American higher education since the 1862 Morrill Land Grant Act.

—John David Rausch Jr.

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See also Volume 1: Agricultural and Mechanical (A&M) Colleges.

National Endowment for the Arts (NEA)

Government agency created to promote the arts.

In 1965 Congress established the National Endowment for the Arts, an agency proposed by President Lyndon B. Johnson under his Great Society program. The NEA sought to celebrate the rich cultural diversity of the United States, support artists demonstrating excellence in their particular medium, and promote learning in the arts, and it has been involved in development of the arts in local communities through a variety of programs. Since 1965 the agency has awarded more than 119,000 grants in the United States and its territories. In 1966 Congress appropriated $2.8 million for the NEA. Since that time the budget has increased substantially, reaching a peak in 1993 with more than $174 million and falling sharply in 1996 to $99 million. By 2002 the NEA budget had risen again to $115 million.

The NEA has achieved several successes since its inception. The agency sponsored the competition for the design of the Vietnam veterans' memorial in Washington, D.C., funded the Celebration of Spirit memorial in Oklahoma City to honor victims of the bombing of the federal building there, and implemented the Healing Power of the Arts program at Columbine High School in Colorado after the fatal shooting of students and teachers. The NEA has also sponsored many writers who have gone on to win National Book Awards, National Book Critics Circle Awards, and Pulitzer prizes.

The agency often faces sharp criticism when it funds artists that deviate from accepted forms of art. Several artists who have received funding from the NEA have used the money to create projects that are offensive to a large portion of the American public. The lower level of funding in recent years may be attributed to the public outcry that resulted in these cases.

—Cynthia Clark Northrup

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See also Volume 1: Great Society.

National Endowment for the Humanities (NEH)

Government agency created to promote the humanities.

Established by Congress in 1965 under the Great Society program of President Lyndon B. Johnson, the National Endowment for the Humanities (NEH) promotes the study of history through education, by sponsoring research, by implementing public programs such as exhibits and television specials that convey the lessons of history, and by providing access to cultural resources. The agency provides grants to museums, educational institutions, public television and radio stations, and individuals engaged in teaching or researching the humanities.

Two of the most widely acclaimed achievements of the NEH include the King Tutankhamen traveling museum exhibition (and its corollary television program about the young king) and "The Civil War," the public television documentary by Ken Burns. The NEH also sponsors scholars who are conducting research for publication. Since the terrorist attacks of September 11, 2001, the NEH has renewed and strengthened its emphasis on the importance of history to our cultural heritage and democratic institutions. The agency has implemented a new program called "We the People: Special Initiative" to counter what it terms the "threat of historical amnesia." The goal of the program is to promote a greater understanding of American history and politics.

The proposed 2004 budget for the NEH totals $152 million. In addition to $25 million for the "We the People" program, the budget also includes $89.9 million for grants for education, research, preservation, and programming projects in the humanities. The NEH will allocate $10.4 million for matching funds and $5.6 million to encourage nongovernmental institutions to contribute to the humanities. The rest

of the budget will pay for administration and miscellaneous programs.

—*Cynthia Clark Northrup*

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See also Volume 1: Great Society; National Endowment for the Arts.

National Grange of the Patrons of Husbandry (1867)

Farmer's organization begun as a social group that developed economic programs to increase the buying power of farmers.

In 1867 Oliver H. Kelly and six others developed the idea of a farmers' organization titled the National Grange of the Patrons of Husbandry, later simply called the Grange. The founders believed that the primary benefits of this organization for farmers should be social and intellectual, but by 1871 the group had become political and phrases such as "cooperation" (among Grange members) and "down with monopolies" were being heard at meetings.

The Grange started to grow vigorously in 1873 because an economic panic started that year that particularly affected farmers. Many farmers felt threatened by capitalistic changes after the Civil War such as larger railroad and industrial corporations. Organizational growth was strong in the northern Midwestern states and parts of the South, and more than 1,150 Granges were organized that year, compared with 132 in 1871. Membership peaked in 1875.

The two main forms of Grange activity centered on securing cheaper transportation rates for farmers, especially through the push for governmental regulation of railroads, and the introduction of cooperative schemes for farm products, supplies, and implements. Later, businesses advertised to Grangers in agricultural periodicals. Montgomery Ward, a department store, billed itself as the "original Grange supply house." Some Granges operated their own banks and offered mutual life and fire insurance policies. By 1876, some proposals even existed for international economic cooperation with other farming organizations.

Some Granges tried to cooperatively market crops with varying degrees of success during the last three decades of the nineteenth century. Most economic activity of the Grange centered around various schemes of cooperative buying and selling as a way to enhance the economic power of small individual farmers. These cooperative stores handled merchandise and farm implements for Grangers, but these business operations, successful or not, were never considered the main reason for the order's existence. By the late 1870s, many farmers left the Grange and joined the Farmer's Alliance, a more politically active group.

—*Lisa L. Ossian*

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See also Volume 1: Populist Party.

National Guard

Part-time trained state militias that also serve the federal government during times of crisis, allowing the nation to expand its trained fighting force without paying costs associated with the regular military.

The roots of the National Guard date back to 1636, when the early colonists formed militias (they were called the Minutemen in Lexington and Concord) to defend against Indian attacks and foreign troops. During the American Revolution, the militia was the first line of defense against the British until the formation of the Continental Army, and it continued afterward to defend the newly formed states. Because the United States did not have a large standing army throughout the nineteenth century, the state militias (in the early 1800s to be called the National Guard) provided the bulk of the forces that fought in the Mexican War and during the initial months of the Civil War. Guardsmen were also deployed in 1898 during the Spanish-American War. During World War I, more than 40 percent of the American forces were National Guard members. The National Guard also provided the first troops deployed during World War II, and the Air National Guard, created by the Department of Defense in 1947, also served during this conflict. Members of the National Guard served overseas during the Korean War and Vietnam conflict and have continued to do so in every major crisis since the 1960s. The president activated National Guard peacekeeping units destined for Iraq during the first Gulf War (1991), Haiti (1999), Kosovo (1999), and Bosnia (2002). Since the terrorist attacks of September 11, 2001, the National Guard has provided extra security at the nation's airports; it also assisted in the recovery of the space shuttle *Columbia,* which broke apart on reentry February 1, 2003. Many National Guard units were also deployed to Iraq again in 2003 for the second Gulf War.

—*Cynthia Clark Northrup*

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See also Volume 1: U.S. Department of Defense

National Income and Product Accounts (NIPA)

The quantitative basis for macroeconomic policymaking that deals with the overall economy.

The national income and product accounts (NIPA), a system

of measurement pioneered in the 1930s by the future Nobel laureate economist Simon Kuznets, measure the aggregate income levels in a country (and the components of national income such as wages and salaries, profits, and rent), the output of final goods and services produced for sale (both in aggregate and in each industry), and aggregate expenditure on the purchase of those goods and services (and the components of aggregate expenditure: consumption, investment, government purchases, and exports less imports). These data are indispensable for macroeconomic policymaking. A demand for data to guide policies to avoid a recurrence of the Great Depression of the 1930s and to manage resource mobilization during World War II fueled the development of NIPA.

Because they are shaped by these demands for data for specific purposes, the national income and product accounts have widely recognized limitations in measuring economic well-being or as guides to other types of policy. The exclusion of housework and child care (except when these services are purchased in the market) has distorted perceptions of women's contribution to the economy, with consequences for social policy. Unless the accounts are adjusted for the environmental and natural resource costs of production (the costs to clean up the environment or to remove resources from the ground and process them), they will continue to provide misleading data used to establish policies affecting the environment. Investment as measured in NIPA excludes acquisition of physical capital by the public sector (such as highways) and the acquisition of intangible capital by any sector (such as research and development expenditures and investment in human capital through education, training, and health spending). Much effort has been made to adjust NIPA for nonmarket activities, environmental changes, human capital formation, and government investment (see Eisner 1989 for a survey) and to incorporate such changes in new versions of the United Nations System of National Accounts, which has established global standards for its member nations. However, political and journalistic discussions of macroeconomic policy continue to rely on the NIPA measures of national income, investment, saving, and, especially, gross national product.

—*Robert Dimand*

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See also Volume 1: Economic Indicators.

National Industrial Recovery Act (NIRA) (1933)

New Deal legislation to promote industrial recovery after the Great Depression.

Congress passed the National Industrial Recovery Act (NIRA) in June 1933. The bill consisted of two components. First, it attempted to restore the "balance of production and consumption" by making various industries into cartels (businesses that form an organization to control prices, production, and wages). Prices and production increased through "codes of fair competition." Industrywide trade associations wrote these production codes to limit how much each member can produce—for example, yards of cloth—ensuring that prices remained truly representative of the entire industry and did not discriminate against small producers. In this way, the law attempted to increase the participation of small businesses in the recovery. With regard to increasing wages, the act's section 7(a) protected employees' rights to unionize and bargain collectively, and many of the codes specified minimum wage and maximum hours for workers. The National Recovery Administration (NRA), which was created by the National Recovery Act (1933), oversaw the operation of this aspect of the law.

The second important component of the act focused on stimulating wages and employment through a government-sponsored public works program. However, President Franklin D. Roosevelt created a Public Works Administration separate from the NRA, and as a result industrial recovery policy remained uncoordinated.

The National Industrial Recovery Act proved widely unpopular among manufacturers, who obeyed few of the production codes. Because of rampant price-cutting and other code violations, the act failed to achieve its primary aim of raising prices. The Supreme Court declared it unconstitutional May 27, 1935, in *Schechter Poultry Corp. v. U.S.* (295 US 495), stating that Congress had overstepped its authority in regulating the intrastate commerce of some manufacturers. Subsequently, through special legislation passed in 1935 and 1936, Congress reinstated the use of production codes in a few industries (apparel, airlines, bituminous coal, cotton textiles, lumber, trucking, and retail). Congress also reinstated many of the labor protection, wage, and hours provisions of section 7(a) of the act in the Wagner Act of 1937 and in the Fair Labor Standards Act of 1938.

—*Russell Douglass Jones*

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See also Volume 1: Great Depression; New Deal; Wagner Act.

National Labor Relations Act

See Wagner Act.

National Labor Relations Board (NLRB) (1935–Present)

Board that enforces the National Labor Relations Act, guarantees the right of collective bargaining, and sets rules for unions attempting to organize.

In 1935, Franklin D. Roosevelt signed the National Labor Relations Act, frequently called the Wagner Act after Democratic Senator Robert F. Wagner of New York, who championed the law. Designed to replace the National Industrial Recovery Act, which the Supreme Court had ruled unconstitutional, the Wagner Act created the National Labor Relations Board (NLRB). The NLRB guarantees labor the right to unionize and engage in collective bargaining. The board also conducts secret-ballot elections for workers who may wish to unionize. The NLRB differed from previous labor agencies because it enforced labor legislation rather than merely mediating disputes between business and labor. Critics challenged the Wagner Act's constitutionality before the Supreme Court in 1937. The National Labor Relations Act justified its provisions on the basis that the federal government had the constitutional power to regulate interstate commerce; the Court accepted the reasoning and upheld the law.

In 1947, Congress replaced the Wagner Act by passing the Taft-Hartley Act over the veto of President Harry S Truman. The Taft-Hartley Act turned the NLRB into a judicial body that had powers over unions as well as businesses. The new NLRB had the power to evaluate union practices that were considered unfair to businesses and employees. The Landrum-Griffin Act of 1959 further modified the operation of the NLRB by giving states jurisdiction over cases that the board declined to hear. Landrum-Griffin also outlawed "hot cargo agreements," in which unions forced employers to boycott groups having disputes with the union.The NLRB continues to regulate labor disputes, but labor organizations have often criticized it for being probusiness since the passage of Taft-Hartley.

—*John K. Franklin*

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See also Volume 1: Great Depression; Roosevelt, Franklin D.; World War II.

National Marketing Quota (1938–Present)

Program to control domestic agricultural production created by the Agricultural Adjustment Act of 1938.

The federal government began programs to support farmers in the 1930s. The Agricultural Adjustment Act of 1933 first created a list of storable commodities that included tobacco, wheat, corn, peanuts, cotton, rice, and sugar. Farmers who voluntarily restricted their production of these products received government subsidies. In 1936, the Supreme Court declared the 1933 Agriculture Adjustment Act unconstitutional because a tax on processors (middlemen acting as agents) paid for the subsidies received by farmers. In response, the federal government instituted a stopgap measure to pay farmers for soil conservation until new legislation could be passed.

Congress passed another Agricultural Adjustment Act in 1938 (AAA), solving the constitutionality issue by specifying that subsidies were to be paid with general tax revenue. The 1938 act also provided for the use of national marketing quotas. Farmers could establish a marketing quota with a two-thirds vote of organization members who participated under the AAA. These quotas set limits on the amount of commodities that growers could market each year and established penalties for farmers that exceeded the limit. Each year, new quotas could be set, and farmers that participated received price supports based on parity pricing with 1910–1914 as the base period for most commodities.

National marketing quotas are subject to change each year, and pricing structures have undergone considerable change since their implementation in 1938. Supports for some agricultural products are no longer based on national marketing quotas, but quotas are still in place for some commodities—especially tobacco, which has been regulated by the quota every year since 1940.

—*John K. Franklin*

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See also Volume 1: Great Depression.

National Oceanic and Atmospheric Administration (NOAA)

Federal agency responsible for gathering data on the environment.

President Richard Nixon proposed the creation of the National Oceanic and Atmospheric Administration (NOAA) in July 1970. The pollution of lakes, rivers, and the ocean had gained national attention in the late 1960s, prompting the administration to address the problem through a variety of means. In addition to creating the U.S. Environmental Protection Agency and promoting Earth Day, Congress authorized the creation of NOAA on October 3, 1970, and placed it in the U.S. Department of Commerce. By gathering scientific data over a long period of time, the agency has been able to effectively assess and manage information about oceans, the atmosphere, outer space, and the sun, and so it is better able to forecast the weather and issue severe-weather warnings to television and radio stations to help protect property and lives. Through its National Environmental Satellite, Data, and Information Service, NOAA gathers information about meteorology, oceanography, solid-earth geophysics, and solar-terrestrial sciences. In addition, it controls the Office of Marine and Aviation Operation, which comprises the NOAA ships and aircraft used to collect much of the data. The National Marine Fisheries Services, another division of NOAA, monitors fisheries along U.S. seacoasts to ensure the abundance of fish for the future. These fisheries export large quantities of fish overseas and help to maintain a favorable balance of trade. The National Ocean Service of NOAA oversees marine transportation, fishing, tourism, recreation, and home building along the nation's coasts. NOAA's Office of Oceanic and Atmospheric Research continues to analyze data with the

mission of protecting life and property and promoting sustainable economic growth by assuring investors that their investments will be protected against natural disasters.

—*Cynthia Clark Northrup*

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See also Volume 1: U.S. Department of Commerce; Volume 2: Science and Technology.

National Recovery Administration (NRA)

A federal agency created by the National Industrial Recovery Act of June 13, 1933, to promote recovery during the Great Depression; abolished in January 1936 after the Supreme Court declared that its major provisions were unconstitutional.

When Franklin D. Roosevelt assumed the presidency in March 1933, more than 13 million people in the United States were unemployed as a result of the Great Depression, and the nation's financial and industrial systems were paralyzed. As a part of Roosevelt's New Deal to manage the economy and protect the public welfare, the National Recovery Administration (NRA) attempted to promote economic recovery by creating and administering a series of industrial codes—such as restricting manufacturers of cotton from producing rayon—that theoretically would allow the government to assist industries implement better business practices in the areas of trade, pricing, production, and labor relations. When the president approved such a code it had the force of law; if no codes were forthcoming, he could impose one himself.

Under the direction of Hugh S. Johnson, a member of the War Industries Board during World War I (which set prices, regulated manufacturing, and controlled transportation), the NRA wrote and approved a total of some 541 codes. To promote compliance with these codes, the NRA issued an emblem with the image of a blue eagle to businesses that abided by the codes, and it urged Americans, as part of their patriotic duty, to boycott businesses that lacked this emblem. Although noncompliance remained high, the NRA did reduce destructive competition through unfair business practices, promote better business practices, and—in accordance with section 7(a) of the National Industrial Recovery Act—help to ensure that labor could organize and bargain collectively.

Yet, despite these achievements, the NRA failed to bring about general economic recovery, and criticism of the agency increased. Opponents maintained that the NRA's code system promoted monopolies, hampered genuine unionization, and emphasized federal control over local control. This criticism crested in the summer of 1934 with a series of highly publicized hearings into the NRA, most notably a congressional hearing conducted by the National Recovery Review Board headed by lawyer Clarence Darrow, which found that the codes were injuring small businesses and gouging consumers.

With criticism and internal dissension within the NRA rising, Roosevelt approved a major reorganization of the National Recovery Administration. In September 1934, the National Industrial Recovery Board replaced Johnson as director of the NRA. This board attempted to make the codes less monopolistic, prevent abuses, and strengthen protections for small businesses, labor, and consumers. However, it had little success accomplishing these goals.

In early 1935, with the National Industrial Recovery Act approaching its expiration date, Roosevelt asked Congress to extend the act in a modified form. By that time, though, the NRA had few friends in Congress and the reauthorization debates quickly deadlocked. On May 27, 1935, in the midst of these debates, the Supreme Court ruled in the case of *Schechter v. United States* that the code system was unconstitutional on the grounds that it constituted an improper delegation of legislative authority to the executive branch. Consequently, the codes no longer had the force of law. Although the NRA attempted to implement voluntary codes, it quickly became a skeleton agency and spent the rest of its existence largely analyzing its failed code system.

—*David W. Waltrop*

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See also Volume 1: Great Depression; New Deal; Roosevelt, Franklin D.; *Schechter Poultry Corp. v. United States.*

National Technical Information Service (NTIS)

Branch of the U.S. Department of Commerce that serves as a central repository for scientific, technical, engineering, and business information collected as the result of government-funded research.

Established in 1950, the National Technical Information Service (NTIS) survived several attempts at privatization in the 1980s and fended off the threat of being eliminated in the late 1990s. Officials in the administration of President Ronald Reagan first proposed privatizing NTIS functions in 1981. Critics of that proposal noted that taxpayers funded many of the reports handled by the NTIS, and they questioned the shift toward a profit-based model for a government entity. Opponents to privatization expressed concern that any private solution would restrict access to NTIS materials.

Congress blocked further privatization initiatives in 1987 while ordering the NTIS to become self-sustaining. Sales at the NTIS declined dramatically from 1993 to 1999, however, as the Internet made millions of documents available free of charge, including many documents available for a fee from NTIS. When Congress balked at providing supplemental funds to close an estimated $2 million operating deficit for the NTIS, officials in the administration of President Bill Clinton proposed eliminating the NTIS entirely in October 1999.

Commerce Secretary William Daley offered the plan to eliminate the NTIS after the Clinton administration aban-

doned a fee-based service that had been expected to help restore NTIS's fiscal solvency. The plan ran counter to the administration's stated goal of maintaining free and open access to government documents and aroused the ire of regular users accustomed to paying for materials on a per-use basis. Opposition from Congress and NTIS users also prevented the elimination plan from being put into effect, however, and the NTIS remained within the Commerce Department.

By providing access to information, the NTIS has a mission of fostering economic growth by stimulating research and innovation. Librarians and researchers throughout the United States and abroad use the NTIS collection, which included more than two million publications covering 350 subject areas in 2002.

—*Christopher A. Preble*

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See also Volume 1: U.S. Department of Commerce.

National Telecommunications and Information Administration (NTIA)

Agency within the U.S. Department of Commerce that manages the broadcast spectrum from radio to television to the Internet and that advises the president on issues related to telecommunications and information policy.

President Jimmy Carter established the National Telecommunications and Information Administration (NTIA) by executive order in 1978 as part of a major restructuring of the executive branch. The newly established NTIA assumed responsibility for the White House's Office of Telecommunications Policy (OTP) and the Commerce Department's Office of Telecommunications. Following this reorganization, the NTIA assumed control over the management of the telecommunications and radio broadcast spectrum, a function formerly under the purview of the OTP. In this capacity, the NTIA proved instrumental in urging the use of competitive bidding through auctions as a more efficient method for distributing FCC licenses during the early 1990s. The NTIA later worked with experts from the California Institute of Technology to develop a computerized bidding system also used by the Federal Communications Commission.

Under the terms of the NTIA Organization Act of 1992, the NTIA's assistant secretary for communication and information became the chief administrator for the NTIA. This individual reports to the Secretary of Commerce. Other offices within the NTIA that support the agency's mission include the Office of Telecommunications and Information Applications—which administers telecommunications grant programs including the Public Telecommunications Facilities Program and the Telecommunications and Information Assistance Program—and the Technology Opportunities Program.

The Institute for Telecommunications Services (ITS) provides research and engineering assistance to the NTIA and other federal agencies. Under the terms of the Federal Technology Transfer Act of 1986, the ITS also aids the private sector by encouraging the shared use of government facilities and resources to encourage the development of new telecommunications products and services.

—*Christopher A. Preble*

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See also Volume 1: U.S. Department of Commerce.

National War Labor Board (NWLB) (1918–1919; 1942–1945)

Agency that mediated relations between labor and business to ensure wartime industrial production during World War I and World War II.

On March 29, 1918, in an effort to prevent labor strikes that would hamper military production during World War I, Woodrow Wilson created the National War Labor Board (NWLB) to mediate disputes between management and labor. The agency had little real power, but it recognized the right of workers to organize. The board, which included former President William Howard Taft, was also skilled at convincing each side to compromise. The NWLB prevented several strikes during the war. However, the government dissolved the agency after Germany's defeat, and major strikes in the steel and coal industries broke out in 1919.

When the United States entered World War II, the federal government recreated the National War Labor Board. To convince labor to uphold a no-strike pledge, the reincarnated agency also promoted collective bargaining, but the new NWLB had greater powers than its predecessor did. It could go beyond mere mediation and had the ability to force arbitration settlements on management and labor in order to ensure production. This power gave the NWLB indirect control over prices and wages.

With NWLB support, American union membership grew by about 40 percent from 1941 to 1945, and labor unions became less associated with political radicalism. The NWLB even increased workers' wages during the early years of the war. In response to complaints about wages from steelworkers, the NWLB instituted the Little Steel formula in July 1942. This method of wage control used pay rates in January 1941 as a base and gave steelworkers a 15 percent cost-of-living wage increase. Other industries involved in war production soon adopted the system, and it quickly became the standard. Initially the Little Steel formula pleased labor, but in April 1943 the federal government froze all workers' wages to control rising inflation. Therefore, labor unions lost the power to negotiate for wage increases for the rest of the war, and there were several small strikes, especially in the coal industry. The wartime strikes were typically short-lived, lasting no more than a few days because of NWLB intervention.

After the National War Labor Board was dismantled in 1945, there were several major labor strikes, just as there had been after World War I.

—*John K. Franklin*

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See also Volume 1: World War I; World War II.

NATO

See North Atlantic Treaty Organization.

Navigation Acts (1651, 1660, 1672)

Series of restrictions passed by the English Parliament meant to restrict colonial American shipping to English ships and merchants, including colonies within the Empire, much to the frustration and anger of the colonists.

The first of the Navigation Acts, passed under the Protectorate of Oliver Cromwell in 1651, focused on the Dutch, who were then at war with England. The act prohibited shipping from the colonies except in English vessels, but allowed non-English goods that were transshipped through England. Officials barely enforced this act in the chaos surrounding the English civil war, but it set the pattern for further acts after the restoration of the monarchy in 1660. The second Navigation Act, this one promulgated under Charles II in 1660, was much the same but included measures for enforcement and enumerated a list of products including tobacco, sugar, cotton, wool, and dyes that would pay high duties when shipped to England. A third Navigation Act in 1672, also during the reign of Charles II during another period of hostilities against the Dutch, imposed additional colony-to-colony shipping restrictions and duties.

These policies operated as part of the widely accepted ideology of mercantilism, in which the British sought to ban other European countries from trading with the American colonies or gaining any benefit from their colonies' resources. The Navigation Acts also sought to maintain a favorable balance of trade between England and the colonies while restricting the manufacture of goods in the colonies by measures such as the 1733 Hat Act (which restricted the manufacture of felt hats to England) or 1750 restrictions on iron mills and bounties on raw materials. Although this appeared negative to many colonists, who turned to smuggling, these measures encouraged the American shipbuilding industry and protected American products like Southern tobacco against French and Dutch products in the English market. Key to the success of this mercantile system were the corn laws, which closed England to imported grain if the price of the domestic product fell below a certain level—a measure that persisted in English trade policy until 1846. Additionally, the Navigation Acts allowed the English to discipline Scotland and Ireland through restrictions on colonial trade, which had to be conducted through England, seriously affecting the growing ports of Glasgow and Belfast, which engaged in the slave and tobacco trade with the American colonies.

—*Margaret Sankey*

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See also Volume 1: American Revolution; Stamp Act; Sugar Act of 1764.

NEA

See National Endowment for the Arts.

NEH

See National Endowment for the Humanities.

New Deal

System of managing the economy and protecting the public welfare that vastly enlarged the power of the federal government during the 1930s and eased the Great Depression.

On winning the Democratic nomination for president in 1932, Franklin D. Roosevelt pledged in his acceptance speech to give the American people a "new deal." He declined to discuss the specifics of his plan for pulling the economy out of the Great Depression and, when he took office in 1933, no one knew what to expect. To rebuild the economy, Roosevelt had to restore faith in the financial system. Five days into his presidency, he called Congress into session and pushed through his first reform, the Emergency Banking Bill, to provide help to private banks. The Glass-Steagall Banking Act (1933) again made banks safe repositories of money by separating commercial from investment banking and establishing the Federal Deposit Insurance Corporation to guarantee bank deposits. The Securities and Exchange Act, passed in June 1934, aimed to end the abuses that had led to the stock market crash by banning stock manipulation. Roosevelt concentrated on reform, recovery, and relief. The Tennessee Valley Authority (1933) brought recovery by building hydroelectric plants to allow the development of industry in Alabama, Kentucky, Mississippi, and Tennessee. The National Industrial Recovery Act (1933), the centerpiece of the First New Deal, focused on relief. It created the Public Works Administration to construct government projects, the Civil Works Administration to tide the unemployed over the winter of 1933–1934 with small projects, and the Civilian Conservation Corps to put young unmarried men to work in the wilderness. Farmers, who had been particularly hard hit by the depression, received help from the Farm Relief Act (1933), which provided lower mortgages through the Emer-

gency Farm Mortgage Act. The farm bill also included the controversial 1933 Agricultural Adjustment Act (declared unconstitutional by the Supreme Court in 1935 because it included a tax on the middleman or agent), which paid farmers to reduce production. The program took effect in May 1933 after the growing season had begun. To the disgust of the many starving people in the cities, who could not afford food, farmers poured milk onto the ground and killed pregnant sows to receive government aid. To take land out of production, some growers evicted sharecroppers and tenant farmers, thereby worsening the misery of those already at the bottom of the economic ladder. As hard times continued, poor Americans turned politically leftward, and Roosevelt followed with the Second New Deal. In August 1935, Roosevelt won passage of the Social Security Act, which provided care for the aged and disabled. The National Labor Relations Act prohibited unfair practices by employers who sought to block unionization. The Works Progress Administration formed in 1935 provided workers who would add to the material and artistic wealth of the nation. Under the program, federal funds supported the arts in the form of the Federal Art Project, the Federal Music Project, the Federal Theatre Project, and the Federal Writers' Project. Following the defeat of many Democrats in the 1938 election, Roosevelt proposed no new reforms and instead focused on preserving the New Deal.

—Caryn E. Neumann

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See also Volume 1: Civil Works Administration; Civilian Conservation Corp; Glass-Steagall Banking Act; Great Depression; National Industrial Relations Act; National Industrial Recovery Act; New Deal; Public Works Administration; Roosevelt, Franklin D.; *Schecter Poultry Corp. v. United States;* Securities and Exchange Commission; Social Security Act of 1935; Tennessee Valley Authority.

New York Stock Exchange (NYSE)

Oldest stock exchange in the United States.

Formed in 1792, the New York Stock Exchange originally operated under a large buttonwood tree at 68 Wall Street. Twenty-four brokers subscribed to the agreement that established the exchange and traded stocks on a commission basis. In 1817 the group formally adopted the name *New York Stock and Exchange Board* and a new constitution. The final name change, to New York Stock Exchange (NYSE), occurred during the Civil War in 1863. After the war was over, the NYSE required that all securities be listed to prevent the overissuance of stocks. That same year, 1869, the market experienced a major crisis when Jay Gould and Jim Fish, two businessmen, attempted to corner the gold market. The crash of 1873 followed just four years later with numerous bank and company failures nationwide. Still, the New York Stock Exchange survived. In 1886 the NYSE traded more than one million shares—a record for the exchange in a given day. After the height of the panic of 1895, the NYSE recommended that companies publish and distribute annual financial reports to encourage investor purchases in their companies. In 1903 the NYSE moved to a new location at 18 Broad Street.

Operations ceased briefly at the onset of World War I. From July 31, 1914, through December 11, 1914, the NYSE remained closed. After the war Americans engaged in a buying frenzy—an act that ultimately led to the stock market crash of 1929. On October 29, 1929, the NYSE traded more than 16.4 million shares; brokers allowed purchasers to buy stocks on margin, that is, placing only 1 percent down. When President Franklin D. Roosevelt declared a banking holiday in March 1933, the market remained closed from the fourth through the fourteenth of March. Since 1933 the NYSE has operated under the supervision of the Securities and Exchange Commission. In 1971 the exchange was fully computer-automated, and it has since adapted new innovations such as 24-hour access via the Internet to buy and sell. Recent corporate scandals and insider trading resulted in the recommendation to the Securities and Exchange Commission by the NYSE's Stock Watch unit to freeze assets and impose fines and penalties totaling $8 million against 26 companies.

—Cynthia Clark Northrup

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See also Volume 2: Stock Market.

Newlands Reclamation Act (1902)

Legislation passed by Congress to encourage the irrigation of western desert lands.

During the late nineteenth century, the United States government attempted to encourage the settlement and irrigation of western arid lands with the Desert Land Act of 1877. Having failed to entice both foreign immigrants and U.S. citizens to migrate to these difficult regions, by 1902 Congress passed another piece of legislation to stimulate migration—the Newlands Reclamation Act. Under the terms of the legislation, the federal government allowed for the western states to use up to 95 percent of the profits derived from sales of public land for irrigation projects with the understanding that the water users would pay off the cost of the irrigation works over ten years. The first two successful projects under this act involved the Carson and Salt River projects. The Carson project controlled the waters of the Carson and Truckee Rivers in western Nevada and resulted in the construction of the Lahontan Dam in 1915. The Salt River project provides electricity and water to the Phoenix, Arizona, area and encompassed the construction of the Roosevelt Dam in a canyon east of Phoenix. The dam provides a two-year supply of water to a region known for the growing of citrus fruits,

lettuce, melons, and other crops. In 1914, Congress lengthened the time of repayment to two and then four years. During the Great Depression, the Roosevelt administration expanded the role of the U.S. Bureau of Reclamation, established in 1902 under the Department of the Interior. In addition to providing irrigation for these western states, the act also provides for the generation of hydroelectric power. Subsequent projects have included the Bonneville Dam and the Grand Couleee Dam, the Central Valley Project in California, the Colorado–Big Thompson Project, and the Missouri River Basin Project.

—*Cynthia Clark Northrup*

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See also Volume 2: Land Policies.

Nicaragua

Southern Central American nation marked by political instability since gaining independence in 1838.

The United States initially hoped that Nicaragua would be a suitable site for a transisthmian canal linking the Atlantic and Pacific Oceans. However, after American adventurer William Walker briefly took control of Nicaragua in the 1850s and requested its annexation to the United States as a proslavery state, Nicaraguans were suspicious of American motives. Because of mistrust related to this episode and Nicaraguan instability, the United States eventually selected Panama as the site for the canal.

By the end of the nineteenth century, Nicaragua had become a major exporter of coffee to the United States. Nicaragua also encouraged foreign investment to boost production, and Americans invested. Unfortunately, Nicaragua was politically unstable and U.S. Marines occupied Nicaragua in 1909 to protect U.S. interests. In an effort to lend stability, American troops remained and turned Nicaragua into a virtual protectorate until the complete U.S. withdrawal in 1933. During this period, American banks lent development money to Nicaragua, but the United States also controlled Nicaraguan customs duties and rail and steamship revenue.

After withdrawal in 1933, American relations with Nicaragua stabilized until the Sandinista National Liberal Front (FSLN) took control of the government in 1979. Fearful of Sandinista ties to communism, the U.S. government during the administration of President Ronald Reagan covertly supported anti-Sandinista rebels known as the Contras. During the ensuing Contra War of the 1980s, the Nicaraguan economy deteriorated because of warfare and an American embargo on Nicaraguan goods that began in 1985. In 1987, because of the publicity of the Iran-Contra scandal (in which Central Intelligence Agency arms were sold to Iran and the profits used to fund the Contras), the Congress stopped all military support for the Contras. Without American support the Contras were unable to keep fighting, and the groups negotiated. As a result of the negotiations, Nicaragua held free elections in 1991, the year the war ended. Efforts to rebuild the Nicaraguan economy since the end of the war have met with limited success.

—*John K. Franklin*

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See also Volume 1: Iran-Contra; Panama and Panama Canal; Reagan, Ronald.

NIPA

See National Income and Product Accounts.

NIRA

See National Industrial Recovery Act.

NLRB

See National Labor Relations Board.

NOAA

See National Oceanic and Atmospheric Administration.

Non-Importation Act (1806)

Legislation intended to stop England from violating the shipping rights of the United States through economic coercion.

The Non-Importation Act, passed by the United States in April 1806, had its intellectual foundations in the colonial protests that occurred in reaction to imperial policies and the belief that commercial discrimination by the United States could influence the course of British policy. In 1805, Britain changed its policy toward the “broken voyage”—which allowed ships to circumvent the British blockade by first stopping at an American port before continuing to their final destination—and began seizing American ships. Britain claimed that this action violated England’s notion of neutral shipping.

The United States viewed Britain’s acts as a violation of its rights, and in late January 1806, Congress began deliberating a response. Republican Representative Joseph Nicholson of Maryland proposed a measure that received majority support in Congress and would eventually develop into the Non-Intercourse Act. Rather than supporting a ban on all English imports, Nicholson proposed limiting nonimportation to goods that could be either produced in the United States or obtained from other countries. In the final act, this reasoning evolved into a long list of prohibited items that included hemp, flax, and certain woolen and metal goods. Also, Congress delayed the act, scheduling it to go into effect at the end of 1807.

The reason for this delay was Thomas Jefferson's belief that the administration could use the threat of nonimportation to gain favorable treatment for American shipping from the British. However, over the next year, both Britain and France intensified their efforts to thwart the trade of neutrals with the other state, and both nations preyed on American shipping. These actions forced Jefferson to take more drastic measures; in 1807 the United States rejected the concept of limited nonimportation embodied by the Non-Importation Act (which was never put in place) and passed the Embargo Act of 1807, which prohibited U.S. trade with France and England.

—Peter S. Genovese

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See also Volume 1: Embargo of 1807; Non-Intercourse Act of 1809.

Non-Importation Agreements, Colonial (1765–1776)

A technique of economic resistance used by the American patriots between 1765 and 1776 to oppose Britain's attempts to tax and control the colonies.

The end of the French and Indian War (1756–1763) left the British state deeply in debt, thus initiating a reexamination by England of the North American colonies' position in the British Empire. This state of affairs allowed George Grenville—Britain's minister of the Exchequer, who had assumed control because of the ill health of the prime minister—to push his Stamp Act through Parliament in 1765. The act was designed to raise revenue by taxing all printed materials in North America. The colonists quickly responded with ideological arguments examining the relationship between taxation and representation, but one of their most effective techniques involved the economic policy of nonimportation. As the North American colonies grew and developed in the eighteenth century, the American colonist came to consume increasing amounts of commodities manufactured in Britain or reexported (transshipped) from Britain. British merchants made credit easily available to these colonial consumers, facilitating their consumption. By 1765, many colonists found themselves deeply indebted to these British merchants. Thus, nonimportation was not only an act of colonial defiance but also a decision of economic policy. In these agreements, groups of citizens declared their mutual boycott of British goods until Parliament repealed the offending act. The colonists then stated their unwillingness to pay their debts until Parliament repealed the act. Nonimportation played an important role in the repeal of the Stamp Act, as the Marquis of Rockingham capitalized on the distress of British merchants brought about by colonial boycotts to convince Parliament to revoke the act. Nonimportation quickly became a favorite mechanism used by the American patriots against Britain's increasing tyranny. By the early 1770s, nonimportation came to serve as a motivation for developing domestic manufacturing. Many colonists demonstrated their patriotism by wearing homespun clothing and drinking herbal tea, and activities such as these laid the foundations for the development of North American manufacturing.

—Ty M. Reese

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See also Volume 1: American Revolution; Stamp Act.

Non-Intercourse Act of 1809

America's reaction to British and French attempts to restrict and seize American trade during the Napoleonic wars.

In 1806 and 1807, intending to create a "paper blockade" of Europe, Great Britain passed several Orders in Council that blockaded continental Europe and prohibited U.S. trade with France under the Rule of 1756. The Rule of 1756 stated that if a country had not traded with France in 1756, it could not trade with France during the French and Indian War. The United States was part of the British Empire in 1756 and was fighting against the French in that war. Although Great Britain lacked the naval power to completely blockade continental Europe, the Orders in Council made it illegal for trade between England and Europe to occur and gave Britain the power to regulate and inspect ships entering and leaving European ports. Napoleon responded with his Continental System, which created a paper blockade of the British Isles and allowed France to seize any ships that followed the British regulations. For the Americans, the Napoleonic Wars were an excellent economic opportunity for a young nation attempting to get its finances in order while paying off its revolution-related debt. The actions of both Britain and France made it so that both sides could stop, search, and seize American ships, and both sides did. In America, a debate raged over the issue of remaining neutral versus supporting France or Britain. President Thomas Jefferson responded to this situation in 1807 with the Embargo Act, which halted the American export trade and forbade American ships from leaving for foreign ports. The Embargo Act proved ineffective, and when James Madison became president the problem of American neutrality remained.

Madison and Congress continued Jefferson's policy of neutrality when they passed the Non-Intercourse Act of 1809. This act opened America's foreign trade with all nations except England and France and declared that trade would be resumed with either of these nations when they dropped their restrictions. The problem for Madison remained that of Jefferson's—trade with Europe, because of the war, remained too profitable, and American merchants and manufacturers continued to risk selling a variety of military and nonmilitary commodities and foodstuffs to both sides by maintaining its neutrality.

—Ty M. Reese

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See also Volume 1: American Revolution; Embargo of 1807.

North American Free Trade Agreement (NAFTA)

Agreement to create free trade zone among the countries of the North American mainland.

Congressional passage of HR 3450 in late November 1993 implemented a commitment to create the North American Free Trade Agreement (NAFTA) that President George H. W. Bush had made in 1992. If NAFTA works as planned, it should lead to the creation of a free trade zone between the United States, Canada, and Mexico by 2008. If NAFTA is successful in eliminating trade barriers among the three nations, the U.S. hopes to extend the idea throughout the Western Hemisphere through the Free Trade Agreement of the Americas.

NAFTA has to address and modify a great many policies and practices to achieve its goal of establishing a free trade zone. The agreement calls for elimination over a 15-year period (1993–2008) of tariffs on goods and restrictions on cross-border activity in service industries like telecommunications, trucking, and finance. It also calls for allowing businesses from any NAFTA country to set up operations in any other member country and be treated the same as if they were nationals of the country in which they established operations. The issue of health and environmental standards (which often serve as nontariff trade barriers) was addressed by asking that members "pursue equivalence" in those standards in a manner that did not weaken existing levels of protection.

Although both the Bill Clinton and George H. W. Bush administrations pushed for NAFTA approval, there was serious opposition both within and outside the mainstream of American politics. Opposition to NAFTA was one of the primary issues around which Ross Perot built his Reform Party movement, which garnered almost 20 percent of presidential votes in 1992. Opposition to NAFTA and freer trade policies in general would be a hallmark of third-party political campaigns throughout the 1990s on both ends of the political spectrum, from Perot and his successor Pat Buchanan to Ralph Nader, presidential candidate of the Green Party in 2000. Most Democratic leaders in Congress also opposed NAFTA, including Majority Whip David Bonior and Majority Leader Richard Gephardt.

This diverse group of opponents and the interest groups they represented were motivated by many considerations. Labor groups feared that NAFTA would cost American jobs, especially higher-paid unionized jobs, because businesses would relocate to Mexico in search of cheaper labor costs. Environmentalists and others were concerned that the United States would weaken environmental and health standards to comply with the agreement.

Aside from the executive branch, there were many supporters of NAFTA. Most major business organizations were anxious to see the expanded market. The Republican leadership was also very supportive, especially House Minority Whip Newt Gingrich. To encourage support for the measure, the Clinton administration negotiated some side agreements to give protection to labor unions and expanded markets to specific American industries such as the automobile industry. Clinton also obtained an amendment to the bill that would give money to those who lost jobs because of NAFTA to pay for retraining and provide income support during retraining. Those additions and hard lobbying efforts by the NAFTA supporters paid off, as NAFTA was approved and went into effect January 1, 1994.

—G. David Price

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See also Volume 1: Free Trade Area of the Americas; Nader, Ralph.

North Atlantic Treaty Organization (NATO)

A collective security alliance organized under the North Atlantic Treaty of 1949.

The North Atlantic Treaty Organization (NATO) was formed by the North Atlantic Treaty of 1949. Original members were the United States, the United Kingdom, Canada, France, Italy, Belgium, the Netherlands, Luxemburg, Norway, Denmark, and Iceland. Later several more European countries joined NATO: Greece and Turkey (1952); Germany (1955); Spain (1982); and Hungary, Poland, and the Czech Republic (1999). Russia joined in 2002, and NATO Allies decided at the 2002 summit in Prague to invite seven other countries to join: Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia. Over the years, NATO commitments have consumed the greatest share of America's defense budget. By the end of the twentieth century the NATO countries counted for some 40 percent of U.S. foreign trade ($684,478 million), including 44 percent ($308,478 million) and 37 percent ($376,000 million) of American exports from and imports to foreign countries, respectively.

The U.S.-sponsored European Recovery Program (the Marshall Plan) a massive financial aid package to Western Europe, laid a foundation for the collective security scheme by developing a shared belief that only an economically rehabilitated Europe could effectively resist potential communist subversion or Soviet aggression. Since January 1950 when NATO approved plans for integrated, or coordinated, defense against the Soviet Union, the United States has subsidized the massive buildup and rearmament of Western Europe. Additionally, by the end of the 1960s the United States contributed about $1 billion to NATO infrastructure (bases, airfields,

pipelines, communications networks, and depots for military supplies).

Throughout NATO's history, the United States and its allies developed a much broader concept of the alliance, going beyond its immediate military and political functions to include security. According to Article 2 of the North Atlantic Treaty, the member states sought to eliminate conflicts and encourage economic collaboration among themselves. Members formed a special Economic Committee in March 1951 to reconcile the economic capabilities of the member states and coordinate efforts in security-related economic issues such as military spending, assessments of resources for defense planning, cooperation within the defense industries, and interalliance trade.

At the same time, several issues of an economic nature caused discord between the United States and its allies. NATO's acquisition of weaponry for use by the NATO armies occasionally intensified the economic rivalry between the United States and major Western European powers since the acquisition of weaponry originated in the United States. To manage the problem, the alliance established joint weapons production and licensing agreements. By the mid-1980s the United States licensed the production of main armaments (missiles, aircraft, warships, armored vehicles, and artillery) in ten NATO countries, and four allied powers licensed weapons production in the United States.

More frequently, the relocation or limitation of resources as well as the fact that the United States carried a disproportionate share of NATO defense expenses produced tensions within the alliance. These disputes became particularly fierce between the 1960s and 1980s. The United States, which had carried about two-thirds of NATO's financial burden for many years, repeatedly called for greater contributions from its allies. In the 1970s the U.S. Congress even pressured for scale-back of U.S. military commitments in Europe because of the federal budget and trade deficit. Although the NATO long-term defense programs and the rise of annual military spending by NATO countries between 1979 and 1983 gave some relief, the issue of uneven burden-sharing remained in the years to follow.

Indirectly, the economic considerations and concerns also influenced U.S. and NATO defense planning, particularly the doctrine of "massive retaliation" of the 1950s (which called for a massive counterattack against the USSR should the USSR attack a NATO member). Massive retaliation was implemented as a low-cost deterrence strategy, and the growth of NATO attention to "out-of area" operations in the 1970s and 1980s was motivated by unsecured Western vital economic interests in some regions.

Despite all economic and political difficulties within the alliance, the United States had succeeded in establishing and dominating a formidable international coalition based on superior economic and military might. The ability of the United States and NATO to concentrate greater economic weight and power contributed significantly to the final victory of the West in the cold war.

Since the 1990s, the NATO economic agenda has become an integral part of the alliance's broader approach to evolving security priorities. Developing closer security links with the new democracies (Latvia, Estonia, and Hungary) behind the old Iron Curtain (Eastern Europe under Soviet control), the United States and its allies set up several NATO programs to help these nations convert defense production and manage defense expenditures, thus contributing to the process of NATO expansion into Eastern Europe. NATO has also been involved in enforcing peace agreements in Bosnia since 1995. In 2002, NATO forces there were reduced from 18,000 to 12,000 as efforts to prevent continued conflict yielded positive results.

—*Peter Rainow*

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See also Volume 1: Cold War.

Northern Securities Company

A holding company charged with violating the Sherman Anti-Trust Act in 1901.

In early 1901, a battle erupted between E. H. Harriman, president of the Union Pacific Railroad, and James J. Hill, president of the Northern Pacific Railroad, for majority ownership control of the Northern Pacific. During April 1901 Edward Harriman, with the aid of investment bankers Otto Herman Kuhn, Solomon Loeb, and Jacob Schiff and silent partner financier William Rockefeller, began buying Northern Pacific stock. By early May, Hill had noticed the spikes in Northern Pacific prices and volume and took steps, with the aid of J. P. Morgan partner Roger Bacon, to secure control of the railroad. By May 8, 1901, Hill and Harriman had cornered the market on Northern Pacific stock and sent the market into a short-lived panic. Hill managed to gain majority ownership, but only barely.

To resolve the panic and retain his control over these western railroads, Hill created the Northern Securities Company (NSC) in November 1901. The Northern Pacific and Hill's other major lines—the Great Northern and the Chicago, Burlington, and Quincy Railroad—merged into the new holding company. As soon as the company formed, however, Minnesota Governor Samuel R. Van Sant charged that the owners had engaged in an anticompetitive merger and sought action in federal and state courts. In March 1902, U.S. Attorney General Philander Knox indicted the Northern Securities Company under the Sherman Anti-Trust Act, and the next month, the U.S. Circuit Court ruled in favor of the government. Hill appealed to the U.S. Supreme Court, which ruled on the case in March 1904. The Northern Securities Company followed a strategy similar to the one that prevailed in *United States v. E. C. Knight Co.* (Hill even hired John G. Johnson, Knight's lawyer. In the Knight case, the Supreme Court ruled that although the company controlled 98 percent of U.S. sugar production, it was not in violation of the Sherman Anti-Trust Act.) Northern Securities Company argued

that the organization operated as a stock holding company and did not engage in commerce.

In a 5-to-4 decision, Justice John Harlan, writing for the Court, ruled that the mere existence of Northern Securities Company suppressed "competition between those companies" that formed it and that "to destroy or restrict free competition in interstate commerce was to restrain such commerce." The Court therefore ordered the company dissolved. Harlan had reversed the *Knight* decision and applied the Sherman Anti-Trust Act to companies instead of just labor unions such as the American Railways Union, where 100 percent of workers went out during the Pullman strike (1894).

The influence of the Northern Securities case, however, was short-lived. Beginning the following year with *Swift and Company v. United States,* Justice Oliver Wendell Holmes began further redefinition of the Sherman Anti-Trust Act that ultimately resulted in the "Rule of Reason"—defined in *Standard Oil Company v. United States* (1911)—for determining the benevolence or malevolence of monopolies.

—*Russell Douglass Jones*

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See also Volume 1: Railroads; Trusts; *U.S. v. E. C. Knight Co.*

Northwest Ordinance (1787)

Act that allowed for the sale of lands under the Articles of Confederation.

In 1787, the Articles of Confederation Congress, which established the predecessor to the U.S. Constitution, faced the problem of settlement in the old northwest, opening the land north of the Ohio River and east of the Mississippi River to legal settlement under a specific plan engineered to allow the newly settled regions to mature into statehood after a period of territorial supervision. This plan—patterned after but more conservative than Thomas Jefferson's 1784 *Report of Government for Western Lands*—came at the insistence of lobbyists representing the Ohio Land Company, whose stockholders had deeply invested in speculation throughout the region.

Under the Northwest Ordinance, a territory operated initially under the leadership of a governor, secretary, and judges chosen by Congress. However, it could form an assembly and a congressionally named governing council when the free, male population of a territory reached 5,000. When the population reached 60,000, the territory could become a state equal with the original 13 states and could draft a constitution. This plan anticipated three to five new states, which eventually became Ohio, Illinois, Indiana, Michigan, and Wisconsin. The ordinance required the setting aside of land in each region for schoolhouses, guaranteed the full exercise of constitutional freedoms, and, significantly, permanently forbade slavery in the expanding northwest. This ordinance was key to the orderly expansion of the United States and to the process by which new areas would become the equals of the original states.

—*Margaret Sankey*

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See also Volume 2: Land Policies; Volume 2 (Documents): Ordinance of the Northwest Territory.

NRA

See National Recovery Administration.

NTIA

See National Telecommunications and Information Administration.

NTIS

See National Technical Information Service.

Nullification Crisis (1832–1833)

The first serious confrontation between a federal law and states' rights since the crisis over the passing and enforcement of the Sedition Act, 1798–1801.

The confrontation of President Andrew Jackson with Vice President John C. Calhoun's defiant states' rights resistance to the enforcement of a federal tariff in South Carolina was the direct result of the presidential campaign of 1828. In this campaign, the Democrats planned to pass a tariff bill in the House of Representatives that had import duties so high on certain products vital to New England textile factories that Northern senators would defeat the bill. The plan to embarrass President John Quincy Adams backfired when Senator Daniel Webster of Massachusetts caught on to the scheme and convinced other Northern senators to join him in approving the bill. The resulting Tariff of 1828, known as the Tariff of Abominations, imposed a tariff wall of 41 percent, almost doubling the protective duties on the South, which then experienced severe economic difficulties trading with Great Britain because of the increased duties.

Although Calhoun hoped to negotiate an acceptable plan to lower the tariff from within the administration, he secretly

wrote a states' rights tract against it. He sent the tract, called the *South Carolina Exposition and Protest,* to the South Carolina legislature, which adopted it December 19, 1828. Later, when President Jackson found out that his vice president had written what he considered a treasonous publication, he forced Calhoun to resign the vice presidency, the first man ever to do so. After his 1832 resignation, Calhoun returned to South Carolina, where the state legislature chose him as a state senator in the 1832 elections.

During the fall of 1832, the legislature called for a special convention to meet in the city of Columbia to adopt measures to resist the tariff. On November 24, this convention adopted the Ordinance of Nullification and declared the tariff null and void in South Carolina. The ordinance forbade any appeal to the federal courts and required all state officials to swear an oath to support the ordinance or resign. It declared that if the federal government attempted to collect the tariff, South Carolina would secede from the Union. President Jackson issued a "December proclamation" that denounced nullification and condemned disunion as treason. He sent General Winfield Scott to take command of federal troops in South Carolina and dispatched the navy to Charleston's harbor. Congress backed the president's threat to use military force against the "nullifiers" by passing the Force Bill.

Meanwhile, as Calhoun realized that other states had failed to support nullification, he returned to the nation's capital to arrange a compromise. Meeting with Henry Clay, Speaker of the House of Representatives, and others, he helped draft a new tariff bill that President Jackson signed on March 1, 1833. Called the Compromise Tariff, it provided for a gradual reduction of the tariff over a ten-year period to reach an overall rate of 20 percent, essentially the level of the first protective tariff of 1816. South Carolina accepted the compromise and rescinded the Ordinance of Nullification, and at the same time the legislature nullified the Force Bill. The Compromise Tariff ended the nullification crisis. This threat of secession was a precedent for the Civil War, in which states' rights was the primary issue, more important than slavery.

—*Robert P. Sutton*

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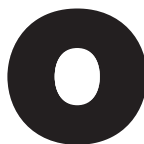
See also Volume 1: Clay, Henry; Jackson, Andrew; *South Carolina Exposition and Protest.*

NWLB

See National War Labor Board.

NYSE

See New York Stock Exchange.



OAS

See Organization of American States.

Occupational Safety and Health Act of 1970 (OSHA)

Also known as the Williams-Steiger Act, intended "to assure safe and healthful working conditions for working men and women."

The Occupational Safety and Health Act (OSHA) established three permanent federal agencies: the Occupational Safety and Health Administration (OSHA) to set and enforce standards, the National Institute for Occupational Safety and Health to conduct research on workplace hazards, and the Occupational Safety and Health Review Commission (OSHRC) to adjudicate enforcement challenges.

Factory inspection laws passed in a handful states in the last quarter of the nineteenth century provided the historical roots of OSHA. The first of these, enacted in Massachusetts in 1871, mandated the use of guards on machine belts, gears, and shafts; required the construction of adequate fire exits; and provided for public inspectors.

A broader but still limited commitment to workplace standards developed later during the passage of New Deal legislation including the National Recovery Act (1933) and the National Fair Labor Standards Act (1938). The need for workplace standards became clear because the patchwork of local inspection laws and state-based workers' compensation programs established in the Progressive Era at the beginning of the twentieth century, when reform-minded individuals attempted to address problems in society, had provided uneven and often inadequate protection. The Social Security Act of 1935 allowed the federal Public Health Service to underwrite state-based industrial health programs; the Walsh-Healey Public Contracts Act of 1936 enabled the Department of Labor to set standards for federal contract workers; and the Fair Labor Standards Act of 1938 empowered the Department to bar minors from "dangerous occupations."

The eventual OSHA reflects the turmoil of the 1960s. Willard Wirtz, the secretary of labor in President Lyndon B. Johnson's administration, compared American casualties in Vietnam and in the workplace and, in remarks before a 1968 Congressional hearing, claimed that three out of four new entrants into the labor force would suffer work-related injuries at some point in their lives. President Johnson himself would describe the increased rate and seriousness of these "casualties" as "the shame of a modern industrial nation": at the time he spoke, in 1968, the annual number of deaths on the job had increased to 14,000, with another 2.2 million injured or made ill. The administration's own proposal, soon introduced as legislation, faced considerable opposition in Congress and from business, and it never reached a vote. Organized labor, on the other hand, would later oppose the Nixon administration's initial proposal. The bill that President Richard Nixon signed into law on December 29, 1970, functioned as a compromise of sorts between Senator Harrison Williams's (D–New Jersey) proposal (almost identical to the earlier Johnson plan) and Representative William Steiger's (R–New Jersey) more conservative plan.

OSHA published its first standards, which included permissible exposure limits (PELs) for more than 400 toxins, in 1971. This list included the asbestos PEL still in effect, for example, as well as the benzene PEL that the Supreme Court voided in 1980. The 1978 PEL for cotton dust that all but eliminated cases of "brown lung" remains one of OSHA's most important achievements. The 1978 and 1995 standards for lead, the 1991 standards for blood-borne pathogens, and the ergonomics standards issued in 2000 despite Congressional opposition—and repealed in 2001—are other well-known examples.

Other milestones include the defeat of the proposed OSHA Improvements Act in 1980, introduced by Senator Richard Schweiker (R-Pennsylvania), which would have restricted OSHA's inspection powers; the $1.4 million fine imposed on Union Carbide in 1986 for "egregious violations" at its plant in Institute, West Virginia, the first application of the "instance-by-instance" rule; IMC Fertilizer's $11.3 million fine in 1991, the largest ever imposed; and the Maine Top 2000 program initiated in 1993, a successful example of

OSHA's current emphasis on compliance assistance in high-risk industries.

OSHA assumed the transfer of workplace regulation to the states over time and provided for partial funding of state agencies that met federal guidelines. OSHA approved the first three state plans soon after Congress passed the act and issued its first "final approvals," which relinquished federal enforcement powers, in 1984. However, three decades after the act became law, only 24 comprehensive state plans exist. The California state legislature ended the largest state plan, CalOSHA, in 1987.

Since 1971, the number of workplace fatalities has decreased 60 percent, and the rate of injuries and illnesses has fallen 40 percent. OSHA has few inspectors, and the penalties for individual violations remain small. Fewer than 4,000 inspectors cover almost six million eligible establishments and, despite the previous cumulative penalties, until 1990 the maximum fine for a serious violation was just $1,000, after which it increased to $7,000. On the other hand, empirical evidence exists that OSHA's current focus on high-risk occupations and workplaces, its emphasis on compliance assistance and other forms of partnership, and its judicious use of VPPs or "voluntary protection programs"—which promote effective worksite-based safety and health—have proven successful.

—Peter Hans Matthews

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See also Volume 2: Labor.

Office of Price Administration (OPA)

One of several federal agencies created during World War II to meet the exigencies of war production and to regulate the wartime economy.

Congress charged the Office of Price Administration (OPA) with the prevention of inflation. Near full employment achieved by war mobilization and the resulting extra earnings increased Americans' purchasing power, and the scarcity of goods available for civilian consumption added to this inflationary pressure. The federal government tried to offset the potentially baneful effects of the war-induced economic boom by several means. Alongside the indirect strategy of increased taxation, the administration of President Franklin D. Roosevelt adopted a set of policies to control wages and prices directly. In January 1942, Roosevelt signed the Emergency Price Control Act (later superseded by the Price Control Act of October 1942) and established the OPA by executive order. Leon Henderson, an economist and Securities Exchange commissioner since 1939, became the OPA's inaugural administrator. Prentiss Brown (1943) and Chester Bowles (1944 to 1946) succeeded him in the position. In April 1942, the OPA issued the General Maximum Price Regulation policy (commonly known as "General Max"), which made prices charged as of March 1942 the ceiling prices for most commodities and consumer goods. Residential rents also came under the OPA's jurisdiction. At the peak of the OPA's price control program, the government froze approximately 90 percent of retail prices. The OPA also retained the power to ration scarce goods to civilian consumers. Items rationed by the OPA included tires, automobiles, sugar, gasoline, fuel oil, coffee, meats, and processed foods. The OPA received credit for the relative stability of consumer prices in the United States during the war years. With the end of World War II, rationing ended and price controls gradually disappeared. The OPA itself dissolved in 1947. Although most of the OPA-enforced controls ended after the war, the concept of greater government regulation of the economy survived into peacetime.

—Sayuri Shimizu

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See also Volume 1: Roosevelt, Franklin D.

Office of Production Management (OPM)

Agency responsible for coordinating government purchases and wartime production.

As a result of the proliferation of economic agencies during World War II, the size of the federal bureaucracy nearly quadrupled. Frequent organizational changes and overlapping jurisdictional claims engendered numerous interagency conflicts. In January 1941, President Franklin D. Roosevelt established the Office of Production Management (OPM) to centralize direction of federal procurement programs and quasi-war production (that is, production taking place prior to the formal declaration of war). Under the executive order establishing the OPM, the armed services and the War Department cleared all contracts above $500,000 with the OPM's Division of Purchases. The OPM also spread government procurement contracts as widely as possible to alleviate the hardships of the small businesses whose peacetime lines of production had been either curtailed or prohibited. The armed services promoted subcontracting of government procurement by primary contractors (mostly large manufacturers) to small businesses. For this purpose, the OPM created the Defense Contract Service in February 1941 and established field offices in the Federal Reserve banks. The perceived interference by civilian officers of the OPM in military procurement elicited frequent protests from the military. The OPM's indirect involvement in government procurement programs in a supervisory capacity represented a model col-

laboration between the public and private sectors that contrasted with the model of the War Finance Committee, whose members (officials from the Department of the Treasury) worked directly with business and financial leaders in the sale of bonds.

In January 1942, about a month after the United States had formally entered World War II, Roosevelt issued Executive Order No. 9040, creating the War Production Board (WPB) to supersede the OPM. The WPB's chair, Donald Nelson, received sweeping powers over the economic life of the nation—now on an official war footing—to convert and expand the peacetime economy to maximum wartime production.

—*Sayuri Shimizu*

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See also Volume 1: Roosevelt, Franklin D.

Office of War Mobilization (OWM)

An executive "super agency" created in 1943 to more effectively coordinate America's industrial and economic mobilization efforts during World War II.

On May 27, 1943, President Franklin D. Roosevelt issued an executive order establishing the Office of War Mobilization (OWM). Roosevelt took this action because many of the federal agencies that had been created to prepare America's resources for war were frequently at odds with each other and plagued by waste, inefficiency, and political self-interest. Realizing that he needed to reorganize America's entire mobilization effort into one strong agency, the president gave the OWM and its director, James F. Byrnes, considerable authority over America's wartime economy, so much so that people routinely called Byrnes the "assistant president."

However, unlike the directors of past mobilization agencies, Byrnes, who had served as a senator from South Carolina and Supreme Court justice before becoming director of the OWM, had extraordinary political and administrative skills. These skills allowed Byrnes to work with other agencies and played a large part in the success of the OWM. Byrnes ensured that the OWM did not encroach on the jurisdiction of other agencies or become too involved in the small details of wartime production and procurement. Instead he chose to set larger national goals and coordinate the activities of his subordinate agencies via the larger and stronger OWM.

Primarily because of the efforts of the OWM, American wartime production rose steadily after mid-1943, so that by 1944 the United States was producing 60 percent of all Allied munitions and 40 percent of the world's arms. The OWM formally ended in October 1944 when Congress converted it into the Office of War Mobilization and Reconversion (OWMR). Unlike the OWM, which helped mobilize America's resources for war, the OWMR was responsible for returning the United States to a peacetime economy.

—*David W. Waltrop*

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See also Volume 1: Roosevelt, Franklin D.; World War II.

Oil

Any of a number of greasy combustible substances that are not soluble in water—a vital economic and strategic commodity.

Oil was the energy source that enabled the internal combustion engine to revolutionize industry, society, and the conduct of warfare in the twentieth century. Control of oil became a primary element of the national strategies of the great powers—the United States, Great Britain, France, Germany, and Russia—after 1900 and underpinned American hegemony after 1945.

Drilling first recovered subsurface oil in Pennsylvania in 1859. Until the late 1800s oil was primarily refined into kerosene, which was used for illumination. John D. Rockefeller's Standard Oil Company ruthlessly undercut competitors, and by 1880 Standard Oil controlled 90 percent of domestic production and 90 to 95 percent of refining capacity. Standard established a trust, or monopoly, to manage its domination of American oil production and distribution, but competition soon arose from new companies in Russia, Indonesia, and Texas. Legal challenges dissolved the trust in 1911 into 11 major companies: Standard Oil Company of New York, Atlantic Refining, Standard Oil of New Jersey, Standard Oil of Ohio, Standard Oil of Kentucky, Standard Oil of Indiana, Standard Oil Company of Louisiana, Waters-Pierce, Standard Oil of Nebraska, Continental Oil Company (Conoco), and Standard Oil of California (Socal). In addition, another 24 minor companies were spun off of Standard Oil, most of them either pipeline companies or tank lines.

Electricity replaced kerosene lamps after the 1880s, but internal combustion engines created a new market for oil in the 1890s. In 1911, Britain's Royal Navy converted to oil propulsion, and other navies and commercial fleets followed suit. Oil permitted at-sea refueling and greater speed and range than coal. The British government purchased 51 percent of the Anglo-Persian Company (later British Petroleum, or BP) to ensure an independent oil supply. World War I showed that future warfare would lavishly consume oil, and controlling oil became a major strategic objective. From 1918 until 1922, Britain and France dismembered the Ottoman Empire, installed client regimes (regimes they controlled) throughout the Middle East, and divided the region's oil.

Private ownership of automobiles exploded worldwide after 1920, and American oil production increased 430 percent from 1910 to 1930. Discoveries of large oil reserves in California, Oklahoma, Venezuela, and Mexico in the 1920s and in Kuwait and Saudi Arabia in the 1930s ensured that gasoline remained abundant and cheap. In 1928, the major oil companies created an informal global cartel to fix prices and allocate production quotas.

Oil decisively affected the course and outcome of World War II, which was characterized by vastly greater use of mechanized forces and aviation than World War I. Germany strove to capture Soviet oilfields and develop synthetic fuels, while Allied bombers attacked German oil production. America supplied 80 percent of Japan's oil until July 1941, when the American oil embargo forced Japan to enter the war with the goal of seizing the Indonesian oilfields. Fuel shortages seriously hampered Axis operations after 1944, and Allied access to U.S. oil ensured the ultimate victory of the Allies.

Rapid postwar economic growth required new sources of supply. Between 1945 and 1956, America replaced British influence in the Middle East, using cheap oil from huge new Middle Eastern fields to fuel postwar recovery and keeping Europe and Japan in the anti-Soviet camp through economic aid. World oil production increased nearly eightfold between 1940 and 1970 as industries converted from coal to oil power and suburban consumers bought automobiles and plastic products (plastic is an oil-based synthetic material). The dollar's role as an international currency (many commodities, including oil, were priced in dollars) and the dominant position of American oil companies were important sources of American economic power from 1945 until 1970.

Oil surpluses mounted in the 1960s with new discoveries in Libya and Nigeria, but by 1970, cheap oil no longer served American interests. Indeed, President Richard Nixon hoped to employ oil price increases to derail economic integration of European nations and brake post–World War II German and Japanese economic growth. Thus, the U.S. government restrained competition among oil companies by preventing other countries from raising their prices, and it refused to back the companies that opposed demands by the Organization of Petroleum Exporting Countries (OPEC) for higher prices and greater royalties. The 1973 Yom Kippur War and resulting oil embargo triggered a sharp price increase, but Germany and Japan compensated for higher energy costs with accelerated export-led growth throughout the 1970s. Prices jumped temporarily again after the 1979 Iranian revolution, but North Sea, Mexican, and Nigerian oil soon offset the loss of Iranian production. Oil prices plunged in the 1980s, partly because the administration of President Ronald Reagan sought to bankrupt the Soviet Union, which depended heavily on oil revenues. Prices spiked again after Iraq invaded Kuwait in 1990, but increased Saudi production stabilized the situation. The second Gulf War has reduced U.S. reliance on Saudi oil.

Global energy demand should double from 2002 to 2020, mainly because of Asian economic growth. Expanding production to stabilize prices may prove impossible, and therefore alternative energy sources should become increasingly cost-effective. Environmental concerns, particularly those relating to emissions of carbon dioxide, are certain to affect the industry significantly. Some analysts argue that world oil production will peak as soon as 2004, although the U.S. Geological Survey expects production to peak after 2037.

—James D. Perry

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See also Volume 1: Aviation; Oil Embargoes; Organization of Petroleum Exporting Countries; Rockefeller, John D.; Standard Oil; World War I; World War II.

Oil Embargoes

Action in which oil producers cut supplies to oil consumers in order to influence consumers' conduct.

Oil embargoes occur when producers cut supplies to consumers in order to influence the consumers' conduct. Oil embargoes are most effective when the victim heavily depends on a few producers and cannot increase domestic production or find alternative suppliers. Major embargoes occurred in 1941, 1956, 1967, and 1973.

In the 1930s, Japan imported some 80 percent of its oil from the United States. Japanese aggression in Asia raised the question of whether the United States should embargo this oil. President Franklin D. Roosevelt understood that an embargo would precipitate Japanese seizure of Indonesian oilfields, and he wanted to avoid this. But the situation changed in June 1941 when Germany invaded the USSR. Roosevelt knew the Japanese were debating an attack on Siberia, which might cause a Soviet collapse. To prevent this, he embargoed oil exports to Japan in July 1941. This embargo had the desired effect—Japan did not attack Siberia, and the USSR held out against Germany. In December 1941, Japan attacked the United States after the United States placed an embargo on oil and scrap metal to Japan.

In 1956, Britain and France attacked Egypt in order to regain control of the Suez Canal, the conduit for oil moving by ship from the Middle East to the Mediterranean. General Abdul Nasser of Egypt had nationalized the canal zone, denying Britain and France easy access to Middle Eastern oil. Saudi Arabia embargoed Britain and France, and Kuwait cut production. The British and French desperately needed American oil to prevent winter shortages, but President Dwight D. Eisenhower refused to provide emergency supplies until the two countries withdrew from the canal zone. This embargo and the financial pressure quickly induced a humiliating Anglo-French retreat.

In 1967, after Egypt forced the withdrawal of U.N. troops along its border with Israel and Egypt and Jordan signed a defense pact and began mobilizing troops,) Israel initiated a preemptive strike against Egypt, Syria, and Jordan in a brief military conflict that lasted for only five days and occupied the

Sinai Peninsula, the Gaza Strip, the West Bank, and the Golan Heights. In response, Arab oil producers embargoed the United States, Great Britain, and West Germany. However, the United States, Venezuela, Iran, and Indonesia increased production, and new supertankers quickly redistributed these supplies to prevent shortage. Arab oil producers lost significant oil revenues without influencing Western policy, and within a few months the Arabs rescinded their embargo.

In October 1973, Egypt and Syria attacked Israel, which they wished to see destroyed and replaced with an Arab state. Ten Arab oil producers decided to cut production 5 percent per month until Israel withdrew from territories it occupied in 1967, and these producers embargoed the United States, Portugal, the Netherlands, and South Africa. The oil embargo did not lead to any Israeli withdrawals, but it did produce a sharp price increase that persisted even after the embargo was lifted in March 1974.

For much of the twentieth century, American domination of world oil production and distribution enabled it to embargo others (1941, 1956) and to avoid embargoes on itself and its allies (1967). America's position weakened after 1970, but political influence in the Middle East has thus far mitigated the theoretical vulnerability to embargo. In 2003, President George W. Bush proposed a "Middle East map" that would allow for the creation of a Palestinian state that would coexist with Israel. A peaceful resolution of the Israeli-Palestinian problem would increase American influence in the Middle East, a development that may or may not lead to greater access to oil supplies or the control of oil prices.

—*James D. Perry*

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See also Volume 1: Oil; Organization of Petroleum Exporting Countries; World War II.

OPA

See Office of Price Administration.

OPEC

See Organization of Petroleum Exporting Countries.

Open Door Notes (1899, 1900)

Diplomatic communications of the United States with European nations proposing an Open Door (free trade) policy in China.

Addressed, respectively, in 1899 and 1900 by U.S. Secretary of State John Hay, diplomatic notes known as the Open Door notes founded the Open Door policy that Washington pursued toward China during the first half of the twentieth century. The Open Door notes influenced U.S. relations with other imperial powers in East Asia until World War II.

While the United States was rising as a major world competitor during the late nineteenth century, American economic interests expanded in Asia. By taking over the Philippines in the Spanish-American War of 1898, the United States established a safeguard for U.S. trade in Asia and convenient proximity for American business to increase its commercial gains in China. A densely populated country of many millions of people, China was the largest potential market for American goods and investment. But the United States faced the danger of being frozen out of the Chinese market, given the separate and exclusive spheres of influences already carved out by Western powers and Japan. To preserve American interests without risking conflict, Hay delivered identical notes to England, Germany, Russia, France, Japan, and Italy on September 6, 1899, asking them to maintain their spheres of influence available to other nations, to respect China's tariff autonomy in all spheres and tariff duties indiscriminately on all foreign goods, to collect nondiscriminatory harbor dues on ships of other nationalities, and to impose fair railroad rates within the spheres. The major powers greeted the note with polite evasion but had to acknowledge a second Open Door note that Hay issued in July 1900, when the United States joined an international expeditionary force to quell the Boxer Rebellion (an antiforeigner movement) and thereby gained a voice in the settlement of the uprising. Hay's second note underscored the basic principles of the 1899 message but called for the major powers' commitment to uphold China's administrative and territorial integrity to prevent the country's dismemberment. Although acquiring an access to its China trade, the United States remained indisposed to backing the Open Door policy with the use of force.

—*Guoqiang Zheng*

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See also Volume 1: Boxer Rebellion; China.

OPM

See Office of Production Management.

Orders in Council (January 7, 1807; November 11, 1807)

England's response to Napoleon's Continental System, banning neutral trade with ports controlled by Napoleon and blockading trade with England.

On November 21, 1806, Napoleon issued the Berlin Decree, which placed England in a state of blockade and

prohibited it from trading all British goods on the European continent. The decree played a key role in Napoleon's Continental System, by which the French emperor hoped to cut England off economically from the rest of Europe. On January 7, 1807, the British government responded with the first of two important decrees that prohibited neutral ships from carrying goods between ports within Napoleon's empire. Britain also declared that the Royal Navy would board any ship suspected of carrying on trade with French ports. The British would confiscate the contents of these ships and sell them as prizes of war.

Despite Britain's threats, ships from neutral nations, including the United States, continued to carry on trade between European ports controlled by Napoleon. England responded with a second important decree on November 11, 1807, that banned all neutral trade with any port on the European continent. All neutral ships trading with the French empire would be subject to searches and the confiscation of their goods. Napoleon responded with the Milan Decree on December 17, 1807, which declared that the French navy would capture all ships trading with England or its colonies and confiscate their goods.

During the next five years, England and France captured hundreds of American ships on the high seas. After British manufacturers protested the loss of American markets because of these measures, Parliament finally repealed the Orders in Council on June 23, 1812. However, the action came too late to restore peace with the Americans. The United States had already declared war on Great Britain five days before the repeal. Interference with American shipping along with Britain's apparent support for Native American resistance on the western frontier had led the Americans into the War of 1812.

—Mary Stockwell

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See also Volume 1: War of 1812.

Ordinance of 1785

America's first and most important land law.

As a result of the Treaty of Paris in 1783 between the United States and Great Britain, the United States of America came into possession of most of the land bounded on the east by the Appalachian Mountains and on the west by the Mississippi River. Congress soon began debating the best way to open this new western land for settlement. Many Northerners argued that the township system common in New England provided the best model to use. This method blocked out orderly sections of land for settlement by whole communities. Southerners called for a more individualistic system of random boundaries common throughout their region of the country.

Congress struck a balance in the Ordinance of 1785. This first land law of the new American nation ordered western lands to be sold in townships that were six miles square. Each township would be subdivided into 36 one-mile square sections. Every section would contain 640 acres. Alternating townships would be sold whole or in sections. Congress reserved four sections in every township for the future use of the American government, and it also set one section (section 16) aside in every township for education. Land would be sold at public auction in all the states for a minimum price of one dollar per acre. The sale of the land would begin in the Ohio Territory at the point where Pennsylvania's southwestern border ran north and intersected the Ohio River. A line drawn west from this point would become the northern boundary of the first seven columns of townships, known as the Seven Ranges.

At first glance, the law seemed to favor wealthy speculators and land companies, because 640 acres was the smallest tract of land open for sale and was more land than most farmers could afford. But in the long run, the law helped small farmers by opening the West for settlement in an orderly fashion under the rule of law.

—Mary Stockwell

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See also Volume 2: Land Policies.

Organization of American States (OAS)

Multilateral organization created in 1948 that settles inter-American disputes and promotes regional economic development in the Western Hemisphere.

On April 30, 1948, representatives of 20 Latin American nations and the United States met in Bogotá, Colombia, and created the Organization of American States (OAS). Members acknowledged that nations in the Western Hemisphere had common goals such as trade and security. They also pledged respect for the sovereignty of nations in the region. Since the founding of the organization, the OAS has expanded to 35 members and includes most Caribbean nations and Canada.

The OAS has a variety of functions. It provides a forum for member nations to air differences, denounces human rights violations in the Western Hemisphere, combats poverty in the region, and encourages inter-American trade. With the beginning of President John F. Kennedy's Alliance for Progress in 1961 and its promotion of economic progress in the Americas, the OAS became heavily involved in the economic affairs of member states and began to sponsor technical cooperation programs between them. In 1986 the OAS further expanded its responsibilities with the creation of the Inter-American Drug Abuse Control Commission (CICAD), which has the auspicious goal of ending the problem of illegal drugs in the Americas and has made some progress, although it has not fully succeeded. Since the adoption of the North American Free Trade Agreement (NAFTA) by the United States, Mexico, and Canada, the OAS has heavily promoted the establishment of free trade agreement for the Western Hemisphere known as the Free Trade Area of the

Americas (FTAA). Negotiations on the FTAA began in 1998 and have yet to be concluded.

—*John K. Franklin*

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See also Volume 1: Free Trade Area of the Americas; North American Free Trade Agreement.

Organization of Petroleum Exporting Countries (OPEC)

Organization of oil-exporting countries founded in direct response to a sudden price cut announced by several Western international oil companies.

The Organization of Petroleum Exporting Countries (OPEC) became the first in a series of steps by oil-producing nations to win greater control over oil production and pricing mechanisms. Original OPEC members included Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela; all are still members today. The membership gradually expanded to include the United Arab Emirates, Algeria, Ecuador, Indonesia, Libya, Nigeria, and Qatar. An abundance of oil on the world market and difficulty in maintaining discipline within the ranks (especially concerning price controls) initially limited OPEC's effectiveness. By the early 1970s, market circumstances more than organizational and political prowess enhanced OPEC's influence. Increased worldwide demand for petroleum greatly increased OPEC's ability to influence oil pricing. An oil embargo by OPEC against the United States and Western European countries in response to the support of Israel by the United States during the 1973 Arab-Israeli War made OPEC a household name throughout the industrialized world. Contrary to popular myth, the 1973 oil embargo and production cutbacks took no oil off the market but rather provoked a wave of speculative buying of oil futures contracts that pegged oil prices at a specific level. This phenomenon demonstrated that a significant part of OPEC's power lay not in its members' oil reserves but in the public's perceptions of future circumstances in the Middle East. Suffering from recessions driven in part by greatly increased energy costs, the world's industrialized nations made substantial infrastructure improvements that lowered their energy demands. Moreover, OPEC-led increases in the price of oil fueled a worldwide quest for oil resources beyond OPEC's control. Ironically, high oil prices underwrote costly oil exploration and encouraged the expansion of oil production in Alaska, the Gulf of Mexico, and the North Sea. Ultimately, this increase in supply, together with increased fuel efficiencies, produced the 1986 oil price "collapse," which demonstrated that oil was simply one more commodity in the global economy and was beyond the control of a cartel. OPEC remains an important and influential actor in the world oil market, but it recognizes that its long-term health and its financial benefit to its constituent members depend on two critical factors. First, OPEC seeks to work cooperatively with competitors beyond its ranks, most notably a revived Russian oil industry. Second, OPEC recognizes that the economic success of the industrialized nations relies on its product, and it therefore works to maintain oil price stability. In this respect, OPEC has become a fully integrated member of the global economy.

—*Robert Rook*

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See also Volume 1: Oil.

OSHA

See Occupational Safety and Health Act of 1970.

OWM

See Office of War Mobilization.

P

Pan American Union

Agency created by U.S. initiative in the late nineteenth century to encourage economic and cultural ties among Western Hemisphere nations, absorbed in 1958 by the Organization of American States.

The Pan American Union was initially created as a result of the Pan American Conference held in Washington, D.C., in 1889 and 1890. On April 14, 1890, the conference, presided over by U.S. Secretary of State James G. Blaine, set up the International Union of American Republics (referred to as the Pan American Union). The Commercial Bureau of American Republics was established as the central office of the International Union of American Republics in Washington, D.C. The Commercial Bureau of American Republics collected, exchanged, and disseminated economic, commercial, and juridical information—particularly on customs tariffs (which affect international trade), official trade and transport regulations, and statistics of production and commerce—for each country of the Western Hemisphere. The Washington conference placed the Commercial Bureau of American Republics (which was financed by annual contributions from all member countries according to their population) under the immediate supervision of the U.S. government. Aiming to foster economic, social, and cultural cooperation in the Western Hemisphere and especially attempting to standardize and simplify inter-American trade, the Commercial Bureau of American Republics became instrumental in promoting U.S. trade expansion in the Western Hemisphere.

Beginning in 1896, the scope of activities of the Commercial Bureau of American Republics broadened from merely collecting commercial statistics to include practically all subjects relating to social and economic development in the Western Hemisphere. In 1901 the name of the bureau changed to the International Bureau of American Republics.

In 1910 the International Union of American Republics changed its name to the Union of American Republics, and the bureau's name changed again, this time to the Pan American Union. At a 1928 meeting in Havana, members signed the Convention on Pan American Union, which defined the union as a nonpolitical permanent body of the Pan American conferences administered by a secretary general and assistant secretary general and supervised by special ambassadors of American republics. Delegates to the meetings of the Pan American conferences created divisions to deal with foreign trade, financial and economic information, statistics, intellectual matters, agricultural cooperation, labor and social welfare, and juridical issues. The Pan American Union published a *Monthly Bulletin* as well as special reports and pamphlets in English, Spanish, and Portuguese.

The Pan American Union also performed a wide variety of general and technical services in connection with issues dealt with by the Pan American conferences—issues of common concern such as arbitration of financial claims; copyrights, patents, and trademarks; construction of an intercontinental railway; and cooperation for the protection of industry, agriculture, and commerce. The annual budget of the Pan American Union in the 1940s totaled $500 million (the United States supplied more than 50 percent of it). At their meeting in Bogotá in 1948, members of the Pan American Conference formed the Organization of American States (OAS) and made the Pan American Union its central administrative branch. By 1958 the Pan American Union had finally been transformed into the general secretariat of the OAS. During its history the Pan American Union contributed significantly to multilateral international economic and commercial cooperation and was an effective tool promoting U.S. economic and trade interests in the Western Hemisphere.

—Peter Rainow

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See also Volume 1: Organization of American States.

Panama and the Panama Canal

Nation located on Isthmus of Panama between South America and Central America; location of the Panama Canal connecting the Atlantic and Pacific Oceans.

American interest in a transisthmian route between the oceans to facilitate trade began in the early nineteenth century. In the 1850s, American investors built a railroad across Panama (then Colombian territory) to facilitate trade between the U.S. East Coast and the state of California, but many, wishing to avoid the expense of unloading and reloading freight, desired a canal through which ships could pass. The Spanish-American War convinced the American government of the need for a canal to move battleships from one ocean to another quickly, and the United States began discussions with Colombia about taking over a canal project abandoned by France in 1889. The discussions with Colombia deadlocked, and the United States aided a Panamanian revolution against Colombia in 1903 in an attempt to conclude negotiations and begin construction of the canal. After Panama had achieved independence in 1903, the United States negotiated a treaty that gave America the right "in perpetuity" to build and operate a canal in a 10-mile-wide strip of land across Panama. American construction on the canal began in 1904 and was completed in 1914.

With the construction of the canal, Panama became a virtual protectorate of the United States. Panama did not even have its own paper currency; instead, the U.S. dollar became Panama's official currency. American control of the canal and its profits chafed Panamanian nationalists, and obtaining a more equitable canal arrangement was a goal of Panamanian foreign policy throughout the twentieth century. In 1977, the administration of President Jimmy Carter finally negotiated a new treaty with Panama that provided for complete Panamanian control of the canal beginning on December 31, 1999, and it provided for regular payments from the United States to Panama for use of the canal in the intervening period.

The canal has dominated the Panamanian economy since its construction, but since the 1950s Panama has sought diversification. The establishment of the Colón Free Zone (CFZ) in 1953 allowed foreign traders to unload and repackage cargo without customs duties, allowing them to comply with various tariff restrictions of both their home country and foreign destinations. A state-owned corporation provides warehousing, assembly, transshipment, and other services to merchants that use the CFZ. Since the 1970s, Panama has also become an international banking center. The nation's stringent secrecy laws attracted large assets to Panama's offshore banks. These offshore banks have been the subject of much debate between the United States and Panama since the 1980s. The United States alleges that the banks are used to launder drug money (that is, to attribute illegally gained money to a legitimate business without verifying the money's source) and has pressured Panama to end its secrecy laws, but the Panamanian government fears that an end to secrecy laws will end the attraction of Panamanian banking.

The United States, citing concerns about drug trafficking and the lack of democracy under Manuel Noriega, who had assumed control of the military and the country in 1983, took action, both economically and militarily, against Panama. In March 1988, the United States froze Panamanian assets in U.S. banks, withheld monthly payments for use of the canal, and suspended trade preferences on Panamanian imports. These measures nearly destroyed the Panamanian economy, already weak from government mismanagement and still reliant on U.S. currency. The United States followed with an invasion of Panama in 1989. Noriega was deposed in 1989 and brought to the United States for trial on drug trafficking charges; he was convicted and sent to a federal prison. Mireya Elisa has been president of Panama since September 1, 1999. Panama's economy remained poor after American troops left, but with international aid from other countries such as China, it has slightly improved. Despite the invasion, the United States passed control of the canal to Panama as scheduled.

—*John K. Franklin*

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See also Volume 1: Roosevelt, Theodore; Volume 2 (Documents): Panama Canal Treaty of 1903.

Panic of 1819

First of many financial crises that occurred in the United States.

After the War of 1812 ended, the nation experienced a period of unprecedented economic growth. Part of this growth can be attributed to the sale of goods to war-torn Europe. In addition, after 1816, a moderately protective tariff, the Tariff of 1816, was instituted to protect infant industry developing in England. The charter of the First Bank of the United States (the nation's first central bank) had lapsed in 1811, so state banks operated as the primary financial institutions. Instead of conducting transactions with payments being made using gold and silver currency (in specie), state banks issued paper currency, a practice quickly followed by corporations and individuals. When Congress chartered the Second Bank of the United States in 1816, the use of paper currency continued. In 1819 when Langdon Cheves became president of the Second Bank of the United States, his conservative financial policies forced state banks to resume specie payments. At the same time, the United States paid a large portion of the $15 million price for the Louisiana Purchase. The draining of the gold reserves forced the Bank of the United States to demand the redemption of state notes in gold—a demand with which the state banks could not comply. Consequently, the state banks were forced to call in the loans of customers, many of them farmers in the South and West who had recently expanded their landholdings as the price of cotton continued to climb. Just as the banks called in the notes, European nations dumped their surplus goods on the American market at below-cost prices.

The panic of 1819 resulted in a rapid decline in land prices, numerous bank failures, bankruptcies, and high unemployment. One estimate claimed that more than 1 million

Americans—nearly 10 percent—were out of work. Bankruptcy sales occurred daily, with debtors being sent to prison—1,800 in Philadelphia and 3,500 in Boston alone. Land prices dropped, and loans were called in early to protect the banks. Northerners wanted a higher tariff to solve the financial problem, whereas Southerners wanted free trade. Western farmers and speculators wanted the Second Bank of the United States to ease credit practices. The panic ended in 1822 with more than 3 million Americans adversely affected economically.

Although several factors converged to create the panic of 1819, most Americans, including Major General Andrew Jackson, blamed the Bank of the United States for the problem. Jackson's distrust of the institution would mean that it was not rechartered during his presidency (nor was it ever rechartered). That, in turn, resulted in a second crisis, the panic of 1837.

—*Cynthia Clark Northrup*

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See also Volume 2: Banking.

Panic of 1837

Panic with its roots in the nation's early banking system.

The abrogation in 1811 of the charter of the First National Bank of the United States, in addition to the growth stimulated by the War of 1812, led to the emergence of "wildcat" banks throughout the United States. The enormous growth of these banks, despite the chartering of the Second National Bank of the United States in 1816, led to a necessary contraction of the money supply in 1819, which created a decade of financial distress. In 1829, President Andrew Jackson, who believed the Bank of the United States was unconstitutional, removed government deposits from its coffers and placed them in state banks. He then vetoed a bill to renew the national bank's charter, which was to have passed in 1836. State banks initiated unprecedented discount rates, many more wildcat banks came into business, and a pattern of unregulated financial speculation ensued. Foreign goods poured into the country and, more importantly, in an effort to expand the money supply and reduce interest rates, industries set up operations on government land paid for with worthless paper money not backed by gold or silver. By 1836, government land sales had increased tenfold from only five years earlier. The Treasury Department, beginning to see the writing on the wall, issued a "specie circular" stipulating that after August 15, 1836, purchasers of government lands had to pay in gold or silver. A disastrous chain reaction followed. Expected gold and silver payments failed to appear, banks called in their loans and denied further discounts, prices declined, and property lost value. A large minority of banks—343 out of 850—closed throughout the country. The dam broke completely in April 1837 when, over three weeks, 250 business houses failed in the state of New York alone. Mercantile interests crashed throughout the country as farmers, artisans, and laborers all suffered the panic's consequences. Politically, the panic doomed President Martin Van Buren's chances for reelection. His decision not to aid the business community during the panic subjected him to full rounds of criticism, even from his fellow Democrats. In 1840, the Whigs, with William Henry Harrison as their presidential candidate, gained the executive office. Recovery did not appear on the horizon until 1842, when Congress passed a tariff bill adding a 30 percent ad valorem tax (that is, a tax based on a percentage of the value of the product) on most imports.

—*James E. McWilliams*

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See also Volume 1: Van Buren, Martin.

Panic of 1873

The first financial depression in the post–Civil War period.

The most important event of President Ulysses S. Grant's second term was the panic of 1873, which precipitated a four-year financial depression that stagnated the nation's economy and brought an end to a stretch of uninterrupted economic growth that had lasted almost 35 years. The panic had its roots in postwar inflated prices and expansive business growth that fueled an unprecedented level of speculative activity. This growth and speculation evolved alongside a contracting supply of currency, and so the preconditions for a crash existed. On October 1, 1873, the crash occurred when the prominent banking firm Jay Cooke and Company failed suddenly. The Philadelphia company had financed the Northern Pacific Railroad and handled most of the government's loans during the Civil War, and it had stood at the head of great banking concerns throughout the nation. The financial ruin of Cooke and Company reverberated throughout the economy, throwing the country into a tailspin even worse than that caused by the panic of 1837. After the fall of the company, the New York Stock Exchange closed for ten days. The panic touched not only the wealthy: Nearly every American suffered because the panic impaired credit, added pressure to pay back debts, and exhausted savings. With the closing of factories and adoption of half-time employment, labor bore a particularly heavy burden. As unemployment surged and productivity came to a halt, the nation experienced a surge in crime and violent protests by workers. The panic of 1873 also had clear political consequences. As the depression intensified, it diverted the nation's attention away from Reconstruction of the South in the post–Civil War period and was key in the Republican loss of 77 seats in Congress in the 1874 congressional elections. With the natural contraction of high wartime prices to low peacetime prices,

the economy could not recover until 1878, when capital gradually began to overcome its timidity about investing.

—*James E. McWilliams*

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See also Volume 1: Railroads.

Panic of 1893

Economic depression, one of the two worst in American history.

By the early 1890s, the foreign markets for American goods diminished, and foreign investments in the United States also declined. In addition, agricultural debt and foreclosures on farm property led to a substantial reduction of the purchasing power of a significant portion of the American population. These conditions made the overexpansion of America's transportation and manufacturing industries an even greater problem. As a result of these developments, in one day in February 1893 investors dumped 1 million overvalued shares of the Philadelphia and Reading Railroad, causing its bankruptcy. Soon banks cut back on loans for investments in the railroad and construction industries. Concerned about overproduction in many industries, investors quickly sold stocks and other assets to buy gold. This run on gold rapidly depleted the reserves of the U.S. Treasury, already reduced by the Sherman Silver Purchase Act's requirement that the government buy four million ounces of silver a month at the market price. On April 22, 1893, for the first time since the 1870s, the gold reserve fell below $100 million, the amount that stood for the federal government's commitment to maintain the gold standard, in which U.S. currency was backed by gold. The news shattered confidence in the economy, and on May 5, 1893, the stock market crashed when stock prices plummeted rapidly. It was Wall Street's worst day before the Great Crash of 1929. Banks subsequently called in loans and dried up credit, which greatly contributed to 16,000 businesses going bankrupt by the end of 1893. Despite the calling in of loans, 500 banks also failed by the end of the year.

By 1897 more than one-fourth of America's railroad tracks operated under receivership, which is when companies are placed under the control of a receiver during bankruptcy proceedings, and were very profitably recombined into new companies by the large banking houses of New York City. Although records are incomplete, it seems that nearly 20 percent of laborers lost their jobs for a significant time between 1893 and 1897, as the nation suffered its worst economic depression to that point. Wage cuts and layoffs more than offset the declining living costs. But by early 1897 the economy had started to revive. Early in his presidency, William McKinley supported the Dingley Tariff, which raised duties to an all-time high to protect additional American industries and to limit supply in the economy. Moreover, McKinley reaffirmed America's commitment to the gold standard. The discovery of gold in Alaska and Australia (1870–1877 and 1886, respectively), together with the development of a new cyanide process for extracting gold from ore, increased the world's supply of gold and made more money available for investment in the American economy. By the end of 1897 the depression had ended.

—*Steven E. Siry*

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See also Volume 1: Depression of the 1890s; Depressions; Dingley Tariff.

Panic of 1907

Monetary crisis leading to banking reforms.

Following the recovery from the depression (panic) of 1893, the U.S. economy went into a period of sustained growth maintained by speculation and investments in merging and expanding corporations. Although new discoveries of gold and improved extraction technologies had increased the currency supply, the supply by no means expanded as quickly as the economy. The currency was funded by transfers of gold from European banks, but European bankers—wary of this steady drain on their gold reserves—raised their interest rates in 1906, thus reversing the flow of gold. This flow reversal caused the stock market to climax and begin a decline. The falling stock market affected businesses' confidence, and production slowed. In the autumn of 1907, when the harvest came in, banks found themselves already at or near their reserve limits and could make few loans. Interest rates therefore rose. Public confidence in the faltering economy collapsed in October, and runs occurred on eight of New York City largest trust or holding companies (which controlled other companies): Knickerbocker, Trust Company of America, and Lincoln were the hardest hit. Trust companies failed because of their low reserve requirements and, because they operated outside of clearinghouse institutions (which processed bank checks), they had no "lender of last resort," a lender to which banks turn in difficult times when their reserves drop.

J. P. Morgan, the wealthiest banker in the United States, intervened and prevented failure of the trust companies by making short-term loans to them. Taking advantage of the situation, Morgan informed President Theodore Roosevelt that the situation would stabilize once he controlled the Tennessee Coal and Iron Company. Roosevelt assented and promised no antitrust investigation when Morgan's U.S. Steel purchased the Tennessee company in 1907.

As a consequence of the panic of 1907, Congress passed the Aldrich-Vreeland Act in 1908, which created a national currency association consisting of banks with minimum capital reserves of $5 million. In the event of another crisis, association banks could issue notes using the reserves as collateral. The Aldrich-Vreeland Act also established a commission to study the U.S. banking industry and to make recommendations for its reform. The commission recommended the formation of a central bank having regional reserve associations. President William Howard Taft took no action on the

commission's recommendations. But President Woodrow Wilson, early in his administration, urged Congress to act, and the commission's plan became the basis for the Federal Reserve system in 1913.

The Federal Reserve system established a bank controlled by the central government that, through its control of its member banks' gold reserves, could control the currency supply. Using the gold as collateral, the Federal Reserve's central bank could issue notes that would serve as day-to-day currency.

—Russell Douglass Jones

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See also Volume 1: Trusts.

Parity

The quality of being equal; term applied to farmers' purchasing power compared with an established base.

For a five-year period from August 1909 to July 1914, farmers enjoyed a "golden age of American agriculture" in which their purchasing power reached an all-time high because agricultural prices increased more than the cost of production. After World War I, however, farm prices dropped dramatically to approximately two-thirds of parity—the word means "the quality of being equal" and was used in this case to compare farmers' purchasing power against an established base. When Congress considered farm legislation during the 1920s—a period of depression for many American farmers—it used farmers' purchasing power during the previous golden age as referent for "agricultural parity." In 1927, congressional legislators proposed the McNary-Haugen farm plan, which resulted in five unsuccessful bills during the 1920s. The idea seemed simple at first (establishing a ratio between the cost of what farmers produced and what they consumed) but became extraordinarily complex and attracted opposition from a variety of sources. A major aspect of the plan was the establishment of a government export corporation to bring the domestic prices of major crops up to a "ratio price," defined as the general price level before World War I. An all-commodity index would compare the price of wheat, for example, before the war and then set a price goal in a select year that would lead to parity. This proposal did not pass.

After several unsuccessful attempts to pass farm legislation, the stock market crashed in 1929, leading to the election of Franklin D. Roosevelt to the presidency in 1932. Roosevelt attempted to address the issue of farm parity upon assuming office. Part of the purpose of the Agricultural Adjustment Act, which established farm relief in 1933 during the Great Depression, focused on restoring farm parity purchasing power by creating a supply-and-demand situation that would restore prices to the goal of parity. This act redefined parity prices, creating a more precise formula that included interest payments, farm estate taxes, freight charges, and commodity prices.

During World War II, a time of sharply increased agricultural production determined by global needs, the existing parity legislation limited food production. In 1948 a new parity formula established set parity prices for any agricultural production at an adjusted base price—a ratio based on the previous ten years' of prices (1938–1948) as compared with the period between 1910 and 1914 as a base price. In the mid-1970s the government based target prices (or parity) on an index of production costs—taxes, interest rates, wages, and other production costs—to establish an even better ratio of parity.

In the 1970s, the government encouraged farmers to expand production through the continuation of parity payments under the 1973 Amendment to the Agricultural Adjustment Act. By 1970 the economy had become stagnant and government spending had skyrocketed. President Ronald Reagan, in an effort to bring spending down, sought to eliminate the parity system, which cost the federal government more than $21.8 billion annually. The Agricultural and Food Act of 1981 eliminated parity goals, and farm prices fell below parity levels. The next year Congress passed the Omnibus Budget Reconciliation Act of 1982, which required a reduction of parity levels if farm prices rose. In 1990, subsidies were cut again to farmers, and parity has been reduced to 65 percent—down from 90 percent in the 1970s.

—Lisa L. Ossian

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See also Volume 1: Agricultural Adjustment Act of 1938; McNary-Haugen Bill.

Patronage

Practice of appointing people to political or government offices.

During the administrations of George Washington and John Adams, the United States did not operate under a system of patronage. Although both presidents appointed people to political positions, the emphasis was on the appointees' qualifications. For example, Alexander Hamilton, a Federalist, was appointed secretary of the treasury by Washington because of his financial experience. When Thomas Jefferson, a Jeffersonian-Democrat whom Washington appointed as his secretary of state, defeated Adams in the presidential election of 1800, the Federalists feared that Jefferson would replace them with his own appointees. To prevent the complete loss of power, Adams issued "midnight appointments" at nine o'clock on the evening before he left office (some were hand-delivered up until midnight) to fill the judgeships created

under the Judiciary Act of 1801. Jefferson did not initiate a widespread program to remove Federalists from office, but he refused to recognize the validity of any undelivered Adams appointments. Presidents between Jefferson, elected in 1800, and Andrew Jackson, elected in 1828, appointed individuals to office, but the practice of patronage proved limited because of the scarcity of government positions, the belief that one served out of duty to the country, and the lack of strong political parties. Jackson's election changed everything. Under the spoils system ("to the victor go the spoils"), presidents repaid political favors with government positions. Two key offices that offered both power and financial gain were postmaster general, with its thousands of offices to fill, and collector of the port, especially in cities like New York and New Orleans where customs officials received a percentage of the import duties as compensation for services.

The practice of patronage continued until after the Civil War, when corruption became so rampant that Americans began clamoring for civil service reform. Rutherford B. Hayes, elected president in 1876, advocated reform of the system but then appointed members of the Louisiana elections board, which had helped throw the election into dispute (thus guaranteeing Hayes' victory), to political positions. Hayes's successor, James A. Garfield, was shot four months after taking office and died three months later. Reform did occur under Chester Arthur, who then assumed the presidency. In 1883 Congress passed the Pendleton Civil Service Act, which placed 10 percent of government jobs under the merit system. Since then, the percentage of government positions that require a civil service exam has continued to increase. The primary positions that do not fall under this act are the Cabinet members, ambassadors, and judges, but because the Senate must confirm these appointments, the practice of distributing offices for political favors was effectively eliminated by the early twentieth century. Some scholars argue that a new form of patronage has developed with the rise of lobbyists and pork-barrel legislation (special projects that congressional members distribute to their constituents), but this form of patronage is associated with the legislative rather than the executive branch.

—*Cynthia Clark Northrup*

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See also Volume 1: Pendleton Act.

Payne-Aldrich Tariff Act (1909)

Measure that made the first change in the tariff schedules since the Dingley Tariff of 1897.

In March 1909, President William Howard Taft called Congress into special session for the purpose of revising the tariff schedules. Later that year the House of Representatives passed the Payne bill, put forth by New York Republican Sereno Payne, which reduced many rates. In the Senate, however, Nelson Aldrich, Republican from Rhode Island, had the Finance Committee make more than 800 changes to the bill, which mostly increased the rates, although presidential authority to revise rates through reciprocity agreements (agreements between the United States and individual countries that called for favorable trade terms between both nations at rates lower than the current tariff schedule) continued. Aldrich wanted the Senate to pass the amended bill as a Republican measure without any discussion of its details. But insurgent Republican senators, mostly from the Middle West and led by Robert LaFollette of Wisconsin, forced a debate and a new examination of the bill. The insurgent Republicans divided the bill into separate parts of which several senators mastered the details. The insurgents, including Albert Beveridge of Indiana and Jonathan Dolliver of Iowa, discovered that Aldrich and his supporters had espoused the false idea that senators had cut rates significantly, and the insurgents also denounced the influence of lobbyists in shaping the tariff bill. Although the bill retained high rates on essential items like woolen cloth and raw wool, it also placed on the free or reduced list numerous articles that consumers neither wanted nor needed. These products included hog bristles, false teeth, stilts, skeletons, leeches, curling stones, silkworm eggs, and canary birdseed. As the cartoon character "Mr. Dooley" noted, "Th' new Tariff Bill puts these familiar commodities within th' reach iv all."

Despite the insurgents' criticisms, the Payne-Aldrich Tariff Act passed both Houses of Congress, and President Taft signed it on August 5, 1909. The president preferred more substantial reductions than those provided by the tariff rates, but he believed the new presidential power to revise rates offered a significant change. The tariff, however, greatly disappointed the insurgent Republicans, and the Republican disharmony received widespread exposure to the public, providing the Democrats with a powerful campaign issue for the 1910 congressional elections.

—*Steven E. Siry*

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See also Volume 1: Wilson, Woodrow.

Pell Grant

Federally funded education grant started in 1973 and named for Senator Claiborne Pell because of his efforts in getting the grant established.

The Pell grant is a federally funded grant that requires no repayment. Its purpose is to help financially needy undergraduate college students meet the cost of their education at participating postsecondary institutions by providing direct grant assistance. Eligibility is based on household finances, not merit. Started in 1973 under the name Basic Educational Opportunity Grant, it was later renamed for Senator Claiborne Pell (D–Rhode Island) because of his efforts to get it established.

Pell grants have kept up with the rising costs of college over the years. In 2001 about 30 percent of undergraduates receive Pell grants; altogether, about 30 million students have

benefited from it. The maximum Pell grant for the 2001–2002 academic year was $3,300 based on governmental funding; it typically increases each year. Pell operates as an entitlement grant, which means students are eligible any time during the year as long as they apply by the application deadline. Studies have shown that the use of the Pell grant helps students succeed in college and increases the employment and earning opportunities of disadvantaged populations.

To apply for the Pell grant, a student must complete a form called Free Application for Federal Student Aid to determine the family's financial need. Based on a congressionally specified formula and financial data about the student's family, an index is determined. Called the Estimated Family Contribution (EFC), it is the ability of the student's family to pay the cost of college. The Pell grant figure is then based on the EFC, how many credit hours of study the student enrolls for, and the cost of attendance at the specified college. The student must also meet other basic requirements to receive a Pell grant. The student must possess a high school diploma, GED or equivalent, enroll in an eligible degree program, be an undergraduate student and a citizen or eligible noncitizen, and possess a valid Social Security number. The student may not be in default on any federal loan programs, must be registered with Selective Service if a male 18 years or older, and must be making satisfactory academic progress set forth and evaluated by the school he is attending. Individual colleges are responsible for disbursing the funds for the Department of Education based on all the requirements.

—Scott R. DiMarco and Julie A. Bogdan

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See also Volumes 1, 2: Education.

Pendleton Act (1883)

Law authorizing the reform of the Civil Service System based on a program of selection rather than patronage.

President Andrew Jackson, elected in 1828, inherited a system of government service based on political patronage rather than merit, and his attempts to change this "spoils system" did little to correct the problem. In 1865, shortly before he was assassinated, President Abraham Lincoln observed that current government hiring practices would "ruin republican government." Job security became a way to make money out of the job, according to Lincoln, "by whatever means available before the return of the opposing party doomed one to departure." Tremendous time and effort had been consumed in dispensing favors to political allies.

As early as 1864, Senator Charles Sumner, a member of the Free-Soil Party from Massachusetts, had introduced a bill urging reform of the system. Three years later, Republican Representative Thomas Jenckes of Rhode Island tried to initiate reforms along British lines, basing positions on merit rather than political favors. In almost every instance reformers in Congress received mere lip service. In the 1870s leading proponents of civil service reform, such as *The Nation* editor E. L. Godkin and Republican Senator Carl Schurz of Missouri, encouraged the administration of President Ulysses S. Grant to initiate changes "in the manner of all appointments." Sparked by the Crédit Mobilier scandal (which involved the distribution of stocks at half their value to members of Congress to secure the representatives' support), the impeachment hearings of Secretary of War William Belknap for selling Indian trading posts, and other forms of corruption in government, Congress created a Civil Service Commission. However, the commission's efforts were merely cosmetic, and the government did little to carry out the needed reforms. President Rutherford B. Hayes, Grant's successor, supported efforts toward reforms but little changed.

The assassination of President James A. Garfield by a mentally disturbed, disgruntled government job seeker generated a public demand for civil service reform. On January 16, 1883, Congress passed the Pendleton Act on a bipartisan basis. Dorman B. Eaton, secretary of the Civil Service Reform Organization, drew up the act, and Democratic Representative George H. Pendleton of Ohio introduced it into Congress. The law specifically "classified" certain government jobs and established a bipartisan, three-member commission to draw up and administer competitive exams. The process established the procedure of filling civil servant jobs on a merit basis rather than on party affiliation. The law thus established an examination to determine qualifications and finally outlawed kickback contributions to political parties. The act also empowered presidents to add new positions to the classified service from time to time.

At first, the Pendleton Act covered fewer than 15,000 jobs, or about 12 percent of all federal employees. By 1897, when William McKinley assumed the presidency, 86,000 (almost half of all federal employees) fell under civil service classifications. By 1900 the number had grown to more than 100,000 and it would continue to grow throughout the twentieth century. The Pendleton Act aimed at ending corruption in government. In the process the quality of the federal bureaucracy steadily improved, and a major step had been taken toward making government more honest and efficient.

—Charles F. Howlett

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See also Volume 1: Corruption.

Personal Responsibility Act of 1996

First federal act to reform federal welfare system established by Great Society legislation of the 1960s.

For three decades, from 1965 to 1995, the federal government implemented a variety of programs designed to provide assistance for Americans in poverty. These programs were part of President Lyndon B. Johnson's Great Society program and included Medicaid, Food Stamps, Aid to Families with Dependent Children, and Head Start. By the 1990s, as many as three or four generations of families relied on the federal government for assistance. States beginning with Wisconsin began experimenting with ways to break this cycle of dependency. Many states limited the number of years recipients could receive benefits and encouraged them to participate in job assistance programs. In 1995, during the administration of President Bill Clinton, Congress considered HR 4, a welfare reform act, but did not pass it. Then, on August 22, 1996, the Personal Responsibility Act—a version of HR 4 that included deep budget cuts and provided for a way to move individuals off the welfare rolls and into the workplace ("welfare to work") became law. The measure required a two-year limit on assistance to welfare recipients. In addition, it required single parents to participate in job training at least 20 hours a week, increasing to 30 hours by 2000, and two-parent families to participate in job training at least 35 hours per week. During families' transition from welfare to the workplace, the federal program would continue to offer childcare assistance and medical coverage for at least one year.

To implement the Personal Responsibility Act, states received block grants from the federal government and could use the funds for the creation of new jobs if necessary. Stringent reporting and quota requirements forced the states to comply. Because many single mothers should have been receiving child support instead of welfare assistance, the bill required the establishment of paternity, the withholding of wages, and the revocation of drivers' and professional licenses for delinquent parents. In an effort to curb the large number of teenagers on welfare, the act required that teen mothers live with a responsible adult and attend school to receive benefits.

Since implementation of the act, more than 43 states have implemented 78 various welfare reform programs. Child support collections have increased by 50 percent, and 1.9 million people have left the welfare rolls.

—Cynthia Clark Northrup

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See also Volume 1: Great Society; Medicaid; Medicare; Welfare Economics; Volume 2: Welfare State.

Personal Savings

Individual income set aside for future use.

Before 1929 the U.S. government did not collect information about personal savings. Individuals safeguarded a portion of their money either at home or in savings accounts at banks. The Bureau of Economic Analysis has compiled figures on personal savings since 1929. During the first three years of the Great Depression, 1929–1931, Americans saved between 4 and 5 percent of their disposable personal income per year. The percentages dropped dramatically in 1932 and 1933, when personal savings was negative 0.8 percent and personal disposable income was negative 1.5 percent. By 1936 and 1937 the percentage had increased again to more than 6 percent. The largest increases in personal savings occurred between 1941 and 1945 while the United States fought during World War II. Forced rationing and high employment meant that few consumer goods were available for workers purchase, so the rate of personal savings increased from 12.4 percent in 1941 to 26.3 percent in 1944. During the postwar period through the 1970s, the figures vary from 5.2 percent to 10 percent. Forced savings during the war provided the funds for Americans to purchase large quantities of consumer goods during the prosperous 1950s. Banks benefited from the use of these savings to offer low-interest loans for new housing, modern appliances, and automobiles. During the 1970s and 1980s, personal savings consistently averaged 10 percent. During the 1990s that trend reversed, and by 2000 the rate of personal savings had again dropped into the negative numbers (–0.7 percent). A recession coupled with higher unemployment has contributed to this development.

—Cynthia Clark Northrup

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See also Volume 1: Great Depression; Recession.

Philippines

Independent nation occupying an archipelago in the South Pacific.

The Spanish initially colonized the Philippines in 1565 as a base for Asian trade. To facilitate trade with North America, the Spanish opened the Philippines to free trade in 1834, and by the 1870s British and American merchants dominated the Filipino economy. By the end of the nineteenth century, the Philippines produced three major crops—tobacco, sugar, and hemp. Americans dominated hemp production and used it to manufacture rope in New England.

A war for Philippine independence from Spain began in

1896, and the guerrilla conflict upset American trade interests. In 1898, the United States went to war against Spain in order to gain independence for Cuba. The war spread to the Spanish Philippines, and the United States took advantage of the situation by deploying the U.S. Navy to attack the Spanish in the Philippines. After the Spanish-American War, Spain ceded the Philippines to the United States.

The United States kept the Philippines as a dependent colony until the Japanese invaded and conquered the islands in 1942 during World War II in an attempt to conquer all of Southeast Asia. After the defeat of Japan in World War II, the United States reoccupied the Philippines, granting it independence in 1946 but leasing several military installations from the Filipino government and maintaining a heavy military presence. The largest bases were the Subic Bay Naval Base and Clark Air Force Base. Negotiations to keep the bases open were often difficult. A volcanic eruption rendered Clark unusable in 1991, and the United States abandoned Subic Bay in 1992 when cold war tensions eased.

The Philippines remains a large producer of sugar, but in the 1970s, the economy began to diversify, especially into the textile and electronics industries. Since the 1970s, Japan has also been more active in the Philippine economy and has steadily challenged American dominance there. The United States continues to maintain a strong trading relationship with the Philippines. In 1998, 22 percent of the Philippines' imports were from the United States, and 34 percent of its exports went to the United States.

—*John K. Franklin*

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See also Volume 1: Spanish-American War; Sugar.

Pinckney Treaty (Treaty of San Lorenzo) (1795)

Treaty between the United States and Spain that established the northern border of Florida.

Late in the eighteenth century, U.S. settlers in the territories of Kentucky and Tennessee, uneasy about Spanish claims on their region and agitated about restricted access to the Mississippi River (which had long been protected by Spanish forts), pressed the federal government for a legal treaty to resolve these issues amidst calls for secession and independence. Afraid that the United States would side with Great Britain against the Spanish after the conclusion of Jay's Treaty (a 1794 agreement designed to resolve differences concerning navigation and commerce that the Treaty of Paris, which formally ended the American Revolution, had failed to address), the Spanish anxiously sought an agreement.

Negotiated at the monastery of San Lorenzo el Real in Madrid by Charles Pinckney—a delegate to the Constitutional Convention and envoy to Spain from South Carolina—the resulting agreement set the southern border of the United States at the thirty-first parallel and guaranteed free navigation of the Mississippi River and the Gulf of Mexico, with a right of deposit for American products in warehouses at New Orleans for three years. The agreement also contained a proviso in which the United States and Spain each promised not to incite Native American tribes against the other. Spain gained by this treaty a guarantee of the northern border of Florida, which had been established and expanded by the British in 1763. The treaty reassured settlers in Kentucky and Tennessee, who feared Spanish encroachment, while opening the Mississippi as a conduit for business. Popular in the United States, the treaty easily passed the Senate and became law in 1795, spurring the expansion of Americans into the Southeast.

—*Margaret Sankey*

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See also Volume 2: Land Policies.

Pinkerton Detective Agency

Private detective agency that worked with the government and big business during the nineteenth and early twentieth centuries.

In 1842 Alan Pinkerton emigrated from Scotland to Illinois in the United States, where he became a cooper (barrelmaker). His shop became one of the many stations in the underground railroad that helped runaway slaves to freedom in the North in the pre–Civil War days. In 1846 Pinkerton discovered a counterfeiting ring and helped bring about the apprehension of the criminals. His efforts resulted in his election as sheriff in Dundee, Illinois, and then Chicago. In 1850 he formed his own private agency, the Pinkerton Detective Agency. At the beginning of the Civil War, he prevented several potential assassins from murdering President Abraham Lincoln, and for the duration of the war he operated a spy ring behind enemy lines in the South.

After the Civil War, the agency gained national recognition when it captured several notorious train robbers. It then focused on helping big business deal with labor strikes; in 1869 the Pinkerton Detective Agency helped break up the Molly Maguires, a group of Irish coalminers who had destroyed property while attempting to obtain concessions from the management. After Alan Pinkerton died, his two sons assumed control of the organization. Robert and William Pinkerton supplied armed Pinkerton guards to Andrew Carnegie during the Homestead Strike of 1892 for a shorter work week and increased wages, during which several strikers were killed. One of the agency's tactics was to place spies for the management in labor organizations. As the labor movement gained momentum and workers joined with angry farmers and miners to form the Populist Party (active between 1892 and 1908), one of the demands that labor placed on politicians was the prohibition of labor spies. Although the national government failed to pass such legislation, states eventually outlawed the use of spies within

labor organizations. Ever since the early 1900s, the Pinkerton Detective Agency has provided bodyguards for individuals and detectives for corporations.

—*Cynthia Clark Northrup*

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See also Volume 2: Labor.

Piracy

Violent robbery of seagoing vessels or smuggling of illegal goods, hindering American trade from the colonial era until the U.S. wars with the Barbary states of North Africa along the southern shore of the Mediterranean Sea.

Pirates were most prevalent in North America during the latter half of the seventeenth century, when trade between the New World and Europe increased. Early pirates roamed the Caribbean but soon spread up the American coast, plundering ships and towns from Florida to New York. Although pirates harmed lawful trade, many colonial politicians willingly received them and their plundered goods because of British trade restrictions such as the Navigation Acts in 1651, 1660, and 1672. Additional legislation by Britain, beginning with the Sugar Act of 1764, aimed at curtailing piracy allowed colonial courts to try pirates, but it also provided Britain with the means to tighten its administrative reign in the colonies.

The development of well-organized navies by the British, French, and Spanish eliminated colonial piracy by the middle of the eighteenth century. After the American Revolution, though, Barbary pirates located along the Barbary Coast continued to attack American vessels in the Mediterranean. In 1784, Congress appropriated funds to pay tribute to the Barbary powers for safe passage, and the United States continued to pay annual tribute until 1801, when it refused the pasha of Tripoli's demand for more. Tripoli declared war against the United States, but by 1805, after an intense naval struggle, the pirates capitulated. In 1815 the United States went to war with Algiers because of repeated attacks by pirates on merchants and quickly exacted a treaty of tribute. The final action by the United States against piracy occurred in 1824 when a U.S. fleet went to the West Indies to eradicate bands of pirates around Cuba. Major world powers eventually condemned piracy in international law at the Nyon Conference held in Nyon, Switzerland, in 1936.

High-tech piracy is the new trend. Software piracy results in a loss of $10 billion a year to the U.S. economy.

—*John Grady Powell*

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See also Volume 1: Navigation Acts.

Poll Tax

Uniform state tax placed on individuals as a prerequisite for voting.

Following Reconstruction, during which Northern forces occupied the South after the Civil War and guaranteed the political rights of African Americans, the Democratic political establishment in the Southern states moved to consolidate Democratic power. Its greatest fear was that Democrats might one day be forced from office by a coalition of African American and poor white voters. Agrarian unrest of the 1880s and 1890s heightened these fears and led the existing Democratic power structure to take action. Particularly concerned with curtailing the African American vote, mainstream Democrats instituted several measures designed to circumvent the Fourteenth Amendment of the United States Constitution, which guarantees due process and prohibits states from denying citizens equal protection. By the end of the nineteenth century, the Southern states had amended their own constitutions or drawn up new ones that included disenfranchisement schemes including literacy tests, grandfather laws (which exempted whites who could not pass the tests because they had already exercised the right to vote), and poll taxes. The U.S. Supreme Court upheld such measures in *Williams v. Mississippi* (1898), which confirmed the validity of Mississippi's 1890 constitution. The poll tax was particularly effective in eliminating most of the African American vote along with the votes of many poor whites. Voters had to pay the tax months in advance of the actual election, before the issues or the identities of the candidates were clear. Poor citizens who fell behind in their payments soon found themselves owing more than they could ever afford to pay. As a result, voter turnout in the South, which had averaged 64 percent during the 1880s, fell to 30 percent by 1910.

The poll tax remained in place in several Southern states until the Civil Rights era in the 1960s. In 1964 the Twenty-Fourth Amendment to the Constitution struck down the poll tax in federal elections. Two years later, in *Harper v. Virginia Board of Elections,* the Supreme Court ruled that the poll tax in state elections violated the equal protection clause of the Constitution.

—*Ben Wynne*

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Pollock v. Farmer's Bank & Trust (1895)

U.S. Supreme Court case in which national income tax was declared unconstitutional.

In 1894, Congress passed legislation instituting an income tax on all persons with a yearly income of $4,000 or more. The demand for a national income tax had come from the Populist Party, whose members believed that wealthy industrialists should share the tax burden with average Americans.

Supporters of the new income tax were hopeful that the law would not be challenged in the courts. The first income tax had been placed on the American people during the Civil War with little opposition. When that tax was finally challenged in *Springer v. United States* in 1881, the Supreme Court unanimously upheld the income tax as constitutional.

After the ruling, opponents of the new income tax launched a bitter campaign that declared the law to be part of the dangerous rise of socialism and communism around the world. They also argued that the income tax was a direct tax that Congress could only levy if apportioned among the several states according to population. After hearing *Pollock* twice, the Supreme Court finally ruled in 1895 in a 5-to-4 decision that all national income taxes were unconstitutional because direct taxes must be based on apportionment but personal income taxes are not apportional. Writing for the Court, Chief Justice Melville Fuller argued that an income tax was a direct tax. Ignoring former Court decisions, he followed former secretary of the Treasury Albert Gallatin's distinction between a direct tax levied on the people's capital or revenue and an indirect tax levied on their expenses. Because the income tax was a direct tax under Gallatin's definition, it must be apportioned among the states in accordance with Article I, Section 2 of the Constitution. In the most impassioned dissent of his career, Justice John Marshall Harlan called the decision a "disaster for the country" because it effectively crippled the power of the national government and placed the tax burden solely on the backs of average Americans.

The income tax was reinstated early in the twentieth century. The U.S. Congress passed a personal income tax amendment to the Constitution in 1909, and the states ratified the Sixteenth Amendment in 1913.

—*Mary Stockwell*

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See also Volume 2: Judiciary.

Population

The number of people in a country or region.

The U.S. government monitors the population through the decennial census, established in 1790. The population of the United States increased from 3.9 million in 1790 to 272 million in 1999, and the Census Bureau projects that the U.S. population will reach about 392 million by 2050, an increase of 50 percent over the current figure. This population growth occurs through the natural increase because of more births than deaths and through net immigration. Immigration rates during the twentieth century varied from 10 percent per annum in the first decade of the century to 0.4 percent per annum in the 1930s. In 2000, the birth rate was 15.7 per thousand and the death rate was 8.6 per thousand, resulting in an annual increase of about 0.7 percent—low by historical standards. As health care has improved and longevity has increased, more people survive to older ages. This process will continue, increasing the number of older people in the United States, who may have savings but have passed the economically productive period of their lives and need increased medical and support services.

In less-developed countries (LDCs), population continues to grow more rapidly, and officials project that the world population will grow from the current six billion to around nine billion by 2070, subsequently declining. For many poor countries, the concern about rapid population growth involves their capability to build the necessary infrastructure to feed, house, and educate the increasing numbers. If population growth outstrips land and other resources, as has happened in many LDCs, poverty and malnutrition will increase. If that happens in the United States, the standard of living will decline and health care costs will soar. The United States does not have a formal population policy, but many other policies influence population levels. During the nineteenth century and the first decades of the twentieth century, the United States, to build up the frontier, encouraged immigration through its land policy. In the twentieth century an explicit population policy evaluated during the presidency of Richard Nixon focused on the issues of overpopulation in the United States, but the government abandoned the policy because it relied on the use of contraception and abortion—politically very sensitive issues. Currently the United States continues to restrict immigration and the Supreme Court continues to uphold *Roe v. Wade,* which guarantees the right of women to have abortions during the first trimester of pregnancy.

—*Tony Ward*

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See also Volume 1: Immigration; Volume 2: Immigration Policy.

Populist Party

American political party active between 1892 and 1908.

The product of agrarian discontent during the late nineteenth century, the Populist Party represented the political culmination of years of attempts by American farmers to organize in defense of their livelihood. Drawing its support primarily from farmers in the West and the South, it succeeded the failed Greenback Party of the 1880s.

In the decades following the Civil War, farmers felt increasingly threatened by America's rapid industrialization. Crop prices fluctuated constantly and, particularly after the financial panic of 1873, many of those who made their living off the land found themselves mired in debt. They blamed their plight on the railroads, large corporations, and those in the government who controlled the nation's money supply. Discontent among the farmers gave rise to the National Grange and the Farmers' Alliance movement along with the short-lived Greenback Party. As agrarian discontent peaked

during the early 1890s, farmers made a final attempt to forge a national political coalition that could compete with the two major parties, the Democrats and Republicans. They aligned themselves with the Knights of Labor and other groups to form the Populist (or People's) Party.

The party established its platform in 1892 at a convention in Omaha, Nebraska, calling for the free coinage of silver as a form of legal tender, the issuance of large amounts of paper currency, government ownership of the railroads, the abolition of the national banking system, a redistribution of the cost of government through a graduated income tax, the direct election of U.S. senators, and an eight-hour workday. The party nominated James B. Weaver for president in 1892 and made a good showing in its first national campaign. Weaver garnered more than 8 percent of the popular vote and 22 electoral votes. The party captured several state offices and immediately started work to consolidate its successes.

As the 1896 presidential contest approached, the Populists posed the greatest threat to the Democrats, whose constituency included many who could relate to the upstart party's platform. As a result, the Democrats adopted the free coinage of silver, a key Populist demand, as part of their agenda and nominated as their candidate William Jennings Bryan, who sympathized with Populist programs. By casting themselves as the party of reform, the Democrats sapped much of the Populists' strength. Although they nominated a different vice presidential candidate, the Populists also endorsed Bryan, but he subsequently lost the election to Republican William McKinley.

The fallout from the 1896 presidential campaign split the Populist Party and doomed it to extinction. Some Populists came to believe that they could best promote their agenda through the Democratic Party, while others believed that their goals could only be met with an independent organization. After McKinley's victory, the Populist Party went into sharp decline and by 1908 it had ceased to exist. Although the party did not survive, several Populist demands considered radical reforms when first proposed would become law during the Progressive Era during the first two decades of the twentieth century.

—Ben Wynne

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See also Volume 1: Congress; Protective Tariffs.

Poverty

Possession of inadequate resources to provide the necessities of life.

When a person's command of financial resources falls below a level that provides a secure, adequately comfortable lifestyle, then that person lives in poverty. What constitutes "comfortable" is very much a matter of opinion, which leads to widely diverse definitions of poverty. Poverty can be defined in absolute terms or relative terms. An absolute definition involves calculating the cost of a fixed bundle of goods, such as specific items of food or housing, and assigning to the poverty category those who cannot afford the bundle. The absolute definition has the advantage of being precise about applying the term "poverty." However, it can make internal comparison difficult because of fundamentally differing consumption patterns, and disagreement may occur over where to set the poverty line. The relative approach assigns to the poverty category those whose incomes fall below some fixed proportion of society's mean or median income. Economists find this easier to calculate, but the data are less clear. The United States uses an absolute income level to define poverty, unlike other Organization for Economic Cooperation and Development (OECD) countries, using levels equivalent to approximately one-third of median income—a very low standard.

Formal government policies to alleviate poverty have existed since the Great Depression of the 1930s. Yet as the twenty-first century begins only about one-third of the poor receive assistance, even though expenditure has increased over 400 percent over the period. In the late 1990s about three million Americans were poor, and 20 percent of the nation's children were living in poverty. Poverty remains unequally distributed across racial lines: 26 percent of African Americans, 24.3 percent of Hispanics, and 3.9 percent of Asians are poor, compared with 8.6 percent of white non-Hispanics. Family structure provides one of the most important determinants of poverty. Thirty-eight percent of all female-headed families live in poverty. This category has expanded rapidly as divorce rates and the rates of births to unwed mothers have risen.

American antipoverty policies developed later than those of other Western nations and have proven less generous in their scope. The first program began under President Herbert Hoover in 1929 with the Reconstruction Finance Corporation, which provided funds to banks and businesses so they would hire employers. President Franklin D. Roosevelt expanded that program in the 1930s during the Great Depression, and it culminated in 1935 with the Social Security Act, which included the Aid to Dependent Children (ADC) program. The issue of poverty almost disappeared as a social issue during World War II, but it grew again after the war. By 1960 still only 1.7 percent of all families received benefits, although 20.7 percent of families lived below the poverty line. In 1962, Congress changed the name of ADC to Aid to Families with Dependent Children (AFDC) and expanded the services to include caregivers (parents or guardians).

During the 1960s, several investigations revealed a widespread incidence of U.S. poverty and in that decade, as part of President Lyndon B. Johnson's Great Society legislation, several programs were created to address poverty, including the Food Stamp program (1964), Medicaid (1965), and Head Start (1965). In 1964, 17.4 percent of families lived in poverty. By 1973, that number had fallen to 9.7 percent. It climbed to 13 percent in 1993 before falling again to 9.9 percent in 2001. By 1996, medical programs formed 48 percent of outlays.

Cash, food, housing, and energy accounted for 46 percent. Job training and education accounted for only 6 percent of welfare assistance programs This approach supported those in poverty but did nothing to help lift them out of it. Other important programs intended to combat poverty include Supplementary Security Income (1956) and the Earned Income Tax Credit (1975).

A major overhaul of the American welfare system—which comprised primarily AFDC, food stamps, and Medicaid—began in 1996 with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). The most important aspect of this new legislation was the shift from supporting clients on inadequate benefits programs to helping poor people get back into the labor market. The legislation required that adults can be on welfare for a maximum of two years, after which they must begin to work. PRWORA placed all welfare programs under state rather than federal jurisdiction. Congress has also implemented better programs to help parents enter the workforce and to provide for childcare and the collection of child support. These new programs place a strong emphasis on birth control to reduce the perpetuation of poverty.

PRWORA has had significant but mixed effects. The number of people on welfare has fallen rapidly, from 14.1 million in 1996 when the Personal Responsibility Act began to 7.3 million in 1999. It is difficult to know how many people who were formerly on welfare have become employed. One estimate claims that 1.5 million people who were welfare recipients in 1997 had found employment by 1998. Many others, perhaps half, dropped out because they no longer qualified for assistance. Of those who dropped out, many have no visible means of support. Of those who have left welfare for employment, most do have higher incomes, but only marginally higher.

—Tony Ward

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See also Volume 1: Medicaid; Medicare.

President's Commission on the Status of Women (1961)

Commission established by executive order of President John F. Kennedy charged with reporting on the status of women.

John F. Kennedy, after having won the 1960 presidential election by a narrow popular-vote margin, issued an executive order establishing the President's Commission on the Status of Women in December 1961. In October 1963 the commission produced its report, citing inequities that women—be they single or married, mothers or childless—confronted in the workplace. Noting that to date only 22 states had enacted equal pay statutes (requiring equal pay for men and women for the same job), the report supported equal pay legislation that was being advocated by the Women's Bureau of the U.S. Department of Labor. Not long after the report was issued, Congress passed and President Kennedy signed the Equal Pay Act of 1963.

Despite a narrowing of pay differentials, women still make only about 75 percent as much money as men. Although it did not deal with several important related issues such as day care, the President's Commission on the Status of Women did contribute to a climate in which the policy concerns of women became increasingly expressed in the public discourse.

—Henry B. Sirgo

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See also Volume 1: Women.

Price Supports/Agricultural Adjustment

Government limitation on agricultural production to raise price per unit and a primary policy tool designed to stabilize agricultural commodity prices and thus farm income and closures.

The market dictated prices for agricultural commodities for much of U.S. history until the Agricultural Adjustment Act of 1933 (AAA), the most significant of President Franklin D. Roosevelt's New Deal policy interventions in the agricultural economy during the Great Depression. Among other interventions were the Emergency Farm Mortgage Act and the Farm Credit Act of 1933. The AAA, building on elements of both the McNary-Haugen Bill (which called for agricultural parity based on farm pricing in the early twentieth century) and the Domestic Allotment Plan (which paid subsidies to farmers not to plant certain crops), authorized the federal government to limit agricultural production in order to raise the price per unit and thus raise farmers' net income. The Supreme Court ruled the AAA unconstitutional in 1935. A modified version of the AAA was passed in 1938 and has evolved over time, with price supports extending from the 6 basic commodities (corn, wheat, cotton, tobacco, and peanuts) to the 14 so-called Steagall commodities (hogs, eggs, chickens, turkeys, milk, butterfat, certain dried peas, certain edible beans, soybeans, flaxseed and peanuts for oil, American-Egyptian cotton, potatoes, and sweet potatoes) during World War II. More nonbasic commodities were added in 1949.

The federal government controls market prices by aggressive export policies and by purchasing surplus production, storing it or redirecting it to domestic and international aid programs. The government controls production by setting target prices for each agricultural commodity and "base acreage"—historically determined acreage that is in production and the commodity being produced on it—for every farm. If the market price for crops produced on base acreage falls below the target price for that commodity, the government makes up the difference through deficiency payments. Price supports became practically inoperative from 1940 to 1951 because of high wartime prices. Since

that time, however, government expenditures on price supports have fluctuated widely, depending on that year's output and global market. Agricultural adjustment policies were reformulated in the 1990 and 1995 Farm Bills toward greater flexibility in production, enabling farmers to respond to market signals. Since 1996, the federal government has moved away from price supports.

—*W. Chad Futrell*

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See also Volume 1: Agricultural Adjustment Act of 1938; McNary-Haugen Bill; New Deal.

Prigg v. Pennsylvania (1842)

U.S. Supreme Court case involving fugitive slaves and the Constitution.

In 1837, Edward Prigg, a professional slave catcher, attempted to seize a runaway slave named Margaret Morgan in Pennsylvania and to return Morgan and her children to Maryland. Prigg asked a justice of the peace in Pennsylvania for certificates of removal for Morgan and her family. These certificates were made necessary by Pennsylvania's personal liberty law of 1826. In accordance with the federal Fugitive Slave Law of 1850, the federal government required slave owners to prove that a slave actually belonged to them before the state would surrender the runaway. When the state justice of the peace refused to release Morgan and her children, Prigg ignored the ruling and took the slave woman and her family back to Maryland. Pennsylvania indicted Prigg for kidnapping, and Maryland extradited him only on the condition that the Supreme Court would quickly hear his case. The Court would determine what authority states had in fugitive slave matters.

Ruling for the Court in an 8-to-1 decision, Justice Joseph Story cited Article IV, Section 2 of the Constitution that clearly provided for the return of fugitive slaves to their owners. Story argued that the national government was bound by the Constitution to enforce the return of runaway slaves, and therefore the federal Fugitive Slave Law of 1850 was constitutional. He next reasoned that because this power was exclusive to the national government, Pennsylvania's personal liberty law of 1826 was unconstitutional. Although Story hoped his opinion would strengthen the power of the national government over the states, few people interpreted the ruling in this manner. Many Northerners condemned it as proslavery, while Southerners complained it had not gone far enough. Chief Justice Roger B. Taney echoed this sentiment in a separate opinion, arguing that states were bound under the Constitution to help capture runaway slaves.

—*Mary Stockwell*

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See also Volume 2: Judiciary.

Prohibition (1919–1933)

Period during which the Eighteenth Amendment to the Constitution made the manufacture, sale, or transportation of intoxicating beverages illegal.

Hoping to end alcohol-related misery and boost the economic well-being of the nation, a growing number of citizens called for a ban on alcohol throughout the nineteenth century. Proponents of the law promised an end to problems historically associated with alcohol—family abuse, poverty, crime, illness, and low worker productivity. Their efforts were successful, culminating in 1920 in the ratification of the Eighteenth Amendment to the Constitution and its enforcing legislation, the Volstead Act.

Alcohol consumption virtually stopped in rural states, but the refusal of many people in cities to alter their drinking habits created a ready black market for illegal liquor and contributed to the rise of crime syndicates that trafficked in illegal liquor. People had to pay more for illegal alcohol, and many chose to buy products that were more potent, including dangerous homemade moonshine. Expenditures for distilled spirits as a percentage of all alcohol expenditures grew to between 70 and 87 percent as the price of spirits fell relative to the price of beer and, because buyers faced the risk of confiscation, because spirits were more compact and easier to hide. Crime patterns also shifted. Less-serious crime such as vagrancy and malicious mischief did diminish by half because of Prohibition, but crimes involving violence or theft of property increased by 13.2 percent during the Prohibition years. Homicides increased 16.1 percent and robbery rose 83.3 percent. The number of prisoners housed in federal prisons, reformatories, and camps grew from 3,889 in 1920 to 13,698 in 1932. Fewer than half of 287 surveyed industrialists noticed an improvement in absenteeism, one of the promised benefits of Prohibition, and a few claimed that the problem had worsened as workers needed more time to recover from drinking sprees.

By allowing the home production of nonintoxicating cider and fruit juices, Prohibition created an extremely strong demand for grapes suitable for shipping to urban ethnic neighborhoods. People accustomed to drinking wine with meals, for example, immigrants from Mediterranean countries, had to produce their own wine to ensure an adequate supply of what they viewed as a necessary commodity. In 1931, amid growing dissatisfaction with Prohibition, the National Commission on Law Observance and Enforcement (Wickersham Committee) issued a review of the first ten years of the law and noted that by June 1930, law enforcement agencies had dismissed more than 1,600 law enforcement personnel in the Prohibition unit for causes related to corruption. The days of the so-called "noble experiment" proved numbered, and passage in 1933 of the Twenty-First Amendment repealed the Eighteenth. In the midst of the Great Depression, many hoped that the return of alcohol industry jobs would assist recovery. The effects of Prohibition lingered for years. To gain access to illegal alcohol, women of good reputation had begun to patronize bars during Prohibition, and they continued to do so. Immigrants continued to home-produce their own wines after repeal, partly to avoid high taxes, and the de-

mand for unfortified commercial table wine (less than 14 percent alcohol) remained low for some years.

—*Caryn E. Neumann*

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See also Volume 1: Great Depression.

Protective Tariffs (1816–1930)

Tariff duties (taxes on imported goods) designed to generate revenue for the government and, more importantly, to protect domestic U.S. industries from foreign competition.

Between 1789 and 1816, Congress passed numerous tariff bills designed to simply generate funds for the Federal Treasury, which was running a deficit. As early as 1791, Secretary of the Treasury Alexander Hamilton had proposed that Congress consider protective tariffs as a means of stimulating industry so that the country could become economically self-sufficient. Legislators rejected the idea at the time, but after the War of 1812 against Great Britain, Congress accepted Hamilton's recommendations. The first protective tariff, passed in 1816, increased rates to 25 percent on wool, cotton, and manufactured iron; 30 percent on paper, leather, and hats; 20 percent on pig iron; and 15 percent on most other manufactured items. In addition, cheap Indian cotton was valued at a minimum cost of 25 cents per yard even though it was less expensive. Two years later, Congress raised rates again in response to Great Britain's practice of dumping goods on the American market at below-cost prices. In 1820, after the panic of 1819 hit, Congress once again increased rates to help stimulate the economy. Duties rose on iron, sugar, molasses, coffee, and salt. By 1824, Congress had established a pattern of approving protective tariffs.

The Tariff of 1824 resulted in higher duties on glass and paper. Congress also added numerous items to the list including leather, beef, bacon, cheese, wheat, flour, and most building materials. By this time the tariff had developed into a sectional issue. The debate over the Tariff of 1828 led Southerners to oppose the measure along with the Northern states until Massachusetts Senator Daniel Webster threw his support behind an amendment to increase the rate on woolen goods to 45 percent. Congress passed the tariff, but Vice President John C. Calhoun drafted the *South Carolina Exposition and Protest,* which argued for South Carolina's right to nullify the federal law if the hefty tariff proved detrimental to the people of South Carolina. The South Carolina legislature adopted the *Exposition* and issued a formal protest to the Senate demanding the reduction of rates. When Congress raised rates on most items again in 1832, South Carolina refused to collect the tariff duties and threatened secession. In 1833 President Andrew Jackson asked Congress to approve the Force Act, which would allow the use of military force if necessary to enforce U.S. laws. The Force Act reached Jackson's desk on the same day as the Compromise Tariff of 1833, a compromise worked out by Speaker of the House Henry Clay that gradually reduced the tariff rate to 20 percent over a nine-year period. The country had narrowly avoided a conflict. At the end of the nine years, the U.S. government owed $11 million in debts, and Congress began raising rates once again. Rates did decline in 1846 with the passage of the Walker Tariff but quickly rose again. Although the tariff had created sectional differences, by the 1850s the primary political issue had shifted to the extension of slavery. The protective tariffs had guaranteed the survival of the wool and textile industries in New England, as well as other manufacturing concerns, but the economy still struggled.

When the Civil War broke out in 1861, the Northern Republicans in Congress quickly passed the Morrill Tariff, which raised rates to pay for the cost of the war. From 1861 until the end of the nineteenth century, Congress continued passing protective tariffs. With Republicans in the White House the entire time except for the two presidencies of Grover Cleveland, the Democrats had little hope of reducing rates. As the tariff barriers rose, foreign competition found it difficult to compete with domestic manufactures, especially as companies began forming trusts (organizations combining similar companies) that dominated the oil, steel, beef, and sugar industries as well as many other industries. The lack of competition from abroad created a situation that encouraged the monopolistic practices of industrialists John D. Rockefeller and Andrew Carnegie. The expansion of the enumerated list included many everyday household items. Democrats charged that the wealthy could bring in luxury items for free but salt and cotton were taxed at very high rates—big business continued to grow at the expense of the average citizen. When Woodrow Wilson took office in 1913, Democrats managed to reduce tariff rates, but the outbreak of World War I altered the situation. Throughout the 1920s rates remained high to protect American industry as Europeans once again sought to dump goods on the U.S. market. European nations, some of which were newly formed out of former empires after the war, raised tariff barriers against the United States and other countries to protect their own industries. Finally, after the stock market crash in 1929, the United States responded by raising rates to a record level with the Hawley-Smoot Tariff of 1930. After Franklin D. Roosevelt became president, Congress authorized the executive branch to negotiate reciprocal trade agreements with countries on an individual basis. Not until after World War II did the United States abandon protective tariffs and pursue a policy of free trade under the General Agreement on Tariffs and Trade (1947).

—*Cynthia Clark Northrup*

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See also Volume 1: Democratic Party; General Agreement on Tariffs and Trade; Reciprocal Trade Agreements Act of 1934; Republican Party; Revenue Tariffs; War of 1812.

Public Works Administration (PWA)

Federal agency established in 1933 to create jobs, augment purchasing power, and revive industry by funding large public works projects.

The Public Works Administration (PWA) was formed under the aegis of the New Deal's National Industrial Recovery Act on June 16, 1933, to fund public works projects including bridges, railroads, housing, hospitals, schools, and electricity-generating dams. An experimental institution, the PWA had the vague purview of "spending big bucks on big projects."

The idea of public works as a palliative for unemployment did not originate with the depression-fighting programs of the New Deal. Two previous debates on public works merit particular attention. During the "general glut controversy" in Europe in the early nineteenth century, economists Jeremy Bentham of England and Sismondi (Jean-Charles Leonard Simonde de Sismondi) of Switzerland dissented from British economist's David Ricardo's self-adjustment doctrine by advocating countercyclical public works. More significantly, during Lloyd George's electoral campaign for prime minister in Britain in 1929, the influential British economist John Maynard Keynes criticized the "Treasury view" that an increase in public expenditure would lead to a decrease in private expenditure (known as the "crowding out" problem). With Franklin D. Roosevelt's election to the presidency in 1933, Keynes hoped that the New Deal would prove his argument.

Initially proposed by Labor Secretary Frances Perkins, the first woman to hold a cabinet post, the PWA was directed by Interior Secretary Harold Ickes from 1933 to 1939. Placing particular emphasis on the construction industry, the PWA exemplified the idea of the "brain trust" (Roosevelt's Ivy League advisers) to prime the pump to stimulate economic growth. Although the PWA spent in excess of $6 billion during its tenure, it had only modest success in reducing unemployment and increasing industrial activity. It was constrained not only by Roosevelt's aversion to deficit spending but also by Ickes's desire to avoid corruption. Having been superseded by other recovery programs (most notably the Works Progress Administration), the PWA declined in importance in the late 1930s. It was officially abolished during the shift to a war economy in 1941.

—*Mark Frezzo*

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See also Volume 1: Budget Deficits and Surpluses; Deficit Spending; Keynesian Economics.

Puerto Rico

Caribbean island with the status of United States commonwealth.

As a Spanish colony between 1492 and 1898, Puerto Rico principally exported sugar and sugar products such as rum. During the Spanish-American War of 1898, a U.S. military force seized Puerto Rico, which Spain then ceded to the United States. The United States had pledged in 1903 under the Platt Amendment not to annex Cuba, but it had made no such promises about Puerto Rico. Many Puerto Ricans saw American annexation as an attractive way to establish commercial and economic ties, and many islanders wanted to become a territory with an eye on possible statehood. Prior to World War II, Americans invested heavily in Puerto Rican sugar, and the industry boomed while other sectors in Puerto Rico languished.

Puerto Rico's status has been a bone of contention between the island and the United States since its annexation. In 1952, Puerto Rico drafted its own constitution and gained U.S. commonwealth status, which gives Puerto Rico a degree of autonomy over its own affairs. The Puerto Rican government has its own tax structure, and residents do not pay federal U.S. taxes. At the same time, Puerto Rico uses the U.S. dollar as its official currency and is exempt from U.S. customs duties. Furthermore, Puerto Rico is subject to American minimum wage laws, and Puerto Rican residents are free to enter, work, and travel within the United States. Because of tax breaks in Puerto Rico and freedom from U.S. customs duties, several American corporations have invested heavily in the island since the 1950s. As a result of American ties, Puerto Rico is the most industrialized and wealthy state in the Caribbean. However, Puerto Rican development pales in comparison to even the poorest states in the United States. In 2003 Puerto Rico remains a territory of the United States. Its people have all the privileges of U.S. citizens except the right to vote in national elections.

—*John K. Franklin*

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See also Volume 1: Spanish-American War; Sugar.

Pullman Strike (1894)

Violent union strike that occurred in Chicago in 1894.

Pullman, Illinois, was organized as a company-owned town for the workers of the Pullman Sleeping Car Company, which was owned by G. Pullman. During the heyday of the railroad, the company profited substantially, but when the panic of 1893 hit the United States, the company revenues declined. Consequently, the company laid off almost one-third of its employees. Those employees fortunate enough to remain on the payroll took a 25 percent wage reduction. However, the company refused to lower employees' rent or reduce the cost of items at the company-owned store. Workers who belonged to the American Railway Union tried to negotiate with management; when that failed, they voted to strike for lower rents and higher pay. Eugene V. Debs, the president of the union, called for a sympathy strike of all railway workers across the country. Citywide violence ensued as

strikers rioted. When the state refused to intervene, railroad officials turned to the federal government because past presidents had always sided with management over labor during strikes. President Grover Cleveland deployed 12,000 troops to Chicago, and the attorney general issued an injunction against the union under the Sherman Anti-Trust Act. Government justification for intervening was that the mail trains had been interrupted. The government believed that the strike, which included all railroad employees, would fall under the authority of the Sherman Anti-Trust Act. The strike, which began on May 11, ended on July 20, 1894, when U.S. troops took over the operation of the railroads and the government arrested union officials. On August 3, 1894, the strike officially ended when workers returned to work. Eugene V. Debs, the president of the American Railway Union, went to prison for refusing to comply with an injunction that ordered an end to the strike (the injunction used the Sherman Anti-Trust Act as its authority; the labor union was considered a monopoly because 100 percent of the workers went out on strike). All union members were forced to sign an agreement not to reorganize. Just six days later, President Cleveland signed into law legislation that created a national Labor Day to appease the workers of the United States.

—*Cynthia Clark Northrup*

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See also Volume 2: Labor.

Pure Food and Drug Act (1906)

First law prohibiting the selling of adulterated or mislabeled food and drugs.

For years prior to 1906, Congress had considered a pure food bill, an idea staunchly supported by Harvey W. Wiley, the chief chemist in the Department of Agriculture. In December 1902 the House of Representatives passed a bill drawn up by Wiley. The National Association of Manufacturers, the American Baking Powder Association, and many individual food companies supported the measure. But by 1903 opponents to the measure had become organized, including primarily the patent drug and whiskey industries and some dissident growers who opposed this federal oversight. In 1905 the measure reached the Senate. President Theodore Roosevelt in his annual State of the Union address to Congress called for federal regulation of "misbranded and adulterated foods, drinks, and drugs." Congressional opponents blocked action on the measure, but this opposition collapsed in February 1906 when the American Medical Association warned Republican Senator Nelson Aldrich of Rhode Island that its 135,000 members would urge their patients to lobby senators for passage of the bill. The Senate quickly passed the measure, but it was soon buried deep in committee in the House of Representatives.

A month later, however, Upton Sinclair published *The Jungle,* a novel focused on socialist themes but which included a lurid description of Chicago's meatpacking plants. It revealed in great detail the revolting conditions under which beef and pork were processed. President Roosevelt appointed Charles P. Neill, the commissioner of labor, and James B. Reynolds, a Washington attorney, to conduct an investigation. Congress developed a compromise meat inspection bill, and the measure passed on June 30, 1906. Because of the impact of the meat inspection bill, the pure food and drug bill passed the same day. These precedent-setting laws in consumer protectionism initiated the emergence of the regulatory state in America. To enact the laws the president and Congress had to use the commerce clause of the Constitution, which allows the regulation of interstate commerce, because no power under the Constitution existed to regulate methods of manufacturing.

—*Steven E. Siry*

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See also Volume 1: Roosevelt, Theodore.

PWA

See Public Works Administration.

R

Railroads

Important mode of transportation popular in the nineteenth century linked to the economic development of the United States.

During the late nineteenth century, the steam locomotive was a dramatic influence in the United States. In 1869 the transcontinental railroad was completed, and the railroad industry revolutionized transportation of goods and people as it connected far-flung areas of the country and created a national economy. Before the Civil War the U.S. government greatly subsidized the railroad industry in an effort to promote economic development despite lawmakers' strict interpretation of the government's role in funding internal improvements. From 1850 to 1880, the federal government gave land grants to railroad companies totaling 131 million acres and provided other financial assistance, too, such as loans of up to $48,000 for each mile of railroad track built. By 1870 more than 93,000 miles of track had been laid—41,000 miles more than had existed at the beginning of the Civil War in 1860. By 1880 the number of miles had increased to 163,000, and it increased again to 193,000 miles by 1890. The total value of the government's assistance amounted to $707 million, yet the government had little oversight of the industry before 1887. Railroad executives became wealthy both from government funding and because they charged farmers high rates for short-haul trips to market and for grain storage in railroad-owned (unregulated) silos.

The federal government failed to implement economic policies beyond construction aid because of lawmakers' interpretation that the Constitution did not allow government control of transportation companies, especially in the case of intrastate trade. This interpretation was detrimental to the national economic interest because it put commercial agriculture at the mercy of numerous short-line railroads controlling an average of less than 40 miles of track. Regulating freight rates was critical to the economy if farmers were to produce commercially and move beyond subsistence farming.

Such regulation was supported by two Supreme Court rulings. In *Munn v. Illinois* (1877), the Court ruled that the government could regulate a private company whose business affected the public interest. In *Wabash, St. Louis, and Pacific Railway Co. v. Illinois* (1886), the Court ruled that laws passed by a Granger-controlled Illinois state legislature (the Grange was a farmers' group) violated the Constitution because they attempted to control interstate commerce—a responsibility that according to *Gibbons v. Ogden* (1824) belonged to the federal government. With these Court rulings as precedent, Congress passed the Interstate Commerce Act of 1887, banning railroads from discriminating against customers by charging lower freight rates for long hauls than for short hauls. The act required railroads to publish and file rates with the government. Furthermore, the newly created Interstate Commerce Commission (ICC) monitored the railroad industry to ensure that rates remained "reasonable and just." In short, the Interstate Commerce Act successfully remedied a situation in which railroads had taken advantage of small rural farmers in transporting goods to market, charging so much for hauling that it was difficult for the farmers to realize any profit.

The next significant legislation affecting the railroad industry occurred in 1890 with the passage of the Sherman Anti-Trust Act. This act, meant to end monopoly control of key industries, had little effect until Teddy Roosevelt became president and, in 1901, used the act to sue Northern Securities. Northern Securities was a holding company for the Great Northern and Northern Pacific Railroads and met the Interstate Commerce Act's definition of a monopoly. The government also passed the Heyburn Act (1906), giving the ICC power to set maximum freight rates that railroads could charge for shipping goods.

In 1920, the government reversed its policy with the Cummins Transportation Act, which encouraged railroad consolidation. The Cummins Act stipulated that the ICC must evaluate all railroad property, set rates of return for stockholders, and set costs for transporting passengers and freight. Congress designed the act to ensure that the policies enacted by the government would keep railroads profitable, yet operating cheaply enough to carry the nations' goods and benefit the economy. This act coincided with a reduction of railways after the advent of the automobile, highways, and the trucking industry. By 1920 the mileage of railroad tracks had declined from its height in 1900 of 193,346 miles; by the end of

the twentieth century, railroad miles had further decreased to 131,984 miles. The interstate highway system and the airline industry have greatly reduced the need for and profitability of railroads in the United States, although railroads are still the primary method for shipping some bulk goods over long distances, and industries such as mining find the rates cheaper than other overland carriers.

—Eugene Van Sickle

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See also Volume 1: Great Railroad Strike of 1877; Transportation Revolution.

Raw Materials

Agricultural or other unprocessed material that can be used in a manufacturing process.

Under the mercantilist system during colonial times, the American colonies served as a source of raw materials for Great Britain. Lumber, cotton, tobacco, rice, indigo, and foodstuffs comprised the bulk of the material shipped overseas for manufacturing in English factories. The British Parliament enacted a series of acts beginning in the mid-1600s to protect the fledgling industries in Britain. After the Enclosure Movement, when peasants were forced off the land and into factories, Parliament prohibited the importation of wool, but other items used in the textile industry—primarily cotton from the Americas—fueled the Industrial Revolution in Britain. Under the Navigation Acts (1651, 1660, and 1672), raw materials had to pass through the ports of England before being shipped to other countries, and the crews and ships had to be of British origin.

After the American Revolution, the United States found itself in much the same position as before the war—a source of raw materials. Secretary of the Treasury Alexander Hamilton, in his 1790 *Report on the Subject of Manufactures,* proposed the development and protection of infant industries in the United States as a means of competing with Great Britain. Finally, after the War of 1812, Congress implemented a protective tariff to encourage domestic manufacturing. As the countries of Western Europe industrialized, it became apparent that countries that continued to provide raw materials without industrializing would be relegated to a second-tier status among nations. During the Market Revolution from the 1820s through the 1850s, the United States slowly moved from simply providing raw materials to actually processing them into finished goods.

The real change occurred after the Civil War. American corporations began competing with other nations such as Germany, Japan, and Great Britain. However, the United States enjoyed an advantage over these countries in that it possessed a large reserve of raw materials available for domestic industries, whereas other countries relied on their colonial possessions to supply their industries. Since the early 1900s, the raw material requirements of industrialized nations have shifted to chemical and mineralogical resources, which the United States has in abundance. These items include coal, copper, lead, molybdenum, phosphates, uranium, bauxite, gold, iron, mercury, nickel, potash, silver, tungsten, zinc, petroleum, natural gas, and timber.

—Cynthia Clark Northrup

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See also Volume 1: Industrial Revolution; Mercantilism; Volume 2 (Documents): *Report on the Subject of Manufactures.*

Raymond, Daniel (1786–1849)

Lawyer admitted to the bar in Baltimore in 1814 and known principally for his writings in political economy.

Daniel Raymond, born in 1786 in New Haven, Connecticut, first achieved notoriety with his pamphlet *The Missouri Question* (1819), which supported the abolition of slavery. In this work he pointed out the threat to white supremacy of black population growth under slavery. His *Thoughts on Political Economy* (1820), the first major work of economic theory by an American, is his principal contribution to policy development. His approach to the subject was very different from that of his contemporaries, classical economists in England and France. Raymond realized that national wealth does not simply equal the sum of all individual wealth. This realization led him to the belief that political economy should be more concerned with increasing the productive power of the nation than increasing its static wealth (property, for example).

Raymond saw national wealth as being increased by "effective" labor—labor that created permanent improvements, enhancing the nation's "capacity." He disagreed with economist Adam Smith, who believed that the wealth of a nation increased if the nation accumulated a surplus of produce in excess of consumption. Raymond felt that this surplus output does not contribute to wealth unless it is bought by consumers. If consumers fail to buy the output, it is the government's responsibility, Raymond believed, to amend the effects of the resulting downturn in the economy. Raymond saw the best way of achieving government responsibility as the creation of public monopolies through such devices as trade treaties and tariffs. The resulting increase in prices would, in Raymond's view, stimulate businesses, which would then hire more workers, and the labor force, in turn, would then buy up the accumulation of surplus goods. Tariffs raise prices, but the revenues from these high prices remain within the country and are not lost. Raymond believed that tariffs should be highest on goods the manufacture of which employed the largest number of people.

—Tony Ward

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See also Volume 1, Free Trade; Slavery; Volume 2: Slavery.

REA

See Rural Electrification Administration.

Reagan, Ronald (1911–)

Former actor and former governor of California who became fortieth president of the United States, 1981–1989.

Ronald Wilson Reagan won the presidential election in November 1980. At a time when the country's morale was quite low because of the Iranian hostage crisis and a bad economy, Reagan inspired the American people by arranging for the release of the hostages and by providing economic leadership for the country by pushing for a tax cut.

Contemporary writers described Reagan as an adherent to the supply-side economic theory, which became known as Reaganomics or the trickle-down theory. Supply-side economics calls for tax cuts for businesses and the wealthy, who, the theory goes, will then save money or invest for the benefit of the rest of society. Along with the tax cuts, Reaganomics was characterized by low spending for social services and increased military spending. This theory, according to Paul Roberts, Reagan's assistant treasury secretary for economic policy, focused on the economics of production rather than on the economics of consumption and spending. Such an economy was controlled by incentives for investment, which are directly affected by tax rates. Proponents of supply-side economics believed that cutting taxes and decreasing the federal budget would supposedly bring about noninflationary growth. In supply-side economics, production does not need to increase first; rather it increases supply of goods and services. Some argued that the tax cut would pay for itself by increasing revenue from increased sales.

In an address to the nation February 5, 1981, Reagan characterized the American economy as a "basket case" and argued that the nation was in the "worst economic mess since the Great Depression." He believed that government intervention and regulation should be kept to a minimum. In his 1981 inaugural address the previous month, Reagan had argued that "government is not the solution to our problem; government is the problem." He believed spending needed to be reduced, yet he also believed the military needed strengthening. The government must reduce inflation without creating a recession. A balanced budget, decreased reliance by individuals on the federal government, and high employment were other economic goals. Author Michael Boskin has described a sense of urgency in what the Reagan administration was doing—that the future was at stake.

David Stockman, a strong believer in supply-side economics, served as President Reagan's first director of the Office of Management and Budget. He believed in the need for a "frontal assault on the American welfare state." This assault included "risky and mortal political combat" with such groups as farmers, educators, students, Social Security recipients, and many others. Stockman criticized Reagan for not having the heart to carry out this phase of supply-side economics. He and other writers have characterized Reagan as a pragmatist who believed in a combination of monetarism (the belief that inflation can be controlled by controlling the money supply), supply-side economics, and traditional conservative orthodoxy.

Reagan's economic policy proved mostly negative. Federal deficits during his eight years in office were greater than those of all previous presidents combined. Some believed that his program would force Congress to cut social spending and end the "welfare state." Maximum income tax rates, cut from 70 to 33 percent, did not bring about the growth expected. Furthermore, tax cuts had taken away 30 percent of federal revenues. The size of government under Reagan grew by 30 percent in real terms rather than shrinking as had been hoped. President Reagan successfully motivated and inspired Americans, but his economic programs brought about considerable economic difficulties for some Americans.

Although Americans might disagree on the effectiveness of Reagan's economic programs, Reagan is credited with helping to bring about the end of the cold war between the United States and the Soviet Union. When he became president in 1981, Reagan stressed the need for increased military spending and assumed a strong stance against communism. In 1983 he proposed the Strategic Defense Initiative (SDI)—commonly known as Star Wars—which would protect the country from a nuclear attack by what Reagan called the "evil empire" (the Soviet Union). The largest government military project in American history, Star Wars was designed as an antiballistic space-based missile system that would destroy Soviet missiles before they reached the United States. The completion of such a project would have resulted in the end of the policy of mutually assured destruction that had maintained the peace between the two superpowers for the previous two decades.

SDI research began just as Mikhail Gorbachev assumed power in the Soviet Union. Gorbachev's new policy of openness and reform caused the United States to reevaluate its policy toward the Soviet Union. In 1985 Reagan and Gorbachev held their first meeting. No agreements were reached during the summit because of the Soviet insistence on an end to SDI. During the next four years the two leaders met three more times and finally concluded the Intermediate-Range Nuclear-Force Missile Treaty (INF) in 1987 when the Soviet's dropped their former demand. Many Americans believed that Reagan's insistence on the SDI program was designed to outspend and bankrupt the Soviet Union while others believe that the Soviet Union was already on the verge on collapse from internal forces. Regardless of the reason, the Soviet Union did collapse in 1991, effectively ending the cold war.

—David E. Walker

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Stockman, David A. *Triumph of Politics: How the Reagan Revolution Failed.* New York: Harper and Row, 1986.

See also Volume 1: Reaganomics; Supply-Side Economics; Volume 2 (Documents): Ronald Reagan's Remarks with Reporters on Air Traffic Controller's Strike.

Reaganomics

Name of economic program espoused by President Ronald Reagan.

When Ronald Reagan was elected president in 1980, largely on the basis of his economic program, the U.S. economy had been plagued with "stagflation" (a combination of high unemployment and high inflation) since the early 1970s. Reagan planned to restore growth and boost employment by cutting income taxes across the board, reducing nondefense spending, easing federal regulation of business and increasing the money supply slowly but steadily. He also promised to increase military spending and balance the federal budget within a few years. "Reaganomics," as it was called, thus would build on two elements of the economic program of the late 1970s under the previous administration of President Jimmy Carter—deregulation and monetary restraint—while adding aggressive new conservative measures. Most economists endorsed Reagan's monetary policy but doubted the overall feasibility of the program.

During his presidential campaign, Reagan increasingly claimed that tax cuts need not be offset fully by spending cuts. He was inspired in this view by an economic theory from economist Arthur Laffer, whose "Laffer curve" postulated that total federal tax revenues actually would increase if tax rates were reduced, because workers would be encouraged to work, save, and invest more. This notion—along with the idea that tax cuts would motivate the wealthy to invest in new plants and equipment (a theory known as trickle-down), thereby creating new jobs for middle- and working-class Americans—were central tenets of supply-side economics. The promise of lower taxes without great sacrifice greatly appealed to stagflation-weary voters, who ushered Reagan into the White House by a wide margin.

Reagan followed through on most of his economic campaign promises by cutting taxes, easing economic regulation, and moderating economic growth. Following a severe but brief recession in the early 1980s, inflation plummeted. By that time, several of Reagan's top economic advisers, most notably Budget Director David Stockman, had resigned because they doubted the feasibility of Reaganomics. However, the president held firm, claimed his program was beginning to work, and won reelection in 1984. His successor and former vice president, George H. W. Bush, sustained Reagan's fundamental economic policies through 1992.

In retrospect, Reaganomics posted a mixed record. Inflation was controlled and economic growth rose moderately. Economic regulation was scaled back, boosting competitiveness in some sectors including the savings and loan industry, where this competitiveness led some individuals to engage in fraud to gain profits. Nondefense spending cuts were far outweighed by continually rising Medicare, Medicaid, and social security spending and by heavy defense spending. Nor did supply-side tax cuts prove effective; the largest (the Economic Recovery Tax Act of 1981) yielded an average annual net loss of roughly $250 billion per year from 1985 to 1991. Taken together, revenue losses and spending hikes boosted the national debt from 23 percent of GDP in 1981 to 69 percent in 1992. Reaganomics also increased the economic disparities between rich and poor; the income and wealth of the former rose dramatically while middle-class economic status changed little and the poor grew poorer. Under the administration of President Bill Clinton (1992–2000), many of Reagan's policies were reversed: Military spending was reduced and social programs were expanded. Reaganomics enjoyed a renaissance after the 2000 election of George W. Bush, who made a large income tax cut and deregulation central to his economic program.

—David B. Sicilia

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See also Volume 1: Reagan, Ronald; Supply-Side Economics.

Recession

Downturn in aggregate output, income, and employment.

The National Bureau of Economic Research defines a recession as any period in which gross domestic product (GDP) has dropped for two consecutive quarters. The distinction between recession and depression is imprecise and depends on the severity of the unemployment increase and the length of the downturn of real GDP. In the post–World War II period, recessions occurred in 1945, 1949, 1958, 1961, 1970, 1975, 1980, 1982, 1991, and 2001 and usually lasted for one to two years.

In a "growth recession," there is a downturn in the rate of growth of real GDP, but the growth rate has not yet turned negative. Conditions for growth recession include a large decline in exports and a significant decrease in private expenditure relative to income. Most recently, these conditions became noticeable between the third quarter of 2000 and the second quarter of 2001. The government budget surplus plus the trade deficit equals the private-sector deficit—so if the government spends less than its income (tax revenue), thereby maintaining its surplus, and if the country buys more from abroad than it sells (spending more than its foreign income and thereby increasing its trade deficit) to keep GDP from falling, the private sector must also spend more than its income, thereby incurring a deficit. Thus, when the growth rate declines, a budget surplus cannot lead to a rise in private investment and a healthy long-run rate of profit.

Although the Federal Reserve may cut interest rates considerably in the face of excess capacity, the incentives to build more capacity remain few, even with cheap financing. Thus, increasing government spending and lowering taxes becomes necessary. Otherwise profits drop even farther than prices, while output shrinks and unemployment grows, and as a result the economy cannot run at or near full capacity. With reduced growth of disposable income, firms and households find it difficult to meet their payment commitments. Defaults and bankruptcies grow, and deflationary pressures occur.

—Zdravka K. Todorova and Mathew Forstater

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See also Volume 1: Depressions.

Reciprocal Trade Agreements Act of 1934

Legislation passed by Congress that permitted the president to reduce tariff rates by up to 50 percent by a mutual agreement with a foreign country on a reciprocal basis.

The passage of the Republican-supported Hawley-Smoot Tariff Act of 1930 led to harsh criticism from the Democrats, who charged that President Herbert Hoover and the Republicans were responsible for the Great Depression. Hoover countered these accusations by pointing out that the international trade situation had already suffered as a result of the breakup of former European empires and the erection by these new European nations of high tariff walls. Nevertheless, Hoover lost the 1932 presidential election to Franklin D. Roosevelt. Roosevelt's secretary of state, Cordell Hull, long a proponent of free trade, advocated the passage of the Reciprocal Trade Agreements Act of 1934, legislation that allowed the executive branch to reduce or increase import duties by up to 50 percent from the rates established by Hawley-Smoot through mutually advantageous agreements with foreign nations. Hull worked diligently to conclude 25 reciprocal agreements by 1945. The reciprocal trade agreements signaled the acceptance of a freer trade policy and also shifted responsibility for conducting trade negotiations from the legislative to the executive branch, where it has remained ever since. Although Congress must approve trade agreements, the use of fast-track legislation—which Congress is prohibited from altering—has strengthened the power of the president in matters of foreign trade.

—*Cynthia Clark Northrup*

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Relief Act of 1821

Legislation that adjusted debt repayment schedules for people who had bought public land before the federal government changed its method of selling public lands.

The United States government originally sold public lands through a credit or installment system that required repayment for the purchase over a four-year period. The Land Act of 1804 established a minimum purchase requirement of 160 acres and continued the price of $2 per acre for credit purchases. In 1820, Congress ended installment buying and required cash payments for future purchases. However, legislators lowered the minimum sale requirements to $1.25 an acre and 80 acres per purchase. The new policy placed an unfair burden on settlers that had bought land under the old system. Congress addressed this discrepancy by passing the Relief Act of 1821.

Congress had passed 12 such relief acts, which alleviated the burden on debtors from the requirements of the installment system, before 1820, and these acts generally extended the time of payment for settlers whose lands were scheduled for forfeiture within the year. The Relief Act of 1821 continued this principle but included additional provisions in response to the new policy of selling public land that Congress established in 1820. In addition to extending payment schedules, the act allowed settlers to return part of their land and retain the acreage that was equivalent to their payments. It also gave settlers a 37.5 percent discount off the original price of the land if they paid the whole amount. The act intended to lower the price of land purchased before 1820, to reduce an owner's existing debt to a level compatible with the new system, and to limit the number of forfeitures. These relief measures, although well intended, proved misguided. Settlers needed more than just time to pay off their debts, and the number of forfeitures did not diminish.

—*Peter S. Genovese*

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See also Volume 2: Land Policies.

Report on the Subject of Manufactures (December 5, 1791)

Treasury Secretary Alexander Hamilton's report on congressional aid to manufacturing.

On January 8, 1790, President George Washington spoke to Congress about the relationship between manufacturing and the national defense. He argued that manufacturing essential items like military supplies was necessary for the nation's safety. One week later, Congress ordered Secretary of the Treasury Alexander Hamilton to prepare a report on how the government could promote manufacturing in the United States. Hamilton worked on the report for nearly two years. He studied the economic ideas of Adam Smith and David Hume. The works of French Finance Minister Jacques Necker also greatly influenced him. After writing four drafts, Hamilton finally presented his *Report on the Subject of Manufactures* to Congress on December 5, 1791. (See Volume 2 for the full text of this document.)

In his opening remarks, Hamilton argued against those who believed America must remain a nation of farmers. He countered that manufacturing would bring more wealth to the nation than farming ever could. It would make use of the natural talent that most Americans had for invention. As Americans created new machines and other products, more and more people could find work. Women, children, and newly arrived immigrants would gladly work to make more money for themselves and their families. These new opportunities would allow all Americans to develop their individual talents.

Hamilton next argued against those who said that America must use all of its economic resources to expand westward and so must import its manufactured goods from Europe. He urged Americans to look at the political realities of the day; with each year it was becoming harder and harder to import goods from Europe. Constant war, along with the economic policies of most European nations, disrupted the free flow of trade across the Atlantic. Hamilton believed the United States must develop manufacturing simultaneously with its westward advance.

Hamilton concluded that manufacturing would not develop on its own in America. Only the national government could raise the massive amounts of capital necessary for manufacturing to take hold in the country. He advocated protective tariffs on rival foreign goods and establishment of a national board that would grant premiums or awards for excellence in manufacturing. Congress would grant bounties or cash payments to manufacturers that produced the most necessary items. Lastly, Hamilton said that Congress should take every measure to improve transportation in the country. Knowing that some might argue that these actions were unconstitutional (because the Constitution did not specifically state that Congress had such authority), Hamilton concluded that Congress had the power to promote manufacturing under the "necessary and proper" clause of Article 1 of the Constitution.

—Mary Stockwell

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See also Volume 1: Hamilton, Alexander; Volume 2 (Documents): *Report on the Subject of Manufactures.*

Report on Public Credit (January 1790)

Treasury Secretary Alexander Hamilton's plan to pay America's debts.

In January 1790, Secretary of the Treasury Alexander Hamilton presented his *Report on Public Credit.* He had prepared the report in response to Congress, which believed that solid support of the public credit (that is, the reputation of or confidence in the ability of the government to fulfill its obligations) was important to the "honor and prosperity" of the United States. Hamilton heartily agreed that the United States must place itself on a firm financial footing to win the world's respect. He worked diligently for nearly four months to prepare his 20,000-word report.

Hamilton calculated that the United States owed more than $11 million to foreign nations and more than $40 million to its own citizens. He argued that the government must repay the foreign debt according to the exact terms of the original loan agreements. He recommended the funding of the domestic debt at face value. He proposed to accomplish this goal by calling in outstanding government securities and issuing new bonds of the same value in their place. The national government would also assume the remaining debts of the individual states and pay them off under similar terms. Finally, he proposed the establishment of a sinking fund (which would be used to retire the debt) to guarantee payment of both the interest and principal of the national debt.

Hamilton recommended repaying the foreign debt by taking out new loans overseas. These loans would prevent a serious cash drain from the American economy. Increased duties on imports and tonnage (duties on ships based on their weight when loaded with cargo) could fund repayment of the domestic debt. The government could raise more money by placing new duties on imported wines, distilled spirits, tea, and coffee. He proposed a duty of 20 to 35 cents per gallon on Madeira and other wines, 20 to 40 cents per gallon on distilled spirits depending on the proof, 12 to 40 cents per pound on tea, and 5 cents a pound on coffee.

Republican Representative James Madison of Virginia led the Congressional opposition to Hamilton's recommendations. Madison favored "discrimination," a policy that would pay all the original as well as current owners of government securities. He also opposed the assumption of state debts, because Virginia and most of the other Southern states had already paid off their debts. Hamilton convinced most representatives that discrimination would not work, but Congress remained deadlocked over the assumption of state debts incurred before ratification of the Constitution in 1789. In July 1790, Hamilton offered to move the national capital from New York to Philadelphia for ten years and then to a site along the Potomac River in exchange for Madison's support. The compromise broke the deadlock, and Congress approved Hamilton's plans.

—Mary Stockwell

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See also Volume 1: Hamilton, Alexander; *Report on the Subject of Manufactures.*

Republican Party

Founded in February 1856 in opposition to proslavery forces in the Democratic and Whig parties.

The predecessors of the Republican Party included the Federalists (1789–1820) under the fiscal direction of Alexander Hamilton and the Whig Party (1836–1852) under the leadership of Speaker of the House Henry Clay. Both groups recognized the need for a protective tariff (in which tax revenues exceed expenditures; designed to reduce foreign competition) as opposed to a revenue-only tariff (which is only high enough to pay government expenses) and for federal funding of internal improvements. In the mid-1850s, the Whig Party split over the issue of extending slavery to new states and territories. Opponents of the spread of slavery formed a variety of parties including the Know-Nothings (a nativist, anti-immigrant group), the Free-Soil Party (which campaigned under the slogan "free soil, free labor, free men"),

the abolitionists, and the Anti-Nebraska Democrats. By 1856 these groups merged to form the Republican Party. That same year the first Republican candidate for president, John C. Fremont, mounted a serious challenge against Democrat James Buchanan for the office of chief executive. Although Fremont lost, the Republican candidate in the 1860 presidential election, Abraham Lincoln, won. Opponents of the Republican Party (primarily Southern Democrats) thrust the nation into Civil War. In 1860, the Republican platform included a high protective tariff, free homestead land, and a transcontinental railroad, all of which appealed to Westerners, farmers, and eastern businesses. In the post–Civil War period, the Republican Party continued to support high tariffs and in the process encouraged the growth of big business by eliminating foreign competition. Because Republicans dominated politics during the late nineteenth century without much opposition, corruption permeated the political system. Cries for political reform finally led to the passage in 1883 of the Pendleton Civil Service Act, which sought to end patronage and initially placed 10 percent of federal jobs under a merit system. That percentage gradually increased and now includes most government positions.

Between the post–Civil War period and the early twentieth century, both major parties refused to address serious monetary issues, leaving the work to third-party candidates instead. But by 1896 the Republican Party became the standard-bearer for the continuation of the gold standard, which required that U.S. currency be backed with gold. During the presidency of Republican Theodore Roosevelt (1901–1908), the Republican Party moved toward a stronger foreign policy. As an imperialist power, the United States exerted its influence over the Philippines, Guam, Puerto Rico, and, to a lesser extent, Cuba. During the presidential administration of William Howard Taft, a Republican, foreign policy was dictated by "dollar diplomacy": Using dollars instead of bullets, Americans dominated much of Central and South America.

At the same time, Republicans initiated a policy of trust-busting at home designed to break up monopolies, a goal of Progressives who sought reform and better conditions for labor. With Democratic opponents arguing that the Treasury surplus called for a reduction of the tariff, Republicans agreed to lower duty rates if the states ratified a constitutional amendment that would allow a personal income tax. To the Republicans' surprise, the amendment was ratified in 1913. Although the tariff was initially reduced, during and after World War I rates climbed again on imports, culminating with the Hawley-Smoot Tariff of 1930 when rates reached an all-time high. Although Franklin D. Roosevelt and the Democrats claimed during the 1932 presidential election campaign that the Great Depression was the result of the passage of Hawley-Smoot, President Herbert Hoover said in numerous campaign speeches that the breakup of former European empires such as the Austro-Hungarian Empire, and the subsequent raising of tariff barriers overseas had caused the depression. Roosevelt won the 1932 election, and the Democrats maintained control over the White House and Congress until after World War II. In 1947 the United States moved toward free trade in an effort to avoid future international conflicts. As one of the original signatories of the General Agreement on Tariffs and Trade (GATT), the country pursued this goal during both Republican and Democratic administrations including those of Dwight D. Eisenhower, Richard Nixon, and Ronald Reagan. During the administration of President George H. W. Bush the United States signed the North American Free Trade Agreement (NAFTA), which opened up trade among the United States. Mexico, and Canada. The voluntary organization of GATT has since evolved to become the World Trade Organization. Republicans reversed their former protariff position after World War II because tariff barriers had been a major cause of the war.

Domestically, during the last 20 years the Republican Party has advocated tax cuts as a means of stimulating the economy, a philosophy originally called Reaganomics or supply-side economics. During the presidential administration of George W. Bush, a Republican who came to the White House in 2001, the Republicans have pushed for tax cuts to stimulate the economy following the recession of 2000 and the terrorist attacks of September 11, 2001. In addition to tax reform, the Republican Party has also pushed for welfare reform. (During the 1960s under Democratic President Lyndon B. Johnson, the country implemented a policy of wealth redistribution that created several generations of dependent recipients.) The Republican Party, beginning in the late 1990s in Wisconsin, started to reverse this trend by requiring welfare recipients to work while the government continues to provide childcare assistance for a specified period of time. During the administration of President Bill Clinton in 1996, the federal government made these changes to the entire welfare system nationwide.

—*Cynthia Clark Northrup*

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Resumption Act (1875)

Monetary legislation that reversed inflationary government policies and restored specie payments (gold and silver) for the redemption of legal-tender notes.

Two views dominated the debate surrounding monetary policy in the decades following the Civil War. Conservatives feared depreciation (reduction of value of paper currency) and supported a return to specie—the use of gold and silver. Agrarian interests favored "cheap money" and wanted the

government to increase the amount of currency in circulation. The panic of 1873 and the congressional elections of 1874 refocused the government's attention on the issue of currency. Resumption, that is, the return to specie payment, was popular among Republicans, many of whom were wealthy Northern industrialists. Party leaders expected that the issue would be settled sometime in the future, but loss of Republican majorities in Congress resulted in a resolution of the matter before the new Congress convened. The Senate passed the Resumption Act of 1875, a compromise measure authored and guided through Congress by Republican Senator John Sherman of Ohio, the chair of the Senate Committee on Finance.

Adopted on January 14, 1875, the act expanded the issuance of national banknotes (issued by state banks) and provided for the elimination of greenbacks (paper currency that had been printed during the Civil War to pay for the conflict) from circulation. However, the act effectively established a system that enabled the federal government to contract the money supply. The law required the Treasury to mint silver coins to replace fractional paper currency and removed the limitations placed on the amount of notes national banks could issue. It called for reduction in the amount of government notes from $382 to $300 million and enabled the Treasury to retire greenbacks equivalent to 80 percent of the banknotes issued. In addition, it authorized the resumption of specie payments for retiring greenbacks to begin on January 1, 1879. Theoretically, new issues of notes would keep pace with retirements. However, implementation of the act decreased the availability of cash, and prices continued to fall, creating a deflationary effect. Opposition to the Resumption Act led to the creation of the National Greenback Party, which supported inflationary policies. Inflation would have lessened the value of money, meaning that back debts would be repaid with cheaper money.

—Peter S. Genovese

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See also Volume 1: Congress; U.S. Department of Treasury.

Revenue Tariffs

Taxes on imports for the purpose of generating revenue only, not for the protection of domestic manufacturers.

A deficiency in planning for revenue generation led to the failure of the Articles of Confederation, a loose confederation of the states (1777–1789) that operated until the new constitutional government took effect. Thus a major problem the framers of the Constitution dealt with was the ability of the proposed federal government to generate revenue. Delegates to the Constitutional Convention agreed that Congress should have the power to tax but restricted tariffs to imports only. The first tariff, passed in 1789, placed a 5 percent duty on most imported items, but luxury items such as wines, distilled spirits, and tea carried a rate as high as 50 percent. An increase of 2.5 cents a gallon on molasses was also included in the first tariff. Congress passed the tariff to generate income to retire the Revolutionary War debt and to provide funds for the fledgling government. In 1790, Congress increased the rates by 50 percent, raising the average duty to between 7 and 10 percent ad valorem (rates based on the value of the goods). Although the duty on hemp decreased, the rate on steel increased.

By 1794, Secretary of the Treasury Alexander Hamilton reported that the government needed $24 million to cover losses from discontinued trade with Great Britain, pay current debts, and provide funds for General Anthony Wayne's army, which was fighting the Indians in the Ohio Valley. In addition to increasing rates on everyday items such as coal and salt, Congress also passed excise taxes (taxes on the manufacture or distribution of certain nonessential goods) on carriages, auctions, manufactured snuff, and sugar. Two years later, Congress approved further increases on a larger list of items including a 10 percent rate on sugar, molasses, tea, cocoa, velvet, and muslin. The high rates on wines, distilled spirits, and tea remained at that level, but Congress agreed that by 1797 the rates would decrease.

Before the Tariff of 1816 was passed, Congress twice increased rates to cover the cost of wars. In 1804 all duties increased by 2 percent to cover expenses associated with fighting the Barbary pirates. In 1812 rates doubled to pay for the cost of the War of 1812.

Each of these tariffs generated revenue for the government, which, however, continued to run a deficit. After the War of 1812, the United States experienced a period of prosperity that resulted in more proceeds for the government. At the same time, Congress decided to pass the first of a long series of protective tariffs designed to encourage domestic manufacturing.

—Cynthia Clark Northrup

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See also Volume 1: Protective Tariffs.

Robber Barons

Pejorative term for wealthy industrialists apparently first employed by Carl Schurz, editor of the *New York Evening Post,* in a speech at Harvard University in 1882.

The term *robber barons* is part of a vociferous debate about the characters and motives of America's leading nineteenth-century industrialists. Historians question whether these men, such as the premier oilman John D. Rockefeller (1839–1937) or financier and railroad magnate Jay Gould (1836–1892), operated simply as monopolists or whether in spite of their faults they acted as the builders of America's industrial might with its attendant high standard of living for the wealthy made possible by the early twentieth century. Rockefeller, for instance, was painted in unflattering colors in

Henry Demarest Lloyd's *Wealth against Commonwealth* (1894) and Ida M. Tarbell's *The History of the Standard Oil Company* (1904). Allan Nevins, though, in *Study in Power: John D. Rockefeller: Industrialist and Philanthropist* (1953), presents Rockefeller in a basically sympathetic light. Much the same has happened for Jay Gould, who was once regarded as the prototype of a robber baron. Matthew Josephson in *The Robber Barons: The Great American Capitalists, 1861–1901* (1934) castigated Gould without mercy. Undaunted, however, by Josephson's marshaling of evidence against the man, Julius Grodinsky in *Jay Gould: His Business Career, 1867–92* (1957) defended him in important respects. This change in perception occurred after the large monopolies had been dissolved by order of the Supreme Court during the Progressive Era (1900–1920).

—*Keith L. Miller*

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See also Volume 1: Carnegie, Andrew; Rockefeller, John D.

Rockefeller, John D. (1839–1937)

Leading nineteenth-century industrialist and philanthropist who made his fortune in the oil industry.

John D. Rockefeller was born in 1839 to William A. Rockefeller and Eliza Davison at Richford, New York. His father, an itinerant businessman, often traveled away from home, and John developed a closer relationship with his mother, a devout Baptist. She instilled in the boy values of ethical conduct including discipline, thrift, and a belief in hard work.

Rockefeller put his upbringing to good use. After studying at Folsom's Commercial College in Cleveland (his family had moved to Ohio in 1853) and following a six-month job search, Rockefeller began his business career in September 1855 working as a clerk and bookkeeper in a wholesale commission house, which sold securities to dealers at wholesale prices. In 1859 he resigned from this position and, with a loan from his father, formed a partnership with Maurice B. Clark. From their commission house, the two men diversified into oil refining in 1863. At that time Samuel Andrews, an expert in refining crude, joined them. Rockefeller soon bought out Clark's interest and entered the oil industry full time. In 1864 Rockefeller married Laura Celestia Spelman, and the couple had four children. In 1867 Henry M. Flagler joined Rockefeller's firm, which they reorganized as Rockefeller, Andrews & Flagler. By 1870 the partnership had become Standard Oil of Ohio.

Beginning with refining, Rockefeller soon added the transporting of oil via pipelines, especially with the purchase of United Pipe Lines in 1877. He entered the production end of the business in 1889 with the acquisition of the Ohio Oil Company. From those origins and along with the establishment of the Standard Oil Trust in 1882, Rockefeller began to amass a great fortune, which peaked at $900 million in 1913. In 1911, the Supreme Court ordered the Standard Oil trust dissolved into smaller companies and forbade the continuation of the same board of directors for each smaller company formed. Much of the wealth (some $540 million) amassed by Rockefeller went into charities and his philanthropic foundations, particularly the Rockefeller Foundation. He created the foundation in 1913 after Andrew Carnegie convinced him to donate part of his wealth to quiet critics and socialists who might attempt to take it all by altering the U.S. economic and political system. Rockefeller died in 1937 at Ormond Beach, Florida.

—*Keith L. Miller*

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See also Volume 1: Robber Barons; Standard Oil.

Rolfe, John (1585–1622)

First cultivator of marketable tobacco in Virginia.

John Rolfe was responsible for the development of a cash crop in the Virginia colony; he cross-pollinated tobacco plants to create a mild blend highly desired in Europe. Rolfe, his wife, and infant daughter traveled onboard the *Sea Venture* from England in 1609 and were stranded in Bermuda for almost a year with other settlers before being rescued by other ships of the Virginia Company—an event that inspired Shakespeare's *The Tempest.* Rolfe's wife and child died en route, and he arrived in the Virginia colony in 1610 a widower. The colony, meant to make profits for the Virginia Company, desperately needed a staple crop, but the tobacco grown by the region's Native Americans had a taste unfavorable in comparison to that grown by the Spanish in the Caribbean and Central America.

Between 1611 and 1612, Rolfe experimented with tobacco seeds smuggled from Spanish Surinam and developed a tobacco that, when tested in London, compared favorably with the Spanish product. In addition to being known for his work with tobacco, Rolfe also became famous as the husband of Pocahontas, whom he married in the spring of 1614 after she had converted to the Church of England and taken the name Rebecca. Rolfe and Pocahontas visited England in 1616 as part of a promotional tour on behalf of the Virginia

Company. Pocahontas contracted smallpox there and died, leaving Rolfe again a widower with a son, Thomas. After he returned to Virginia, Rolfe continued to plant tobacco. Virginia exported 20,000 pounds of it in 1617, and Rolfe was elected to the House of Burgesses, the colony's representative assembly. Rolfe died in 1622 after marrying for a third time, but the cause of his death, perhaps a devastating Indian raid that year, remains unknown.

—Margaret Sankey

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See also Volume 2: Trade Policy.

Roosevelt, Franklin D. (1882–1945)

Former governor of New York and thirty-second president of the United States, who served during the Great Depression and World War II.

Franklin Delano Roosevelt was born at Hyde Park, New York, on January 30, 1882, to James and Sara Delano Roosevelt. He graduated from Harvard University in 1904 and then studied at Columbia University law school before beginning his career as a lawyer. In 1905 Roosevelt married a distant cousin, Eleanor Roosevelt, who was the niece of former President Theodore Roosevelt. Together they had five children: Anna Eleanor, James, Elliott, Franklin D. Jr., and John A. Roosevelt. Both Franklin D. Jr. and John served terms in the House of Representatives.

Roosevelt began his political career in 1910 when he successfully ran for the New York Senate, where he gained a reputation as a reformer. In 1912 he supported Democratic candidate Woodrow Wilson for the presidency. Wilson appointed him as assistant secretary of the navy in 1913 and Roosevelt continued at that post until 1920, serving throughout World War I. In 1920 he ran as the Democratic vice-presidential candidate on the party ticket with James M. Cox, but they lost to Warren G. Harding and Calvin Coolidge. After he returned to New York, Roosevelt contracted polio, which left him crippled. He spent the next eight years working to regain the use of his legs and reemerged on the political scene in 1928, to win the governorship of New York. In 1932 he ran against Herbert Hoover, the incumbent Republican president. By this time, the country had been in a depression for three years.

President Franklin D. Roosevelt's approach to economic policy embodied both experimentation and pragmatism and was not a total break with Hoover's policies. The Roosevelt administration, for example, continued the Reconstruction Finance Corporation, which provided funds for banks and businesses so they could hire employees and invest in equipment. Both Roosevelt and his wife, Eleanor Roosevelt, had been admirers of Hoover in the early 1920s and had attempted to persuade Hoover to join the Democratic Party.

Franklin Delano Roosevelt came from old money. Indeed, the Delanos had made their initial fortune in the fur trade in the 1600s when New York was still New Amsterdam. Still, like his beloved cousin Theodore, Franklin D. Roosevelt did not worship money and thought little of the pursuit of wealth for its own sake. Roosevelt was no traitor to his class; he was a decent human being who had compassion for people and sought to ameliorate unnecessary suffering.

When Franklin D. Roosevelt became president of the United States in 1932 and intoned that "we have nothing to fear but fear itself," the Great Depression was in full swing. Unemployment stood at 25 percent of the workforce, and no suitable unemployment compensation program existed. During his famous first 100 days in office—which became something of a benchmark for his successors—he declared a banking holiday so that confidence in those vital institutions could be rebuilt. He also sent a torrent of legislative proposals to Congress, including legislation authorizing the creation of the Agricultural Adjustment Administration (to stabilize farm prices) and the National Recovery Administration (to coordinate industries, establish production quotas, and guarantee collective bargaining). The Supreme Court declared much of this early New Deal legislation, which was meant to restart the depressed economy, unconstitutional in 1935. The Court came around to the New Deal–style of thinking by 1937 and began upholding measures such as the National Labor Relations Act of 1935, which made it easier for labor unions to organize workers and to bargain collectively.

After declaring the banking holiday and taking other New Deal measures (including establishment of relief agencies such as the Civilian Conservation Corps, the Public Works Administration, and the Works Progress Administration) to get the nation's economy on an even keel, Roosevelt took steps to deal with some of the underlying causes of the Great Depression, for example, the rampant stock market speculation that had taken place in the 1920s. Emblematic of the problems on Wall Street was the fact that in 1938 the president of the New York Stock Exchange had been sent to Sing Sing, the penitentiary of the state of New York. Roosevelt signed legislation establishing the Securities and Exchange Commission to monitor and regulate the stock market and appointed Joseph P. Kennedy, later ambassador to Great Britain, as its first director. Following Kennedy in that position was William O. Douglas, who went on to serve on the U.S. Supreme Court for 36 years.

The influence on Roosevelt of economist John Maynard Keynes, with his emphasis on the utility of budget surpluses and deficits, is doubtlessly overstated. For one thing, much of Keynes' most influential work was not published until after Roosevelt had already taken action. Roosevelt's greatest economic miscalculation was probably his overconcern with deficit spending (in which the government spends more than its revenue) while the economy still operated far under capacity in the mid-1930s. By striving to reduce the deficit, he contributed to and perhaps unnecessarily caused the recession of 1937 and 1938. Putting people to work in productive pursuits became one of his most important

goals, and he achieved this via the work of appointees Harold L. Ickes of the Works Progress Administration and Harry Hopkins of the Public Works Administration. Many of these organizations' projects still contribute to the strength of the U.S. economy, from the three original buildings on the campus of McNeese State University in Lake Charles, Louisiana, to the Riverwalk in San Antonio, Texas. These facilities continue to be used and have generated income for their respective communities through employment, fees, and tourism.

In foreign relations, Roosevelt, who blamed the high tariff rates established by the Hawley-Smoot Tariff Act for the Great Depression, implemented a policy of tariff reductions on an individual basis with foreign countries. In 1934 Congress passed the Reciprocal Trade Agreement Act, which allowed the president to reduce tariff rates by up to 50 percent for countries that would reduce tariff rates on American imports. Roosevelt also initiated the Good Neighbor Policy with Central and South America in an effort to open trade within the Western Hemisphere. He enjoyed less success in economically depressed Europe, where Adolf Hitler was already in control of Germany. When World War II broke out, Roosevelt tried to maintain American neutrality, which was required under the Neutrality Acts of 1935 and 1936 forbidding the sale of arms or the lending of funds to belligerent nations. By 1937 the acts were amended to allow for a "cash-and-carry" policy that required any nation at war that purchased U.S. goods to pay cash and to carry the goods on their own ships, not American ships that could be attacked.

After the fall of France and the bombing of England by Germany, Roosevelt implemented a new program called Lend-Lease that allowed the British and Russians to obtain goods without paying for them immediately. By that time the United States was on the verge of entering the war. On December 7, 1941, Japan attacked Pearl Harbor and the United States declared war on Japan. Funding of the war effort included the sale of war bonds and rationing at home. Roosevelt, a proponent of Keynesian economics (which called for deficit spending when necessary) later in the Great Depression, successfully coordinated business production and military requirements. As the war neared its conclusion in late 1944, the Roosevelt administration arranged for an economic conference held at Bretton Woods, New Hampshire, to discuss the postwar international economic system. The goal was to create a stable international system that would reduce the risk of future wars. Roosevelt also worked to lay the foundations for the United Nations.

On April 12, 1945, Roosevelt died in Warm Springs, Georgia, just a few weeks before Germany surrendered. Although he did not live to see the results of his efforts, the Bretton Woods system (which included the creation of the International Monetary Fund) and the United Nations served as the two principal international stabilizers of the postwar period.

—*Henry B. Sirgo*

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Roosevelt, Theodore (1858–1919)

Hero of the Spanish-American War; vice president under the twenty-fifth U.S. president, William McKinley; twenty-sixth president; leading Progressive; and groundbreaking conservationist.

Mark Hanna, the legendary moneyman in Republican Party politics around 1900, suggested that the rambunctious Theodore Roosevelt be put in the innocuous position of vice president on the ticket with William McKinley, who was elected president in 1901. Roosevelt had been the governor of New York from 1898 to 1900. He was well known by Americans because during the Spanish-American War, he had played a major role in taking the Philippines—as assistant secretary of the Navy in 1897 and 1898, he had ordered U.S. Commodore George Dewey to engage the Spanish fleet in the Philippines in the event of a war. He resigned his government position to form the Rough Riders, a volunteer unit, and gained a reputation as a war hero during the Spanish-American War (1898). Roosevelt became president in September 1901 after McKinley was assassinated by an anarchist at the Buffalo Pan-American Exposition.

Theodore Roosevelt transformed the office of the presidency and the nation's economy. He held a stewardship theory of the presidency, believing that the president should do all he can to promote the public's cause, save that which is prohibited by the U.S. Constitution. Roosevelt's initiatives resulted in the construction of the Panama Canal, pure food and drug legislation, the Tillman Act prohibiting corporate contributions to political campaigns (but which failed to limit personal contributions), trust-busting of monopolies, and a tremendous expansion of protection afforded to the nation's lands and forests. Roosevelt's vigorous use of executive orders to protect forests established a precedent used by other presidents to engage in economic environmental policymaking that restricted the sale and use of national lands. Franklin D. Roosevelt's New Deal (with its emphasis on government actively pursuing the public good) was greatly influenced by Theodore Roosevelt's Square Deal (which was based on corporate limitations on monopolistic activities, consumer protection, and conservation of natural resources for the benefit of the public). Roosevelt signed the Antiquities Act of 1906, which protected American historical and archaeological sites. It was invoked most recently in 1996 by President Bill Clinton to protect the Grand Staircase–Escalante National Monument in Utah.

After serving as president from 1901 to 1908, Roosevelt left office and went on safari with his son Kermit. William Howard Taft, Roosevelt's hand-picked successor, won the

election of 1908, and Roosevelt believed Taft would continue the policies that he had implemented. However, during Taft's administration, two events transpired that created a rift between the two men. First, Roosevelt had advised Taft to avoid raising the issue of the tariff, but Taft called Congress into special session immediately after becoming president to address the issue. After Congress passed the Payne-Aldrich Tariff Act of 1909, Taft praised the measure as the best bill ever passed by Republicans—even though many in the party opposed the measure. The second issue involved one of Roosevelt's appointments. Roosevelt believed that the forestry department should be under the direction of a qualified individual who would use scientific management principles to protect the nation's forests. He chose Clifford Pinchot to head the department. During the Taft administration, Pinchot discovered that Secretary of the Interior Richard Ballinger had failed to investigate a fraudulent coal claim by a company on government lands in Alaska. He reported this to Taft, who did nothing. Pinchot then mentioned it to a reporter, who ran a story about the illegal mining, and Taft fired Pinchot for insubordination. Although Congress later exonerated him, Pinchot did not get his job back. The Ballinger-Pinchot controversy and the tariff issue led Teddy Roosevelt to seek the Republican nomination again in 1912. However, the Republican Party renominated Taft. Roosevelt then formed the Bull Moose Party, thereby splitting the Republican vote and ensuring the election of the Democratic candidate Woodrow Wilson.

Evidence of Teddy's greater ability to appeal to mass audiences manifested itself when, while settling a border dispute between the states of Louisiana and Mississippi in 1901, he refused to shoot a bear officials had tied to a tree for Roosevelt's "hunting" pleasure. A true sportsman, he refused to take unfair advantage of an animal that had been tied up. The teddy bear immortalizes this action. Roosevelt wrote a serious history of the American West and served as president of the American Historical Association following his presidential term.

—Henry B. Sirgo

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See also Volume 1: Conservation; Panama and the Panama Canal; Protective Tariffs; Pure Food and Drug Act.

Rule of 1756

British naval doctrine that was the basis of Britain's definition of legal trade between neutrals and belligerents and the source of growing hostilities between England and the United States in the early 1800s.

The Rule of 1756, a British naval doctrine, emerged in a new commercial and imperial trading situation. During the Seven Years' War in the mid-eighteenth century, France could not supply its West Indian colonies in the face of British naval superiority, and so it relaxed its state monopoly on colonial trade and officially opened French ports to foreign ships. Britain countered this action with the Rule of 1756, which stipulated that no trade closed to neutrals in a time of peace could remain opened in a time of war. According to the English, this self-serving doctrine legitimized their seizing of neutral vessels trading with French possessions, because they claimed that trade prohibited by municipal law in peace should be prohibited by international law in war.

When new hostilities between England and France emerged in the wake of the French Revolution (1789–1799), Britain regularly extended the limitations placed on neutral shipping and exceeded the original dictates of the Rule of 1756. Although the extension of this doctrine was aimed more at northern European nations than at the United States, the new measures drastically affected American shipping. In May 1793, Britain issued an Order in Council that blockaded continental Europe, prohibiting the carrying by any country of certain foodstuffs. In November of that year, Parliament extended the order to prohibit all neutral trade between France and its colonies. This course of action culminated with the Orders in Council of November 11, 1810, which blockaded all ports under French control. The new interpretations of the Rule of 1756 placed British naval forces at odds with American commercial shipping. Numerous seizures of U.S. vessels and cargoes and other abuses resulted, which increased tensions and eventually led to the War of 1812.

—Peter S. Genovese

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See also Volume 1: Embargo of 1807; Non-Importation Act; Non-Intercourse Act of 1809; War of 1812.

Rural Credit and Development Act of 1994

Legislation that expanded the role of the Farm Credit System (FCS) in rural areas.

By the 1990s, in the aftermath of the 1980s farm crisis during which low farm prices and high interest rates caused the loss of many family farms, younger farmers had left the land and the average age of rural citizens was in the sixties. Many rural areas had become poverty zones. The decrease in population and businesses also led to a crumbling tax base and infrastructure. In an effort to revitalize rural America and attract more young people into agricultural production, Congress passed the Rural Credit and Development Act of 1994 (HR 4129), which relaxed Farm Credit System (FCS) provisions regarding rural housing loans, enabling more people to qualify for them. In areas where the population numbered 2,500 or less, these loans could cover up to 85 percent of a home's appraised value. Also, by waiving the requirement that services by rural and agricultural businesses must be performed on the farm, it expanded these businesses' eligibility for loans. This allowed a host of companies that provided in-shop services to qualify for loans.

Congress designed the act to encourage local banks to op-

erate more liberally in their lending policies to new businesses by authorizing the FCS to purchase all eligible loans. This not only decreased the risk to lending institutions, but it also provided more capital for loans in these areas. For the first time, rural communities also became eligible for FCS loans to finance community projects. Banks liberalized their lending policies to include local businesses that provide goods and services if such a loan would directly benefit a farm cooperative. Finally, rural water systems and power generating stations also qualified for FCS lending under the new rule. Rural borrowers and communities have benefited from expanded FCS lending activity and from access to FCS funds by rural banks.

—T. Jason Soderstrum

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See also Volume 1: Farm Credit System Reform Act of 1996.

Rural Electrification Administration (REA)

Government-subsidized program to provide electricity to rural areas in the United States.

Beginning in the 1880s and through the 1920s, urban areas of the country moved from gas and coal energy to electric power. Industries that had been dependent on rivers for hydropower were able to move to other locations. Manufacturers began producing household goods such as refrigerators, washing machines, radios, telephones, and hot water heaters. As the standard of living increased in the metropolitan areas, a growing disparity appeared between rural and urban areas. Electric companies resisted cries for service from throughout the countryside, claiming that the low return on investment could not justify the high cost of capital required to hook rural residents to the electrical grid—that is, it would cost more than the consumer would be willing to pay. Several states including New York tried to establish programs that would encourage low-cost hydroelectric power, but the initiatives failed as states battled economic difficulties brought on by the Great Depression. When Franklin D. Roosevelt, the former governor of New York, became president in 1933, he appointed engineer Morris L. Cooke (who headed the Power Authority of the State of New York when Roosevelt was governor) to investigate the feasibility of a federal program to build electricity cooperatives in rural areas. In a report the following year, Cooke predicted that electricity could be provided by scattered small generating plants in rural areas at a cost of $400 per farm. Roosevelt signed Executive Order 7037 creating the Rural Electrification Administration (REA) on May 11, 1935, and Congress subsequently appropriated $410 million for the program. Electricity cooperatives received funds at the same rate of interest as U.S. loans (it was later changed to a fixed 2 percent rate), with members repaying the loans over a period of 10 to 25 years. By the end of 1938, more than 350 cooperative electrical generating plants had been constructed, and they had begun to provide electricity to 1.5 million farms. Over the next two decades, most farms joined the system. The REA later became responsible for programs that provided telephone, and most recently Internet, service to rural areas. In 1994 the REA became part of the Rural Utilities Service, which Congress created and made part of the U.S. Department of Agriculture.

Of all the legislation passed under Roosevelt's New Deal (his policy of using the government to assist people during the Great Depression), the REA proved the most successful and least controversial. Throughout its existence, the REA helped to establish 930 cooperatives that continue to supply 11 percent of Americans with electricity. Congress appropriated $57 million in federal loans to these nonprofit groups and in the process increased the standard of living for farmers and encouraged further agricultural development.

—Cynthia Clark Northrup

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See also Volume 1: Agricultural Policy; Great Depression; Roosevelt, Franklin D.; Volume 2: Agricultural Policy.

S

Schecter Poultry Corp. v. United States (1935)

"Sick chicken case" in which Supreme Court struck down the National Industrial Recovery Act, the legislative backbone of the New Deal.

During the Great Depression when Congress and President Franklin D. Roosevelt began implementing New Deal reforms to relieve individual and corporate economic problems, the Supreme Court's perception of congressional power under the Constitution's commerce clause was ambiguous. The issue hinged on the relationship between the regulation of intrastate business activity and the role of interstate commerce. The constitutional regulation of trade, reserved to the states according to the Tenth Amendment, became a source of judicial dispute between the Court and the New Dealers.

The Court called into question the validity of the National Industrial Recovery Act (NIRA), which Congress passed in 1933 authorizing Roosevelt to adopt "codes of fair competition" for various trades or industries. Specifically, the codes regulated items such as minimum wages and prices, maximum hours, and collective bargaining agreements. In 1934, in order to enforce NIRA codes, prosecutors charged the Schecter brothers, Brooklyn poultry owners, with violating the wage and hour provisions of the New York Metropolitan Live Poultry Industry Fair Competition Code. A lower court convicted them even though the vast majority of poultry sold in New York came from other states; Schecter Poultry brought the chickens to New York City but resold its stock exclusively to local dealers. The Schecters appealed, and the case eventually made its way to the Supreme Court.

On May 27, 1935, the Court rejected the government's arguments that the Schecters' activities fell within the "stream of commerce" and, though completely local, "affected commerce." In rejecting the government's arguments, the Supreme Court held the NIRA unconstitutional as applied to *Schecter.* The Court ruled that the Schecters' activities were not within the "current" or "stream" of commerce "because the interstate transactions ended when the shipments reached the Schecters' New York City slaughterhouses." Congress therefore had no authority to regulate their business because it was intrastate. The Court also stated that the Schecters' actions had an "indirect" effect on commerce—the company's "wage and price policies might have forced interstate competitors to lower their prices," but the actual "impact was much too indirect to allow for congressional control." The Court found that the Schecters' business occurred within the legal parameters of intrastate commerce and that the federal government "had no authority to regulate working conditions in the firm." Justice Benjamin Cardozzo, expressing the unanimous 9-to-0 decision, stated that the NIRA's legislative power operated as "delegation running riot."

Roosevelt appeared shocked and incensed. He expressed anger at liberal jurists like Cardozzo and Louis Brandeis, who had voted with the conservative members of the bench. The Court's narrow interpretation of the commerce clause destroyed Roosevelt's industrial recovery program and led him to proclaim that the country would become "relegated to the horse-and-buggy definition of interstate commerce." The Roosevelt administration had to reshape the New Deal as a result of the decision. Congress passed a new series of legislative enactments to conform to *Schecter.* Early in his second term, and still smarting from *Schecter,* Roosevelt sent a special message to Congress asking for an enlargement of the Court from 9 to a possible 15 members. Despite his arguments for change, Roosevelt's own party in Congress did not support the reorganization plan. The public, as well, did not endorse the proposal out of profound respect for the delicate balance in our constitutional system. The court-packing scheme died and so, too, did Roosevelt's attempt to restore completely the NIRA approach to government-business relations.

—*Charles F. Howlett*

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School Busing

Controversial process of collecting children by bus from far-flung areas and driving them to a central school, used first to consolidate schools and capture efficiencies of scale and later to desegregate public schools and promote racial integration.

Policymakers have long sought to standardize education while cutting government expenditures per student. The lack of technological innovation and physical infrastructure in transportation, however, made school consolidation impossible until the 1930s. Since that time the number of schools and school districts has decreased by 67 and 91 percent, respectively, while the number of students has risen by 83 percent. Busing not only enabled this consolidation, it promoted it. States often passed laws consolidating schools at the same time as they passed laws to provide public funds for pupil transportation. School busing thus mollified rural critics of school consolidation. Economies of scale were captured in regard to both physical infrastructure (school buildings) and labor (teachers per student).

School busing later played a seminal role in desegregating schools after the Civil Rights Act. In this context, busing transferred children from all-black areas into white schools and white children into black schools to achieve a court-ordered ratio of black to white children. Symbolically tied to the bus boycotts, school busing became one of the most visible aspects of desegregation. The U.S. Supreme Court in 1971 backed the use of school busing as a policy tool to promote the consolidation and desegregation of schools.

The expansion of school busing has come at both an economic and social cost. Public expenditures on busing have risen enormously over the years, now costing more than $10 billion annually. Currently 60 percent of all schoolchildren ride the bus to school, covering 21 million miles every day on 400,000 buses. Rural schools spend a disproportionate amount of money on busing, while rural students spend far more time commuting to school than their suburban and urban counterparts. The influence of school consolidation and busing on communities and students is receiving growing attention from academics and policymakers. After whites fled to the suburbs to avoid school busing of their children to inner-city schools, the courts rejected an argument that would have allowed busing across district lines. With predominantly minority enrollment in big city districts, busing continued, but its intended effect was reduced. In 2003 school busing has become less of an issue for desegregation, with judges such as Barefoot Sanders (U.S. District Court of the Northern District of Texas) removing court orders for busing in Dallas, Texas.

—W. Chad Futrell

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See also Volume 1: Civil Rights Movement; Education; Volume 2: Education.

SDI

See Strategic Defense Initiative.

Securities and Exchange Commission

Government commission created by the Securities and Exchange Act of 1934 designed to monitor and regulate the sale of securities.

The Securities and Exchange Commission (SEC) consists of five members appointed by the president and confirmed by Congress who enforce several acts designed to protect investors and to bolster confidence in the financial markets. At the height of the Great Depression, Congress passed the Securities Act of 1933. As a consequence of the stock market crash of 1929 and the subsequent Great Depression, the act required the full disclosure of all information to the SEC before registration for the sale of securities would be granted. If the SEC found that the firm omitted information or did not disclose sufficient information, then registration would be denied. The following year Congress passed the Securities Exchange Act of 1934, which required more disclosures from companies and was designed to prevent unfair practices in the U.S. stock exchanges. It also placed all exchanges under the authority of the SEC. In 1935 Congress charged the SEC with responsibility for enforcing the Public Utility Holding Company Act of 1935. The SEC then monitored all financial practices of electric and gas utilities but did not determine utility rates. The SEC was also charged with enforcing the Trust Indenture Act of 1939, the Investment Company Act of 1940, and the Investment Advisers Act of 1940. Congress also required that the SEC act as a participant in bankruptcy cases under the National Bankruptcy Act.

—Cynthia Clark Northrup

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See also Volume 1: American Stock Exchange; Great Depression; Nasdaq; New Deal; New York Stock Exchange; Roosevelt, Franklin D.

Servicemen's Readjustment Act (G.I. Bill of Rights) (1944)

Legislation providing assistance to veterans returning to civilian life after military service during World War II.

President Franklin D. Roosevelt signed the Servicemen's Readjustment Act on June 22, 1944. The legislation emerged from Congress after months of intense debate and parliamentary maneuvering. Opposition in Congress came from those concerned about the possible effects the bill might have on admissions standards at American institutions of higher education. The eventual success of the legislation can be attributed to the American Legion, which publicized the legislation—both to veterans who would benefit from the bill and to the pubic—from its introduction in January 1944 until Congress passed it on June 13, 1944.

The bill provided five benefits to veterans: education and training; guaranteed loans for a home, farm or business; unemployment pay of $20 a week for up to one year; job-finding assistance; and review of dishonorable discharges. The act also called for the building of additional Veterans Administration hospitals. To be eligible for education benefits, a World War II veteran had to have served 90 days or more after September 1940 and had to be honorably discharged. A veteran received one year of full-time education plus a period equal to his or her time in service up to a maximum of 48 months.

The educational institutions received up to a maximum of $500 a year for tuition, books, fees, and other costs for each veteran admitted to educational programs. The Veterans Administration paid an unmarried veteran an allowance of up to $50 a month; veterans with dependents received more.

The World War II GI Bill program ended in July 1956. The program changed American higher education dramatically by increasing the number of students. In the peak year of 1947, veterans accounted for 49 percent of all college enrollments. Almost eight million veterans received training at a total cost to the government of $14.5 billion. The program helped control the unemployment rate after demobilization and allowed veterans to enter the labor market with additional skills.

—John David Rausch Jr.

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See also Volume 1: Education; World War II; Volume 2: Education.

Seward, William (1801–1872)

American statesman, radical antislavery politician, and secretary of state in the 1860s who paved the way for active foreign expansion of the United States.

Born May 16, 1801, in Florida, New York, William Henry Seward graduated from Union College in 1820 and commenced law practice in Auburn, New York, in 1822. During the 1830s he got involved in politics as a member of the Anti-Masonic Party and later as a Whig. William Seward served as a state senator in New York from 1830 to 1834. As a governor of New York from 1839 to 1843, he proposed a costly internal improvement program and advocated tax support for parochial schools. As conflict grew between the free North and slave South, he also endorsed radical antislavery principles, uncompromisingly stressing the socioeconomic over the human rights objections to slavery and emerging as a leader of the antislavery wing of the Whigs.

Seward carried his adamant antislavery stance into the U.S. Senate in 1849 where he served until 1861. He steadily contested compromise schemes of the political and economic settlement of the problem of slavery—such as the Missouri Compromise of 1820 and the Kansas-Nebraska Bill of 1854—and strongly supported the admission of California into the union as a free state without any concessions to the slavery system. This activity propelled him to the leadership of the newly formed Republican Party (1855), although his attempts to secure his party's nomination to the presidency during the campaigns of 1856 and 1860 proved unsuccessful.

In March 1861 Seward became secretary of state under President Abraham Lincoln. As a chief of American diplomacy during the Civil War, he advocated a strong and active foreign policy. He skillfully and firmly outmaneuvered attempts by the Confederacy to use economic leverage—particularly the dependence of the English and French textile industries on Southern cotton—to bring about intervention of England and France into the war on the Confederate side. Seward strongly advocated active U.S. expansion in the Western Hemisphere, Asia, and the Pacific, using mainly economic and commercial means. He supported rapid economic development of the American West and high tariffs to protect the growing domestic industry from European markets, and he actively promoted expansion of modern communications such as telegraph and railroads. Also, in 1868 and 1869, Seward unsuccessfully tried to obtain rights for the United States to built a canal across the Panamanian Isthmus. His ambitious projects to acquire key bases in the Caribbean and the Pacific to control trade routes there and annex some territories (including the Danish West Indies, Hawaii, and Alaska) received much serious opposition in Congress at that time as needless and extravagant. Congress rejected all of them except for the Alaska purchase, an agreement labeled "Seward's Folly" by his political opponents. William Seward died in Auburn, New York, on October 10, 1872.

—Peter Rainow

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See also Volume 1: Alaska.

Share Our Wealth Plan

Brainchild of Huey P. Long, popular Democratic Louisiana governor and U.S. senator, who proposed his plan to alleviate poverty and the Great Depression.

Dissatisfied with President Franklin D. Roosevelt's efforts to end the Great Depression, Huey P. Long developed his Share Our Wealth Plan to equalize the distribution of wealth in the United States. The core of Long's plan involved the government confiscating any surplus of personal wealth over $5 million accumulated by the few and redistributing it to the poor. Goods would also be redistributed: If someone had two houses, they would give one to someone who did not own a house, and someone with two cars would give one away. The plan also guaranteed nonworking families an annual income of $2,000 to $3,000 and working families at least $5,000. Further, Long proposed to shorten the workweek to 30 hours and the work year to 11 months, thereby increasing the need for workers. Other proposals included forgiveness of debt, free education, and a pension for those over age 60 without taking paycheck deductions. Procuring wealth from the very rich was to finance all of Long's proposals.

Although the plan had mass popular appeal, it also had its critics. Economist and politicians called the plan Marxist. Others claimed that Long designed the whole plan as a ploy to win presidential votes. Long defended his program at every chance offered, and popularity for the plan grew as Long's charisma, careful manipulation, and ardent defense of the plan reached more people. Share Our Wealth clubs began to form, and the movement gained significant momentum until Long was assassinated in 1935.

—Lisa A. Ennis

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See also Volume 1: Long, Huey; New Deal; Roosevelt, Franklin D.; Share Our Wealth Society.

Share Our Wealth Society

Plan by Huey P. Long that gained currency during the Great Depression proposing redistribution of wealth.

Early in 1934, Louisiana Governor Huey P. Long made known his ideas about wealth and poverty, which became known as the Share Our Wealth Plan. The plan called for the redistribution of wealth from the very rich to the poor. On February 23, 1934, Long announced that the fight to equally distribute wealth would be conducted through the Share Our Wealth Society, a national political organization. With the motto "Every man a king," the society endeavored to promote Long's program of wealth redistribution. Long was elected to the U.S. Senate in 1931.

The first Share Our Wealth clubs were organized in Long's home state of Louisiana and were usually formed by Long's associates. Long used the radio to promote his plan and society. Supporters began flooding his office with requests for information on how to form a club. Long's staff eventually outgrew the allotted space given to senators, and he had to rent adjoining offices to accommodate extra clerical help just to keep up with demand. Each person who wrote in received a pamphlet entitled *Share Our Wealth: Every Man a King*, a copy of Long's autobiography, and a subscription to *American Progress* magazine, Huey Long's press.

Long's office reported that there were 7,682,768 names on the roster of club members. Long publicly supported African American membership in the program, and white supporters formed the first African Americans clubs in Louisiana. Most of the clubs formed in the South, followed by the north central states; 17 clubs were even formed in Ontario, Canada, by people who heard Long's radio addresses. After Long's assassination Gerald Smith, a longtime Long associate, tried to keep the movement alive, but without Long the plan and clubs dwindled. By the summer of 1936 the majority of the clubs had disbanded.

—Lisa A. Ennis

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See also Volume 1: Long, Huey; New Deal; Roosevelt, Franklin D.; Share Our Wealth Plan.

Shelley v. Kraemer (1948)

Important property rights and equal protection case decided by the U.S. Supreme Court in 1948.

In 1911, 30 of the 39 property owners in a St. Louis residential area signed an agreement that prohibited the conveyance of property to anyone not of the Caucasian race, specifically "people of Negro or Mongolian Race," for a period of 50 years. At the time the agreement was signed, African Americans owned 5 of the 57 parcels in the area, and African Americans had occupied one parcel since 1882. The Shelleys, who were African Americans, purchased their home in 1945 without knowledge of the restrictive agreement. The successors to the original signers brought suit against the Shelleys. The Shelleys won at the trial level but lost in the Missouri Supreme Court. The U.S. Supreme Court agreed to hear the matter along with a similar companion case from Michigan, *McGhee v. Sipes.*

A basic principle of the American economic and political system involved private ownership of property. Property owners retained the right to set the terms, even discriminatory ones, for the sale of their property. However, even though these restrictive covenants were private agreements, the owners sought to enforce them in state courts. Under the Fourteenth Amendment, states cannot "deny to any person within its jurisdiction the equal protection of the laws" if state action is involved.

The Supreme Court held that the Fourteenth Amendment protected the owners' rights to "acquire, enjoy, own and dispose of property" and that the participation of the state in en-

forcing the restrictions was sufficient to bring the amendment into play. In effect, the Court ratified the validity of private discrimination but prevented the use of the state courts to enforce it under the equal protection clause. Because the state courts could not enforce the discriminatory residential agreements, landowners were not bound by them, and so *Shelley v. Kraemer* opened American neighborhoods to racial and religious diversity and served as a precursor to the Fair Housing Act of 1968.

—*Susan Coleman*

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Shelley v. Kraemer, 334 U.S. 1 (1948).

See also Volume 1: Fourteenth Amendment.

Sherman Anti-Trust Act (1890)

Act passed in 1890 that made monopoly and restraints of trade illegal.

In the United States a sharp conflict of opinion has existed over the relative merits of business monopolies. Many believe that government policy toward business monopolies has been something less than clear-cut and consistent. Even to the present day, the major thrust of federal legislation and policy has focused on maintaining and promoting competition.

Historically, the U.S. economy, steeped in the philosophy of free, competitive markets, has been a fertile ground for the development of a suspicious and fearful public attitude toward business monopolies. This fundamental distrust emerged following the Civil War when local markets widened into national markets as transportation infrastructure improved, resulting in the growth of big business. Increasing mechanization of production and increasingly widespread adoption of the corporate form of business enterprise were important forces giving rise to the development of trusts, or business monopolies, in the 1870s and 1880s. Trusts developed in the petroleum, meatpacking, railroad, sugar, lead, coal, whiskey, and tobacco industries, among others, during this era.

In certain industries—the oil and steel industries, for example—market forces failed to provide adequate control to ensure socially tolerable behavior on the part of the company. High tariffs eliminated foreign competition and economies of scale vanquished domestic competition, and workers, paid low wages, suffered as a result of this lack of competition. To correct this situation, two techniques of regulation were adopted as substitutes for or supplements to the market. First, in those few markets where economic realities preclude the effective functioning of the market (that is, where the market tends toward a "natural monopoly"), the United States established public regulatory agencies to control economic behavior—by setting utility rates, for example. Second, in most other markets, social control has taken the form of antimonopoly or antitrust legislation designed to inhibit or prevent the growth of monopoly.

Acute public resentment of the trusts, which developed in the 1870s and 1880s, culminated in the passage of the Sherman Anti-Trust Act in 1890. The act made monopoly and restraints of trade—for example, collusive price fixing or the dividing up of markets among competitors—criminal offenses against the federal government. Either the Department of Justice or parties injured by business monopolies could file suits under the Sherman Act. The courts could dissolve firms found in violation of the act, or injunctions could be issued to prohibit practices deemed unlawful under the act. Fines and imprisonment were also possible results of successful prosecution. Further, parties injured by illegal combinations and conspiracies could sue for triple the amount of damages. The Sherman Act seemed to provide a sound foundation for positive government action against business monopolies.

The case against business monopoly centers on the contentions that business monopoly causes a misallocation of resources, retards the rate of technological advance, promotes income inequality, and poses a threat to political democracy. The defense of business monopoly revolves around the point that interindustry and foreign competition, along with potential competition from new industry entrants, makes American industries more competitive than generally believed. Also, supporters believe that some degree of monopoly may be essential to the realization of economies of scale and that monopolies are technologically progressive.

The cornerstone of antitrust policy consists of the Sherman Act of 1890 and later the Clayton Act of 1914. In summary, the Sherman Act specifies that "Every contract, combination . . . or conspiracy in the restraint of interstate trade . . . is . . . illegal," and that any person who monopolizes or attempts to monopolize interstate trade is guilty of a misdemeanor. The only successful prosecution under the Sherman Anti-Trust Act in the nineteenth century occurred not against big business, but against labor unions during the Pullman Strike of 1894, when 100 percent of the railroad workers agreed to strike. In 1895 when the U.S. Supreme Court heard the case of E. C. Knight Co., the sugar producer—the most prominent use of the act against big business in the nineteenth century—the Court ruled that this company, although controlling up to 98 percent of the market, did not violate the antitrust law because competition still existed. During the administration of President Theodore Roosevelt (1901–1908), the government finally won 45 cases against big business by using the Sherman Anti-Trust Act; during the administration of President William Howard Taft another 90 cases were successfully prosecuted, including one against Standard Oil in 1911. Congress reinforced the Sherman Anti-Trust Act with the passage of the Clayton Anti-Trust Act, which included fines or imprisonment for individuals who violated the act.

—*Albert Atkins*

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See also Volume 1: Clayton Anti-Trust Act; Pullman Strike; *United States v. E. C. Knight Co.*; Volume 2: Labor; Volume 2 (Documents): Sherman Anti-Trust Act; Clayton Anti-Trust Act.

Sherman Silver Purchase Act (1890)

Late nineteenth-century act that authorized the U.S. Treasury to purchase a substantial amount of silver on a monthly basis.

During the post–Civil War period, the federal government attempted to take greenbacks (paper currency) out of circulation and restrict legal tender to gold only. A debate ensued as debt-ridden farmers and laborers fought to increase the money supply, thereby driving up inflation and decreasing the value of their debt. In 1890, during the administration of President Benjamin Harrison, Congress passed the Sherman Silver Purchase Act in which the government agreed to buy 4.5 million ounces of silver a month from silver miners in the West. Within three years a financial panic hit the country, and the gold reserve level dropped to a point that pushed the United States toward bankruptcy as foreign investors demanded payment for bonds in gold. President Grover Cleveland pushed in 1893 for the repeal of the act. He believed that foreign investors had stopped purchasing government bonds because they feared that the United States was abandoning the gold standard. The repeal of the act hurt western miners, southern and western farmers, and labor. These three groups found a common cause on the issue of silver and on that basis formed the Populist Party. Although the party disintegrated after the Spanish-American War because of its anti-imperialist position, the Progressives (reform-minded upper-class and upper-middle-class individuals) enacted the Populist Party's entire platform at the federal or state level over the next few decades.

—*Cynthia Clark Northrup*

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See also Volume 1: Clayton Anti-Trust Act; Pullman Strike; Volume 2: Labor.

Sinclair, Upton Beal, Jr. (1878–1968)

Journalist, novelist, and unsuccessful politician whose socialist views found expression in the best-selling book *The Jungle.*

Born in Baltimore, Maryland, in 1878, Upton Sinclair and his family moved to the East Side of New York City when he was ten. Four years later Sinclair entered the College of the City of New York, graduating with a bachelor's degree in 1897. He then attended graduate school at Columbia University. He had intended to study law, but he changed his mind in favor of literature and contemporary politics. He supported himself and paid for graduate study by writing juvenile novels. Although he did not receive a graduate degree, his love for literature and writing quickly found expression in the form of social protest.

The prolific Sinclair became one of the most widely read writers in the United States. He wrote more than 80 books, many of which focused on social and economic issues. He also wrote numerous pamphlets that he published himself. In 1902 he moved to Princeton, New Jersey, where he joined the Socialist Party. Strongly influenced by the social and economic changes occurring in modern, urban-industrial America, Sinclair used his literary skills as a crusader for economic justice. He became an effective propagandist of the Progressive movement to address social and economic problems in the first two decades of the twentieth century. Along with Ida Tarbell, Lincoln Steffens, Frank Norris, and Jack London (he and London founded the Intercollegiate Socialist Society in 1905), Sinclair kept company with a select group of writers President Theodore Roosevelt disparagingly called "muckrakers."

Sinclair spent seven weeks in Chicago investigating the unsanitary conditions in the meatpacking industry and wrote about it, his observations initially appearing in the Socialist periodical *Appeal to Reason.* His work proved so compelling that Doubleday, Page and Company published it in novel form as *The Jungle* in 1905. The book became an immediate best-seller, established Sinclair's literary immortality and eventually led to passage in 1906 of federal legislation—first the Meat Inspection Act and later the Pure Food and Drug Act. To Sinclair's dismay, however, the socialist propaganda of the novel, aimed at the atrocious working conditions and harsh treatment of the immigrant workers, went largely ignored in favor of the "vivid descriptions of unsanitary food handling, contaminated meat, and generally dirty conditions." In Sinclair's own words: "I aimed at the public's heart and by accident hit it in the stomach."

In subsequent years Sinclair wrote several other novels depicting the negative effects of capitalism on American society including *The Metropolis* (1908) about upper-class New York society and its derision of the poorer people, *The Moneychangers* (1908) dealing with the economic consequences of the panic of 1907, and *King Coal* (1917) a criticism of working conditions in the coal mines. A nonfiction work, *Profits of Religion* (1918), continued his condemnation of the economic pitfalls of capitalism. For a brief period, he had resigned from the Socialist Party over its antiwar position, but he returned because of his disillusionment with President Woodrow Wilson's post–World War I policies.

In the 1920s Sinclair moved to California, where he ran unsuccessfully for numerous state and federal political offices. In 1933 during the Great Depression, he organized a political campaign for the governorship popularly called "End Poverty in California" that focused on his lifelong belief that poverty was at the root of America's capitalistic and political failures. Sinclair took direct aim at the New Deal's inability to provide economic relief to the masses in California. Rather than placing the unemployed on relief, Sinclair urged that they receive the chance to produce for themselves by having the state purchase land on which they could grow their own crops and make their own products. Seeking broader appeal among state constituents, Sinclair ran on the Democratic ticket. But his advocacy of government-owned factories and insistence that laissez-faire capitalism hurt all groups cost him the election. Republican incumbent Frank Merriam won handily.

In his later years Sinclair continued publishing works critical of American economic society. The third volume of his

11-volume Lanny Budd series, *Dragon's Teeth* (1942), won the Pulitzer Prize. Near the end of his life Sinclair became less enthusiastic about the nature of political reform. Whether or not literary critics consider him a serious novelist or quaint writer, Sinclair's works have a strong sense of social justice and economic reform. He remains "one of the original missionaries of the modern spirit." When he was 90 years old, he died in Bound Brook, New Jersey, on November 25, 1968.

—*Charles F. Howlett*

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See also Volume 1: Pure Food and Drug Act; Roosevelt, Theodore.

Sixteenth Amendment (1913)

Amendment to the United States Constitution sanctioning an income tax.

The Sixteenth Amendment (1913) revolutionized funding of the federal government by giving Congress the power to "lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration." Once ratified, Congress wasted no time in exercising its authority, and the graduated income tax quickly became the nation's chief source of revenue.

The Sixteenth Amendment developed during the Progressive Era (1900–1920) as Americans' concern grew over fiscal and social issues. By the turn of the twentieth century, an expanding federal government had rendered obsolete many traditional sources of funds; tariff revenues would no longer pay for expanding government agencies and programs. At the same time, the general public had become increasingly uncomfortable with disparities of wealth created by industrialization. Reformers sought to reduce protective tariffs, perceived by many as harmful to the lower classes, as a revenue measure and increase financial contributions from wealthier individuals and corporations. Many powerful businesses and manufacturers who supported high tariffs argued that an income tax would undermine traditional American democracy and transform the United States into a socialist or communist society. In addition to this type of resistance, reformers also had to wrestle with the legal implications involved in proposing an income tax. In 1895 the U.S. Supreme Court had ruled in *Pollock v. Farmers' Loan and Trust Company* that an income tax not apportioned according to the population of each state was a direct tax that violated Article 1, Section 9, Clause 4 of the Constitution. Because any income tax proposal would also be subject to judicial review, it seemed to many that a constitutional amendment offered the best course.

Ironically, a group of conservative Republican members of Congress actually introduced the proposal that would lead to the amendment. In 1909 antitariff Republicans and Democrats in Congress, most from the Midwest, aligned themselves in support of an income tax bill as an attachment to the current tariff measure. Hoping to neutralize this legislation, the conservatives presented a constitutional amendment legalizing the income tax. They hoped it would lead to the defeat of the bill and, more importantly, they felt confident that the states would never ratify the amendment. President William Howard Taft supported the amendment, and the short-term conservative strategy proved successful. Still believing that the amendment would fail, Congress sent it to the states. To the surprise of many, over the next four years 36 states ratified the Sixteenth Amendment, making it part of the Constitution. With the amendment ratified in 1913, Congress immediately passed a new income tax law using a progressive rate system based on ability to pay. The tax imposed a 1 percent tax on individuals and corporations earning more than $4,000, with rates ranging up to 6 percent on incomes over $500,000. The revenue generated by these new measures helped finance U.S. participation in World War I, and the Sixteenth Amendment had long-range social, economic, and political consequences for the nation, with income tax rates reaching heights of 65 percent to 70 percent and debates about tax cuts occurring from the John F. Kennedy administration through the presidency of George W. Bush.

—*Ben Wynne*

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See also Volume 1: Protective Tariffs; Volume 2: Taxation.

Slavery

Ownership of humans as a labor force and cornerstone of the economy of the South until its defeat in the Civil War.

The first slaves arrived in North America from Africa in 1619. They helped cultivate and harvest crops such as coffee, tobacco, sugar, rice, and later, cotton. For the most part, slavery was unprofitable in the North, where smaller farms were cultivated by families themselves, and by the nineteenth century it had mostly disappeared from the North. The Constitution prohibited the importation of slaves after 1808, but in the 1850s Southerners began to discuss the reopening of the slave trade.

Although there were few slaves in the North during colonial times as early as the 1680s Samuel Sewall wrote a book called *The Selling of Joseph* in which he warned of the potential problems of slavery and encouraged those in the New

World to stop the practice before it became a formal institution. However, Northerners made few attempts to address the issue. In the 1830s, the balance of power in the Senate between free and slave states was threatened when Missouri applied for statehood as a slave state. Henry Clay, the Whig Speaker of the House of Representatives, negotiated the Missouri Compromise allowing the admission of Missouri as a slave state and Maine as a free state and establishing 36 degrees, 30 minutes latitude as the dividing line—all new states below the line would be slave states, and those above the line would be free states. That appeared to have resolved the issue until Texas won its independence from Mexico and applied for statehood in 1836. Northerners protested the extension of slavery and the admission of Texas as a slave state. During the 1830s several incidents involving slavery gained national attention. A ship carrying slaves left Virginia bound for New Orleans; the slaves took over the ship and landed at Nassau in the British Caribbean, where British authorities declared them free since slavery was illegal throughout the British Empire. American owners claimed the slaves were property obtained before the end of the slave trade in 1808 under the Constitution and should therefore be returned. The British refused, and no compensation was paid. In another famous case, the judge ruled in the *Amistad* trial in 1840 that the Africans on board the ship had been taken from Africa and therefore must be released because the slave trade had ended almost 30 years earlier.

Slavery became a frequent political issue during the 1840s and 1850s. During the Mexican-American War, Congress debated the Wilmot Proviso in 1846 and 1847, which would have required all new territory gained during the war to be free. The proviso was attached to an appropriations bill for military funding. Although the proviso never passed, the debate it sparked politicized the slavery issue: Northerners advocated the containment of slavery, and Southerners wanted to expand slavery to new territories. The Compromise of 1850 settled the issue temporarily, with California being admitted as a free state and Texas as a slave state. In 1850 Congress also passed a stronger Fugitive Slave Act that placed responsibility for returning runaway slaves with federal authorities instead of the states—many of which had passed personal liberty laws making it difficult for slaves to be returned to the South. To placate Northerners, Congress also passed a law that banned the sale of slaves in Washington, D.C.

The slavery issue emerged again as a national issue in 1854 when Stephen Douglas proposed the construction of a transcontinental railroad from Chicago to California. Southerners wanted the railroad to go from Atlanta to California along a southern route. To gain support for the northern route, Douglas proposed a repeal of the Missouri Compromise and advocated popular sovereignty, which would have allowed people in the new territories of Kansas and Nebraska (through which the railroad would run) to determine if their state would be free or slave. Both territories were located north of the Missouri Compromise line. Proslavery and antislavery forces engaged in fighting over Kansas. Kansas sent a proslavery constitution to Congress in 1858, and Congress returned it because of voting irregularities, requesting a second vote. The state constitutional convention then removed the proslavery clauses and the slavery advocates refused to participate since they believed the first election to be valid. A new constitution was drafted and sent to Congress in 1859; the House of Representatives approved it, and the Senate rejected it. After Southern states left the Union in December 1860 and February 1861, Congress finally approved the constitution and Kansas became a free state.

Between 1854 and 1860 the issue of slavery gained further attention. In a Senate race in Illinois, Republican candidate Abraham Lincoln and Democratic Senator Stephen Douglas engaged in several debates, during which Lincoln argued that slavery should not extend into new territories and that it was morally wrong. Southerners remembered his words during the election of 1860, and South Carolina threatened to leave the Union if he was elected president. It followed through on its threat. Southerners were also paranoid of Northern efforts to end slavery after John Brown's raid on Harper's Ferry, in which Brown, a white abolitionist from Kansas, attempted to seize weapons from the federal arsenal to arm slaves for an insurrection. The government prevented the insurrection but Southern fears continued to grow. While these events were transpiring, a few (fewer than 1,000) slaves managed to escape captivity through the Underground Railroad, a network of individuals who hid runaway slaves or assisted them to their freedom in the North or Canada.

The South considered that the perpetuation of slavery was necessary to support its agrarian civilization. During the Civil War, Vice President Alexander Stephens of the Confederate States of America described slavery as the "cornerstone of the Confederacy," whose plantation wealth was usually dependent on land and "property of persons." Senator John Calhoun, speaking in the U.S. Senate on December 27, 1837, argued that "domestic slavery . . . composes an important part of their [the South's] domestic institutions, inherited from their ancestors, and existing at the adoption of the Constitution." James Henry Hammond, governor of South Carolina and later U.S. senator, supported the economic necessity of the institution of slavery in his book *Cotton Is King*. In an 1858 speech in the Senate, Hammond argued that blacks constituted an inferior class that could perform the drudgeries of the Southern agrarian economy. Southerners believed that slavery allowed white slaveholders to pursue intellectual and cultural interests.

George Fitzhugh, in his 1850 pamphlet *Slavery Justified, by a Southerner,* argued that blacks benefited economically from slavery. He contended that they could not take care of themselves, but that their masters ensured that they were "well fed, well clad, have plenty of fuel, and are happy. They have no dread of the future—no fear of want."

Edmund Ruffin, one of the Southern Fire-Eaters (an organization of people who would rather eat fire than give in to the Northern antislavery position) and also the man who fired the first shot at Fort Sumter, which began the Civil War, argued extensively for the need for Southern slavery. Abolition, he believed, would destroy the South economically. In contrast with the economic system of the North and its "wage

slavery," Ruffin argued that the concept of "free labor" should really be called the "slavery of labor to want," because Northern workers received mere subsistence wages most of the time. Ruffin subscribed to the philosophy of the inferiority of the African slave. He also argued that Southern slaves enjoyed not only employment but also housing, comforts of family and health, and old age care. Ruffin did admit, however, that free laborers had more incentive to work hard and that slaves attempted to work only as much as was necessary to avoid being punished. Ruffin also noted that the North had the advantage of constant shiploads of immigrants adding to the labor pool.

Benjamin Morgan Palmer's "Thanksgiving Sermon, 1860" at the First Presbyterian Church in New Orleans, Louisiana, contended that Southern whites had received a "providential trust" to continue slavery as it existed. He reasoned that slavery supported the South's material interests and that the principle of self-preservation forced the South to continue it. He also argued that only a tropical race could survive working in the tropical climate of the South and that slavery was part of the social fabric of the South. Palmer further argued that if masters freed their slaves and transported them back to Africa, the slaves would starve rather than return to "their primitive barbarism."

Palmer argued that slavery benefited the North as well as the South, because the North had profited from the South's need for its products (textiles and iron, for example). Palmer also reasoned that the wealth of England and other countries had increased as a result of the products of Southern soil, because cotton (a duty-free product because it was domestic) was used in the textile mills.

During 1861 and much of 1862, the North did not fare well militarily and lost several battles. The South was able to use slaves to continue farming while the white masters fought in the war. Furthermore, the Confederate states had tried to work out alliances with Great Britain and France, which they believed needed Southern cotton for manufactured products, although the strategy backfired because of a glut on the English cotton market. President Abraham Lincoln developed a strategy that would strike a blow at the Southern economy with the Second Confiscation Act. This legislation, which passed July 17, 1862, freed slaves belonging to anyone who rebelled against the U.S. government. Previously Lincoln had attempted to strike a balance between the abolitionists who sought the abolition of slavery and those in the North and the Union border states of Kentucky, Missouri, Delaware, and Maryland who opposed freeing the slaves. Lincoln's role in the war had been to save the Union, and to bring that about he initially accepted the compromise on the slavery issue by signing the second Confiscation Act (1862), but the act could not be enforced because Union forces did not control any of the South. In the latter part of 1862, Lincoln began drafting his Emancipation Proclamation, which would abolish slavery in rebellious states under Union control. He signed the document January 1, 1863, in an effort to block England's support of the Confederacy—support that seemed imminent. After the adoption of the Emancipation Proclamation, England could no longer afford to support the Southern cause. It announced its opposition to slavery, and said it could not support a regime dedicated to upholding this institution.

During much of the war slaves had been fleeing the Confederate states, but after the Emancipation Proclamation, the number of slaves escaping to the North increased. Blacks fought in the Northern armies, strengthening the Northern military, which by then had begun to experience a manpower shortage.

By autumn of 1863, the Confederate economy had started to disintegrate. Consumer products were scarce, as the North had established a successful blockade of the South, and the agrarian South could not manufacture these items at home. Costs rose to extremely high levels, and Southern currency became virtually worthless. In April 1865, the bloody conflict ended. The most devastating blow to the South was the abolition of slavery, which had been the foundation of the Southern economy. Congress abolished slavery with the passage of the Thirteenth Amendment in 1865 and protected the rights of African American citizens with the Fourteenth Amendment in 1868.

—David E. Walker

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See also Volume 1: Emancipation Proclamation; Volume 2: Slavery; Volume 2 (Documents): Emancipation Proclamation.

Smith-Connally Act (War Labor Disputes Act) (1943)

Legislation that defined the relationship between labor unions and the federal government during World War II and would later influence anti-union forces.

Congress passed the Smith-Conally Act over President Franklin Roosevelt's veto on June 25, 1943, after John L. Lewis, union president, and his United Mine Workers defied the federal government by going on strike in May 1943. Also called the War Labor Disputes Act, the bill required unions to give formal notice of intention to strike, to observe a 30-day cooling-off period, and to secure majority support for the strike from the rank-and-file membership. It also gave the president the power to seize war plants and to impose penalties for illegal work stoppages. President Franklin D. Roosevelt used this act to federalize the railroads between December 27, 1943, and January 18, 1944, when the unions representing the Locomotive Firemen, Railway Conductors, and Switchmen refused to withdraw a strike order. The act expired in June 1947.

—James T. Carroll

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See also Volume 2: Labor.

Smith-Lever Act (1914)

Established the Cooperative Extension Service to communicate new agricultural methods and technologies to farmers.

At the turn of the twentieth century, the rural population was the poorest segment of American society. The U.S. Department of Agriculture (USDA) sought to improve farmers' lives through education regarding agricultural practice. The Smith-Lever Act, introduced by Democratic Senator Hoke Smith of Georgia and Democratic Congressman Asbury F. Lever of South Carolina, authorized the federal government to support, with matching state funds, the creation of a Cooperative Extension Service at the land grant colleges, where higher education was provided in agricultural and mechanical subjects.

Signed into law by President Woodrow Wilson on May 8, 1914, this system of county extension agents sought to empower rural inhabitants through the acquisition of new skills, attitudes, knowledge, and aspirations. Agents were affiliated with land grant colleges but provided their services off-campus for rural residents; they taught practical skills for both farmers and homemakers through publications and demonstrations. The USDA, the land grant institutions, and county governments determined the program priorities. The Smith-Lever Act helped transform rural America into a more prosperous place.

The act also provided federal funds to the states to organize agricultural clubs for boys and girls. Through such organizations as 4-H, young people would learn through doing by undertaking agricultural and home economics projects. Children would not only carry the improved practices back to their farms but would gain self-confidence, leadership skills, and a commitment to community service.

During the New Deal, a series of programs and agencies established to assist individuals during the Great Depression, the Cooperative Extension Service became the means through which many government programs were implemented to help preserve the family farm. During World War II, it educated rural America about rationing and how to deal with shortages. In the 1960s, extension agents expanded their services to include minorities and urban programs, creating boys' and girls' clubs in cities in an effort to prevent crime.

—*T. Jason Soderstrum*

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See also Volumes 1, 2: Agricultural Policy.

Smithsonian Agreement (1971)

Agreement designed to reestablish international fixed currency exchange rates.

Currencies are valued on either a fixed rate set by the government or on a floating rate, in which the free market determines the value of the currency. Fixed rates are usually more stable; floating rates can fluctuate wildly. Meeting in December 1971 at the Smithsonian Institution, ten industrialized nations voted to establish the Smithsonian agreement, which resurrected the system of international fixed currency exchange rates (although without the backing of the currencies by gold or silver). International fixed currency exchange rates—from the Bretton Woods agreement in 1945 (which, based on the gold standard, stabilized currencies and established the International Monetary Fund) to President Richard Nixon's New Economic Policy of August 1971—provided the postwar foundations of international monetary arrangements. Tension had long existed within the Nixon administration between the veterans of the Bretton Woods discussions and staffers including George Shultz, Nixon's secretary of labor, who believed passionately in the price mechanism and a floating exchange rate system. Others, such as Secretary of State Henry Kissinger and Federal Reserve Chair Arthur Burns, successfully persuaded Nixon of the need to return to a par value system based on a fixed rate. The International Monetary Fund (IMF) likewise determined to strengthen the Bretton Woods system that had created it, and the IMF remained committed to establishing a once-and-for-all currency realignment based on its own internal computations. As a result, the Smithsonian agreement reestablished the par value system and allowed the devaluation of the U.S. dollar by about 8 percent. The price of gold rose to $38 per ounce, and the permitted variation around par values was increased to 2.25 percent. The agreement removed the 10 percent import surcharge that had been introduced in Nixon's 1971 New Economic Policy.

Nixon hailed the negotiated realignment as "the most significant monetary agreement in world history." He also recalled that the Federal Reserve had launched an aggressive rearguard action in 1971 to preserve the par value system. In that rearguard action, Burns of the Federal Reserve declared that the Senate must pass the Par Value Modification Act, 1972 legislation that called for compliance with the Smithsonian agreement. The act passed.

In just over a year, the Smithsonian edifice collapsed, primarily because of domestic U.S. difficulties that led Nixon to remove the United States from the gold standard. Burns extolled the Smithsonian agreement as "solidly based," describing the alternative of wildly fluctuating rates and devaluations as "not pleasant to contemplate." In July 1972, the Federal Reserve began for the first time since August 1971 to intervene in support of the dollar against the German currency, the deutsche mark.

Nixon supported floating rates and showed no interest in defending the Smithsonian agreement. In June 1972 Bob Haldeman, chief of staff at the White House, informed Nixon that the British pound was floating—that is, removed from the gold standard—but Nixon replied, "I don't care about it."

Haldeman pressed Nixon to take an interest in the international monetary crisis, telling him that Burns was particularly concerned about the Italian lira, which was also fluctuating in value. But Nixon retorted that he did not care about the lira. By March 1973, the major world currencies were floating. The final collapse of an international system of fixed currency exchange rates arrived unexpectedly.

Shultz later recalled that the administration hoped for a more fundamental reform and that the Smithsonian agreement merely functioned as a prelude to such a reform. Defending the par value system was, he believed, "a futile effort." Shultz bemoaned the fact that economic policy had often adversely affected the market economy and said that reliance on the market system offered the best alternative. He noted that "the price of money is the most important price in an economy" and recalled that in supporting floating rates, he had helped to "achieve a major transformation in the international monetary system," the emergence of "a flexible rate system." Insiders believed that conservative economist Milton Friedman had influenced Shultz between 1969 and 1971. In December 1971, Friedman campaigned without noticeable effect to "keep the dollar free." When the pound began to float in 1972, Friedman argued that the "sooner the Smithsonian agreement is undermined the better."

In retrospect, the Smithsonian bargain among the top ten industrialized nations merely delayed the rendezvous with the political, economic, and intellectual forces pushing hard against the system of fixed exchange rates. The demise of the par value system in 1973 initiated a new episode in international monetary arrangements, and by 1975 many countries had started to experiment with floating rates. Thus the international policy revolution in which the Smithsonian agreement was abandoned and floating rates were embraced acted as a forerunner of—and precondition for—the domestic monetarist policy revolution that removed the United States from the gold standard.

—Robert Leeson

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See also Volume 1: Wage and Price Freeze.

Smuggling

Illegally importing items into a country.

From colonial times to the present, Americans have engaged in smuggling. The extensive coastline and the limited number of customs officers mean that arrests and convictions have always been few. Under the British mercantile system, in which all trade was centralized for the benefit of the mother country, American colonists smuggled goods in from the French and Spanish Caribbean. Molasses (for the production of rum) and sugar (because of demand in the colonies) became the two most smuggled items. If a smuggler was caught, which happened infrequently, he was tried in a court of law in the colonies before a jury of his peers—most of whom were also smugglers. Consequently, the verdict would almost always be "not guilty." After the British defeated the French in the Seven Years' War (also known as the French and Indian War, 1754–1763), the British Parliament, for the first time ever, increased control over the colonies. The Sugar Act (1763), the first in a series of such acts, lowered duties on English molasses while raising the rate on sugar. By lowering the molasses tax, Parliament hoped to remove the incentive for smuggling; some tax revenue would be preferred to none. The inclusion in the Sugar Act of a clause that moved smuggling cases from the civil courts to the vice admiralty courts angered the colonists, who viewed the act as a direct violation of a basic English right because English common law required a trial by a jury of peers.

After America gained its independence and mindful of the hated 1765 British Stamp Act (which taxed legal documents as well as newspapers, dice, and so on, and required that the tax be paid in gold or silver), the founding fathers adopted a low-revenue tariff under the Constitution. This tariff, which would generate only enough revenue to meet current government operating expenses and debt payments, was intended to make smuggling less attractive and would therefore result in collection from importers of more duties. Most Americans paid the duty on imported items as much for patriotic reasons as to avoid prosecution. But with the purchase of the Louisiana Territory from France in 1803, smuggling once again flourished. Pirates, often using letters of marque (documents from a foreign government authorizing them to prey on the ships of nations at war with them), plied the waters of the Gulf of Mexico. Men like Jean Lafitte and his gang sailed under letters of marque from the newly declared independent republics of Central and South America, regions that broke the bonds of European domination during and

after the Napoleonic Wars. After the War of 1812, the federal government cracked down on these pirates, forbidding American citizens from operating under letters of marque in the future.

As the government erected a high tariff barrier during the middle to late nineteenth century, smuggling continued but on a limited basis. At the same time, the Customs Department increased the number of revenue officers available for securing the coast. The next major challenge to these collectors came during Prohibition, which began in 1919. When the customs officers realized that they could not gather enough evidence to convict men like Al Capone for the distribution of alcohol, they began working with the Treasury Department to charge bootleggers with income tax evasion. The problem of smuggled alcohol seemingly disappeared overnight when Prohibition was repealed in 1933.

Since the 1960s, the primary mode of transportation used by smugglers is the airplane. Flying low enough to avoid detection by radar, modern-day smugglers usually deal in contraband weapons and drugs. In addition, from south of the U.S. border, smugglers now find it more profitable to smuggle illegal aliens across the Rio Grande River than to deal in goods like drugs. To diminish the loss of tax revenues and to stem the tide of drugs and illegal immigrants, Congress continues to increase appropriations to the Customs Service. Particular attention has been paid to the problem of smuggling since the terrorist attacks of September 11, 2001. In 2003 the Customs Service became part of the Homeland Security Agency and now has greater authority, granted by Congress, to prevent suspected future terrorists from entering the country.

—*Cynthia Clark Northrup*

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See also Volume 1: Mercantilism; Protective Tariffs; Revenue Tariffs; Sugar.

Social Security Act of 1935

Legislation enacted in 1935 as part of New Deal aimed at creating an insurance fund for the elderly.

The Social Security Act of 1935 was an important stabilizer for the U.S. economy at a time when the nation had high unemployment during the Great Depression (1929–1941). The objective of the act was to allow senior citizens to retire with a small guaranteed income so younger unemployed workers could fill their positions. A small percentage of workers' wages are held in a trust and distributed on a monthly basis to seniors. Social Security embodies the concept of social insurance or putting money aside for a rainy day—in this case the end of people's productive working years and the onset of old age, although additional amendments in 1956 and 1965 provided for disability benefits and the Medicare program, respectively. (Roosevelt had quickly dismissed the idea of adding national health insurance benefits to the original package because he feared that the American Medical Association would attack it as "socialized medicine" and sink the entire program.) Congress also authorized the extension of unemployment compensation benefits under provisions of this act. The original legislation requires states to set up unemployment compensation programs or have the U.S. government establish one for them. The states all chose the former course.

The Social Security Act came out of deliberations by the Committee on Economic Security, which President Franklin D. Roosevelt established via Executive Order No. 6757 on June 29, 1934. The committee was chaired by U.S. Secretary of Labor Frances Perkins, and Roosevelt appointed U.S. Secretary of the Treasury Henry Morgenthau as one of its members. Edwin Witte, professor of economics at the University of Wisconsin–Madison, served as executive director of the committee. Roosevelt acted under pressure from such potential opponents as Dr. Francis E. Townsend, who favored a national pension plan, and Democratic U.S. Senator Huey Long of Louisiana, who promoted his own plan called "Share Our Wealth." The House Ways and Means Committee held hearings from January 21 through February 12, 1935, on the economic feasibility of the plan and came up with the name *Social Security.*

After George W. Bush assumed the presidency in January 2001, Republicans in Congress began pushing for a policy to phase in the privatization of Social Security. Some of the discussion stemmed from concern that the fund as currently constituted will have more outgo than income by 2036 at the latest, when the number of employees paying into the fund will have declined to 1.9 for every retiree. Privatizing retirement funds would allow the worker to determine where the funds are invested and in what amounts. Some argue that by allowing the private investment of retirement money in the stock market, the returns will be greater and the burden on Social Security reduced. However, opponents argue that private investment of these funds will hurt many Americans because benefits now available to them under Social Security would no longer be an option. (For example, under Social Security, women are guaranteed payment based on the benefits of their husband [or former husband if married for at least 10 years]). Discussions of privatization were suspended in the immediate aftermath of the terrorist attacks on September 11, 2001. With the economy experiencing difficulty and employers releasing thousands of workers, Social Security is the source for expanded unemployment money made available to people after their state unemployment benefits run out. The duration of the post-2001 recession and the high number of unemployed in many states has resulted in Social Security unemployment benefits being extended from 26 weeks to 36 weeks.

—*Henry B. Sirgo*

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See also Volume 1: Great Depression; Roosevelt, Franklin D.

Socialism

Philosophy calling for the replacement of capitalism (which is predicated on private ownership of the means of production) with a more egalitarian system predicated on collective ownership of the means of production.

The concept of socialism—a collection of social movements, political organizations, theoretical currents of thought, and doctrines—did not originate in the writings of Karl Marx. An inchoate idea of socialism inspired not only the Levellers and Diggers (religious-economic movements that advocated egalitarianism and communist philosophy) during the English Civil War (1642–1652) but also Gracchus Babeuf's "conspiracy of equals" during the French Revolution (1789–1799). (This conspiracy was a secret society in France that sought to overthrow the French government and replace it with a communist regime; the plot was discovered and Babeuf was executed.) However, the term *socialism* was first used in the early 1830s by disciples of Robert Owen (an innovative English industrialist) and Claude-Henri de Saint-Simon (a radical French aristocrat). With a view to converting their elite peers to the new creed, Owen and Saint-Simon drafted detailed blueprints of socialist society.

In contrast, Marx endeavored not only to influence the growing working-class movement but also to ground his vision of socialism in a concrete analysis of capitalist development. In the *Critique of the Gotha Programme* (1875), Marx sketched two phases of revolutionary transformation: the socialist phase, which would be characterized by the dictatorship of the proletariat (understood as a transitional workers' state); and the communist phase, which would be characterized by the withering away of the state and the realization of classless society. Owing to his aversion to utopian speculation, Marx refrained from describing the socialist and communist phases in detail. It remained for the Second International (the term used to describe a series of meetings between 1889 and 1914 of socialist organizations in Europe that advocated socialism and social democracy) spearheaded by the German Social Democratic Party, to debate Marx's intentions.

A debate between Edward Bernstein and Karl Kautsky on socialist strategy merits particular attention. Whereas Bernstein's revisionists advocated the parliamentary path to socialism, Kautsky's orthodox Marxists advocated the revolutionary path to socialism. Although the Bernstein-Kautsky debate ended abruptly with the collapse of the Second International (it collapsed because of World War I and its opposition to the war) and the division of the working-class movement into socialist and communist factions, revisionism remained influential. In the aftermath of World War II, labor, social-democratic, and socialist parties rose to prominence in Western parliaments, emphasizing the principles of the "mixed economy," or the socialist management of capitalist expansion.

—*Mark Frezzo*

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See also Volume 1: Marxism.

Soil Conservation and Allotment Act (1936)

Government agency that paid farmers to plant soil-building crops.

Franklin D. Roosevelt was not the first president aware of the need for soil conservation. President George Washington—whose approach to managing Mount Vernon was a model for how Roosevelt modeled his home, Hyde Park—used sophisticated crop rotation techniques because he knew that certain crops including tobacco were hard on soil. Still, it was in Roosevelt's day that the ramifications of damaged soil on people's lives and the economy became most readily apparent. In an address to Congress June 3, 1937, the president observed: "Nature has given recurrent and poignant warnings through dust storms, floods, and droughts that we must act while there is yet time if we would preserve for ourselves and our posterity the natural sources of a virile life." Although President Roosevelt believed that final coordination at the national level was important, he believed that national planning had to start at the level of "townships, counties, and states." The travesty of the dust bowl during the 1930s, which at times caused the noon sky to grow dark because what had once been fine topsoil blotted out the sun, was the stuff of tragedy. The concomitant plight of the Okies—Oklahoma residents hit hard by severe drought and dust storms who fled to California and elsewhere—was written about by John Steinbeck in *The Grapes of Wrath,* which was made into a motion picture in 1939. Because of the influx from Oklahoma, the California legislature even enacted an "anti-Okie" statute in 1937 that made it a misdemeanor to assist or bring an indigent into California. The U.S. Supreme Court found the statute unconstitutional as violating the fundamental right of travel.

A U.S. Supreme Court ruling in 1936 held that the government did not have the right to regulate agricultural production by restricting crop production, as the Agricultural Adjustment Administration had been doing by paying farmers cash not to plant crops in an effort to improve soil condition. Using a proposal prepared by an Agricultural Adjustment Administration economist, Congress promptly passed the Soil and Conservation Domestic Allotment Act in 1936, which, heeding the eighteenth-century insights of George Washington, paid farmers to cut back on the production of soil-depleting crops such as wheat and instead plant soil-building crops such as legumes.

Soil conservation measures were also implemented in more recent times. In 1982, Congress passed the National Conservation Program to reduce soil erosion and protect surface and underground water quality. In 1985, the Farm Bill paid farmers to plant cropland with grasses, legumes, trees,

windbreaks, wetlands, or wildlife cover. In the late 1980s, as mayor of Weatherford, Texas, Jim Wright—who eventually served as Speaker of the U.S. House of Representatives—observed the ruin wrought by seven years of drought. Wright became a disciple of soil conservation after seeing farms devastated by the loss of topsoil. He observed that, in light of this experience with soil depletion, "I became friendly with a man named Frank White, [Wright's county extension agent] who was a district supervisor of soil conservation activity, introduced a bill in the state legislature which passed, giving money to soil conservation districts to match local efforts to acquire equipment, and carry out soil conservation activities such as terracing, cover cropping, and so forth."

—Henry B. Sirgo

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See also Volume 1: Roosevelt, Franklin D.

South Carolina Exposition and Protest (1828)

Document by Vice President John C. Calhoun that was South Carolina's rationale in its states' rights resistance to the federal government.

In the document *South Carolina Exposition and Protest,* written in 1828, John C. Calhoun, who was vice president from 1824 to 1832 under both Presidents John Quincy Adams and Andrew Jackson, "solemnly" protested "against the system of protecting duties, lately adopted by the federal government." Calhoun gave eight reasons for his position. Summarized briefly, they were that the powers of Congress were specified in the Constitution and any statute that went beyond these limits was "unwarrantable as the undisguised assumption of substantive, independent powers not granted or expressly withheld." Citing the Virginia Resolution of James Madison (1798) and the Kentucky Resolutions of Thomas Jefferson (1798 and 1799), both of which argued against the constitutionality of the 1798 Sedition Act, Calhoun argued that the Union had been formed by state governments and hence was a "compact" in which the powers of Congress were precisely limited. Any law that exceeded these enumerated powers could be nullified by a state to prevent the law's enforcement within the state's borders. Calhoun said the Tariff of 1828 (Southerners called it the Tariff of Abominations) was "unconstitutional, unequal, and oppressive, and calculated to corrupt the public virtue and destroy the liberty of the country." It had made Southerners "the serfs" of the system of manufacturing and imposed a protective tax on planters exclusively for the benefit of Northern factory owners, which was the "despotism of the many" that made the rich richer and the poor poorer. Calhoun described an unavoidable economic conflict between the industrial North and the agricultural South. The South's condition after the Tariff of 1828 proved intolerable—Congress appropriated the money equivalent of one-third of the South's cotton crop (the South's main cash crop), and because the region could not raise the price of cotton in a world market because of foreign competition, it remained helpless. Congress, Calhoun warned, if not restrained, might pass other laws designed to ruin the agrarian South. Finally, Calhoun reasoned that South Carolina had the power to nullify such unconstitutional laws because this power remained with the states, as specified in the Tenth Amendment. The South Carolina legislature then issued a formal protest to the U.S. Congress. When Congress raised rates again in 1832, South Carolina used the arguments of the *Exposition* to justify its passing of the Ordinance of Nullification at the Columbia Convention on November 24, 1832, in which the state threatened to leave the Union if the tariff rates were not reduced by February 1833. The resulting crisis, known as the Nullification Crisis, ended when Congress passed the Compromise Tariff of 1833 lowering rates over a nine-year period. Although the *Exposition* failed in its purpose (because no other Southern state endorsed nullification), it became the foundation of a states' rights resistance to federal power, especially as related to slavery, for the next three decades. After passage of the Ordinance of Nullification, Calhoun resigned as vice president. He returned to Washington as the Senator from South Carolina in 1833.

—Robert P. Sutton

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See also Volume 1: Clay, Henry; Force Act; Jackson, Andrew.

Spanish-American War (War of 1898)

Conflict between Spain and the United States that resulted in Cuban independence and the cession of the Philippines, Guam, and Puerto Rico to the United States.

In February 1895, Cuban revolutionaries began a war for independence against Spain. The war had humble beginnings, but by mid-1896, a 50,000-man army battled against Spain in an attempt to attain freedom. In August 1896, as Spain fought in the Caribbean, another insurrection against it broke out in the Philippines. In the face of domestic dissatisfaction, the Spanish government struggled to maintain its empire. In late 1897, the Spanish instituted colonial reforms and made provisions to allow for Cuban home rule. Cubans denounced the reforms and called for complete independence.

Because of rioting throughout Havana in 1898, the U.S. consul there requested that the American government send naval support to protect American interests in Cuba, and the administration of President William McKinley sent the bat-

tleship *Maine* to Havana's harbor. Meanwhile, the United States attempted to mediate in the conflict between Cuba and Spain, but in February a letter critical of President McKinley written by Enrique Dupuy de Lôme, the Spanish minister in Washington, D.C., found its way into American newspapers and strained U.S.-Spanish relations. One week later, the *Maine* exploded in Havana's harbor. U.S. newspaper editors such as William Randolph Hearst and Joseph Pulitzer claimed a Spanish mine in the harbor caused the explosion. (In the 1970s, divers discovered that the munitions had been stored adjacent to the ship's boiler room and a spark ignited the explosion.) The United States demanded that Spain begin an immediate armistice, and the Spanish seemed ready to comply. The Cubans were not ready to comply and continued fighting.

Cuban independence seemed certain, but the McKinley administration coveted Cuba and knew the United States would be unable to ever acquire it if Spain granted it independence. On April 11, 1898, McKinley asked Congress for permission to intervene in the war between Cuba and Spain in order to establish "a stable government." There was no express mention of Cuban independence in McKinley's message. However, members of Congress passed a joint declaration known as the Teller Amendment that prohibited annexation of Cuba, and the United States declared war against Spain on April 18, 1898.

The United States actually fought its first battle against the Spanish in the Philippines rather than in Cuba. In an effort to eliminate Spanish naval forces, U.S. Commodore George Dewey arrived in Manila Bay and sank the Spanish fleet at anchor there on May 1, 1898. Six weeks later, U.S. troops arrived in Cuba and, with Cuban aid, quickly routed the Spanish. An armistice began in August, and on December 10, 1898, Spain and the United States signed the Treaty of Paris, ending the war. The treaty granted Cuban independence, but Spain ceded the Philippines, Guam, and Puerto Rico to the United States for $20 million.

After the war, American troops remained in Cuba until 1902, ostensibly to oversee the creation of a stable government. The United States fought a guerrilla war against Filipino insurgents (who had been fighting against the Spanish), subduing the rebels in March 1901. The Spanish-American War transformed the United States into a colonial power and created an American presence in the Caribbean and the Western Pacific.

—*John K. Franklin*

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See also Volume 1: Cuba; Philippines; Puerto Rico; Spanish-American War.

Stagflation

Simultaneous unacceptably high inflation and high unemployment.

Before 1970 the American economy seemed to be characterized by a stable trade-off between unemployment and inflation. This relationship (described by the Phillips curve) held for most of the 1950s and 1960s (see Table 1).

Table 1 Unemployment and inflation in the United States, 1961–1969

Year	*Rate of inflation (consumer price index)*	*Civilian unemployment rate (percent)*
1961	1.0	5.5
1962	1.0	6.7
1963	1.3	5.5
1964	1.3	5.2
1965	1.6	4.5
1966	2.9	3.8
1967	3.1	3.8
1968	4.2	3.6
1969	5.5	3.5

During the 1970 recession, policymakers appeared surprised to see the rate of inflation rise to 5.7 percent. Economist Paul Samuelson dubbed this *stagflation* (high unemployment combined with high inflation and stagnant economic growth). The problem vexed policymakers. Expansionary fiscal or monetary policy raises aggregate demand, reducing unemployment but increasing inflation. Restrictive fiscal or monetary policy restrains demand, decreasing inflation but often causing unemployment increases. Stagflation required tools to fight both.

In 1971, President Richard Nixon tried wage and price controls, which cut the rate of inflation while permitting expansionary policies with lower interest rates in 1972. Critics of wage and price controls point to high inflation in both 1973 and 1974, but others argued that this occurred as the result of supply shocks or surges in the prices of strategically important commodities. In the United States in 1973 and 1974 this commodity was oil, although prices of certain food products also rose. Theory predicted that price hikes in individual products, even important ones, would be balanced by relative price declines in others. Mainstream economists argued that prices and wages in the United States had become resistant to those declines. Thus, the rate of inflation rose. Areas of the economy experiencing falls in demand would suffer unemployment and business losses, while everyone in the economy except the producers of the favored products would suffer because of inflation. The government had the unenviable choice of using expansionary policy to raise money incomes so the population could afford the higher prices or permitting unemployment to rise so that price increases on important products would not spread to all products.

At times during this period the government flip-flopped in its focus. In 1974, officials focused on inflation. Rising interest rates and a virtually balanced federal budget combined to restrain the economy and, in fact, helped to cause a recession. Yet President Gerald Ford went before Congress in the fall of 1974 and pleaded for a tax increase as part of a program he supported that would "whip inflation now." In January 1975, he asked for a large tax cut to combat the recession of 1974–1975. His tax cut passed, the recession ended, and the inflation rate came down from its 1974 level. However, inflation did not fall below the 1970 rate before it resumed its

rise. Between 1976 and 1978 as unemployment fell slowly toward 6 percent, inflation rose (see Table 2). This pattern occurred before the last oil price shock of the decade in 1979.

Table 2 Unemployment and inflation in the United States, 1970–1979

Year	*Rate of inflation (consumer price index)*	*Civilian unemployment rate (percent)*
1970	5.7	4.9
1971	4.4	5.9
1972	3.2	5.6
1973	6.2	4.9
1974	11.0	5.6
1975	9.1	8.5
1976	5.8	7.7
1977	6.5	7.1
1978	7.6	6.1
1979	11.3	5.8

This experience damaged the reputation of the Keynesian philosophy of aggregate demand management (increased government expenditure to stimulate the economy) and led to the Federal Reserve's brief "monetarist experiment" from 1979 to 1982 (an increase in interest rates that created difficult financial problems for many Americans) and the flirtation by some politicians with supply-side economics, also known as trickle-down economics and characterized by tax cuts for the wealthy, who would theoretically save or invest the extra money for the benefit of the working class. With the institution of stringent anti-inflationary policies by the Federal Reserve during Paul Volcker's tenure and the deep recession of 1981 and 1982, the "-flation" part of stagflation disappeared from U.S. economic life. The defeat of inflation occurred because of the willingness to accept high levels of unemployment over a long period of time.

—Michael A. Meeropol

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See also Volume 1: Reagan, Ronald; Wage and Price Freeze.

Stamp Act (1765)

One of a series of British taxes imposed on the colonies that sparked the American Revolution.

To help pay off the huge war debt from the French and Indian War left after 1763, the British Parliament passed the Stamp Act, a measure that would apply to the colonies a tax that had been in place in Britain for nearly a century: the purchase of a royal stamp for all diplomas, newspapers, playing cards, and legal documents. The colonists, infuriated at this first attempt of the government to tax them directly, had to pay for the stamps in cash, a restriction that cut most of the colonists, short on specie (gold or silver) and using a barter system, out of the transaction. The Stamp Act had the secondary effect of pricing newspapers out of the range of many colonists and thus restricting the flow of information and the prized idea of a free press.

Because the Stamp Act affected all colonists in every region of North America, it quickly sparked protests. The Sons of Liberty in Boston hung stamp sellers in effigy, harassed officials, and began a boycott of British goods. James Otis, writing *Letters of a Pennsylvania Farmer,* circulated an ideological attack against the Stamp Act—that Parliament included no American representatives and therefore should not tax the colonies. George Grenville, who had championed the Stamp Act, retired as British prime minister in 1765 because of differences with the king, and his successor, the Marquis of Rockingham, under pressure from British merchants hurt by the colonial boycott, repealed the act in 1766. However, in the 1766 Declaratory Act, Parliament insisted that Britain had the right to tax its colonies in any form in the future. The Declaratory Act was largely ignored because of the celebration over repeal of the Stamp Act.

—Margaret Sankey

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See also Volume 1: American Revolution; Sugar Act.

Stamp Act Congress

Meeting of colonists convened in 1765 to protest British taxation acts.

As part of the protest rising against the implementation of the 1765 Stamp Act, which placed a tax on legal documents, newspapers, and several products in the American colonies, the Massachusetts House of Representatives invited delegates of the other colonies to meet in New York and formulate an official protest to the British Parliament. Encouraged by the continuing success of the boycott of British goods (in response to the Stamp Act), the widely read arguments of James Otis (who declared that there should be "no taxation without representation"), and the charge of Patrick Henry that Virginians deserved the rights of Englishmen, nine of the colonies sent delegates.

Twenty-seven representatives from Massachusetts, New York, Connecticut, Rhode Island, New Jersey, Pennsylvania, Delaware, Maryland, and South Carolina met in New York from October 7 to 25, 1765. This meeting resulted in a polite acknowledgement that the colonies owed allegiance to the king and were subject to Parliament, but it also included a statement of grievances in which they asked the king for relief from oppressions including the lack of representation, trial by jury, shortage of hard currency, and the imposition of taxes. Taxes, they felt, were a gift freely given by the people to the Crown through elected representatives, not imposed. Parliament repealed the Stamp Act the following year under pressure of the boycott and the new administration of the Prime Minister Marquis of Rockingham. Through the Stamp Act Congress, colonists articulated the growing colonial sen-

timent that they deserved the full rights of English citizens and could successfully demand them.

—*Margaret Sankey*

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See also Volume 1: American Revolution; Sugar Act.

Standard Oil

Oil company founded in 1870 that transformed the business world by implementing economies of scale based on integration of related companies to form one monopoly.

Standard Oil of Ohio was founded by John D. Rockefeller in 1870 and incorporated in 1882 in New York as the Standard Oil Trust (a trust is a holding company that constitutes a monopoly). The company became a vertically integrated oil company in that it engaged in two or more of the following functions: producing, transporting, refining, and marketing. Standard Oil fit the definition of a vertically integrated company. It had acquired Ohio Oil Company, which produced crude oil, in 1889, an action that complemented its original nature as a combination of refineries in Cleveland.

Forward integration of a company occurs when the organization takes on functions closer to the consumer. Backward integration takes the company away from the consumer. By the time Standard Oil Company (New Jersey) dissolved in 1911, it had already operated as an integrated company (forward and backward) in the four functions of producing, transporting, refining, and marketing. In fact, by 1907 that company owned or controlled 67 subsidiary businesses, which included 3 producing companies, 12 pipeline companies, 9 refining companies, and 6 marketing companies.

As the company grew, journalists, historians, and government officials, not to mention an embittered general public consisting of low-wage laborers who witnessed the extravagances of the Rockefellers, attacked Standard Oil Company (New Jersey). Its size alone had aroused suspicion regarding its conduct and had fostered a belief that it was monopolistic in character. Even before Standard Oil became Standard Oil Company (New Jersey) under a law of that state in 1882, while it existed as the Standard Oil Trust, it eventually controlled 80 percent of the country's refineries and 90 percent of the nation's pipelines. As a result, Standard Oil had become the world's leading industrial organization.

Such a concentration of power invited attacks. The U.S. Congress, mainly in response to the Standard Oil Trust's stranglehold on refining and transporting activities, passed the Sherman Anti-Trust Act of 1890, the very law on which the Supreme Court would base its dissolution decree of 1911 dissolving the company. Before that, in 1892, the Ohio Supreme Court had forbidden Standard Oil Trust from operating Standard Oil of Ohio, which had been founded in 1870. Interestingly enough, this divestiture prompted the organization of the Standard Oil Company (New Jersey) in 1892.

Although some practices of Standard Oil and its founder, John D. Rockefeller, appeared unscrupulous, the company made major contributions to the American economy. It improved the quality of petroleum products, especially kerosene; through its large storage facilities, it was able to stabilize the price of crude oil; by means of chemical research it made possible the marketing of the highly sulfurous oil from the Lima-Indiana oilfield in northwestern Ohio; and by aggressive marketing it protected American interests abroad.

By 1911 Standard Oil had for some time fought a losing battle against competition both at home and abroad. Beginning in the 1880s and 1890s, Russian and Dutch East Indian oil competed with American crude for markets in Europe and the Orient. At home, following the discovery of oil at Spindletop near Beaumont, Texas, in 1901, new companies and prodigious new deliveries of crude also reduced Standard Oil's market share, especially for gasoline.

After the breakup of Standard Oil, the company divided into several smaller companies, most of them using the Standard name (for example, Standard Oil of Ohio, Standard Oil of New Jersey, and so on). Standard Oil and other U.S. oil companies benefited during the oil crisis of the 1970s when restricted supplies from abroad in connection with the Arab oil embargo increased oil prices domestically. Standard Oil modified its business plan by opening Exxon and Mobil gas stations and selling convenience products from them. Standard Oil also opened Marathon gas stations and merged with Quaker State to develop the Pennzoil–Quaker State brand. Standard continues to operate tankers as well.

—*Keith L. Miller*

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See also Volume 1: Energy; Rockefeller, John D.

Steel

Commercially produced iron that contains carbon as an alloying constituent, and an industry initially important to the U.S. economy as the nation reconstructed itself after the Civil War.

During the industrial and transportation revolutions of the early 1800s, a need for a metal stronger than iron developed.

The Bessemer steel process (named for British inventor Henry Bessemer), which was developed during the 1850s and removes impurities from iron to make steel, proved critical to rail transportation. It was used to make the stronger and more durable track that railroads lay to connect areas of the nation; the friction and wear of the railroad cars was otherwise too great to make railroad transportation feasible. Great steel magnates like Andrew Carnegie constructed large steel corporations that controlled every aspect of production, thus creating monopolies that controlled this vital industry.

After passage of the 1914 Clayton Anti-Trust Act, the United States government acted as mediator and guarantor of competition. Using the Clayton Anti-Trust Act, the government sought to prevent monopolies in the steel industry. Unlike other industries, steel had not received government subsidies or assistance during the late 1800s. Beginning in 1968, however, the government passed antidumping and countervailing-duty laws that aimed to limit growth of steel imports and protected U.S. steel producers and the domestic market from foreign competitors selling steel below the cost of production.

Exceptions were made to general steel policy and were applied during times of crisis. During World War II and the Korean War, the U.S. government intervened to ensure that production continued to meet demand. The United States acted in 1973 and 1974 during a worldwide steel shortage by freezing wages and prices. The shortage collapsed the U.S. market in 1976—that is, market prices rose so high that there was a lack of liquidity and trade, and the market price fell rapidly—forcing the government to address the rapid growth of steel imports. To deal with antidumping suits filed against Japanese companies by U.S. producers, the administration of President Jimmy Carter established the Solomon Task Force, which proposed the trigger price mechanism (in which the government investigated any steel priced below trigger prices) to offset dumping by foreign producers. The problem of import growth did end as the trigger price mechanism, like previous trade policy, proved a reactionary, unstable way to deal with the issue. Problems continued under the administration of President Ronald Reagan, which thus entered into repeated negotiations and arrangements, particularly with the European Community, limiting steel imports to the United States. These arrangements had the temporary effect of preserving the domestic market for U.S. producers.

Traditional economic policy toward steel has been that of mediator, arbiter, and protector. Nevertheless, critics have attacked the U.S. government for its often soft and contradictory policies regarding steel when compared with other nations' policies to assist steel producers. U.S. economic policy regarding steel has been reactionary, placing the burden on domestic steel producers to prove injury to their business before the government intervenes. Only then has government acted to maintain the economic feasibility of the industry—such as in March 2002, when President George W. Bush raised tariff rates on steel from 8 to 30 percent to assist the ailing U.S. industry.

—*Eugene Van Sickle*

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See also Volume 1: Carnegie, Andrew; Protective Tariffs.

Strategic Defense Initiative (SDI) (1983)

Government program designed to develop a space-based defense against intercontinental ballistic missiles.

The Strategic Defense Initiative (SDI) emerged from President Ronald Reagan's March 23, 1983, speech calling for long-term research into ballistic missile defense technologies (a defense system to identify and destroy incoming nuclear warheads delivered by ballistic missiles). SDI precipitated intense controversy over the goals, costs, technical feasibility, survivability, effectiveness, and diplomatic implications of missile defense. SDI originally imagined layered defenses against a massive Soviet missile attack, but after the collapse of the Soviet Union in 1991, SDI focused on limited national missile defenses (NMD) and theater (city or regional) missile defenses (TMD).

The Defense Department united its existing missile defense programs under the SDI Organization (SDIO) in 1984. SDIO researched sensor, battle management, directed energy, and kinetic energy technologies. Research initially stressed long-term technologies to destroy incoming missiles like space-based lasers and particle beams, but proponents worried that SDI could not survive as a pure research program. Thus, in 1986 SDIO shifted emphasis to technologies that would be deployable in the near term. In 1987, SDIO proposed deploying a large "Phase I Architecture," which included space-based kinetic-kill interceptors designed to destroy the target with one hit. In 1988, SDIO reassessed this ambitious plan and advocated deploying only a modest number of ground-based interceptors in this phase. In 1989, SDIO promoted the "brilliant pebbles" concept, which involved thousands of small space-based kinetic-kill interceptors, each with sufficient sensing and computing power to detect and intercept an enemy missile independently.

During the 1980s, the Soviet Union attempted to persuade the United States to abandon SDI and at the same time began researching a similar program of its own. However, the costs were too great for the fragile Soviet economy to endure. These efforts helped contribute to the collapse of the Soviet Union in 1991. With a massive Soviet attack seeming increasingly improbable, President George H. W. Bush decided that SDI should concentrate on TMD and limited NMD against rogue nation strikes or unauthorized launches by terrorists who gain access to missiles.

In 1993, SDIO became the Ballistic Missile Defense Organization (BMDO). BMDO shifted resources from NMD into TMD programs including Theater High Altitude Area Defense (THAAD), Patriot Advanced Capability 3 (PAC-3), Navy Lower Tier, Navy Theater Wide, and the airborne laser in order to protect forward American forces and allied na-

tions. President Bill Clinton continued NMD research and resisted strong Republican pressure for NMD deployment until 1996. He then proposed to develop an NMD system within three years and to deploy it three years after that if threats justified it. Subsequent reviews and technology tests indicated that this "three plus three" plan was highly risky and prompted Clinton repeatedly to postpone a deployment decision. Nevertheless, ominous estimates of rogue nation missile threats, such as an estimate emerging from 1998 Rumsfeld Commission of a greater-than-expected threat from rogue nations within five years, sustained pressure for rapid deployment.

BMDO became the Missile Defense Agency in 2002. Plans under the administration of George W. Bush envision upgrading radar installations and fielding 100 ground-based interceptors in Alaska by FY2007. MDA would add further interceptor sites, radars, and space-based sensors by 2015.

Analysts disagree on the cost of SDI. SDIO claimed it spent $33 billion from 1983 to 1993, but the Congressional Research Service estimated the true expenditure as $71 billion. SDI did not achieve Reagan's dream of an impenetrable shield, but it generated major advances in electronics, sensors, propulsion, communications, and power technologies and in understanding of systems engineering and integration. BMDO spent about $4 to $5 billion a year under Clinton, but President George W. Bush requested about $8 billion per year in fiscal year 2002 and fiscal year 2003. Future costs are difficult to estimate and depend on the type of system constructed. The Congressional Budget Office considers that NMD would cost about $29.5 billion (in 2001 dollars) from 1996 to 2015 for the deployment of an initial capability. SDI research is now part of the Homeland Security Agency.

—*James D. Perry*

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See also Volume 1: Cold War; Reagan, Ronald.

Sugar

A commodity used as a sweetener derived from sugar cane or sugar beet and one of the highest-priced commodities during the eighteenth and nineteenth centuries.

Throughout much of the nineteenth and twentieth centuries, the United States imported much of its sugar from Hawaii and Cuba. The primary domestic mainland source of sugar was Louisiana. During the mid-nineteenth century American businesses invested heavily in sugar plantations in Hawaii. In 1875 the United States signed a reciprocity agreement (mutual reduction of tariff rates) with Hawaii that Congress failed to renew in 1884. When the agreement was finally renewed in 1887, Congress added an amendment that granted the United States the exclusive right to establish a naval base at Pearl Harbor. Thereafter U.S. businesses increased their control over the Hawaiian Islands until the reign of Queen Liliuokalani (1891–1895). During her reign, Americans with business interests in Hawaii overthrew the monarchy and applied for statehood. In 1894, President Grover Cleveland refused to annex Hawaii, so the Hawaiian revolutionaries elected Sanford B. Dole, owner of a large sugar plantation, as the president of the newly formed republic. In 1898, during the administration of President William McKinley (1897–1901) the United States finally annexed the Hawaiian Islands. The Hawaiian Islands remained a territory of the United States until 1959, when they became the fiftieth state.

The sugar industry also influenced the American relationship with the island of Cuba. During the Civil War between the U.S. states, Cuban rebels fought for independence from Spain. Because the United States was distracted with domestic problems, the rebels received no assistance. During the late 1890s Cuban rebels again were fighting the Spanish for independence, and this time the United States, to protect American sugar interests, sent the USS *Maine* to Havana. When the battleship sank in Havana harbor, the United States found provocation for war against Spain, believing a Spanish mine had sunk the ship. (In the 1970s, divers discovered that the munitions had been stored adjacent to the ship's boiler room and a spark ignited the explosion.) The Cubans finally achieved their independence at the conclusion of the Spanish-American War. Between 1898 and 1959 the Cuban economy supplied the majority of the sugar imported into the U.S market. When in 1959 Fidel Castro assumed power in Cuba and the country fell under communist control, the United States placed an embargo on Cuban products, an embargo that still stands in 2003. (Current sources for sugar for the United States include Hawaii, the Caribbean, Canada, and Argentina.)

During the 1830s, sugar trade equaled 800,000 tons at $200 per ton. That amount increased to 8 million tons by 1900 and 115 million tons by 2000. The sugar industry continues to play an important role in the world and U.S. economies.

—*Cynthia Clark Northrup*

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See also Volume 1: Cuba; Hawaii; Spanish-American War.

Sugar Act of 1764

First in a series of taxes imposed by the British Parliament that sparked the American Revolution.

After the Seven Years' War (1754–1763), the British government faced a war debt of more than £140 million and sought ways to include the colonies in the upkeep of the British forces in North America. The Sugar Act of 1764 modified the 1733 Molasses Act, which charged a duty on molasses

of sixpence per gallon, changing the duty to a reduced threepence in an attempt to curb smuggling of French molasses from the Caribbean and thus boost the customs revenue on British molasses. This product, crucial to the thriving rum distilleries of New England, had been a continuing source of friction between New England merchants and the British government, and Parliament assumed that reducing the duty while strengthening customs administration would improve relations between Britain and its American colonies.

Although the act also included unpopular new duties on wine, coffee, pimentos, cambric, and calico print fabric, the colonies especially resented that the Sugar Act regulated the export of lumber and iron from the colonies, restricting the ability of the colonies to produce anything but raw materials and to engage in trade with the French or Dutch. Increased naval patrols by the Royal Navy of the French West Indies seriously disrupted the smuggling trade and harmed the colonial economy. James Otis, who linked the new taxation with the hated Quartering Act, in which Parliament required the housing of British soldiers in private colonial homes, led the protests in Boston. Because the Sugar Act reduced the duties on molasses, Parliament kept the duties in place despite colonial protests. Opposition to the duties was one of the causes of the American Revolution.

—Margaret Sankey

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See also Volume 1: American Revolution; Stamp Act; Stamp Act Congress.

Supply-Side Economics

Balance or equilibrium between volume of goods and services produced (the supply side) and level of demand for those goods and services (the demand side).

Government economic policies that give incentives to investors and producers to increase the supply of goods and services are supply-side measures. Common examples are investment tax credits, reductions in capital gains taxes, rapid depreciation allowances, universal tax-deferred investment retirement accounts, and tax cuts for corporations and individuals with high levels of wealth and income.

A key supply-side principle in classical economics was that business cycles were caused by a lack of credit rather than weak demand. The administration of President Calvin Coolidge followed essentially supply-side economic policies, although former chair of the Council of Economic Advisers Herbert Stein did not coin the term until decades later. Beginning in the 1950s, Milton Friedman and other University of Chicago economists made great strides in monetary theory, arguing that business cycles correlated closely with the volume and velocity of money in circulation. In the 1970s, Harvard economist Martin Feldstein and others did important work on the influence of taxation rates on savings and investment rates.

Supply-side economics was the centerpiece of the presidential administrations of Ronald Reagan and George H. W. Bush in the 1980s. Reagan embraced a theory put forward by University of Southern California economist Arthur Laffer that reducing tax rates actually would increase federal tax revenues by increasing work, savings, and investment. According to legend, Laffer sketched out the first version of his "Laffer curve" on a cocktail napkin in a Wall Street restaurant. Laffer's idea was embraced by a handful of Republican politicians including New York Congressman Jack Kemp and was popularized by influential journalists Robert Bartley and Jude Wanniski of the *Wall Street Journal* and by conservative pundit Irving Kristol, among others. Promising to dramatically reduce taxes without making correspondingly deep spending cuts, Reagan handily won election in 1980.

The rising popularity of supply-side economics reflected growing disillusionment with Keynesian economics, with its emphasis on monetary controls and government spending to boost consumer spending during recessions. Supply-siders believed that tax relief for investors would create new investment and new jobs by boosting capital formation. Benefits from new job creation and increased economic growth would in turn "trickle down" to middle-class and poor Americans.

Reagan's supply-side promises were embodied in the Economic Recovery Tax Act (ERTA) of 1981 and in subsequent tax legislation. But rather than increasing federal tax revenues, the ERTA created shortfalls of $200–300 billion per year for several years. Laffer's curve illustrated a basic economic principle, but demonstrated neither optimal tax rates nor whether current tax rates were above or below them. Nevertheless, tax-cut-based supply-side economics has remained popular among many conservatives and was the centerpiece of the economic platform of George W. Bush during and after the 2000 presidential election.

—David B. Sicilia

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See also Volume 1: Reagan, Ronald; Reaganomics.

T

Taft-Hartley Act

See Labor-Management Relations Act.

Tariff of 1828

See Tariff of Abominations.

Tariff of Abominations (Tariff of 1828)

Protective tariff that led to the development of the principle of nullification in the South.

The presidential election of 1824 was decided in the House of Representatives for John Quincy Adams, even though Andrew Jackson won the popular vote. After the election, congressional Representative Martin Van Buren meticulously organized support for Jackson in the next presidential election. In 1828, Van Buren drafted a tariff bill designed to undermine the political base of the Adams administration. The bill raised duties on iron, hemp, flax, molasses, and distilled spirits, which benefited Western and mid-Atlantic interests, and lowered rates on finished woolen goods, which adversely affected New England textile manufacturers. Van Buren hoped Adams would veto the bill and make it appear that he sought to protect New England and his own political position. However, Adams held to his belief that protective tariffs promoted national economic development and signed the Tariff of 1828, which raised the duty on some European products by almost 50 percent.

The new tariff infuriated Southerners, who believed Congress had favored Northeastern industrial interests at the South's expense by raising the cost of goods the South could not manufacture for itself. The new rates raised prices on all sorts of imported products in the South and practically destroyed any hope for Adams's reelection. One Southern legislature after another denounced the tariff as unconstitutional, unjust, and oppressive. The Virginia legislature called it the "Tariff of Abominations." The most outspoken opposition arose in South Carolina. Vice President John C. Calhoun anonymously voiced Southern discontent by publishing the *South Carolina Exposition and Protest,* an essay that advanced the principle that a single state might overrule or nullify federal law within its own territory, unless three-quarters of the states deemed the law constitutional. Jackson's attempt to enforce the tariff in the state led to a constitutional crisis and resulted in the passage of the Force Act of 1833 authorizing the use of force against South Carolina if it continued to refuse to collect the tariff. At the same time, Henry Clay, Speaker of the House, negotiated a compromise Tariff of 1833 that reduced the tariff incrementally over nine years—a bill South Carolina accepted.

—Peter S. Genovese

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See also Volume 1: Clay, Henry; Force Act; *South Carolina Exposition and Protest.*

Taxation, Confederation

Taxation system under the Articles of Confederation that demonstrated the young nation's commitment to republican ideology and a decentralized government.

The sole method of government taxation for the fledgling United States was a requisition system. Article 8 of the Articles of Confederation granted the power to levy and collect taxes to the individual states rather than to Congress. Under this system, Congress would send a request for funds to the states, and the state assemblies would then pass legislation that complied with this request. State officials collected the money and forwarded the required amount to Congress. The taxation policy of the Articles of Confederation made the national government completely dependent on the states for revenue.

This fiscal policy reflected the eighteenth-century republican notion of the proper power relationship between the people and their government. In the late 1700s, most Americans believed the power to tax was the right and responsibility of a sovereign state and that the location of this power within the structure of a government determined the nature

of society. They argued that popular (or local) control of taxation provided the very foundation of representative government. Jeffersonian Republicans believed that local control of taxation ensured the rights of the citizen and acted as a check on the arbitrary authority of the state.

The political traditions and experiences of the colonies under the British imperial system provided another source of resistance to centralized taxation. In the colonial period, state assemblies operated their own fiscal systems and, in many ways, functioned as independent states. In the conflict that emerged between the colonies and England after 1763, when England began taxing the colonies directly for the first time, colonists argued that the British Parliament did not have the right to tax the colonies because the colonies were not represented in that body. This strong sense and tradition of localism combined with republican ideology to determine the nature of taxation under the Confederation.

Although the requisition system protected the interests and powers of the states, it proved crippling from the perspective of the national government. Congress was regularly short of funds and unable to pay its expenses. Frequently states assemblies either refused to send the full amount of a requisition or completely ignored the request. The Revolutionary War with England exacerbated these faults as Congress grew deeper in debt, fell behind in paying military salaries, and halted interest payments to its creditors. The shortcomings of the requisition system stimulated attempts to amend the Articles of Confederation and the call for a new government.

—*Peter S. Genovese*

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See also Volume 1: American Revolution; *The Federalist Papers.*

Tea Act of 1773

Tax measure by the British government that led to the Boston Tea Party.

By 1773, the British East India Company was experiencing serious financial trouble and required an emergency loan from the British government to continue operating. The British Parliament not only sought to regulate the company through the Regulating Act for India, it also wanted to remedy the company's financial situation through economic aid in the form of a tax cut on tea the company had stockpiled in its warehouses. The Tea Act of 1773 actually reduced the duty on tea shipped to America from 9 to 3 English pennies per pound, a rate that made English tea cheaper than smuggled Dutch tea—especially because the British East India Company paid the duty in London rather than at the colonial ports. Under the Tea Act, Parliament consigned the tea to a few major importers in the colonies and shipped the tea, hoping it would sell quickly, pay the British East India Company's debts, and discourage smuggling.

However, the colonists, for whom tea had become a household staple, still resented that tea had remained taxed after the repeal of the Townshend duties (in effect from 1767 to 1773) on lead, glass, paper, and tea to raise money for the British Treasury. Merchants complained that only a few well-connected importers could sell tea. Protests occurred in Philadelphia and New York when the tea arrived, and in Boston the Sons of Liberty led the Boston Tea Party, in which Bostonians destroyed tea aboard the *Dartmouth, Eleanor,* and *Beaver.* Instead of solving a problem by making a commodity more accessible to the colonies, the Tea Act of 1773 sparked only resentment of the British East India Company's privileged position and of continued taxation of the colonies by the British Parliament.

—*Margaret Sankey*

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See also Volume 1: American Revolution; Stamp Act; Sugar Act.

Technology Transfer

The acquisition of advanced or strategic technology by purchasing it rather than developing it—the U.S. government has ongoing efforts to prevent technology transfer to its political adversaries.

Although technology transfer was a concern between 1880 and 1945, it emerged as an important issue in U.S. economic diplomacy during the cold war, which pitted the United States and its allies against the Union of Soviet Socialist Republics (USSR) and its client states. In February 1949, Congress approved the Export Control Act authorizing the Commerce Department to restrict exports via a system of licenses. That November, the United States expanded its policy of denying military hardware and technologies to the USSR by forming the Coordinating Committee for Multilateral Export Controls from among noncommunist industrialized nations.

The government and the press widely debated the technology transfer issue when Congress renewed the 1969 Export Administration Act (EAA) in 1979. J. Fred Bucy of Texas Instruments, who chaired the Defense Department's Science Task Force on the Export of U.S. Technology, suggested the premise of the legislation. The Bucy report noted that the Soviet Union did not want Western goods as much as it wanted Western know-how to permanently improve its economic and strategic capabilities. The report differentiated between technology and goods and recommended strengthening regulations governing the former while lessening export restrictions on the latter.

Thus the EAA of 1979 focused on controlling processes, not products, especially the "critical technologies" on which

America's military superiority over the USSR presumably rested—for example, in the realm of microelectronics. The EAA embodied this notion in the form of the Military Critical Technologies List, a classified document generated and kept by the U.S. Defense Department. With the collapse of the Soviet bloc in 1989 and the Soviet Union in 1991, technology transfer became a secondary issue in the public forum. Nevertheless, in one sense, the arguments presented in the Bucy report persisted in influencing American economic diplomacy. In the post–cold war world, the U.S. government continued to restrict—and encouraged its allies also to restrict—the transfer of critical technologies to perceived or potential adversaries. For example, Congress reauthorized the EAA in 1999 to prevent the proliferation of weapons of mass destruction and their means of delivery to the nations of Iran, Iraq, Libya, and North Korea.

—James K. Libbey

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See also Volume 1: Cold War; Coordinating Committee for Multinational Export Controls.

Tennessee Valley Authority (TVA)

Independent government agency responsible for developing the Tennessee River basin to control flooding and provide hydroelectric power.

During World War I, the U.S. government constructed a plant at Muscle Shoals, Tennessee, for the production of nitrate, a primary component in munitions. After the war, automobile manufacturer Henry Ford attempted to purchase the plant with the hope of transforming the area into an industrial center. Republican Senator George William Norris of Nebraska opposed Ford's purchase and counterproposed that the government continue to operate the facility and other projects in the region, including the Wilson Dam. Presidents Calvin Coolidge and Herbert Hoover rejected Norris's plan because it would involve government interference in private business. Norris finally convinced President Franklin D. Roosevelt to support the project.

Created by Congress in 1933, the Tennessee Valley Authority (TVA) addressed the problems of flooding, soil erosion, and poverty throughout the 41,000-square-mile basin of the Tennessee River, which ran through seven states. Governed by a three-person board with its headquarters located locally, the TVA constructed and maintained dams that generated inexpensive hydroelectric power to the people of the area, controlled flooding, initiated a program of reforestation to stop soil erosion, addressed the problem of malaria, developed fish and wildlife resources, built recreational facilities along the banks, and conducted environmental research. The availability of cheap electrical power attracted businesses to the area. Since the 1930s, industries such as coal, grain, petroleum, chemicals, forest products, and construction materials have provided additional employment for local inhabitants. The TVA addressed the poverty of the area by providing employment and conducting home demonstrations on subjects such as canning food, sewing clothes, and making butter and cheese, as well as personal hygiene and prenatal care.

Until 1959, the government provided the funding for the TVA. As expenses continued to climb, Congress authorized the sale of bonds and notes to fund the project. Eventually, the sale of electricity placed the TVA on a self-sufficient basis, and in the 1990s it paid back more than $2.5 million to the U.S. Treasury. The project had also achieved success in raising the per capita income in the area. Since the 1970s the TVA has shifted its focus to environmental protection, specifically how the growing human population will affect the ecosystem and how to prevent the destruction of plant and wildlife.

—Cynthia Clark Northrup

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See also Volume 1: Great Depression; Muscle Shoals; Roosevelt, Franklin D.

Thirteenth Amendment (1865)

Constitutional amendment that outlawed slavery.

After South Carolina seceded from the Union in December 1860, several attempts at reconciliation occurred. One proposal was an amendment, the Thirteenth Amendment, that would have guaranteed the continuation of slavery. After Civil War fighting commenced, the Northern Republican Congress passed two Confiscation Acts declaring slaves in areas of open rebellion to be free. President Abraham Lincoln finally issued the Emancipation Proclamation on January 1, 1863, declaring that all slaves in areas of open rebellion were free. (Confiscation Acts passed between 1861 and 1864 had stated that all slaves in all states, including those loyal to the Union, were free, and Lincoln did not enforce those acts.) After the Civil War, Congress quickly passed the Thirteenth Amendment outlawing slavery altogether and submitted it to the states for ratification on January 31, 1865. The states ratified it on December 6, 1865. Congress issued an official proclamation to that effect on December 18, 1865. This amendment outlawed slavery and involuntary servitude in the United States, thus

ending a system of involuntary labor that divided the states and became an issue of the American Civil War. By the time the states ratified this amendment all but two states had outlawed slavery, and most slaves had already gained their freedom. New Jersey, Delaware, and Kentucky initially rejected the proposed amendment but later accepted it. Only Mississippi has never ratified this constitutional change. Passage of this amendment signals the beginning of Reconstruction and the process of unifying the nation.

In 1918 in *Arver v. United States,* the Supreme Court ruled that the "involuntary servitude" clause of the Thirteenth Amendment did not extend to the military draft.

—James T. Carroll

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See also Volumes 1, 2: Slavery.

Timber and Stone Culture Act (1878)

Act that made cheap public land available for lumber interests.

In March 1877, Congress passed the Desert Land Act, which allowed individuals to claim up to 640 acres of arid western land at only $1.25 per acre if they attempted to irrigate the land within three years. The law applied to the states of California, Oregon, and Nevada as well as to the territories of Washington, Idaho, Montana, Utah, Wyoming, Arizona, New Mexico, and the Dakotas. Nearly nine million acres of arid public land were affected by the act. Most of the property went to cattle ranchers.

A year later, lumbermen lobbied for a similar act that would benefit their industry, and Congress passed the Timber and Stone Culture Act in 1878 to meet their demands. The law offered tracts of public land unfit for agriculture in the states of California, Oregon, and Nevada and in the Washington Territory at only $2.50 per acre. The size of any one tract could not exceed 160 acres. Individuals who purchased the land had to swear that they were buying the land for their own use or benefit and that they had made no agreements to transfer the land to anyone else. Lawmakers added these provisions fearing that lumbermen would hire individuals to claim small tracts, only to transfer their titles immediately to a large lumber company.

In 1878, the U.S. Supreme Court ruled that individuals could transfer their titles immediately after acquiring the land to any person or company. As a result, large lumber companies became the major beneficiaries of the new law. The acquisition of nearly one-third of the privately owned forests in the Pacific Northwest occurred through the Timber and Stone Culture Act. In 1892, the law extended to public land in all the states. Eventually Americans purchased over 13 million acres under the provisions of the Timber and Stone Culture Act.

—Mary Stockwell

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See also Volume 2: Land Policies; Volume 2 (Documents): Timber and Stone Culture Act.

Timber Culture Act (1873)

Legislation that offered free land in exchange for planting trees.

The Homestead Act of 1862 allowed any adult citizen or resident alien the right to claim 160 acres of newly surveyed land in the public domain, mostly in the Great Plains. The claimant paid a $10 fee and then had to live on the land or improve it in some way over a five-year period. After that time, the land belonged to the claimant free of charge. Many Americans living in the East wanted the Great Plains opened to small farmers; many westerners knew that 160 acres could not support either farming or ranching in the arid land between the Mississippi River and the Rocky Mountains.

Congress made the first attempt to give settlers in the Great Plains more land through the passage of the Timber Culture Act in 1873. The law allowed individuals to claim another 160 acres of free land if they planted at least one-quarter of the property with trees over a four-year period. Later amendments to the act reduced the amount of trees to ten acres and allowed up to eight years to complete the planting.

The Timber Culture Act had three main purposes. Scientists hoped that more trees on the Great Plains would bring plentiful rainfall into the arid country. The trees would also serve as a renewable source of fuel, homes, and fences. Finally, settlers could acquire a bigger piece of property and so better survive in the harsh conditions of the Great Plains. Some settlers combined their timber culture rights along with their homestead and preemption rights to set up farms and ranches of 480 acres. Eventually the government granted 11 million acres of western land through the Timber Culture Act.

—Mary Stockwell

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Townsend, Francis E. (1876–1948)

Originator of the Social Security Act who initially advocated a monthly check for elderly citizens as a means of opening jobs for younger, unemployed workers during the Great Depression.

During the Great Depression, several individuals achieved national recognition for their proposals to end the nation's economic problems. One of them was Francis E. Townsend. Townsend was born August 13, 1876. He attended medical school at the University of Nebraska early in the twentieth century and practiced medicine for many years before settling in Long Beach, California. When the Great Depression hit, Dr. Townsend, concerned with the growing population of aging unemployed workers, devised the "old age revolving pension." A political activist, he promoted at enormous rallies nationwide that the government should issue monthly checks for $200 to individuals over the age of 60 years on the condition that they spend the money in

order to receive the next month's check. This spending would stimulate the economy. Townsend employed charismatic speakers like Gerald L. K. Smith, who changed the name to the Townsend Plan, to promote the idea across the nation. He also coordinated efforts with Father Charles E. Coughlin, a popular priest from Royal Oak, Michigan. The three men formed the Union Party to oppose President Franklin D. Roosevelt, who sought a second term in the 1936 presidential election. Disagreements among the three founders during the election resulted in the decline of the party afterward. Roosevelt feared the continued efforts of Townsend, who was an increasingly popular opponent nationwide during the election campaign. In 1935, prior to the election, Roosevelt persuaded Congress to pass the Social Security Act to silence his critics, including Townsend. Townsend continued to modify his plan into the 1940s in an effort to retain national notoriety. He died November 30, 1948.

—Cynthia Clark Northrup

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See also Volume 1: Great Depression; Roosevelt, Franklin D.; Townsend Plan.

Townsend Plan

Proposal that resulted in the Social Security Act after Franklin D. Roosevelt coopted the plan during his 1936 reelection campaign.

In 1933, as the Great Depression continued unabated, Francis E. Townsend of Long Beach, California, a politically active doctor, called for the establishment of the Old Age Revolving Pension. Under his plan every American over the age of 60 years would receive a monthly check from the government in the amount of $200 on the condition that all of the money would be spent every month. The funds would be generated by a 2 percent federal sales tax. This plan, designed to provide income for the aging unemployed population, would open up jobs for younger workers while providing older citizens a means of continued financial support. Promoted across the nation by dynamic promoters like Gerald L. K. Smith (Townsend's adviser, who named the idea the Townsend Plan), the idea became extremely popular. Franklin D. Roosevelt added it to his platform during his 1936 presidential campaign for a second term, in which he faced the Union Party that Townsend and Smith had helped to found. In 1935, Roosevelt persuaded Congress to pass the Social Security Act.

—Cynthia Clark Northrup

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See also Volume 1: Great Depression; Roosevelt, Franklin D.; Townsend, Francis E.

Townshend Duties (1767–1773)

Series of restrictive acts by the British Parliament that taxed the American colonies and restricted residents' rights as English citizens.

After the British government under pressure from American colonists repealed the 1765 Stamp Act, which placed a duty on newspapers, legal documents, and other items including dice, it still faced a looming war debt from the Seven Years' War and the continuing cost of keeping troops in North America. Charles Townshend, England's chancellor of the Exchequer, proposed a new set of customs duties on lead, glass, tea, paint, and paper from Britain, with the taxes going to support not only the English military presence in the colonies but to pay the salaries of customs commissioners, making them independent of colonial politics. The bill also included provisions for the existence of admiralty (military) courts in Halifax, Nova Scotia, to try smugglers without juries, and for writs of assistance—warrants that authorized customs officials to impound ships and cargo.

The colonial population hated these measures and quickly mobilized the same protests it had successfully used against the Stamp Act, including a 1765 nonimportation agreement spearheaded by the Sons of Liberty in Boston and the Daughters of Liberty, colonial women who vowed not to purchase British products. The British government responded to colonial refusal to rescind inflammatory circular letters by dismissing the Massachusetts General Court and sending 4,000 soldiers to Boston to quell riots in 1768. Although the new government of British Prime Minister Lord North rescinded the Townshend Duties in 1770, it kept the tax on tea as part of the 1773 Declaratory Act, which insisted that Britain had a right to tax its colonies. Troops remained in Massachusetts, leading to the Boston Massacre (an incident on March 5, 1770, in which five colonists were killed by British soldiers and six others were wounded after colonists taunted a lone British sentry) and further clashes with the colonists including the Boston Tea Party in 1773.

—Margaret Sankey

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Trademark Act of 1947

Legislation designed to increase protection of trademarks.

On July 5, 1946, Congress passed the Trademark Act of 1947, known as the Lanham Act, making the effective date July 5, 1947. The bill increased the protection of trademarks already provided under earlier legislation: the Trade-Mark Act of March 3, 1881; "An Act relating to the registration of trade marks" (August 5, 1882); and the Trade-Mark Act of

1905. Legislators strengthened provisions against the deceptive and misleading use of trademarks in commerce and provided protection from unfair competition. Of particular importance, the Trademark Act of 1947 provided remedies in cases involving the fraudulent use of trademarks through the use of "reproductions, copies, counterfeits, or colorable imitations of registered marks." The act defined requirements for application, service of process (in which court documents are served on individuals or agencies), court appeals, and jurisdiction. Under the act the federal government prohibited states from infringing on the rights of persons or entities using a registered trademark and placed jurisdiction in the federal courts. Trademark certificates were valid for ten years, but after six years the commissioner could revoke the certification unless the party notified the patent office that the mark was in actual use or satisfactorily explained why it was not. The act remained in effect until 1999, when Congress passed an updated law that addressed the liability of the federal government and modern technological advances (Trademark Amendments Act).

—Cynthia Clark Northrup

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See also Volume 1: Trademark Amendments Act of 1999.

Trademark Amendments Act of 1999

Amendments clarifying the trademark protections established in the Trademark Act of 1947.

The Trademark Amendments Act of 1999 clarified American trademark law established in 1946 by the Trademark Act of 1947, also called the Lanham Act. It expanded the protection of famous trademarks, like Coca-Cola®, by prohibiting the dilution (erosion of the selling power) of those marks. The act took effect in August 1999 when President Bill Clinton signed the bill.

Under the Trademark Amendments Act, dilution justifies opposition to someone's application to register a new mark or to petition to cancel a trademark already registered. The legislation specified a process for determining whether or not a trademark is famous. The U.S. Patent and Trademark Office will consider how long the register has used the mark, how distinctive and recognizable the mark appears, and whether or not other companies use similar marks.

The legislation also eliminated the federal government's immunity from lawsuits for violating the Lanham Act. Representative Howard Coble, a Republican from North Carolina, introduced the House version of the legislation. He argued, "The federal government cannot be sued for trademark infringement by a private citizen or corporate entity. Yet, the federal government enters the marketplace as a competitor to private business and is in a position to sue others for infringement." According to Coble, allowing holders of trademarks to sue the federal government would level the playing field.

The administration of President Bill Clinton opposed the legislation in part because of the removal of the federal government's immunity. The Clinton administration also believed that the bill would increase the workload at the Patent and Trademark Office. Despite the opposition, Congress easily approved the legislation and President Clinton signed it.

—John David Rausch Jr.

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See also Volume 2: Intellectual Property.

Trail of Tears (1838)

Forced march of Indian tribes from the eastern United States to Oklahoma.

During the early years of the U.S. Republic, Native Americans continued to live among Europeans in the eastern part of the United States. Five of the tribes became known as the "civilized tribes"—the Cherokee, Creeks, Choctaw, Chickasaw, and Seminoles. By the 1830s, these tribes had adopted white ways including establishing schools for their children, plowing fields and cultivating crops, and even owning slaves. Yet President Andrew Jackson believed that as long as the Indians remained among the U.S. population, the possibility of problems existed. He stated, "Humanity weeps over the fate of the Indians, but true philanthropy reconciles the mind to the extinction of one generation for another." Earlier attempts to persuade the Indians to voluntarily move west of the Mississippi River failed, and after the discovery of gold on tribal lands, Congress passed the Indian Removal Act of 1830 at Jackson's request. Threatened with forced removal, the Indians attempted to resist it in the courts. Many whites believed the policy flawed and tried to assist the Indians in their legal battle. On July 15, 1831, a Christian missionary from New England named Samuel A. Worcester crossed into Indian territory to help them, and the state of Georgia had him arrested. Worcester took his case to the U.S. Supreme Court, which that ruled against Georgia in *Worcester v. Georgia.* Still, the Court lacked the power to enforce its decision. Consequently, Jackson ordered the forced removal of the Indians.

The U.S. Army organized 13 separate groups of Indians and then hired contractors to move them west toward the setting sun. These contractors received $65 per person from the government to provide food and medicine for the Indians during the 1,000-mile forced march. At gunpoint, these Indians moved along a trail that extended across Tennessee, Kentucky, Illinois, and Missouri to present-day Oklahoma. The U.S. government failed to monitor the situation, and many of the contractors provided bad meat and no medicine, choosing to keep the money as part of their profit. As a result, approximately one-quarter of the Indians perished along the Trail of Tears. When the remaining Indians reached Oklahoma, the tribes established their own governments. Not surprisingly, when the Civil War broke out, most of the survivors of the Trail of Tears supported the Confederate States of America.

—Cynthia Clark Northrup

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See also Volume 1: Indian Policy.

Transcontinental Railroad

Railroad link between the Mississippi River Valley and the Pacific coast.

By the early 1850s, many Americans were calling for the construction of a transcontinental railroad that would link the Mississippi River Valley to the Pacific coast. In the spring of 1853, Congress ordered the Army Corps of Engineers to survey the best possible routes west. The army proposed four possible pathways. The first ran from Lake Superior to Portland, Oregon; the second followed the South Pass through the Rocky Mountains to San Francisco; the third ran from the Red River Valley in Texas to southern California; and the fourth headed west from Texas through the Gila River Valley in Arizona.

Democratic Senator Stephen Douglas of Illinois, knowing that sectional rivalries would prevent the construction of any of the routes, proposed instead, in 1854, construction of three transcontinental railroads, which he called the Northern Pacific, the Central Pacific, and the Southern Pacific. Both Northern and Southern members of Congress agreed that sectional rivalries made it impossible to choose one route over another, but they turned down his counterproposal as simply too expensive. However, once the Civil War broke out, sectional rivalries no longer mattered because construction would only occur in the North. Northern congressional representatives passed the Transcontinental Railroad Act July 1, 1862, authorizing construction of a railroad along the central route.

The Union Pacific Railroad would be built west from the 100th meridian—the boundary between the moist East and the arid West—and the Central Pacific Railroad would head east from California. Two private companies built these lines, but both needed financial help from the U.S. government to complete their routes. Each company received a 400-foot right-of-way along the tracks as well as ten alternate sections of free land for each mile of track laid. The companies could make a profit by selling land along their routes as well as by carrying goods and selling passenger tickets. The government also paid the companies a premium of $16,000 for every mile of track laid in level country, $32,000 for every mile of track laid in foothills, and $48,000 for every mile of track laid in mountain ranges.

At first, construction of both routes proceeded slowly, but within four years, the pace picked up. Irish immigrants laid most of the Union Pacific track across the Great Plains, and Chinese laborers did the backbreaking work of pushing the Central Pacific over the Sierra Nevada mountain ranges. By 1867, the Union Pacific had reached Cheyenne, Wyoming, and was about to enter the South Pass of the Rocky Mountains. The Central Pacific had already crossed the Nevada deserts. The pace of construction increased even more when Congress classified the plains of Utah as mountain ranges. This designation meant that each company now received a $48,000 premium for every mile of track it laid.

During 1868, crews building the Union Pacific laid 360 miles of track, and those constructing the Central Pacific put down 425 miles. The race became so hectic that neither side paid attention to the fact that on their present courses the trains would not meet but would instead pass by each other somewhere in northern Utah. Congress solved the problem by ordering the two lines to meet at Promontory Point near Ogden, Utah. The last railroad tie, made of laurel and wrapped in silver, was finally laid in May 1869. Leland Stanford, president of the Central Pacific Railroad, hammered the last golden spike into the tie. People throughout the United States celebrated the completion of America's first transcontinental railroad—a symbol of the unity the nation desperately needed in the aftermath of the Civil War.

Soon more transcontinental railroads appeared. The Kansas Pacific Railroad linked Kansas City to Denver. The Atchison, Topeka and Santa Fe connected Kansas to New Mexico. The Southern Pacific Railroad linked San Francisco to the Colorado River. The line soon extended south across Texas to Galveston on the Gulf of Mexico. The Northern Pacific, built in 1883, was the last transcontinental railroad. It connected the Upper Great Lakes to the Puget Sound. After some 20 years of construction, the many transcontinental railroads had finally opened the Great Plains for settlement.

—*Mary Stockwell*

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See also Volume 2: Transportation Policy.

Transportation Revolution

Early nineteenth-century technological innovations in transportation that began with the invention of the steam engine.

The steam engine was invented in 1698 and was used to pump water out of coal mines. James Watt improved the design in 1763. In 1830, it came into common use in the United States to pull trains. Before that time, roads, sailing vessels, and canals dominated transportation in the United States. Turnpikes connecting the Atlantic states dominated interior travel, which was by horse and buggy. Sailing vessels dominated coastal transport, but steamboats displaced them after 1815. By the 1830s railroads replaced canals as an important mode of transportation; using the new steam engines, railroads connected the country and revolutionized transportation.

Before 1824, the federal government played a limited role in transportation. Congress granted one exception and helped with construction of the National Road by funding it via sales revenues from 5 percent of Ohio land that the federal government owned and sold to settlers or investors. However, transport over roads remained slow. The federal government, partly because of opposition to its involvement with the National Road, stayed out of the road-building

business until 1916 after the invention of the automobile, when another revolution in transportation occurred.

Strict constructionists argued that the Constitution did not grant the federal government power to fund internal transportation improvements. This perspective changed when the Supreme Court issued its decision in the 1824 case of *Gibbons v. Ogden*. Although the case involved steamboat travel in New York, the decision strengthened the power of the U.S. government because it established national supremacy in regulating interstate commerce. Based on the Court's ruling, the government could support transportation as a matter of interstate commerce. The decision also became the basis for government regulation of railroads in 1887.

The government used subsidies to encourage the transportation revolution in the nineteenth century. The United States bought stock in canal, steamship, and turnpike companies and funded the building of telegraph lines so station masters could communicate about arrival and departure times and conduct other railroad business. Western states granted free land to railroad companies, which sold the land at a profit so it could fund construction of the railroad tracks. Congress provided government surveyors to help companies lay out transportation routes, and it reduced tariffs on materials such as iron used to build railroad tracks. In 1850, Congress gave land grants to three railroads—Illinois Central, Mobile, and Ohio—to connect Illinois with the South. Such subsidies helped to connect the continent by the 1870s and allowed farmers to take part in a national economy. Being able to transport their produce to distant markets via railroads allowed farmers to move from subsistence to the market economy.

The land grant also set a precedent for the next two decades. Based on the 1850 act, Congress passed the Pacific Railway Act in 1862, authorizing land grants and cash premiums up to $48,000 per mile of track for the Union Pacific and Central Pacific Railroad companies, which were building a transcontinental railroad. Congress issued a similar grant in 1864 to the Northern Pacific. The government transferred 131 million acres to railroad companies and through their efforts connected the continent by the 1870s.

The era of railroads ended after another transportation revolution occurred in the early twentieth century. The invention of the automobile led to passage of the Federal Highways Act in 1916. This act provided for construction of a national road system connecting far-flung areas of the country and furthering economic development. In the 1920s, passenger travel began a steady decline, and by 1971 Congress created Amtrak to serve intercity and passenger train travel. The government has continued to provide assistance to Amtrak, which had never operated profitably.

The most recent form of transportation to develop was the airplane. Limited passenger travel started in 1912 with the zeppelin airship. The U.S. government began subsidizing the airline industry in 1919 by sending mail by air. As a result of these subsidies the airline industry expanded; new companies such as Pan Am, United Airlines, American Airlines, and Delta formed between 1928 and 1931. In 1930 only a few thousand people traveled by air; that number increased to 2 million passengers per year by 1930. Passenger travel boomed after World War II; 16.7 million passengers per year traveled by air in 1949. The development of jet airliners reduced flight times and fares, and by 1988 more than 455 million passengers per year traveled by air. The airline industry continued to enjoy prosperity until the terrorist attacks of September 11, 2001. The dramatic decline in air travel since then has forced many airlines close to bankruptcy, and they compete for passengers by slashing fares. In 2002 Congress authorized a $15 billion bailout package for the airlines.

—Eugene Van Sickle

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See also Volume 1: Automobile; Railroads.

Treaty of 1783

Treaty between Britain and the United States that ended the Revolutionary War and secured American independence; also known as the Treaty of Paris.

During the Revolutionary War following the Battle of Yorktown in 1782, the British chose to make peace rather than continue the fight to keep the colonies. The American negotiators were already in Europe on diplomatic missions—John Jay was in Spain, and Benjamin Franklin and John Adams were in France—so talks began immediately in Paris. By beginning treaty talks with Britain, the United States violated its agreement with France not to make a separate peace, which would mean that France, Spain, and the Dutch would remain at war with Britain in India and the Caribbean.

The treaty itself was signed on October 8, 1782, and ratified in January 1783. It guaranteed the independence of the new nation, the United States, and fixed its western boundary at the Mississippi River. Florida, which had been in British hands since 1763, was returned to Spain. The United States received the right to fish off the Grand Banks of Newfoundland and to navigate the St. Lawrence River, and the British received a guarantee that the Confederation Congress (the current American government) would recommend that U.S. states pay reparations to loyalists who had lost property in the war and repay debts to British merchant houses. The northern and southern borders of the United States remained vague in this treaty, particularly in the stretch of land between Canada and the United States in the north, and two further treaties were required to solidify them. Most importantly, the Treaty of 1783 accomplished the British withdrawal of troops from the United States and the diplomatic recognition of the United States as a separate country from Great Britain.

—Margaret Sankey

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See also Volume 1: American Revolution.

Treaty of 1867

Treaty that arranged the purchase of Alaska from Russia.

In 1741 the Russian explorer Vitus Bering crossed the straits that separated Russia from the North American continent, a distance of 55 miles. He discovered Alaska, mapped the region, and claimed the land for Russia. In 1784 Russian fur traders established a trading post at Three Saints Bay on Kodiak Island. In 1866, the Russian czar instructed his foreign minister to negotiate the sale of the land to the United States. U.S. Secretary of State William Seward signed the treaty on March 30, 1867. The terms of the treaty called for the United States to receive 586,000 square miles of land in exchange for $7.2 million. The purchase was unpopular in the United States; critics labeled the land acquisition "Seward's Folly" or "Seward's Ice Box." Then, in the 1880s and 1890s, prospectors discovered gold in Alaska. The U.S. government encouraged expeditions into the region to map the geography and catalog the wildlife and cultures. The Harriman Expedition of 1899 designated many of the geographic features including Mt. McKinley, named for William McKinley, who was president at the time. Alaska became a territory in 1884 and a state on January 3, 1959. Even more important than the discovery of gold was the discovery of oil in 1968 at Prudhoe Bay, Alaska. At first the cost of transporting oil restricted exploration for it, but that problem was solved with the construction from 1973 to 1977 of the Alaskan pipeline. Exploration in Alaska stepped up because of the Arab embargo in the 1970s, when the price of oil was high, and because of continued concerns about political volatility in the Middle East, from which the U.S. imports 22 percent of its oil (2002 data). At the same time, environmentalists have fought to preserve Alaskan wildlife, claiming that such exploration would be detrimental to the local ecology. After the terrorist attacks of September 11, 2001, President George W. Bush proposed additional drilling in Alaska, but Congress rejected the measure.

—*Cynthia Clark Northrup*

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See also Volume 1: Oil; Volume 2: Land Policies.

Treaty of Ghent (December 24, 1814)

Treaty that concluded the War of 1812 and ended the policy of economic warfare between the United States and Great Britain.

Hostilities between Britain and the United States had begun in 1812, and peace negotiations to end the war opened between delegates from the United States and Great Britain in Ghent, Belgium, on August 8, 1814. The American delegation, which included John Quincy Adams, Henry Clay, Albert Gallatin, James A. Bayard, and Jonathan Russell, insisted that the British abandon the policy of impressing U.S. seamen (claiming they were deserters and forcing them into service in the Royal Navy), respect international law in operating blockades, and pay indemnity for their illegal seizure of American ships. The demands of the United States intended to redress the causes of the war. The British delegation included James Lord Baron Gambier, Henry Goulburn, and William Adams. These men, under strict instructions from London, proposed demands designed to protect Canada from American aggression and expansion. The British wanted territorial concessions in New York and Maine, the surrender of American control on the Great Lakes, the creation of an autonomous Indian buffer state, the right to navigate the Mississippi River, and the relinquishment of American fishing rights off the coasts of Newfoundland and Labrador.

As negotiations proceeded, the diplomats dropped one demand after another and eventually agreed to a peace treaty that settled nothing but simply restored conditions to their prewar status. Completed and signed on December 24, 1814, the treaty, referred to as the Peace of Christmas Eve, outlined the agreements made in the settlement. Each side agreed to evacuate all enemy territory, not to carry off any enemy property, and to return all prisoners as soon as practicable. Each nation also promised to make peace with Native American groups and agreed to establish future joint commissions to address the issues of impressment and neutral rights, the demilitarization of the Great Lakes, the definition of the Canadian-American border, and disputed fishing rights. Although the treaty achieved the most important objective and concluded hostilities, neither delegation felt truly satisfied because neither succeeded in having its demands met.

The provisions of the treaty, however, had important ramifications for the future development of the United States. It established a pattern of improving relations between the two nations, and England's abandonment of an Indian buffer state placed the destiny of the old northwest frontier solely in the hands of the U.S. government. This aspect of the agreement freed Americans from the fear of British intrigues in the West and hastened settlement.

—*Peter S. Genovese*

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See also Volume 1: War of 1812.

Treaty of Greenville (1795)

Treaty under which Indians agreed to open Ohio for settlement.

In 1790, the Native American tribes of the old northwest in the Ohio River Valley region joined together to stop the advance of the Americans north of the Ohio River. Their leaders included the Wyandot Chief Tarhe the Crane, the

Shawnee Chief Bluejacket, and the Miami Chief Little Turtle. These men successfully led their warriors against the armies of General Josiah Harmar in 1790 and General Arthur St. Clair in 1791. Desperate to open the West for settlement, President George Washington sent a third army into Ohio under General Anthony Wayne in 1792. Wayne took two years to train his forces before heading north to meet the Indians along the rapids of the Maumee River. His army defeated the combined tribes at the Battle of Fallen Timbers on August 20, 1794.

One year later, in 1795, General Wayne called the defeated tribes together to negotiate a treaty. They met at Fort Greenville in western Ohio. Wayne had built the fort during the march to Fallen Timbers and had named it in honor of General Nathaniel Greene. After weeks of debate, the chiefs of the major Ohio tribes finally signed the Treaty of Greenville. They agreed to divide Ohio by a line that started at the mouth of the Cuyahoga River and ran south to Fort Laurens on the Tuscaroras River, west to Fort Loramie on a branch of the Great Miami River, and finally southwest to the Ohio River. The Indians promised to live north of the line; Americans could settle south of it and in 16 smaller plots set aside in Indian territory. The Native Americans could also cross south of the line to hunt, while Americans received a guarantee of safe passage through Indian country. In exchange for agreeing to the terms of the Treaty of Greenville, the U.S. government promised the Indians yearly payments of up to $1,000 per tribe.

—*Mary Stockwell*

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See also Volume 1: Indian Policy; Volume 2: Land Policies.

Treaty of Guadalupe Hidalgo (February 2, 1848)

Treaty that ended the Mexican-American War.

After the United States passed a joint resolution annexing Texas, the Mexican army began attacking Americans just north of the Rio Grande River. Congress declared war on Mexico in retaliation. After U.S. forces occupied Mexico City in 1847 at the end of the Mexican War (1845–1848), the two countries signed the Treaty of Guadalupe Hidalgo on February 2, 1848. In addition to ending the hostilities, the treaty renounced future war as a means of settling conflicts. John Trist, the U.S. minister to Mexico, disregarded the president's instructions to return to Washington after being rebuffed by the Mexican government and instead negotiated the terms of the treaty. According to the agreement, which ratified by the Senate March 1, 1848, by a 38-to-14 vote, the two countries recognized the Rio Grande River as the boundary between the United States and Mexico. In addition, all land that encompasses present-day Arizona (except for the Gadsden Purchase, in which the U.S. bought Mexican land to use in building the transcontinental railroad), New Mexico, Colorado, Utah, Wyoming, and California was ceded to the United States for $15 million. The United States also assumed responsibility for any claims by American citizens against the Mexican government. The Mexican government ratified the treaty May 3, 1848, and U.S. forces withdrew from Mexico City. As a result of the Mexican-American War, the United States gained 338,680,960 acres of land and another 78,926,720 acres from the acquisition of Texas through a joint resolution of Congress that admitted the Republic of Texas into the Union as a state. Much of this land became available to settlers under the Homestead, Timber Culture, Timber and Stone Culture, and Desert Land Acts.

—*Cynthia Clark Northrup*

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See also Volume 1: Timber and Stone Act; Timber Culture Act; War and Warfare; Volume 2: Land Policies; Volume 2 (Documents): Treaty of Guadalupe Hidalgo.

Treaty of Paris

See Treaty of 1783.

Treaty of San Lorenzo

See Pinckney Treaty.

Triangular Trade

Term referring to a key component of the colonial mercantilist economy, a series of established trade routes that linked Europe, Africa, and the Americas.

Begun by the Portuguese and Dutch as early as the sixteenth century and perfected by the French and British as late as the early nineteenth century, the complex system of commerce called *triangular trade* involved the transport of European manufactured items to Africa for the purchase of slaves, the transport of these slaves to America in exchange for the products of slave plantations, and, in the third and final leg, the transport of the American cash crops to Europe. In later years, a second pattern emerged that involved American slavers. New England slave ships sailed to Africa with rum for the purchase of slaves, who were transported to the West Indies and sold for molasses, which, in turn, was brought back to New England and distilled into rum.

Triangular trade was largely a private endeavor. Although a few investors lost money because of the risks involved in trans-Atlantic trade, the cost of European goods such as guns, cheap cloth, and trinkets remained negligible compared with the value of the slaves, and thus most investors profited immensely. Triangular trade was by its very nature brutally harsh. In the second leg of the journey—the infamous "middle passage" from Africa to America—slaves were chained and regimented into overcrowded quarters. Racked with disease

and malnutrition, thousands died. As a complex system of industrial interdependency linked by transportation, dependent on communication, and financed by investment capital, triangular trade represented an early form of a global economy. Each leg of the trade was integrated with the others, and the same people were often involved. Investors in a cargo of slaves were often plantation owners, who might also be involved in shipbuilding. Plantation profits might be invested in a factory to produce the trinkets necessary for the acquisition of slaves. A slaver might use his profits to purchase a plantation.

By helping to make colonization a profitable enterprise, triangular trade spurred on further development in America, including aspects of the economy not directly related to the slave industry (such as production of textiles from Southern cotton). In addition, reinvestment of profits in England helped provide the capital for the Industrial Revolution, which started in England and then spread to the United States.

—*Brooks Flippen*

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See also Volumes 1, 2: Slavery.

Truman Doctrine

Policy of containment of communism enunciated by President Harry S Truman in 1947 that laid the cornerstone for several decades of U.S. confrontation with the Soviet Union.

The Truman Doctrine braced the United States for a campaign to check communist expansion and secure predominance in the postwar world. The doctrine shaped up between 1945 and 1947 when Washington's relations with Moscow—an ally during World War II but by 1947 a dominant communist power—became increasingly acrimonious. Throughout this two-year period, the U.S. government displayed a strong repugnance toward Moscow's authoritarian control over Eastern Europe (albeit a Soviet sphere recognized by the United States and its Western allies) and its growing ideological animosity toward the capitalist West. At the same time, American policymakers were anxious about the rising influence of domestic communists and pro–Soviet Union radicals in a war-devastated Western Europe, an area essential to the liberal capitalist international order the United States desired to build. Washington was also becoming ever more vigilant and wary of Soviet intentions in the Middle East, an oil-rich and strategically important region, as Moscow attempted territorial inroads into Iran and Turkey. To the further dismay of the United States, from 1944 through 1949 civil war ran rampant in Greece—the British sphere of influence—between the oppressive government in place and guerrillas supported by the communist regimes of Bulgaria, Yugoslavia, and Albania. A communist victory in Greece would not only create a vacuum for the Soviets to fill but would menace American economic and strategic safety. American policymakers came to believe that expansion was innate to Soviet communism and knew no bounds, and that only the United States had the material resources to contain the Soviet Union until it eventually collapsed. Such a line of thinking produced Truman's policy to assist pro-American governments against the thrust of communist expansion.

Truman declared this U.S. position in an address to Congress on March 12, 1947, following Britain's decision the previous month to relinquish its support for the Greek government. Truman asked Congress for $400 million to fortify the Greek regime and help Turkey, which also faced the Soviet threat. He argued that a struggle between the free and the nonfree ways of life now dictated history—the United States, leader of democracy, had the moral obligation and material strength to support free peoples in their resistance to "subjugation by armed minorities or by outside pressures" and help the free nations toward self-determination. The new policy worked to buttress Greece and Turkey and, along with the Marshall Plan, it helped to assist the economic recovery in Western Europe and to strengthen its strategic alliance with the United States. By mobilizing an anticommunist crusade, the Truman Doctrine also helped raise the Truman administration's popularity at home. Yet, the United States, as the administration itself recognized, was incapable of accomplishing all that the Truman Doctrine promised. In the years to come, Washington had to make strategic adjustments, focusing on strategic areas instead of peripheral regions to avoid overstretching American resources.

—*Guoqiang Zheng*

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See also Volume 1: Cold War; Communism.

Trusts

Combination of companies with a single board of trustees formed to reduce competition and control prices.

Samuel Dodd, an attorney for Standard Oil Company, created the first trust on January 2, 1882. Under the Standard Oil Trust, a nine-member board of trustees controlled all of John D. Rockefeller's oil-related companies. Rockefeller had worked hard to establish Standard Oil and used methods that reduced his costs to increase profits. Stockholders received shares in the trust, to which all profits from the various companies were transferred. The board then determined the amount of dividends paid to the stockholders. The nine trustees served as director or officers of the various companies, in essence creating a monopoly. Over the next few years, as Standard Oil dominated the petroleum industry and drove out the competition, the public began to agitate against the monopolies—not just the oil trust, but also the sugar, beef, and steel trusts. In 1890 Congress addressed the issue by passing the Sherman Anti-Trust Act.

Designed to prevent the restraint of trade, the Sherman Anti-Trust Act was ineffective against the giant conglomerates of the day because of its lack of an enforcement clause and because of the Supreme Court's interpretation of a monopoly. (For example, when the federal government tried to prosecute the sugar trust, the Supreme Court ruled in *United States v. E. C. Knight Co.* that control over 98 percent of the market did not constitute a monopoly.) Because Standard Oil did not control 100 percent of the oil market, the company escaped prosecution. However, when the railroad workers all struck against the Pullman Sleeping Car Company in 1894, the government threatened the union under the Sherman Anti-Trust Act because 100 percent of the workers had joined the strike.

The ineffectiveness of the Sherman Anti-Trust Act did not deter President Theodore Roosevelt from pursuing trusts. During his seven years in office from 1901 to 1908, Roosevelt instructed his attorney general to file charges against the largest trusts, starting with Northern Securities Company, the controlling entity for the Great Northern and Northern Pacific Railroads. After the Supreme Court ordered the dissolution of Northern Securities, the Roosevelt administration prosecuted another 40 cases before William Howard Taft became president in 1908. Taft proved a greater trust-buster than Roosevelt, successfully dismantling 70 trusts during his short four-year term. During Taft's administration, the U.S. Supreme Court ruled against Standard Oil and dissolved the interlocking directorate that had allowed the company to monopolize the industry. In 1914 during Woodrow Wilson's term (1913–1921), Congress passed the Clayton Anti-Trust Act, legislation that provided enforcement provisions.

Since the early twentieth century, companies have refrained from monopolistic practices, an important exception being the computer software company Microsoft, which started in 1978. The rise of Microsoft, with its monopolistic practice of eliminating competition by packaging its operating system with personal computers, forced the U.S. government to reexamine the issue of monopolies. In 1998 in *United States v. Microsoft,* the government charged Microsoft with monopolistic practices. The case against Microsoft continues as both sides attempt to work out acceptable arrangements to comply with antitrust legislation. The government has reached an agreement with Microsoft, and compliance officers continue to monitor the company, which must comply with the Court's final judgment concerning its business practices in regard to its competitors.

—Cynthia Clark Northrup

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See also Volume 1: Microsoft; Rockefeller, John D.; Standard Oil; *United States v. E. C. Knight Co.*

Truth-in-Lending Act (1968)

Legislation designed to protect consumers who buy on credit.

In 1968 Congress passed the Consumer Credit Protection Act. Title I of that act became known as the Truth-in-Lending Act. Designed to protect consumers by providing them with information about finance charges and additional fees that are tacked on to loans, the act covers all financial transactions of any business that extends credit on a regular basis to customers. Under the act, a lender must disclose the finance charge, the annual percentage rate, the amount financed, the total number of payments, and the total sale price. With this information, the buyer can compare the total loan cost among various lenders regardless of the method the lenders use to compute the finance charge. Confusion had arisen in the past over the various methods of computing interest—simple, compounded (on a daily, weekly, or monthly basis), and whether interest was computed on the highest, lowest, or average balance. The Truth-in-Lending Act also required the disclosure of all loan origination fees (charged to process the paperwork for the loan).

Many federal agencies exercise oversight authority under the Truth-in-Lending Act. The Federal Reserve Board deals with the majority of the financial institutions. Under regulation Z, the Federal Reserve deals with credit offered to consumers on a regular basis. These transactions include purchases for personal, family, or household use and are usually conducted with a credit card or via consumer loan. Regulation M deals with consumer leasing transactions when the term of the lease exceeds four months and the amount financed is less than $25,000. Other agencies besides the Federal Reserve also deal with truth-in-lending requirements: The Department of Transportation, the Veterans Administration, the Department of Housing and Urban Development, the Federal Home Loan Bank Board, and the National Credit Union Administration enforce these regulations.

The penalty for violating the Truth-in-Lending Act includes the ability of the injured party to sue for two times the amount of the finance charges. Congress simplified the Truth-in-Lending Act with the Depository Institutions Deregulations and Monetary Control Act of 1980. The latter act phased out ceilings on interest rates, established uniform cash reserve requirements for institutions, added liability for firms, and offered assistance to troubled institutions.

—Cynthia Clark Northrup

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See also Volume 1: Credit; Federal Reserve Act; Interest Rates.

Truth in Securities Act (Securities Act of 1933)

Depression-era legislation providing for registration of securities (stocks) and full disclosure of information about their issuers.

Investment bankers had a low public image in 1933, primarily because of the financial dealings that took place at the beginning of the Great Depression. That year the U.S. Senate's Banking Committee had completed an investigation into the shadowy Wall Street operations of the 1920s, finding that bankers and their associates regularly dipped into special funds to protect themselves from losses during times of economic decline. Congress responded to the public's anger by passing several new regulations affecting the financial industry, including the Securities Act of 1933, usually referred to as the "Truth in Securities Act."

The law had two basic objectives. First, the legislation required that investors receive financial and other significant information concerning securities, or stocks, being offered for public sale. The second objective was to prohibit deceit, misrepresentations, and other fraud in the sale of securities. The key element of the law made Wall Street operations transparent to investors. For this reason, most Wall Street bankers opposed the legislation as it made its way through Congress.

Despite its opposition to the Securities Act of 1933, the investment community credits it with the growth of stock market activity between the 1930s and the end of the twentieth century. Before the market crashed in 1929, average folks viewed Wall Street as a murky world of insider information and rigged stocks. Only about 1.5 million people out of a population of 120 million (just over 1 percent of the population) invested in the market in the 1920s. By the 1990s, nearly 80 million people out of a population of 248.7 million (32 percent of the population) invested in stocks. The law also resulted in the growth of brokerage firms like Merrill Lynch, whose founder believed that the information required by the Securities Act could be used to market stocks to small investors.

According to Wall Street historian Ron Chernow, the Truth in Securities Act changed the face of Wall Street. Whereas power once flowed from the top down and the prestigious firms did not work with small investors, after passage of the Truth in Securities Act brokerages had to market their services and products much like soap and cereal. The growth of the Internet (a high-speed method of computerized information and communication that became widely used by the public in the 1990s) and the ready availability of information companies are required to provide have made it easier for investors to control their portfolios having only limited contact with a stockbroker.

—John David Rausch Jr.

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See also Volume 1: Securities and Exchange Commission.

TVA

See Tennessee Valley Authority.

U

UN

See United Nations.

Underwood-Simmons Tariff Act (1913)

Legislation that reduced tariffs on more imports than had any tariff act since the Civil War and that included a rider establishing the first income tax since passage of the Sixteenth Amendment had allowed for such a tax.

A commitment to reform of the tariff laws dominated the 1912 presidential election, in which Democrat Woodrow Wilson was elected. One of the first items on Wilson's New Freedom legislative agenda included restructuring "the system of privileged tariff protection that the Republican party had carefully erected since 1861." In dramatic fashion, shortly after his inauguration, Wilson delivered a personal message to both houses of Congress calling for tariff reform. In the eyes of reformers, the high protective tariff that had existed during the period of rapid industrial growth following the Civil War symbolized privilege. Tariff reform had proved a tough political issue to resolve: President Grover Cleveland (who had two terms, 1886–1890 and 1894–1898) almost wrecked the Democratic Party by trying to lower rates, and the promise by Republican President William Howard Taft (1909–1913) of tariff revision "had hastened the disruption of his party."

Oscar W. Underwood, chair of the House Ways and Means Committee, introduced the House bill for tariff revision on April 22, 1913. Protection of wool and sugar became the sticky issue among some Democratic house members, who did not want those commodities protected, and President Wilson skillfully maneuvered the committee to accept the adoption of free wool and sugar. The House version failed to establish a free tariff; it "aimed only at striking down the special advantages that the protectionist policy had conferred upon American manufacturers."

The Underwood Bill—the initial bill in the House of Representatives—sought to establish moderate protection "by placing domestic industries in a genuinely competitive position with regard to European manufacturers." The tariff measure that finally became law lowered duties on nearly 1,000 items including cotton and woolen goods, iron, steel, coal, wood, agricultural tools, and many other agricultural products. Congress reduced the average of all duties from 41 percent—the average ad valorem rate of the Payne-Aldrich Tariff of 1909—to 29 percent. Certain items moved to the free list or received "incidental protection."

Before the act's final adoption by both houses of Congress in October 1913, the Senate attached to it a graduated income tax, anticipating a decrease in customs receipts of about $1 million due to the lower tariff rates—the first income tax passed under the Sixteenth Amendment, which established the personal income tax and had been adopted in 1913. Although Democratic Representative Cordell Hull of Tennessee had initially drafted the income tax proposal, Senate Finance Committee Chair Furnifold M. Simmons introduced the approved compromise surtax charge. A section of the Underwood-Simmons Tariff Act provided for a graduated tax ranging from 1 to 6 percent on incomes greater than $4,000 per year.

The Underwood-Simmons Tariff Act passed against strong opposition from Republicans, who objected to the lower tariff rates. It did, however, answer the widespread call for tariff reform while also establishing the principle that those with more income had the responsibility of paying a heavier share of government expenses. The "ability to pay" principle of taxation became firmly established. Additionally, the new law demonstrated the ability of the Democratic Party to pull together and free itself from special privilege.

In 1922, Republican President Warren G. Harding signed into law the Fordney-McCumber Act, wiping out the reductions made in the Underwood-Simmons Tariff. It set considerably higher rates on hundreds of manufactured products. The new tariff also authorized the President to raise or lower tariff rates by as much as 50 percent. Naturally, most adjustments increased rates. This short-lived victory for Democratic advocates of tariff reform encouraged those wishing to tear down the wall of special privilege.

—Charles F. Howlett

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See also Volume 1: Sixteenth Amendment; Wilson, Woodrow.

Unemployment

The proportion of the labor force out of work but actively seeking jobs, a long-standing concern of economic policy.

The Massachusetts Bureau of the Statistics of Labor, in its 1887 survey of workers involuntarily without employment, coined the noun "unemployment." The measured percentage of unemployment always remains positive because of frictional, structural, and seasonal unemployment. Frictional unemployment describes workers who seek better-paying jobs that make the best use of their skills rather than taking the first available position, and it contributes to efficient matching of jobs and workers. Structural unemployment occurs when the skills of workers no longer match those demanded by employers because of technological change or when workers live in depressed areas (inner cities or Appalachia, for example) where jobs are scarce. The seasonal nature of much work contributes to unemployment at certain times of year.

Policymakers focus most on unemployment due to macroeconomic fluctuations, with high unemployment in the depression years of 1873–1878, 1883–1885, 1893–1897, 1921, and 1929–1940. The coincidence of declining prices under the gold standard (in which currency is completely backed by gold) from 1873 to 1896 with three panics led to Populist Party agitation for bimetalism, which would establish gold and silver as legal tender, thereby increasing the money supply and causing a decline in inflation and an increase in employment. Retrospective estimates of unemployment range from less than 2 percent of the civilian labor force in the boom years of 1906, 1918, and 1919 to more than 18 percent in 1894 (although Christina Romer has argued that a somewhat narrower range of fluctuation existed). Before the Great Depression of the 1930s, public policy response to unemployment concentrated on relief to the unemployed (including public works and unemployment insurance programs of individual states, as well as private charity) and on labor exchanges to speed the matching of jobs and workers.

The Great Depression, with its high unemployment from late 1929 to 1940 peaking at one-quarter of the civilian labor force in 1933, changed the focus of policy from amelioration of the condition of the unemployed to the use of countercyclical monetary and fiscal policy to prevent recurrence of high levels of unemployment. These policies included interest rate adjustments along with tax increases and government spending, and they remained in place during the immediate postwar period (1945–1970). From the 1970s onward, monetarists (for whom the supply of money is the most important economic measure) and new classical economists (who believe that prices and wages adjust quickly according to the natural cycle of supply and demand) increasingly influenced policy, arguing that there exists a natural rate of unemployment and that aggregate demand management (increased government expenditure to stimulate the economy) cannot achieve any lasting reduction of unemployment below this natural rate. Both monetarists and new classical economists stressed instead the supply-side effects of tax rates and minimum wages on the natural rate of unemployment. New Keynesian economists, on the other hand, have continued to insist on a role for aggregate demand management in controlling fluctuations in output and employment.

—Robert Dimand

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See also Volume 1: Keynesian Economics.

Unemployment Insurance

Federal-state income replacement program for temporarily unemployed workers.

Like similar programs in Western Europe, unemployment insurance in the United States is decentralized (handled by the states) and experience-rated (the amount paid to the unemployed person is based on amount of time worked throughout the year). It provides shorter-term benefits than do programs in Europe. The program originated in Titles III and IX of the Social Security Act of 1935.

Unemployment insurance was decentralized because the administration of President Franklin D. Roosevelt, concerned that the Supreme Court would find the national program unconstitutional, continued its commitment to "unemployment and old-age insurance under State laws." To this end, the Social Security Act established a tax-offset mechanism, the details of which are sometimes attributed to

Justice Louis Brandeis. The federal government imposed a 3 percent tax on wages, with a promise to refund 90 percent of the revenues to states that enacted unemployment insurance programs, subject to minimal guidelines. By 1937, every state had done so.

One requirement stipulated that premiums be experience-rated in the sense that firms would be penalized in the form of a higher tax rate for benefits paid to their own workers, with states free to set both the minimum and maximum tax rates. The rationale then and now is that seasonal businesses would have an incentive to smooth production and that firms with low turnover rates should not subsidize firms with higher rates. This is distinct from the more important stabilization function of unemployment insurance—limiting fluctuations in aggregate demand.

Decentralization of unemployment insurance has meant that even now, wide variations exist among states in benefit amounts and in the structure of premiums. During the first quarter of 2001, for example, the average weekly benefit amount varied from $160.51 in Mississippi to $314.28 in Massachusetts. Measured as a share of wages in "covered employment"—jobs covered by the program—it varied from 22.8 percent in California to 44.4 percent in Iowa. In the United States as a whole, however, the ratio of benefits to covered wages has remained constant over long periods. The degree of experience rating is more difficult to measure, but Hawaii, for example, has less than most, and New York more.

Two other historical trends deserve note. First, the percentage of workers covered by unemployment insurance has increased over time, from less than 60 percent to more than 90 percent, as state laws expanded to include workers in the public and nonprofit sectors and at small establishments. Second, the fraction of insured unemployment—the percentage of unemployed workers who collect unemployment insurance benefits—has declined over time, with substantial reductions in the mid-1960s and first half of the 1980s. Labor economists have attributed the first of these reductions to demographic changes and the second to a decline in the take-up rate: that is, for reasons both economic and political, fewer eligible workers now submit unemployment insurance claims.

—Peter Hans Matthews

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See also Volume 2: Labor.

UNICEF

See United Nations Children's Fund.

United Nations (UN)

Prominent global governance system set up after World War II.

The United Nations (UN) has promoted peace-building strategies based on direct, collective economic assistance to developing countries that advocate an international economic order based on free market economies. UN methods often conflict with traditional U.S. economic policy.

The UN was formed in 1945 with the primary purpose of maintaining international peace and security. Its charter states that part of the pursuit for world peace involves promoting "higher standards of living, full employment, and conditions for economic and social progress and development." The charter created the Economic and Social Council (ECOSOC) to handle international relations in the social and economic spheres by coordinating the efforts of specialized agencies more directly involved with fostering economic growth and sustainable development. But U.S. support of ECOSOC emphasized the specific functional roles of these growing agencies as having prominence over a highly centralized international economic order led by the United Nations. Even more importantly, the United States preferred to rely on the Bretton Woods institutions rather than the United Nations as the appropriate channel for economic assistance to developing countries. The Bretton Woods institutions were created by the Bretton Woods agreements in 1945 to stabilize world economies and currencies. These institutions include the World Bank (which lends to foreign governments to reduce these governments' national debt and so make domestic money available for programs such as health care or education) and the International Monetary Fund (IMF), which stabilized international currency rates.

In the early 1960s, membership in the United Nations skyrocketed because a number of independent countries emerged from their former colonial status. The universality of membership in the United Nations allowed for a majority of members representing the interests of developing countries, and these countries' dissatisfaction with the domination of Western private markets in international economic affairs led them to use their majority power to form a caucusing group, the Group of 77 (G-77), at the 1964 United Nations Conference on Trade and Development. Through the mid-1970s, the G-77 worked on the development of a new international economic order that demanded greater economic sovereignty for developing countries through the restructuring of markets, increased developmental assistance, and a greater role for developing countries in the Bretton Woods institutions. The political leverage given to developing countries in the United Nations created a rift between the developed and developing countries over the proper ways to channel developmental aid. Beginning in the late 1970s and continuing through the administration of President Ronald Reagan in the 1980s, the United States began to distance itself

from the UN's multilateral style of collective action aid measures, dropping its membership in several UN specialized agencies and supporting budget cuts in many UN programs. Support from the United States and the West instead shifted to restructuring the IMF and World Bank's terms for loans and credit to developing countries.

The early 1990s revealed more points of conflict between U.S. economic interests and UN ideals of collective action with the addressing of global environmental problems. Industrialized countries including the United States attacked proposals to limit global warming and other similar proposals as seriously restricting their economic growth and negatively affecting their industries disproportionally compared with the proposals' effect on economic and industrial growth in developing countries. Other recent UN initiatives have attempted to bring the private business sectors of developed countries into an internationalist fold as globalization of the economy brings with it opportunities for positive development as well as increasing inequities between rich and poor countries. Although the inherent weakness of the United Nations makes its effects on the economic policies of independent member states minimal, the global organization provides a strong forum where countries can voice their concerns about the negative effects of traditional American economic policy in the world marketplace. Between 1995 and 2000, the United States placed a 25 percent cap on contributions to UN peacekeeping costs. In 1999 the Helms-Biden Act lowered U.S. contributions to the UN from 30 percent to 25 percent of the UN budget, resulting in an arrearage of $671.4 million in U.S. payments. Since 2001, President George W. Bush has asked Congress to pay these fees, and two of three large payments have been made.

—*Jonah Katz*

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See also Volume 1: Bretton Woods Agreement; International Monetary Fund.

United Nations Children's Fund (UNICEF)

UN association that focuses on child welfare worldwide.

The United Nations Children's Fund, or UNICEF (it was originally called the United Nations International Children's Emergency Fund), was created in 1946 at the first meeting of the United Nations General Assembly. Its initial focus was primarily on assisting child welfare programs in countries ruined by World War II. After the early 1950s, its emphasis expanded to other numerous developing nations. UNICEF not only aids in emergency situations, it also devotes a large portion of its assistance to the support of long-term developments. The organization gives governmental aid to children in emergency situations, villages with low water supplies, and families with few or no resources. UNICEF also assists with education and social welfare in countries with few opportunities for a basic education system or social justice. In 1965, UNICEF received the Nobel Peace Prize for its efforts to help those in need.

UNICEF is run by countries selected by the United Nations Economic and Social Council, and numerous members of the United Nations govern the organization. Members include but are not limited to the United States, the United Kingdom, New Zealand, and Spain. An executive director heads the association and maintains responsibility for distributing funds, developing programs, and obtaining further resources. Voluntary contributions from individuals, governments, activists, and other organizations financially support UNICEF. In 1969, 128 governments contributed $33.4 million to UNICEF's causes. Financial allocations to this organization have increased, and other sources of financing (occasional corporate sponsorships and sales of UNICEF items such as greeting cards) have proved essential to UNICEF's survival.

In 1997, the United Nations Children's Fund reinforced coordination with governments and other organizations to ensure that children receive a fair percentage of a nation's resources and that their rights remain protected. Specific areas of concern include reducing maternal and infant mortality, improving basic education, providing immunizations, controlling diseases such as polio and AIDS among children, addressing problems of malnutrition, and providing a constant and sanitary water supply. During this period, UNICEF program expenditures exceeded $822 million. The organization has continued to respond to the HIV/AIDS epidemic by cosponsoring the United Nations Program on HIV and AIDS. The top priorities for UNICEF include issues such as the search for affordable ways to prevent HIV transmission; the prevention of infection; and the strengthening of affordable community-based programs to help children and adults with HIV/AIDS. The United Nations Children's Fund continues to search for other ways to assist nations in need of assistance during long-term and emergency situations.

—*Sandra L. Willett*

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See also Volume 1: United Nations.

United States v. E. C. Knight Co. (1895)

Supreme Court decision distinguishing between manufacturing and commerce as the two activities relate to the definition of a monopoly.

In 1890, Congress passed the Sherman Anti-Trust Act outlawing all business combinations in restraint of trade—that is, monopolies. Two years later, the American Sugar Refining Company took control of 98 percent of the nation's sugar refining industry. When the national government attempted to break up the sugar monopoly, the American Sugar Refining

Company sued to retain its control of the industry. Lower courts decided in favor of the sugar monopoly and, in 1894, the case made it to the Supreme Court, which was asked to decide whether the Constitution gave the national government power to regulate monopolies.

Ruling for the Court in an 8-to-1 decision, Chief Justice Melville Fuller distinguished between manufacturing and commerce. He argued that as part of its police powers, a state could control a monopoly in manufacturing that took place solely within the state's own borders. In contrast, the national government could only regulate monopolies involved in interstate commerce. Fuller next posed the question of whether a monopoly in manufacturing could be considered a monopoly in interstate commerce because manufactured items were usually sold across state lines. He answered that commerce follows manufacturing but is not a part of it. Because the refining of sugar took place solely in one state, the national government had no power to break up the sugar monopoly under the Sherman Anti-Trust Act. Fuller warned that if manufacturing and commerce were considered identical, then the national government would be involved in every sector of the American economy. In his dissent, Justice John Marshall Harlan argued that no state had the power to regulate national monopolies and that the Sherman Anti-Trust Act had been effectively dismantled. Although the Court later upheld the breakup of Standard Oil and the American Tobacco Company, Fuller's distinction between manufacturing and commerce survived until the late 1930s.

—Mary Stockwell

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See also Volume 2: Judiciary.

Urban Policy

Economic and social plan that sets priorities and regulates resources for city development.

The term *urban policy* is used for a wide range of concerns and activities in connection with issues of economic development, social development, housing and neighborhoods, and community services in federal and local governments. Urban policy also includes city planning issues such as spatial relationships in the city, transport, the environment, parks, and the urban infrastructure. According to Fainstein, urban policy is a state activity that affects "urbanism." Urbanism is "the distribution of investment and consumption activities in real space, the character and form of the built environment, and the distribution of population groupings in relation to both."

Prior to the New Deal legislation of the 1930s, when the federal government established relief and work programs for the poor and unemployed, urban policy was often addressed as local solutions to planning problems. City planning strived for more orderly, efficient, and racially segregated urban development as cities expanded. By the 1920s, more than half of the nation's population lived in cities, a development that led to housing problems, migrating populations, racial and ethnic diversity, and land use issues. In many cases, planning was de facto policy in urban practices such as school segregation and racial zoning.

Urban policy changed the landscape of cities. Changes included the development of roads and highways to accommodate the increasing popularity of automobile transportation in a period that included suburban development. Slum clearance and the erection of skyscrapers characterized federally subsidized post–New Deal changes, and the federal government built public housing projects for low-income families. However, in some areas local politicians opposed federally funded urban housing for the poor, basing their rhetoric on the claim that government interference in housing issues smacked of socialism and a planned economy. Business interests and local politics did, however, support federally subsidized slum clearance and urban commercial redevelopment, which were part of the urban renewal legislation in the Housing Acts of 1949 and 1954. The 1949 act called for urban renewal, defined as the construction of public housing to alleviate housing shortages and the clearing of slums. The 1954 act modified the 1949 law to include code enforcement; it also established Federal Housing Administration mortgages to help low-income homeowners buy homes and provided builders with tax credits to encourage urban renewal programs.

Antipoverty Great Society legislation during the 1960s provided federal support for urban social and economic development, including a new Cabinet-level Department of Housing and Urban Development (HUD). Although HUD and federal funding for cities continued in the 1970s, the administration of President Richard Nixon (from 1969 to 1974) shifted from the Great Society philosophy to a "new federalism" that returned decision-making power to municipal governments. The emphasis of new federalism was revenue sharing, in which federal funds were granted to local communities but the federal government placed restrictions on how the funds could be used. These developments were supported by the political and social analyses of urban problems by Democratic Senator Patrick Moynihan of New York, Nixon's urban policy advisor, and by conservatives who were critical of Great Society programs. The administration of President Ronald Reagan (1981–1989) continued to support the concept of new federalism and increased deregulation. Reagan further retreated from social welfare programs and generally encouraged free market activity as opposed to government intervention. The result was increased commercial redevelopment of inner-city business districts and a policy emphasis on jobs for the poor.

In the 1990s during the administration of President Bill Clinton, empowerment zone legislation (which called for economic revitalization through development of businesses in depressed communities) and other forms of federally supported community development programs were available to local governments. Since the 1990s the role of the federal government in urban affairs has been to encourage local municipal comprehensive planning for jobs and housing and to

provide incentives for private-sector business and home ownership.

—*Eileen Robertson-Rehberg*

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See also Volume 2: Urbanization.

U.S. Agency for International Development (USAID)

Federal agency established under the aegis of the Foreign Assistance Act to administer economic, as opposed to military, assistance to developing nations.

The U.S. Agency for International Development (USAID), established on November 3, 1961, was designed to unify the International Cooperation Agency, the Development Loan Fund, the Export-Import Bank, and the Food for Peace Program. It established both a Development Loan Fund to increase productive capacities and a Development Grant Fund to cultivate human resources in the Third World. Exempt from military and political obligations, USAID became the first U.S. organization that had as its sole function to oversee long-term development projects in the Third World.

USAID had its precursors in the Marshall Plan (1948–1951), the Mutual Security Act (1951), and other postwar reconstruction, recovery, and development programs. In his inaugural address in 1949, President Harry S Truman promised "to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens." Truman's speech, which proposed "a program of development based on the concept of democratic fair dealing," envisioned a competition between the superpowers—the United States and the USSR—for influence on underdeveloped nations. In accordance with Truman's Four Point agenda, the United States began to distribute economic, technical, and military assistance across the noncommunist world. Designed to cultivate friendly regimes, foreign aid remained an important feature of U.S. strategy throughout the cold war.

A dozen years later, faced with waning congressional enthusiasm for foreign aid, President John F. Kennedy revived Truman's vision of economic assistance as a means of mitigating the threat of communism. More precisely, Kennedy warned that "widespread poverty and chaos [would] lead" not only "to a collapse of existing political and economic structures," but also to "the advance of totalitarianism" in the Third World. Accordingly, Walt Rostow's *The Stages of Economic Growth: A Non-Communist Manifesto* (1960), which emphasized macroeconomic planning and programmed industrialization, became the handbook of USAID.

With the breakdown of the Keynesian consensus (an agreement among economists that Keynesian economics worked) in the early 1970s, Congress altered the purview of USAID. Since then, USAID has aimed not to help developing countries to catch up with the West but rather to cater to the "basic human needs" of the world's poor.

—*Mark Frezzo*

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See also Volume 1: United Nations.

USAID

See U.S. Agency for International Development.

U.S. Chamber of Commerce

Advocacy group formed in 1912 to represent the interests of independent businesses, local chambers of commerce, and affiliated business associations.

The U.S. Chamber of Commerce was formed in 1912 by business leaders seeking an organization to represent the interests of the business community. Members held the first meeting January 21, 1913. During World War I, the Chamber of Commerce sought greater cooperation between government and the business community in the planning and allocation of materials for the war effort. To this end, it assisted the Council of National Defense by organizing more than 400 War Service Committees. After the war ended, the chamber lobbied for an end to wartime regulations. During the 1920s, the organization worked closely with President Herbert Hoover's Department of Commerce to establish voluntary guidelines governing fair competition.

The Chamber of Commerce was an early supporter of the National Recovery Administration (NRA), an agency established in 1933 as part of President Franklin D. Roosevelt's New Deal that encouraged production quotas and guaranteed unions the right of collective bargaining. After the Supreme Court declared the NRA unconstitutional, Congress passed the Wagner Act (also known as the National Labor Relations Act) in 1935 to guarantee the rights of labor to form unions. Later, the Chamber of Commerce became an outspoken critic of many of President Franklin D. Roosevelt's other New Deal programs, including the National Labor Relations Act, the Banking Acts, and the Social Security Act. The chamber criticized Roosevelt for failing to resolve the economic crisis of the depression and urged a return to fiscal balance to restore the nation's economic health. Despite these tensions, the chamber cooperated with the Roosevelt administration during World War II, assisting it in administering production, wage, and price regulations. In the postwar period, the chamber resumed its crusade for reduced government spending and lower taxes.

Recognized as one of the leading voices for business interests in the United States, the Chamber of Commerce lobbies in support of probusiness legislation, and it challenges regulations deemed unfair to business. The Chamber of Commerce has traditionally supported free-trade policies, has favored lower taxes and reduced government spending as an engine for economic growth, and has opposed environmental and employment regulations because it believes they increase operating costs for its members.

—Christopher A. Preble

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See also Volume 1: Great Depression; New Deal.

U.S. Customs Service

Agency founded in 1789 charged with revenue collection and prevention of smuggling; formerly part of the U.S. Department of Treasury but now part of the Department of Homeland Security.

The U.S. Customs Service, founded in 1789, has the responsibility of classifying and designating products for purposes of implementing tariffs, and it also is responsible for searching for contraband. Customs inspectors have the longest lineage of any government officials in the United States working in law enforcement. Today, we most often think of customs inspectors in airports, but long before the Orville and Wilbur Wright took wing at Kitty Hawk, North Carolina, Custom Service inspectors performed their duties at the many points of entry into the country. The U.S. Customs Service, with centuries-old responsibilities of levying excise taxes and tariff revenues until the second decade of the twentieth century (at which point the income tax took effect and lessened the need for tariff revenue), guarded the major source of revenues for the U.S. government. It is part of the U.S. Department of Homeland Security and, in carrying out its missions of revenue collection and the prevention of smuggling, it frequently works with other departments as well, including the U.S. Department of Agriculture. Customs inspectors are located at all major points of entry—harbors, airports, and major highways. Airports that house U.S. Customs Service inspectors are designated as international airports.

The activities of customs officials can be highly varied. A typical area of concern early in the twenty-first century is the smuggling into the United States from the Netherlands of a drug called *ecstasy.* Another case involved the arrest by undercover agents of a Pennsylvania State University graduate student for having three videos of young girls in inappropriate sexual poses even though they were clothed. Renewed emphasis has been given to funding and staffing the U.S. Customs Service in the aftermath of terrorists' use of commercial airliners to destroy the World Trade Center and damage the Pentagon. Having instituted tighter security in the aftermath of these attacks, in 2002 the U.S. Customs Service reported an 80 percent drop in the amount of drugs confiscated along the 1,962-mile U.S.-Mexico border.

—Henry B. Sirgo

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See also Volume 1: Smuggling; U.S. Department of Treasury.

U.S. Department of Commerce

Agency formed in 1789 to regulate commerce and collect economic data.

The U.S. Department of Commerce comprises 13 bureaus charged with the responsibility of collecting and disseminating economic information from demographics to business transactions. The U.S. Census Bureau conducts a census every ten years as required by the Constitution. The information from the census is used in a variety of ways, including the determination of how many representatives a state has in Congress and the appropriation of certain funds. The agency also has the Bureau of Industry and Security (BIS) under its current organizational structure. The BIS focuses on national security issues such as preventing the spread of weapons of mass destruction while promoting U.S. exports. The Economics and Statistics Administration (ESA) collects and analyzes vital economic and demographic information. The Bureau of Economic Analysis (BEA) provides the most current statistical information on the U.S. economy. Another bureau, the Economic Development Administration (EDA), provides funding to economically distressed communities to ensure the retention of jobs and industry. The International Trade Administration (ITA) promotes U.S. exports abroad. The Minority Business Development Agency (MBDA) promotes the development of minority businesses. The National Oceanic and Atmospheric Administration (NOAA) focuses on protecting the environment while collecting information that can be used to also protect the public safety. The National Telecommunications and Information Administration (NTIA) advises the president on issues concerning telecommunication and worked with Congress to establish the Internet. The Patent and Trade Office protects inventors and encourages the development of new products through the issuances of patents and trademarks. The Technology Administration (TA) focuses on promoting civilian technology. The National Institute of Standards and Technology (NIST) works with industry under the TA, and it also helps businesses apply measurements and standards. The National Technical Information Service (NTIS) is a repository of commerce-related research from both governmental and private sources.

Throughout the years the Commerce Department has experienced change. In 1903 the department was merged with the Department of Labor until 1913. During the 1800s the Bureau of Immigration operated under the Commerce Department but was transferred to the Bureau of Immigration

and Naturalization in 1906 and is currently under the Department of Homeland Security. The Patent Office was transferred to Commerce in 1925 from the Department of the Interior, as was the Bureau of Mines that was later returned to the Department of Interior. When radio was first invented stations operated under the direction of the Federal Radio commission but those responsibilities were transferred to Commerce in 1927. In 1932 these responsibilities were transferred to the Federal Radio Commission. In 1940 the Weather Bureau became part of the Commerce Department. The Federal Highway Act of 1956 was administered by Commerce. The development of the St. Lawrence Seaway beginning in 1957 also fell under the responsibilities of this agency. From the 1970s to the present the current organizational structure developed. Commerce currently focuses on all aspects of the economy, weather, communication, and research that impact the economic conditions of the United States.

—*Henry B. Sirgo*

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See also Volume 1: Census; National Oceanic and Atmospheric Administration.

U.S. Department of Defense (DOD)

Government agency established to direct and coordinate military affairs and issues of national security.

Created in 1947 by the National Security Act, the Department of Defense (DOD) is a Cabinet-level agency. Prior to its creation, the Department of War and Department of the Navy (both established in 1789) coordinated the military establishment. Based in the Pentagon, the department is divided into three sections—the Army, the Navy, and the Air Force. The DOD also supervises several other agencies including the Advanced Research Projects Agency, the Ballistic Missile Defense Organization (Strategic Defense Initiative), the Defense Intelligence Agency, the Defense Mapping Agency, and the National Security Agency. The Department of Defense also operates the National War College.

The Department of Defense coordinated military planning efforts for the first time during the Korean War, which lasted from 1950 to 1953. During the administration of President Dwight D. Eisenhower (1953–1961), the DOD relied on the threat of massive nuclear retaliation against the Soviet Union and communists. Under the Kennedy and Johnson administrations between 1961 and 1969, the DOD shifted toward more conventional warfare (instead of relying primarily on nuclear warfare), using land forces in Vietnam. Throughout the cold war between 1945 and 1991, the Department of Defense allocated much of its budget to research and development, and its massive purchases have stimulated computer, software, and associated technologies. In 1958 Congress established the agency that became known as DARPA (Defense Advanced Research Projects Agency) under the DOD, an agency that funds research on artificial intelligence as well as microelectronics. After the cold war the DOD budget was streamlined, but annual military spending increased once again because of the Persian Gulf War in 1991 and the response to the terrorist attacks on September 11, 2001. With operations in Afghanistan and Iraq as well as numerous other regions of the world, the DOD will continue to maintain an important position within the Cabinet.

—*Cynthia Clark Northrup*

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See also Volume 1: Defense Advanced Research Projects Agency; War and Warfare; Volume 2: Science and Technology.

U.S. Department of Health and Human Services

Agency originally known as the U.S. Department of Health, Education and Welfare that is responsible for protecting the health of Americans.

In 1953 President Dwight D. Eisenhower proposed and Congress approved the establishment of the U.S. Department of Health, Education and Welfare (HEW). Eisenhower appointed Oveta Culp Hobby to serve as the first HEW secretary. The final HEW secretary, Joseph Califano, served until July of 1979 when he was dismissed by President Jimmy Carter, who was concerned that his 1980 reelection bid would be undermined by Califano's antismoking activities.

Not surprisingly, HEW emerged as one of the departments most important to U.S. economic policy. Social scientist Harold Wilensky has observed that the most important predictor of government expenditures is the age of a polity's population. Thanks to advances in public health, many of which were supported by HEW, the average age of the U.S. population has increased considerably. In the late eighteenth century, the average American was 14 years old. In 2003, the average American is 50 years old. An aging population relies more greatly on benefits from the Social Security retirement fund, which provides an income for retirees out of money contributed by individuals who are currently working.

Following the establishment of the U.S. Department of Education in 1979, HEW was renamed the U.S. Department of Health and Human Services. Patricia Roberts Harris, former Secretary of Housing and Urban Development and the first African American woman to serve in the Cabinet, was appointed in 1979 by President Jimmy Carter as Secretary of Health and Human Services. Recent Health and Human secretaries have hailed from Wisconsin, the state most strongly associated with the pioneering efforts that led to the Social Security Act of 1935. Donna Shalala of that state held the post from 1993 to 2001.

The Department of Health and Human Services is responsible for the health of all Americans and administers several programs that deal with health-related legislation. The agency conducts medical and social science research, oversees immunization programs for children, administers the Medicaid and Medicare programs, provides financial assistance for

low-income families, coordinates the Head Start program for disadvantaged children, attempts to prevent substance and child abuse, administers programs for the elderly such as Meals on Wheels, and offers a health care program for Native Americans.

The 2003 budget for the Department of Health and Human Services amounted to $502 billion, and the department currently employs more than 65,000 people. The agency's operating divisions include the National Institutes for Health, which supports medical research on a broad range of illnesses from Alzheimer's disease to diabetes; the Food and Drug Administration, which ensures the safety of food, pharmaceutical, and other consumer products; the Centers for Disease Control and Prevention, which monitors outbreaks of diseases and analyzes national health statistics; and the Indian Health Service, which provides health care services to 1.5 million Native Americans.

The Department of Health and Human Services also provides health care for the poor and elderly through the Health Resources and Services Administration, the Centers for Medicare and Medicaid Services, Administration for Children and Families, and the Administration on Aging. The Agency for Healthcare Research and Quality continues to conduct research on improving health care, reducing costs, and other medical issues.

With the issue of the health of Americans as its core objective, the Department of Health and Human Services strives to keep the national population healthy and strong and in the process protects workers and employers from spiraling health costs and lost wages, which adversely affect the U.S. economy.

—Henry B. Sirgo

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See also Volume 1: Baby Boom, Social Security Act of 1935; Volume 2: Education.

U.S. Department of Housing and Urban Development (HUD)

Government agency created in 1965 to provide safe, affordable housing for Americans.

As early as 1934, Congress addressed the issue of housing in the United States by passing the National Housing Act and establishing the Federal Housing Administration. Three years later the U.S. Housing Act of 1937 created the United States Housing Authority to create low-income rental housing and to coordinate the clearing of slums. Under President Lyndon B. Johnson's Great Society, a series of programs to eliminate poverty, Congress established the Department of Housing and Urban Development (HUD) in 1965 as a Cabinet-level agency. For three years, promises for improved housing and government assistance were not fulfilled, and Congress attempted to resolve the problem by passing the Civil Rights Act of 1968, which outlawed housing discrimination. HUD was the agency responsible for enforcing this act and for implementing the Housing Act of 1968, which established the Government National Mortgage Association (Ginnie Mae)—legislation that provides federally backed mortgage loans for moderate- and low-income families. Beginning in the 1970s, HUD focused on community development by establishing low-income housing and educating the public about the nation's housing laws through advertising and a mail campaign. With the assistance of HUD and private incentives (for example, tax benefits for housing contractors that develop affordable homes in the city), the number of Americans who own homes reached a record level of 71.6 million households in 2000.

—Cynthia Clark Northrup

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See also Volume 1: Great Society; Housing Act of 1949; Housing Act of 1954; Volume 2: Urbanization.

U.S. Department of Labor

Agency established in 1913 responsible for promoting welfare of workers through improving working conditions, protecting benefits, and tracking changes in employment-related economic factors; originally part of the Department of Commerce and Labor during the administration of Theodore Roosevelt between 1901 and 1909.

In 1913, the first year of the administration of President Woodrow Wilson, the Department of Commerce and Labor separated into two departments. The Department of Labor became a natural home for resolution of immigration policy issues, particularly in the early decades of the twentieth century as the nation experienced concurrent massive industrialization and immigration. The Bureau of Immigration and Naturalization was part of the Department of Labor until 1940, when it was transferred out of Labor and into the Department of Justice. Congress established the Women's Bureau in the department in 1918, and since then it has been a particularly important department for gender issues such as equal pay, family leave, and maternity-related issues. The department also includes the Bureau of Labor Statistics, created in 1884 to collect information about economic issues that affect workers.

Historically, the Department of Labor has gained influence when national security is in jeopardy (in wartime, for example), and its influence has waned during prosperous times. When the United States entered World War I in 1917 and great numbers of men joined the armed services, production output of military equipment and supplies coincided with a labor shortage. The Labor Department played an instrumental role in coordinating labor-management relations to prevent strikes and supply the needed war material. This effort included bringing in 3 million workers from abroad, who were quickly processed through the agency's Bureau of

Immigration. At the conclusion of World War I in 1919, returning veterans found that their jobs had been filled by these immigrants or by Southern blacks who had migrated to the Northern industrial areas in search of jobs during the conflict. Race riots and general strikes threatened the domestic peace, and the Labor Department once again helped to defuse the conflict between labor and management. By 1920 the manufacturing sector shifted from military to consumer production, and as jobs became available tensions decreased. Throughout the prosperous 1920s, the Department of Labor focused primarily on immigration and naturalization. After the stock market crash of October 1929, the department's role greatly expanded as the number of laborers out of work increased.

Under the direction of the first woman Cabinet member, Francis Perkins, who was labor secretary from 1933 through 1945, the Department of Labor implemented many of President Franklin D. Roosevelt's New Deal economic relief policies. One direct relief program for the unemployed was the Civilian Conservation Corps, created in 1933, which employed millions of young men in soil conservation efforts. Roosevelt's National Recovery Administration, designed to coordinate and limit manufacturing production to raise prices, included section 7(a) guaranteeing the rights of unions to engage in collective bargaining. When, however, the Supreme Court declared the National Recovery Administration unconstitutional in 1935, the Labor Department worked to pass in that same year the National Labor Relations Act (also known as the Wagner Act), which gave labor the right to engage in collective bargaining through unions. It also worked to pass the Fair Labor Standards Act of 1938, which guaranteed a minimum wage and overtime for any time worked over the 40-hour weekly limit.

When World War II started and U.S. production started to climb, the New Deal relief programs were abolished. After the United States entered the war in 1941, there was another labor shortage. Once again the Department of Labor stepped in to coordinate labor-management relations. During World War II the government suspended the right to bargain collectively because the shortage of workers gave labor the potential to demand much higher pay or threaten to strike, which the government sought to avoid. After World War II, labor unions initiated strikes in response to the wage freezes of the war period. This led Congress to pass the Taft-Hartley Act of 1947 restricting union activities. The act prohibited the existence of closed shops (where only union members could work) and allowed the president to order a "cooling-off period" before a strike could occur in industries deemed vital to national interests. During the 1950s labor prospered as the economy rebounded and jobs remained available. During the 1960s and 1970s, however, labor once again became an issue. During the 1970s the United States experienced stagflation (simultaneous high unemployment and high inflation). Many workers found that they were unemployed or that their wages were insufficient to keep up with inflation. In 1971 President Richard Nixon imposed a 90-day wage and price freeze to address the situation, but throughout the 1970s the problem remained unresolved. During this time the Department of Labor greatly expanded and assumed its current organizational structure.

The Labor Department has many bureaus and departments under its jurisdiction. The largest bureau is the Employment Standards Administration (ESA), which enforces labor-related laws. The bureau's Wage and Hour Division enforces minimum wage, child labor, overtime, family leave, and medical leave laws. The Office of Federal Contract Compliance enforces legislation that requires equal employment opportunity for federal contract employers. The Office of Workers' Compensation Programs hears appeals on certain workers' compensation cases. The Office of Labor-Management Standards works to protect the rights of workers and unions. The Labor Department also has several bureaus that deal with benefits—among them the Benefits Review Board, which administers the Longshore and Harbor Worker's Compensation Act and deals with black lung benefits for coal miners. The Department of Labor also regulates pension and welfare benefits under the Employee Benefits Security Administration. The Bureau of Labor Statistics continues to act as the department's fact-finding agency. The Mine Safety and Health Administration, Occupational Safety and Health Administration, and Office of Congressional and Intergovernmental Affairs, as well as many other bureaus, also operate under the Labor Department.

The Department of Labor continues to focus on labor-related issues by attempting to balance labor and management objectives in an effort to act as a conciliatory agency whose mission is to "foster, promote and develop the welfare of working people, to improve their working conditions, and to enhance their opportunities for profitable employment." By fulfilling its mission, the Department of Labor works to ensure economic prosperity and domestic labor peace in the United States—an accomplishment that ensures the stability of the U.S. economy.

—*Henry B. Sirgo*

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See also Volume 1: Women; Volume 2: Labor.

U.S. Department of Treasury

Agency established by the Constitution in 1789 responsible for fiscal policy.

The aspirations of the first secretary of the U.S. Treasury, Alexander Hamilton, and his Federalist followers to lay the foundation for a unified commerce within the newly formed U.S. government were realized when Congress passed Hamilton's proposals to establish the U.S. Mint, create the Bank of the United States, and sell U.S. lands to pay off U.S. debts.

The position of U.S. Treasury Secretary is one of four Cabinet positions that date back to 1789. The other three positions are secretary of state, secretary of defense, and U.S. attorney general. (The State Department as originally called the Department of Foreign Affairs, and the Defense Department was originally called the War Department.)

The Department of the Treasury consists of several bureaus that serve a variety of functions pertaining to the collection and disbursement of funds and financial data. The largest Treasury bureau is the Internal Revenue Service (IRS), which currently collects more than $2 trillion annually in all forms of income tax. The IRS is also responsible for collecting and disseminating data about the internal revenue of the nation. The Financial Management Service, also under the Treasury Department, receives the $2 trillion from the IRS and places it in federal accounts, disbursing it at a rate of $50 billion per day. This bureau processes all government payments, including the $1.6 trillion paid annually to Social Security recipients and veterans. It is also charged with collecting money owed to the government from other sources, an amount that equals $2.3 trillion annually. The Bureau of Public Debt borrows the money needed to pay the national debt by selling government bonds and securities. In June 2003 the U.S. debt stood at $6.598 trillion, with $3.820 trillion of that debt held by the public in U.S. bond treasury notes and $2.778 trillion held by intergovernmental holdings (Social Security funds that have been used by the government). The Treasury Department also collects excise taxes from the sale of alcohol, tobacco, firearms, and ammunition under the recently renamed Alcohol and Tobacco Tax and Trade Bureau, which was previously part of the Bureau of Alcohol, Tobacco, and Firearms (ATF). The ATF's law enforcement functions were transferred to the Department of Justice in 2003.

In addition to the collection and disbursement of funds, the Treasury Department also deals with the production of currency. The Bureau of Engraving and Printing is responsible for the design of official treasury certificates and of the currency; it has redesigned the paper currency since the mid-1990s to prevent counterfeiting. The U.S. Mint manufacturers coins as well as commemorative medals and is responsible for protecting the silver and gold assets of the United States. Through the Office of the Comptroller of the Currency and the Office of Thrift Supervision, the department oversees the nation's banking and thrift institutions. The Federal Crimes Enforcement Network supports law enforcement in the investigation and prosecution of financial crimes, both domestically and internationally. Finally, the Community Development Financial Institution (CDFI) provides funds to economically distressed areas for the development of small businesses, low-income housing projects, and rural projects. Since 1994 the CDFI has awarded $543 million in grants.

In connection with the reorganization of government agencies after the September 11, 2001, terrorist attacks, several Treasury Department bureaus were transferred to the newly created Department of Homeland Security. These include the U.S. Secret Service (created in 1789 when the Treasury Department was founded to protect the president and other government officials), the Customs Service (which uses air, land, and naval resources to protect the nation's borders against smuggling, illegal contraband, and now potential terrorists), and the Federal Law Enforcement Training Center.

—Henry B. Sirgo

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See also Volume 1: Hamilton, Alexander.

U.S. Environmental Protection Agency (USEPA)

Agency established to safeguard the environment.

Congress officially brought the U.S. Environmental Protection Agency (USEPA) into existence in 1970, but its roots go back as far as 1962. The impetus for the USEPA was a best-selling book by Rachel Carson, a bird watcher, titled *Silent Spring.* The carefully researched and wonderfully written work focused on the indiscriminate use of pesticides. Her book was to the environmental movement what Harriet Beecher Stowe's *Uncle Tom's Cabin* was to the abolitionist movement and brought together more than 14,000 people, who formed a grassroots effort to protect the environment.

From 1962 to 1970, the environmental movement gained strength and support. In a nation disillusioned by the war in Vietnam and civil rights struggles, the environmental movement was something positive for people to concentrate on. Further, the environmental movement has had staying power in the politics and culture of the United States.

In May 1969, President Richard Nixon called for the establishment of a Cabinet-level Environmental Quality Council and a Citizens' Advisory Committee on the environment. But he was criticized for the weakness of these agencies, and so that December he appointed a White House committee to investigate whether there was a need for a separate environmental agency. In the meantime Congress had developed a bill called the National Environmental Policy Act (NEPA) sponsored by Senator Gaylord Nelson, Democrat from Wisconsin. Nixon signed the act on New Year's Day 1970, establishing the USEPA.

The popularity and support for USEPA and the success of the first Earth Day celebration in April 1970 (when Americans of all backgrounds took part in activities that improved the environment) helped to strengthen a recommendation from Roy L. Ash, director of the Office of Management and Budget, who argued that the environmental agency must operate independently. Originally reluctant, Nixon eventually accepted the two arguments that if the environmental agency operated under another agency it would remain biased toward that agency and that such a situation would affect objectivity. Satisfied, Nixon called for "a strong, independent agency." The mission of the USEPA included establishing and enforcing environmental protection standards, conducting research, providing assistance to other environmental groups, and helping to develop and recommend new policies. One of the most important charges of the new USEPA involved becoming the enforcement arm for federal environmental legislation.

Component parts of the USEPA originated in the Department of Health, Education, and Welfare; the Food and Drug Administration; the Atomic Energy Commission; and various other agencies and departments. Nixon named William D. Ruckleshaus as the USEPA's first administrator, an excellent choice. Ruckleshaus immediately began gaining headlines and publicity for the fledging agency. Only nine days after opening its new offices, the USEPA gave the mayors of three cities six months to bring their water supplies into compliance with government standards or come to court. By the end of its first year, the USEPA had tackled other problems large and small. It ended the year with the Clean Air Act of 1970, an effort to reduce polluting emissions from American automobiles, among other things. The USEPA's mission and its focus of protecting human health and the environment have remained stable and constant throughout its 39-year history. In 2003 the USEPA employs about 18,000 people and has an annual budget of more than $7 billion. As such, it ranks as one of the largest federal agencies, and its regulatory functions are emulated by similar agencies at the state level.

—*Lisa A. Ennis*

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See also Volume 1: Environment.

U.S. Housing Authority

Federal authority for public housing and predecessor of the Department of Housing and Urban Development.

The U.S. Housing Authority and the Public Housing Program were outgrowths of President Franklin D. Roosevelt's economic recovery programs during the Great Depression in the 1930s. Initially, the National Recovery Act of 1933 authorized the use of federal funds to finance low-cost housing and slum clearance projects under the Public Works Administration (PWA), a federal agency that provided jobs for the unemployed. However, PWA housing construction was successfully challenged in a 1936 lawsuit, *United States v. Certain Lands,* which disputed the proposed use of certain land for public purposes such as building low-income housing. The result was an alternative provision in the Wagner-Steagall Act (1937) that, combined with the U.S. Housing Act of 1937, created the U.S. Housing Authority. Congress authorized the U.S. Housing Agency to extend long-term, low-interest loans to local housing authorities to finance slum clearance and build low-rent public housing units and also to provide aid to communities for such construction through annual cash contributions. To qualify for the funds, communities were required to do two things: to exempt such housing from real and personal property taxes; and to provide to the project and its tenants public services such as fire and police protection, water, sewer, and other public services at the same level provided to other residents in the community.

Local governments had the option whether or not and where to build public housing units, and the U.S. Housing Authority reserved the right to approve or reject selected sites. Amendments to the U.S. Housing Act of 1937 ensured that public housing units would be provided only to the lowest-income group and that costs per room and per unit were minimal. These provisions were made in response to opposition from lobbyists representing powerful business interests that opposed government intervention in the private housing market. At the same time, however, these special interests did not oppose government subsidies for private housing development or mortgage loans.

The insufficient production of public housing units before the 1950s meant that local housing authorities had ample numbers of applicants to choose from for each unit available. Therefore U.S. Housing Authority public housing units were often provided to applicants it considered to be more desirable, usually traditional working-class families who lived in public housing temporarily until they could find alternative housing. Many single-parent families and families on direct relief were not accepted for public housing. Since the 1970s, this trend has changed, with many one-parent families living in federal housing. Low-income families qualify even after they return to work under the welfare reform measures instituted during the administration of President Bill Clinton.

—*Eileen Robertson-Rehberg*

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See also Volume 2: Urbanization.

USIA

See U.S. Information Agency.

U.S. Information Agency (USIA)

Independent foreign affairs agency active during the latter half of the twentieth century that supported American foreign policy and promoted U.S. interests abroad.

During World War I, the Committee on Public Information, also known as the Creel Committee, became the first federal entity responsible for coordinating U.S. government information. Cultural and informational exchange programs, including radio broadcasts and news summaries sent to diplomatic missions abroad, continued on an ad hoc basis during the 1930s and then in a more formalized way during World War II.

Information and cultural programs were consolidated after World War II within the Office of International Cultural Af-

fairs and the International Press and Publication Division, both operating within the State Department. To train the Germans and Japanese in democratic ways, the State Department also conducted reorientation and reeducation programs in Germany and Japan after World War II. Recognizing the need for a comprehensive approach to the coordination and dissemination of information, President Dwight D. Eisenhower created the U.S. Information Agency (USIA) on August 3, 1953, by executive order, in accordance with the provisions of the Smith-Mundt Act of 1948.

The USIA's cultural programs included education exchanges, the most famous of these being the Fulbright Scholars program. Named for Democratic Senator J. William Fulbright of Arkansas, who sponsored the legislation that created them, the Fulbright scholarships facilitate international exchanges between students, researchers, and academicians. The Fulbright Scholars program operated within the State Department from its inception in 1946, but after 1953 USIA personnel were responsible for supervising the administration of the program. The program officially transferred to the USIA in 1978.

The primary broadcasting component within the USIA was the Voice of America (VOA). Broadcasting during World War II in 27 languages to countries throughout the world, the VOA survived after the war ended after a committee of private citizens recommended that the government maintain an active role in managing how the United States was portrayed abroad. VOA was active worldwide during most of the cold war (1945–1991), and expanded broadcasting operations in the 1980s. The Radio Broadcasting to Cuba Act, passed in October 1983, established Radio Marti, which began broadcasting to Cuba in May 1985. The VOA also resumed broadcasting in Europe in 1985 after a 25-year hiatus.

The USIA ceased operations on October 1, 1999 in accordance with the Foreign Affairs and Restructuring Act of 1998. Most of its functions were folded into the Department of State. The Voice of America continued to operate under the International Broadcasting Bureau.

—*Christopher A. Preble*

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See also Volume 2: Communications.

U.S. Mint

Innovative, self-funding government agency in charge of manufacturing U.S. coins and paper currency.

The U.S. Mint has its headquarters in Washington, D.C., and has or has had locations in other major cities including Denver, San Francisco, and New Orleans. The old New Orleans Mint on Esplanade Avenue in the French Quarter is now a museum. A radical change in the nature of the money supply came when the U.S. Constitution replaced the Articles of Confederation. Before the Constitution was ratified, debtors were pleased that the individual states printed paper money, because it made it easy for them to pay creditors with inflated currency. Cheap paper money was naturally repugnant to the creditors as well as to advocates of the development of a strong national economy. However, the debtors, mostly small yeoman farmers, cared little about such development.

Congress granted the U.S. government the exclusive right to coin money in Article I, Section 8 of the Constitution in 1787. Paper currency was not issued until well into the nineteenth century. The authority of the U.S. government to issue paper currency is based on the "necessary and proper" clause of the Constitution: Because the economy was expanding but the gold supply was limited, the introduction of paper money was necessary to meet the demands of the economy.

The phrase *e pluribus unum* (of many, one) appears on all U.S. currency. On the back of the dollar bill is a Masonic symbol—appropriately enough in light of George Washington's affiliation with the Masons—the pyramid with an eye at its top. Occasional changes in currency design over the years have reflected security efforts and perhaps changing social mores—in the middle of the nineteenth century in the aftermath of a religious movement known as the "first great awakening," the phrase "in God we trust" was added to U.S. currency and remains there today. To make counterfeiting more difficult, paper money issued since the early 1990s has been redesigned: clearly visible changes include larger, off-center portraits of George Washington, Abraham Lincoln, Alexander Hamilton, and Benjamin Franklin. Although the dollar coin issued in the late 1970s featuring the likeness of Susan B. Anthony (an advocate for women's rights) proved generally unsuccessful, the more recent dollar coin featuring Sacagawea (a guide for the Lewis and Clark expedition) has fared well.

—*Henry B. Sirgo*

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See also Volume 1: U.S. Department of Treasury; Volume 2: Currency.

V

Van Buren, Martin (1782 –1862)

Former U.S. senator and governor of New York, eighth president of the United States.

Nicknamed "the magician" in tribute to his political acumen, Martin Van Buren grew up in Kinderhook, New York, studied law in New York City, and was admitted to the bar in 1803. He won election to the state senate in 1812 and quickly rose in the leadership ranks of the Democratic-Republican Party in New York. He served as state attorney general from 1816 to 1819 and won election to the U.S. Senate in 1821. After seven years in the Senate, Van Buren became the governor of New York. He secured his rise to national prominence through his support of Andrew Jackson's successful campaign for the presidency in 1828.

Jackson appointed Van Buren secretary of state, and as part of the Cabinet the New Yorker eventually supplanted rival John C. Calhoun (former vice president and current South Carolina senator) as a presidential intimate. He resigned his State Department post in 1831 and Jackson selected him as foreign minister to England. After Calhoun and others blocked the appointment in the Senate, Jackson secured for Van Buren the Democratic vice presidential nomination in 1832.

Van Buren served as Jackson's vice president from 1833 to 1837, and with Jackson's endorsement won the presidency in 1836. He vowed to continue Jackson's policies, but the economic depression of 1837 weakened him politically. Van Buren received the Democratic nomination again in 1840 but, shouldering the blame for the country's financial woes, lost the election to Whig war hero William Henry Harrison. In 1844 a falling-out with Jackson over the annexation of Texas cost Van Buren the Democratic nomination, and his political fortunes began to decline. He ran for president a final time in 1848 as the candidate of the Free-Soil Party but failed to capture a single electoral vote. Van Buren later retired to Kinderhook, where he died in 1862 at the age of 79.

—*Ben Wynne*

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See also Volume 1: Panic of 1837.

Vietnam Conflict (1954–1973)

War in Southeast Asia that helped lead to skyrocketing inflation and economic stagnation in the 1970s in the United States because of the way the administrations of Presidents Lyndon B. Johnson and Richard Nixon chose to manage the economy.

In an effort to prevent the spread of communism, the United States became involved in the Vietnam conflict in 1954. Vietnam had been controlled by the French before World War II and was conquered by Japan in 1940. Ho Chi Minh led a nationalist group that fought the Japanese and gained control over most of northern Vietnam by 1945. The French returned after World War II and attempted to regain power, but they met resistance from Ho Chi Minh's forces as they moved north. Both Great Britain and the United States denied French requests for military assistance, but the United States, believing that Ho Chi Minh had communist leanings and fearing the spread of communism, sent military advisers. The policy of providing advisers was expanded by President John F. Kennedy, who sent U.S. Army Green Berets to Vietnam in 1961, and finally by President Lyndon B. Johnson, who refused to be the first American president to lose a war and sent as many as half a million troops into the fighting during the 1960s. The United States withdrew its forces from Vietnam in 1973, and it is generally agreed that American forces lost the war.

Estimating the costs and impact of the Vietnam conflict is difficult because of how the U.S. government financed it. Official estimations at the time excluded many costs and, under the administration of President Lyndon B. Johnson, officials recorded expenses in a misleading manner or purposely underestimated them. In fact, the government did not begin to officially estimate the costs of the war until 1965.

From 1954 to 1963, the early years of U.S. involvement in Vietnam under the administrations of Presidents Dwight D. Eisenhower and John F. Kennedy, the conflict had virtually no effect on the nation's economy. Over the first dozen fiscal years of the war, the nation spent nearly $2.4 billion—only 0.04 percent of the gross national product and 0.53 percent of the nation's defense spending. The cost in manpower, not figured in this total, proved even more insignificant. Throughout the

1950s, the salaries of military personnel cost the nation $15 million annually, rising to $18 million in 1961. Although economic growth in the United States during Eisenhower's term in office (1952–1960) totaled less than in the post–World War II era (1945–1952) and the nation had experienced mild recessions in 1945, 1949, and 1958, the economy continued to grow at 2.4 percent.

The 1960 recession helped John Kennedy become president. His financial advisers decided to combat this slowdown using the Keynesian method of stimulating the economy, thus leading to high employment and economic growth through increasing deficit spending, tax cuts, and increasing the money supply. In theory, the right combination of these elements would ignite the sluggish economy. Yet, such a monetary policy runs the risk of causing a rise in prices. Thus, defense spending rose to $52 billion in 1963, or 9.1 percent of the gross national product. Still, Vietnam only cost the American taxpayers $414 million in 1963.

Scholars have debated this monetary policy's effect, but it did stimulate the economy. Economic growth revived, growing by 5.5 percent in 1964 and 6.3 percent in 1965. Unemployment fell from 5.4 percent in December 1964 to 4.4 percent in December 1965. The price index (an inflation indicator that measures how prices vary for a fixed group of products and services) remained stable, rising by 1.6 percent in 1964. By 1965, unemployment dropped down to 4.2 percent and gross domestic product grew at slightly under 5 percent. According to Keynesian thought, there would be time in 1966 to restrain the economy through decreased government spending, increasing taxes, and a tighter monetary policy; otherwise, the economy would be at risk of burning out of control.

President Johnson pursued almost the opposite track. Deeply involved in his Great Society domestic programs (welfare programs based on income redistribution), he increased deficit spending to finance the Vietnam conflict. This combination of "guns and butter" helped lead to economic inflation. As Johnson increased the U.S. presence in Southeast Asia—from 200,000 troops in 1965 to 536,000 troops three years later—the budget deficit grew. The president's spending on the war increased from $100 million in 1965 to $28.8 billion by 1969. With the economy in full swing, the annual inflation rate rose to 4.7 percent in 1968. With the influx of cash and a limited number of goods, the consumer market experienced inflation, which would continue into the 1970s.

Some economists also believe that the Vietnam conflict created an atmosphere that affected the entire society. It altered people's decisions, investments, and trust in the government. It also affected the career choices of young people, marriage rates, the number of children couples decided to have (in 1965 the average household had three children; by 2002 that rate had declined to 2.5 children per household), the divorce rate (which has increased since the 1960s), and home ownership (which has decreased). From the gloom of the Tet offensive (in which North Vietnamese soldiers attacked the U.S. embassy in the southern capital of Saigon before being repelled, the act that turned U.S. public opinion against the war) to the social instability of war protests on college campuses and in cities nationwide (often characterized by clashes between citizens and police and sometimes—as at Kent State University in Ohio and Jackson State University in Mississippi—in students' deaths at the hands of U.S. National Guardsmen or local police, respectively), Americans changed how they lived their lives, and the effects on the economy cannot be estimated. Because the Vietnam conflict cost more than $500 billion and perhaps as much as $900 billion, Johnson would have to make sacrifices in his Great Society, whose costs in urban problems also cannot be calculated because housing shortages and substandard housing continued into the late 1960s and became one cause of urban riots in 1966 and 1967. The total cost of the Vietnam conflict to the economy will remain unknown.

—T. Jason Soderstrum

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See also Volume 1: Great Society.

Virgin Islands, Purchase of (1917)

Caribbean islands purchased from Denmark because of their strategic position en route to the Panama Canal.

The 1917 U.S. acquisition of the Danish part of the Virgin Islands archipelago (Danish West Indies) consisted of the islands of St. Croix, St. John, St. Thomas, and some 50 smaller islets and cays, with a total area of 133 square miles and population of 26,000 inhabitants. The story of the purchase demonstrates a complex and multifaceted interplay between economic and budgetary concerns on the one hand and political and strategic considerations on the other.

By the mid-nineteenth century, the Danish West Indies became a liability for Copenhagen, mainly because of the progressive decline of sugar plantations after the emancipation of local slaves and disappearance of cheap labor. Despite the evident economic nonprofitability of the colony, the United States became increasingly interested in acquiring the islands as a strategic asset guarding eastern approaches to the Isthmus of Panama and later to the Panama Canal. Additionally, the United States feared the potential annexation of the islands by foreign powers in the 1860s, first by Austria and Prussia and later by Germany. Such an annexation would constitute a clear violation of the Monroe Doctrine and establish a foreign military presence in the excellent harbor of Charlotte Amalie on St. Thomas, an ideal site for a naval base. The Danes could not defend the islands from such a threat.

The United States had tried several times to negotiate the purchase of the Danish West Indies. Between 1865 and 1867, Secretary of State William Seward conducted negotiations for the purchase of the islands with the Danish minister in Washington, and Seward agreed to buy the archipelago for $7.5 million. The two countries signed the treaty October 24, 1867. Later that year the Danish Parliament approved the treaty, which the king then ratified. In addition, island residents voted overwhelmingly to transfer the Danish West Indies to U.S. control. Coincidentally, in November 1867, the colony ex-

perienced a devastating earthquake, tidal wave, and tropical hurricane, which ravaged much of the local economy. These natural cataclysms reinforced the reluctance of Congress to approve the deal, and suspicions continued about Seward's annexation schemes following the $7.2 million Alaska purchase, which was highly controversial. Additionally, the U.S. government remained financially preoccupied with the reconstruction of the South and development of the West. In November 1867 the House of Representatives rejected the Virgin Islands Treaty, and the Senate never voted on it.

In 1902, Secretary of State John Hay negotiated a new treaty with the Danes, only to have the agreement rejected by Copenhagen because of the compensation (only $5 million) pledged by the United States. During World War I the fear of German penetration into the Caribbean revived the idea of the purchase. In 1915 the American minister in Copenhagen, Maurice F. Egan, and the U.S. secretary of state arranged the final $25 million deal. Representatives signed the treaty August 4, 1916, and Congress approved it January 17, 1917. On March 31, 1917, the United States officially took possession of the islands and renamed them the Virgin Islands of the United States. Although economically the islands remained unprofitable until the development of the tourist industry, their acquisition proved to be strategically sound, strengthening U.S. control over the Caribbean. Citizens of the U.S. Virgin Islands have U.S. citizenship and have a nonvoting representative in the U.S. House of Representatives.

—*Peter Rainow*

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See also Volume 1: Panama and the Panama Canal; Seward, William; World War I.

Volcker, Paul A. (1927–)

Chair of the Board of Governors of the Federal Reserve System from 1979 to 1987.

In 1979, President Jimmy Carter's job approval rating had reached a low point, and Americans continued to express their anxiety about spiraling inflation. Carter nominated Paul A. Volcker to chair the Board of Governors of the Federal Reserve system. Born in Teaneck, New Jersey, Paul Volcker held a master's degree in political economy from Harvard University and had also studied at the London School of Economics and Political Science. He worked as an undersecretary in the Treasury Department before becoming president of the New York Federal Reserve Bank. On July 30, 1979, the Committee on Banking, Housing, and Urban Affairs of the U.S. Senate, chaired by U.S. Democratic Senator William Proxmire of Wisconsin, held a confirmation hearing. Volcker brought a wealth of experience from service rendered in the banking industry as well as in both Democratic and Republican administrations beginning with the administration of President John F. Kennedy. Senator Proxmire expressed concern that Volcker would be out of touch with the concerns of average workers and too attuned to the desires of Wall Street, but Volcker was approved over Proxmire's objections.

When Volcker was confirmed as chair of the Board of Governors of the Federal Reserve Board, he added stability to the board's membership, promulgated innovative policies, and arguably doomed the reelection bid of President Jimmy Carter in 1980. Although real income grew over the course of the Carter administration, the gross domestic product actually shrank during the first six months of 1980. No incumbent presidential party has ever retained the White House under such circumstances. Volcker's (1980) policy of historically high interest rates made recovery by the first Tuesday after the first Monday in November highly unlikely. Walter Dean Burnham has observed that Jimmy Carter had contributed to his own loss by nominating Volcker, who "executed a revolutionary policy change: targeting money supply rather than interest rates—thus producing the highest extended real rates of interest since the post–Civil War Great Deflation of 1865–1880, and in time quite effectively killing the inflation dragon, as it was intended to do."

Volcker was reconfirmed as chair during the administration of President Ronald Reagan (1981–1987). He and his successor Alan Greenspan are the only two people to chair the Board of Governors of the Federal Reserve Board since 1979.

—*Henry B. Sirgo*

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See also Volume 1: Federal Reserve Act.

W

Wage and Price Freeze (1971)

New economic policy designed by President Richard M. Nixon in August 1971 that imposed a 90-day freeze on wages, prices, rents, and dividends.

Following a weekend crisis consultation with his economic advisers at Camp David, President Richard M. Nixon announced a policy imposing a 90-day freeze on wages, prices, rents, and dividends in a television broadcast August 15, 1971. This "Nixon shock" came only 11 days after an impromptu press conference in which Nixon declared that he was "unalterably opposed . . . to the Galbraithian scheme . . . of permanent price and wage controls . . . the extremists on the left of the economy spectrum have always favored a totally government controlled economy."

The new economic policy proved not as unexpected as the rhetoric suggested. Nixon decided not to jeopardize his reelection chances by tolerating higher than necessary levels of unemployment. He attributed his 1960 defeat by John F. Kennedy to an insufficient degree of political sensitivity within President Dwight D. Eisenhower's Cabinet with respect to the forthcoming election. Unemployment increased to 452,000 (5.8 percent) in October 1960 and, said Nixon, "All the speeches, television broadcasts and precinct work in the world could not counter that one hard fact."

In 1970, as president, Nixon bluntly instructed his Federal Reserve chair Arthur Burns to ensure that no recession occurred, but by that time inflation had become a major societal problem. Burns argued, "We should not close our minds to the possibility that an incomes policy, provided that it stopped well short of direct price and wage controls and was used merely as a supplement to overall fiscal and monetary measures, might speed us through this transitional period of cost-push inflation." Stagflation (high unemployment and high inflation) undermined the traditional remedies, and the situation now required other tools to counter rising costs. One of Nixon's top priorities was to make businesses in the private sector aware of and accepting of the fact that the economy was in desperate straits and so wage and price freezes—which would guarantee that workers' earning power would not be reduced—were necessary. In November 1970, Nixon again urged Burns to expand the money supply at a faster rate; Burns replied that the economy required some form of policy that limited wage increases. In December 1970 Burns publicly argued for such a policy in a speech at Pepperdine College. Nixon began to appeal to labor and management to fight against inflation.

Initially, the new economic policy appeared to restrain some wage and price pressures. In the policy's second phase, a 15 percent wage increase was granted for coal miners. In February 1972, two prominent trade unionists withdrew from the supervisory panels created by the administration. Nixon had begun to alienate his own constituency. Milton Friedman regarded the "jerry-built freeze" and the controls as "deeply and inherently immoral . . . [they] threaten the very foundations of a free society." In May 1973, Nixon announced another 60-day price freeze.

Later, Nixon reflected that the controls contradicted his own philosophy, noting the economy involved spiritual as well as accounting issues. He concluded that a direct link existed between civil liberties and economic freedom—a relationship strained by wage and price controls. As a consequence of the disappointing results of attempting to freeze prices, policymakers looked more sympathetically upon anti-inflation policies that proved less frustrating to those who administered them. Thus in the mid-1970s, Americans perceived monetarism (forces that cause inflation, unemployment, and fluctuating production) temporarily as a less exhausting and more reliable method of controlling inflation.

—Robert Leeson

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See also Volume 1: National Income and Product Accounts.

Wagner Act (1935)

Also known as National Labor Relations Act, this law, passed by the U.S. Congress in 1935, empowered organized labor by granting working people numerous rights and privileges that improved their standard of living.

Senator Robert F. Wagner, Democrat of New York, introduced this legislation for federal regulation of labor relations in 1935, after the U.S. Supreme Court declared the National Recovery Act (NRA) unconstitutional. Sponsored by President Franklin D. Roosevelt and the New Dealers and enacted by Congress in 1933, the NRA had aimed to regulate and restore prosperity to the depression-shattered economy of the United States by eliminating waste, inefficiency, and destructive competition among business. The statute applied the code of fair competition industrywide and made the federal government the referee among companies and between capital and labor. Section 7(a) of NRA broke a new path for labor by requiring employers to allow workers to engage in collective bargaining (on wages, hours, and working conditions) through the trade unions of their own choosing. This provision boosted labor unionization and gained popular support, but as counterbalance, employers formed company-dominated unions.

In an effort to broaden labor's rights, oversee labor disputes, and counter employer intransigence, the Wagner Act reclaimed the principle of section 7(a) by continuing to guarantee the right of collective bargaining through the labor union that workers freely selected by majority vote. More important, the act outlawed unfair labor practices used by employers, among them retaining company-controlled unions, blacklisting union activists, coercing or firing workers who sought to join an independent union, and using industrial spies. The act established the National Labor Relations Board (NLRB) as a crucial enforcement mechanism to hear employee complaints, determine union authority, direct on-site union elections, and issue cease-and-desist orders to employers found responsible for any unfair labor practice the act defined.

—*Guoqiang Zheng*

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See also Volume 1: New Deal; Volume 2: Labor.

War and Warfare

State of armed conflict between states or nations that has complex economic consequences for all involved.

War and economics are deeply interconnected. Some theorists assert that economic factors lead to war. War causes inflation, higher taxes, destruction of human and physical capital, and misallocation of resources. Economic strength can determine the duration and outcome of war. Military victory can bring economic benefits—including plundering the defeated, controlling markets and trade routes, and making the rules that govern international trade and finance.

In the nineteenth century, some believed that aggressive mercantilism (in which all trade benefits the mother country) led to war and thus that free trade would promote peace. Karl Marx asserted that war was the inevitable result of capitalism. Other Marxists argued that the imperialist struggle for increased profits and markets for surplus goods caused war. After 1918, some blamed war on individual capitalists such as munitions makers and on interest groups such as the military-industrial complex (military organizations and manufacturers that have an economic relationship). Some modern theorists contend that war can emerge from disparities in economic development (the "North-South divide") and long-term economic cycles ("Kondratieff waves"). Others argue that competition for valuable resources such as oil, water, or diamonds engenders war.

War is expensive. For defense in peacetime, modern states typically devote 5 to 10 percent of the national income or gross national product (GNP) and 50 to 90 percent of government spending, which results in deficit spending—and they spend much more than that during wartime. To finance war, governments borrow, raise taxes, and debase (or devalue) currency. Spending vast sums of money has raised prices and caused inflation (which is sometimes called an indirect tax). In earlier eras, governments lowered the purity of metal coins, and later—after the invention of paper money—simply printed more banknotes. Significant inflation occurred as a result of the American Civil War, World Wars I and II, and Vietnam.

Warfare provoked much financial innovation throughout history. For example, during the financial revolution of the late 1600s, England created the banking, credit, and financial institutions that enabled it to prevail in the hegemonic struggle against France from 1688 until 1815. Warfare also stimulated technological innovations that profoundly affected the world economy. For example, jet aircraft engines, lasers, microchips, and satellites all emerged from military research programs.

The side that mobilizes the greatest economic resources usually achieves victory in war, although as the Vietnam conflict demonstrated, weak powers can use guerrilla warfare to exhaust superior opponents, and superior resources cannot ensure victory when military strategy is faulty. The two world wars galvanized the entire economies of the major participants, and in each case the victors comprehensively outproduced the defeated in terms of military equipment and supplies. Neither war was a foregone conclusion, but in both cases, superior economic power permitted the Allies to recover from early defeats and secure ultimate victory.

Victory brings economic benefit in the form of plunder or reparations. Before 1914, war could pay for itself, but since then, the costs of war have far exceeded the direct profits thereby gained. Territorial conquest brought great economic

benefit during the age of mercantile empires, when international trade remained restricted and internal development was slow. During the modern era (since 1900), nations had to increase national wealth and power by conquering new lands to provide resources and markets. As international trade increased, territorial conquest became less attractive than making the rules that governed the international economic system—and military hegemony guaranteed the right to make the rules. For example, American military power underwrote the Bretton Woods system (which stabilized international economies by establishing exchange rates and the International Monetary Fund) from 1944 to 1970, and it has also ensured access to Middle Eastern oil. Warfare brings great economic benefit when rival powers exhaust or destroy each other. For example, European warfare from 1789 to 1815 and 1914 to 1945 contributed to U.S. economic growth, and the Vietnam War undermined American economic power relative to that of Germany and Japan.

Paul Kennedy has argued that over the long term, immoderate diversion of resources from investment to military power and the acquisition of excessive security commitments ("imperial overstretch") weaken states and lead to a shift in the balance of economic power. However, Niall Ferguson has contended that economic power influences—but does not determine—history. He claimed that hegemonic decline actually results from "understretch"—the political unwillingness to mobilize sufficient resources quickly enough to deter potential aggressors.

—*James D. Perry*

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See also Volume 1: War of 1812; World War I, World War II.

War Labor Disputes Act

See Smith-Connally Act.

War of 1812

America's second War of Independence.

In June 1812, President James Madison asked Congress to declare war on Great Britain. Madison and his supporters in Congress, known as the war hawks, had many complaints against the British. First, England had interfered with America's trade on the high seas for nearly two decades. In an effort to stop all commerce with Napoleon, the British navy had captured hundreds of American ships. Equally important, many American sailors had been forcibly impressed into the Royal Navy. British officers boarded American ships at gunpoint and forcibly removed any sailors thought to be English citizens. Finally, Americans suspected the British army in Canada of helping the Shawnee chief Tecumseh organize his Indian confederation against the United States along the western frontier. Tecumseh had united dozens of tribes in his effort to stop America's westward advance. He hoped that the British would help him win a separate Indian nation north of the Ohio River for all the tribes.

The opening year of the War of 1812 proved disastrous for the United States. The city of Detroit fell to the British and Indians, while the American invasion of Canada by way of upstate New York collapsed. But by 1813, the tide had turned in favor of the Americans. U.S. troops turned back an invading army of British and Indians led by Tecumseh at Fort Meigs along the Maumee River in Ohio by the summer of 1813. Oliver Hazard Perry's fleet soundly defeated the British navy at Put-in-Bay on Lake Erie in September 1813. In October, Tecumseh lost the Battle of the Thames in western Ontario. Tecumseh died in the fighting, and Indian resistance in the northwest broke. Later in Alabama, Tecumseh's last Indian allies met defeat in the brutal Creek War.

Despite these American victories, Great Britain launched a three-pronged attack against the United States in 1814. The first British army turned back at Plattsburgh on Lake Champlain in September 1814. The second army invaded Washington, D.C., and burned many government buildings including the White House. But the British met stiff opposition at Baltimore and retreated to the Caribbean to join the third army gathering for the attack on New Orleans. General Andrew Jackson soundly defeated the British at the Battle of New Orleans in January 1815.

As Americans celebrated the great victory at New Orleans, word arrived that the peace treaty ending the war had already been signed on Christmas Eve in 1814. Minister to Russia John Quincy Adams, Speaker of the House Henry Clay, and former secretary of the Treasury Albert Gallatin had worked tirelessly for nearly a year to prepare the Treaty of Ghent. At first, the British demanded a separate Indian state in the old northwest territory but finally agreed to return to the status quo before the war. Although the United States lost many battles in the War of 1812, the nation had finally won the respect of Great Britain. England would never again interfere with American trade on the high seas or help the Indians in their long war against the advancing Americans.

—*Mary Stockwell*

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See also Volume 1: Treaty of Ghent.

War of 1898

See Spanish-American War.

War Production Board (WPB)

Government agency established in 1942 to direct war production and procurement of materials for World War II.

To organize American economic mobilization for World War II, President Franklin D. Roosevelt created the War Production Board (WPB) in January 1942 under Sears Roebuck executive Donald Nelson. The WPB was theoretically a "superagency" that controlled war production and procurement and allocated materials and production facilities. In practice, Nelson proved a poor bureaucratic infighter, and rival agencies constantly outmaneuvered the WPB. His worst decision was to permit the armed services to set priorities and clear contracts. Thus, the WPB could not determine overall production priorities and ensure compliance with them.

Nelson converted many civilian industries to war production. For example, he banned civilian automobile production in February 1942. Automobile manufacturers subsequently produced vast quantities of planes, aircraft engines, tanks, trucks, and munitions.

Nelson, an idealist, wanted to give contracts to small businesses even though the approach would have increased costs, created delays, and resulted in administrative inefficiencies. The military preferred working with large corporations, which had the plant, equipment, managerial expertise, trained workers, and mass production techniques to procure immense quantities of complex equipment quickly. Congress created the Smaller War Plants Corporation under Nelson to convert small businesses to war work, but the military preference for big business generally prevailed. The Smaller War Plants Corporation increased the small business share of War Department contracts from 12.6 percent in 1943 to 27.4 percent in 1945, but these contracts were mainly for commercial-type items procured for the Quartermaster Corps.

The WPB's chief duty involved administering the Controlled Materials Plan established in November 1942 to ration steel, copper, and aluminum. Claimant agencies (initially the War and Navy Departments, Maritime Commission, Aircraft Resources Control, Lend-Lease Administration, Board of Economic Warfare, and Office of Civilian Supply) estimated their needs each quarter, and the WPB allocated to them a proportion of the available total to distribute to prime contractors.

Roosevelt created many rival agencies that duplicated WPB functions, such as the Office of War Mobilization, and refused to support Nelson in the inevitable disputes. Nelson's bitter fights with the military eventually led to his downfall. Nelson wanted to begin reconverting defense plants to civilian production as early as 1943, but the Joint Chiefs of Staff violently resisted this idea. Roosevelt sided with the Joint Chiefs of Staff, and Nelson resigned in August 1944. Julius Krug replaced Nelson and lifted wartime economic controls in April 1945. In sum, the WPB's charter envisioned total control over the wartime economy, but Nelson's failure to bend the military and big business to his will helped ensure that the WPB never achieved this objective.

—*James D. Perry*

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See also Volume 1: Office of War Mobilization; World War II.

Wealth Distribution

The pattern of wealth-holding in a society.

Wealth consists of a stock of any asset that has a money value in exchange. Economists measure the distribution of wealth by sorting all members of society in order from those with no wealth to the wealthiest, then dividing that list up into equal-sized groups. The proportion of total wealth held by each group then gives an indication of the equality wealth holding. In most societies, the majority of people have only small amounts of wealth, while a few are very rich.

Strong links exist between income and wealth, but two factors distinguish them. The first, inheritance, consists of wealth passed from one generation to the next. The second focuses on the point in the lifespan of the individual. Most people begin their adult lives with little, but they accumulate wealth during their years of work. They then spend their savings during their retirement. Most individuals hold their wealth in assets not easily converted to cash—particularly homes, which account for 46 percent of all wealth, followed by interest-bearing assets and then motor vehicles.

Given the high degree of wealth inequality in the United States, administrations between 1960 and 2003 have sought to achieve a more equitable distribution. Redistribution achieves a more socially desirable distribution of wealth, and in doing so transfers wealth to the poor, who have a greater propensity to spend, thereby increasing demand. The most common method of redistribution is through the use of income and consumption taxes.

Prior to World War II, there were few attempts to redistribute wealth in the United States. In October 1942 Roosevelt imposed a progressive income tax—one that taxes the rich more than the poor. Such taxes continue to form the mainstay of wealth redistribution efforts, together with programs to alleviate poverty.

—*Tony Ward*

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See also Volume 1: Medicaid; Medicare.

Welfare Economics

System that uses economic theory to analyze the desirability of one situation over another.

Most economic theory focuses on positive analysis by simply measuring and understanding people and firms. The main purpose of welfare economics involves the development of mechanisms that enable us to compare alternative situations and obtain a social ordering. This process inevitably relies on the use of value judgments to decide which situation is preferable.

Welfare economics relies on the market-based tools of neoclassical economics to support two basic theorems. The first fundamental theorem of welfare economics states that if individual preferences obey certain regulatory restrictions, the outcome of a free-market system will achieve efficiency—a condition when resources cannot be reallocated to make anyone better off without making someone else worse off. Such equilibria remain quite common, and the theorem does not necessarily help us to decide which of two situations is preferable in some global sense. This first theorem constitutes a formal proof of Adam Smith's propositions in the *Wealth of Nations* (1776). If the situation does not meet the necessary technical conditions, any outcome is by definition optimal, so this theorem does not help us to distinguish between alternative states.

There are many possible criticisms of the first theorem, which lessen its effectiveness. Apart from several (critical) technical problems, the theorem has no concern for the distribution of income or wealth, and an outcome that is highly unequal is just as satisfactory as one of perfectly equal distribution. This strong objection to the usefulness of the first theorem is at least partly answered by the second theorem.

The second fundamental theorem of welfare economics states that inequalities of distribution can be dealt with efficiently through the use of lump-sum taxes and transfer payments. A benign government can therefore enjoy the advantages of an efficient competitive economy whilst also achieving equity. Although not dealing with the important technical problems, this provides strong support for the use of a competitive market system.

The two theorems together then provide a logical underpinning to today's market economic system. If all the required regularity conditions hold true in the real world, then that support would be valid. The "second best theorem" then shows that if any of the stringent conditions does not hold true, the overall results are not correct. Not only does the overall result not hold, but assuming that the other conditions are satisfied, does not necessarily improve the outcome.

There are many situations, such as the provision of public goods that do not result in efficient provision by a competitive economy. In such cases government needs to intervene to ensure provision, and needs the welfare economics tools of benefit-cost analysis to evaluate how much to provide.

—Tony Ward

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See also Volume 1: Great Society; Medicaid; Medicare.

Whig Party

American political party popular from 1836 to 1854.

Taking its name from the eighteenth century British and American opponents of the monarchy, the Whig Party formed out of opposition to President Andrew Jackson, who some disparaged as "King Andrew the First" because of his overbearing political methods. Direct political successors to the old National Republicans, the Whigs drew the bulk of their support from New England and the Upper Midwest. They remained ardent nationalists and promoted the American System, a plan designed to unite the country economically through a national bank, high protective tariffs, federally sponsored internal improvement, and a conservative public land sales policy. Their programs proved especially attractive to manufacturers, merchants, and commercial farmers. Two of the great statesmen of the era, Henry Clay of Kentucky and Daniel Webster of Massachusetts, ranked among the party's leadership.

The Whigs began organizing in 1834 in response to Jackson's veto of the National Bank, which killed the institution. They brought members of the Anti-Mason party into their coalition, and fallout from the nullification crisis (which threatened dissolution of the Union over discriminatory tariffs in 1828 and 1832) allowed them to forge an uneasy alliance with John C. Calhoun and his states' rights followers in the South. Though Jacksonian Democracy dominated the Southern states, many among the region's planter class held the Whig point of view. Jackson's retirement coupled with the financial panic of 1837 weakened the Democrats and allowed the Whig candidate, war hero William Henry Harrison, to win the presidency in 1840 over incumbent Martin Van Buren. The Whig victory proved short-lived, as Harrison died only one month into his term. John Tyler, a states'-rights former Democrat, replaced Harrison and subsequently vetoed key Whig economic legislation.

The Whig Party claimed the presidency again in 1848 with another war hero, Zachary Taylor, but he served only 16 months. Taylor's death in 1850 left Millard Fillmore as the nation's chief executive at a time of increasing sectional tensions over slavery and western expansion. Although the Compromise of 1850 was not entirely a Whig undertaking, the Whig leadership played a prominent role in its passage. (The Compromise of 1850 admitted California as a free state and Texas as a slave state, and it established the Fugitive Slave Act placing recovery of runaway slaves under federal jurisdiction and ending slave trade in Washington, D.C.) Soon after 1850, though, the party began to crumble. Fillmore was an ineffective leader, and the deaths of Clay and Webster in 1852 were blows from which the Whigs would never recover. As sectional tensions became more acute, many party leaders defected to the Free-Soil Party, and suspicions over its association with antislavery elements never allowed the Whigs to gain a strong foothold in the South. The rise of the Republican and Know-Nothing parties in 1856 completed the Whig collapse as a viable political entity.

—Ben Wynne

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See also Volume 1: Clay, Henry; Nullification Crisis; Panic of 1837.

Whiskey Rebellion (1794)

Popular revolt in western Pennsylvania brought about by a federal tax on distilled spirits.

Since 1791, back-country farmers in all of the states had been seething about the federal excise tax on distilled alcohol, proposed by Alexander Hamilton, secretary of the treasury. The tax charged small producers nine cents a gallon on their product while taxing larger distillers only six cents. This measure made the alcohol almost impossible to sell at a profit, cut into the hard currency available to the farmers, and became the focus of rural discontent across the western frontier. In 1794, efforts to more strongly enforce the tax sparked violent protest in Pennsylvania, where angry farmers attacked, tarred, and feathered a tax inspector and then burned his house. The government, afraid of the violence contemporaneously sweeping the French Revolution, quickly summoned 13,000 militia from Pennsylvania and the surrounding states, under the command of General Henry Lee, but with George Washington riding at their head to confront the protesters.

Meanwhile, the "whiskey rebels" in Pennsylvania had elected an assembly to broadcast their grievances, and although many members were moderates like Albert Gallatin, the violence continued until the militia arrived. Faced with federal force, the protesters melted away, although the forces arrested 12 men who they sent to Philadelphia for trial. All but one received presidential pardons shortly thereafter. The Whiskey Rebellion tested the new constitutional government of Washington for the first time, required the initial use of the 1792 Militia Act, and resulted in the widespread outpouring of anti-Federalist sentiment from the western counties of every state but New York.

—Margaret Sankey

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See also Volume 2: Taxation.

Williams-Steiger Act

See Occupational Safety and Health Act of 1970 (OSHA).

Williams v. Mississippi (1898)

Landmark Supreme Court case dealing with minority voting rights.

Handed down in the shadow of *Plessy v. Ferguson* (1896), this decision upheld measures designed to curtail black voting in the South. In 1896 an all-white grand jury in Washington County, Mississippi, indicted Henry Williams, a black man, for murder, and an all-white petit jury subsequently convicted him and imposed a death sentence. Williams argued that both the indictment and trial violated the Equal Protection Clause of the Fourteenth Amendment because the laws of the state of Mississippi disqualified blacks from jury service. Franchise provisions in Mississippi's 1890 Constitution included a poll tax and literacy test, which had greatly reduced the number of black voters in the state and effectively eliminated blacks from the jury pool. (Williams had failed to pass the literacy test.) The Court rejected Williams's argument by a vote of 9 to 0 (including Justice John Marshall Harlan, who had previously cast the only dissenting vote in the *Plessy* case). In writing the opinion, Justice Joseph McKenna stated that the poll tax and literacy test provisions of the Mississippi Constitution "do not on their face discriminate between the races, and it has not been shown that their actual administration was evil; only that evil was possible under them." Coupled with the *Plessy* decision, the outcome of the Williams case was a great victory for the Jim Crow South, and white politicians throughout the region moved quickly to consolidate their position. Armed with legal sanction from the nation's highest court, other southern states soon adopted similar laws that would keep blacks away from the polls for decades. Minority voting would remain unusually low in the South until after passage of the Civil Rights Act of 1964 and the Voting Rights Act of 1965.

—Ben Wynne

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See also Volume 1: Poll Tax; Volume 2: Judiciary.

Wilson-Gorman Tariff (1894)

Democratic tariff reform bill that included a federal income tax.

Tariff questions played a key role in the election of Democratic President Grover Cleveland to a second (nonconsecutive) term in 1892. The Democratic Party included a tariff reduction plank in its platform. In a special session called by President Cleveland in 1894, the House, with a significant Democratic majority, moved quickly to enact tariff reductions through legislation written by the chair of the Ways and Means Committee, Democratic Representative William L. Wilson of West Virginia. The Democrats enjoyed a smaller majority in the Senate, and so the tariff reduction bill became loaded with protectionist amendments favoring high tariffs. Because the Senate bill differed from the House bill, a conference committee of members from both chambers had to

reach a compromise. The House and Senate approved the compromise legislation, but President Cleveland indicated his dissent by not signing the bill. It became law without his signature in August 1894.

The Wilson-Gorman Tariff included the first federal income tax enacted since the Civil War. Persons with incomes over $4,000 paid a 2 percent tax. The U.S. Supreme Court ruled the income tax provision unconstitutional in 1895. The Wilson-Gorman Tariff removed the tariff on wool and simplified the rates on woolen products imported to the country. Many of the other rate changes involved slight reductions from the McKinley Tariff of 1890; the protectionists in the Senate blunted more significant reductions. The Wilson-Gorman Tariff reinstituted the tariff on sugar, resulting in an increase in revenue. The change also wreaked havoc on economic conditions in Cuba, which relied heavily on the American market for its sugar exports. Cuban exports to the United States fell more than 50 percent, leading to political strife that resulted in the Spanish-American War.

The Democratic Party lost much of its electoral support because of the lack of significant rate reductions in the Wilson-Gorman Tariff. The Democrats lost their majorities in both houses of Congress as voters swept many Democrats, including Representative Wilson, from office.

—John David Rausch Jr.

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See also Volume 1: McKinley Tariff Act; Sugar.

Wilson, Woodrow (1856–1924)

Former governor of New Jersey and twenty-eighth President of the United States (1913–1921) who advocated the progressive reforms of the New Freedom to promote free enterprise.

Wilson was born December 28, 1856, and raised in a southern family of Presbyterian pastors. In 1879, he graduated from Princeton University and entered the Law School of the University of Virginia. In 1883, he attended Johns Hopkins University for a doctorate in political science and history. He then took successive professorships at Bryn Mawr College in Pennsylvania, Wesleyan University in Connecticut, and Princeton University. From 1902 to 1910, Wilson served as president of Princeton University.

Wilson began his political career as reform governor of New Jersey (1911–1913). He supported comprehensive reform legislation that included a corrupt practice act prohibiting monopolies and insider trading, the Workingmen's Compensation Act, municipal reform, reorganization of the school system, passage of antitrust laws, and the implementation of the direct election primary. With his record as a reformer, Wilson won the Democratic nomination for the White House in 1912 and won the presidency by campaigning for the New Freedom, a national program to unleash American economic dynamism and boost individual energies for creative competition.

As president, Wilson strengthened executive authority by endorsing an ambitious legislative agenda and securing its approval from a Democratic Congress. He called for tariff reform and, by battling both lobbyists who represented special interest groups and opposition from within his own party, he forced through Congress the Underwood Tariff Act of 1913, the first substantial downward revision of duties since before the Civil War. To reorganize the banking and credit system to free them from monopolistic control, he pushed through Congress the Federal Reserve Act of 1913 and strengthened antitrust laws to address unfair trade practices. The New Freedom ideals also found expression in Wilson's foreign policy, which aimed to construct new international relations along liberal-internationalist lines by calling on foreign nations to copy American-type democracy and capitalism. Such diplomacy met severe challenges and almost brought the United States into war with Mexico in 1916 (after Mexico accepted correspondence from Germany that suggested a joint attack by Mexico and Germany on the United States, which would open a second front and keep the United States out of the European War). This diplomacy was partly responsible for U.S. entry into World War I in 1917 because the United States publicly revealed the correspondence and declared war on Germany before Mexico had a chance to act on the German suggestion. After the war's end, Wilson failed to implement his Fourteen Points for international peace—save for the League of Nations, which the United States failed to participate in because it would have supranational authority over the United States, and over which he fought a losing battle against the Republican opposition in Congress. Other points that failed included one calling for self-determination for all people, a "no war guilt" clause for the German government, and a system of war reparations that would have required Germany to pay for the entire cost of World War I. Wilson suffered a nervous collapse in September 1919 while on a national speaking tour touting support for the League of Nations and never fully recovered. In December 1920, Wilson won the Nobel Peace Prize for his efforts at Versailles in 1919. He died in Washington, D.C., on February 3, 1924.

—Guoqiang Zheng

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See also Volume 1: Federal Reserve Act; World War I; Volume 2: Trade Policy.

Women

Largest segment of the U.S. population long denied economic and political rights.

Throughout most of U.S. history, women have been subservient to men when it comes to conducting business transactions, controlling property and wealth, and making decisions concerning politics. During the 1600s, when the number of men far exceeded the number of women, society placed women in a position to have more control of their situations: Men died young, and women usually remarried several times.

Each time a woman remarried, her wealth increased, providing her with the choice of taking another husband or remaining on her own. The rigors of frontier life usually meant she opted for the former. As the balance between the sexes reached a balance in the colonies, the rights of women declined rapidly. Later individual states would pass laws granting men authority to control all of a woman's assets. At the same time, men assumed responsibility for any legal consequences of their decisions.

During the early years of the republic, women stayed home and cared for the household and the children. As men began leaving family farms for wage-paying jobs in skills trades or factories during the market revolution (1815–1849), when the U.S. economy shifted from a subsistence to a cash economy, women's work remained uncompensated. This trend continued throughout the rest of the 1800s, even though women fought for the right to vote. During the last few decades of the nineteenth century as American industry expanded, many newly arrived female immigrants found themselves forced into the lowest-paying jobs in factories. Still women remained economically restricted.

By the outbreak of World War I, women's rights were still limited, although a few states had finally passed legislation that allowed women to control their own economic affairs. During the war, women filled factory jobs vacated by men who had joined the armed services and worked as nurses, teachers, and in other traditional female occupations. Congress rewarded their efforts after the war—and after years of political agitation in which women pushed for political participation—by passing the Nineteenth Amendment, an act that granted women the right to vote. More economic opportunities arose during World War II as women once again returned to the factories in large numbers. After the United States defeated Germany and Japan, however, most women returned to their traditional roles as housewife and mother. The 1950s witnessed the apex of this trend. By the 1960s, women began once again to agitate for their rights—this time for their economic rights. Demands for an Equal Rights Amendment to the Constitution met stiff resistance from many special interest groups, which argued that the amendment would encompass all groups (including women, gays, and other groups), making the law unpalatable. In 1961, President John F. Kennedy appointed Eleanor Roosevelt to head the President's Commission on the Status of Women. The commission reported that women received less pay than men for performing the same job, and a movement began to equalize pay. By the 1970s women fought to eliminate the "glass ceiling,"—a term used to describe the invisible barrier that prevented women from achieving promotions from middle management to top executive positions. Although women have since attained a measure of success in this area, most professional women still receive lower compensation than their male counterparts, and fewer women than men fill top positions in corporations. During the last few decades of the twentieth century, the government began to address other issues that affect women in the workplace, such as employer day-care facilities and family leave for personal reasons such as illness or the birth of a child. The poorest women, often stuck in a cycle of poverty and dependent on government welfare assistance, received job and day-care assistance in an effort to elevate their economic position while reducing the number of Americans on the government welfare rolls. Although disparities still exist between the sexes economically, the trend continues to move forward as more women move into politics and the workforce.

—Cynthia Clark Northrup

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See also Volume 1: Aid to Dependent Children; Aid to Families with Dependent Children; Equal Pay Act of 1963; Family Assistance Plan; President's Commission on the Status of Women; World War I; World War II.

Workers' Compensation

State programs that provide cash and/or medical services to workers injured on the job or, in cases of workplace fatalities, survivor benefits.

Workers' compensation endures as one of the most important and durable contributions of the Progressive Era: in the short time between 1910 and 1921, all but four states—Arkansas, Florida, Mississippi and South Carolina—established programs. These plans provided the first form of social insurance in the United States and, as such, foretold such New Deal initiatives as old age pensions and unemployment insurance. Throughout the nineteenth century, disabled workers had to prove strict negligence under the common law of industrial accidents, which afforded employers three defenses—contributory negligence (in which the employer fails to ensure safe working conditions), the negligence of fellow servants (in which employees create a safety hazard), and assumption-at-risk (referring to jobs with inherent foreseeable hazards). Workers often found the costs of a protracted court case prohibitive, however, and under these rules, positive verdicts or settlements often proved difficult to achieve. In some states, for example, fewer than half the families of men and women killed on the job received compensation. The problem was underscored in several well-documented catastrophes. Following the infamous Triangle Shirtwaist fire on March 26, 1911, for example, in which 146 workers died, the owners settled a small number of civil cases, but the courts acquitted them in the criminal case. The dramatic rise in the accident rate over previous decades further served to galvanize the reform movement. The rate of nonfatal accidents for railroad workers, for example, had more than doubled between 1894 and 1910.

All 50 states as well as the District of Columbia, Puerto Rico, and the Virgin Islands now have workers' compensation laws based on the principle of no-fault liability (in which it is not necessary to establish fault). There are also two national programs, one for federal government workers and the other for longshoremen and harbor workers. In all states but New

Jersey and Texas, where participation remains elective, eligible employers must purchase sufficient insurance to provide mandated benefits, though most allow self-insurance, either alone or in small groups. Public and private insurance funds coexist in 21 jurisdictions and, in 8 of these, an exclusive state carrier exists. In most cases, premiums are both class-rated (based on income) and experience-rated (firms are penalized at a higher tax rate for benefits paid to their own workers).

The decentralization of workers' compensation in the United States explains its most distinctive (and sometimes problematic) feature: the wide variation in plans. Differences in access to care, coverage of agricultural workers, treatment of small firms, and, most important, the amount and duration of benefits, continue to exist even within a single region. In 2001, for example, a worker who lost his or her hand in an industrial accident in New England could receive $21,690 in Rhode Island but $138,250 in Vermont. Similar variations occur in the maximum survivor benefit: Over all states, it varied from $223 per week in Idaho to $1,031 per week in Iowa.

—Peter Hans Matthews

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See also Volume 2: Labor.

World Intellectual Property Organization (WIPO)

International organization established in 1970 for the protection of intellectual property.

The roots of the World Intellectual Property Organization (WIPO) go back to the late nineteenth century. During the Gilded Age, writers, composers, and inventors had to deal with the theft of their ideas. Fearing that others would copy their industrial designs, many scientists refused to participate in the International Exhibition of Invention in Vienna in 1873. In response, 14 nations signed the Paris Convention in 1883 to safeguard patents, trademarks, and industrial designs. Three years later they agreed to the Berne Convention, which extended copyright privileges to writers, composers, and artists. In 1893 the two groups merged and became the United International Bureaux for the Protection of Intellectual Property (BIRPI), the predecessor of the WIPO. In 1960, the BIRPI moved from Berne to Geneva, Switzerland, to be closer to the United Nations agencies. A decade later the organization became known as the World Intellectual Property Organization. Seeking greater participation and recognition, the organization became a specialized agency of the United Nations in 1974. After the establishment of the World Trade Organization (WTO) in 1996, the agency signed an agreement of cooperation with the WTO.

The WIPO allows for the application of protection of intellectual property that covers the work in all 179 member states. For instance, if an American writer copyrights his or her book, short story, poem, or other form of writing through the WIPO, the piece is protected internationally throughout all participating countries. If disputes arise, the WIPO facilitates resolutions, and it provides legal assistance to developing countries. The formation of the WIPO has protected Americans in both the arts and the sciences and has stimulated industries by providing accessibility to important information.

—Cynthia Clark Northrup

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See also Volume 2: Intellectual Property.

World Trade Organization (WTO)

International organization that deals with the rules of trade between nations.

Established on January 1, 1995, the World Trade Organization (WTO) replaced the General Agreement on Tariffs and Trade (GATT). Created during the Uruguay Round of GATT (1986–1994), the WTO differs from its predecessor in scope and authority. Headquartered in Geneva, Switzerland, the WTO consists of 144 member countries. The organization administers WTO agreements, operates as a forum for trade negotiations, and handles disputes among members. It also monitors national trade policies and provides technical assistance for developing countries.

A primary criticism of the WTO in the United States revolves around the expanded authority of the new organization. Under GATT, signatories were not bound to the agreement. Countries joined voluntarily and could leave voluntarily. Under the terms of the World Trade Organization agreement, signatories are bound to the agreement. For instance, section 16 states that "each member shall ensure the conformity of its laws, regulations and administrative procedures with its obligations as provided in the annexed Agreements." In addition, trade panels, instead of magistrates, decide disputes that arise between members. For example, in 2003 the trade panel ruled against India's claim that the United States was not abiding by the WTO's Rules of Origin for Textiles and Apparel Products. The decision of the panel is binding, and heavy fines are imposed if the judgment is ignored. Many opponents argue that these clauses violate the sovereignty of the nation and usurp domestic legislation. As a result of U.S. participation in the WTO, Congress has relegated some of its authority over trade to a supranational organization with potentially far-reaching consequences for the future economic well-being of the country.

Even as the WTO expands its role, opposition to it continues. Various labor activists, religious groups, environmentalists, and academics have created havoc in demonstrations at WTO meetings in Seattle, Prague, Melbourne, New York,

Philadelphia, and Los Angeles. These groups oppose economic globalization, saying that it will mean a loss of jobs in industrialized countries as manufacturers move to countries where labor is cheap and that less developed countries are more lax on environmental controls.

—*Cynthia Clark Northrup*

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See also Volume 1: General Agreement on Tariffs and Trade; Volume 2: Trade Policy.

World War I (1914–1918)

Early-twentieth-century war primarily fought in Europe that pitted the German, Austro-Hungarian, and Ottoman Empires against Britain, France, Russia, and, in the end, the United States.

In the decades prior to the outbreak of World War I, the nations of Europe vied for economic dominance. Britain began the Industrial Revolution, but its rivals were not far behind. Increased industrial output created a need for more markets. At the turn of the century, Germany, France, and Britain struggled to develop colonies in Africa and Asia. The United States, with its victory in the Spanish-American War of 1898, dominated the Caribbean and was making strides in the Pacific.

The economic struggles of these nations turned into open warfare after the assassination of Austrian Archduke Franz Ferdinand by a Serbian nationalist on June 28, 1914. Diplomatic solutions broke down, and by August 4, 1914, all of Europe was at war. Britain, France, and Russia led the Allied powers in opposition to the Central Powers comprising Germany, Austria-Hungary, and the Ottoman Empire.

Europe was at war, but the United States remained neutral. Initially, it seemed that supplying both sides during the war would create an economic boom for the United States, but in October 1914, the British began a naval blockade of Germany. The British issued an expansive contraband list that all but prohibited American trade with the Central Powers. The British heavily mined the North Sea in November to further ensure that merchant vessels could not reach Germany. The blockade had a detrimental effect on the American economy, and the United States vigorously protested. Britain did not wish to antagonize the United States, but cutting off trade to the enemy seemed a more pressing goal. As a result, the United States quickly settled into a pattern of trading with Britain and France.

Fearing economic strangulation, Germany began using its large submarine fleet to blockade merchants destined for Britain or France. Initially, German submarines surfaced before stopping a neutral merchant, but surfacing made the submarines too vulnerable to the British navy. As a result, German submarines began sinking vessels suspected of carrying military material into Britain or France. The Germans justified the attacks by arguing that the Allied blockade starved the German population, but the United States had a greater interest in its own ships and complained bitterly about German tactics. Because of American pressure after Germany had sunk several passenger ships, notably the British cruise ship *Lusitania,* the Germans ended submarine warfare against nonmilitary vessels in March 1916.

The United States continued trading with the Allied powers, and the trade grew despite the 1916 British publication of a blacklist that prevented trade with American merchants suspected of trading with the Central Powers. Meanwhile, the British blockade was having a serious effect on Germany. Faced with food riots and fearing economic strangulation, the Germans announced a resumption of unrestricted submarine warfare on January 31, 1917. The United States broke diplomatic relations with Germany on February 3, and after German submarines sank several American merchant ships, the United States went to war on April 6, 1917.

The United States sent troops to Europe, but America's chief contribution came in helping end the submarine threat. German submarines wreaked havoc on British merchant vessels, and the United States helped institute a convoy system that escorted merchants across the Atlantic and greatly reduced the submarine threat.

The United States also made a large financial contribution to the Allied effort and loaned about $10 billion to Britain and France. The United States supplied food, weapons, and munitions for the Allies, but the United States initially had difficulty coming up with supplies. No centralized system for purchasing military goods existed in America. Therefore, the U.S. military had to compete for goods in the open market. Additionally, the government did not order factories to convert to war production, and American labor threatened strikes. To deal with these difficulties the government created the War Industries Board to increase industrial efficiency and the National War Labor Board to prevent strikes by meeting with management and labor.

The cost of war and of supplying the Allies was tremendous. The federal budget skyrocketed from $1 billion in 1916 to $19 billion in 1919, and the national debt grew from $1 billion in 1915 to $24 billion in 1920. The federal income tax, which started in 1913, and corporate taxes funded about one-third of the war, and the American people made up the difference by purchasing bonds known as "liberty loans." As a result, the federal government owed the bulk of its debt to its own citizens.

Although the United States was just gearing up to fight, Russia was nearly out of the war. Russia's Bolshevik Revolution took place in November 1917, and the new communist leadership made peace with the Central Powers in March 1918. Even without Russia's help, the Allies proved victorious and signed an Armistice with Germany on November 11, 1918.

In the ensuing peace process, President Woodrow Wilson represented the United States and pushed for a treaty based on his Fourteen Points. The most famed of these was the idea of creating a League of Nations, an international organization designed to mediate national disputes. However, the Fourteen Points also touched on economic issues and urged an

end to colonialism and the removal of trade barriers between nations. Wilson abandoned many of his goals and focused on the League of Nations (which the United States never even joined). In the post–World War I negotiations over the Treaty of Versailles, the Allies forced harsh reparations on Germany.

World War I was a golden era for American farmers as they supplied Europe with food, and the war encouraged industrialization and mass production in the United States. As Europeans struggled to obtain American supplies, the United States managed to double its overseas investments while European investments in the United States diminished. In short, participation in the war and the realization of American industrial capacity earned the United States a position as a world power.

—John K. Franklin

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See also Volume 1: War and Warfare.

World War II (1939–1945)

Mid–twentieth century war fought primarily in Europe, North Africa, and the Pacific that pitted the Axis powers (Germany, Italy, and Japan) against the Allied powers (Britain, the Soviet Union, and the United States).

The deteriorated economic condition of Europe during the Great Depression coupled with German anger over the punitive peace terms of World War I created international tension that led to general war in Europe after Germany invaded Poland in September 1939. War also wracked Asia as Japanese expansionists fought a series of wars against China beginning in 1931. Despite war around the globe, the United States initially attempted to remain neutral. Even so, American neutrality was not impartial; the United States clearly favored the Allies over the Axis powers.

However, the United States was initially unable to supply Britain with a great deal of aid. A series of U.S. Neutrality Acts passed in the 1930s prohibited loans to nations at war and forbade American vessels from shipping arms to belligerents. Instead, the United States abided by a policy known as "cash and carry," whereby belligerents could purchase goods in the United States and ship them home in their own ships. Such a policy made acquiring arms in the United States difficult for the European powers. The strength of the British navy prevented German merchants from picking up goods in the United States, and by the end of 1940, British credit was running out. To aid Britain and circumvent the Neutrality Acts (which prohibited the sale of arms, or even the making of loans, to belligerent nations), the United States initiated the Lend-Lease program in March 1941 to provide military supplies without requiring the payment of cash. Lend-lease allowed the U.S. government to loan military hardware to any nation considered vital to American security. The program clearly demonstrated American support for Britain and the Allies. Over the course of the war, lend-lease was the principal method of U.S. economic and industrial support for the Allies. By the war's end, the United States had distributed more than $50 billion in lend-lease assistance. Britain received the most aid with more than $31 billion. The Soviet Union, which entered the war in the summer of 1941 and ultimately received about $11 billion in aid, was a distant second.

The United States also maintained an interest in the fighting between Japan and China. By 1940, Japan had become increasingly expansionistic. The Japanese government stressed the creation of a Greater East Asia Co-Prosperity Sphere, in which Japan would lead Asia into political and economic competition against the industrialized Western nations. The United States favored China in the conflict and attempted to pressure Japan through a Japanese oil embargo that began in July 1940. In September 1940, U.S.-Japan relations deteriorated further when Japan forged an alliance with Germany and joined the Axis powers. As a result, the United States steadily increased economic pressure on Japan until the Japanese finally retaliated with the December 7, 1941, attack on Pearl Harbor.

The attack on Pearl Harbor brought the United States fully into World War II. The scale of the fighting in World War II vastly surpassed anything the United States had ever experienced, and during the conflict, the United States military fought in North Africa, Europe, and the Pacific. The Allies finally won after the United States dropped two atomic bombs on Hiroshima and Nagasaki in Japan in August 1945. However, American industrial capacity with its development of new technologies contributed as much to the victory as did military action.

When the United States entered the war, mobilization became a key issue—the scale of World War II required total economic and industrial commitment. Anticipating a need for readiness, President Franklin D. Roosevelt had created the War Resources Board and the Office of Production Management to carry out planning and to stress military production, but without the threat of immediate war, these agencies were largely ineffective in persuading industry to prepare. The attack on Pearl Harbor generated the required willingness to participate, and American industry, led by the newly created War Production Board, began converting to military production. Conversion was difficult, but once it was complete the United States churned out military equipment at an impressive rate. The American auto industry was probably the industry most affected by the war. Auto factories turned to the production of a wide range of military vehicles, from supply trucks and tanks to fighter planes and heavy bombers. By the war's end, former auto producers had manufactured thousands of tanks, armored cars, and airplanes.

Increased industrial production created huge labor demands, and World War II eradicated the unemployment problems created by the Great Depression. With the need for large numbers of workers, labor concerns were an important issue, and the federal government created the National War

Labor Board to help ensure labor's loyalty throughout the war. Production rates were so high and so many men served in the military that businesses also hired women in large numbers for jobs traditionally reserved for men.

The war provided millions of Americans with jobs and money, but it nonetheless created problems with the domestic economy. Industries involved in military production required a great deal of raw material, especially metals, rubber, and fabric. Consequently consumers experienced shortages of several products. In response, the government created the Office of Price Administration to oversee the rationing of consumer goods such as fuel, food, and tires.

Despite the irritation of shortages and rationing, the American economy boomed during World War II. Heavy industrial output ensured an Allied victory but it also put the United States at full production and ended the Great Depression. Indeed, by 1945, the United States had become the world's leading industrial power. A significant factor in the rise of the United States was its separation from the fighting; it is the only major industrialized nation that did not suffer a significant attack on its industrial base. Warfare ravaged Europe and Japan but American factories emerged from the war unscathed. World War II reduced the industrial capacity of the other powers in Europe and Japan even as American industry expanded.

—John K. Franklin

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See also Volume 1: Great Depression; Japanese Oil Embargo; National War Labor Board.

WPB

See War Production Board.

WTO

See World Trade Organization.

Y

Yazoo Land Companies

Four companies involved in a fraudulent claim on western lands that resulted in the U.S. Supreme Court decision *Fletcher v. Peck.*

On January 7, 1795, Governor George Matthews of Georgia signed into law the Yazoo Land Act, which granted more than 40 million acres of land in present-day Alabama and Mississippi to the Georgia Company, the Georgia-Mississippi Company, the Upper Mississippi Company, and the Tennessee Company for $500,000. Several Georgia legislators owned stock in these companies. When the public learned of the bribery and corruption that secured the passage of the Yazoo Land Act, political turmoil ensued and a newly elected legislature, led by the bombastic Georgia Senator James Jackson (part of the loyal opposition to President George Washington led by Thomas Jefferson), repealed the act February 18, 1796. Georgia offered to refund the price of the land, but many purchasers refused to accept the payment and pressed their claims. On April 26, 1802, Georgia sold its western lands to the United States for $1.25 million. In the settlement the Yazoo claimants could have received five million acres or the money received from their sale. They rejected this offer as well.

The issue rose to national importance and caused conflict between President Thomas Jefferson and Virginia Representative John Randolph. Jefferson wished to settle the matter by compensating the claimants. Randolph opposed any settlement and accused the administration of helping to perpetrate the fraud, and his political connections allowed him to prevent congressional action. In 1810 the U.S. Supreme Court settled the matter by rendering a decision on *Fletcher v. Peck.* The Court ruled that the repeal of the act of 1795 by Georgia was unconstitutional and argued that the act constituted a legal contract binding the state to the land deal even if fraudulent. The decision established the legal notion of the inviolability of contracts and eventually led to Congress awarding the Yazoo claimants more than $4 million.

—*Peter S. Genovese*

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Essays

Advertising

Advertising is an essential element of a classical-liberal economic system that is founded around the principle of individual choice. In the early stages of economic development, advertising informs consumers about the different products and services available to them. As the range of consumer choices expands, manufacturers and retailers use advertising to differentiate their products and services from those of their competitors. The history of advertising in the United States demonstrates this evolution and shows how advertising styles have changed over time.

The Early Period: Colonial Times to the Early 1800s

Advertising has been a persistent feature of American life since colonial times. Printed handbills, one of the earliest forms of advertising, promoted emigration to the New World. Lured to the barren wilderness with promises of fortune, the new immigrants established businesses that used outdoor advertising—principally signs—to call attention to their operations.

Some of the first newspapers in the New World, including Benjamin Franklin's *Philadelphia Gazette* and John Peter Zenger's *New York Weekly Journal,* contained advertising within their pages. On the whole, however, early newspapers remained an ineffective advertising medium. The 300 or so newspapers published around the turn of the nineteenth century reached only a limited number of readers in a handful of small cities. Paper in the New World was expensive, and printing presses had only a limited capacity for altering the layout of pages to include advertising. Early advertisements provided information only, making advertising copy generally boring and unpersuasive. It was also repetitious; some ads remained unchanged for a year or longer as many newspapers provided discounts to advertisers who printed the same ad repeatedly.

Given these and other limitations, newspapers derived only about one-third of their revenues from advertising, with the balance coming from readers. The ratio of advertising revenue to other revenue proved even less for the small number of print magazines operating in the young United States. Many publishers viewed advertising as a sign of financial weakness, an embarrassment, a sign that the literary value of their particular work failed to spark sufficient interest to merit readers' attention and money.

Mid- to Late-Nineteenth Century: Rise of the Agency

Beginning in the 1830s and 1840s, technological changes opened new opportunities for newspaper publishers and advertisers alike. As the cost of paper declined, and as other improvements in printing technology reduced production costs, innovators experimented with changing the relationship between advertising copy and the rest of the text. James Gordon Bennett Sr., publisher of the *New York Herald,* insisted that advertisements change every day, just as the news changed every day. This innovation, combined with the growth in the number of pages in most newspapers, resulted in an explosion in the sheer volume of advertising space that needed to be filled.

The advertising agent emerged to solve this unique problem for newspaper publishers. According to industry historian Ralph Hower, the role of advertising agents evolved in a series of four stages. In the first stage, the agent served the newspaper, selling space on the publisher's behalf and earning a commission for orders taken. In the second stage, the agent played the role of space jobber, selling to advertisers on a piecemeal basis, buying space as necessary from publishers, and earning a profit on the difference between the buying price and the selling price. The space wholesaler carried the role of the space jobber one step further, buying advertising space in large quantities and then reselling the space in smaller quantities to advertisers for a profit. Finally, in the last stage in the evolution of the agent's role, the agent as concessionaire acted as the sole agent for given publications and then presented advertisers wishing to promote their products and services with a list of the publications for which he held a concession.

The first advertising agent, Volney Palmer, established operations in Philadelphia around 1843 and by 1849 claimed to represent 1,300 newspapers. Palmer was an early evangelist for advertising, communicating the importance of advertising to his clients and emphasizing the use of advertising to develop new markets.

George P. Rowell started in advertising by selling space for the *Boston Post.* He then established an independent agency in Boston and later in New York. Rowell initially filled a role similar to that of a typical space wholesaler, but he also set about to validate circulation figures, which publishers inflated notoriously. *Rowell's American Newspaper Directory,* first published in 1869, included information on 5,000 newspapers in the United States and another 300 in Canada. Rowell's other main innovation involved the institution of the open contract in 1875. Under the open contract, Rowell agreed to serve the advertiser instead of the publisher.

Other advertising agencies copied Rowell's efforts. Francis Wayland Ayer improved upon several of Rowell's innovations to become the leading advertising agent at the end of the nineteenth century. Ayer opened his agency, N. W. Ayer and Son, in Philadelphia with his father in 1866. Like Rowell, Ayer also published a listing of publications, *Ayer and Son's Manual for Advertisers,* and, again following Rowell's lead, Ayer adopted a variation of the open contract. Ayer further cemented his relationship as an agent for the advertiser, not the publisher, by establishing an exclusive arrangement with an advertiser for a fixed period of time.

The makers of patent medicines spent far more money on advertising than did any other industry through most of the nineteenth century, providing substantial revenue for publishers and agents alike. Sales of patent medicines increased when advertising expenditures rose, which suggested the effectiveness of advertising in general. But the untruthfulness of the patent-medicine ads tarnished the reputation of advertising. Some publications quietly pocketed the cash and looked the other way, but others balked at carrying advertisements of dubious veracity. Magazines, in particular, resisted advertising altogether to avoid being associated with patent-medicine makers and other hucksters.

Opposition to advertising changed during the latter half of the nineteenth century as new advertisers promoting a diverse array of products and services eventually displaced patent medicines as the engine of growth in the advertising business. For example, ad spending by retailers matched that of patent-medicine manufacturers by the late 1800s. Department store pioneer John Wanamaker used outdoor advertising liberally, including 12-foot-high billboards all over Philadelphia, and he distributed handbills at fairs to promote his store. In the case of print advertising, Wanamaker initiated the use of full-page advertisements to promote his store, with ads that included detailed descriptions of products and prices. Other retailers quickly copied Wanamaker's methods. Department store advertising provided a steady stream of revenue for newspapers in the late 1800s.

Consumer goods manufacturers also began appealing directly to consumers for their business in the late 1800s; for example, Levi Strauss jeans, designed for durability, were promoted through catalogs. Although these manufacturers capitalized on expanding production capacity and an extended sales and marketing network to reach a mass market, they remained motivated primarily by the desire to alter the power relationship between themselves and the middlemen—wholesalers and retailers—who controlled the point of sale. During most of the nineteenth century, manufacturers depended upon these middlemen to deliver and market products to consumers. In this context, wholesalers could play one manufacturer against another, using price pressures to extract the maximum possible profit for themselves while squeezing manufacturers economically. Advertising enabled manufacturers to shift this power relationship by appealing directly to consumers, who in turn pressured the middlemen to carry certain products that people had seen advertised.

Much of this advertising appeared in newspapers, but another print medium, the magazine, became a popular advertising vehicle in that same period. Although a few magazines existed in the United States in the early 1800s, only a small number of them depended upon advertising for income. This pattern continued through most of the nineteenth century until three men popularized the use of magazines as advertising media. J. Walter Thompson did so from the agency side of the business, developing an expertise in the placement of ads in magazines that propelled his namesake agency to its place as one of the largest and most successful agencies of the twentieth century. Cyrus H. K. Curtis expanded the role of magazines as advertising media from the publishing side by dramatically boosting circulation of his magazines, first the *Ladies' Home Journal* and later the *Saturday Evening Post,* and reaping the financial rewards through increased advertising revenues. Finally, Frank Munsey moved the revolution in magazine advertising a step further by drastically reducing the cover price of his magazines (such as *Golden Argosy* and *Munsey's Magazine*) to boost circulation and recouping the lost revenue through advertising. Munsey's tactics made him one of the most despised men in publishing in the late 1800s, but his competitors were forced to follow suit. By the beginning of the twentieth century, advertising generated an ever-greater revenue for magazines that had once refused to accept any ads for fear that this would cheapen their genteel, literary image.

The Progressive Era and World War I: Advances in Style

The volume of advertising increased tenfold in the last 30 years of the nineteenth century, and by 1900 advertising expenditures in the United States totaled over 3 percent of gross national product. Advertising agencies, building on the example of Rowell's and Ayer's open contract, developed new services for their clients, including copywriting and other creative capabilities.

Albert D. Lasker of the Lord and Thomas (L&T) agency in Chicago developed a distinctive copywriting style—often known as *reason-why advertising*—that vaulted his agency to a leading place within the industry. Lasker believed that advertising equaled salesmanship in print. He also believed that customers must see a specific reason for purchasing a particular product. Star copywriter Claude C. Hopkins further refined the reason-why style, attracting prominent new clients to L&T and becoming one of the highest-paid men in advertising. Advertisers remember him as one of the greatest copywriters of all time.

By the early 1900s, advertising agencies employed more

scientific methods to gauge consumer opinion, such as questionnaires and surveys. Business schools began to teach advertising: New York University offered the first such course in 1906, adding still further evidence of the industry's rising professional stature. Meanwhile, trade journals such as *Printers' Ink* provided a respected public voice for the industry.

Along with the growing influence of advertising came an increased interest on the part of consumers and politicians to control or limit it. The threat of governmental action in the early 1900s prompted the move toward self-regulation, carried out primarily by industry trade groups including the Associated Advertising Clubs of America (later the World) (AACA/AACW), established in 1905; the Association of National Advertisers (ANA), established in 1915; and the American Association of Advertising Agencies (AAAA), formed in 1917. The relative ineffectiveness of self-regulation would later haunt the industry as consumer groups gained more power and influence in Washington, D.C.

Highs and Lows: The Roaring Twenties and the Great Depression

Efforts to force changes in advertising practices did not come to fruition until the early 1930s. In the meantime, advertising experienced its period of greatest growth and influence in the years immediately after World War I.

The maturation of the advertising business began during World War I with George Creel's Committee on Public Information. *Printers' Ink* boasted that advertising had earned its credentials as an implement of war. This somewhat dubious distinction did not become a liability until the 1930s, when critics raised new questions about U.S. involvement in the war and cast a skeptical eye on the propagandizing efforts of the Creel Committee.

In the years immediately after World War I, the federal government inadvertently provided the impetus for the single greatest explosion of ad spending in the nation's history when Congress failed to swiftly revoke the wartime excess-profits tax. Threatened by this confiscatory levy, businesses chose instead to spend their extra income on advertising. The results proved dramatic. Total advertising spending *doubled* in less than two years, from $1.5 billion in 1918 to nearly $3 billion in 1920.

This expansion in advertising spending coincided with the introduction of new and improved products into the market. Popular culture glorified advertising and politicians celebrated it, including President Calvin Coolidge, who in 1926 praised advertisers for changing and adapting cultural norms and habits and for ministering to "the spiritual side of trade." Another prominent politician, New York Governor Franklin D. Roosevelt, stated that he would have chosen a career in advertising if he could live his life over again.

Advertising styles varied during the 1920s. Pioneered by Theodore F. MacManus, a star copywriter for General Motors, the "atmospheric" or "impressionistic" style emphasized building an image of durable quality rather than pitching the merits of a particular product. Helen Resor of J. Walter Thompson combined the MacManus style with Lasker's reason-why to create many memorable campaigns, including the one for Woodbury Soap with the slightly suggestive slogan "A Skin You Love to Touch."

The up-and-coming agency Batten, Barton, Durstine and Osborn (BBDO), founded in 1919, also used the MacManus style. Bruce Barton, one of the founders of the new firm, authored *The Man Nobody Knows* (1924), a book that presented a contemporary view of Jesus Christ. Although critics satirized Barton's "Christ as Adman" story, the book sold 250,000 copies in 18 months, securing Barton's public image, an image that he would later parlay into a brief career in politics.

Not all "admen" (as they were called at the time) embraced the MacManus style. Albert Lasker stubbornly resisted the shift away from reason-why advertising, and he attracted many new clients, including George Washington Hill's American Tobacco Company, by stressing reason-why principles. The campaign L&T created for Hill's Lucky Strike cigarette brand—"Reach for a Lucky Instead of a Sweet"—aroused the ire of the Federal Trade Commission (FTC), but the campaign helped to make Lucky Strike the number-one-selling cigarette brand, earning L&T millions of dollars in the process.

Advertising agencies took the lead in exploiting the first of the broadcast media—radio—despite early resistance to the commercialization of the airwaves. Initially, agencies remained reluctant to use the overt sales pitches they had used in print for years, and radio executives feared that advertising would harm the medium's reputation. In response to these and other concerns, both agents and networks opted for the soft-sell approach, allowing sponsors to underwrite the production of on-air programs, such as Pepsodent's *Amos 'n' Andy Show* and *The Fleischmann Yeast Hour* featuring Rudy Vallee.

But just as agencies and their clients were learning about the effectiveness of radio as a marketing vehicle, the bottom dropped out of the economy. Advertising, like most industries, was devastated financially during the depression: From a high of $3.4 billion in total billings in 1929, ad spending bottomed out in 1933, at only $1.3 billion, 38 percent of the pre-depression level.

Advertising also suffered from an image problem in the 1930s. In 1927, Stuart Chase and Frederick J. Schlink published *Your Money's Worth,* a broad-based indictment of modern selling practices. The authors singled out advertising for special blame, arguing that falling production costs, which should have resulted in lower prices for consumers, had been offset by fat advertising budgets that kept prices artificially high. Selling well over 100,000 copies, *Your Money's Worth* spawned the creation of Consumer Research, a grassroots organization the ranks of which swelled from a mere 1,200 members in 1929 to over 45,000 in 1933. The organization refocused public scrutiny on the advertising business.

Several prominent proponents of Franklin Roosevelt's New Deal, including presidential adviser Harry Hopkins and Assistant Secretary of Agriculture Rexford Tugwell, aligned with consumer activists in seeking greater governmental oversight of advertising. Hopkins wondered aloud if the government

should take over advertising completely, while Tugwell favored moving the regulation of food and drug advertising away from the FTC and into the Agriculture Department. The New Dealers gained the support of Senator Royal Copeland (D–NY), who introduced legislation in 1933 that extended regulations governing product labels to advertising and broadened the definition of false advertising.

The admen countered these threats by again pledging to regulate themselves. This time, however, they failed to thwart more stringent government regulations, especially revisions to the Federal Trade Commission Act enacted in 1938 (Wheeler-Lea amendments). In the two years following passage of these revisions, the FTC handed down 18 injunctions against the industry, forcing advertisers to revise claims that the FTC deemed "deceptive acts of commerce."

This external pressure posed the greatest challenge to advertisers in the nation's history to date, but the news was not all bad for the advertising business. The decade witnessed the emergence of Young and Rubicam (Y&R), one of the most creative agencies in the history of American advertising. Raymond Rubicam set the tone for the agency by combining a respect for the science of advertising with an eye for the MacManus image style. Rubicam demonstrated his fealty to scientific method by hiring George Gallup to conduct polling for the agency. By decade's end, Y&R became the second-largest agency in the country.

Meanwhile radio broadcasting and radio advertising continued to grow, spawning new creative outlets and new revenue opportunities for advertising agencies and clients alike. Radio audiences swelled as people sought a temporary escape from economic hardship. By 1938 radio surpassed magazines in total advertising revenues. Print media continued to lose ground to broadcasting in the years to come.

Agencies and advertisers retained much control over production of radio programs through the 1930s and into the 1940s. The agencies hired the writers and established the rules, while the networks provided the technical vehicle for delivering product messages. After World War II this relationship carried over to the next great broadcasting medium—television.

The 1950s: The Golden Age of Television

Advertising grew modestly during World War II, but the industry enjoyed one of its greatest periods of growth immediately after the war, when total advertising expenditures nearly doubled from $2.9 billion in 1945 to $5.7 billion in 1950.

The growth of television in the early 1950s presented the greatest challenges and the greatest opportunities for the advertising business. Although television debuted in the late 1930s, the adoption of the new technology slowed first because of World War II and later because of a Federal Communication Commission (FCC) decision to freeze the granting of new television licenses over concerns involving signal interference. Despite this freeze, television ad spending grew at a rate faster than that of radio during its formative years: From $12.3 million in 1949, ad spending on television soared to $40.8 million in 1950, then to $128 million in 1951.

When the FCC lifted the freeze in 1952, the agencies soon gained control of programming as they had with radio, using sponsors to underwrite production costs. Sponsors' control over programming proved sometimes ridiculous—for example, DeSoto asked a game show contestant named Ford to use a different last name on its program. But overall, sponsors and advertising agencies alike remained motivated to create popular, enjoyable, quality programs that would earn the respect and support of the viewing public.

Meanwhile, the agencies battled with the networks for control of television programming. As the number of viewers expanded, the cost of advertising and sponsorship skyrocketed. Many advertisers found themselves priced out of the market altogether; many who remained chose to use repetitive, hard-sell commercials to get their messages across. Customers quickly grew weary of these outspoken sales pitches. The success of Blab-Off, a device that enabled television users to turn off the sound for commercials, portended challenging times ahead for agencies and their clients as viewers resorted to technical devices to limit their exposure to advertising.

In the late 1950s, after the revelation that unscrupulous sponsors of quiz shows had manipulated the games to further their perceived commercial ends, the trend toward network control over television programming was sealed. The networks used these scandals as a pretext for assuming complete control over programming. After the collapse of the original sponsorship system, ratings, based on questionnaires completed by households, determined programming decisions. The quality of the programming no longer was the primary concern.

Although the advertising industry enjoyed great prosperity in the years after World War II, widespread criticism of the admen of Madison Avenue also existed during this era. Vance Packard's book *The Hidden Persuaders,* published in 1957, questioned the use of motivation research (MR) to manipulate consumer behavior. Meanwhile, fictionalized accounts of the advertising business, including Frederic Wakeman's *The Hucksters* (1946) and Sloan Wilson's *The Man in the Gray Flannel Suit* (1955), painted an unflattering picture of admen wrought by self-doubt and guilt and driven by the pursuit of the almighty dollar to the point of burnout and deteriorating health.

The 1960s through the 1980s: Cycles of Change

Advertising styles fluctuated in the 1960s, 1970s, and 1980s as the industry struggled to capture the attention of a consuming public routinely bombarded by marketing messages from all directions. In the 1960s new personalities emerged to move advertising through another period of creativity. Characters such as the Marlboro Man, the Pillsbury Doughboy, and the celebrated "Think Small" campaign created by Doyle Dane Bernbach (DDB) for German automaker Volkswagen are remembered as some of the most memorable campaigns and images in the history of advertising.

Cute and memorable campaigns notwithstanding, the advertising business became subject to repeated and persistent criticism during the 1960s and 1970s; many of these criti-

cisms related to the broader social and cultural changes of the era. For example, feminists emboldened by Betty Friedan's critique of advertising in her book *The Feminine Mystique* objected to advertisers' use of sex to sell products, a practice dating at least as far back as Helen Resor's famous Woodbury Soap campaigns. Feminists also questioned why so few women held senior-level positions in the advertising business. The underrepresentation of racial and ethnic minorities not only in agencies but also in advertisements proved equally troubling. Finally, the industry was criticized for promoting values that celebrated the consumption of goods at the expense of other concerns and for foisting this value system on citizens at a very young age by targeting advertising at children.

Government efforts to regulate advertising proceeded on several fronts during the 1960s, with executive agencies such as the Federal Communications Commission and the Federal Trade Commission taking the lead. In 1969 industry critics Ralph Nader and Aileen Coward called on the FTC to verify claims made in various commercials and advertisements. The FTC complied, ordering advertisers to provide additional information and scrutinizing advertisements by considering the intent, as well as the literal truthfulness, of a number of ads.

Congress also imposed new regulations on cigarette advertising. Following the *Surgeon General Report of 1964,* Congress mandated that warning labels be placed on cigarettes in 1965. An FCC ruling in 1967 applied the fairness doctrine to cigarette advertising by requiring television stations to donate airtime for antismoking messages to counter advertisements paid for by cigarette makers. In 1970, Congress ordered a complete ban on all cigarette advertising on television. None of these efforts, however, had the effect intended by smoking foes—cigarette makers shifted their ad spending to print media, and sales of their products continued to grow.

In the face of government action, the industry responded once again with self-regulation. The National Association of Broadcasters banned ads featuring actors dressed up as doctors to promote products, a practice with roots in the patent-medicine print advertisements of the mid-nineteenth century. Meanwhile, advertising groups allied with the Better Business Bureau to form the National Advertising Review Board (NARB) in 1971. This body commanded the attention of advertisers, hearing nearly 1,900 cases in ten years and forcing the revision or discontinuation of campaigns in 42 percent of the cases. By this time, government action dwarfed any amount of self-regulation, with an estimated 20 different federal agencies exercising oversight of advertising.

A tight economy in the 1970s challenged advertisers to demonstrate more measurable results from advertising expenditures, prompting a return to the hard-sell, reason-why style. These economic pressures continued into the 1980s as a wave of mergers altered the competitive landscape. The merger mania among the top agencies brought renewed emphasis on creativity as a host of boutique agencies developed some truly memorable ad campaigns. The king of the upstart creative agencies was Chiat/Day. The agency's greatest success involved the famed "1984" commercial for computer-maker Apple, considered by many as one of the most important advertisements of all time. The ad was renowned for its juxtaposition of Apple's futuristic Mac computers against the bleak future envisioned in George Orwell's famous book *1984,* in which "Big Brother" (the government) used technology to watch individuals.

Beyond the creativity of Apple's "1984" commercial, which featured the filmmaking talents of acclaimed director Ridley Scott, the ad also marked an important watershed in the history of advertising because it aired only once—in 1984—during the third quarter of football's Super Bowl XIX that January. In subsequent years, advertisers aimed at grabbing the attention of otherwise passive viewers by broadcasting high-profile—and costly—commercials during the most-watched television event of the year. By the late 1990s, the excitement over Super Bowl advertising often generated more attention than the exploits of the players on the field.

The Emergence of New Media: Advertising and the Internet

Advertising flourishes when consumers become introduced to new products in new situations. Such was the case in the late 1990s when a host of Internet companies, the "dot-coms," created a series of flashy TV and print ads that variously shocked, amused, or amazed the viewing audience. At the height of the Internet boom in January 2000, 17 of the 36 companies that advertised during the Super Bowl were Internet companies. At a cost of $2.2 million for a 30-second advertisement, many of these new ventures reveled in seemingly wasteful ad spending. An ad by Internet brokerage firm e*trade featured a trained monkey dancing on top of a garbage can and concluded with the open-ended question, "We just wasted two million dollars. What are you doing with your money?" Some advertisers use pop-up ads to grab the attention of Internet users, but most often the pop-up ad is considered annoying. Banner ads (ads placed at the top of websites) are somewhat less annoying. Another technique is the use of cookies, which let computers track who visits a particular site; this information is then utilized for similar sites based on tracking behaviors.

Such self-deprecating humor involved more than simply tongue-in-cheek satire. The high cost of television advertising paradoxically appealed to the fledgling dot-coms because these companies sought respectability through ad spending. To devote hundreds of thousands, or millions, of dollars to an ad campaign sent a message to customers, competitors, and company personnel alike: "We've arrived. Take us seriously."

The ultimate demise of so many Internet firms, which collectively spent hundreds of millions of dollars on advertising in the space of three to four years, raised questions about the wisdom of spending for spending's sake. These questions emerged amid growing doubts about the effectiveness of television advertising. Average ad recall rates, in which consumers identified a company that advertised during a television program they just watched, fell by over 70 percent during the last 30 years of the twentieth century.

Advertisers responded by becoming more intrusive and more ubiquitous, by flooding media markets with brand messages of all types. The sheer volume of advertising on television alone rose dramatically during the 1980s and 1990s, with commercial breaks consuming between 20 to 30 percent of every programming hour, three to four times longer than in 1960.

The increasing din of advertising messages in the late twentieth century coincided with information overload, or what David Shenk (1997) called "data smog." One industry observer in 1999 likened the use of advertising to narcotics—in essence, consumers required greater and greater "doses" to overcome "immunity" to ad repetition. Another scholar analyzing advertising and consumer trends in the post–World War II years envisioned advertisers and consumers engaged in a technological war. At the beginning of the twenty-first century, consumers remained less inclined than ever before to spend their most precious resource—time—on advertising, and advertising agencies and their clients scrambled for new ways to get out their messages.

The vast majority of advertising spending throughout U.S. history has been directed at convincing people to take a particular action—namely, to spend money on a particular advertiser's product or service. Although political advertising encourages people to perform a noncommercial transaction like voting, the history of political advertising shows some similarities to commercial advertising in that political advertising has remained subject to persistent scrutiny by consumers (voters) and to repeated attempts at regulation on the part of the government.

Political advertising has existed throughout American history. Richard S. Tedlow argued that image advertising dated at least to Andrew Jackson's presidential race in 1828 and was also a feature of the 1858 Senate campaign between Stephen "The Little Giant" Douglas and Abraham "The Rail Splitter" Lincoln. Stephen Fox wrote that advertising proved instrumental in the movement to draft Theodore Roosevelt in 1916, and he also pointed out that the use of advertising by Oliver Wendell Holmes and Woodrow Wilson in that same year prompted Congress to consider limitations on political advertising as early as 1917.

Efforts to restrict or regulate political advertising persisted throughout the twentieth century, with a host of reforms enacted in the years following the Nixon-era Watergate political scandal. A Supreme Court ruling in 1976 (*Buckley v. Vallejo*) found that some of these reforms violated the free speech provisions of the First Amendment, but proponents of restrictions on political advertising continued to offer legislative solutions because of ever-increasing amounts of money being spent on political campaigns. Candidates spent an estimated $3 billion on political advertising in 2000, approximately 1.2 percent of all ad spending in that year.

Partly out of concern that negative advertising on television had contributed to a deepening cynicism among the electorate, Congress passed the Bipartisan Campaign Reform Act of 2002, which President George W. Bush signed into law. Although the law's supporters sought to limit the influence of money in politics, the act included no restrictions on print advertising. Instead, the law focused on "issue advertising" on television, prohibiting such messages within 60 days of a general election or within 30 days of a primary election. Opponents pledged to fight the law in the courts, and the long-term prospects for campaign reform initiatives that seek to restrict political advertising remain unclear.

Advertising of all types, including ads encouraging people to "buy" or "spend" as well as ads asking people to "vote for" or "support," has changed over the course of U.S. history, but several trends have remained clear. First, the history of advertising in the United States demonstrates the evolution in the uses of advertising—from informing the customer of the range of new products and services available to them, to an effort to differentiate similar products and services within the marketplace—and also shows how advertising styles have changed over time in service of these different ends. These stylistic changes often coincided with technological innovations, especially the introduction of new media or changes to existing media in which advertising appeared.

Another recurrent theme throughout the history of advertising concerns its economic and social effects. Advertising does have some effects on popular culture, but its effects are ambiguous and occasionally contradictory. Given that advertising is only one of many factors contributing to the success or failure of a given product, and given that advertising can rarely be shown to have a direct effect on sales, it is not clear—as the critics of advertising have repeatedly claimed—that advertising causes consumers to buy things they do not want or need. Likewise, the extent to which advertising has or has not contributed to the rise of a consumer culture on a grand scale is difficult to establish.

Finally, the history of advertising reveals the persistent role played by political institutions. Government regulations inflicted a persistent, if frequently ineffectual, influence on advertising, particularly in the twentieth century. Those working within the industry often complained of the harmful effects of such efforts, but the federal government, with total ad spending in excess of $1.2 billion in 2000 (placing it number 18 on a list of the top 100 advertisers), pumped billions of dollars into the advertising business in the latter half of the twentieth century. As advertising moves into the new century, advertisers and consumers alike should expect to see contradictory trends of the government spending money on advertising while simultaneously placing restrictions on advertising.

—Christopher A. Preble

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Agricultural Policy

Discussions of agricultural policy in the United States typically focus on price support systems established through the Department of Agriculture. These programs certainly deserve a position at the center of any analysis of agricultural policy, since they have fostered substantial budgetary outlays and large administrative bureaucracies. However, this focus can be somewhat misleading. The roots of federal agricultural policy extend back to the early days of the republic when priorities established in the nineteenth century set the course for modern agricultural development in America. Federal agricultural policy has embraced a broad range of regulation designed to improve the quality of life for American farmers.

During the nineteenth century, federal efforts to promote agriculture concentrated on opening the frontier to agricultural development. The encouragement for American farmers to move westward provided them significant economic opportunities but also weakened the legitimacy of Indian claims to frontier land and deterred foreign nations from encroaching on American territory.

Complicating the agricultural development of the frontier was a fundamental philosophical debate over the true nature of American farming. Proponents of agricultural development included those who, on the one hand, had adopted the cultural rhetoric of the individualistic yeoman farmer and those who, on the other hand, lauded plantations based on slave labor. The absence of a single set of cultural values made western development a contentious political issue in the antebellum period, but it did not halt the transformation of frontier land into farms. Rather, the debate led to unsystematic development, with the influx of settlers into the frontier punctuated by delays triggered by policy debates.

Frontier development had very different implications for the economic health of the various states. Splits emerged between older and newer states over the speed of agricultural expansion into the frontier, with older states fearing the loss of workers to the frontier as well as the eventual rise of agricultural competition from more fertile regions in the west. Volatile divisions arose over the issue of extending slavery into the territories. By the eve of the Civil War, contentious debate controlled the formation of agricultural policy.

Despite these sporadic political barriers to agricultural development, technological breakthroughs steadily pushed Americans westward. By the 1840s, farmers and educators, particularly in the northern states, had become very interested in German scientific agriculture, with its emphasis on soil chemistry and hybridization studies. These advocates of scientific methodology sought to reform American education to include agricultural science in the curriculum of existing colleges. This movement for academic reform had important policy implications, as reformers began to lobby for the creation of new public colleges dedicated to the scientific study of agriculture. Although the national government did not legislate changes in higher education before the Civil War, it did charge the U.S. Commissioner of Patents with the responsibility of gathering, compiling, and distributing information concerning agricultural technology.

Advances in transportation technology also served to propel federal agricultural policy. The establishment of railroads enabled the development of land not served by navigable rivers. This improved access to bulk transportation encouraged the expansion of market networks and facilitated the creation of urban processing centers, such as Cincinnati, Ohio, and Chicago, Illinois. As the role of railroads in interstate commerce became clear in the 1850s, members of Congress began to use railroad development in the federal territories as a means to direct agricultural expansion. The most important tool in this effort—the transfer of federal land to the railroad companies—spearheaded expansion into the frontier. Before the Civil War, the federal government had authorized railroad land grants in 11 western states and territories. This aid to railroad companies prompted the development of over 6 million acres in slave-worked areas and nearly 16 million acres in free soil areas.

The federal government's commitment to agricultural development in the west was most clearly demonstrated by the transfer of federal lands to individuals. Federal land remained one of the most valuable assets of the national government in its first 100. Proceeds from the sale of public lands consistently provided a major portion of annual national revenue. Nonetheless, from the time of the Louisiana

Purchase (1803), the federal government steadily changed its land-sale rules to make public land more affordable to its citizens. This policy brought about a consistent pattern of reducing the per-acre price of land for sale. It also included the more subtle process of reducing the size of parcels, undercutting land speculators (the only ones able to afford such large parcels) who could profit from subdividing and reselling land on the frontier.

The Civil War provided the Union Congress with an opportunity to define the ideological goals for the agricultural development of the frontier. Suddenly able to build a policy coalition around antislavery, Congress constructed a complex agricultural development policy that reflected the ideals of Northern politicians, particularly those from the newer western states. Congress passed the Morrill Act, which provided for the creation of land-grant colleges dedicated to the study of agriculture. It authorized the first transcontinental railroad, not only providing for economic development of the central Great Plains but also setting a precedent for the expansion of a massive railroad network throughout the undeveloped west. The policy substantially liberalized the transfer of public lands to individuals through the Homestead Act, which permitted families to take title to up to 160 acres of federal land without payment after five years of occupancy and improvements. Recognizing that agriculture was being propelled into a more active political and economic role, Congress created the Department of Agriculture as a means of facilitating the expansion of scientific farming. Congress designed these policy initiatives to promote an agricultural system dominated by prosperous family-owned farms integrated into a national market system.

Throughout the late nineteenth century, agricultural policy remained dominated by these principles set by the Union government during the Civil War. The policy would prove sufficient to facilitate the development of federal land by individual family farms while encouraging the dissemination of information regarding scientific farming, and it also reinforced a larger economic transition occurring after the Civil War.

Post–Civil War

As large numbers of farmers began to populate the areas west of the Mississippi River after the Civil War, patterns of land ownership underwent a shift that continued well into the twentieth century. In the mid-nineteenth century, agriculture in the west included substantial numbers of very large properties, worked by hired labor or tenants in the North and slaves in the South. During the Gilded Age—a term coined by Mark Twain to denote the outward appearance of wealth and commonly applied to the period from the 1870s to the 1890s—the number of farms increased and the average size of these farms decreased. Policies regarding western land development, combined with economic forces, led first to a period when tenant farmers and homesteaders dominated agriculture, then later to an evolution into an agricultural culture dominated by family-owned farms in the early twentieth century. The Deep South, where sharecropping continued to dominate rural society until the 1930s, remained the only region not affected by this transition.

The pre–Civil War policy to promote a national railroad network expanded tremendously during the Gilded Age, with the number of miles of track nearly tripling between 1870 and 1890. The expansion of the rail system created a national market and fostered the emergence of regional specialization in agricultural production. The Cotton Belt, stretching from eastern Texas to the South Carolina shore, had existed since the antebellum period, and single-crop production continued to be the rule in the region. This pattern of regional specialization expanded in the Gilded Age: Examples were the Corn Belt that emerged in the Midwest between Iowa and Indiana, and the Wheat Belt that came to dominate a north-south axis from North Dakota to Kansas. Regional specialization provided a more efficient means of producing these key commodities but also made farmers reliant on shipping contractors and agricultural processors. When agricultural prices began to fall as a result of increased mechanization and improved planting techniques, farmers focused their anger on the middlemen who offered unsatisfactory prices for crops.

As the agricultural economy became more sophisticated, so did the political organization of farming interests. In the closing years of the Gilded Age, farmers in the Midwest had become skilled in the formation of organizations dedicated to lobbying for railroad regulation and antimonopoly legislation. This pressure did help in the creation of the Interstate Commerce Commission and the passage of the Sherman Anti-Trust Act. Although these nineteenth-century efforts proved ineffective in producing a strong federal regulatory effort, they at least created a framework for changes in federal regulatory policy in the twentieth century.

The growing urbanization in the United States created a natural market for increasing agricultural production. Urban consumers drove the demand for mass-processed flour and meat and created regional markets for perishable fruits and vegetables. As a result, prices for farm goods rose by 89 percent in the first decade of the twentieth century.

Farmers became vocal advocates of paved roads that would connect them to local markets and major transportation networks. These roads not only helped the farmers move commodities to market but also helped increasing numbers of farm children attend high schools in nearby towns. The federal government responded to this interest in education through the Smith-Lever Act, which authorized the U.S. Department of Agriculture (USDA) to initiate education programs in scientific farming and homemaking, and the Smith-Hughes Act, which funded vocational agriculture programs in high schools. The cumulative impact of these forces led farm families to embrace modern life and adopt urban consumer standards.

World War I

High demand for American agricultural production received a further stimulus after the outbreak of World War I, as growing European purchases matched U.S. domestic consumption. To meet the growing demand, the government encouraged expansion of agricultural output. During the war, American farmers put more fallow land into production, took on more debt to purchase agricultural machinery, and

broke records for production levels of beef, pork, wheat, and corn. In addition, farmers paid higher taxes as the assessed value of farm property soared.

As long as European demand held, the high price of agricultural products enabled farmers to prosper despite new levels of debt and taxes. However, after the 1918 armistice, the European Allies could no longer justify large-scale agricultural imports that skewed their national trade balances. By spring 1921 prices for wheat, corn, beef, and pork had all plummeted by nearly one-half.

The economic impact of collapsing farm prices severely affected farmers, who began to default on equipment loans, tax payments, and mortgages. For the previous 20 years, farmers had begun to earn incomes comparable to those of urban blue-collar workers; that pattern was now suddenly broken, with no apparent prospects for resolution. Farm communities quickly mobilized to pressure state and federal governments for relief. In 1921 a group of congressmen from the Midwest and South formed the Agricultural Bloc, the first bipartisan congressional bloc to operate openly as a special interest group. Members of the Agricultural Bloc sought pragmatic legislative change to restore the earning power of the American farmer.

Legislating a solution to the farm crisis proved complex in the 1920s. Even within the Agricultural Bloc, no clear consensus existed for constructing a response to the farm problem. If the farm crisis proved simply a manifestation of the European postwar economic crisis, then Congress could restore farm incomes by authorizing the War Finance Corporation to facilitate the sale of grains and meat in Europe and by engaging in efforts to rebuild the European economy. Alternatively, if the farm crisis resulted from overspecialization and an inability to adjust to changes in consumer demand, then Congress could provide farmers with loans for diversification, and farm cooperatives could develop more sophisticated techniques for marketing and advertising. One group argued that the farm crisis did not occur because of a mismatch between production and market demand but because of the unfair actions of foreign governments that subsidized their own farmers and refused to compete in a free market arena with American agriculture. The solution to this threat included initiating American protectionist measures that would bar foreign competition from the U.S. domestic market.

These three perspectives all provoked legislation in the 1920s. More important, they formed the foundation of all subsequent debates over farm policy. Federal agricultural policy became grounded in the presumption that farm problems remained essentially market problems and that the federal government had a responsibility to rectify them.

Congress took substantial action in responding to the farm crisis of the 1920s. Both the Departments of Commerce and Agriculture became aggressive promoters of farm exports. Legislators couched much of the rationale for the refinancing of Allied war debt and extension of credit to Germany in terms of restoring markets for American agriculture. The Capper-Volstead Act (1920) strengthened American agricultural marketing cooperatives by exempting them from antitrust prosecution for price fixing. The 1922 Fordney-McCumber Tariff Act (and later the 1930 Hawley-Smoot Tariff Act) set barriers against agricultural competition. These efforts at federal assistance proved most effective in emerging sectors of the agricultural market: Tobacco for cigarettes, milk for ice cream, and oranges for the breakfast table all experienced improvement in the 1920s. Federal intervention remained remarkably unsuccessful in the more established sectors, such as wheat, beef, and cotton.

As low prices continued to weaken key sectors, proponents of farm relief began to support a plan proposed by two former members of the War Production Board—George Peek, an adviser on agricultural imports, and Hugh Johnson, head of the National Recovery Administration in 1933. Peek and Johnson argued that the American economy remained healthy only when farmers' income achieved parity with that of factory workers and that the government must intervene to restore the economic status of the American farmer. To accomplish this, the government needed to establish an agency responsible for defining key agricultural products and then set a price for those products that would earn farmers a parity income. Farmers could sell their crops to the federal government, which would then release them onto the domestic market at a sufficiently slow rate to maintain the parity income price. The federal government could sell anticipated surpluses on the world market at a loss to prevent excessive stockpiling.

Senator Charles McNary (R–OR) and Representative Gilbert Haugen (R–IA) promoted the Peek-Johnson plan. Congress voted against the first McNary-Haugen bill in 1924, but the two congressmen continued to build support for the idea. In both 1927 and 1928, Congress passed the McNary-Haugen bill, but President Calvin Coolidge vetoed it.

The farm policy debates had reached a stalemate by the end of the 1920s. When the Great Depression began to stagnate the economy as a whole, the collapse of farm prices continued. By the 1933 inauguration of Franklin Roosevelt, the farm crisis had become so critical that Roosevelt identified it as one of the primary targets for reform in his noted "100 Days," a group of sweeping reform measures planned for immediate implementation that addressed the banking crisis and attempted to put the unemployed to work on government projects such as the Civilian Conservation Corps and the Civil Works Administration.

The plan adopted by the Roosevelt administration borrowed heavily from the ideas promoted by Peek and Johnson a decade earlier. The Agricultural Adjustment Act (AAA), which authorized the secretary of agriculture to set minimum prices for key agricultural products and reduce overproduction, became the cornerstone of New Deal agricultural policy. Like the earlier McNary-Haugen proposed legislation, the AAA sought to restore the earning power of American farmers to pre–World War I levels. However, the AAA departed from earlier notions by placing heavy emphasis on the federal government's authority to limit annual production of key commodities. Although the government might tolerate temporary disparities between domestic and world prices for crops, it would not dump surplus U.S. production on the world market.

Although the primary goal of New Deal agriculture policy remained the commitment to prevent overproduction, the means of attaining that goal did change over time. The Supreme Court declared the first AAA unconstitutional because of its payment system. This prompted the government to adopt a policy of "nonrecourse loans." The USDA would set target prices for key commodities and loan money to participating farmers based on a formula using past production levels, land held out of production that year, and the target price. If the market price exceeded the target price, farmers could simply repay the loan. If it did not, the farmer would give his crops to the government to repay the loan in full and owe nothing more. The government would store these crops used as payment for the nonrecourse loans to sell later after prices rebounded. This system unrealistically assumed that surplus goods could be stored for months, thus limiting the Agriculture Department's ability to support farmers who specialized in highly perishable crops.

By the end of the New Deal, Congress had fixed certain principles in federal policy toward agriculture. The government had adopted a permanent role in the regulation of prices for key agricultural products as a means of protecting farm income. This role as a market regulator included the power to limit production of farm goods to prevent oversupply, to provide crop insurance to farmers to offset natural catastrophes, and to store grain in reserve in the event of unanticipated demand.

In addition to these foundation principles concerning the regulation of oversupply, other New Deal legislation included important provisions for farmers. The larger purpose of the Tennessee Valley Authority (TVA) focused on stabilizing the economy of the Tennessee River Valley, one of the poorest rural regions in the United States. Dams constructed by the TVA improved navigation and controlled flooding on the river. These dams generated hydroelectric power that the TVA then sold to the general public, providing inexpensive electricity to rural areas and enabling farmers to make use of electricity-based technology such as refrigeration and water pumping systems. In addition, the TVA sponsored experimentation in the scientific use of fertilizers, crop rotation, and adoption of hybrid strains of plant crops.

New Deal legislation also improved the quality of life for farmers. In 1936, Congress created the Rural Electrification Authority (REA), an agency designed to enable rural communities to form cooperatives for the management of electricity generation and distribution. The REA permitted rural areas to initiate electrification programs and provide low-cost electricity to regions left undeveloped by commercial power companies. Congress also created the Farm Security Administration to assist farmers to move out of poverty by helping them to adopt more modern farm practices.

The cumulative legacy of the New Deal programs remains enormous. The federal government recognized the necessity of maintaining the opportunity for rural prosperity. Farmers should have incomes similar to those of urban workers; they should have access to the advantages of modern technology; they should embrace the same consumer values held by those who lived in cities and suburbs. However, this commitment to the prosperity of rural America contained important conundrums. To balance supply and demand for farm products, farmers needed to reduce the acreage in production to prevent oversupply. To maximize the income of individual rural families, farmers needed to embrace scientific farming, thus maximizing productivity per acre. Farmers who had the capital and the will to modernize along the lines of the New Deal prospered. At the same time, the New Deal policies drove sharecroppers from marginal land in the South into an already large pool of unskilled, unemployed workers. Those farmers who could not or would not embrace technology failed.

The New Deal's objectives of making farms more efficient facilitated the U.S. government's response to the outbreak of war in Europe in 1939. Under the Agricultural Adjustment Act, the U.S. government provided subsidies to farmers who agreed to not plant some of their acreage or to prevent the reproduction of their livestock. This program remained in effect until 1941, when the U.S. implemented the Lend-Lease program. Although much of the focus of the Lend-Lease program transferred manufactured goods to Great Britain and other U.S. Allies, agricultural production proved an important aspect of Lend-Lease support. The Department of Agriculture raised the basic price supports for key commodities to increase supplies of those goods requested by the Allies. To further stimulate production, the government created a second classification of price supports for those agricultural products destined for the export market. Through these methods, the federal government accommodated the increased demand triggered by the war. Congress very carefully reserved the right to draw down production to prevent an oversupply of farm goods in the postwar economy.

Agricultural surpluses emerged as the most intractable problem of farm policy in the post–World War II period. The general prosperity of the postwar U.S. economy facilitated the widespread adoption of technology in every aspect of farming. Yields improved enormously, with per-acre production of wheat doubling between 1945 and 1985 and some crops experiencing as much as a fourfold increase in productivity.

After World War II, agricultural policy became increasingly dependent on export markets. In 1947 the United States became a participant in the General Agreement on Tariffs and Trade (GATT), an agreement among 25 nations designed to lower barriers on imported goods. Efficiency of farm production placed U.S. agriculture in a particularly strong position within the GATT system; American farmers could easily compete against foreign producers in a more liberalized trade system. Postwar reconstruction programs that provided funds or credit for the purchase of American food also promoted the export of agricultural goods.

In 1954 the federal government adopted a long-term policy of linking the practice of using agricultural exports to absorb overproduction with improving American political stature in developing countries. Under the Agricultural Trade Development and Assistance Act (ATDAA, Public Law 480), Congress could designate surplus American agricultural products for emergency food relief to friendly nations. To

further facilitate foreign purchases of American agricultural goods, trade provisions permitted the use of foreign currencies in lieu of American dollars or gold. The ATDAA served as a bulwark of both U.S. foreign policy toward less developed regions and U.S. domestic policy toward continued stabilization of farm income.

Even with U.S. commitment to a strong export policy, the problem of agricultural overproduction continued. In an effort to curb the amount of acreage in production, the Eisenhower administration called for the Soil Bank Program in 1956. The program permitted farmers and ranchers to reserve land specifically for conservation purposes, the first use of environmental policy as a tool to curb overproduction.

Improvements in farm efficiency during the postwar period placed important constraints on agricultural policy, but they also contained important political implications. As farms became more efficient, the number of farmers declined; in 1960 only 8.7 percent of Americans lived on farms, compared with 23.2 percent in 1940. As the number of farmers declined, it became increasingly difficult to justify price support policies for such a small segment of the population.

In an effort to build a larger political constituency in the 1960s, politicians from rural districts began searching for political alliances with other segments of the population. The most successful of these initiatives linked farm price support legislation with efforts to improve nutritional standards for the urban poor.

Congress has based farm policy since the New Deal on the objectives of guaranteeing the prosperity of American farming by curbing overproduction of agricultural goods. In the 1960s, Congress added another objective—to reduce food prices enough so that all Americans could have nutritionally sound diets. By creating programs such as food stamps and expanding the school lunch program, the USDA could broaden the domestic market for food production. This would improve the health of the poor, provide the government with another tool for curbing overproduction, and strengthen public support for agricultural price support systems.

At the time of its creation in 1964, the Department of Agriculture, not the Department of Health, Education, and Welfare, administered the food stamp program. This followed the precedent created in 1939 when Congress placed the school lunch program under USDA authority, but it also demonstrated the power held by members of Congress from rural constituencies and their desire to form political alliances in urban America. However, the strategy to expand the constituency of the USDA served to divert attention from guaranteeing the prosperity of farmers. By 1974, USDA expenditures to improve nutrition had surpassed the amount of money spent on farm subsidies and agricultural research combined.

The idea of a farmer-consumer coalition proved problematic in the 1970s. Throughout the 1960s, members of Congress representing farm constituencies had faced demands to limit subsidies. This pressure intensified in the 1970s, as several successful policy initiatives produced unanticipated consequences. The USDA's efforts to encourage agricultural exports, combined with the Nixon administration's desire to strengthen its détente policy of establishing friendlier relations with the USSR, culminated in the important 1972 grain agreement with the Soviet Union. The sudden export of $750 million worth of American grain substantially reduced reserve grain stocks, driving up domestic food prices. This pattern continued for the rest of the decade, with large foreign sales causing higher costs for American consumers. This inflation of food prices occurred simultaneously with the inflationary pressures generated by the 1973 oil embargo implemented by the Organization of Petroleum Exporting Countries (OPEC, a group of foreign nations, many in the Middle East, created for the purpose of controlling world oil production). This combination of events provoked substantial consumer hostility toward the American farmer, who continued to reap high prices in foreign markets while foreign producers restricted the importation of foreign oil.

The Agriculture and Consumer Protection Act of 1973 marked a substantial retrenchment of farmer interests. As general inflationary pressures increased at the beginning of the decade, Americans pressed politicians to reduce both government expenditures and taxes. Even within the USDA, defenders of price supports faced substantial competition from the food stamp program, which expanded steadily throughout the decade. These pressures forced changes in the new price supports system created by the 1973 legislation. Under the new system, the government established a target price, and participants in the program received compensation only when the domestic market price fell below the target price. This "deficiency payment system" would become effective only in years when world market demand proved too weak to drive up domestic prices. Although nonrecourse loans would continue, the price guarantees remained so low that they constituted a departure from the New Deal objective of encouraging rural prosperity.

The pattern of high prices for grain and meat continued until 1980 when the Carter administration placed an embargo on grain sales to the Soviet Union as a response to the USSR's invasion of Afghanistan. Two other factors, combined with this sudden loss of foreign sales, further complicated farm policies until the late 1980s. The long-term impact of the OPEC oil embargo weakened the ability of developing nations to purchase food from the United States. In addition, the European Economic Community (EEC, which became the European Union in 1993) made a dual commitment to subsidize European agricultural production and to encourage the exportation of food, and these policies provided the American farmer with substantial competition.

As farm prices fell in the 1980s, the agricultural sector faced significant economic burdens. During the prosperous 1970s, farmers had borrowed extensively to purchase new equipment. Farmers experienced the rising costs for interest payments along with the rapid appreciation of land values coupled with inflationary mortgage rates. As long as inflation remained a force in the economy, this debt burden was manageable for most farmers. However, when the Federal Reserve Bank decided to limit inflation forcefully in the 1980s, by initiating inflation-control fiscal policies, farmers found them-

selves trapped between declining income and high overhead costs.

In this economic climate, the Reagan administration had limited ability to make major changes to agricultural price support policy. Both the Agriculture and Food Act of 1981 and the Food Security Act of 1985 continued the basic pattern of farm legislation set in 1973. The deficiency payment system continued, farmers received inducements to reserve ecologically fragile land, and Congress maintained nonrecourse loan provisions. The 1985 farm legislation, however, did include an important policy departure with its strong commitment to spur agricultural exports. The Export Enhancement Program, which provided bonuses to exporters that sought inroads in specified foreign markets, became the hallmark of this new direction. Congress designed this program primarily to open the EEC to agricultural exports, thus challenging the main U.S. competitor in the EEC's home markets. In addition, the United States began aggressively using the GATT to create a more favorable environment for American agricultural exports.

For most involved parties, agricultural policy of the 1970s and 1980s proved unsatisfactory in its construction and implementation. As other sectors of the federal budget experienced substantial cuts, farm price subsidies remained high and served as a force in driving up budget deficits. Politicians committed to fiscal conservatism pushed for agricultural reform that would force farmers into a free market system. This effort, facilitated by budget reconciliation legislation, reduced the influence of the congressional agriculture committees.

During the late twentieth century, a market revolution occurred in American farming. International trade in agricultural goods transformed the landscape of farming and placed a premium on economies of scale and adoption of new technology. This provided a substantial advantage to corporate farming, which could muster greater capital resources than could small family farms. To survive in this environment, some family farms were reconstructed into family corporations determined to possess a share of this highly competitive market. Others became subcontractors for larger corporations. The least successful survived by supplementing farm income with nonfarm employment.

In this context, conservative politicians began to call for abandonment of the New Deal objectives for agricultural policy and for adoption of the concept of "freedom-to-farm." Conservatives argued that the price supports system had unintentionally bolstered overproduction by removing risk in the production of goods such as wheat, corn, and cotton. Unfettered market forces would encourage farmers to diversify in response to changing demand. The appeal of this argument proved widespread. It simultaneously evoked the nineteenth-century image of the farmer as resourceful individualist and the more modern characterization of the farmer as scientific planner.

As fiscal conservatives gained more strength in Congress during the 1990s, the concept of freedom-to-farm wielded greater influence in the construction of agricultural policy. Congress designed the Agricultural Improvement and Reform Act of 1996 to end the New Deal concept of government protection of key farm prices. Under the provisions of the act, the government would no longer directly intervene to protect the five crops that had dominated the deficiency payment system established in 1973—wheat, corn, soybeans, rice, and cotton. Congress substantially limited supports for other commodities as well.

The transformation of American agricultural policy has proved more difficult than the advocates of freedom-to-farm had supposed. When commodity prices slumped at the end of the 1990s, Congress demonstrated its willingness to protect farmers with emergency aid expenditures. There remains in American culture a strong sense of compassion for farmers, particularly those confronting an economic crisis. A thriving agricultural sector means the availability of inexpensive food for all Americans. Since 1996 congressional negotiations over agricultural policy have continued to demonstrate an unwillingness to abandon the defense of American farmers' opportunity to prosper.

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Antitrust Legislation

Antitrust legislation is a central tenet of U.S. economic policy and indeed a major force in U.S. economic history. For more than a century, it has shaped the face of modern capitalism and has promoted the idea that free markets and free competition are beneficial to society and even to democracy. At the same time, the framework and development of U.S. antitrust legislation have not been without controversies, confrontations, and changes. Starting from a political objective to guarantee economic freedom, antitrust legislation has evolved toward a legal and economic discipline, promoting consumer welfare and economic efficiency and using sophisticated analytical tools to monitor economic behavior. Growing with U.S. economic expansion, it has now become an essential element of most governments' economic policy, and it contributes to spreading the model of liberal democracy and free markets to the world.

The Origins of Regulation

Antitrust legislation dates back to the Sherman Act of 1890 (reproduced in the Documents section of this volume), a turning point in U.S. economic history because it signals the start of federal government intervention into the economy. It is important to understand the historical context of this legislation to realize how it was the product of the economic and political conditions of the 1880s.

This period was one of rapid economic and social transformation of the country. Population increased from 31.5 million inhabitants in 1860 to 76 million in 1900. An economic index created by Edwin Frickey, an economist, established a basis of 100 for 1899; with these calculations, the index was 16 for 1860, 31 for 1872, and 79 for 1892. In May 1869 the first transcontinental railroad was completed. This corresponded to the railroad mania: The country had 28,900 railroad miles in 1860; 53,000 miles in 1870; 120,000 miles in 1882; and 165,000 miles in 1890. Before the Civil War, businesses were mostly networks of independent merchants, who had only a limited number of employees and operated in a limited geographic area. After the war and the abolition of slavery, the economy underwent major structural change to become more industrial. New technologies, and notably railroads, brought about economies of scale in production, distribution, and marketing. Reduced transportation costs boosted interstate trade, which led to the growth of large, bureaucratic companies. Attendant to this growing economy and population, a new era emerged: the era of unbridled capitalism, with its symbols of billionaires such as Andrew Carnegie, the steel magnate, and John D. Rockefeller, founder of the Standard Oil Company. The dominant economic thinking of the time was still in the vein of Adam Smith's belief in the "invisible hand"—in the capacity of markets to self-organize in a way that also benefited society as a whole. Therefore, the success of large companies was seen as being consistent with a belief in individual self-determination, free enterprise, and limited state power and intervention.

However, competition from large industrial firms was often fatal for smaller businesses, and big business began to dominate most economic sectors. In most regions, railroads enjoyed a transportation monopoly and thus had the ability to charge high prices to the farmers and merchants who had to use the rail system to carry their goods. To enhance and protect their position, railroad firms sometimes engaged in political corruption. Americans often perceived large industrial firms as not only distorting economic life and destroying small business but also as corrupting political life. In addition, one effect of the new technologies was excess capacity: Because of their increased productivity, industrial plants were much larger than necessary to satisfy demand. This prompted some firms to seek ways to regulate their output in order to manage excess capacity, avoid price wars, and maintain their profit margins. But establishing cartels was not always easy, especially given the temptation for businessmen to gain market share instead of maintaining high prices. In 1882, Rockefeller created the Standard Oil trust, in which the shareholders of 40 U.S. oil companies exchanged their shares for shares of Standard Oil; nine trustees managed the entire group. Through the trust arrangement, therefore, competing companies were combined in restraint of trade by the transfer of controlling stock interest in them to the board of trustees for integrated, noncompetitive operations. Soon, sugar, seeds, oil, whiskey, and other industries were forming trusts. Many Americans

began denouncing the trusts as the enemy of civil society and free enterprise; the press was describing Standard Oil as a menacing octopus with tentacles stretching across the country; political unrest was exacerbating the need for government intervention. Congress responded with the Sherman Anti-Trust Act of July 2, 1890, which it subsequently strengthened with the Clayton Anti-Trust Act and Federal Trade Commission Act in 1914, the Robinson-Patman Act of 1936, and revisions to the antimerger provisions of the Clayton Act in 1950 (Celler-Kefauver amendments).

The Sherman Act

The exact political and economic objectives of Congress in passing the Sherman Act have been the subject of much academic and legal analysis. In the Senate debate of 1890, there was much discussion about small producers and what constituted fair competition, but little was said about economics, with economic efficiency as an issue not in play. Some scholars have argued that consumer welfare was the prime objective of the act. However, the 1880s had been a period of unprecedented growth and increased efficiency, achieved through the promotion of new means of production and technologies. Moreover, prices declined during this period, even in the very industries where trusts had been put in place: From 1880 to 1890, the price of refined petroleum fell by 61 percent, and sugar prices by 18 percent. For that reason, some observers have claimed the Sherman Act was intended as a protection for small producers against big and more efficient firms. Others have claimed it was intended as a general protection against large firms that had too much political power, which could endanger the American ideal that free market and free entrepreneurship could enable individuals to develop their business, compete on their own merits, and flourish.

Furthermore, legal analysts have noted some parallels between the wording of the Sherman Act and that of the common law then in place. Before the legislation, restraint of trade and monopoly had already been addressed by the common law in Great Britain and the United States. Under common law, invalid restraints of trade were those contracts, agreements, or combinations that were deemed unreasonable and were therefore void and unenforceable at the bar; those that were reasonable remained valid and enforceable. A "reasonable restraint" accorded with "public policy" or with the "public interest" or "public welfare." On its face, the Sherman Act superseded the common law in two respects: First, it made restraints of trade that were held to contravene public policy criminally illegal, as misdemeanors, punishable by the government; second, it rendered perpetrators of such restraints liable to private civil suits for treble damages. The act therefore was simultaneously in harmony with the common law yet revolutionary because it opened a new chapter of legal proceedings.

Section one of the Sherman Act established that "every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations" was declared illegal. "Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony and, on conviction thereof, shall be punished by fine not exceeding $10,000,000 if a corporation, or, if any other person, $350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court." Section two of the act addressed monopolization, attempted monopolization, and conspiracies to monopolize. It stipulated that "every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony," with the same punishments as listed in section one as a consequence.

1890 to 1911, the Early Years: The Rule-of-Reason Controversy

To many scholars, the wording of the Sherman Act, and especially the parallels to wording in the common law, had the result of leaving unresolved some of the issues that surrounded its enactment in Congress. Thus, the courts were implicitly given the task of clarifying the precise scope of the articles and giving them some legal certainty. For instance, the act did not define "fair competition," which had been debated in particular by Senators John Kenna (D–WV) and Sherman Hoar (D–MA). What was unfair competition? Was it individual's aggressive pursuit of wealth through any means possible? Or was it also ruthless efficiency, which could drive competitors to extinction? Likewise, was the meaning of "monopoly" in section two so obvious that it needed no further explanation? Or was the meaning of "every" so all-encompassing that it meant literally *every* restraint of trade? As a result, and from a legal point of view, controversies ensued during the first years following passage of the Sherman Act, with much of the debate focused on meaning of the wording and its implications for the legality of certain business transactions.

From a political point of view, the first years of implementation of the act were not particularly successful. The first Supreme Court decision interpreting it, *U.S. v. E. C. Knight & Co.* (1895), which concerned a trust combination of producers, held that the trust affected only manufacturing and therefore did not affect interstate commerce, and thus the business structure could not be prohibited. (All court cases cited in this essay can be found in *Antitrust and the U.S. Supreme Court* by Michael Duggan [1981].)

In fact, early applications of the Sherman Act were as a tool against labor unions, an ironic twist that strayed far from the ideological foundations of its original supporters. Between 1890 and 1897, twelve of the first thirteen convictions under the act were against unions and the monopoly they exercised by using 100 percent of their members (in essence a monopoly) as striking workers to stop interstate trade. Consequently, Congress updated antitrust law in section 6 of the Clayton Act (1914) and later in the Norris-LaGuardia Act (1932) to exempt most labor organizing from the antitrust laws. Furthermore, the Sherman Act did not prevent big business from flourishing. In fact, a wave of mergers ensued: Entrepreneurs took the view that the act prohibited cartels

and other restrictive agreements but not tighter acquisitions of assets or creation of holdings.

On the legal front, controversy surrounded interpretation of the Sherman Act. Until the *Standard Oil Co. v. United States* case in 1911 (Duggan 1981, 14), U.S. Supreme Court opinions revealed some confusion about the relationship of section one of the act and the prohibition in common-law notions of "restraint of trade." The Literalists, as they were called, took the Sherman Act at its word, prohibiting literally every contract in restraint of trade. Supreme Court Justice Rufus Peckham, for instance, embracing the Jeffersonian ideal of independent farmers and small businesses, saw motives of individual or corporate aggrandizement as against the public interest. Literalists would therefore prohibit not only price-fixing cartels but also partnership agreements and even simple contracts for the sale of goods—in short, contracts that were perfectly legal under the common law. In 1897, with its decision in *United States v. Trans-Missouri Freight Association et al.* (Duggan 1981, 7), the Supreme Court declared illegal both reasonable and unreasonable restraints of trade. But other justices issued opinions based on the "rule of reason" (Rule of Reasonists), arguing that the Sherman Act did not invalidate the continuance of old contracts by which former competitors had united in the past. According to Justice Oliver Wendell Holmes, Congress did not intend to enact the vision of Herbert Spencer, an English philosopher who viewed everything in terms of Social Darwinism (according to which individuals and firms were the subject of natural selection through competition); on the contrary, the Sherman Act was meant to prohibit the ferocious extreme of competition with others, to rein in the sinister power that firms or agreements exercised to keep rivals out of the business and to ruin those who already were in business. In addition, public criticism increased in the 1897–1911 period, coming from economists, capitalists, labor leaders, and from President Theodore Roosevelt himself, who at some point suggested updating the law.

In *Standard Oil Co. v. United States* (1911) and *United States v. American Tobacco Company* (1911) (Duggan 1981, 14–15), the Supreme Court condemned the use of holding companies under both sections one and two of the Sherman Act. It held that the statute must be read against its common-law background to forbid only "contracts or acts" having a "monopolistic tendency" and hence only unreasonable restraints of interstate or foreign commerce. The Court expressed the view that it would consider economic evidence to determine whether a restrictive agreement unduly hampered competition, which meant freely competitive markets, adequate supplies of quality goods, and services at reasonable prices. These cases introduced a new test of legality as to whether the restraint of trade merely regulated and thereby promoted competition or whether it could suppress or even destroy competition. But even as the "rule of reason" became the dominant framework for antitrust legislation, the Court also declared in subsequent rulings that certain forms of conduct were violations of the statute per se, because of their pernicious effect on competition and lack of any redeeming virtue, so that no economic evidence would be received as to the precise harm they caused or the business rationale for their use. The principal categories that were declared per se unlawful were agreements between competitors to fix prices, to limit production, to divide markets or customers, and to boycott other businesses.

1914 to 1933: Consolidation and Hesitation

By 1914 it had become clear that the Sherman Act did not specify sufficiently what constituted unfair and unethical business practice, and many analysts had also come to believe that the rule of reason would greatly weaken the act. The new Wilson administration responded with the Clayton Anti-Trust Act and the Federal Trade Commission Act in 1914 (both reproduced in the Documents section of this volume). The Clayton Act listed four business practices deemed illegal if their effect "may be substantially to lessen competition or tend to create a monopoly." Section two of the Clayton Act outlawed price discrimination or the use of price differences not justified by cost differentials to lessen competition or create a monopoly. This section was intended to prevent firms from engaging in "predatory pricing" to exclude competitors or attempt to monopolize a market, which had happened in railroads and certain retail chain stores. Section 3 of the act also forbade "tying" contracts and exclusive dealerships if a reasonable probability existed that these arrangements would substantially lessen competition in any line of business. (A *tying contract* is an agreement between seller and buyer that requires the buyer of one product or service to purchase some other product or service from the same producer. An *exclusive dealership* is an agreement between a manufacturer and its dealers that forbids the dealers from handling other manufacturers' products.) Section six of the act created an exemption for labor organizing.

Section seven of the Clayton Act was an important development, since it condemned mergers on a far more aggressive standard than was applied under the Sherman Act, thus filling a gap in the regulation. Section seven forbade a merger (the acquisition by a firm of a competitor's stock or physical assets) if the effect of the merger would be to reduce competition substantially. Additional merger restrictions enacted in 1950 (Celler-Kefauver amendments) brought vertical mergers, the joining of two or more companies that perform different stages of the same production process, within the Clayton Act's reach. Finally, section 8 of the act prohibited interlocking directorates if they would substantially reduce competition, even though this regulation had never been enforced actively.

The Federal Trade Commission Act created the Federal Trade Commission (FTC), an administrative body that could bring government action in front of the courts when it suspected unfair methods of competition. The legislation empowered the agency to investigate cases of industrial espionage, bribery for obtaining business secrets, and boycotts. The FTC could also attack practices that it regarded as anti-competitive, even when they did not violate any existing antitrust law. With this new regulatory package, antitrust was therefore firmly established as a key component of government economic action.

In addition, the new provisions and the recognition of the rule of reason promoted the role of economists and of economic theory as instruments to determine whether business conduct was illegal or not. During the nineteenth century, both law and economics had begun to develop theories of competition and ideological defenses of competition as social goods, but it was some time before economic concepts became integrated with these theories. Competition was defined as the individual acting in self-interest in order to gain the most from others and to surrender the least himself. Anticompetitive conduct was a restraint on individual freedom, not mere interference with a relationship between prices and costs. This view changed with Alfred Marshall's *Principles of Economics* (1890). According to Marshall's theory, restraint was present and harmed competition on the market not when the agreement eliminated someone's freedom, but when it allowed the price to be higher than it would have been had the unhampered play of supply and demand been in force; whereas restraint was not present when the agreement gave no one that power or even took it away from those who had it. In other words, apart from restraints per se illegal, economic theory offered a tool for evaluating whether agreements could be regarded as reasonable or not. Of course, economics was bound to play an increasing role in the history of antitrust legislation. However, in the aftermath of World War I, when antitrust regulation was suppressed to enable coordination of the war effort, it was not always so obvious to economists and politicians that competition and the free market were the best way to organize production.

The political consensus against cartels and similar business arrangements had an economic rationale in the United States. The country enjoyed a huge domestic market, a fairly stable state, and a growing economy; with no real output problem, competition was the means to stimulate efficiency and innovation. But the situation was different in other parts of the world. After World War I, Europe had lost a large number of workers, killed during the conflict, and experienced demographic stagnation. National markets were limited, and after 1921 and the problems with the gold standard that created wildly fluctuating currencies, trade became difficult. Because of the war, government was in charge of running the economy. The 1920s were a period when economic regulation on the international front gained support; government intervention and cartelization abroad were regarded as means to promote economic stability and avoid destructive competition. Indeed, U.S. policy toward international cartels was quite different from what prevailed in America, where advocacy was for competition. The 1918 Webb-Pomerene Act allowed American producers in the same line of business to form joint companies to manage their exports. This act, originally designed to facilitate a joint effort of American firms in export markets, became a useful instrument for the creation of international cartels, and American copper producers promptly used the law to run such a cartel. The practice became even more common after the FTC expressed the view in a letter to the Silver Producers Committee, a trade association, that the only test of legality for cooperative agreements with a foreign corporation for the sole purpose of operation in a foreign market was that these arrangements must have no effect "upon domestic conditions within the United States." Producers took the FTC letter as a grant of permission to engage in cartels outside the United States. The 1920s and 1930s saw the rise of a number of cartels involving U.S. firms and German firms. For instance, after some mergers, DuPont and Allied Chemical in the United States, Imperial Chemical Industries (ICI) in Britain, and IG Farbenindustrie (IG Farben) in Germany became heavyweight firms in their respective countries and reached a number of cartel agreements among themselves in international markets. IG Farben was at the center of these chemical cartels, which were based on, alternatively, patent rights, market sharing, and price fixing. IG Farben also entered into agreements in the petrochemical field with Standard Oil of New Jersey, the world's largest oil company. Another famous international cartel involved General Electric in the field of electric lamps (the Phoebus cartel).

1933 to 1948: The First and Second New Deals, from Attempted Centralization to Antitrust Revival

The Great Depression and the country's unprecedented economic collapse threw millions out of work in the 1930s and propelled Franklin D. Roosevelt into the White House, with a radical platform of economic reform—the New Deal. The political climate of the time was one of great skepticism toward big business, which was accused of causing the economic failure and of trying to gain political power at the expense of democracy. At the same time, economic theory, when used to analyze the crisis, suggested that price competition was inefficient and that the free market was failing; the forward path called for regulation, planning, and freedom from antitrust prosecution for joint ventures and cartels. Such policies were being implemented in Europe: in Italy, Spain, and Germany where fascism had taken over, and in the Soviet Union. Consequently, scholars portrayed the Roosevelt era as having two periods in terms of its antitrust policy. The first period involved an attempt to get rid of the antitrust provisions. Herbert Hoover, as secretary of commerce and then as president, already had indulged in the political economy of blessing associationalism (collective efforts within an industry). But Roosevelt went even further: The National Industrial Recovery Act (NRA) of 1933 authorized industrial codes of ethics to organize American business and labor. The act attempted to bring together the various industry, trade, and interest groups—including trade unions—to suggest and seek government approval of "codes of fair competition," which virtually legalized various forms of collusion and suppressed what was called "destructive competition." Practices that violated the codes would then be punished under the FTC legislation. However, the NRA instead led to general confusion and conflicting goals: Some businesspeople believed that cooperation would lead to bureaucratic socialism, and some government officials that it would lead to fascism or economic oppression.

In 1935 the Supreme Court declared the NRA unconstitutional in its decision in *Schechter Poultry v. United States* (Duggan 1981, 38). This case marked the start of the second

New Deal and a change in Roosevelt's attitude toward antitrust legislation. In 1936, Congress passed the Robinson-Patman Act, which amended section two of the Clayton Act to limit the ability of firms to charge lower prices to large customers than they did to smaller ones. In 1938, Thurman Arnold was appointed as head of the Department of Justice's (DOJ) antitrust division and pursued a vigorous antitrust policy. The DOJ increased its staff, filed a number of cases involving not only restrictive agreements but also vertical integration, cartels, and even tacit collusion between oligopolistic firms. The DOJ also used the Robinson-Patman Act to protect small business against more efficient and larger firms. This crackdown on big business was related to the general political climate of the pre–World War II period. In 1941 press reports exposed that U.S. companies had links with German firms through a number of cartel and other types of agreements. The press claimed, for instance, that the royalties paid to German firms for Plexiglas were financing the Nazi war effort. Other agreements were vilified, such as the IG Farben and Standard Oil arrangement that was castigated as the cause of a shortage of synthetic rubber so much needed in wartime.

On the political scene, some analysts equated nazism with a dictatorship of monopoly capitalism. Fascism was called the necessary result of excessive power in the hands of big business, and antitrust law was then called for to protect economic democracy in the place of small businesses. The 1948 *U.S. v. Aluminum Company of America* (Alcoa) case (U.S. Department of Justice n.d.) illustrated this attitude. Alcoa was admittedly in a monopoly position in the United States, but it had neither increased prices nor restrained output, and it was subject to competition from imports, so the market theoretically had competition. But the Supreme Court held that Alcoa's power to exclude competitors, even if it had no specific intent to do so, was illegal, because it contravened the spirit of antitrust law as a way to keep alive a system of small producers, independent of one other. However, not all antitrust activity was so radical during the New Deal. In addition, the war effort had accommodated some of the antitrust rhetoric and had led business to pay greater attention to efficiencies.

1948 to 1967: The Maturation of Antitrust Legislation

The postwar period became the turning point of antitrust legislation and marked its transition to modern practice. The opportunity arose to establish antitrust regulation as a generic model for government-business relationships, in contrast to communistic collectivization. Throughout the war, the DOJ had prepared litigation against international cartels and by 1945 had 19 cases ready for filing. As a consequence, few of the 1930s international cartels could escape action of U.S. Courts. In addition, the Allied occupation of Germany and Japan, where cartels and trusts—in the form of *Konzerns* or *zaibatsu*—had played a notorious and somber role in the fascist era, was seized as a unique opportunity to expand the influence of antitrust provisions. These countries imposed decartelization and deconcentration policies in 1947–1948 and passed U.S.-style antitrust laws, actions that were a step toward establishing antitrust and free trade as an international policy line. The 1959 treaty for the European Coal and Steel Community, precursor to the European Economic Community (now the European Union), also contained antitrust provisions. As antitrust expanded worldwide and the number of U.S. cases increased, it became evident that economic theory would be increasingly important in the analysis of restraints in competition.

Economic theory of the postwar era emphasized analysis of market power as a source for the absence of competition, either because of one firm's dominance or because of collusion among the members of an oligopoly. The so-called Harvard School was primarily responsible for updating the conceptual fabric of antitrust law, with a focus on the structure-conduct-performance framework. The National Committee to Study the Antitrust Laws in a 1955 report advocated stricter merger standards, relying on structural factors and largely disregarding efficiencies arising from merger. Joe Bain provided the intellectual basis for market power analysis in the 1950s, especially in his book *Barriers to New Competition* (1956). Carl Kaysen and Donald Turner, in their influential *Antitrust Policy: An Economic and Legal Analysis* (1959), formalized this approach for the purpose of antitrust considerations. The Harvard School incorporated concepts from classical economics (demand curve, relation between prices and costs) and derived regularities from the market structure to infer conduct by businesses. This approach led to generally negative views toward concentration; condemned in particular were tying and leveraging arrangements whenever a firm had market power over one product. There were also very restrictive views about entry barriers.

In the *DuPont* (GM) case of 1957 (Duggan 1981, 67), the DOJ tried to reverse a stock purchase by the DuPont family in General Motors, which had taken place 40 years earlier, on the basis of some vertical relations between the firms. In the 1962 *Brown Shoe* case (Posner 1981, 82), the merger between Brown and Kinner was prohibited, despite a rather small share of the national market (5 percent), because it was considered that due to the resulting higher efficiency and lower prices, the merger would lead to other consolidations in a fragmented market and therefore harm "viable, small and locally owned businesses" in a fragmented industry. In *FTC v. Procter and Gamble* (Posner 1981, 88), the FTC again expressed the view that potential efficiencies from Procter's acquisition of Clorox could raise barriers to entry, and that Procter's market power through advertising expenses to Clorox would further damage competition.

The 1960s are now regarded as the "dark age" of antitrust because of a series of cases in which only low concentration levels were tolerated and small business was systematically protected, even deeming superior efficiencies of larger firms a detrimental element, and using speculative views about the ability to transfer market power from one market to another. In fact, the rhetoric of the time was not so different from what had been elaborated in previous periods of antitrust legislation. Furthermore, the period was the occasion to introduce economic reasoning more firmly in the analysis.

1968 to 2000: The Modern Era of Antitrust Legislation

The modern era of U.S. antitrust coincides with an almost philosophical twist in the purpose of antitrust legislation, away from the protection of small competitors and toward more purely economical objectives, such as promotion of efficiency. At the origins of this shift in policy was an intellectual reaction to the Harvard School's structural presumptions about competition and its impact on case law. In the 1950s, a professor at Chicago University, Aaron Director, together with people such as Judge Richard Posner, Edmund Kitch (a law professor at the University of Virginia), Judge Robert Bork, and George Stigler (a Nobel Prize winner in economics), started to question the usually accepted antitrust scenarios. Why should predatory prices—that is, below cost—be forbidden? After all, they benefit customers and stimulate rivalry between firms. Why should a tie-in be regarded as a means to extend monopoly from one market to another market? Even in a monopoly situation, there is only one production and price combination that maximizes profit, and tying two monopoly products would consequently not increase that profit level. Do these practices have no other reason than the destruction of competition? A firm generally maximizes its profits upstream and downstream; it does not necessarily have incentives to restrain supply or foreclose access to vertical markets. When markets are described as anticompetitive, can people really be sure that entry barriers are as high as is imagined and that no other firm will enter in case prices are raised? There must be barriers that are artificial and that do not result from superior efficiency.

For the Chicago School, most markets are competitive, and when in doubt, government should refrain from intervening in the market. Even with high degrees of concentration and with product differentiation, one should be cautious about showing restriction of competition. Business firms maximize their profits, and one must prove that firms will have incentive to reduce competition when they can. This rhetoric of skepticism in Chicago analysis brought some healthy rejuvenation to antitrust after the previous period of restrictive policies. Moreover, numerous studies during the 1960s had found that practices considered anticompetitive actually were not so.

The influence of the Chicago School was soon to be felt. In 1968 the DOJ's antitrust division published merger guidelines, explaining its enforcement policy and coming to terms with acceptable levels of concentration that the agency would not normally challenge. A series of Supreme Court cases after 1969 and throughout the 1970s progressively reversed the case holdings of the 1960s. In *Fortner Enterprises, Inc.* (1969) (Duggan 1981, 94) and *General Dynamics* (1974) (Duggan 1981, 103), simply having a high market share was not deemed to equate with market power; in *Falstaff Brewing* (1973) (Duggan 1981, 101) and *Marine Bancorporation* (1974) (Duggan 1981, 103), the "potential competition" doctrine was refined to consider reasonable economic factors and incentives rather than intent. In the field of mergers, the Hart-Scott-Rodino Act was passed in 1976 to organize and simplify the reporting of merger transactions.

With the election of Ronald Reagan on a free market platform, and deregulation starting in the late 1970s, the 1980s were marked by rhetoric of free competition and economic laissez-faire doctrine. The FTC's actions, which had been considered too zealous, witnessed a shift in approach from "social" considerations toward "economic" ones. The primary objective of antitrust was then established to be the promotion of business efficiency. So far, no criticism on the theoretical or academic level has succeeded in totally dismantling the Chicago School propositions, which have become the generally accepted view toward markets. Subsequent developments in antitrust legislation were mostly refinements and adjustments to its key principles.

New merger guidelines were issued in 1982 and 1984 by the DOJ, and they largely followed the dominant Chicago School line. They shone some light on the difficult issue of market definition, which is the preamble to any assessment of market power. The guidelines also introduced a new concentration index, the Herfindahl-Hirschman Index (HHI), to measure the degree of concentration in a market. These measures emphasized the importance of nonstructural factors, clarified that foreign competition should be taken into account analogously to domestic competition, and indicated that efficiencies should be taken into account in relevant cases. In 1992 the FTC and the DOJ jointly issued new horizontal-merger guidelines, adding further refinements to their analysis. Theories of anticompetitive effects were fleshed out in greater detail through the analysis of unilateral and coordinated interaction. With the Clinton administration, the enforcement became somewhat more stringent, the more so as economic thinking developed some theories that countered certain Chicago School propositions, especially about what constituted collusion, exclusionary practices, tying, and predatory pricing. These new theories, relating to sometimes quite complex game-theory models, have not so far been incorporated fully in the case law.

The 2001 *Microsoft* case (U.S. Department of Justice Antitrust Case Filings n.d.), which was opened by the FTC in 1990 and eventually closed by the DOJ in 2002, led to much publicity and controversy. It involved the claim that Microsoft, the massive software company founded by Bill Gates, had monopolized, attempted to monopolize, and restrained trade in software markets. On August 20, 1993, the FTC closed a three-year investigation after the five commissioners twice deadlocked and were unable to decide on issuing an administrative complaint. The DOJ took over the case, together with 20 states. In 1994, Microsoft entered a consent decree agreeing to eliminate certain restrictions on PC (personal computer) manufacturers. However, in 1997 the DOJ and the European Commission sued Microsoft, claiming that it had violated the 1994 consent decree. The process became an embarrassment to the enforcement powers of the agency, nonetheless, because of Gates's attitude and arrogance throughout the proceedings and in his 1999 trial testimony. The case was eventually closed in the United States in 2002 through behavioral remedies, with Microsoft also appointing a compliance officer to monitor its enforcement. Meanwhile,

the FTC and DOJ in 1997 published joint guidelines insisting on efficiencies and explaining that the agencies would not challenge a merger if efficiencies were of a character and magnitude such that the merger would not likely be anticompetitive in any relevant market.

Conclusion: Toward a Global Competition Policy?

The history of U.S. antitrust legislation has now reached a mature stage where it is highly valued by business and government alike. There have been variations over time, both in the theory and in the vigor of enforcement. But antitrust has become a beacon for prosperity and economic welfare and has been embraced by an increasing number of nations. At present, more than 120 countries have some antitrust legislation, and these laws accompany the globalization of the free market and democratic ideals. The world has seen new actors emerging in the antitrust field, notably the European Commission, which in 2001 prohibited the merger of General Electric and Honeywell and which is now recognized as an important influence in the development of international antitrust policies. With the creation of the International Competition Network in 2001, an organization established to provide authorities across the globe with information on antitrust activities, the world is being equipped with a new forum to develop global competition policy that is capable of meeting the challenge of a globalized business world. To that extent, U.S. antitrust legislation may well advance outside American borders.

—Thibaut Kleiner

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Banking: Development and Regulation

A financial intermediary is an institution that serves as a middleman between savers and investors or between depositors and borrowers. Broadly conceived, financial intermediaries can and have appeared in a variety of guises, such as banks, insurance companies, credit unions, savings and loans (thrifts), and other commercial entities. Banks traditionally have assumed the prominent role among financial intermediaries, and there is no question that banks (commercial and savings) have played a vital role in the development of U.S. business and the economy.

How Banks Developed

Banking has a very long tradition, and although evidence indicates it was practiced in Babylonia, ancient Greece, and Rome, not until the Middle Ages did the more modern banking practices of today appear. During this period, gold and silver (specie—meaning "in-kind") were used as money or media of exchange. Since people wanted to protect their precious metals, they stored their specie (gold) with goldsmiths who had strongboxes to hold and protect it.

Initially, goldsmiths kept the specie deposits and charged a fee for the service. When depositors wanted their gold, the goldsmith gave it to them. However, it soon became apparent that depositors could still use their gold without actually withdrawing it every time they wanted to buy goods or services. Goldsmiths began to issue written orders to pay for purchases the gold depositors made, and these orders would then be traded for the purchases. In time, the orders included names and a specific amount of specie—the precursor of checks. These written orders thereby facilitated trade. A new problem arose because a goldsmith could not readily provide the exact amount of the purchase, since measurements in ounces did not always equal the precise purchase price. Goldsmiths, moreover, soon realized that their depositors did not use their entire deposit all of the time. The result was that the goldsmiths began to extend loans, issue notes, or exchange notes—all of which led to today's modern concept of fractional reserve banking.

In time, early banks began to appear. In Europe especially, banking developed along centralized lines. The Bank of England and similar central banking institutions not only grew but also became quite powerful within the national economies in which they existed. In contrast, banking development took a different route in the English North American colonies and, later, the independent United States.

The Bank of North America

During the colonial period, roughly 1607–1776, financial intermediation was primitive at best. Money itself was practically nonexistent except for Spanish gold coins or other similar means of exchange. Colonial merchants used bills of exchange and traded them as if they were money. However, the colonies did not trust or even like each other much, and typically, money in one colony might not be accepted at face value in another colony. Discounting money was common practice by Chesapeake Bay planters or northern merchants, whose economies differed, one being agricultural and the other based on trade. By the time of the American Revolution, the colonies' financial system was so primitive that creative financing had to be used to pay for the Revolutionary War. In this regard, Robert Morris, the "financier of the American Revolution," left his imprint. As debts mounted and financial problems multiplied, Morris established the Bank of North America in 1781. Centered in Philadelphia, the bank held government deposits that Morris used to provide credit services to the central government and merchants operating within the European commission system. Merchants who once relied upon English merchants for credit turned to Morris's Bank of North America, which replaced the English merchants and facilitated the growth of banks in general.

Although the Bank of North America was successful in helping the Congress of the Articles of Confederation, the loosely organized institution was not the answer for a growing, independent country like the United States whose future seemed to point in a different direction. Even though early state banks were appearing, the new nation needed a bank that could provide economic stability, a national currency, and assistance to the central government not only for its daily operations but also in international economic exchanges. Here, the genius of Alexander Hamilton came to the fore.

First and Second Banks of the United States, 1791–1836
Alexander Hamilton was primarily responsible for developing and implementing George Washington's first domestic program. Hamilton saw America's future in industrial pursuits rather than in agriculture and believed that a central banking mechanism was of the utmost importance. Working through Washington and compromising with Thomas Jefferson, Hamilton had Congress charter the First Bank of the United States in 1791.

The belief was that a central banking mechanism would provide a uniform currency and enhance the stability of the economy, and thus the bank would help in creating the new federal government's credit at home and abroad as well as in providing long-term financing for industry. The original charter guaranteed that the bank would have a monopoly, a life span of 20 years, and a capitalization of $10 million (one-fourth in specie and three-fourths in U.S. securities). The federal government, moreover, was to participate in the bank's profits, be a recipient of bank loans, and place a major share of its revenue in the bank. With its main branch in Philadelphia and eight additional branches scattered around the country, the bank collected the largest specie reserve in the United States. By using its capital resources, it effectively regulated the currency and provided stability for the growing American economy.

Unanticipated by Hamilton and his followers, however, was the opposition of state politicians, farmers, and businessmen who were controlled by the bank. The furor reached such a pitch by 1811 that Congress did not renew the Bank's charter, and between then and 1816, the United States had no central bank. This was particularly unfortunate because the War of 1812 broke out and America's financial needs were critical. With finances in ruin and the nation undergoing a depression in 1815, Congress again acted to create another central bank, chartering the Second Bank of the United States in 1816.

Like its predecessor, the Second Bank of the United States was given a monopoly, a 20-year life span, and governmental securities for capitalization, set at $35 million. The Second Bank paid the federal government $1.5 million for its charter and agreed to let the president of the United States appoint five of the 25 directors. Compared with the First Bank, the Second Bank was better capitalized, had more governmental revenue as the sole depository of federal funds, and had more branches (28 in all). Moreover, its president, Nicholas Biddle, led the institution effectively.

Unfortunately, like the First Bank, the Second Bank also had its opponents, including Wall Street, businessmen, state politicians, state banks, and farmers. A prominent opponent was President Andrew Jackson, who, after the 1832 election, successfully attacked and destroyed the bank. Despite Biddle's efforts to save it, the Second Bank ceased to exist by 1841 under a state charter from Pennsylvania. With the demise of the Second Bank, America's venture into central banking ended until it was resurrected in 1913 with the Federal Reserve System.

State and "Free" Banking
Although centralized banking was a highly important development in America's financial history, its duration was relatively short, only 40 years. To fill the void, another state-supported form of banking appeared.

With the demise of the Bank of North America in 1784, both New York and Massachusetts incorporated banks. Modeled on the Bank of North America, both were designed to serve as commercial banks, make loans, and facilitate banking services. Although both banks were (relatively) prosperous, they were not the only ones in existence. Under Alexander Hamilton's guidance, the Bank of New York was used to support Federalists on the political front, with the inevitable result being creation of a rival. In 1799, with the political chicanery of Aaron Burr, the Manhattan Company Bank was incorporated to aid Republicans.

Political-oriented banking was not extensive, however. In fact, state banks grew noticeably only after the charter of the First Bank of the United States expired in 1811. From that point on, the states entered banking with enthusiasm. Regionally, state banks were highly uniform. Eastern state banks were supported by legislatures so as to make enough profit and thereby reduce taxes. So desirous of incorporation were individual banks that they usually paid the states for their charters. However, the eastern banks had limited importance for American industrial development, since European investment was so readily available. In the west, on the other hand, state loans and investment were substantial in banking. Typically, states would provide nearly half of the capital and appoint half of the directors in the chartered state banks. The express purpose of their commitment was to make profits that could be invested in northern industry.

Perhaps the most unusual state banks were established in the south. Essentially mercantile, southern state banks were mortgage banks—that is, private stockholders subscribed to them by tendering mortgages on their land. Obviously, banks of this sort had low liquidity, and bank runs were disastrous. For that reason, southern state legislatures were the mainstay of these banks.

By the 1830s and 1840s, states began withdrawing from the banking business and turned instead to passing "free" banking laws, with most states experimenting with free banking during the period 1835–1860. The laws typically allowed individuals or groups to set up banks as long as they backed their note issues with securities kept on deposit with the banking authority within their state. If the bank thereafter failed to honor its debts, the state would then have the right to sell the bank's securities and pay off depositors and note holders. Some states, like Louisiana, had very successful free banking systems. Others, like Michigan, did not. On average, however, free banking was not as troublesome as one might think. Losses from bankrupt banks were relatively small compared with total aggregate wealth.

As the free banks showed, issuance of notes was a serious problem. In an attempt to resolve it, the Suffolk Bank of Boston was established in 1818 with the objective of redeeming the notes of banks and clearing all accounts, provided that each member bank maintained a balance at the Suffolk of $5,000 plus enough to cover note redemption. In every respect, the Suffolk was to act as a banker's bank. Yet the principal weakness of the Suffolk was that it represented only one

bank. A more substantial institution was needed, and it came in 1853 with the establishment of the New York Clearinghouse. Clerks from individual banks would meet, conduct note payment and redemption, and receive clearinghouse certificates in return (representing deposits of specie by member banks at the clearinghouse). Clearinghouses, of course, remained a fundamental advance in providing a uniform currency and in stabilizing interbank relations.

Amid these developments, banking stability became a chief concern of the states. Some states sought to provide it through legislative edict. In 1829 the New York Safety Fund Act was passed, which thereafter required all banks in the state to pay each year a sum equal to one-half percent of their capital into a fund that would be used to repay note holders of defaulting banks. A commission was also established to inspect contributing banks and to take legal action against the insolvent ones. In a similar vein, the Louisiana Banking Act of 1842 drew sharp distinctions among types of loans a bank could make while also establishing a reserve fund to meet bank needs. There is no question that both of these laws were advances in banking, yet they also represented the weakness of any state plan—lack of uniformity. Not until the federal government passed the National Bank Act (1863) and the Federal Reserve Act (1913) did uniformity prevail. Thereafter, the federal government regulated banking for all the states.

Commercial Banking and Administration

Commercial banking was practically nonexistent in colonial America, which had no need for the commercial bank's function of discounting notes and conducting exchange operations. After the Revolutionary War, commercial banking grew, at first serving merchants with short-term loans. As banking developed and as more Americans became dependent on a money economy, commercial banking spread; to the extent it existed, both the central banks and state banks were part of it. However, problems developed with note issuance, and these were resolved only after the Suffolk system and the clearinghouses appeared. To be confident about making long- and short-term loans, commercial banking needed stability, and states tried to provide it with legislation.

From an administrative viewpoint, however, commercial banking was significant. The cashier in the commercial banks was the first professional banker in the United States. He administered bank procedures and oversaw the bank's day-to-day management and operation. Before 1820 the president of a bank and the board of directors, meeting only once a week, made decisions on loans, deposits, and discounting. In turn, the cashier carried out their decisions. The cashier, however, lost his distinguished position once bank presidents exerted more authority. Nicholas Biddle, president of the Second Bank of the United States, was the leader in this respect. He set the example, which others followed, of making the cashier a salaried manager and of establishing committees to run various aspects of the bank's affairs. From then on, cashiers and tellers (who had considerable power since they controlled the keys to the vaults) became professionals on the middle and lower levels of administration.

Savings and Investment Banking

Originally, savings banks were designed to help the poor improve their economic station in life. Founded around the period 1815–1820, savings banks were intended to help the poor save money and to lighten the relief load of local governments. By the 1820s, the philanthropic purpose of these institutions changed. Professional managers appeared and redirected the purposes of the savings banks. Emphasizing growth and expansion, these managers were responsible for appealing to all income groups and serving all clientele. Loans were more readily extended so as to make a profit. With profit maximization as its objective, the savings bank thereafter developed more rapidly.

Investment banking, in contrast, involved selling securities on a commission basis and/or purchasing securities for sale to the general public. Originating in England, investment banks there consisted of English-merchant syndicates buying treasury securities at auctions. In the United States, however, investment banking grew only slowly in the 1820s and 1830s and only after individuals such as John Jacob Astor and Stephen Girard delved into purchasing securities from individual states that were trying to finance transportation projects. Still, these activities were financially insignificant. Investment banking would not really blossom until the railroads and financiers such as Jay Gould and J. P. Morgan rose to prominence in the years after the Civil War.

The National Banking System

In banking, the federal government brought some stability to the industry by passing the National Bank Act of 1863, amended in 1864. Essentially, the act gave the federal government the power to grant state banks charters to become national banks through the Office of the Comptroller of the Currency. These new national banks were required to have a minimum capital of $200,000 in cities of 50,000 people, $100,000 in cities with between 6,000 and 50,000 people, or $50,000 in cities of 6,000 people or less. Each bank was required to deposit with the Comptroller bonds equal to one-third its capital, but not less than $30,000. In exchange, the bank received national bank notes equal to 90 percent of the par (market) value of the deposited bonds. Country banks, which serviced larger regions and primarily extended mortgage notes to farmers, had to maintain a 15 percent reserve, three-fifths of which could be deposited in a larger city bank with a more diversified portfolio of loans. Finally, a tax of 1 percent was levied semiannually against the national bank's note circulation.

By providing a stable currency and banking system, the National Bank Act definitely increased the number of banks in the United States, although their success depended upon the region in which they were located. The law also created the dual U.S. banking system of national and state banks. As for the success of the system itself, questions immediately were raised. The South did not fare well under this new system. Devastated financially by the Civil War, the southern states reverted to a primitive system of financial intermediation in which the merchants became dominant, not only controlling the money supply and interest rates but also becoming so

powerful as to take possession of southern lands through a form of foreclosure. Nor did the national banking system prevent major banking and economic crises thereafter. Still, the system worked well enough that it was not replaced until 1913 when Congress passed the Federal Reserve Act.

The Federal Reserve System, 1913 to 1933

As the United States experienced what seemed to be uncontrollable financial panics and economic depressions, frustration with America's financial system intensified. The depression of the 1890s was especially severe in its impact on unemployment, prices, and economic productivity. Scarcity of currency became a serious problem, as businessmen sought to protect themselves against economic uncertainty by withdrawing their funds from banks. Bank suspensions commonly ensued until Congress passed the Aldrich-Vreeland Act of 1908 that provided for the organization of national currency associations. The law also set up a National Monetary Commission to study the currency problem. It was through such studies that Congress finally acted in 1913 to create the Federal Reserve System. (The legislation appears in the Documents section of this volume.)

Originally, the Federal Reserve (the Fed) divided the United States into 12 regional districts with a Federal Reserve Bank in each. Headed by a Federal Reserve Board, the system was controlled by the member banks, with some, such as the New York Federal Reserve, exerting significant authority and influence. The system was particularly attractive because member banks would regulate each other and had authority to issue Federal Reserve notes that would serve as a national currency. Undoubtedly, this arrangement was a major improvement over what existed before.

Between the time of its founding and the outbreak of the Great Depression in 1929, the Fed made a decent showing. It did fairly well during World War I in stabilizing economic activity and government borrowing. Between 1923 and 1929, the Fed also used open market operations, discount rate changes, and reserve limits to stabilize the growing economy of the decade. Problems, however, soon appeared when the stock market embarked on a highly speculative bull run. Today, most economic historians agree that the Fed stood by and did practically nothing to stave off the impending catastrophe. The inevitable result was that the U.S. economy, through a convergence of several factors, began to decline rapidly, and the U.S. banking system eventually fell so low that total disintegration was on the horizon. Bank insolvencies were so widespread by 1932 that state governors were closing banks whether or not they thought they had the authority to do so. Herbert Hoover attempted to help the economy recover through such programs as the Reconstruction Finance Corporation, but these efforts were too feeble. By 1932 the American people wanted a change, and they gave a mandate to the governor of New York, Franklin D. Roosevelt, who promised them a New Deal if he was elected.

Banking in the New Deal

The New Deal was a haphazard and multifaceted attempt, at times successful, to address the Great Depression, but it would fail in the end to alleviate the economic distress. Nevertheless, it brought significant reform to the U.S. banking system. No sooner did Roosevelt take the oath of office in 1933 than he immediately closed all the banks for a four-day period with his famous "bank holiday," when bank operations were suspended until authorities examined them for sound banking practices. Congress soon gave the president the authority he needed by passing the Emergency Banking Act of 1933. More important, Roosevelt acted quickly to seize the opportunity presented to him and endorsed the Glass-Steagall Banking Act of 1933. Considered today as among the most important pieces of legislation affecting U.S. banking, Glass-Steagall created the Federal Deposit Insurance Corporation (FDIC); separated commercial and investment banking; and implemented the well-known Regulation Q of the Federal Reserve Act, which strictly regulated interest rate ceilings and remained in effect until 1986. Nor was this the end of the New Deal's banking reform.

Realizing that the Fed must bear some responsibility for the Great Depression and the banking crisis, Roosevelt, in the person of his adviser Marriner Eccles, persuaded Congress to pass the Banking Act of 1935. This law eliminated the original Federal Reserve Board and replaced it with the Board of Governors. It also centralized all authority in the Board of Governors, thereby reducing the power of member banks. The Fed was definitely now becoming and acting like America's third central bank.

Although these reforms were positive advances in the banking industry, they did not necessarily resolve all economic and banking problems. For example, there was the 1937–1938 recession, which was brought on by Roosevelt's policies and programs and the use of deficit spending to provide relief for individuals. If nothing else, the recession showed that still more change was needed.

During World War II, the Fed helped the federal government by agreeing to buy government securities in order to maintain the interest rate that the government paid on its debt. This practice remained in existence until 1952 when the Fed stopped buying government bonds. During the Eisenhower presidency, moreover, the Fed ceased intervening in the economy to maintain a governmentally favorable interest rate. Politically, Fed leaders and U.S. presidents would constantly battle each other as each financial crisis occurred, often with the political leaders demanding that the Fed bail them out.

American Banking since 1945

After World War II, U.S. banking was definitely influenced by the Fed and by the numerous regulatory laws passed by Congress. During the 1950s, the Fed concentrated its attention on inflation control; in the 1960s, it focused more on monetary policy decisions in money market strategies. The Fed itself underwent internal changes, as professional economists began to sit on the board or serve as chairman of the Board of Governors, with Alan Greenspan ultimately becoming one of the longest-reigning Fed chairmen. Throughout the 1970s–1990s period, the Fed advanced in power, influence, and authority. As the economy grew and underwent its own

internal changes—for example, the appearance of the military-industrial complex, the Vietnam War, the Reagan supply-side revolution—the Fed had to adjust not only to economic events but to political changes as well. Slowly and gradually, the Fed ascended to such a level that today it controls America's money supply and economy.

These events do not mean that all has gone well for American banking and America's third central bank. Witness the serious economic crises that have erupted since 1960 alone—the Penn Central Railroad crisis (1970), the Franklin National Bank crisis (1974), the Hunt brothers silver speculation of the 1980s, the stock market crash of 1987, the savings and loan debacle of the 1980s, and the 1990s stock market–Dow Jones problems, many of these attributable to the dot-com bust and the corruption uncovered in corporate America. Yet it is significant that as financial crises have occurred, the U.S. banking system and the Fed have responded, often in very satisfactory ways.

After 1945 banking regulation became more focused on very specific issues. In 1956 the Bank Holding Company Act was passed prohibiting interstate acquisitions by banks unless the state approved them. Five years later, in 1961, Congress passed the Interest Rate Adjustment Act that sought to extend Regulation Q to the thrift industry. In 1970 the Bank Holding Company Act was extended to place restrictions on bank holding companies. The 1980s and 1990s brought some of the most significant banking legislation Congress ever enacted.

In 1980 the Depository Institutions Deregulation and Monetary Control Act (DIDMCA) was passed phasing out interest rate regulations and giving the Fed authority over reserve requirements for practically all banking institutions. All banks and thrifts could participate and use Fed services for a fee, and FDIC insurance was increased. Two years later, Congress passed the Garn–St. Germain Act that permitted money market accounts and allowed interstate mergers among banks. One year later, in 1983, the International Lending Supervisory Act gave regulatory agencies the authority to establish capital requirements for banks. In 1989 the Financial Institutions Reform, Recovery, and Enforcement Act restructured the FDIC and increased insurance premiums. Two years later, in 1991, the Federal Deposit Insurance Corporation Improvement Act gave the FDIC the authority to monitor troubled banks. Still more was to come.

In 1999, Congress passed and President William Clinton signed into law the Financial Services Modernization Act. Comprehensive in scope and intent, the law removed restrictions on banks affiliating with securities firms, created a new "financial holding company," provided for state regulation of insurance, streamlined governmental restrictions on bank holding companies generally, and included a host of other reforms governing savings and loans and other financial intermediaries. If nothing else, these regulatory pieces of legislation show that the federal government actively watches over and is involved in America's growing and massive banking system.

Banking Today

Today, American banking faces new problems and challenges. Undoubtedly, one of the most significant developments is the growing consolidation of banks throughout the nation, and especially in regions such as the South. The small hometown bank, once the norm across the American heartland, is becoming a relic of the past. Similarly, Americans are facing new ways of banking with automatic teller machines (ATMs) and "smart" cards that not only store personal information but also work as phone cards, charge cards, debit cards, and electronic cash repositories. Online banking is becoming increasingly popular as banks seek to cut costs and increase profit margins and find that customers like the convenience. Finally, the possibility of e-money—electronic money that allows the transfer of funds electronically—however controversial, is becoming reality.

If U.S. banking follows its historical past, it will readily adjust to such changing conditions. In addition, the Fed will continue its important role in control of America's financial intermediation system.

—Michael V. Namarato

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Big Business and Government Relationships

The adoption of the U.S. Constitution put an end to the practice of states imposing tariffs on one another, a practice that prevented development of the national economy. A robust national economy as envisioned by Alexander Hamilton required a strong centralized government, and the founding fathers laid the constitutional groundwork for this national authority in article 1, section 8, with enumerated powers granted to Congress. They perceived these powers as indispensable for the development of enterprise on a large scale, including the powers to establish a postal system that could unite the nation through communication, to grant copyright protection, and to regulate interstate and foreign commerce; perhaps most important was the power granted exclusively to Congress to coin money. A major argument for adopting the U.S. Constitution involved relief for creditors who had to pay back their loans with inflated state paper money.

Business and Government: The Search for Balance

There had been efforts to promote economic growth even before the U.S. Constitution was adopted. For example, the Northwest Ordinance of 1787 emphasized public education and development of the intracoastal waterway system that subsidized the barge industry until the late 1970s. The purpose of the waterway was to enable the nation to connect commercially and politically, and the ordinance decreed that the waterways would remain forever free. Efforts to impose fees on barge operators to defray costs began during the administration of Franklin D. Roosevelt but did not succeed until Jimmy Carter's presidency, even though the policy change had the support of all intervening presidents. In addition, the ordinance provided that the U.S. government would turn over large tracts of land to territories on the condition that they establish public schools.

Another measure dealing with education was the Morrill Act (1862), a more explicitly economically oriented measure authored by Republican U.S. Senator Justin Morrill of Vermont. The act provided land grants for the establishment of agricultural and mechanical colleges (which came to be known as A&M schools).

The government also participated in the development of railroads, granting the railroad industry huge land subsidies to foster its growth. Indeed, the Republican Party in the nineteenth century, including President Abraham Lincoln and U.S. Senator Leland Stanford of California, promoted such subsidies. The aftermath of the Civil War brought continued expansion of the railroads and of other industry in general. Opinion about government involvement was not uniform, however. In the second half of the nineteenth century, debate surrounded the opposing views held by big business and small farmers about the desirability of national government activism. Initially, monied interests saw a strong national government as overwhelmingly desirable, since the U.S. Treasury paid creditors in hard currency, Congress imposed high tariffs on foreign goods to diminish potentially fatal competition, and the government established a strong national bank. In contrast, the typical small yeoman farmer initially saw few advantages and many disadvantages in a strong national government, especially after small farmers became dependent on the railroads and grain elevator operators. In an about-face, however, the farmers ultimately sought federal regulation of these businesses that held exploitative power over the small enterprises, which remained no match for the railroads or any other big business.

As Adam Smith concluded in *The Wealth of Nations* (1776), the last thing anyone in business wants is competition. The "invisible hand" of competition might produce the greatest good for the greatest number, but collusion is attractive to most people. With this realization in mind, Congress passed the Sherman Anti-Trust Act of 1890, but the U.S. Supreme Court considerably weakened the act in two famous cases.

> In the first, the Court held that *manufacturing* trusts were not engaged in commerce and, therefore, could be regulated only by the states (*United States v. E. C. Knight Co.,* 156 U.S. 1 [1895]). In the second, the Court laid down the "rule of reason" by which not *every* combination in restraint of trade (as Congress had

> explicitly stated in the Act) was illegal, but only those *unreasonably* so (*Standard Oil Co. v. United States,* 221 U.S. 1 [1910]).(Plano and Greenberg 2002, 518; emphasis added)

To overcome these rulings that weakened the act, Congress passed the Clayton Act of 1914. Still, until 1937 the Supreme Court continued to act as defender of the status quo by finding unconstitutional statutes intended to ameliorate the worst effects of industrialization, as it did with its holding in *Hammer v. Dagenhart* that voided a statute prohibiting child labor. Although the judiciary lagged in its response to the undesirable side-effects of industrialization, such as sweatshops and unsanitary conditions as depicted in Upton Sinclair's *The Jungle,* the executive branch during the administration of President Theodore Roosevelt became activist, undertaking antitrust actions and promoting such measures as the Pure Food and Drug Act and the Meat Inspection Act.

Other administrations were activist to some degree until the 1920s. President William Howard Taft pursued trust-busting with even more fervor than Theodore Roosevelt had exhibited. President Woodrow Wilson signed the Clayton Act of 1914, which forbade abuses that tended to weaken competition, restricted corporations from acquiring stock in competing firms or building interlocking directorates, made corporate officers individually liable for violations, and facilitated civil suit procedures by injured parties. Subsequently, Presidents Warren G. Harding and Calvin Coolidge heralded, respectively, "a return to normalcy" and "that the business of America is business." During the "roaring twenties" in industrialized America, stock market speculation soared, and the policy of laissez-faire held sway during President Coolidge's tenure.

Although conditions appeared robust in the realm of big business, by the mid-1920s depression had already descended upon the farms. When the stock market crashed in October 1929 heralding economic decline in the industrial sector, the lessons learned by policymakers from the last depression of the nineteenth century appeared inapplicable to the current crisis. Clement Studebaker, president of the Studebaker Corporation, and many others blamed President Herbert Hoover for causing the depression by lowering tariff duties. Consequently, Congress responded initially to the Great Depression by passing the Hawley-Smoot Tariff Act of 1930, which raised the average tariff duty to approximately 60 percent and provoked retaliatory actions from other nations. The legislation has since been cited as having deepened the Great Depression.

Approaches to trade remained a major point of contention among government policymakers over positions taken with respect to the General Agreement on Tariffs and Trade (GATT). This is evident in the excerpts reprinted here from letters written in December 1994 by Democratic U.S. Senator J. Bennett Johnston Jr. and Democratic U.S. Representative Jimmy Hayes, both of Louisiana. Political scientist David B. Truman explained in a 1956 article in the *American Political Science Review* that party identification and state of residence accounted for most of the variation in how members of a congressional delegation voted. Yet these excerpts offer quite different perspectives on GATT. (A side note is that about a year after the these letters were written, Jimmy Hayes switched his membership to the Republican Party and subsequently ran unsuccessfully for the U.S. Senate seat, which J. Bennett Johnston Jr. had vacated.) U.S. Senator J. Bennett Johnston Jr. wrote the following on December 12, 1994 (letter to author):

> Thank you for contacting me to express your thoughts on the GATT legislation. I joined Presidents Reagan, Bush and Clinton in supporting GATT.
>
> I voted for it because it will greatly benefit the economy of the United States in general and Louisiana, in particular. GATT will promote sales of Louisiana's agricultural commodities and chemicals, and will enable smaller manufacturers to break into foreign markets. Louisiana is a trade state. We have more ports and exports per capita than any state in the nation. They are the source of thousands of Louisiana jobs. We are in a strategic location to ship the increased cargo that will result from GATT from across the United States to overseas markets.

U.S. Representative Jimmy Hayes expressed concerns in a letter written December 7, 1994, that led him to vote against GATT. He stated that he opposed

> the fast-track procedure in principle, I could not support the attachment of completely unrelated (and potentially destructive) provisions.
>
> . . . I was also concerned about . . . the dispute resolution process. Under the proposal, the United States will have the power to enforce fair-trading practices on offending countries, while losing our power to block decisions made against our trading practices. Without blocking power, the United States could suffer trade penalties from those countries disputing our trading practices unless we change our laws to suit their demands.

The Regulatory Cycle

The interrelationship between the U.S. government and big business in international relations became evident when the United States and Britain joined forces in attacking targets in Afghanistan on October 7, 2001, in the aftermath of attacks on the World Trade Center in New York City. The twin towers housed thousands of employees of big businesses, including Morgan Stanley. The terrorists also provoked retaliatory attacks by targeting the Pentagon.

War has commonly resulted in increased collaboration between business leaders and government. Business leaders played a role in planning U.S. deployments in both World War I and World War II. Charles Erwin "Engine Charlie" Wilson left his position as president of General Motors to serve as U.S. Secretary of Defense in the Eisenhower administration, during which legislation beneficial to big business was

passed, including the Interstate Highway and Defense Act of 1956. In addition, Robert S. McNamara, taking with him a number of other "whiz kids," moved from the Ford Motor Company into the position of U.S. Secretary of Defense during the Kennedy and Johnson administrations.

The prominence of automobile executives in the Defense Department was unsurprising, since automobile factories manufactured Jeeps, aircraft, and tanks during World War II. Some government policies tremendously benefited the automobile industry, such as the construction of the U.S. and interstate highway systems, but others threatened corporate profits. General Motors, in its 1979 annual report, complained that its net income had fallen to only 4.4 percent, whereas in 1965 profits had reached 10.3 percent. From its perspective, the government had to reduce spending, regulation, and the size of the national deficit. Interestingly, regulation of the automobile industry, at least as it applied to automobile safety, occurred as the result of actions taken by General Motors in 1965. In 1956, Ford Motor Company introduced a deep-dish steering wheel that allegedly was less likely to crush a driver's chest in the event of an accident, but no profits to the company clearly resulted. In ensuing years, a Democratic congressman from Alabama studied automobile safety yet made relatively little headway. But in 1965 an obscure lawyer named Ralph Nader published *Unsafe at any Speed.* The book lambasted automobile manufacturers for their lack of emphasis on safety, as evidenced by the production of hardtops, cars lacking center roof pillars, which crushed easily during rollovers. Nader also identified one vehicle not sold in a hardtop version, the rear-engine Chevrolet Corvair, that rolled over easily due to a weak rear axle design. General Motors responded by hiring private detectives to investigate Nader's personal life. This grotesque invasion of his privacy made Nader a household name and led to his testifying before a transportation safety committee chaired by Democratic U.S. Senator Abraham Ribicoff of Connecticut. Following lengthy testimony that included a grisly X-ray photograph of a boy with a 1951 Mercury hood ornament embedded in his skull, Congress passed the National Highway Traffic Safety Act of 1965.

Regulation hit its peak during the administration of Richard M. Nixon when Congress established the Environmental Protection Agency, the Occupational Safety and Health Administration, and the Consumer Product Safety Commission. Later in the 1970s President Jimmy Carter began working for deregulation. Americans placed great emphasis on airline deregulation, and Clinton economist appointee Alfred Kahn led the charge. Efforts also ensued to deregulate financial institutions, particularly the savings and loan industry, and this activity accelerated during the administration of Ronald W. Reagan. Indeed, whereas Carter believed in the goals of most regulations (though he thought Americans could pursue them in a more parsimonious and efficient manner), President Reagan thought most regulatory objectives had dubious value. J. Brooks Flippen noted the following (Flippen 2000, 232):

> Maintaining that government bureaucracy stifled America, Reagan used the Office of Management and Budget to drain power from regulatory agencies. EPA was hit particularly hard, deprived of 29 percent of its budget and a quarter of its staff in the first two years of the administration. Innovative programs in such areas as solar energy and alternative fuels faced complete emasculation.

Although public reaction remained negative toward weakening environmental protection, efforts that began during the Carter administration and accelerated during the Reagan administration helped to deregulate the savings and loan industry. Eventually, many of the savings and loan associations failed in the aftermath of deregulation changes, with hundreds of billions of taxpayers' dollars required to ameliorate the meltdown.

The deficit reduction called for in the 1979 annual report of General Motors did not appear for two decades. During the first Reagan administration, the deficit quadrupled. Not until twenty years later would the nation's budget, in the words of President Bill Clinton, "be balanced, for the first time in a generation."

Big business remained a prominent feature of life in the United States in the late nineteenth and twentieth centuries. This trend will certainly continue in the twenty-first century. Big-business executives in the United States remain highly compensated. Compared with income of the average wage earner in terms of dollars, compensation for today's executives exceeds that of their U.S. counterparts from centuries past as well as that of their peers in other nations.

—*Henry B. Sirgo*

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Communications

Recognizing the importance of communications among citizens of the newly formed United States, the Continental Congress appointed Benjamin Franklin the country's first postmaster general in 1775. In the eighteenth century, letters were the primary means of communication for those separated by space, and the country's founders realized that timely delivery of mail would help to bind the new nation together, facilitate commerce, and encourage the flow of ideas and information. In making mail service the responsibility of the federal government, these officials implicitly recognized that private markets were unlikely to generate optimal outcomes in the provision of this communication service.

From an economic perspective, an industry generates maximum social benefits if production expands until the cost of producing one more unit of output just equals the benefit derived from producing that additional unit. Further, all costs of production are incurred by the producer, so no external costs fall on those not privy to the decision to produce the good or service in question. All benefits of production fall to the consumers who purchase the product; thus, those not privy to the decision to purchase recognize no external benefits. In other words, costs and benefits are private. Theoretical analysis suggests that competitive markets generate, via the self-interest of the producing and consuming parties, an outcome whereby the net social benefits of production are maximized. Economic efficiency exists in that there is no deadweight loss—that is, there is no difference between the maximum net social benefits and the actual net benefits generated by the industry outcome. This conclusion—the optimality of competitive outcomes—holds only for perfect competition in static contexts with no spillover (additional) effects or externalities (external, uncontrolled) effects. Such ideal conditions are unlikely to be met by any real-world markets, of course. But in many cases, actual conditions are close enough to this ideal and the difficulties of attempting any effective public policy intervention are pervasive enough that relatively unregulated markets—which bring together private buyers and sellers—function reasonably well in allocating society's scarce resources.

Historically, three conditions particular to the communications industry have seemed sufficiently far from the competitive ideal to warrant intervention. Although those conditions especially apply to telecommunications, they arguably typify mail communications as well.

First, the industry exhibits network effects. With network effects, externalities occur because of interdependent demands. For instance, the benefit that each consumer enjoys from using telephone service depends upon the number of other people using that service: A single subscriber to a telephone service would obtain no benefit (other than status perhaps) without being able to call others. But with network effects, all consumers benefit by interconnectivity, so that each consumer can reach every other consumer. This interconnectivity does not necessarily require that the service be offered by only one provider, but it does require that different providers use compatible equipment—in essence, that there be a single, networkwide standard. Network effects also provide an efficiency rationale for universal service.

A second condition warranting intervention stems from economies of scale, which occur when a proportional increase of all inputs raises output by a greater proportion. When economies of scale are extensive relative to market demand, a single firm can supply the market at a lower cost per unit of output than can multiple firms. Competition is unlikely to exist as a dominant firm expands to take advantage of the lower average costs that come with high output.

The third condition occurs with economies of scope, when more than a single product or service is produced. Telecommunications firms, for example, produce multiple services, such as long-distance and local calling. With economies of scope, a firm can produce a given quantity of both services at a lower total cost than could two firms, each specializing in the production of one of the services.

Given the existence of these three conditions, modern public policymakers have deemed that telecommunications is likely to be monopolistic or even a natural monopoly (which controls the market through increased efficiency in the industry). Eighteenth-century public policy makers came

to a similar conclusion about mail service. Believing that the private delivery of mail would probably not generate as much service as was socially desirable, they set up a public firm to handle this responsibility.

Technological change dramatically altered the delivery of communications services in the two centuries following Franklin's appointment. Public policy has changed, albeit not always smoothly or quickly, in response to this evolving technology, but communications have remained a target for collective ownership or oversight and regulation.

Postal Service

Even before Franklin's appointment as postmaster general, the North American colonies experimented with both privately and publicly funded mail delivery schemes. During a time when transportation by sea was much cheaper than transportation over land, communication between England and North America dominated colonial mail service. In 1639 Richard Fairbanks's Boston tavern was named the receiving site for this overseas mail, and it became the location from which colonial distribution emanated. In 1673 the New York governor established a short-lived monthly mail service between New York and Boston, and William Penn set up Pennsylvania's first mail service ten years later. The British Crown contracted with a private organization in 1691 to establish central mail delivery and then purchased control of the system in 1707. In the 1730s, long before his Continental Congress appointment, Franklin served as postmaster in Philadelphia under the British system, and he became one of the two joint postmasters general for the British in the colonies. Under his leadership, the postal service reported its first surplus in 1760. After Franklin was dismissed in 1763, Postmaster William Goddard instituted the Constitutional Post to provide mail service among the colonies, with the funding obtained by subscription and revenues used to improve the services offered. When the colonies revolted, Franklin chaired the Committee of Investigation to formulate a mail system. Under the 1781 Articles of Confederation, Congress had the sole right to create and regulate post offices. Initially letter recipients paid the postage costs, but in 1847 the post office issued stamps purchased by the senders of mail.

Facing little or no competition in providing communications, the postal service grew with the new country, and new technology complemented this service. In 1832 the postal service entered into tentative contracts for transporting correspondence by rail. An 1838 act designated all U.S. railroad routes as postal routes; soon postal agents accompanied the mail on the rails, and 1862 witnessed the first post office on wheels. The westward movement of the railroad preempted a brief but memorable effort at an express, horse-based mail service between St. Joseph, Missouri, and California. The Pony Express operated between April 1860 and October 1861, when telegraph lines reached the West Coast. In 1911, with the development of air transportation, the postal service began to ship mail by plane.

The public provision of mail service was partly motivated by considerations of economic efficiency. The political interest in tying the country together also encouraged this service. Concerns about fairness likely affected post office decisions about rates and interacted with the goal of providing universal service. The postal service introduced free city delivery in 1863, the same year that it established uniform postage rates within the country, regardless of distance. Rural free delivery followed 29 years later.

During Andrew Jackson's administration, the postal service attained Cabinet status, but the 1970 Postal Reorganization Act, motivated by large deficits in the post office budget, removed the service from the Cabinet and streamlined its operations.

Telegraph Service

The application of electricity to communications was described at least as early as 1753, with published suggestions for an electric telegraph. The early-nineteenth-century development of the electrochemical battery and the discovery of the relationship between magnetism and electricity led the way to a working prototype, which Samuel Morse demonstrated in 1837. Like the postal service, the telegraph industry would make use of the railroads, for telegraph lines could be strung along the right-of-way for the rail lines' roadbeds. The first workable telegraph line of significant distance was strung for 40 miles along the Baltimore and Ohio Railroad tracks between Baltimore and Washington, D.C., in 1844. The usefulness of telegraphy, especially when vast distances separated people and activities, led to its rapid adoption, and in less than 20 years from their initial commercial use, telegraphs lines connected the Atlantic and Pacific Coasts. By the end of the American Civil War, international telegraph service linked the United States with Europe.

The telegraph industry displayed at least some of the attributes of a natural monopoly. Most European countries set up government-owned monopolies to provide telegraph service, and they restricted entry into the industry, just as they would do for telephone service. But in the United States, policymakers instead were confronted with a private monopoly when the many competing companies merged into the Western Union Telegraph Company in 1865.

The lively minds of nineteenth-century scientists fascinated by electricity developed the basic elements of the writing telegraph, a rudimentary facsimile machine. The scientists also experimented with wireless electrical communication systems. Successful commercial applications of these technologies did not emerge until well into the twentieth century.

Telephone Service

In the 1974 antitrust case brought by the U.S. Department of Justice against American Telephone and Telegraph (AT&T), the company argued that the regulated monopoly structure of the U.S. telephone industry had served consumers well. AT&T's defense rested upon its contention that telephone service, as a network industry, worked best when a single firm connected all consumers, handled both local and long-distance calls, provided equipment of the necessary quality

and compatibility, and developed new equipment and services for the future. Hence, the company contended, the vertically integrated structure of the telephone industry—with a single company controlling equipment manufacture (through Western Electric), providing long-distance service (through long lines), interconnecting with local operating companies (through wholly owned operating subsidiaries), and undertaking research (through Bell Laboratories)—generated good outcomes. It gave consumers one-stop shopping for telephone service, at prices that made local service almost universal, and it compared favorably with the state-owned monopoly telephone companies common in most other countries of the world.

In contrast, the Antitrust Division of the Justice Department contended that AT&T had used its position to monopolize the industry in violation of the Sherman Anti-Trust Act and to forestall potential competitors' entry into the field. Eight years later, in 1982, the parties settled the case via a consent decree, issuing the modified final judgment that resulted in the largest divestiture in antitrust history and the breakup of the Bell system. As the new millennium dawned, the consequences of this breakup, the effects in the United States of a new telecommunications law, and the forces of changing technology were continuing to modify the structure of the telecommunications industry, and few commentators have been brave enough to predict the future of that structure. Like past policy, future uncertainty results from the economic characteristics of the industry, the history of policy in the field, and the rapid technological changes of the last half century.

Economic Characteristics of the Telephone Industry

Because the telecommunications industry exhibits network effects and because economies of scale and scope occur in production, perfectly competitive markets are unlikely to exist in this field. In some countries, policymakers have responded to the failure of the private market in telephony by providing the service publicly, thereby substituting public monopoly for private monopoly. In other nations, most notably the United States, policymakers have severely limited entry into the industry by granting a single franchise to a private provider of telecommunications services and then regulating that supplier, presumably to protect consumer interests. As technological change occurred during and after World War II, the relationship of effective telecommunications to military policy added a defense concern to the policy goals. Whatever the benefits or costs of past public policy, evolving telecommunications technology during the last half century has led to pressures for policy change.

History of the Telephone Industry in the United States

In 1876 and 1877 Alexander Graham Bell received patents on basic telephone equipment, besting Elisha Gray's similar patent filing. Bell offered to sell his patent rights to Western Union for $100,000, an offer that was refused. Western Union soon attempted to enter the telephone industry on its own, using equipment developed by the Thomas Edison labs. The new manager of the Boston Bell Patent Association, Theodore Vail, forced Western Union to back out of the telephone field by threatening to sue for patent infringement. The American Bell Company made money by assigning exclusive franchises to companies in separate geographic areas, taking an equity stake in each. Bell purchased Western Electric, the equipment manufacturer, in 1881 and four years later established a toll company, the long lines that connected the local Bell operating companies. Thus, by the time that the original Bell patents expired in 1893 and 1894, the vertically integrated structure of the Bell system was in place.

The now public American Bell Company faced competitors that were attracted to the industry by the company's high profits even before Bell's patents expired—and despite its practices designed to control the market. For example, Bell required customers to lease all telephone equipment from the company. It also refused to provide interconnection for competitors to its long-distance service; thus, customers who wanted such service and non-Bell local service had to have two telephones. In addition, the company proceeded to buy up its competitors. Its increasing dominance of the telephony industry as the twentieth century dawned may have resulted from economies of scale and scope and efficiencies derived from central control of the network. The dominance may also have stemmed, however, from deliberate strategies to drive efficient competitors from the field through predatory pricing, financial market connections, and manipulation of the regulatory environment. Through its ownership of the Empire Subway Company in New York City, for instance, AT&T refused its potential local-service competitors access to underground conduits. It also agreed to limit its entry into telegraphy in return for Western Union's commitment not to lease pole space to telephone competitors. Despite such efforts, however, independents did manage to establish local companies, especially in the Midwest, and they also set up regional networks. Some contend that, in response, AT&T strategically set prices below the average variable cost in local markets, using profits from its monopolized markets to subsidize short-term losses in its competitive markets. This predatory pricing hurt the competition, deterred potential competitors, and reduced buyout prices. The regional independents had neither AT&T's profits from monopolized markets nor the company's access to New York financial markets to sustain their own short-term losses. The panic of 1907 further exacerbated the financial problems of the independents.

To avoid scrutiny of its purchases of rival operations in terms of antitrust violations, AT&T sometimes used third parties to make acquisitions on its behalf. For example, in 1909, AT&T provided the R. L. Day Company $7.3 million to purchase the United States Company, a midwestern independent whose assets were valued at almost $13 million. The only legal action that AT&T faced from its operations in competition with the United States Company came from minority stockholders in Central Union, AT&T's regional operating company. In the 1909 case *Read et al. v. Central Union,* these individuals filed suit against the majority stockholders when Central Union consistently incurred losses in

its attempt to drive the independent firm from the market. The judge in the case ruled that Central Union's predatory actions had harmed the plaintiffs, and he ordered AT&T to sell its holdings in the company. Before this judgment could be effected, however, the parties settled out of court, with AT&T purchasing the minority shares at prices well above market value and par value (the amount paid to the investor at maturity).

AT&T also took advantage of state regulations to enter local markets on more favorable terms than the incumbents (companies already in the market) faced and to deny its competitors access to valuable facilities. For example, as a precondition for entry into the local market, New York required companies to offer long-distance connections to all cities within 1,000 miles that had more than 4,000 residents and to present contracts providing this service within six months of receiving a New York franchise.

By 1910 AT&T, under the leadership of Theodore Vail (who had resigned from the company in the 1880s but returned early in the twentieth century), had consolidated its hold on the telephone industry. Economic historians note that during the competitive period following patent expiration and lasting roughly until 1910, telephone connections grew at an annual rate of 20.6 percent, as compared with 3 percent to 5 percent in the preceding and succeeding years. They point out that in 1920, only 35 percent of all households had telephones and that both the proportion and the number of farms having phones fell in the 1920s and 1930s.

Foreshadowing current debates about the relationship between telecommunications and broadcasting via broadband, AT&T briefly maintained interests in radio broadcasting after World War I. Italian scientist Guglielmo Marconi's experiments with radio waves in the early twentieth century led to commercial radio. The Pittsburgh-based Westinghouse Company, through its radio station KDKA, used amplitude modulation in 1920 for the first U.S. public broadcast. Several other companies, including AT&T, soon set up their own stations. AT&T's radio station, WEAF, began broadcasting from New York in 1922. Westinghouse and General Electric (GE) had established the Radio Corporation of America (RCA) as a patent-holding company, and in 1926, AT&T agreed to sell its interests in radio broadcasting to RCA.

Regulation of the Telecommunications Industry

Antitrust policy seeks to promote greater competition and the gains associated with it by prohibiting monopoly and specific practices considered likely to lead to monopoly. English common law long proscribed monopoly, but passage of the Sherman Anti-Trust Act in 1890 formally codified the federal position toward market control in the United States. When competitive markets are deemed unlikely to exist or unlikely to function in the interest of consumers, the U.S. policy response has been to limit entry into the affected industry, to grant a franchise permitting entry to the successful applicant(s), and then to regulate the behavior of the licensed firm. Antitrust actions have been brought numerous times against telephone service providers, especially AT&T, both by private plaintiffs and by the Antitrust Division of the Justice Department.

State regulation of telecommunications preceded federal involvement. Several southern states were the first to enact regulations in this field, and perhaps they tried to use low communications rates to entice business investment. In 1907 Wisconsin and New York became regulatory leaders. By 1914 34 states and the District of Columbia were regulating such things as rates, licensing and interconnection requirements, and common-carrier status. Congress promulgated federal regulations with an amendment to the Mann-Elkins Act of 1910, which provided for Interstate Commerce Commission (ICC) oversight of the telephone industry. The postal service had cast a covetous eye toward the industry, agreeing with Vail that it was a natural monopoly. Populists and monopolists joined forces to prohibit competition in the industry. Faced with the possibility of a government-owned telephone company, AT&T supported measures to make the industry a regulated monopoly. And with regulation, AT&T became somewhat immunized, at least for a while, from antitrust actions. The federal Willis-Graham Act of 1921 shifted the regulatory oversight of telephone mergers and acquisitions from the Department of Justice to the ICC; as regulator of the telephone industry, the ICC primarily reacted to complaints. Economic concerns in the 1930s about problems with holding companies led to the 1934 passage of the Federal Communications Commission Act. This legislation set up the agency that would regulate interstate telephony and set the dominant tone of regulation until the 1982 court-mandated breakup of the Bell system and the 1996 Telecommunications Act. The 1934 act further formalized the dual regulation of the telephone industry, with the Federal Communications Commission (FCC) responsible for long-distance service and state (and local) agencies responsible for local service. Because the services were supplied interdependently, with long-distance calls originating and terminating through the access lines of local service providers, the appropriate division of regulatory responsibilities was frequently questioned. A single company, AT&T, usually provided both local and long-distance services.

Although the Bell system initially did not rush to provide service outside major urban areas, it supported the regulatory goal of establishing universal service. To the extent that universal service would take advantage of network effects, it would augment the value of telephone service to all users. Increasingly, however, universal service came to mean the provision of basic service at "affordable" rates. Regulatory agencies typically set rates to cover the costs of production, with a reasonable return on investment included. Although some of the costs of telephony can be attributed to a particular service, ambiguity exists about how to divide other costs among the services offered. The Bell system, with regulatory oversight, met the requirement of providing affordable service by charging rates below the cost of production for some services; it then was permitted to charge rates above the cost of production on other, "nonbasic" services to offset the losses incurred on basic services. Over time, an elaborate system of

cross-subsidization arose, with long-distance calls subsidizing local service, business customers subsidizing residential customers, and urban users subsidizing rural users. It is not clear that these subsidies redistributed real income from the rich to the poor, but without doubt they increasingly distorted economic decision making. And over time, the regulatory rate structure probably discouraged the use of the least-cost combination of resources to produce a given level of output.

The first public demonstration of microwave technology occurred in 1915, and American and British groups worked on its further development. By 1946 several U.S. firms had sought FCC franchises for microwave telecommunications service in a number of eastern cities. Faced with this challenge, the Bell system undertook a massive R&D effort that would enable it to introduce a nationwide microwave system, which it had readied by 1950. With pressure from AT&T, the FCC excluded all other microwave competition until 1959, thereby transforming this arena of potential competition into an exclusive AT&T monopoly over both transmission and equipment. In 1959 the FCC issued its "above 890 megahertz" decision, which granted to private companies the use of that portion of the bandwidth for internal microwave operations. Finally, in 1969, the FCC allowed Micro-Wave, Inc. (MCI), after a six-year quest, to enter the long-distance service market, and it required AT&T to interconnect MCI with local operating companies. Entry into the long-distance market was particularly attractive because regulation led to high long-distance rates (presumably to subsidize universal local service). It is likely that these high rates unrealistically attracted multiple companies to enter the industry.

Space exploration led to yet another telecommunications technology. By the end of the 1960s, seven international satellites orbited the earth and had the potential to relay telecommunication signals. The FCC granted a franchised monopoly to Comsat, a mixed private corporation established in 1962, and the company partially succeeded in capturing the U.S. domestic satellite market. (A mixed private corporation is composed of diverse forms of public and private enterprises working together—for example, local police, agents from the Federal Bureau of Investigation [FBI], and Pinkerton detectives, all with policing authority.) Given the interest in this market and the political pressure for access to it, a White House initiative in 1970 established a policy that permitted all qualified applicants to send up satellites. Successful entry into the field still required interconnection with the Bell system, but regulatory moves made this more likely.

Antitrust Issues in the Telephone Industry

During AT&T's aggressive pursuit of its competitors in the early twentieth century, a number of independent companies complained to the newly formed Antitrust Division of the Justice Department. Reacting to these complaints, the division filed suit against AT&T, charging the dominant firm with monopolization. In response, AT&T entered into the so-called Kingsbury Commitment of 1913, agreeing to provide long-distance interconnections to its competitors and promising not to purchase further competitors without regulatory approval. The company also divested itself of Western Union through this agreement. However, AT&T continued to purchase noncompeting companies, and the 1921 Willis-Graham Act, which shifted merger oversight to the ICC, further lessened the constraints on the company's acquisition of competitors. But before AT&T could acquire 100 percent of the country's local telephone companies, it once more agreed to restrict additional acquisitions. For their part, the independents learned that, under regulation, they and the dominant firm shared an interest in restricting new entrants into the market, and the remaining independents and AT&T coexisted peacefully until 1982.

Although the regulation of telephony reduced the antitrust pressure on AT&T, it did not eliminate it. The vertical integration of telephone research, equipment manufacturing, and local and long-distance service continued to generate concerns about possible violations of antitrust laws. In particular, AT&T's control over the price of telephone-related equipment led to fears that the company was inflating these prices and thereby generating costs that were then built into average cost-regulated prices; thus, for instance, AT&T could shift profits from the telephone service stage to the equipment manufacturing stage. In 1949, the Antitrust Division filed suit, seeking Bell's divestiture of Western Electric. Ultimately, the 1956 settlement of this case did not require divestiture, but it constrained AT&T from entering industries other than regulated telecommunications (such as the computer industry), and it further stipulated that the company would produce equipment only for its own use and would license its patents for reasonable and nondiscriminatory royalties.

Further concerns about AT&T's restrictions on the use of telephone equipment soon arose. As a result of the 1956 case involving the Hush-a-Phone, a device that permitted private conversations in crowded rooms, AT&T had to permit attachments to its phone networks. Similarly, the 1968 decision regarding the Carterfone, a device involving a two-way radio system, permitted a coupling device to be attached to a phone in order to connect phone users with radio devices. Eventually, AT&T's requirement that users of its services had to lease and use only Western Electric equipment to access those services was eroded.

Changing technology further challenged regulatory control of a monopolistically structured telecommunications industry. Many of the challenges occurred through antitrust cases and led to the 1974 case in which the Antitrust Division again charged AT&T with violation of the Sherman Anti-Trust Act. After years of proceedings, the case was settled in 1982 when a modification of final judgment of the 1956 consent decree was issued. Changing technology and the potential for more competition within the telecommunications industry had led to the decree and affected its specific requirements.

Technological Change

No one can dispute that AT&T has been responsible for impressive R&D advances over the years. As mentioned, the

company established its research facilities, the Bell Laboratories, in the late nineteenth century. Although not particularly noted as a strong source of new technology in that era, the labs became increasingly involved in basic research as well as commercial development. They also played an important role in military-related research during and after World War II. Yet despite the success of the laboratories, it is not clear that AT&T pursued and implemented the most advanced telecommunications technology possible. Rather, the company may well have sought to protect its large capital investment, and at any given time, that investment was tied to a particular technology. Companies with market power, especially those with market power protected by legal barriers to the entry of competitors, are not under the same pressure to develop new technology as are firms that seek to enter the existing market. Thus, AT&T was not quick to develop microwave telecommunications technology, a potent alternative to fixed-line transmission. Similarly, the company did not lead in satellite developments, another potential source of competition, though national and regulatory policies influenced this outcome.

As computer technology developed after World War II, the military became increasingly interested in sharing information between computers separated by space, and transmission over telephone lines seemed a reasonable means to accomplish this goal. Defense leaders expressed concern as to whether AT&T could and would create the digital technology and equipment necessary for transmission of data to replace the older, slower analog system. The company assured the government that it would do so. However, it is not clear whether AT&T has been more active in this arena than more competitive firms would have been.

Fiber-optic lines can transmit many more messages than copper wire, and they allow faster transmission. Teleport, not AT&T, installed the first fiber-optic lines in New York City. Rapid advances in switching-equipment technology and the use of electronics generally accelerated in the 1990s, allowing more firms to compete in the industry. The fiber-optics industry has increased the speed of transmitting information and allowed for the development of high-speed connections for computer-to-computer communications. Cost still prohibits the use of fiber-optic lines from phone boxes to homes, but as the cost falls, this trend will change.

The advent of the personal computer (PC) has had a great economic impact on the United States. At first, PCs were used primarily for their word-processing and spreadsheet capabilities and could communicate over telephone lines through dial-up modems. But by the beginning of the twenty-first century, new technology had been developed to provide improved services to the 161 million PC owners and almost 166 million Internet users. The Internet, which allows easy access to an unlimited amount of information, and satellite cellular telephones have become the most widely used forms of communication. In 2000, Americans owned over 69 million cell phones. The affordability of these two forms of technology has resulted in their widespread use.

Thus, the communications industry, with its technological advances, continues to hire employees, pay taxes, and develop accessories and other products. Beyond that, the new communication revolution has resulted in the development of an on-line entertainment industry. In 2000, more than 220,000 people were employed in the on-line gaming industry. According to recent reports, the industry generated $10.5 billion to the U.S. economy that year. The Bureau of Economic Analysis notes that the growth rate for the industry was 14.9 percent in 2001, double the growth rate of the U.S. economy as a whole. These changes can, in large part, be attributed to websites where players can form teams and challenge one another with instant responses both in the game and in on-line chats.

Internationally, new technology has broken the control of government-owned companies over the market. Decision makers are more aware than ever that modern telecommunications play a significant role in determining economic growth and attracting foreign investment. Yet despite this awareness, interest groups that benefit from policy arrangements reflecting past technologies also wield political power. And even policymakers who seek, without self-interest, to craft the best possible policy toward communications find it difficult to agree on just how to accomplish that task, given the many uncertainties about future technologies. Ultimately, however, the fact that a variety of policy approaches are being taken in different countries is itself a promising development: It offers a vast, albeit unintentional, natural experiment—one that will both fuel the debate and provide evidence for the future direction of public policy concerning communications.

—Ann Harper Fender

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Currency

Currency—money—provides a common unit of value that allows commerce to move beyond barter and enables financial markets to develop. The British colonies in North America inherited their currency from Europe, which had conducted transactions with gold and silver coins (specie) for thousands of years. Since the late medieval period, financial instruments (bills of exchange and banknotes) had supplemented specie. Issuers promised to convert their notes into specie on demand, but they never had enough gold and silver on hand to redeem all of their paper and counted on their financial assets—debts others owed them—to back their notes. From the start, the value of paper money depended chiefly on the creditworthiness of its issuer.

Conditions in the British colonies in North America forced major changes in this system. The colonies suffered chronic trade deficits that they covered, in part, by exporting specie. Accordingly, the supply of gold and silver was generally insufficient to finance even current business, much less the rapid expansion of the colonial economy. And the colonies did not have banks to provide notes or bills of exchange.

Colonists responded to the shortage of currency in three ways. They constantly extended credit to each other, so domestic trade more often involved the exchange of promissory notes rather than cash. Some colonies used commodities as money. From the seventeenth century, Virginia levied taxes and paid public officials' salaries in tobacco, for which a ready market existed in Europe. Most notably, some colonial governments issued paper money, either to finance government deficits or through loan offices. Such issues contradicted the conventional wisdom, which ascribed paper money value only if it was convertible into specie. Nevertheless, the colonies' paper money worked well in most cases. Governments usually issued only limited quantities of paper and provided for its redemption, accepting notes for taxes or the repayment of loans. This guaranteed a steady demand for paper money, which traded at only a modest discount to specie.

The American Revolution overwhelmed these expedients. The war with Britain severely reduced American exports and foreign trade, exacerbating both the payments deficit and the shortage of gold and silver. The Continental Congress could not levy taxes to defray military expenses and instead issued large quantities of paper money, whose value fell rapidly. Several states followed this example. By the 1783 Peace of Paris, which secured American independence, the nation was awash in worthless paper money.

The new federal Constitution, which went into effect in 1789, addressed this problem. It lodged authority over the currency with the central government and specifically banned state governments from issuing paper money. George Washington's Treasury secretary, Alexander Hamilton, quickly asserted the federal government's power. In 1791 he persuaded Congress to charter the Bank of the United States (BUS), which would have $10 million in capital, consisting of specie and federal bonds. The BUS would issue banknotes equal to its total capital that it would redeem on demand in specie. As would always be the case, the quantity of notes exceeded the specie in reserve. Hamilton also organized a mint to coin gold and silver, but the shortage of specie limited its output. Most of the coins in circulation were from abroad, and American coins would not become common for several decades.

Hamilton's program was controversial. Thomas Jefferson and James Madison argued that the Constitution did not authorize a bank and that the operations of the BUS infringed on the legitimate rights of states. A strong popular prejudice existed against banking, which critics believed profited by manipulating credit rather than from honest labor. Finally, many Americans considered corporations, with their limited liability and special powers, synonymous with monopoly and privilege, which the Revolution had supposedly banished. Only the support of President Washington and the Federalist Party allowed Hamilton to secure congressional approval of the BUS's charter.

Meanwhile, states were chartering their own banks. Like the BUS, these institutions could issue banknotes to borrowers that banks were supposed to redeem on demand in specie. At first, states generally chartered only one institution to provide a uniform local currency. Banks proved very profitable,

however, and soon others demanded similar privileges for themselves. Although each bank charter still required a special legislative act, these institutions multiplied rapidly, and by the early 1800s, the country had dozens of banks, each of which issued its own notes. In theory, all were supposed to redeem their notes on demand in specie, but in practice, merchants were reluctant to accept the notes of distant banks about which they knew little. The BUS provided uniformity by purchasing state banknotes at close to par (face value) and redeeming them for either specie or its own notes. The practice was unpopular with state bankers, who at any time might find the BUS demanding a large portion of their specie. But it kept the value of the wide variety of notes in circulation fairly equal and forced state banks to maintain a conservative ratio between notes issued and specie in reserve.

The growth of banks contributed in another way to the development of currency. Most of these institutions took deposits and gave borrowers credit on their books as well as banknotes. Those with bank credit could transfer funds by check. In cities such as Boston, New York, Philadelphia, and Baltimore, many transactions occurred without any cash changing hands—banks simply moved money from one account to another. Although little remarked at the time, bank accounts were money just as much as banknotes were. As early as 1800, the value of accounts may have equaled the notes in circulation, and the importance of accounts would increase throughout U.S. history. By 2000, cash made up a relatively small portion of the total supply of money in the country.

Congress refused to recharter the BUS when its initial authorization expired in 1811. Hamilton was dead by that time, and Thomas Jefferson's Republicans were in power. Although twenty years of wise management had won over some opponents, among them James Madison, many of the bank's critics remained unreconciled to it, and they could count on the support of certain state banks that were irritated by the limits the BUS imposed on their operations.

The War of 1812 led at least some opponents of the BUS to reevaluate their stance. The war thoroughly disrupted foreign trade, which was, among other things, the chief source of tax revenue. Heavy military outlays further strained the government's credit, and throughout the war, Washington paid its bills slowly if at all. The dislocation of international trade and government finances badly hurt banks, and by 1814 most of them had ceased redeeming their notes in specie. In effect, the country now had as many currencies as it had banks, with the notes of each institution valued according to the institution's reputation.

In 1816 the federal government created the Second Bank of the United States to remedy these problems. This bank was essentially a larger version of the First BUS, with $35 million in capital. Unfortunately, during the 1817–1818 boom, the new institution lent recklessly, and it suffered heavy losses in the 1819 depression. The Second BUS survived only by aggressively pressing its debtors for payment, driving many into bankruptcy and intensifying the economic hardship.

Nevertheless, by the mid-1820s, under the able leadership of Langdon Cheves and Nicholas Biddle, the BUS had managed to create a uniform currency. Supported by the U.S. Treasury, it gradually forced state banks to resume redeeming their notes in specie, and it followed the example of the First BUS in purchasing state notes at close to par and systematically cashing them in for gold or silver. The BUS also issued its own notes, which traded throughout the country at par. The bank provided another critical service by moving money around the country in response to seasonal changes in the demand for it. The United States was an overwhelmingly agricultural country, and many farmers and planters paid their bills once a year, when they sold their harvest. This created a regular jump in the demand for currency that, unless neutralized, could disrupt financial markets. The BUS systematically expanded its credits in the West and South during the fall, financing the movement of crops to market, and then reduced credits as the harvest was sold and borrowers repaid their debts. Inevitably, some state bankers resented the BUS's competition and the limits it placed on their ability to issue notes, but the business community as a whole seemed to have appreciated the benefits of a stable, uniform currency.

In the 1830s President Andrew Jackson struck a blow at federal control over the currency, causing damages that would not be fully repaired for a century. In early 1832 he vetoed the bill renewing the charter of the BUS, and in 1833 he withdrew the government's deposits from the institution, robbing it of its largest source of funds. Opposition to the bank became the central issue around which the new Democratic Party coalesced. In 1836 the BUS ceased to exist when its charter expired. A variety of motives guided action in this regard. Some ambitious businesspeople opposed the limits the BUS imposed on their operations, as suggested earlier. This was particularly true of many New York bankers, who resented the power of the Philadelphia-based BUS. Further, many farmers and planters were suspicious of banking in general, seeing it as an essentially dishonest calling. Most telling, however, was the charge that the BUS was a corrupt aggregation of political and economic power resting on an exclusive government charter that was incompatible with political democracy. The bank's incompetent attempts to defeat Jackson in the 1832 presidential election reinforced this concern.

The demise of the BUS forced the nation to find other ways to regulate its currency. A few individuals, including Jackson himself at times, hoped to limit all transactions to specie, but the country did not have enough gold and silver for this. It needed banknotes. After a period of financial confusion, including two crises in 1837 and 1839 during which most banks stopped converting their notes into specie, a workable—if somewhat ramshackle—system emerged.

After the mid-1830s, states regulated banks and their notes. Policy varied considerably from state to state. Several states to the west and south (Indiana, Missouri, Mississippi) banned banking corporations altogether or chartered only one state-owned institution. Others, such as Louisiana and Massachusetts, strictly oversaw banks to guarantee that they redeemed their notes in specie and, in general, conducted business in a sound fashion. New York devised the most important innovation: free banking. The Empire State would automatically grant a banking charter to anyone who had

enough capital in bonds, allowing the individual to issue notes equal to the value of these bonds. This move legitimized banking by democratizing it, allowing anyone who met objective criteria to organize a bank and issue currency. Free banking also ended the need for the state legislature to authorize every banking charter, a process that was always contentious and often corrupt. By 1860 several other states had adopted free banking, though it was hardly universal.

The federal government's Independent Treasury provided a practical brake on the issuance of notes by state banks. Authorized in 1840 and reauthorized in 1846, the Independent Treasury operated as Washington's financial agent, accepting tax receipts and making payments. It did business solely in specie. Consequently, taxpayers and buyers of public lands needed gold or silver, which they usually obtained by redeeming banknotes for specie. Such redemptions were not as systematic as those of the old BUS, but they did encourage banks to maintain a conservative ratio between notes issued and specie held in reserve.

Although the new system worked, it was not as efficient as the BUS. It had no mechanism to accommodate seasonal shifts in the demand for money and no device to keep banknotes at par. Indeed, discounting the hundreds of types of notes that circulated in the United States became a significant part of most banks' business. The new system might not have worked at all had not the discovery of gold in California in the late 1840s injected a great deal of specie into the economy, partially compensating for the system's inflexibility.

California gold had another important implication for the currency. Although gold and silver had served as money throughout most of history, in practice people used whichever was more plentiful for transactions and hoarded the other. During the early Republic, specie was largely silver. But the role of gold had been growing for several decades, and the influx from California largely drove silver from circulation. In the 1850s the United States had a de facto gold standard, with the value of the dollar fixed at $20.67 to an ounce of gold. (The gold standard uses gold as the standard value for a nation's currency. Since 1971, when the United States left the gold standard, no country in the world has operated under this system. Instead, currencies are based on a floating rate set by market forces.)

The Civil War affected the currency as dramatically as it did most other aspects of American life. The military effort entailed unprecedented spending (several billion dollars), and to pay its bills, the federal government had to abandon specie and issue $450 million worth of paper money known as "greenbacks." Greenbacks were a "fiat" currency that the government made legal tender for payment of debts. (A fiat currency is a worthless paper money that gains its value from confidence in the government's ability to meet its obligations.) The greenbacks were not convertible into specie, and many people feared that they would become worthless, as had paper money issued during the Revolution. But Washington also imposed heavy taxes and devised an extensive system of borrowing to pay most of its military expenses. The quantity of greenbacks was limited, and Washington created a demand for them by accepting them for federal bonds and most taxes. Accordingly, although greenbacks did depreciate against gold, bottoming out in 1864 at two and a half greenbacks to one gold dollar, they remained a viable currency. Gold still played a role, however. Importers had to pay tariffs in the precious metal, and the holders of federal bonds received their interest in gold. Moreover, merchants conducted foreign trade in gold or sterling (Britain was on the gold standard, so its money was "as good as gold"). During and immediately after the Civil War, the United States actually had two currencies: gold and greenbacks.

Other reforms more than compensated for the confusion wrought by this two-tiered system. In 1863 Congress enacted the National Bank Act, which created a universal system of free banking. Anyone with enough capital, in the form of federal bonds, could receive a banking charter and the right to issue notes equal to the face value of these bonds. Banks deposited their bonds with the Treasury and promised to redeem notes on demand with greenbacks. Washington would regularly audit national banks to guarantee that they were sound. When state banks proved reluctant to convert to federal charters, the government imposed a prohibitive tax on their notes, forcing these institutions either to become federal banks or to stop issuing notes and become banks of deposit. However, the new system had weaknesses. The supply of money depended on the supply of federal bonds, not economic conditions. The financial system could not adjust to seasonal shifts in the demand for money. And there was no mechanism to regulate deposits, which by 1867 were twice as great as the supply of paper money. Nevertheless, Civil War–era banking reforms asserted federal control over the currency and, because greenbacks and national banknotes circulated interchangeably, gave the country its first genuinely uniform money.

With the end of the Civil War in 1865, most people expected the country to return swiftly to the gold standard. In fact, the process took fourteen years and generated immense controversy. During the last third of the nineteenth century, prices fell steadily, in the United States and across the world. The decline did not impair American economic growth, but it did impose punishing burdens on debtors, who had to repay loans in ever-more-valuable dollars. Debtors were naturally skeptical of returning to the gold standard, which would entail increasing the value of greenbacks to that of gold dollars—that is, more deflation (the devaluing of currency). The pressures for resumption were also strong, however. Many considered precious metals the only honest basis of currency. More important, during the 1870s, most Western European countries adopted the gold standard, which, by linking all currencies to gold, fixed their value in terms of each other, greatly facilitating international trade and investment. The United States conducted most of its foreign trade with these countries and relied on them for critical investment, and making the dollar "as good as gold" would strengthen these important relationships. After a long political debate, the United States returned to the gold standard in 1879, making greenbacks freely convertible into gold at the rate of $20.67 an ounce.

The return to the gold standard changed the currency in

several important ways. Under that standard, the supply of money ultimately depended not on the quantity of federal bonds or greenbacks but on the country's gold reserve. This reserve, in turn, depended chiefly on the international balance of payments because countries paid their deficits in gold. If the United States ran a surplus, gold flowed in and the money supply expanded. A deficit drained gold and contracted the supply of money. The U.S. Treasury, which was responsible for redeeming greenbacks in the precious metal, held most of the country's gold reserve—a sharp contrast with the situation before 1861, when each bank held specie to cover its own notes.

Advocates of inflation did not give up after 1879 but instead turned their attention to silver. In 1873, Congress had demonetized silver, which, because of plentiful gold supplies, had not actually circulated for decades. Although presented at the time as a rationalization measure to eliminate a type of money that no one used, the initiative was intended to serve more significant objectives. The other industrial countries were also abandoning silver for gold, and the United States sought to align its currency with those of its chief trading partners. Moreover, new discoveries of silver promised to vastly increase its supply; thus, if silver remained legal money, it would eventually replace less-plentiful gold. This outcome would greatly expand the money supply and might well unleash inflation.

For these reasons, those who were hurt by falling prices began to call for "free silver"—the unlimited coinage of silver at the rate of 16 ounces of silver to 1 ounce of gold. Because the market price of silver was roughly one-thirtieth that of gold, this would effectively put the country on a silver standard and devalue the dollar, expand the money supply, and push prices upward. In the 1880s Congress sought to appease silver interests by issuing fixed amounts of silver coins and silver certificates (notes backed by silver). Their limited quantity allowed the United States to maintain their value against gold. But the severe depression from 1893 to 1897 increased the pressure for more currency and higher prices even as it created federal budget and national trade deficits that drained the country's gold reserve. To limit the quantity of notes eligible for redemption, protect the reserve, and maintain the gold standard, Congress ended all silver coinage, a move that infuriated silverites (individuals who wanted to use silver as legal tender). In 1896 the Democrats nominated William Jennings Bryan for the presidency on a platform of free silver. The Republican candidate, William McKinley, took up the challenge, warning that an unlimited coinage of silver would drive gold from circulation, devalue the dollar against European currencies, and create financial chaos. The Republicans won a crushing victory, guaranteeing gold's central role in the currency for the next generation.

After 1900 debate on the currency shifted from its metallic basis to the structure of the banking system. The discovery of gold in Alaska and South Africa and the development of new techniques for refining it greatly increased the supply of the precious metal and inaugurated a period of mild but steady inflation worldwide, defusing pressures for silver currency and greenbacks. Moreover, the public increasingly recognized that most of the nation's money was in bank accounts, not coins or notes, and that the banking system had serious weaknesses. No mechanism existed to accommodate seasonal shifts in the demand for money, which were often severe during harvest time. In addition, reserves were scattered, so it was hard to mobilize money during a financial crisis. The inability to mobilize money meant that if depositors lost confidence in a bank and demanded cash for their deposits—that is, if they started a run—the bank might well fail even if its assets exceeded its liabilities. A severe financial panic in 1907 highlighted the need for reform.

The Federal Reserve Act, passed by Congress in 1913, altered the currency almost as drastically as Civil War–era reforms had. It established a dozen regional reserve banks in which all national banks and most leading state banks would hold stock. These Federal Reserve banks would give banks within their regions currency or credit in exchange for "real bills" (short-term commercial loans secured by goods), federal obligations (bonds), or gold. Commercial banks would keep their reserves on deposit with the reserve banks, which, in a crisis, could advance funds to any institution in trouble. The Federal Reserve banks would issue their own notes, gradually replacing the motley collection of greenbacks, notes from national banks, and silver certificates in circulation. In the long run, the supply of money would still depend on the supply of gold, but reserve banks could cope with seasonal shifts in the demand for currency by purchasing (rediscounting) real bills from member banks to finance the movement of goods. The repayment of these loans would withdraw money from circulation once it was no longer needed. A central board, appointed by the president and headquartered in Washington, would oversee the new Federal Reserve system (commonly referred to as "the Fed"). Bankers themselves largely authored these reforms, which were designed to reinforce the financial system, not remake it. But progressive reformers such as Bryan and the lawyer Louis Brandeis were able to insist that the politically appointed board in Washington have ultimate responsibility over the system.

World War I further changed the American and, indeed, the world monetary systems. The combatants abandoned the gold standard, and precious metal gravitated to the United States as the Allies used gold to pay for military supplies, greatly increasing both the supply of money and prices in the United States. After the country itself entered the conflict in 1917, Washington temporarily banned the export of gold, effectively suspending the gold standard. (Gold continued to circulate domestically.) To finance the country's military effort, the Federal Reserve purchased large quantities of federal bonds with its notes, further expanding the money supply and pushing prices upward. Overall, prices in the United States more than doubled between 1914 and 1920. The architects of the Federal Reserve had assumed that the gold standard would continue to govern international monetary relations and that real bills would constitute the majority of the Fed's assets. The war undermined both assumptions, forcing Fed officials to rethink monetary policy.

In the 1920s the United States and leading European powers sought to re-create the monetary stability of the prewar

era. The United States ended the embargo on gold exports in 1919, and a sharp recession in 1920 and 1921—a result, in part, of Fed efforts to halt inflation by raising interest rates—reversed some of the wartime rise in prices. But the other industrial nations only gradually followed the American example. They had suffered more inflation than the United States and had lost much of their gold reserves. Britain, the most important of these nations, returned to the gold standard only in 1925. Even after that year, the dollar had a special place in the international system. The United States had the world's strongest economy, and it consistently ran a surplus on its balance of payments (a statement that summarizes economic and financial transactions between banks, companies, private households, and public authorities in comparison with those of other nations on an annual basis). Dollars were at a premium, and some countries covered balance-of-payment deficits by transferring dollars rather than gold. The dollar had partially replaced the precious metal in international finance. This freed the United States from the day-to-day limits the gold standard imposed on monetary policy and forced the Federal Reserve to devise new criteria for action. The central bank, working through the embryonic Open Market Committee (OMC), managed policy by trading federal securities in the open market. Purchases injected money into the financial system; sales sucked it out. But open market operations represented a tool, not a plan. In practice, Fed policy followed no hard-and-fast rule but the judgment of its leaders, who manipulated interest rates and the money supply in ways that they hoped would promote economic growth and financial stability.

Their judgment proved unequal to the Great Depression. The stock market crash in the United States and comparable disasters in Europe deranged financial markets and set off a cascade of bankruptcies. Unsure how to respond and internally divided, the Fed vacillated between paralysis and adherence to the verities of the gold standard. In 1931 it raised interest rates to curtail gold exports, a move that may well have choked off a recovery. The supply of money contracted by a third between 1929 and 1933, hurting every type of business and forcing prices and production down sharply.

The disaster forced further changes in the currency. After taking office in 1933, President Franklin D. Roosevelt gradually devalued the dollar from $20.67 to an ounce of gold to $35, and his administration banned domestic ownership of gold entirely. Gold coins disappeared from circulation, replaced by paper. Though the precious metal continued, in theory, to back the currency, the link was tenuous. Gold mattered only for international transactions, and the Roosevelt administration had overvalued the precious metal, so foreigners were eager to sell it to the United States at $35 an ounce. In practice, the dollar was a fiat currency, worth what it could buy in the marketplace. The federal government also insured deposits with commercial banks, largely eliminating the danger that bank runs could seriously damage financial markets. Finally, in 1935, Congress reformed the Federal Reserve system, centralizing authority in the Federal Reserve Board in Washington and giving the Open Market Committee formal authority over monetary policy.

During World War II the Federal Reserve financed the American military effort by purchasing large quantities of federal bonds. This policy increased the money supply and drove prices up 50 percent between 1939 and 1948, but the increase was less than that during World War I because the federal government levied stiff taxes to pay for the war. The main wartime innovations in economics involved international finance. Most economists and government officials believed that in the 1930s, the dislocation of international finance—devaluation, payments crises, and currency controls—had contributed substantially to the Great Depression. Accordingly, the Allies devised a plan to rebuild the international monetary system once the war was over. They sought stable exchange rates and readily convertible currencies but did not want to tie their money to the supply of gold—that is, they wanted the advantages of the gold standard without its disadvantages. To this end, the Allies adopted a system of "pegs," fixing the value of their currencies in terms of dollars, which were "as good as gold," and settling deficits and surpluses with the American currency. International agencies, most notably the International Monetary Fund (IMF), would finance countries with deficits, and governments in dire circumstances could regulate the flow of money across their borders. Other governments that accumulated dollars could convert them into gold at $35 an ounce.

This system worked fairly well for 20 years. The United States ran trade surpluses that kept the dollar strong, and American foreign aid and investment allowed other countries to pay for imports and amass dollar reserves large enough to expand their own currencies in line with production. As a practical matter, dollars served the role that gold once had.

Domestic policy was less consistent. After 1945, the Fed kept the interest rates on government bonds low, purchasing them itself if private buyers would not. Although popular with the Treasury, this policy forced the Federal Reserve to expand the money supply rapidly if either the demand for credit or the government deficit rose sharply, fueling inflation. That is exactly what happened after the outbreak of the Korean War in 1950. After long negotiations with the Treasury, the Fed changed its policy emphasis in 1951: Henceforth, it would set interest rates and supply currency, first and foremost, to secure high employment and stable prices. The international balance of payments and government finances remained a significant but secondary consideration.

Between 1968 and 1973, a series of crises destroyed the international system. Rising prices in the United States (a side effect of heavy military and social spending, financed in part by currency expansion) as well as the growing efficiency of foreign competitors (chiefly Japan and Germany) created large payments deficits that Americans paid with dollars. Other countries accumulated stocks of the U.S. currency vastly greater than America's gold reserves. The United States could have raised interest rates and cut government spending to force prices down and eliminate the payments deficit, but no political support existed for this course, which would have entailed lower growth and employment rates, at least for a while. Further, the United States could not simply devalue its currency because the dollar was the centerpiece of the entire

financial system. In 1973, after a series of increasingly severe crises, the industrial democracies ended all pegs and allowed their currencies to float, or find their value in trading in financial markets. Washington formally severed the last link between the dollar and gold, ceasing to value its currency against the precious metal. After 1973 the United States had a fiat currency, worth only what it could buy in the marketplace. In 1975 Americans gained the right to own gold, whose price would fluctuate like that of other commodities.

The dollar fared badly in the decade after 1973, during which consumer prices increased 130 percent—the most rapid rise in the country's peacetime history. Many factors conspired to push prices up, but ultimately, the problem reflected a lack of political will. The Federal Reserve could contain prices by raising interest rates and slowing the growth of the money supply, but in the short run, this approach would create a recession, which political leaders refused to tolerate.

Eventually, the pain of inflation eroded the resistance to strong measures. Starting in 1979, the Federal Reserve, under Chair Paul Volcker, embarked on a decisive campaign to tame inflation, raising interest rates to historical highs and strictly limiting expansion of the currency. These moves triggered a severe recession, but after 1982 inflation slowed dramatically and growth resumed. The experience vindicated Volcker and the Fed, which subsequently enjoyed much greater leeway in pursuing decisive measures to defend the currency's buying power. Although in its mechanisms quite different from the gold standard, this policy had the same objective: establishing a stable currency.

Alan Greenspan, Volcker's successor, has chaired the Federal Reserve Board since 1987. He continued to focus on monetary policies designed to fight inflation. Between the terrorist attacks of September 11, 2001, and June 2003, the Federal Reserve cut interest rates thirteen times in an effort to stimulate an economy that had been in a recession since March 2001. By late June 2003, Greenspan reported positive indications that the economy was improving but warned of some weaknesses that persisted.

—Wyatt Wells

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Economic Theories

Although humans throughout time often wondered about the nature of buying and selling, only in the modern world did thinkers try to understand and explain this process in a systematic manner. The rise of economic theory developed when the world moved from ancient and medieval times into the modern era as the process of buying and selling became more complex. There seemed little mystery to economics in a world where the vast majority of men and women tilled the soil or brought wealth up from under the ground. A small group at the top—the emperors, kings, and nobles—drew the greatest benefit from this wealth. In this dual world, only the trader and the merchant who brought goods from distant lands seemed to hint at the existence of another reality. They pointed to an economics that moved past mere subsistence to the production of goods.

The steady stream of items shipped west by caravan and caravel from exotic places such as India, China, and Africa in early modern times sparked a revolution that the best economic theorists of the last centuries have attempted to comprehend. Trade with the Orient and the subsequent rise of manufacturing in Western Europe opened a way for a new economic system, later known as capitalism. People once tied to the soil in subsistence agriculture could join the ranks of the middle class. Through trade and manufacturing, ambitious individuals could create more wealth for themselves and their nations than they had ever dreamed possible.

At the very moment that the economy of Western Europe began changing so dramatically, British subjects founded the thirteen original American colonies. Strung along the Atlantic shore from Massachusetts to Georgia, the people of these struggling colonies seemed to redefine economics every day just to survive. The first people who sailed west to Jamestown, Virginia, in 1607 remained very much a part of the old economic order. They hoped to find quick wealth in the New World and return to take their place as honored members in the English hierarchy. They came from a world still tied to its medieval past. Birth meant everything, and wealth served as a tool to move individuals into the highest reaches of the social order. So, ambitious young people headed for the James River, hoping to find the gold and silver that they could take back to England as noble heroes. Many traveled west reading the works of English geographer and author Richard Hakluyt, who wrote that even if the explorers failed to find gold and silver, surely they would discover a way west to the Orient and its wealth. They might even find a way to make exotic goods such as glass or silk in Virginia, and if nothing else, the fur trade would be profitable.

The Jamestown settlers quickly discovered the lack of precious metals in Virginia. Land offered the only opportunity for accumulating wealth, but the land required cultivation. Capt. John Smith, a soldier of fortune who helped found Virginia and who explored Massachusetts, explained this new reality clearly. The English colonies in America would become a place where ambitious and hardworking men and women could make a good life for themselves as farmers, craftspeople, and traders. Although he could not phrase it as eloquently as later theorists would, Captain Smith had told the world that capitalism would rule the English colonies from the start.

For the next 150 years, the American colonists struggled to find the wealth in the land, as Smith had first suggested. Freedmen and freedwomen, servants, and slaves carved out tobacco and rice plantations throughout the South; tight-knit communities of farmers in New England and larger family farms and trading towns in the Middle Colonies dotted the landscape throughout the north. To the west, the rich land stretched as far as the eye could see to the Mississippi River and beyond to the Rocky Mountains and the Pacific Ocean. With deep harbors and good forests all along the Atlantic shore, shipbuilding developed less than a generation after the founding of the first colonies. American vessels took the goods of the hardworking colonists—tobacco, rice, wheat, corn, fruit, livestock, and naval stores—not just to the English homeland but also to Africa, the Mediterranean, and the West Indies. When England tried to rein in its colonies economically during the 1760s through the Proclamation of 1763 and the enforcement of the Navigation Acts, it was too late. The new economy had given rise to a new politics. The colonists

declared their independence in 1776, and a new nation based on westward expansion, trade with the world, and the limitless production of goods was born.

Mercantilism Versus Capitalism

It is not surprising that when European economists in the sixteenth and seventeenth centuries first confronted the new world of production, trade, and sale, they struggled mightily to understand it and generally interpreted it in light of the past. For a long time, wealth had come from a limited supply of land and workers. Now, however, large-scale farming, world trade, and manufacturing provided the keys to wealth. The first modern economic theorists, known as mercantilists, tried to comprehend the new economy in terms of the old. They argued that a limited amount of wealth existed in the world, and that every nation had to do all in its power to acquire wealth, especially in gold and silver. Establishing colonies remained one of the best methods to attain wealth. These outposts provided raw materials and farm produce to the homeland, which, in turn, sold manufactured goods back to the colonies. The home country would be assured of maintaining a favorable balance of trade by always exporting more goods than it imported. The colonies would remain cash-poor to keep the gold and silver flowing home.

A group of French philosophers known as the Physiocrats first questioned the theory of mercantilism. Writing just as France lost its great empire in the New World to England, the Physiocrats argued that foreign trade was more a necessary evil than the prime factor in a strong economy. Even if much wealth could be gained with trade between a home country and its colonies, the constant wars necessary to maintain the empire offset the gains, as the French had learned all too well in the Seven Years' War. Even more important, the Physiocrats contended, mercantilists failed to grasp the essential fact of modern economic life: It is impossible to sell without buying at the same time. Similarly, individuals could accumulate wealth more easily by manufacturing goods instead of just by hoarding gold and silver.

The Physiocrats remain famous to this day for coining the term *laissez-faire.* According to the laissez-faire doctrine, a government need not take strict control of every facet of the national economy. Instead, the entrepreneur must be allowed to develop production and other means of wealth as he or she sees fit, without the interference of the state. Likewise, the government must consider private property sacred, and the individual must control his or her own property. Ironically, the Physiocrats remained staunch supporters of absolute monarchy despite their call for respecting individual property rights.

The Physiocrats were the first to question mercantilism in theory, but the American colonists were the first to question it in practice. Britain's reinvigorated mercantilist policies in the 1760s and 1770s led a generation of political leaders in America to question their ties to the empire. They argued that the drive of settlers into the Ohio Country, the development of manufacturing in the Hudson River valley and northern Virginia, and trade on the high seas with the entire Atlantic world should not be stifled in service to Great Britain. Although these early leaders are most remembered for their demands for political liberty, they also argued for an end to mercantilist policies that crushed the development of the American economy as a way to enrich the British Empire.

The founders of the American nation won the support of Englishman Adam Smith, the greatest economic theorist of his day, who published *The Wealth of Nations* in 1776—the very year the colonists declared their independence. Building on the work of the Physiocrats, Smith agreed that colonies drained a nation of wealth through constant wars, but he went even further by laying out the clearest explanation of how the modern economy in his era truly worked. He broke the last ties to the Middle Ages through his clear emphasis on production as the source of wealth. He reminded everyone that few people in the civilized world provided for all of their needs through their own labor. Most fulfilled their wants through the exchange of goods. Money had become the necessary means of exchange in this world of changing goods. Further, he stated, the value of money was not a constant but instead depended on the supply and demand of goods. When supplies increased and demand decreased, prices went down. When the situation reversed, prices soared. The ever fluctuating relationship between supply and demand was held in balance through a mysterious process that Smith could only describe as the "invisible hand." In this new capitalistic world, he contended, the only role for government involved making certain that effective competition existed. Smith suggested that a government could do this through establishing equitable taxation and a solid banking system.

Smith's ideas launched the classical era in European economic thought as theorists joined the attempt to discover the underlying laws that governed the modern economy. David Ricardo emphasized the value of free trade and argued that no restrictions of any kind should be placed on it. In contrast, Thomas Malthus believed that the tie between reproduction and the food supply was the basis for the essential law governing economics. He believed that famine would inevitably occur, since population increased geometrically whereas the food supply only increased arithmetically. John Stuart Mill developed a utilitarian philosophy that stressed the development of the individual and the progress of all humanity. He taught that correct actions in every area of human life, including economics, had to increase both the quality and the quantity of human happiness. In economics, he argued that a method had to be discovered that would equalize the wealth of business owners and workers alike.

In the United States, a politician, not a philosopher, embraced the challenge of trying to understand the modern economy. Alexander Hamilton, the first secretary of the Treasury, laid out a plan for the economic stability and growth of the United States that put the best theory of the day into practice. Like Smith, Hamilton saw a world where people no longer produced all they needed to survive. Even though most Americans still lived on farms, he envisioned a day when manufacturing would be equally important in the nation. Hamilton proposed measures for the national government to

strengthen the changing economy that included paying the war debt of the nation and the individual states, establishing a national bank and a stable currency, and encouraging manufacturing through the use of high tariffs, premiums, and other means.

Protectionism, Free Trade, and Communism

From Hamilton's time onward, economic theory in the United States had political implications. If economists could determine how the economy worked, then the government could pursue appropriate actions to foster its growth or refrain from actions that might do it harm. The first generation of American economists struggled to understand the economy and then to advise their nation on the best legislation for the future. Daniel Raymond, a Baltimore attorney, agreed with Hamilton that a distinction had to exist between national and personal wealth. National wealth consisted of a country's ability to produce goods. The government had to do all in its power to increase production through high tariffs. Frederick List, a German economist who spent several years in the United States, agreed with Raymond but added that once the nation could produce on its own, the government had to pursue free trade policies and end all tariffs. Henry Carey, the son of Irish immigrants who settled in Philadelphia, believed that a balance had to be struck between land, labor, and capital. At first, Carey argued that the government ought to maintain the balance through free trade policies, but he later came to believe that only protectionist policies could preserve the balance.

Throughout the early national period, the debate over economics in the United States revolved almost exclusively around the issue of protectionism. Henry Clay's American System called for ever higher tariffs to encourage Northern manufacturing along with government support for transportation projects in the West. In contrast, Southern politicians depended almost exclusively on cotton production and export for their livelihood and thus demanded national free trade policies in order to import cheap manufactured goods into their states. The conflict over protectionism and free trade in part led to the Civil War, which ultimately strengthened the Northern economy while ruining the Southern one.

As the war raged, few Americans realized that many economists in Europe had moved far beyond the question of protectionism versus free trade. The German philosopher Karl Marx had proposed a new economic system known as communism that could potentially overturn capitalism. Inspired by the metaphysics of Friedrich Hegel and with the help of fellow philosopher Friedrich Engels, Marx argued that history continues as a never ending struggle between the wealthiest and poorest classes. Periodically, the opposing classes destroy each other in a great synthesis, which once again gives rise to a new class struggle. By the nineteenth century, feudalism had collapsed and capitalism had taken its place. The class struggle was now waged between the wealthy bourgeoisie and the poor workers, collectively known as the proletariat. Marx urged the proletariat to rise up against their bourgeois oppressors and take control of the means of production. Once the workers had total control of the economy, he argued, the class struggle would at last come to an end, ushering in an era of permanent equality throughout the world.

From Civil War to World War

The American nation changed so much after the Civil War that some thinkers claimed they could barely recognize their own country anymore. Once a land of small farmers, the United States developed into a nation of heavy industry, massive immigration, and booming cities. The struggle that Marx had predicted between capital and labor seemed to be playing itself out in the many bitter strikes that plagued the nation's factories, mines, and railroads. Popular writers such as Mark Twain decried the shift from antebellum agrarian values to the new obsession with money, power, and confrontation. Twain dismissed the post–Civil War era as the "Gilded Age," in which the rich grew ever richer and the poor so much poorer. Henry George, another popular writer of the late nineteenth century, went further than Twain in analyzing why the American nation and underlying economy seemed to be coming undone. In *Progress and Poverty,* published in 1879, George argued that the owners of real estate remained the principal cause of the imbalance in American society. They had created the gap between the rich and the poor by raising rents, creating scarcity, and pursuing their own good at the expense of the nation's good. George proposed a single tax on rental income as a remedy for all modern ills; the tax could pay for the many government services desperately needed by the poorest workers. He also advocated government control of the railroads and all public utilities.

Although less well known in their own country than Mark Twain or Henry George, several American economists struggled with the same questions that plagued the more popular writers during the late nineteenth and early twentieth centuries. These thinkers continued to lay out the best explanations possible for how capitalism actually worked, while at the same time offering opinions on whether the government should do anything to lessen the widening gap between the rich and the poor. One group of economists continued the traditional approach to these questions by seeking the underlying principles of buying and selling. Another group of theorists took a more critical look at capitalism and described it in terms of its institutional development over time. Still others sought to explain all economic transitions in terms of mathematical formulas.

A mathematician and astronomer named Simon Newcomb led the way in searching for the underlying principles that governed the modern economy. He became the first economist to distinguish between the flow of income and the fund of capital. He described this process as the "wheel of wealth," in which money flowed in one direction while goods and services flowed in another. Newcomb even formulated a mathematical equation of exchange that assisted later economists in their struggle to understand the modern economy. But despite his innovations in economic theory, he totally opposed any attempt to use the power of government to

equalize wealth. A staunch supporter of laissez-faire economics, he described the brutal competition between the rich and poor in terms of the Social Darwinism popular in his day.

Like Newcomb, Francis A. Walker agreed that economics had to become a true science and not simply a tool for politicians and reformers. As the first president of the American Economic Association, he became famous for saying that economics was meant to teach and not to preach. However, Walker did believe that the government could take significant actions to end both unfair competition and the growing inequalities in American society. He advocated increasing the money supply in order to raise wages and thus alleviate poverty. He questioned the gold standard (whereby a nation's currency is valued on the price of gold), one of the first economists to do so. He believed that the limited supply of gold in the world could not be used to gauge wealth in such a rapidly developing economy.

Newcomb and Walker sought to discover the underlying principles of capitalism, but Thorstein Veblen took a historical and much more critical approach to modern economics. Influenced by the evolutionary science of Charles Darwin and the pragmatic philosophy of John Dewey, he argued that economists should study all economic institutions as they have developed over time. For Veblen, it was simply impossible to discover immutable laws at work in economics because human institutions constantly changed. Instead, he proposed a new kind of evolutionary economics that simply described past and present business practices, rather than searching for underlying philosophical or mathematical principles.

In his most famous work, entitled *The Theory of the Leisure Class,* published in 1899, Veblen explained how humanity had passed through the four great economic stages of savagery, barbarism, handicrafts, and the machine process. The last stage had produced more wealth than ever before accumulated in human history. Wealthy factory owners had acquired so much money that they no longer needed to work and had instead become a leisure class. This new class maintained its position in society through conspicuous consumption of goods and services. Veblen held out no hope of ever toppling these captains of industry, since they had constructed monopolies in order to keep a stranglehold on the economy and the nation. In his opinion, only a revolt of the technological engineering class could save America and the world from the total control of the leisure class.

Wesley C. Mitchell, another institutional economist, agreed with Veblen's distinction between the leisure class and the working class. However, unlike Veblen, Mitchell tried harder to explain how capitalism actually worked. He viewed the modern world as, first and foremost, a money economy. Money no longer served simply as a means of exchange but had instead become an important kind of economic activity in and of itself. Wealth and poverty no longer simply represented productivity and hard work; rather, they had become linked to an adequate or inadequate supply of income. Mitchell also studied modern business cycles and attempted to analyze the relationships between prices, costs, and profits. He tried to understand how these complex interrelationships led to the boom-and-bust cycle that had plagued capitalism from the start.

John R. Commons, a professor of economics at the University of Wisconsin, became the third important institutional economist at work in the United States in the early twentieth century. He agreed with Veblen that economists had to study economic institutions as they developed across time, but he added that the law always had to be studied as the counterpoint to a purely historical description. Commons also disagreed with any economist who tried to argue that economics operated as a pure science, devoid of any attachment to politics. Instead, he believed that economists had to work hand in hand with elected officials to achieve a just society based on a more equitable distribution of wealth. Commons himself became an adviser to Wisconsin's progressive governor Robert LaFollette. He helped to craft legislation for the state that regulated the public utilities and provided worker's compensation and unemployment insurance. Above all, Commons hoped that economics would someday move beyond a mere description of commodities and exchange and become the study of real transactions between competing groups in a society.

Although the institutional economists made a name for themselves in the United States, two other American economists who ventured into the realm of pure mathematics won the attention of their European counterparts. John Bates Clark became the first American economist to receive worldwide attention for using mathematics to develop a marginal theory of value (an economic theory based on exchange rather than production or distribution). His theory operated as part of an overall attempt to explain economics in a more dynamic way than anyone had ever before done. He proposed a synchronization economics in contrast to advanced economics by explaining that the existence of a capital fund makes it possible to consider production and consumption as synchronized. Irving Fisher took the drive toward mathematical formulas in economics even further, and most Europeans considered him the most important economist ever to come from the United States. He proposed and defended both a utility theory (in which utility determines value) and an operational theory of cardinal utility (in which total utility maximization determines value). He also advanced a quantity theory of money that stated the money in circulation times its velocity equaled the price level times the volume of trade. Business cycles could themselves be explained in relation to monetary fluctuations.

The World According to Keynes

Although institutional economists such as Veblen had raised concerns about the essential nature of capitalism, most American thinkers in the early twentieth century accepted the economic system as essentially sound. Their great concern involved the discovery of the proper descriptive and mathematical explanations necessary to understand how capitalism actually worked. Similarly, most Americans remained satisfied with an economic system that made an unending array of consumer durable items (such as cars, radios,

and household appliances) available to them on easy credit terms. In contrast, many European thinkers had come to doubt the future of capitalism and its ability to survive the many traumas of the new century. The shocks of World War I, the Russian Revolution, and the Great Depression only increased these doubts and sparked a desperate search to find a way to prop up an apparently failing system. Although history seemed to point to the inevitable downfall of capitalism and the slow rise of communism, economists and governments alike might yet find a way to make it a viable system for at least a while longer.

The English economist John Maynard Keynes became the towering figure in the drive to rescue capitalism in a chaotic world. He did this by analyzing nearly every political and economic crisis that plagued the British Empire from World War I to the beginnings of the cold war. His analysis proved so powerful that his opinions became orthodox economic theory in most Western nations, including the United States. He reminded governments that their policies had a profound effect on the overall strength of national economies and the world economy. The days of laissez-faire economics had ended, and now governments had to lay out their economic strategies carefully in order to keep capitalism on an even keel. He first made this point in *The Economic Consequences of the Peace,* published in 1920. Keynes argued that the heavy reparations required of Germany after World War I, along with the loan repayments demanded by the Allied powers, would lead the world economy to ruin. When the Great Depression struck, he urged governments to go off the gold standard and to begin deficit spending in order to get their failed economies moving again. Finally, as World War II drew to a close, he advocated free trade among nations and even recommended the creation of a European economic union.

The Death and Rebirth of Capitalism

By the 1950s the American economic system seemed to teeter on the brink of the world dominance that had eluded it in the chaos of the Great Depression and World War II. The nation's industries had successfully retooled, and consumer items once again poured out of the nation's factories. In the next 20 years, the economy was transformed into one driven by services as much as goods and through the development of computer technology that had implications for the growth of new businesses never before imagined. However, the triumph of capitalism was not a complete one, since communism still held sway in the Soviet Union, Eastern Europe, and China. Despite the dominant influence of the United States in world affairs, communism appeared to be on the rise in Asia, Latin America, and Africa.

Most American economists followed John Maynard Keynes without question and continued to search for ways that governments could keep capitalism going in a world that seemed to threaten it more each year. Even economists who did not doubt the value of capitalism worried that some essential flaw in the system would someday bring it to ruin. Throughout the West in the postwar years, it became popular to quote the Austrian economist Joseph A. Schumpeter. In *Capitalism, Socialism, and Democracy,* published in the darkest days of World War II, Schumpeter had predicted that capitalism would fail because of its very success. The entrepreneurial elite who gave rise to new ideas and new companies would inevitably be replaced by uninspired managers and absentee stockholders. The creativity so necessary in capitalism would die out, he said, and salaried employees would be left running aging companies. Even worse, the new business leaders would help bring the whole system crashing down because they would prove to be equally poor political leaders.

Harvard professor John Kenneth Galbraith became the best-known American economist of the mid-twentieth century by joining the ranks of those who criticized capitalism. He openly declared that capitalism was not the great success story of the modern world. Instead, he contended that it had failed to prevent the dangerous concentration of power that had plagued the world since the late nineteenth century. Monopolies had given way to oligopolies that only the countervailing power of labor unions, consumer groups, and government regulation could control. Galbraith scolded Americans who believed that their affluent society had become the envy of the world. Although the nation remained wealthy in consumer goods, it had also become increasingly poor in its lack of the public services that made life worth living. Following his mentor John Maynard Keynes, Galbraith remained a staunch advocate of government intervention to control the growing power of oligopolies and improve the quality of life for all citizens, especially the poor.

Although few economists supported or agreed with the work of the popular Galbraith, most remained staunchly in the Keynesian camp and continued to look for ways that governments could strengthen the overall economy and ease the burdens on the poorest citizens. Only the economists at the University of Chicago seemed willing to question the prevailing orthodoxy. Collectively known as the Chicago School, economists Frank H. Knight, Jacob Viner, Henry Simons, George Stigler, and Milton Friedman argued for an end to government intervention in the economy. Deeply influenced by the ideas of the Austrian economist Friedrich von Hayek, the Chicago School defended democracy and individual liberty as much as they defended capitalism. They argued governments could set monetary policies that controlled the money supply and interest rates, but beyond that, individuals had to trade freely and as they saw fit in the open marketplace.

Milton Friedman emerged as the most influential member of the Chicago School, especially after winning the Nobel Prize in economics in 1976. He consistently stressed that free markets and the freedom of the individual were inseparable. The complex modern economy could only work successfully if individuals made most of the decisions regarding their own private property. If governments exercised too much power, then capitalism and democracy would both be destroyed. Friedman urged politicians everywhere to abandon the economics of Marx and Keynes and let free markets peacefully link all the nations of the world in a new birth of capitalism and democracy.

As the world heads into the twenty-first century, the debate continues between economists who call for increasing government intervention and those who encourage a more laissez-faire approach. One area of agreement involves the growing reliance on the science of econometrics, which uses statistics and mathematical formulas to explain economic activity. But even with the great strides made in econometrics, there remains something indefinable about the complex system once known as capitalism and now called free market economics. If the past is indicative of future tendencies, then this system may continue to stay one step ahead of the best economists as they attempt to explain it.

—*Mary Stockwell*

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Education

Socioeconomic and political events from the 1700s to the 2000s have dictated the relationship between the U.S. government and primary and secondary education. In the eighteenth and nineteenth centuries, the federal government did its best to avoid directly interfering with education, leaving it as a state and local priority. But by the middle of the twentieth century, the federal government assumed a more active and direct role in education; by the end of that century, it had passed myriad laws that regulated education in the states and localities. It seemed that power increasingly shifted away from the states and localities over the years. The government's relationship with education involved continually changing policies, and educational policies grew piecemeal. Those policies have been shaped by social, economic, and political events both at home and abroad and have culminated in a large amount of legislation intended to complement both higher and lower education.

After the United States acquired its independence, people assumed that public education was an essential feature of a republican government based upon the people's will. Indeed, the founding fathers believed that education was the backbone of republicanism. But despite their conviction, neither the Articles of Confederation nor the Constitution they crafted defined the government's role in education, and the government had no centralized educational plan during the late eighteenth century and throughout the nineteenth. However, the organization of public education would be elaborated when the nation expanded westward.

Education in the Colonial Period

Americans during the colonial period came to distrust the economic system of mercantilism. They struggled with issues of landownership, settlement, and taxation. The ideas of the Enlightenment, a broad European scientific and intellectual movement that pushed for a more rational approach to life, strengthened the colonists' ideas of free will, equality, and liberty and advanced the cause of education. Literacy grew in the colonies during the late colonial period. The Great Awakening, a religious/intellectual movement in the early to mid-1700s, also strengthened the colonists' educational ambitions. Negative changes in their economy on the eve of the American Revolution helped to undermine their views on traditional socioeconomic ideas and prepare them for revolution.

Localism existed in education during the years after independence. The founding fathers believed that education remained the responsibility of the state and municipal governments. Although, as mentioned, the U.S. Constitution contains no explicit reference to education, some of the state constitutions adopted before 1800 did. And as the nation grew with the addition of more states, it became somewhat of a tradition to include educational provisions in the state constitutions. Still, the founding fathers feared that leaving education in the hands of private families, churches, and local communities would prove dangerous to democracy. Since the Constitution was silent in this regard, the power to establish schools fell directly to the states.

Education in the Postindependence Period, 1776 to the Mid-1800s

The American Revolution and the subsequent market revolution of the early to mid-1800s called for new approaches to education and teaching. "Common schools" attempted to meet the social, political, and economic needs of the new nation. These schools promoted the values of patriotic nationalism that helped unite the colonies into a nation. Teachers in these schools taught students about competition, ambition, and achievement to prepare them for the business world. But Americans remained divided over the educational agenda. Some wanted a universal education that reinforced the tenets of liberty and equality for all; others believed that public education should control the selfish impulses of the individual and advocate the ideas of the Revolution.

The Land Ordinance of 1785 and the Northwest Ordinance of 1787 marked the beginning of the federal government's involvement in promoting public schools as a form of internal improvement. Some scholars questioned the government's motives in these two ordinances. Sponsors of the ed-

ucational provisions embodied within these measures included Massachusetts residents who wanted to persuade fellow northerners to buy lands and migrate to the West. In the 1785 ordinance, the only reference to education was the general comment that it should be encouraged.

The Land Ordinance of 1785 provided that the Northwest Territories (the area bordered by the Great Lakes and the Ohio River) should be divided into townships. The revenue earned from the sale of these lands helped support education. Throughout the 1800s, the federal government used land grants to fund public education, granting close to 100 million acres to the states for public schools. The Northwest Ordinance of 1787 reinforced the vital link between good government, schools, and morality. The legislation echoed the sentiments of the times with its edict that "Religion, Morality and Knowledge [were] necessary to good government and the happiness of mankind. Schools and the means of education shall forever be encouraged." But by 1787 the United States had the Constitution that reshaped the goals of the nation. Federal support of public education became abstract and symbolic. Thus, the major responsibility for schools increasingly shifted to the states. The common school was considered fundamental to the success of the new nation, and the government advocated its extension.

Federal assistance to education in the nineteenth century did not follow a rational model of finance and governance. Rather, the movement of money from the government to education reflected the politics, ideological assumptions, and economic conditions prevalent in the United States at the time. During the early 1800s, changes in the economy convinced many Americans that educational reform was needed. The growth of the cash economy and the withering away of the barter and trade system made many citizens demand that universal public education be firmly established so that everyone could take advantage of new opportunities. More Americans entered the cash-based market economy, and many believed that the future of the nation's children depended on an appreciation of hard work, competition, determination, and achievement. The original goal of teaching people how to function as good citizens in a new republic had given way to the goal of teaching them how to compete in the growing market society.

The changes in the economy affected members of the middle class most dramatically; for them, success and failure in that economy took on increased importance. They began to embrace the common school in droves. In general, working people, both skilled and unskilled, started to accept the idea of the common school and its emphasis on teaching the values of hard work and competition. Urban Americans acknowledged the value of a common school education because they lived in the market economy, and this helped change their attitudes about their children's future. They realized that sporadic and remedial education would not accomplish much within this new economy. To many, the common school made sound economic sense. But some businessmen believed it limited the pool of children available to work in factories, and they often opposed it for that reason.

Education in the Middle and Late Nineteenth Century

More federal educational legislation was enacted during and after the American Civil War (1861–1865) and helped signal the start of a transition in education that would reach its peak during the first decades of the twentieth century. The government authorized public land grants to the states for the creation and maintenance of agricultural and mechanical colleges. Congress passed the Morrill Act, also called the Land-Grant College Act of 1862. The primary objective of this measure was to provide funding for institutions of higher learning in the states, and according to its terms, every state would receive 30,000 acres of federal land for the establishment of programs associated with agriculture and the mechanical arts, including engineering and home economics. (The Second Morrill Act of 1890 provided financial grants to support instruction in the agricultural and mechanical arts.) Unfortunately, things did not go as well as the government had planned with the Morrill Act of 1862. Speculators bought a large portion of the allotted lands, which meant that the states received very little for their territory. Congress later reinforced the Morrill Act with similar measures in order to provide much-needed additional funding for the land-grant institutions.

The Morrill Act of 1862 donated public land to the states and territories, property that could be used to set up colleges for the benefit of the agricultural and mechanical arts. Thereafter, the Second Morrill Act applied a portion of the proceeds of the sale of public lands to the more complete endowment and support of those colleges, as established under the provisions of Congress. The 1890 act created fewer land-grant institutions than the original measure had, but it represented the first governmental effort to ensure vocational education. The government promoted vocational and industrial education because officials wanted to provide the nation with skilled workers and technicians. However, after the Morrill Acts, new vocational education legislation would not be introduced until the 1917 Smith-Hughes Act.

Higher education in the United States was transformed because of the land grant, which gave way to the state college. In these colleges, Americans would develop institutions that sustained an agrarian economic, political, and social past. Like public primary schools, the number of public and private higher education institutions increased dramatically. The businesspeople of the age worked in league with the government to found universities; many bear the names of prominent industrialists—Cornell, Vanderbilt, Stanford, and Tulane, to name just a few.

In 1867 the federal government passed the Department of Education Act, which authorized the creation of the Department of Education (also known as the Office of Education). This department would become the source from which federal educational legislation emanated. Still, the Department of Education left much of the implementation and sometimes the revision of federal educational programs to the states and to individual localities. Its primary purpose involved collecting information on schools and teaching that would aid the states in establishing effective educational systems. In short,

the Department of Education sought to acquire information on what worked in the schools and provide that information to teachers and to educational policy makers.

After the Civil War, with the rise of industrial cities and the expansion of the economy, businesses sought workers who were better educated. The postwar economy became geared toward industrialization, especially in the North, and rapid economic changes occurred all the time. The schools therefore taught students to conform to the industrial system. The teaching of science was added to the more traditional subjects in order to supply industry with better-educated workers.

Early forms of vocational training (immediately after the Civil War) included courses in bookkeeping and stenography. Before that, vocational training was provided only at home and through apprenticeships. Among the early private trade schools were Cooper Union (founded in 1859) and the Pratt Institute (1887), both in New York City. African Americans could learn industrial, agricultural, and home economics at the Hampton Institute (1868) and the Tuskegee Institute (1881), among others. The University of Minnesota became the first established vocational higher education school and agricultural high school (1888). Its main emphasis was on public instruction of agriculture. Thereafter, the number of vocational schools greatly increased.

A major educational transition occurred during the last half of the 1800s. In that period, the country experienced a significant shift of its population from the countryside to the city. Agriculture became more mechanized; job opportunities for people on farms began to dissipate. Also, immigration from Europe dramatically increased, especially during the last twenty years of the century. With the broad economic changes that occurred, the common school proved unable to meet the challenges created by new multicultural situations. The question of race also surfaced. After the Civil War, 4 million slaves received their freedom and became integrated into American society. But the integration of Southern society remained nearly impossible because of the difficulties associated with Reconstruction and racism in both the North and the South.

Educational reformers sought a new model of organization and found it in the graded school, with an administrative structure based on the American corporation. The structure of the American corporation was shaped by the development of railroads and canals in the first half of the 1800s, making the corporate model highly successful in the eyes of many Americans. In turn, educational reformers believed that if the school system mirrored the corporate model, perhaps some of the same success would be replicated within the educational arena.

Thus, the corporate model of education and the graded system arose in reaction to the successes and changing complexities of the American economy. As schools changed, state boards of education, school superintendents, and principals provided them with different levels of management. The teacher assumed the role of hired employee, instead of being responsible for running the entire school as well as teaching. In the common schools, the curriculum had focused on the three Rs in the primary grades and classical languages in the secondary schools. With new socioeconomic demands, however, this type of instruction no longer applied to American society. Now, the expansion of science and technology and the influence of the United States in the world demanded the teaching of new subjects, including basic sciences, physics, chemistry, and similar fields.

Public schools had increased in number by the end of the 1800s. Yet even though millions of dollars had been given to public education, the average American adult at the beginning of the 1900s had had little schooling. The state and nature of education changed as a result of the Industrial Revolution. The urban, corporate, and modern revolutions forced Americans to reconsider their earlier educational ideas and values as they applied to a new nation. Educators deemphasized the common school, and in the new educational form of the graded school, the curriculum was expanded. In addition, officials required that teachers in graded (or "normal") schools be licensed.

From 1785 to 1906, the federal government acquired discretionary powers over the land grants. The states remained in charge of the appropriation of funds, the subjects taught with federal money, and the filing of annual reports. Until the first decade of the twentieth century, grants provided for the advancement of general education. By 1906, however, the federal government earmarked funds for specific types of education—primarily vocational education. Federal aid to higher education in the nineteenth century moved from a broad program of endowment grants to a series of piecemeal efforts to aid education through a broad range of special interest programs. At the beginning of the twentieth century, the grants of federal funds were targeted at the adult worker. The land-grant colleges and the experimental agricultural stations associated with these colleges trained young adults for careers in agriculture or the mechanical arts.

Education in the Twentieth Century

During the first decades of the 1900s, special interest groups with vocational educational objectives lobbied the government. In 1906 Congress approved the Adams Act, which increased the monies allotted for agricultural experimental stations. With passage of this act, the transition in federal aid to education was completed. Back in the 1780s, when the government gave grants to the states for educational purposes, federal assistance to education remained connected to the land. This situation changed over the years as grants became composed of funds derived from the sale of lands. The Adams Act required that grants to the agricultural experimental stations be taken from monetary surpluses in the Treasury, thereby severing the connection between grants and land (and land sales). With the passage of this act, the idea of direct federal payments to the states for vocational purposes became more acceptable.

Later, Congress created the Commission on National Aid to Vocational Education to study federal aid for vocational schooling. The president appointed individuals to the commission, which was sanctioned by the Smith-Lever Act of 1914. This commission also developed guidelines for future legislation on federal aid to vocational education. In addition,

it recommended a nationwide plan for vocational education; the training of teachers to instruct trade and industrial subjects, agriculture, and home economics; the payment of part of the salaries of such teachers; and the provision of assistance for day, part-time, and evening schools. All these recommendations formed the core of the subsequent Smith-Hughes Act of 1917.

The Smith-Hughes Act called for all the states to cooperate in the promotion of vocational education in order to avoid federal control. The money given to vocational education remained regulated as well. The emphasis was on more responsibility for the states and localities, which provided necessary plants and equipment for their schools. As with other educational bills, this measure was designed to prepare students over fourteen years of age for useful employment.

The idea of granting educational benefits to veterans extends back to the beginning of the twentieth century. Congress promulgated the Rehabilitation Act of 1919, one of the first veterans' benefits packages passed after World War I. The act gave disabled veterans of the Great War monthly education assistance allowances as well as federal grants for rehabilitation through training. The Vocational Rehabilitation Act of 1943 provided assistance to disabled veterans. These rehabilitation programs remained high on the government's list of priorities, and the states received numerous grants for them.

The George-Reed Act of 1929 and the George-Deen Act of 1936 continued to outline the appropriations that vocational education would receive. They also dealt with such things as removing home economics from the trade and industrial sections of the Smith-Hughes Act and adding other occupations to the list of trades receiving certain appropriations. The George-Deen Act helped energize the economy, which was reeling from the Great Depression. The government allocated funds to step up vocational training in agriculture, trade, industrial, and home economics education and reserved money to help train employed workers in these occupations to help small businesses and encourage entrepreneurship.

The Bankhead-Jones Act of 1935 gave the states more funds for agricultural research. This act, like others before and after it, sought to improve the country's agricultural status by addressing issues related to "the development of new and improved methods of the production, marketing, distribution, processing, and utilization of plant and animal commodities at all stages from the original producer through to the ultimate consumer." The act also spurred research that dealt with "the discovery, introduction, and breeding of new and useful agricultural crops, plants, and animals, both foreign and native, particularly for those crops and plants which may be adapted to utilization in chemical and manufacturing industries."

During World War II, the federal government passed legislation incorporating educational benefits for veterans. Congress passed the first GI Bill in 1944. Veterans' benefits packages had existed in the past, as noted, but this act proved monumental because it enabled millions of veterans to attend colleges and universities after the war. President Franklin D. Roosevelt signed the GI Bill of Rights, also known as the Servicemen's Readjustment Act of 1944. This legislation became one of the most important acts of Congress. Over the decades, it has led to the investment of billions of dollars in the education and training of millions of veterans of wars since 1944. It has also changed the way the United States views its veterans and their education. Many veterans received farm training that proved invaluable because large numbers of them came from agricultural families or wanted to become farmers after their service in the military.

Congress had been hesitant to pass educational legislation concerning veterans. In fact, before the GI Bill became a reality, it had failed to act in response to over 600 bills regarding veterans and their educational welfare. The enactment of the GI Bill was attributable, in part, to a nationwide campaign for its passage. The American Legion is aptly credited for being the one organization responsible for creating the main features of the 1944 GI Bill. It also helped push the bill through Congress. In addition to education and training, the first GI Bill provided for loan guaranties for homes, farms, or businesses; unemployment pay of $20 a week for up to one year; assistance in finding jobs; top priority for building materials for Veterans Administration hospitals; and military review of dishonorable discharges. The 1944 legislation set the foundation for all subsequent bills concerning veterans by helping returning servicemen and servicewomen make a healthy transition into civilian life. In addition, veterans' legislation enticed young people to join the military forces.

Still, many Americans were opposed to the GI Bill. Its opponents complained about the possible ill effects it could have on veterans and society alike. Critics, which included congress members and university educators, charged that the entire legislation package would become absurdly expensive and that it would breed educational laziness on the part of veterans. They were also concerned about the uncertainty of the post–World War II economy. Many people in and out of Congress anticipated a postwar economy centered on unemployment and economic depression; the Great Depression of the 1930s was fresh in the minds of people across the nation. Shortly after the United States entered the war in 1941, the White House established the National Planning Resources Board. This agency assumed the responsibility of anticipating the country's postwar economic problems and creating solutions for them. By the summer of 1943, the board recommended to the White House many programs for education and training that would be guided by the state of the economy and the education budget of the White House.

After World War II, the economic problems within the educational system became apparent. Rural districts were in financial straits. They suffered from low funding, poor facilities, teacher shortages, and obsolete teaching materials. Inequitable funding became a major issue. Furthermore, American schools reflected a racial bias. In many states, the institutionalization of racially separate schools occurred, which meant that black students received fewer months of schooling and had instructors with less training and lower pay than their white peers.

Nonetheless, from 1941 to the summer of 1947, the federal government spent an estimated $187 million on programs

for school construction and equipment, school maintenance and operation, and child care. In 1942 Congress authorized $5 million in loans to students in institutions of higher education studying medicine, dentistry, pharmacy, engineering, chemistry, and physics.

Congress approved the 1946 National School Lunch Act in hopes of improving the physical well-being of children through improved lunch programs. The act called for children to be encouraged to consume nutritious agricultural products and other foods through grants-in-aid. Local governments and charitable agencies had originated lunch programs as early as the mid-1800s, and similar acts were passed in later years. In 1970, for example, an amendment stipulated that any child living at the poverty level would receive a free or reduced-price lunch, with priority for free lunches given to the neediest children.

Vocational education continued to be a priority for the federal government after World War II. The George-Barden Act of 1946 expanded vocational education programs and transferred their administration to the Office of Education. Agricultural education taught people new ways of farming and how to preserve foods. The 1946 act focused on agricultural, industrial, and home economics training for high school students. It also provided for veterans' training in agricultural education. In the end, the George-Barden Act authorized $34 million for the programs outlined in the earlier George-Deen Act.

But in the decades that followed World War II, the state of education in America was transformed. With subsequent federal legislation, the government forced institutionally segregated schools to integrate students of different races without the government taking direct control of these schools. The government worked in league with the states during these decades, as opposed to the previous system in which the localities would work with the states in setting the agenda for education. In addition, establishing education standards and curriculum became a federal matter in the post–World War II society.

By the beginning of the 1950s, the vitality of progressive education that had begun with the New Deal programs of the 1930s and continued into the war-torn years of the 1940s lost momentum. Administrators no longer devoted their energies to reforming schools because individuals with little vision had captured top-level positions. The teachers, too, seemed to have lost their desire to reform the schools. The anticommunist movement of the 1950s ended the educators' opportunities to wed the organization of teacher unions to the quest for a democratic society. The teachers moved away from teaching and advancing controversial social issues and increasingly focused on things such as salaries and working conditions.

The 1950s ushered in the Korean War, and Congress passed a new bill for GIs in 1952, the Veterans Readjustment Assistance Act. President Harry S Truman approved the act in July of that year. The Korean GI Bill provided education and training benefits to veterans who served 90 days or more after June 27, 1950; who entered the service before February 1, 1955; and who received anything other than a dishonorable discharge. This bill also provided home, farm, and business loans to veterans. It differed in one aspect from its World War II predecessor—it made payment of unemployment compensation a state function. Millions of veterans received educational training because of this bill until Congress discontinued it in early 1965. The total cost of the measure's education and training program amounted to about $4.5 billion. In 1966 and 1967 Congress passed a permanent bill extending benefits not only to veterans of the Vietnam War but also to all men and women who had received an honorable discharge after six or more months of service in the armed forces since the original GI Bill expired in 1955.

One major event that changed the government's perception about education in the United States was the Soviet Union's launching of the satellite *Sputnik* into orbit in 1957. This event reawakened educational reform efforts, and a resurgence of interest in schools occurred, especially in terms of their ability to train scientists and engineers who could surpass the Soviets in space technology and other fields. As a result of the *Sputnik* episode, Congress passed the National Defense Education Act of 1958. Thus, the focus of federal education legislation shifted in the late 1950s because of cold war events. The government believed that schools could provide the solution to the international crisis. The federal government would provide money for better curriculum materials, for training teachers to become better instructors, and for improved financing for future scientists and engineers.

The National Defense Education Act helped develop skilled technicians in fields requiring scientific knowledge, and it encouraged vocational schools to train technicians. Furthermore, the state and local school systems strengthened instruction in science, mathematics, and modern foreign languages. The Defense Education Act also improved guidance, counseling, testing services, and training institutes. The government provided more assistance in terms of higher education student loans and fellowships. And colleges and universities began emphasizing foreign language study. In general, assistance was given to those fields that were either necessary or very important to the maintenance of the national defense.

In the 1960s, in response to traumatic social events at home and abroad, the educational agenda shifted from curricular to social concerns. Just like their predecessors in the early 1800s, educational reformers in the 1960s called for subject matter that would prepare youths for the increasing complexity of technology and the economy. At the same time, the Civil Rights movement fostered a new concern for disadvantaged youths.

The Civil Rights movement of the 1960s had a great impact on federal legislation, beginning with President John F. Kennedy's administration and continuing through Lyndon B. Johnson presidency. Both men lobbied for a more aggressive federal role in improving the nation's schools. Johnson called for the War on Poverty, which ultimately led to his Great Society program. He believed that education was the key to improved economic opportunity.

During the 1960s, the Department of Labor and the Department of Education assumed control over vocational training under the Area Redevelopment Act. The Department of Labor identified occupations and selected individuals for

training in fields specified under the act. After completing the program, the students received positions through the Labor Department. The Department of Education also provided training through existing vocational educational facilities or private institutions. The Area Redevelopment Act was the first measure to provide vocational job training through the Department of Labor with 100 percent federal funding.

In 1963 President Kennedy put together a panel to evaluate the state of vocational education programs in the country. The panel's recommendations led to the passage of the Vocational Education Act later that year. The act proved monumental for several reasons. To begin with, it broadened the definition of vocational and technical education and no longer required the categorization of occupations in these areas; funding for all was covered under the vocational category. It also required collaboration between state vocational agencies and employment agencies by calling for periodic reviews of state and local vocational programs. Funds were authorized for work-study programs and residential vocational educational schools, and monies were allocated for vocational research and experimental programs. Vocational education became available for high school students and for those who dropped out of high school, and people employed in vocational trades had the opportunity to retrain as well. The goal of the Vocational Education Act of 1963 was to reduce unemployment among youth groups and eliminate inequalities in terms of the opportunity to pursue vocational education. This act and those that followed aimed at encouraging the effectiveness and efficiency of the workforce.

In 1964 Congress inaugurated the Project Head Start program. Government leaders had grown concerned in the 1960s about how poverty impacted children culturally, socially, and economically: The new program offered culturally and socially deprived children a head start through an enriched preschool experience. Health, nutrition, education, social, and other services were also provided to assist these children in attaining their full potential. In addition, the Civil Rights Act of 1964 helped to accelerate the pace of desegregation in public educational institutions.

The Higher Education Act of 1965 was designed to extend the opportunity for higher education more broadly among lower- and middle-income families by providing more scholarships and work-study programs for college students. It also gave financial assistance to smaller and less-developed colleges. Amendments in 1966 and 1968 reinforced the federal government's message about providing education for those who otherwise could not afford it and training instructors to become more effective teachers.

The 1965 Elementary and Secondary Education Act, passed under the Johnson administration, was pivotal in implementing a number of much-needed public school programs. Particular attention was paid to children of low-income families. The act authorized grant money for elementary and secondary school programs for needy children and school library resources, textbooks, and other instructional materials. It strengthened state education agencies, educational research, and research training.

Also in 1965 the health professions and higher education received additional assistance through federal legislation. The Health Professions Educational Assistance Amendments of 1965 provided scholarships to needy pupils in the health professions. The Higher Education Act of 1965 made grants available for university community service programs, library training and research, teacher training programs, and student instructional equipment. It also authorized insured student loans and provided for graduate teacher training fellowships.

The federal government provided more grants to institutions of higher education via the 1966 International Education Act. Congress earmarked these grants for the creation and operation of research and training centers in international studies and other fields that incorporated international aspects within the curricula. Marine education received a boost with the National Sea Grant College and Program Act of 1966. It authorized the creation and operation of Sea Grant Colleges and programs by supporting education and research in the marine resources fields. Educational programs for adults, including the training of teachers in adult education, expanded under the Adult Education Act of 1966.

The arts and humanities were enriched with the National Foundation on the Arts and the Humanities Act of 1965. This measure gave grants and loans for projects in the creative and performing arts. It also gave assistance for research, training, and scholarly publications in the humanities. The National Technical Institute for the Deaf Act of 1965 called for the creation of a residential school for postsecondary and technical training of the deaf. The following year, legislators passed the Model Secondary School for the Deaf Act; this measure authorized the establishment and operation of Gallaudet College, which became a model secondary school for the deaf. The School Assistance in Disaster Areas Act guided educational agencies in disaster areas and helped them meet the high costs of reconstruction necessitated by major disasters.

In the 1970s federal aid to education continued, but the guidelines and regulations of the entire application and grant approval process became more complex than ever before. Few new legislative acts that aided education passed during the presidency of Richard M. Nixon. However, President Gerald Ford signed an elementary and secondary education act into law when he first entered the White House. The federal assistance to education continued in spite of the economic recession of the 1970s, though there was less money to work with than in the previous decade. Middle-income students attending college or other postsecondary education institutions received financial assistance under the Middle Income Student Assistance Act of 1978.

In the 1980s the Reagan administration reduced federal assistance to education. President Ronald Reagan believed that aid to education should be distributed in block grants to the states for redistribution to local school districts. This approach differed from the categorical grants of the past that were created for specific purposes. During the George H. W. Bush presidency, a national commission on educational goals reported that American students were falling behind those in Europe and Asia (especially in Japan) in science and mathematics. American students lacked the skills needed to function in the high-technology economy.

The Bush commission began to search for ways to remedy these problems. It set standards of achievement for elementary, middle, and high school students, and it urged state and local educational officials to improve both teaching methods and facilities. Unfortunately, two major problems existed. Bush's predecessor, Reagan, had placed the top priority on defense, and education had lost billions of dollars in support each year. Also, Bush had no effective plans for raising federal funds for local education. These circumstances hampered the Bush commission's ability to correct educational problems.

Today, at the beginning of the twenty-first century, vocational education has come a long way. Separate public schools devoted to various occupational fields have developed over the years, and large training centers exist for the public. The schools and the industries and trades work together. Students can be employed part-time in the vocational fields they are interested in while attending classes during the day or at night. Community colleges in particular provide vocational courses.

In the United States, education remains, first and foremost, the responsibility of the states and localities. Local communities establish schools and colleges, develop course curricula, and determine the requirements for enrollment and graduation. A vast majority of the money spent on education at all levels comes from state, local, and private sources: Presently, of the roughly $650 billion spent on education at all levels throughout the nation, 91 percent comes from state, local, and private resources. The federal government, then, provides about 9 percent of the national expenditures on education. But that 9 percent includes spending in other federal agencies as well, such as the Department of Health and Human Services' Head Start program and the Department of Agriculture's School Lunch program. Consequently, the Department of Education actually receives only about 6 percent of the total education spending, or about $42 billion a year.

Clearly, the economy has affected education. But education also affects the economy. For instance, variation in the quality and quantity of education across countries is one factor contributing to differences in such economic indicators as worker productivity, capital investment, technical innovation, foreign trade, and government regulation. Education is a significant contributor to productivity growth and a major influence on the standard of living. In general, worker productivity in the United States has increased almost continuously since the end of World War II, but growth has slowed since 1973. Also since World War II, worker productivity has grown more slowly in the United States than in other industrialized countries.

In the last half of the twentieth century, the amount of government involvement in education skyrocketed. Congress passed numerous laws that dealt with education. The Office of Education had grown considerably in size and influence. Educational legislation during that period provided a superb example of the formation of policies according to the temperament of the times. In the 1950s, 1960s, and 1970s, the country was deeply involved in the Civil Rights movement and the cold war, both of which fostered insecurity at home and abroad. Federal legislation took into account the scientific and technical competition between the United States and the Soviet Union, as well as policies that eliminated discrimination in education on the basis of race, sex, or age.

A movement in the 1990s called for the creation of a school voucher system whereby federal tax dollars would be used to provide nonpublic education. Proponents argued that the voucher system would encourage competition among schools and offer a choice in educational opportunities; opponents argued that the system would remove much-needed revenues from public institutions. On January 27, 2002, the Supreme Court upheld the validity, or constitutionality, of school vouchers. Currently, eight states—Minnesota, Colorado, Texas, Arizona, Indiana, Virginia, Alabama, and Utah—use vouchers.

Impact of Education on American Society

When the United States became a nation, schools taught republican values to students. Teachers in the common schools instructed students on what it meant to be a good republican and also on what it meant to be a hard worker in the changing economy of early-nineteenth-century America. By the latter half of that century, the land grants issued by the government established many institutions of higher learning. Vocational education became very popular in these colleges and universities, a development that would continue well into the twentieth century.

Industrialism arrived in the United States in the late 1800s. Its arrival signified the need for the federal government to undertake new approaches toward education. Public education followed the example of the successful American corporation, with a top-down administrative and employee structure. The graded school developed, a system that continues in the United States today. But because of political and economic events that occurred in the post–World War II era, the government placed an emphasis on scientific and mathematical subjects in order to compete in this new and uncertain world. The secondary schools, as well as colleges and universities, had gone through another educational transition. The state of the economy has always affected educational policies and vice versa. Historically, the government has used restraint in terms of intruding in the implementation of its educational policies. It was not until the late 1900s that the government took a more active, direct role in education. Economic and political events will undeniably determine the next substantial educational transition and its significance in the shaping of American domestic policy.

—*David Treviño*

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Energy Policy

Modern times began about 1750 with the Industrial Revolution in England. But that revolution owed its existence to another one—the energy revolution, which depended first upon the mining of coal and then, by 1859, upon the drilling for oil. Coal and oil production together gave birth to the fossil fuel era, which began about 1750 and continued through the nineteenth, twentieth, and twenty-first centuries.

Some experts argue that the end of the fossil fuel era might occur within the next century for one very simple reason—the world's natural coal and oil resources are both nonrenewable and finite. Coal will last longer than oil. As of 1999, the estimated reserves of coal equaled 1,088 billion tons—sufficient to supply human needs for another 210 years at current production levels. From the date of Edwin L. Drake's discovery well in northwestern Pennsylvania in 1859, which ushered in what might be called the oil age, until the end of 1900, the earth produced 1.7 billion barrels of crude oil. Roughly 1 billion of that came from the United States.

With the twentieth century, something phenomenal and, one must hasten to add, disturbing began to happen. A gargantuan appetite for oil, first in the United States but soon thereafter in Western Europe, created a burgeoning demand for crude. The statistics of production make this observation clear. Through 1956 the world's cumulative production of oil reached 96 billion barrels, 58 percent of which (or 55.2 billion barrels) came from the United States.

Yet those numbers fail to even compare with the statistics of oil production after 1956. With the emergence of Third World countries—and particularly with their drive to industrialize in the second half of the twentieth century—the demand for oil worldwide has skyrocketed. Once again, the production statistics tell the story. In just 41 years, from 1957 through 1997, the earth yielded 704 billion barrels of oil—which amounts to 88 percent of all the crude produced in modern times.

Petroleum geologists, with a few exceptions, warn that, as a result, the world could experience an energy crisis if the earth's peoples do not soon reduce their heavy dependence on oil. The best estimates indicate that the world's supply of conventional oil (that is, easily producible oil) will dwindle to almost nothing by 2050. L. F. Ivanhoe, a leading authority on petroleum exploration and its future, predicted in the November 1996 edition of *World Oil* that oil production capabilities will fail to meet supply demands by 2010 and that production levels will plummet to 5 billion barrels by 2050.

The Hubbert Curves, named for M. King Hubbert, a renowned geophysicist from the United States, are bell-shaped curves that plot the rise, peak, and inevitable decline of oil production. While working for Shell Oil, Hubbert used such curves for the first time in 1956 to forecast the peak years for oil production in both the lower 48 states and in the world at large. Hubbert hit the mark squarely for the lower 48 states when he gave the peak year for U.S. oil production as 1970. For the world as a whole, he was close to the mark when he forecast a peak for global oil output in the year 2000.

The United States continued to the end of the twentieth century as the all-time leader among the nations of the world in total oil production. Through 1997 America had produced 175.6 billion barrels out of a global total of 800 billion barrels. That means the United States has delivered 22 percent of the world's oil, dating from the Drake well of 1859.

Americans must consider the history and the future of U.S. energy policy against this backdrop. In addition, it is important to highlight certain developments in the United States, along with their consequences, from 1882 through 1927—a period during which what might be called an electrical revolution and a transportation revolution occurred.

The Electrical Revolution

Henry Ford (1863–1947) thought one might well refer to that period of years as the age of Edison, in honor of Thomas A. Edison, whom Ford considered the true founder of modern industry in the United States. In 1882 Edison had constructed the first central electric power station in New York City for public use. Shortly thereafter, George Westinghouse improved upon Edison's system by introducing the principle of an alternating current for electrical transmission. In 1895, building upon that principle, Nikola Tesla invented a reliable motor driven by an alternating current. That motor design found its first practical application in the building of a 5,000-

horsepower generator (one of three) driven by power derived from Niagara Falls. Soon thereafter, another of Tesla's innovations—his high-potential magnifying transmitter—made it possible to transport electric power for long distances from the electrical plant. That advance freed industry from the necessity of locating factories near sources of power.

At about the same time, steam power began to complement the production of hydroelectric power in American factories. In 1896 Westinghouse had purchased the rights to the steam turbine invented in England 12 years earlier. Such engines soon outmoded the old type, such as the ones first used at Niagara Falls. The new steam turbines revolutionized the situation through the production of immense quantities of low-cost electric power. Total primary power for factories, as applied by electric motors, increased from 5 percent in 1899 to 55 percent in 1919. By 1925 the figure stood at 73 percent.

Meanwhile, electricity began to find its way into American homes. Besides the ubiquitous lightbulb, the first electric appliance (the flat iron) soon appeared, after its demonstration at the World's Fair in Chicago in 1893. Other appliances followed in the iron's wake, until, by the 1920s, the electrically equipped home had become a reality.

Except for hydroelectric power, which remained important, the primary source of power for electric generation in home and factory came from coal—one of America's most abundant raw materials. Even though Americans had used up much of that coal by the 1920s, the United States still possessed one-fourth of the world's reserves in the late twentieth century.

The Transportation Revolution

In addition to the electrical revolution, the United States also experienced a transportation revolution. Henry Ford founded the Ford Motor Company in 1903—the same year that Orville and Wilbur Wright launched the airplane. Ford receives much of the credit for making the motorized vehicle (especially the automobile) the people's choice for transportation. He accomplished that feat in two ways. First, he revolutionized the technology of production by introducing the moving assembly line, which he made fully operational in 1914. That innovation made it possible to assemble a Model T chassis in 1 hour and 33 minutes. By way of contrast, in 1913, the stationary assembly technique had required 12 hours and 28 minutes to complete a chassis. The savings in time allowed for the mass production of the Model T at a lower unit cost, which greatly augmented the number of sales. Car sales jumped, in fact, from 261,000 in 1914 to 803,000 in 1918. By 1927, when Ford discontinued the Model T, more than 15 million units had been sold. Ford's second major innovation involved reducing the workday from nine to eight hours and doubling the basic daily wage to $5. In the process, he not only reduced worker turnover but also stimulated the growth of a mass market for the Model T. By the early 1920s, the Ford Motor Company produced 60 percent of all American automobiles and 50 percent of the world's total.

Not only on America's roads but also on its farms, motorized vehicles began to predominate by the early twentieth century. Tractors made their appearances in ever larger numbers. Sales increased from 25,000 in 1915 to 246,000 in 1920. The number of trucks, only 25,000 in 1915, reached 139,000 by 1920. More and more farmers also bought cars, the numbers climbing from 472,000 in 1915 to 2.1 million by 1920.

All these vehicles on land (other than some powered by steam or electricity) as well as the airplanes in the sky received their energy from oil, at first primarily from gasoline but increasingly from kerosene and diesel fuel as well. Interestingly, refiners had long considered gasoline a nuisance. In fact, before the advent of motorized vehicles powered by the internal combustion engine, gasoline was treated as a waste product and was often dumped into rivers near the refineries.

The Oil Revolution

With the electrical revolution and the transportation revolution came an intensification in the discovery and exploitation of America's oil wealth. The golden age of crude production in the United States spanned the years from 1901 through 1950. During that period, the world's first great oil discovery of the twentieth century occurred in Texas. Three miles south of Beaumont, in Jefferson County along the Gulf Coast, Capt. Anthony F. Lucas brought in the Spindletop gusher on January 10, 1901, at a depth of 1,139 feet. The well had an estimated daily production of 75,000 barrels.

Many other great oil discoveries followed, mainly in states west of the Mississippi River. The heyday for discoveries occurred during the ten-year period from 1921 through 1930, when exploration yielded 24 oil fields, all west of the Mississippi; each produced over 100 million barrels through 1945. These fields culminated with the Daisy Bradford No. 3, the discovery well of the east Texas field—the greatest oil field ever found in the coterminous United States.

In the first half of the twentieth century, no country approached the United States in terms of oil production. By 1938 America had a cumulative output of 21,187,141,000 barrels of oil, more than five times as much as Russia, its nearest rival. In fact, the United States had produced almost 64 percent of the world's oil by 1938. In that year alone, Texas and California both produced more oil than any other country. Texas, with 475,614,000 barrels, and California, with 249,749,000 barrels, exceeded Russia and its 202,290,000 barrels. In 1950 the United States still produced 52 percent of the world's oil.

By 1997, though, America's share of world oil production had plummeted to 10 percent. During the second half of the century, the United States found it increasingly necessary to import oil. In fact, America became a net importer of crude in 1948—a state of affairs that has prevailed ever since. By 1999 this growing dependence on foreign oil, especially from the Organization of Petroleum Exporting Countries (OPEC), meant the importation of 50 percent of the oil used in the States.

Fortunately, during the last 50-plus years, the United States has offset this growing dependence on foreign oil, in large part through offshore drilling, particularly in the Gulf of Mexico but also off the coast of California. Such boring for oil began off the coast of Summerland, California, in 1896.

Wooden piers, extending outward from the shore, permitted the drilling.

By 1946 offshore drilling had come of age. Piers were no longer needed; the rigs stood in open water on rigid platforms. By that year oil companies had drilled nine such wells in the Gulf of Mexico—five off the coast of Louisiana and four offshore from Texas.

Further developments offshore, not only in the Gulf of Mexico but also elsewhere in the coastal waters of the United States, became bogged down in a legal battle between the national and state governments. The dispute, which lasted from 1947 to 1953, hinged upon the following question: Did the national government or the respective state governments with coastal waters have jurisdiction over offshore lands? In 1953 all parties reached a compromise—depending upon the distance from the shoreline, both the national government and the state governments had jurisdiction.

President Harry S Truman opened Pandora's box on this issue in 1945 when he proclaimed that the national government held jurisdiction over all lands and natural resources seaward from the coastlines. The U.S. Supreme Court upheld Truman's proclamation in 1947, but protests by the coastal states led to congressional action intended to redress state grievances. The Submerged Lands Act of May 22, 1953, awarded the coastal states submerged lands seaward from their shorelines to a distance of 3 miles. A second law, the Outer Continental Shelf Lands Act of August 7, 1953, reserved the jurisdiction of the national government over submerged lands beyond the 3-mile limit. Decisions by the Supreme Court, however, gave Texas and Florida an extended limit—3 leagues (10.3 miles) seaward, not the 3 miles given to other coastal states.

In the aftermath of World War II, Americans realized that the abundant and usually cheap energy, made readily available in large part from America's production of oil, had created a consumer culture. Experts have characterized consumerism by the purchases of innumerable goods, including millions of motorized vehicles, electrical appliances, and the products of a new technology known as television. A large number of the products so consumed demanded enormous outlays of energy as well—so much so, in fact, that in 1950 the United States (with only 6.1 percent of the world's population) utilized 44.5 percent of the earth's total production of energy.

Motorists remained the chief consumers of energy in the United States, for in the 1950s, Americans had become infatuated with the automobile. Known to one critic as the "dinosaur in the driveway," it remained heavy in weight, overpowered, and loaded with creature comforts, all of which contributed to its gas-guzzling nature. For example, in 1955 (the peak year for sales during the decade, with 7.9 million cars sold), the American automobile got an average of 12.7 miles per gallon. Taken together, American cars consumed 25 billion gallons of fuel in 1950 alone. Ten years later, they burned 42 billion gallons.

By the late 1950s, with the introduction of the compact American Rambler and the German Volkswagen in particular, more energy-efficient cars began to appear on the highways of the United States, but Americans still drove an exorbitant number of miles and burned excessive quantities of gasoline both for business and for pleasure. In addition, truck traffic, with its prodigious consumption of diesel fuel, increased the amount of oil consumed.

The U.S. government encouraged Americans to take to the road after 1956—the year Congress enacted the Federal-Aid Highway Act at the urging of President Dwight D. Eisenhower. The act created the largest public works project in history. Initially, it called for 41,000 miles of interstate highways to be completed by 1972 at a cost of about $26 billion. But two decades after Eisenhower left office in 1961, this highway system (which was not yet finished) had already cost nearly $100 billion.

In the 1960s another development neared maturity as well. That development—the environmental movement in the United States—would have a considerable impact on energy-related matters. One event involving the oil industry probably did more than anything else to invigorate the movement—the blowout of a well off the coast of Santa Barbara, California, in 1969. Protests against the resultant oil spill, among other things, brought the passage into law of the National Environmental Policy Act of 1969. Other laws enacted by Congress in a similar vein followed in quick succession—the Marine Mammal Protection Act (1972), the Federal Water Protection Act (1972), the Endangered Species Act (1973), the Federal Land Policy and Management Act (1976), and the Alaska National Interest Lands Conservation Act (1980). With the adoption of the National Wilderness Preservation Act in 1964, before the furor raised by environmentalists five years later, the oil business and other extractive industries assumed a defensive position.

Another consequence of the barrage of legislation, along with the decisions of the Bureau of Land Management and the U.S. Forest Service, included the decision to severely curtail oil and gas exploration on federal lands. As of 1990, out of a total of 688.3 million acres of nationally owned lands, 43.6 percent (or 301.5 million acres) remained off-limits to oil companies. Also in 1990, on June 26, President George H. W. Bush placed a moratorium (the largest and longest thus far) on the leasing of 192 million acres of the Outer Continental Shelf—a moratorium that is to last until 2003. This policy occurred at a time when the country had experienced a decline in oil production, an increase in domestic oil consumption, and a substantial growth in the amount of imported crude oil. Only time will tell whether the withdrawal of so much land (both on- and offshore) from petroleum exploration makes sense.

Alternative Power Sources

Power from water (primarily hydroelectric) offers the most immediate dividends among the renewable energy sources. Even as long ago as the 1930s, the United States constructed great dams across major bodies of water around the country, which provided almost 40 percent of the nation's electrical needs. Although the percentage for waterpower in the 1990s

fell to 12 percent, hydroelectric power accounted for 98 percent of the electricity coming from renewable sources in the United States.

Hydroelectric Power

In the twenty-first century, if government officials adequately address environmental concerns, hydroelectric power may well become the greatest source of renewable energy in the country. On the Columbia River system alone, there are already 192 dams. But problems remain. Dams create new bodies of water, which can destroy a variety of wildlife, from frogs to plants (and in the case of the Columbia River, many salmon). Changes in water levels can also affect habitats along shorelines and can reduce water temperatures downstream when dams release cold water. Dams can also affect the ecosystems of plants as well as animals, including mammals. Still, new dams will provide much-needed energy for the future.

Wind Power

The wind also has a long and respectable history in the United States for the generation of power. By the close of the nineteenth century, almost 6.5 million windmills supplied energy for pumping water and grinding grain on farms across the nation. By the end of the twentieth century, more sophisticated devices, known as wind turbines, each with two blades shaped like airplane propellers, generated up to 5,000 kilowatts of power (enough to furnish electricity for more than 1,000 homes).

Several states already have programs for a greater use of wind or are planning to implement them, chiefly by means of those powerful turbines. In that respect, California serves as the leader so far, beginning with commercial wind farms that have been in operation since 1981. In the Lake Benton area of Minnesota, too, wind turbines already stand along a 30-mile swath of farmland called Buffalo Ridge, generating a great deal of electricity in addition to earning $2,000 a year per turbine for the landowners. Other states—including Texas and Iowa, which have powerful winds, but also unlikely places such as Pennsylvania, New York, and West Virginia—have great potential in terms of the use of wind.

Bio-Based Fuel Sources

The processing of plant life (biomass) into fuel, already begun worldwide, also holds great promise. In the United States alone, distilleries transform such organic products as corn, sorghum, and sugar beets into ethanol, which, when mixed with gasoline, forms what is known as gasohol, an efficient fuel. Brazil, which instituted its National Alcohol Program in 1975, might serve as an example. By using sugarcane converted into ethanol, that country greatly reduced its dependence on foreign oil. Brazil had to import 79.5 percent of its crude in 1975. Through the operations of its National Alcohol Program, the production of ethanol jumped dramatically from 147 million gallons to more than 2.5 billion gallons a year by the early 1980s. Although new oil found off the coast of Brazil after 1989 began to compete with ethanol in price, the latter still accounted for one-fifth of the country's total use of fuel for road vehicles in 1995. Critics of biomass production question the wisdom of using food-producing land for fuel output, but there is little doubt about its future in the world's growing search for more energy.

Solar power, second only to hydroelectric power in its potential as a renewable source of energy in the United States, remains relatively expensive. Photovoltaic cells, for instance, which convert light from the sun into electric power, are not yet cost-effective in most applications. However, the Southern California Edison Company funded a photovoltaic plant built in 1981. As of 1999, it provided 1,000 kilowatts of power—an impressive output but a far cry from the million or more kilowatts generated by a typical coal- or nuclear-powered facility.

Solar technologies received a boost in the 1970s from the federal government. Congress passed the Solar Energy Research, Development and Demonstration Act of 1974, authorizing the Energy Research and Development Administration (which became the Department of Energy in 1977) to devote substantial manpower and money to innovations in the realm of solar energy. Also in 1974, Congress earmarked $20 billion over a projected ten-year period to foster nonnuclear power facilities, mainly in response to the concerns of people who remained skeptical about the future of nuclear power in the nation's energy picture.

Nuclear power has come upon hard times, at least in the United States, since the 1970s. For one thing, there is a great deal of concern, particularly among environmentalists, over the transport and disposal of nuclear wastes, not to mention nuclear safety. By 1990 the United States had stored about 90 million gallons of radioactive debris in underground tanks near nuclear facilities in Washington, Idaho, and South Carolina. But those wastes must remain in storage for another 600 years. In addition, such a disposal system necessitates the replacement of the tanks periodically and may result in leaks. It is hoped that a plan being developed by the Department of Energy will solve the problem. The radioactive wastes will be stored permanently in deep underground geologic formations, undisturbed by earthquakes for millions of years, namely, in slate, granite, basalt, or volcanic rocks.

Probably, though, the greatest fear of the American people has to do with the possibility of runaway nuclear reactors, such as the one at Three Mile Island near Middletown, Pennsylvania. There, on March 28, 1979, America's most serious accident in 22 years of commercial nuclear energy output began to unfold. The reactor, suffering from a loss of coolant, had formed a hydrogen bubble, which could have exploded. After a week the danger had passed, but the repercussions were considerable. Residents in the Middletown area were understandably shocked, and many other Americans across the country joined ranks with them in protesting further nuclear power developments in the United States.

The outcry was so great, in fact, that some officials talked of imposing a permanent moratorium on the construction of nuclear plants in the country. A commission established under the Carter administration considered the Three Mile Island debacle quite serious but stopped short of advancing

such a recommendation. By early 1990, by which time the protests had begun to subside, the Nuclear Regulatory Commission (established in 1974), which superseded the Atomic Energy Commission, actually permitted construction to begin on a new test plant not far from Chattanooga, Tennessee. Even so, in the light of the Three Mile Island fiasco, the prospects for nuclear energy remain questionable in the United States.

On a positive note, geothermal sources of power may offer a promising alternative. With continued advances in technology, some experts predict that geothermal plants will soon exist in the United States and have a capacity to generate 24 million kilowatts of electricity. Two facilities in California are already demonstrating the potential for the future. A plant at Brawley, jointly owned by the Southern California Edison Company and the Union Oil Company of California, produces more than 10,000 kilowatts. But the biggest operation in the country, operated by the Pacific Gas and Electric Company and located just 90 miles north of San Francisco, has harnessed steam to run turbines from a number of hot springs, known as The Geysers, that have emitted hot water from deep in the earth for centuries. The steam-powered turbines currently generate nearly 2 million kilowatts of electricity.

—Keith L. Miller

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Federal Reserve Bank

The Federal Reserve Bank is a key institution in America's economy and society, designed to provide financial stability by ensuring currency flexibility. As such, since its establishment, the Fed (as the U.S. central bank is known by most observers and businesspeople) has consistently played a vital role in U.S. economic and monetary policies.

The Federal Reserve system was established during the second decade of the 1900s, so the history of the monetary policies and regulations of the Fed goes back only to the early years of the twentieth century. Prior to 1900, the United States did not have a central banking and financial system, but debates on feasible banking reforms actually began in the mid-nineteenth century. Consequently, it is reasonable to divide the history of the Federal Reserve system into two distinct phases. The first phase, covering the monetary history of the United States from the second half of the nineteenth century up to the early twentieth century, was dominated by intense discussions on the existing financial and banking structures and the attempts to reform them. Reform proposals advanced during this period laid the foundations of a banking system regulated by national control, as the Federal Reserve system would be within a few decades. In the second phase of this history, beginning with the 1913 establishment of the Federal Reserve system, the focus was on the Fed's role and functions in U.S. financial and economic arenas during the twentieth century.

In nineteenth-century America, the banking system was shaken by several economic and financial crises, and the effects of these recurrent downturns shaped the debates and proposals that arose on how to reform that system. As such, most of the proposed and enacted reforms were thought of as ways to cope with current financial crises and to stabilize the currency.

Throughout the second half of the nineteenth century, there was an economic crisis almost every ten years. The first one occurred in 1861 and resulted from the Civil War's effects on the American financial structure. To deal with this crisis, a reform was passed to give any national bank the right to issue paper currency on its own. What economists usually regard as a national system for chartering banks was thus established. This reform was also the first step toward instituting a coordinated and regulated monetary system. The second crisis occurred the following decade and was the product of the government's efforts to carry out a reform that would have replaced paper money with specie (payment in gold or silver only). In this case, the bank reserve system proved too weak to avoid an overall panic provoked by the demand for bank reserves. Yet another crisis occurred in the ensuing decade when, in 1884, the overall stability of the banking system was threatened by massive international pressures for payment in gold for American firms' securities owned by Europeans. Just nine years later, another major economic and financial crisis began, caused by the demise of the Reading Railroad and the failure of the stock market shortly thereafter. The twofold collapse was followed by the failure of other prominent firms. This major economic distress stimulated, even more than in the past, discussions and controversies among economists and bankers on the best way to provide monetary stability within the U.S. banking system.

During the 1890s, two main proposals were brought before the business and political communities. The first proposed bank reform, presented in 1894 at the American Bankers Association meeting by a banker from New York and another from Baltimore, was known as the Baltimore Plan and rested on the idea that financial and currency stability could only be provided by a new currency that was backed by a central fund provided by the banking system. This central fund would cope with financial panics and downward economic trends. The plan foresaw that bank loans to the business community would have been based on the gold standard (with gold only as legal tender). The second bank reform proposal arising out of discussions on the economic crisis of the 1890s came from a report presented at the 1897 Indianapolis Monetary Convention. According to the author of that report, the economist J. Lawrence Laughlin, it was critical for the system to be flexible in times of economic uncertainty. As Laughlin argued about a decade later while reflecting upon the 1907 financial crisis, monetary stability should be reached through national control. And in his view, some institution that was wholly free from politics or outside influence should exert this national

control: By this, however, he did not mean a central bank, as was later established. Rather than a government-led institution, he proposed a sort of bank of banks, backed by the banking system and committed to regulated banking. This vision for the achievement of financial and currency stability would be realized within ten years' time, when the U.S. economy fell in the grip of a fifth major economic slump.

A couple of observations should be made regarding these 1890s proposals to reform the banking system. First, both the Baltimore Plan and the Laughlin report did not have wide consensus within the business community. The former was sharply criticized and consistently opposed by many nationwide banks, whereas numerous state-chartered banks and some small banking institutions did not agree on the Laughlin report.

Second, both these monetary reforms ran counter to the cause of the silverites (those who wanted silver included as legal tender) and the silver principles underpinning the Populist protest movement that arose during these financial crises, especially among midwestern agricultural sectors and greenbackers (who wanted paper currency used as legal tender) and against the financial elites and industrial development based in the East Coast. The 1896 general elections brought Republicans back to power. This political turnover stopped the rise of the Populist movement, whereas the two bank reforms proposed during the decade reassessed the role and strength of more traditional centers of power, such as the bankers and the eastern financial and business communities.

During the first decade of the twentieth century, there was, as mentioned, a fifth major economic and financial crisis, which accelerated the move toward a national coordination of monetary policy and an overall control of the stability and flexibility of the currency. In fact, the 1907 economic crisis, which cut the net national product by 11 percent in one year, looked like a sharp economic downturn that had the potential to lead the country to the brink of a financial collapse.

In 1908 not only economists and the business community but also politicians and the Congress began to approach the ongoing economic crisis by planning a reform of the banking system. For the first time, bank reform was on the top of the congressional agenda. A number of bills came out of this wider interest in the problem, and to bring into harmony as many reform views and interests as possible, a committee was established. Cochaired by Nelson Aldrich from the Senate and Edward Vreeland from the House of Representatives, the committee produced a final bill known by historians and economists as the Aldrich-Vreeland Act. This act established the National Monetary Commission, which was led by Aldrich and Vreeland, appointed chair and vice-chair, respectively. The commission's work was pivotal to the founding of the Federal Reserve system. In fact, the report produced by the commission, widely known as the Aldrich Plan, endorsed the series of reforms that would result in the creation of the Fed. Extensively explained in a 24-volume publication, the Aldrich Plan required that the National Reserve Association be established—a body that included a Washington-based central administrative bureau and 15 regional districts that, in turn, were linked to local commercial banks through their local associations. Led by 46 directors recruited from among both the 15 districts and the reserve associations as well as the government, the National Reserve Association would be responsible for determining the discount rate, issuing currency, and holding part of the member banks' reserves. According to Aldrich and Vreeland, this body, charged with controlling the banking and financial system, had to be free from political influence and was not to be considered as a central bank. On the contrary, it was conceived as a bank of banks—an entity owned by the commercial banks. Members of Congress debated extensively on the nature and meaning of this institution. In particular, there was a controversy on whether it had to function like a central bank. The National Monetary Commission had clearly stated that the institution should not be structured like European central banks. Nonetheless, someone in the House voiced the opinion that the National Reserve Association would, in fact, resemble the European central banks structurally.

The monetary institution outlined in the Aldrich Plan, which would be free from political influences and work unlike a moneymaking institution, was met with interest and received approval from the most prominent banking and business players. The National Board of Trade, the American Bankers Association, and the most outstanding bankers endorsed the plan early on. The scheme was clearly opposed only by the Democrats, who depicted it as the product of conservative-minded Republicans.

In the end, the National Reserve Association envisioned by the Aldrich Plan was never established. In fact, as a result of the 1912 general elections, which brought in a Democratic administration, Democrats started shaping debates and legislation on the reform of the banking system. In his last message to Congress, the Republican president William Howard Taft had recommended the National Reserve Association, but the new president, the Democratic Woodrow Wilson, and a Democrat-dominated Congress stopped the establishment and implementation of this economic institution. The new Congress worked over the bill establishing the Federal Reserve system, and the House Committee on Banking and Currency was appointed to draft this measure. According to the committee president, Carter Glass, the National Reserve Association would have been insufficiently controlled by government. He argued that instead of a bank of banks headed by bankers, what was needed was a central banking agency that could coordinate the currency issue with the volume of business; it should be a public utility led by the nonprofit Federal Reserve Board.

As long as the bill was being worked over by the Senate and the House, controversy persisted among Congress members on whether the new institution and its governing board would be tied to American politics. Although legislators stressed that the Federal Reserve Board should work as a sort of public coordinator of all private banks, free from political control, many politicians argued that the Glass bill and the forthcoming institution would shape a monetary policy influenced by the presidency. Glass replied that the Fed was aimed at extending democratic control over the banking system. In other words, the Federal Reserve Board should be a

board of control, working on behalf of the interests of citizens. Indeed, the basic principle underpinning most debates on bank reform in the past—that is, the establishment of an institution that could grant monetary and financial stability through a stable currency issue—was still at stake. In fact, according to Glass and his legislators, the Federal Reserve was consistent with the gold system precisely because the gold system and the real bills (backed by specie such as gold) could be coupled with and contribute to the regulation of the money supply: Glass's scheme granted every district reserve in the Federal Reserve system the right to discount only short-term loans to businesses that created products for sale. Such a discounting rule adjusted the money supply to the volume of business by providing as much money as was necessary for commerce. By this monetary policy, the Fed would be able to promote elasticity in the economy's money supply.

The birth of the U.S. central monetary institution stimulated discussions not only within the Congress but also, of course, among bankers and the business community at large. When the Glass bill was presented, not all the banks were keen to accept it. The eastern banks were ready to work in cooperation with a central bank dominated by bankers, whereas the midwestern banks believed that only district reserve associations were necessary. Almost all bankers were skeptical about the banking system proposed by Glass because they regarded it as too dependent on the government. In any case, by the end of 1913 when the bill was finally passed in the Congress, the bankers and banking associations had somewhat changed their opinion on the law. They increasingly viewed it as a reasonable compromise.

What the Federal Reserve Act lacked was a clear distribution of power and monetary authority between the Federal Reserve Board and the Federal Reserve banks. This unresolved problem caused conflicts and controversies between these two bodies up to the 1930s. In fact, after the establishment of the Federal Reserve system, each Federal Reserve bank started setting its own discount rate; there was no national authority to coordinate the banks as the later Federal Open Market Committee on Monetary Policy (FOMC) would do. In the beginning, the district banks prevailed on an individual basis. Among them, the most relevant was the Federal Reserve Bank of New York.

Because the most important commercial banks were concentrated in New York City, the New York district bank was able to challenge the Federal Reserve Board of Washington. In particular, the district banks challenged the Washington board by setting up their own organization, the Governors' Conference, whose members were the heads of their own institutions. Led by the New York Fed and its president, Benjamin Strong, the district banks tried to make open market purchases and sales of Treasury assets, which eventually caused a chaotic and uncoordinated situation. In 1922, urged by the Washington board to coordinate market sales and purchases, the Federal Reserve Bank of New York and four other eastern district reserve banks established a committee in New York City to make joint purchases and sales. By the early 1920s and up to the New Deal reforms of the 1930s, the balance of power between the Federal Reserve banks and the Washington Federal Reserve Board started shifting toward the latter. The progressive waning of influence on the part of the district banks, caused at least in part by the death of Benjamin Strong, was marked by the Federal Reserve Board's decision to regulate and limit the right of the Federal Reserve banks' committee to make open market purchases and sales. As a matter of fact, in 1923 the Federal Reserve Board transformed that body committee into a system committee, known as the Open Market Investment Committee. Everything that the committee chose in terms of open market purchases and sales had to be approved by the Washington board to become effective. Nonetheless, the growing control over the open market operations did not end the long-term dispute between the board and the regional banks. At any rate, in 1930, just before the bank reforms of the 1930s, the Washington board once again changed the structure and functions of the Open Market Investment Committee—at this time, it was transformed into the Open Market Policy Conference, made up by all the Federal Reserve banks' governors. According to the new legislation, each district bank could leave the Open Market Policy Conference or choose not to work according to its policy, but the Federal Reserve Board was supposed to be updated on every choice in this regard.

When the United States faced the 1929 economic slump, the ongoing struggle between the Federal Reserve banks and the Federal Reserve Board and, above all, the incoherent and uncoordinated U.S. monetary policy that resulted were blamed for the economic crisis. This link between the fragmentation of the Federal Reserve system and the Wall Street crash that occurred in 1929 was probably deepened and intensified by what happened to the Fed in the late 1920s, for the death of Benjamin Strong in 1928 had sharpened the system's incoherence by opening an internal struggle for power within the system.

During the 1930s, the Federal Reserve system was widely reformed by the New Deal administration of President Franklin Roosevelt. Indeed, the Roosevelt administration and the New Deal era are renowned for the overall reforms that were achieved, so it is worth stressing how the Fed's reform was crucial and paramount to the New Deal reform process. A wide range of sectors in American society, from the federal government to labor, were affected by New Deal reforms, and the banking system and the Federal Reserve were on the top of the New Dealers' agenda. Such a discredited and criticized institution as the Fed could not avoid the Roosevelt administration's reform process. Broadly speaking, during the 1930s the Federal Reserve system was made more independent of the banking system and more unified within itself. What is still discussed among scholars, however, is whether these reforms also made the Fed more independent of the government and the White House. The main cluster of reforms took place between 1933 and 1935. The Banking Act of 1933 transformed the Federal Open Market Committee into a statutory body; up to that time, its composition had not changed, for it was still made up by the 12 heads of the banks. Furthermore, the Banking Act lengthened the term of appointment to the board of governors to 12 months. It also started augmenting the power of the Federal Reserve Board, another main feature

of the Fed reforms taking place throughout the first half of the 1930s. The board's power was enlarged by the Thomas Amendment to the Agricultural Adjustment Act, whereby it was granted the power to alter the reserve requirements (although this was an emergency power to be exercised only under the approval of the president).

In 1934 the Glass-Steagall Act required banks to choose between undertaking investment banking and specializing in commercial banking—that is, the taking of deposits and granting of loans. In turn, the 1934 act widened the lending power of the banks. Thereafter, any Federal Reserve bank was allowed to make advances to all of its member banks on any good security whenever it wanted to do so.

All of the acts described thus far were important to the reform of the Federal Reserve system, but the single most significant measure was the Banking Act of 1935, which encompassed all the main features of the reform process taking place during the 1930s. First, it changed the composition of both the Federal Reserve Board and the FOMC. The Washington board, renamed the Board of Governors of the Federal Reserve System, was still made up of seven appointed members, but their tenure was lengthened to 14 years; even more crucial, both the secretary of the Treasury and the comptroller of the currency were no longer ex-officio members of the board. Of course, the change made the Washington board and the Fed at large more independent of the administration. This reform had been promoted by the Fed bureaucracy and in particular by the candidate for the board chair, Marriner Eccles, but the Roosevelt administration would have preferred that the secretary of the Treasury and the comptroller of the currency continue to be ex-officio board members. Although the president was still in charge of appointing the Federal Reserve governors and designating the chair and vice-chair, the reformulation achieved by the Banking Act of 1935 established a Federal Reserve Board and a system at large that was independent of the government budget. As a matter of fact, one of the first results of these reforms was that the Fed became completely self-financing and did not work in accordance with either the president's or the Congress's budgetary policies. Further, the 1935 Banking Act strengthened the power and authority of the Federal Reserve Board not only in respect to the government but also with regard to the Federal Reserve banks. The restructuring of the Open Market Committee's composition in 1935 was aimed at unifying the system and reducing fragmentation by strengthening the role of the board in Washington. The heads of the district banks were renamed presidents of the Federal Reserve banks, and the FOMC, which once included only the 12 men who headed the district banks, would now include the seven members of the Washington board and five of the 12 presidents of the Federal Reserve banks. As such, this reform of the FOMC widened the influence and power of the Federal Reserve Board by granting it a voting majority on the FOMC. The Banking Act of 1935 consolidated the wider role of the Federal Reserve Board. First and foremost, the Board of Governors retained the right to determine the discount rate; consequently, the president of the Federal Reserve Bank of New York could not determine the discount rate on his own anymore. In addition, reserve banks could no longer carry out transactions on their own—each was now allowed to buy and sell government securities only on approval by or in accordance with the Federal Open Market Committee. Furthermore, the Board of Governors was charged with setting a ceiling to the interest rates paid by member banks. This provision, previously granted by the 1933 Banking Act and now confirmed, constrained the growth of saving accounts within the commercial banks. One more provision granted by the Banking Act of 1935 made it clear just how far these reforms went in consolidating the role of the Board of Governors as the most powerful and important body within the Federal Reserve system. The board's power to change the reserve requirements, initially established as an emergency power in 1933, was transformed into a permanent right; the board could change reserve requirements within a range spanning from the minimum percentages specified in 1917 to twice those percentages. Furthermore, as a result of the Securities Exchange Act of 1934, the board took over the regulation of credit advanced by banks to their customers for buying and carrying registered securities.

Even if the New Deal reforms are regarded as significant steps forward in terms of augmenting the Fed's independence and power, it is clear that in the following years and decades, the Federal Reserve system was weak both economically and politically. Its economic weakness resulted from the banking reforms of the 1930s, whereas its political weakness stemmed from long-term features of the system itself, deeply rooted in its origins and policy environment. In the following passages, the two areas are dealt with separately.

As mentioned, because its unity and cohesion had been strengthened, the Federal Reserve system was not only more independent of the government and the district reserve banks but also more powerful in regard to the commercial banks and the banking system at large. However, although the 1930s' banking reforms granted it more power before the private banking system and more control over monetary policy, the Fed actually controlled a smaller monetary system after 1940. This weakness was the result of one of the banking reforms promulgated in the 1930s. Concerned with the failure of the banking system, the politicians adopted, as already shown, a number of provisions; the Fed's reform was just one of them. Another response was the promotion of and support given to the thrift (savings) industry. The Roosevelt administration provided the thrift industry with a number of direct and indirect subsidies, ranging from deposit insurance to public housing programs and from urban renewal plans to deductible and guaranteed mortgages. This set of provisions made the thrift industry grow very quickly shortly after the New Deal era. Still a marginal player in the 1940s, the industry became a giant by the 1960s. Throughout this period, the number of mutual savings banks and savings and loan associations rose, whereas the thrift industry took over more and more of the mortgage sector. In the long run, the miracle of the thrift industry widened a financial sector untouched by and far from the Federal Reserve system. In fact, the thrift industry could rely upon its own agencies: Registered with state authorities, they could fix

their own reserve requirements, for they were not required to abide by the Fed's reserve requirements. In essence, these financial institutions were quite apart from the Federal Reserve system, and their growth and expansion reduced the size of the monetary system presided over by the Federal Reserve Bank. By the 1950s and 1960s, only one-third of the American financial institutions participated in the Federal Reserve monetary system.

The Fed's independence of the political system was not achieved until two decades after the New Deal reforms. Throughout World War II, the Fed worked according to the financial needs of the Treasury and Congress. But during the postwar reconstruction period, its relationships with its political partners started changing. As a result of the inflation experienced in 1946 and 1947, the Council of Economic Advisers was established to assist the White House, and the federal government's control over economic issues was strengthened. Given this legislative context and economic situation, the Treasury thought that the Federal Reserve Bank should raise interest rates, especially on Treasury debt. But the Fed insisted on keeping interest rates low.

This controversy, which lasted at least until the onset of the Korean War in the 1950s, unfolded the dispute about who should take charge of monetary policy, and in late 1950 and during 1951, the controversy became a top priority for the administration of President Harry S Truman. In 1951 the Fed's chair, Thomas McCabe, resigned and President Truman himself had to intervene. A number of meetings among the Federal Reserve Board, the FOMC, the Treasury, and the Truman administration were held during 1951. Hearings and meetings led to the Treasury–Federal Reserve accord of 1951 and 1952, an agreement whereby the Fed was no longer required to support the Treasury interest rates. Instead, interest rates were to become a matter of consultation and agreement between the two players.

The accord can be regarded as a further step toward independence from politics for the Fed. But real independence was not reached clearly until as late as 1953, when a new administration came to power. This move toward greater independence, begun under Truman's watch and carried on by Eisenhower, was consistent with the history of the Federal Reserve system to that point. Ever since Congress had established the Fed to respond to a pressing economic setback in America after World War I, successive administrations had granted the Fed more independence. Thus, the Federal Reserve's role and independence was consistently decided and guaranteed by a wide consensus within the political environment of which it was a part.

An overview of the Federal Reserve system's history throughout the twentieth century shows that the institution followed a long route to clearer independence and a more stable organization and structure, mainly based on the crucial role played by the Federal Reserve Board. This tendency to become a more reliable economic institution charged with setting monetary policy continued, as described earlier, even after World War II. At that time, the Fed could leave behind the war experience that had tied it once again to political choices and budgetary issues. Throughout the post–World War II years, the economic institution continued to grow in terms of budgets, monetary policymaking, and reliability.

Nonetheless, under the Nixon administration in the 1970s, some disappointments arose in regard to inflation, and certain economists and presidential advisers were sympathetic to Milton Friedman's monetarist standpoint. (A monetarist is an economist who believes the money supply is the most important economic measure.) As happened in 1970, the Fed chair (in this case William Martin, whose tenure focused on low inflation and economic stability and a wide array of other economic indicators) was replaced by a monetarist policymaker (Arthur Burns). The Fed appeared poised on the brink of monetarism. Meanwhile, the inflation rate was climbing, and an even more significant wage-and-price control was put in place. Monetarists used this inflationary tendency throughout the decade to criticize the Federal Reserve system's structure and independence, and they blamed the Fed for the inflationary tendency—its immobility and sovereignty were seen as causes for inflation. As such, the economic trends of the 1970s can be regarded as a pretext to take on monetarism, a policy Paul Volcker pursued after being named Fed chair in 1979. Actually, the policy started to influence American policymaking only when Ronald Reagan became president in 1981. Under his administration, a tight monetarism was pursued to tame inflation, at the expense of the New Deal's legacies. Throughout the 1980s, monetary policy making led to a sharp deregulation of the banking system. The Federal Reserve Bank dealt with a mild recession from 1990 to 1992 in which interest rates were reduced to help stimulate the economy. From 1992 until the recession of March 2001, the Federal Reserve worked on other issues, such as reducing the amount of "float" (financial transactions that take several days to process, most commonly involving checks). With the widespread use of direct deposits by employers and debit cards by consumers, the amount of float declined throughout the 1990s. In 1993 more than $19 billion of transactions were floating for one to three days. By 1995 that number had dropped to $15.5 billion, and in 2000 the float amount plummeted to $774 million. The ability to credit funds instantly allows money to circulate more freely.

Since the recession of March 2001, which some economists believe ended by the summer of 2003, the Federal Reserve reduced interest rates to a 40-year low in an effort to stimulate the economy. With the prime interest rate at 1.25 percent, the economy has shown some signs of recovery, but businesses, fearful of future terrorist attacks after September 11, 2001, have remained cautious about reemploying laid-off workers or investing in more capital equipment. When the economy no longer is in danger of economic weakness, the Federal Reserve will once again raise interest rates to counter inflationary tendencies.

—*Simone Selva*

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Foreign Policy

Since the founding of the United States, American foreign policy has vacillated between isolationism, or the reluctance to become involved in global politics, and moralism, which dictates that foreign policy be justified on ethical principals. The uniqueness of this approach to foreign policy derives from the peculiar experiences and circumstances of the United States itself: its geographic isolation from the centers of world conflict during the nineteenth century, its tendency toward pacifism in international affairs, and the uniqueness of the American experiment.

When the founders broke constitutional ties with England, they were convinced of the need to develop a foreign policy distinct from that of the European powers—a position characterized by Thomas Jefferson's admonition against entangling alliances. This retreat from European politics can be seen as a retreat from the power politics of the time, for political conflict was centered in Europe. This period of American foreign policy can be described as the realistic period, an era in which when the United States understood that neutrality in international politics was necessitated by the national interest of the country.

The next period of foreign policy was guided by an approach that involved thinking in terms of moral principles yet acting in terms of power; it is known as the ideological period. In an era when the European powers struggled for colonial possessions through imperialistic ventures and wars of conquest in Africa and Asia, American foreign policy was influenced by the writings of Jefferson and John Quincy Adams, who described political interests in moral terms. The Monroe Doctrine and Manifest Destiny are the best examples of political interests couched in moral terminology. The ideological period ended during the latter half of the nineteenth century as the United States sought to become a great power, and it is best exhibited by the U.S. annexation of the Philippines following the cessation of the Spanish-American War in 1898.

America entered a new phase of foreign policy, known as the utopian period, when moral principles no longer justified the country's national interest and foreign policy was divorced from political reality and dictated in terms of moral principles. This phase is best characterized by the political thought of Woodrow Wilson, who opposed the pursuit of America's national interest—maintaining the balance of power in Europe—on moral grounds. Yet when President Wilson led the United States into war with Germany, he pursued the right policy—again, maintaining the balance of power in Europe—for the wrong reason. Wilson could only respond to the national interests of the Allies in terms of his own moral principles. At the Treaties of Paris and Versailles, the president had to agree to a series of compromises that, in effect, meant a capitulation of those very principles.

The isolation of the interwar period was interrupted by America's entrance into World War II, primarily on moral grounds. The Axis powers were characterized as evil; thus, the goal of U.S. involvement in World War II could be viewed as the destruction of evil.

Following the end of World War II, America's isolation from global politics ended, necessitated by a series of events that culminated with the onset of the cold war with the Soviet Union. A globalist course of foreign policy, motivated by domestic values, was set in motion. America's foreign policy was to be based on the principles of maintaining the balance of power with the Soviet Union and assuming global responsibility. Threatening statements against Western-style capitalism by Soviet leader Joseph Stalin would be the guiding force of American foreign policy throughout the cold war era. Put another way, America's global involvement would be based on opposition to the Soviet Union.

With the breakdown of the cold war consensus, as exemplified by America's defeat in Vietnam, succeeding administrations attempted to introduce a new foreign policy to replace the outdated containment strategy. The administration of President Richard Nixon sought to reintroduce power politics to American foreign policy, whereas Jimmy Carter's tried to introduce a global politics approach. Ronald Reagan and his administration restored a foreign policy from an earlier era, and the Soviet Union and the threat of international communism became the centerpiece of American foreign policy until the collapse of the USSR in 1991. Following the Soviets' fall, the process of formulating American foreign

policy objectives focused on economics. Changing technology, a growing population, and economic development necessitated the emphasis on economic needs.

In the post–World War II period, the foreign policy of the United States became directly entwined with foreign aid. In 1947 President Harry S Truman announced the Truman Doctrine, which provided funds for anticommunist forces in Greece and Turkey. The success of the Truman Doctrine resulted in the implementation of the Marshall Plan in late 1947, which provided $12 billion for the rebuilding of Western Europe (the plan had originally also been offered to the Soviet Union, which refused to participate). During the 1950s and 1960s the United States continued to divert foreign aid to areas on the verge of falling to communism, and it increased military expenditures in regions such as Korea and Vietnam. Funding went to the Afghanistan freedom fighters after the Soviets invaded that country in 1979, and aid was provided to the Contras in Nicaragua in an effort to topple the communist-backed Sandinista government. The United States also earmarked over $23 billion for the Strategic Defense Initiative (Star Wars) project that ultimately resulted in a series of U.S.-Soviet treaties to limit missiles. After the cold war ended with the fall of the Soviet Union in 1991, foreign policy expenditures took on a different function.

Since the terrorist attacks of September 11, 2001, the United States has augmented its financial support of countries in Southeast Asia with large Muslim populations. Increases in assistance to nations such as India, Pakistan, and the Philippines rose between 17 percent and 250 percent. Pakistan received $200 million in 2002, and India received an increase of $25 million during the same period.

In 2002 the United States continued to provide foreign assistance to a number of countries and international organizations around the world, totaling $15.4 trillion. Israel received $720 million, Egypt $655 million, Jordan $150 million, East Timor $25 million, Mongolia $12 million, and the Sudan $10 million. Israel and Egypt also received $2,040,000 and $1,300,000 in military expenditures, respectively. In addition, the United States also spent $615 million in Eastern Europe and $795.5 million in the former Soviet Union. Another $318.5 million went for antiterrorism programs. Most of the balance of the foreign assistance budget focused on a variety of international programs, such as the Peace Corps, the Export-Import Bank, the Trade and Development Agency, HIV and AIDS research, refugee services, technology research, and efforts to end international slavery.

The U.S. economic involvement in foreign policy continues to promote the peace and stability of a number of regions around the world. It also promotes American interests and attempts to address the needs of peoples in distress. As in the past, political, cultural, and social considerations determine the amount and availability of U.S. funds provided to countries around the world.

—Keith A. Leitich

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Government Domestic Economic Policies

The federal government of the United States is a major promoter and regulator of the American economy. Vast bureaucratic agencies and commissions staffed with thousands of experts monitor the economy and adjust various fiscal and monetary levers in an ongoing and complicated effort to maintain a healthy economy. These institutions include—but certainly are not limited to—the White House, Congress, the Federal Reserve Bank, the Council of Economic Advisers, the U.S. Treasury, and the Federal Trade Commission (FTC).

The United States has been the largest free market economy in the world since the late nineteenth century. But it is hardly a "pure" capitalist system. Rather, government and the private sector together comprise a "mixed" economy, one in which government economic policy makers interact continually with entrepreneurs, corporations, workers, and consumers. This arrangement has been especially true since the 1930s, when the role of government in the economy grew dramatically under President Franklin D. Roosevelt's New Deal. And since World War II, the scale and scope of the government's economic expertise, programs, and policies have grown exponentially.

Throughout the history of the American Republic (and even during the colonial period), political leaders as well as ordinary citizens have made sense of their economic lives by relying on metaphors, models, and other frameworks for understanding individual and collective economic behavior. Political leaders and economic policy makers have shared a common set of goals since the U.S. Constitution was ratified in 1787: robust growth of the economy, welfare for the citizenry, and low rates of unemployment and inflation. But they have often disagreed about the best policies for achieving these goals, and prevailing economic ideas have changed dramatically over time.

The Era of Promotionalism: From Constitution to Civil War, 1787 to 1865

In 1776, the year the Declaration of Independence was signed, the Scottish political economist Adam Smith published a work that would become one of the most influential economic treatises of modern times: *The Wealth of Nations.* Smith advocated that governments limit themselves to maintaining security, leaving economic affairs in private hands. Markets, he argued, do a much better job of setting prices and maintaining quality than governments.

But Smith's vision was not reality in the British colonies of North America in 1776. Instead, the economies of the colonies were controlled by a variety of economic policies integral to the British imperialist system. Operating a global system of commerce designed to benefit the homeland, the British monarchy defined what products the American colonies could produce, export, and import. It also prohibited colonists from coining money. Although historians disagree about the precise economic toll these mercantilist controls exacted on the 13 colonies, there is little doubt that the American Revolution was, in large measure, a fight for greater economic independence.

The patriots who fought for independence faced, among other things, the practical problem of raising and funding an army without a central government. By 1775 the Continental Congress had assumed many of the economic functions of an indigenous central government, such as forming a postal system, issuing paper currency (known as Continentals), and levying taxes on the states (but not individuals). However, some states refused to tax their citizens and issued their own paper currencies, which caused a massive devaluation of Continentals. The situation was stabilized in 1781 when Congress retired the currency.

The U.S. Constitution defined a remarkable system of representative government but also held great economic significance. It empowered the central government to levy taxes and collect duties on imports, to regulate domestic trade, to grant patents, and to coin money. To establish the new nation's credit on a firm footing, it provided for the redemption of all war debt. The Constitution also authorized a navy and army to defend the nation and to protect and expand commerce.

In the 1790s the Federalists (led by Alexander Hamilton, the first secretary of the Treasury) and the Anti-Federalists (or Republicans, most notably Thomas Jefferson and James Madison) struggled over the issue of central government power. In the end, despite the fact that states retained a good

deal of power and independence in economic affairs, the Federalists nevertheless made several important gains, although they did not achieve all of their aims. These gains included the establishment of a protective import tariff, national excise taxes, a stronger army and navy, and a national bank. Congress would also collect and publish statistics on the nation's population (the ten-year census), build lighthouses and harbor facilities, and support scientific exploration.

During the antebellum period (1790–1860), federal economic policy was most influential in four areas. One pertained to tariffs and subsidies. Among those benefiting from protective tariffs and subsidies were cod-fishing enterprises, telegraph companies, stagecoach lines, and small-arms manufacturers. Merchant shipping was an especially large beneficiary: Congress imposed discriminatory duties, offered mail contracts and generous subsidies ($14 million between 1845 and 1858), and excluded foreign competition in the coastal trade.

A second important dominion of federal economic policy was banking. At Hamilton's urging, Congress federally chartered the Bank of the United States (BUS) in 1791. Capitalized at $10 million, BUS issued much-needed paper currency, provided loans to the Treasury and to responsible state banks, and served as the federal government's repository and fiscal agent in foreign exchange. Although BUS helped stabilize the nation's banking and currency and facilitated commerce, Jefferson and other Anti-Federalists declared it a threat to sound hard currency (gold and silver) and to agrarian interests, and they prevented a renewal of the bank's 20-year charter in 1811. The Second Bank of the United States (1817–1837) had a similar history, though on a larger scale. Expanded to 29 branches by its aggressive president, Philadelphia banker Nicholas Biddle, the Second BUS met strong opposition from President Andrew Jackson as well as from competing state and local banks. From the time the Second BUS's charter renewal was denied until the Civil War, the United States had no central bank. During that period, state banks, many of them reckless "wildcats," issued their own currencies, which often fluctuated wildly in value. But many state governments reined in such practices with various regulations—most notably, requirements that chartered banks hold a minimum percentage of specie (money in coins) for every paper dollar issued.

Third, the federal government played a major economic role through its land policies. Throughout the antebellum period, the government pursued an explicit strategy of territorial expansion that involved purchasing or, in some cases, forcibly taking vast tracts of western lands. Large purchases from France in 1803 (the Louisiana Territory), from Spain in 1819 (Florida) and 1845 (Texas), and from Great Britain in 1846 (Oregon) were supplemented by military takeovers of Mexico-controlled California and the Southwest and of vast Indian lands. Federal government policies controlled the transition of new lands to the status of territories and then states.

To encourage the settlement and cultivation of new lands—the central aim of federal land policy—Congress passed several key laws. The Homestead Act offered a quarter section (160 acres) to any adult who lived on and cultivated the land, at a price of just $1.25 per acre after six months or for free after five years. Subsequent legislation—the Timber Culture Act of 1873, the Desert Land Act of 1877, and the Timber and Stone Culture Act of 1878—offered landownership incentives to homesteaders who cleared or irrigated marginal lands. But these policies largely failed to achieve their intended goals. Of the 96 million acres distributed under the four acts, only one-sixth of them were distributed as gifts, and only one western farmer in ten was a true homesteader. Rather, cheating and speculation were rampant as choice lands were gobbled up by large speculators and then divided and subdivided for profit.

Fourth, the federal government played a major role in building the nation's transportation infrastructure. In 1806 Congress authorized construction of the National Road to encourage western settlement and commerce. After an intense political battle, Cumberland, Maryland, was selected as the eastern terminus, and the road reached Wheeling, Ohio, in 1819. Although Treasury Secretary Albert Gallatin spelled out an ambitious plan for federal turnpike and canal building in his *Report on Roads and Canals* (1808), his plan was scuttled by constitutional arguments against a strong central government, by rivalries among states and localities, and by budgetary concerns.

Canals became major arteries for commerce in the antebellum period. The most successful was the Erie Canal, constructed between 1816 and 1825, when it connected Albany and Buffalo—and thus the East Coast—to the Great Lakes. The Erie Canal was built by the state of New York (with strong support from its governor, DeWitt Clinton) but financed by domestic and foreign private investors. It sparked many imitators in Pennsylvania, Ohio, and elsewhere. The federal government provided surveyors and some land grants to the states for these projects. But state governments played a more overt role by directly financing many of the projects. State public funds accounted for roughly three-quarters of the $190 million spent to build about 4,000 miles of canals (most of them linked to natural waterways) in the United States between 1815 and 1860. By the late 1840s, however, many of these projects had defaulted on their loans, and several states revised their constitutions to ban debt-financed improvements. Nevertheless, these public-private projects dramatically lowered transportation costs in many parts of the Northeast and upper Midwest.

By this time, canals were being eclipsed by railroads, which appeared in the 1830s. In Massachusetts, Pennsylvania, South Carolina, and Georgia, state governments financed the first rail companies. Although states turned away from direct investment in the railroads in the 1840s, they continued to grant generous charters that often gave rail companies the power to seize land through eminent domain and sometimes exempted them from taxation and rate regulation. Meanwhile, municipalities and counties played a growing promotional role, offering to build free terminals, subscribe to blocks of stock, and the like. For its part, the federal govern-

ment made generous land grants to railroads, in part to encourage private investors to build them and in part to reap the benefits, for railroad development boosted prices of nearby government lands. Together, state and federal governments gave about 200 million acres of land (an area roughly the size of Texas) to the railroads before the Civil War.

The Civil War wrought massive disruptions, many of them economic, that the federal government and the new Confederacy in the South struggled to overcome. Federal spending surged from $66.5 million in 1861 to $1.3 billion in 1865. Although the government introduced a new income tax in 1863 (repealed after the war) as well as new excise taxes, it financed most of its expenditures with loans and by issuing $400 million of greenbacks, a new paper currency. These actions contributed to runaway inflation, which seriously eroded the real buying power of Northerners. Consumer prices roughly doubled in the North during the war, whereas wages for skilled and unskilled workers actually fell. But the situation was far worse in the South. The Confederacy imposed no income tax until 1863. Rather, it printed more than $1 billion of new paper money, which became worthless with the South's surrender. By that time, the South owed more than $2 billion to domestic and foreign creditors. Although Southern money wages rose about 10-fold during the war, key prices climbed more than 30-fold.

More important, however, the Civil War assured Republican control of Congress (as Southern Democrats withdrew from the Union), which ushered in a set of economic policies that favored many powerful economic interests in the North and often encouraged economic development. These measures included the aforementioned Homestead Act; a new wave of loans and land grants for railroads (including authorization of the first transcontinental railroad); the Morrill Land-Grant College Act (which supported agricultural education and research); a contract-labor law that encouraged manufacturing investment; and a national banking system with the power to charter and regulate banks.

In these and other ways, federal, state, and local governments encouraged the economic development of the nation in the antebellum period. In general, government played a promotional role—protecting infant industries against cheap imports, opening new lands for settlement and cultivation, and encouraging investment in transportation and communication networks. But the government's efforts to foster a stable and adequate system of money and banking were uneven at best, and its control over the nation's natural resources too often led to speculation and reckless exploitation. The federal government played virtually no direct role in the slave-based cotton economy of the South. Roughly every 20 years throughout the nineteenth century, the U.S. economy was plagued with a severe recession that left millions of urban and farm workers destitute, yet the federal government did little or nothing to correct these recessions. Very few people thought that government could or should do much to control economic cycles, other than continue to protect the sanctity of private property and remove obstacles to entrepreneurial investment.

The Era of Industrialism: Regulating Trusts and Competition, 1865 to 1914

In the generation after the Civil War, the United States emerged as the world's preeminent economic power. Its railroad networks possessed more track than existed in Europe and Russia combined, and its behemoth iron, steel, and oil refineries far outproduced those of any foreign rival. Small and medium-sized firms persisted and multiplied, but national attention increasingly focused on the giant industrial corporations that were defining the era. Yet it was glaringly apparent that rapid industrialization, for all of its benefits, also brought a host of economic and social problems. As a result, whereas government had played a mainly promotional role before the Civil War, it took on a second, regulatory role as well in the antebellum period.

The regulation of business corporations typically began at the state level and later moved to the federal level. Railroads attracted the first intense regulatory scrutiny. Farmers and shippers in the Midwest were frustrated by secret rebates to large shippers and by complicated railroad rate schedules, especially those that forced them to pay higher rates per mile to ship commodities over short distances rather than long ones. Investors, large and small, were angered by the watering of railroad stocks (diluting the stocks' value), bogus construction contracts, insider trading, and the bond defaults that plagued many American railroads. All complained of the railroads' undue political influence. In the 1860s Illinois, Iowa, Minnesota, and Wisconsin passed the first state laws regulating railroads, which were soon imitated in neighboring states. These so-called Granger Laws were based on the principle that railroads should be regulated because they were indispensable "natural monopolies" affected with a "public interest." The Granger movement encountered opposition from railroad owners, who claimed the laws denied them their Fourteenth Amendment right to private property. The Supreme Court first upheld the Granger Laws in *Munn v. Illinois* (1877) and then reversed itself in the *Wabash* case (1886), in which the Court affirmed that only Congress had the power to regulate interstate commerce.

The *Wabash* ruling left the door open for federal regulation, which many railroad executives also were advocating by this time. They wanted to eliminate the worse abuses of less responsible rivals, to deal with a single set of federal commissioners rather than scores of different state regulators, and to take a hand in defining the new regulation. The result was the Interstate Commerce Act of 1887, the first federal regulation of business in U.S. history. Its major provisions mandated "just and reasonable rates," outlawed price discrimination, prohibited pooling arrangements, and established the five-member Interstate Commerce Commission (ICC). Initially, the ICC had little impact. It held no explicit powers of enforcement, and its language about "just and reasonable rates" was subject to broad interpretation. Moreover, the courts more often than not ruled in favor of the railroads. But in the Progressive Era (see the discussion that follows), several additional laws—the Elkins Act (1903), the

Hepburn Act (1906), and the Mann-Elkins Act (1910)—gave the ICC investigative, enforcement, and rate-setting powers.

The second major federal regulation of corporations came with the passage of the Sherman Anti-Trust Act of 1890. That measure was designed to deal with the growing problem of business concentration, especially in the manufacturing sector. State incorporation laws prohibited a corporation in one state from owning a corporation in another. But giant firms saw this act as a great obstacle to expansion and interstate management of their assets. In 1882 a lawyer for Standard Oil devised the first "trust," a way of skirting the prohibition against interstate corporate ownership. Soon, several other industries consolidated as trusts. States responded with antitrust laws; 15 were passed between 1888 and 1890. In 1889 New Jersey, hoping to attract more business, passed a holding-company law that gave corporations a new way of legally consolidating their multistate operations.

The Sherman Anti-Trust Act of 1890 outlawed all "contracts, combinations, and conspiracies in restraint of trade." But like the Interstate Commerce Act, it was vaguely worded, weakly enforceable, and usually interpreted by the courts in favor of big business. In one crucial Supreme Court ruling—the *Addyston Pipe* case (1898)—the Court affirmed that collusion was illegal but merger was legal. This ruling encouraged a massive wave of corporate mergers at the turn of the century. But Congress put teeth in the antitrust law during the Progressive Era. In 1911 the Justice Department broke up two of the world's most powerful monopolies, Standard Oil and American Tobacco. In these cases, the Court articulated a "rule of reason" that distinguished between "good" trusts, which controlled a dominant market share but did not act anticompetitively, and "bad" ones, which interfered with competition. In 1914 antitrust law was significantly strengthened and expanded by passage of the Clayton Act, which created the Federal Trade Commission; the commission was given the power to investigate anticompetitive practices and issue "cease and desist" orders. The Clayton Act also outlawed interlocking directorships, selling and buying contracts, and price discrimination. In this way, U.S. antitrust policy had become more a matter of administrative government rather than court interpretation.

In the late nineteenth and early twentieth centuries, progressivism—a constellation of reformers and reform movements struggling with the effects of industrialization, urbanization, and immigration—fostered the passage of a wave of economic legislation intended to reform business and improve labor conditions. The strengthening of railroad regulation and the antitrust legislation, discussed earlier, were among the most important measures. Such reforms often were pioneered at the state level before being emulated nationally. The so-called Progressive presidents, Theodore Roosevelt (1901–1906) and Woodrow Wilson (1913–1921), made the greatest strides. Roosevelt saw that big corporations could benefit society with their great efficiencies, but he also felt that government should be given the power to rein in abusive firms. He believed in using a combination of publicity, antitrust law, and regulations to keep corporations in line. In 1906 alone, his administration passed the Hepburn Act, the Pure Food and Drug Act, the Meat Inspection Act, and an employer-liability law for the District of Columbia. Roosevelt proposed measures that were even more ambitious, such as a federal incorporation act and employer liability for all federal workers, but probusiness forces defeated them.

The Wilson administration's three major economic measures were the Clayton Act and the Federal Trade Commission Act, discussed earlier, as well as the Federal Reserve Act of 1913. The last of these measures created the U.S. Federal Reserve system (commonly known as the Fed) to address a number of weaknesses in the financial system that had long plagued the economy. The Fed operated 12 district banks distributed throughout key economic regions of the country. Individual banks were encouraged to become members of the system by subscribing to a portion of the stock of their regional Fed. Boards of governors appointed by member banks and by the central Federal Reserve Board ran the regional Feds. The system therefore shared power between public and private interests and represented and served diverse regional economic interests.

To encourage responsible banking practices among its members, the Fed enforced minimum reserve requirements (the minimum cash on hand required of financial institutions under the law). To moderate business cycles, it raised or lowered the rediscount rate—the rate at which it loaned money to member banks. The Fed also acted as a clearinghouse for obligations among member banks and as the federal government's fiscal agent. In the 1920s the Fed began to ease or tighten credit by buying or selling large blocks of government securities—its so-called open market operations. The Federal Reserve gave the nation a permanent and largely effective central bank.

The Progressives also instituted many new forms of national labor regulation. Up to this time, employee-employer relations were generally governed by the "fellow servant" rule, which left employers free of any responsibility for worker injury or death on the job. Moreover, Progressive legislation severely limited the widespread practice of using the Sherman Act against labor unions (as organizations "in restraint of trade") rather than to control corporations. Progressive legislation also provided minimum-wage laws for women workers, restricted the hours and working conditions for child workers, and required pensions for indigent widows with children. In spite of these gains for industrial workers, however, local, state, and federal governments usually sided with employers during labor disputes. For instance, governors often called out state militias to help manufacturers put down strikes.

The rise of giant corporations after the Civil War encouraged the expansion of state and federal regulatory powers in response. Government policies continued to foster economic development in a variety of ways, from tariffs to liberal immigration laws to agricultural extension services, but the government now also played a larger role as the arbiter of disputes, enforcer of competition, and guardian of the industrial worker.

The Era of National Emergencies: Economic Policies in World War and Depression, 1914 to 1945

Three national crises—World War I (1914–1919), the Great Depression (1929–1939), and World War II (1941–1945)—ushered in a new era of relations between the government and the economy. To mobilize for war, to soften the economic disruptions of war, and to cope with the century's most severe economic depression, American citizens called on their government to dramatically expand its role in the nation's economic affairs. But this expansion often was curtailed or limited by continuing fears of a strong central government and by a continuing belief in the natural and inevitable character of business cycles.

When World War I began in Europe in August 1914, the United States was strongly isolationist. Although supplying the Allies with large quantities of war-related foodstuffs, raw materials, manufactured goods, and loans, the country did not begin to seriously mobilize for war until mid-1916, and it did not enter the war as a combatant until April 1917. But the mobilization process did not go smoothly. In 1916 it was handled mainly by the Council of National Defense (CND) and the U.S. Shipping Board, with the result that shortages of tanks, planes, bombs, and critical materials were commonplace. In July 1917 the CND created the War Industries Board (WIB) to set priorities and increase production of critical materials. This was the first formal attempt at central economic planning in U.S. history.

But the WIB did not possess clear, constitutional powers to compel manufacturers to abide by its priorities. Many companies did so voluntarily, motivated by patriotism, profit seeking, or both. But the WIB did not become reasonably effective until 1918, when Wilson established a price-fixing board within the WIB and appointed as its head Wall Street tycoon Bernard Baruch. Structuring the WIB more like a corporation, Baruch staffed it with business leaders, established functional divisions, and instituted a range of controls over the production and distribution of food and fuel to discourage shortages, hoarding, and price discrimination. The WIB also operated adjustment boards to control wages, hours, and working conditions. And in its most dramatic exercise of power, Baruch's board took over operation of the nation's railroad system in April 1918, followed by the telephone and telegraph systems. Although most businesspeople initially viewed these actions with alarm, the wartime business-government partnership proved to be mostly beneficial for American business. Corporate profits rose generously during the war. The government also relaxed antitrust enforcement.

The federal government financed about two-thirds of the war effort by levying new or increased excise, estate, and income taxes. The Sixteenth Amendment, passed in 1913, authorized an income tax, which soon was instituted on a sharply progressive basis, ranging from 3 to 63 percent. Meanwhile, the country suffered from severe price inflation, brought on by a combination of heavy gold imports and liberal Federal Reserve credit policies.

The new enthusiasm among business leaders for a strong business-government partnership dissipated rather quickly with the return of peace. Under presidents Warren Harding (1921–1923) and Calvin Coolidge (1923–1929), the federal government raised tariffs, lowered taxes, made frequent antitrust exemptions, and staffed the FTC with business-friendly regulators but otherwise left big business alone. The gross national product (the total market value of the goods and services produced by the United States in a given year) rose 43 percent between 1920 and 1929, spurred by the mass production and mass marketing of automobiles, electricity, and consumer durables. The agricultural sector suffered severely during the 1920s, but the government acted only to expand credit and to encourage cooperative efforts of farmers.

When engineer-businessman Herbert Hoover was elected president in 1928, big business was held in high esteem, labor union membership was declining, and stock prices on Wall Street were skyrocketing. The stock market began a harrowing decline in October 1929 and did not hit bottom for three years. Hoover blamed speculators and foreigners for the Great Crash, and he called on business leaders to maintain wages and prices. Drawing lessons from World War I business-government cooperation and from his own Quaker background, he advocated "associationalism," an approach by which business leaders would voluntarily cooperate to control wages, prices, and output for the nation's good.

Although this approach proved naive, Hoover also took some concrete measures to revive the economy. The centerpiece of his efforts was the Reconstruction Finance Corporation, which ultimately loaned more than $3 billion to ailing railroads and financial institutions. He staunchly resisted direct government grants to either individuals or firms. Some of Hoover's economic policies were continued, in modified form, under the Democratic administration of President Franklin D. Roosevelt (1933–1945). Most notably, the National Industrial Recovery Act (1933) brought together leaders of big business to voluntarily set wages, prices, and output levels, reminiscent of Hoover's associationalism.

The federal government passed a dizzying array of economic legislation under Roosevelt's New Deal—15 major pieces of legislation in the first 100 days alone. To make sense of these many laws and the "alphabet agencies" they created, historians have employed various organizing schemes. One views New Deal economic policies and programs in terms of three fundamental goals: relief, recovery, and reform. Relief programs, designed to help relieve the suffering of hard-hit groups such as farmers or unemployed laborers, included the Federal Emergency Relief Administration and the Public Works Administration, which created thousands of construction jobs. Recovery legislation, intended to lift the economy out of depression, similarly often involved job creation; among the projects such legislation spawned was the Tennessee Valley Authority, a massive regional land reclamation and electrification project. Reform legislation, designed to permanently correct structural flaws or weaknesses in the economy, focused on agriculture, public utilities, and banking. The New Deal separated investment and commercial banking and created the Securities and Exchange Commission to

regulate Wall Street. Many programs were fashioned to achieve more than one of these goals.

The New Deal also expanded the federal government's role as a guardian of social welfare and organized labor. In 1935 the National Labor Relations (Wagner) Act ensured the rights of workers to organize and bargain collectively, and the Social Security Act provided old-age, unemployment, and other benefits. To some liberals, the New Deal did not go far enough: It virtually ignored certain groups, and it preserved the basic structure of American capitalism. Moreover, Roosevelt shared many of his predecessors' traditional values, as shown when he attempted to balance the budget in 1937, thereby bringing on a new recession. Still, the New Deal, whose dimensions are only suggested here, represented a dramatic expansion of federal economic power and activism.

World War II continued the trend. As Washington geared up for war in the late 1930s, many economic planners strove to avoid the production bottlenecks, shortages, and rampant inflation that had plagued the nation in World War I. As in that conflict, business executives played key managerial roles in the economy in the 1930s and 1940s, and as in the New Deal, Roosevelt again created scores of alphabet agencies. For war production, these agencies were the Office of Production Management (under General Motor's president William Knudsen) and the Supply, Priorities, and Allocations Board, both created in 1941. The U.S. economy converted to war production remarkably quickly, its wartime output surprising that of allies and enemies alike. Rationing and price controls were handled by the Office of Price Administration (OPA, 1941), which succeeded in holding inflation well below World War I levels. Labor unions sustained a no-strike policy through most of the war, but in 1943 Congress passed the War Labor Disputes Act, which strengthened the executive branch's power to stop strikes at government war plants. The federal budget soared between 1941 and 1945, with nearly 90 percent of the $318 billion in expenditures going directly to the war. This heavy price tag was funded by even heavier taxation, the large-scale sale of government bonds, and deficits that reached $55 billion a year by the war's end.

From Keynesians to Neoconservatism: Managing the Postwar Economy, 1945 to the Present

The wartime economy put into practice an economic theory that had begun to gain attention in the late 1930s. In 1936 British economist John Maynard Keynes (pronounced "Kanes") published *The General Theory of Employment, Interest, and Money,* arguably the century's most influential economic treatise. In his analysis of business cycles, Keynes argued that recessions could be so severe that they would no longer be self-correcting, as consumers hoarded money in spite of falling prices. He contended that government deficit spending (spending more than the government received in taxes by borrowing money through the sale of treasury notes) was needed to spark recovery.

Keynes's ideas, which seemed to be validated by the wartime recovery, were widely accepted by postwar U.S. economists and policymakers. Often, too, they were oversimplified and "bastardized," that is, used as an excuse to justify policies that relied too heavily on short-term fiscal solutions. (In fact, Keynes recommended monetary controls for most economic conditions.) Still, Keynesian economics dominated until the late 1970s. Far more than even during the New Deal, the federal government was deemed responsible for the health of the economy. This expectation was reflected in the passage of the Employment Act of 1946, which created the Council of Economic Advisers, a body of economists charged with analyzing the economy and reporting on it to the president and Congress.

In the 1950s and 1960s, the economy performed extraordinarily well. New products and growing efficiencies deserved much of the credit, but so did the new variety of macroeconomic management that gained prominence after the war. Using new quantitative techniques from the emerging field of econometrics, economic policy makers began to speak of "fine-tuning" an economy from which major business cycles had been virtually eliminated. Downturns became "corrections," and recessions were now known as "soft landings." Gone was the notion that business cycles were inevitable. In addition, heavy government spending on expanded social welfare programs and on the peacetime "military-industrial complex" (to support the nation's cold war doctrine) provided a steady stimulus to the economy. The federal government also made major investments in the nation's wealth-producing capacity through the 1944 Serviceman's Readjustment Act, or GI Bill, and the 1956 Federal Highway Act.

Postwar prosperity encouraged rising expectations about the safety and quality of American life, which were translated into a new wave of regulation. The New Social Regulation included some three dozen major new laws regulating the environment, the workplace, and consumer products. These included the Clean Air Act (1967, with later amendments), the Occupational Safety and Health Act (1970), the Consumer Products Safety Act (1972), and the Toxic Substances Control Act (1976).

Growth rates remained high and unemployment and inflation were low until the mid-1960s, when—with the economy running close to capacity—President Lyndon Johnson resisted raising taxes to pay for the aggressive, simultaneous expansion of his Great Society social programs and the Vietnam War. Thus began the "great inflation" of the 1960s and 1970s. Historically, inflation and unemployment had moved inversely, but by the early 1970s, both were topping 6 percent, leaving economists at a loss to explain "stagflation." In 1972 President Richard Nixon instituted wage-and-price controls, a remarkable step for the conservative Republican. Similarly, his successor in the White House, the liberal Democrat Jimmy Carter, began the broad-gauge deregulation of several major transportation, energy, communications, and manufacturing sectors: airlines, trucking, railroads, petroleum and natural gas, electricity, telecommunications, and financial services. Both presidents had used unconventional measures in grappling with a seemingly intractable economic slump.

The time was ripe for change, politically and within the

economics profession. In the late 1970s, new research suggested that overregulation (such as the New Social Regulation) and overtaxation contributed to economic slowdown. These ideas attracted the attention of some conservative Republican politicians, as did a theory proposed by University of Southern California economist Arthur Laffer—that cutting taxes would actually increase tax revenues. Presidential candidate Ronald Reagan ran on a supply-side economic platform, promising massive tax cuts to spur savings and investment, mild spending cuts, and a balanced budget. He and his successor, George H. W. Bush (1988–1992), cut taxes, scaled back health and safety and environmental regulation, and greatly reduced antitrust enforcement. Inflation fell, but the total national debt swelled to $4 trillion (rising from 23 percent to 69 percent of the gross domestic product [GDP], or the total market value of the goods and services produced by workers and capital within the United States in a year).

The administration of President Bill Clinton (1992–2000) followed a mainstream economic program, which was supported by a massive stock market boom, historically low energy prices, and large technology-related productivity gains. Since 1979 the economy also has benefited from excellent leadership at the Federal Reserve, under chairs Paul Volcker (from 1979 to 1987) and Alan Greenspan (since 1987). The simultaneous high productivity rates, low inflation rates, and high employment rates of the late 1980s and 1990s proved to be as baffling to economists as stagflation had been, though certainly more welcome.

Since the 1980s, economic policy makers have strongly favored opening up business to ever greater levels of free market competition, both domestically and globally. President George W. Bush (who assumed office in 2000) has prescribed supply-side policies much like those of his father. Yet, despite the fact that Keynesian government intervention seems to have fallen out of fashion, the federal government continues to play an enormous role in the country's mixed economy as a customer, supplier, promoter, and regulator.

—David B. Sicilia

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Immigration Policy

Immigrants have long provided labor and skills for America's economic development. For nearly 400 years, the "unpeopled" continent of North America attracted Europeans who sought free land and the opportunity for advancement that came with it. From the time that settlers arrived in Jamestown, Virginia, there was more available land than labor to work it, and even after land became scarce, workers still found employment in America's factories and mills. The nation's immigration policy, whether written or not, welcomed immigrants with open arms, then closed the door, and then welcomed them again.

Predominant tendencies allow a loose periodization of American immigration. Between 1776 and 1880, the United States welcomed immigrants. Then began a period of reduction lasting from 1880 to World War I. A period of exclusion was formalized in 1924, and it lasted until 1965, when the United States once again opened its doors to refugees and other foreign immigrants.

Indians, Indentures, and Slaves

Early experiments in using the labor of Indians, a potential workforce numbering in the millions, failed because most of the native peoples disappeared into the countryside. Those who did not frequently died from various European diseases, and war reduced the native population to a small percentage of their precontact 18 million souls. Another attempt at increasing the labor pool by establishing tenants in a transplanted English manorial system proved unsuccessful because nobody wanted to work for someone else unless faced with no other choice. Those who lacked the means to get to the empty land or the tools to break off into the wilderness had to sign work contracts, or indentures, to get their passage and a small grubstake at the end of the term, which varied from four to seven years. But once in America, the indentures (indentured servants) had a disconcerting habit of heading off across the mountains into the wilderness. Or they could blend into the neighborhood of the next colony, with no questions asked. Indentured servitude brought between 100,000 and 300,000 people to America from 1607 to the early eighteenth century. By 1800 cheap transatlantic transportation largely ended the practice.

Slavery, a system that provided another source of labor, flourished in the plantation economy that had arisen after the Jamestown settlers began cultivating tobacco instead of searching for gold. About 500,000 individuals were transported to America by the slave trade between 1619 and 1808. By comparison, the Caribbean had 3 to 4 million, and the total for the four centuries of the trade equaled around 11 million slaves. By 1750 America had some 200,000 slaves; by 1860 the nation, primarily the South, had more than 3 million. States such as Virginia, whose agricultural economy had faded compared to the virgin soils of the frontier South, developed a highly profitable slave-breeding business. Slavery lasted until 1865, fueling the expansion of the cotton and textile industries, establishing the shippers and merchants of New England and the middle states, and providing the bulk of the foreign exchange available to the United States for 80 years. Involuntary immigrants made an immeasurable economic impact, and American policy, if not allowing it, at least tolerated it.

Immigration in the Early National Period

The mass of immigrants in this period came voluntarily in wave after wave with the ups and downs of the European and American economies, and they provided the mudsill grunt labor. They usually rose through the ranks over time or returned home. All of this happened without a great deal of government involvement. The first immigration law, that of 1790, set a standard two-year residency for naturalization; Congress replaced the measure in 1795 with a five-year residency requirement. Between 1790 and 1875, Congress enacted only a dozen more immigration laws. By contrast, twentieth-century Congresses enacted that many immigration laws each decade.

Congress formulated the first American immigration policy for political rather than economic reasons. After the American Revolution, France experienced an extremely chaotic period from the beginning of its own revolution in

1789 through the Napoleonic Wars that ended in 1814. Wild swings in type of government and a great deal of violence against those with different ideas led to an influx of French refugees in America, individuals who used the safety of the United States to agitate for their particular brand of politics. American political leaders were split between pro-French (Jeffersonian) and anti-French (Federalist) policies. When the anti-French were in power, they enacted the Alien and Sedition Acts, which eased deportation while increasing barriers to citizenship. America's first immigration policy sought to repress immigrants who deviated from the official definition of appropriate political ideas for good Americans.

The founding fathers also disagreed on the future structure of the United States. The Jeffersonian, pro-French faction included mostly small-government agrarians. The anti-French Federalists supported manufacturing as a means of attaining self-sufficiency, a need made evident by the economic difficulties arising from the European conflicts between 1789 and 1812. After the War of 1812, Henry Clay introduced his pro-immigrant American System, with its internal improvements that helped attract immigrants to the interior region as farmers. Whether Germans, Scots-Irish, Huguenots, or other, these people dispersed or set themselves apart; they were mostly Protestant and similar to the old-stock Americans. The next wave of immigrants produced more friction than the handful of French who had just arrived.

The First Great Wave, 1830 to 1860

The first great wave of immigrants included over 4.9 million individuals. In 1860 some 13.2 percent of the total population of 31.4 million Americans claimed foreign birth. The 1830s saw the beginnings of a massive influx of Irish Catholics, who would build the railroads and populate the cities. As the population of Ireland exploded beyond the capacity of the land in the early years of the nineteenth century, Irish began to immigrate in large numbers. Ship captains and owners encouraged the immigration of these people as substitutes for the slaves they had transported before the slave trade was outlawed in 1808. Federal Passenger Acts in 1819, 1847, and 1855 set standards that made travel more attractive to Northern and Western Europeans. The 1855 act also drew the distinction between permanent and temporary immigrants.

With population pressure already great, the famine in Ireland in the mid-1840s forced a large number of Irish to flee their homeland. By the 1860s the United States had 2.5 million Catholic Irish, most of whom worked as manual laborers or domestic servants. Beginning in the 1850s, Germans, whose livelihoods had fallen prey to industrialization, provided another source of labor. Nearly a million of them went to the United States. And in the old Spanish Southwest, Mexicans arrived to work in agriculture, ranching, and railroad construction. In an unofficial expression of immigration policy, the American Party (more commonly known as the Know-Nothing Party) emerged in opposition to the influx of foreign competition.

Members of the Know-Nothing Party viewed immigrants and Catholics as threats to the Protestant United States. One of their goals focused on the exclusion of unassimilable immigrants. But growth, not nativism, remained their main policy. The Know-Nothings did not desire exclusion except in the case of the Chinese, whose presence generated the first laws indicating that, to some Americans at least, economic growth should not continue if it meant accepting all types of people into American society. Ethnic difference mattered in the 1850s.

After the discovery of gold in California, 200,000 Asians, mainly Chinese, exercised the grand American right of going where the opportunities existed. They built the transcontinental railroads and provided food, laundry, and other services for the forty-niners, who failed to strike it rich but did strike against Asian workers. Although the number of Orientals remained small, a good number of people felt there was something "un-American" about their appearance and about their ability to work for less than European Americans. The big difference involved housing, not wages. The smaller quarters offered to Asian workers saved the employer as much as 10 to 20 percent and made Asians more appealing economically. Initially, local and state governments enacted head taxes on Asians as well as other discriminatory legislation. The anti-Asian movement culminated in federal legislation. Congress passed the Chinese Exclusion Act of 1882, which barred the entry of any Chinese citizens for ten years. Exclusion became permanent in 1904 and remained in effect until the measure was rescinded in 1943.

The Chinese Exclusion Act became the first immigration restriction act since the Alien Act passed under the administration of John Adams; a later act, the 1906 Gentlemen's Agreement, extended exclusion to the Japanese. Filipinos, as American colonial subjects, remained exempt from exclusion.

The Great Wave and the New Immigrants, 1880 to 1914

The population of the United States in 1870 totaled 38.5 million, a number that would rise to over 100 million by 1914. Total immigration between 1860 and 1880 equaled 5.1 million; between 1880 and 1920, immigrants reached a peak of 27.5 million. Foreign-born persons comprised from 13 to 15 percent of the total population of the United States.

During the Civil War, the need for labor kept the military recruiters active. The United States even advertised in Irish papers for immigrants to join the war effort to replace dead or wounded soldiers. The economic boom that occurred after the war continued to attract immigrants, who helped build more railroads and farm the plains. During the Gilded Age, industrialization changed the nature of American work, eliminating the craftsmanship that had attracted the older English, Irish, German, and other Northern European immigrants. And those who wanted to farm found their efforts stymied by the disappearance of cheap arable land, made official by the closing of the frontier with the Census of 1890 and the final land runs in Oklahoma in 1889. The "good immigrants" stopped coming because better opportunity existed elsewhere.

Industrial labor proved mind-numbing, unskilled, and attractive only to those who intended to finance a better life

in the old country or who had to leave their homelands under duress. These individuals comprised the new immigrants—Slavs, Southern Europeans, and even some Turks and Jews.

Americans had encouraged mostly free and open immigration during the eighteenth and early nineteenth centuries. But in the late nineteenth century, that approach slowly changed. Some of the states began to regulate immigration in the years after the Civil War. In 1875 the Supreme Court ruled that regulation of immigration remained the responsibility of the federal government alone. At the same time, the economy, especially in agriculture, began to sour. But still the immigrants continued to come. Congress began passing immigration legislation. The Chinese Exclusion Act of 1882 and laws on alien contract-labor in 1885 and 1887 prohibited specific categories of immigrants. The Immigration Act of 1882 levied a head tax of $.50 on each immigrant; it also prohibited immigration of "idiots," "lunatics," convicts, and persons likely to become public charges. Additional restrictive legislation in 1891, 1903, and 1907 barred entry to other so-called undesirable classes, including prostitutes, polygamists, carriers of infectious diseases, and individuals who espoused unpopular ideas.

As one source of people dwindled, others flourished. But instead of people from Anglo-Saxon stock (and the Irish fell within this category by that time), these immigrants included Jews in flight from the horrors of Russian and other Eastern European persecution. Italians came after their livelihoods failed due to overpopulation, industrialization, and a general need to escape the problems of their homeland and test the land of opportunity. Similarly, economic, political, and social dislocation brought masses of Poles, Hungarians, Czechs, and Slavs. Indeed, 13 million of these people arrived between around 1900 and 1913, with their peak year being 1907 when 1.28 million immigrated. Between 1890 and 1914, nearly 4 million Italians migrated to the United States, some to stay and many to return home but all to impact the American economy and society.

In 1891 Congress established an immigration service that operated under the Department of the Treasury. The federal government began the task of processing the millions who migrated to the United States. Ellis Island, which processed 22 million people between 1892 and 1924, became the most important of the immigration stations. Aside from the inspection, detention, and hearing and administrative areas, the facility also housed hospitals, cafeterias, ticket offices, and space for the many immigrant aid societies. Of the 180 immigration service employees in 1893, 119 worked at Ellis Island.

Unlike the earlier immigrants who disappeared into the wide-open spaces and dispersed more broadly into inconspicuousness, the new immigrants swelled the ranks of the cities. Factories offered new opportunity, but immigrants remained restricted economically to the ghettos. Thus, these new immigrants were highly visible and very different, and their arrival resulted in a renewed nativism, the Red Scare, and the restrictions of the 1920s.

Exclusion, 1914 to 1965

In the aftermath of World War I, the combined effects of nativist restrictions, the Great Depression, and a second world war reduced annual immigration to an average of less than 100,000. As overall population rose 50 percent to 150 million in 1950, the percentage of foreign-born individuals declined to 6.9 percent.

During the late nineteenth and early twentieth centuries, the United States fell under the influence of Social Darwinism, also known as "the white man's burden"—the distorted version of Charles Darwin's evolutionary theory. According to Social Darwinism, humanity consisted of various races, with the Nordic race superior and all others ranked in descending order by degree of inferiority. The new immigrants ranked low on the scale.

Between 1907 and 1910, the Dillingham Commission examined the rampant immigration of the previous few decades. Its report reiterated the alleged inferiority of the new immigrants and recommended a slowdown in the number of immigrants the United States would accept. The new immigrants needed time to acculturate, and the United States needed time to Americanize them. Congress attempted to pass restrictive legislation several times up to 1915, but Presidents William Howard Taft and Woodrow Wilson vetoed each attempt. However, the pressure became too great with the onset of the Americanization movement and the distraction of the Great War. The Immigration Act of 1917 required a literacy test for all immigrants over 16 years of age, expanded coverage of the Gentlemen's Agreement to almost totally stop immigration from Asia by creating the "Asiatic Barred Zone," and introduced the concept of guests, who were allowed short visits to the United States but were not allowed to remain in the country.

World War I greatly reduced immigration and heated up the economy. The conflict, along with the Red Scare of 1919, led to the final closure of the open immigration policy. During World War I, the Creel Committee, along with various hyperpatriotic private organizations, placed intense pressure on those who displayed less than 100 percent loyalty to and zeal for America. Rabid patriots forced Germans to Americanize their names and habits. Congress passed legislation strongly reminiscent of the Alien and Sedition Acts of a century earlier. The antiforeigner fervor went unchecked and unshaken by the sudden end of the war. And fueled by the Russian Revolution and then the Bolshevik betrayal, the anti-immigrant sentiment grew through 1919.

In 1918, with hysteria and Americanism running wild and Wilson's government failing in leadership, the wartime economy shifted without plan and almost overnight. The helter-skelter demobilization and the too-rapid end of government controls over industry led to massive unemployment and a recession. Organized labor struck; black veterans refused to return to mudsill status. Frustrated patriots reacted with anger against nontraditional groups such as Russian Jews, and socialists and the radical labor organizations that immigrants often dominated. Older, established American labor groups and earlier immigrants frequently found themselves

included among these so-called undesirables. During this time, lynching, murder, riots, and suppression through violence and intimidation occurred. Immigrants became victims of government, too: Several hundred were deported with only minimal due process in 1919.

During the isolationist and disillusioned 1920s, Congress acted. Decades of Social Darwinism, general racism, and nativism culminated in two major laws that severely restricted immigration and attempted to reestablish the old immigrants at the expense of the new. The 1921 Quota Act (Johnson Act) established the first American immigration quotas. The act limited immigration to a number equal to 3 percent of the total number foreign-born residents of a given nationality in the 1910 census. Immigration from the Western Hemisphere remained unrestricted. The 1924 Immigration Act (Johnson-Reid Act) limited Eastern Hemisphere immigration to 154,227 individuals per year. Within this limit, Congress based the quota for each country on its U.S. population as of the 1920 census. As a result of these laws and easier immigration elsewhere, immigration fell from 800,000 in 1921 to less than 150,000 in 1929. By 1933, with the Great Depression in full force, America attracted only 23,000 immigrants from the entire world. As a result of the laws enacted in the 1920s, individuals from countries that encouraged immigration did not face restrictive quotas and people whose countries had quotas did not desire to emigrate to the United States. The depression finished the work the restrictionists had begun 40 years earlier.

The restrictions of the 1920s had an unfortunate effect before and during World War II. Some refugees fled to the United States—but not as many as might have come from among the millions affected by the racism and barbarism of the fascist regimes and the war. America still had a strong undercurrent of anti-Semitism in this period, and organized fascist and Nazi parties formed. The restrictions set into place in the 1920s meant that no adequate quota for the millions of persecuted Jews, Gypsies, and other dislocates existed. Yet America made room for approximately 100 German and Austrian physicists between 1932 and 1945. Five refugees—Peter Debye, Albert Einstein, Enrico Fermi, James Franck, and Victor F. Hess—had won Nobel Prizes before they arrived in the United States. In addition, Hans A. Bethe, Felix Bloch, Emilio G. Segre, Otto Stern, Eugene P. Wigner, and Maria Mayer earned Nobel Prizes while living in America. These immigrants proved vital to the nation's atomic weapons program.

As American men and women joined the military in World War II, the jobs they left behind went to women and African Americans previously excluded from the labor force. The Bracero program, which brought Mexican workers into the American Southwest, provided an additional source of labor. Mexican workers had long served as field hands, miners, railroad workers, and in light industry, with 55,000 Mexicans immigrating to the United States between 1850 and 1880. In the ensuing decade, the construction of a railway between the United States and Mexico employed a labor force in which up to 60 percent of the workers were Mexicans. Beginning in 1916, Mexico's economy declined after the Mexican Revolution. World War I drew unemployed Mexican workers into industry, trades, and service work within the United States, but American business exploited Mexican immigrants, leading Mexico's president, Venustiano Carranza, to establish terms in 1920 by which Mexican workers could help American farmers and ranchers. Accordingly, immigrants had the right to have their families with them, but they had to have contracts before crossing the border; the contracts defined pay, work schedule, location of the work, and other conditions. In effect, the contracts served as the prototype for the Bracero program.

Meanwhile, in 1924, the United States created the Border Patrol and defined undocumented workers as illegal aliens. When the depression hit, American employers did not want Mexican workers. The United States denied visas to Mexicans without proven employment and deported those they found illegally residing in the United States. But the depression gave way to the war, and the demand for labor rose again. In 1942 the United States and Mexico signed the Bracero Treaty, and between 1942 and 1964, 4 million Mexicans entered the United States as contract ranch and agricultural workers and as industrial laborers. At the conclusion of the war, the demand ended. Employers removed Mexicans, African Americans, and women from the better-paying sectors of the economy. After the war, the mechanization of farming and increased immigration saturated the agricultural labor market. Although made permanent by law in 1951, the Bracero program ended in 1964. The Border Patrol enforced immigration restrictions under a program known as Operation Wetback.

The McCarran-Walter Act, also known as the Immigration and Nationality Act of 1952, became law over the veto of President Harry S Truman. It retained the national origins quotas of the 1920s and the annual ceiling of 154,277 immigrants. It also repealed the anti-Asian laws and allowed 100 visas for each Asian country, and it established a preference within the national quotas for relatives and skilled workers. Latin American and Caribbean immigrants remained exempt from the quotas.

The Recent Immigrants—Refugees, Asylum-Seekers, Legal or Illegal, 1965 to the Present

By 1970 the American population passed 200 million and the percentage of foreign-born residents fell to an all-time low of 4.7 percent. Once immigration was liberalized after 1965, legal and illegal immigration led to a doubling of the percentage of foreign-born residents, to over 10 percent by the end of the century.

The mid-1960s brought concern that the United States would lose the cold war race to attract highly intelligent professionals. The solution called for bringing in people with education and technical skills through the Immigration Reform and Control Act of 1965 (IRCA). To liberals and President John F. Kennedy, immigration quotas remained unfair, disadvantaging some groups (such as the Irish who wanted greater access to American visas) while other groups (such as the

English) failed to use their allotted number of visas. Meanwhile, the fight over civil rights dominated the public agenda, and that meant agitation for the equal treatment of immigrants as well. Officials favored the immigration of talented and meritorious individuals regardless of country of origin. Reform dictated expanding the 1952 law by increasing the in-migration of relatives and skilled individuals. The humane impulse and the economic impulse both led in the same direction because the reformers assumed that the new immigrants would come from the same places as earlier immigrants had, albeit in different proportions. And the descendents of the old new immigrants thought their native lands would also benefit by Congress overturning the exclusions of the 1920s. They did not see that the United States no longer acted as an economic magnet, as both Northern and Southern Europe prospered in the 1960s. Instead, the 1965 law attracted a set of new immigrants, non-European in origin. The influx of Asian and Central American immigrants renewed the anti-immigrant feeling of the old, settled Americans, even among third-generation new immigrants. In fact, the demand far exceeded the available number of visas, and Congress began passing special refugee legislation periodically. Not until the Refugee Act of 1980 did the United States have a policy on the admission of refugees.

European immigration did not disappear, but the largest numbers of immigrants were now from Latin America, Africa, and Asia. As had others throughout American history, they left homelands plagued with economic, social, and political dislocation. And as they could manage it, they brought members of their extended families. During the ten years after the IRCA, European immigration dropped 38 percent while Asian immigration rose by 663 percent. Overall, 60 percent more immigrants entered the United States. Simultaneously, legal Latin American immigration continued to accelerate. In 1976 Congress established quotas for Latin America, and ten years later it began penalizing employers who hired illegal aliens but at the same time amnestied illegal aliens residing in the United States since before 1982. And from 1980 on, Congress persisted in broadening the definition of a refugee, increasing the number who qualified and entered the United States. This policy became a problem because refugees more often than not lacked economic assets or cultural tools.

For instance, Cubans fled Fidel Castro's regime after the revolution in 1958. In the initial wave, from 1959 to 1962, the Cuban refugees were anti-Castro leaders with education, skills, and resources. Those in the second wave still came from the middle class and arrived between 1965 and 1973. The third wave, made up of the Mariel boatpeople of 1980, appeared to many Americans as the dregs of Cuban society—prisoners and drug abusers, many of whom were black. Because the Marielitos tended to seek residence in the older Cuban communities, especially in Miami, they provoked conflict and hardship. Some Americans questioned the policy of having an open door for refugees from communist regimes.

With Cubans disturbing America's tranquility, along came the Haitians. Because the Haitian government remained a friend of the United States, immigration officials almost always denied Haitians asylum. U.S. policy assumed that refugees from communist countries were fleeing repression, whereas refugees from noncommunist allies were classified as economic immigrants. And economic immigrants were subject to quotas: The rejection rate neared 99 percent. Those who got in, most of whom were black and from lower-class backgrounds, crowded in close proximity to the Marielitos and previously established Haitians. They often placed a drain on the social and economic resources of the places where they settled.

The Vietnamese arrived next. The first wave, composed of those who arrived after the 1973 collapse of Saigon, had resources and a cultural affinity for America. People in the next wave possessed less of both. The final wave included the boatpeople. Problems in the U.S. economy, nose-diving from the oil crisis of 1973, created economic friction that affected even those in the second wave. Hard-working and ambitious, these immigrants conflicted with the Louisiana and Texas gulf communities in 1975. Americans suffered from stagflation. Living expenses rose rapidly, wages remained stagnant, and trawlers overfished the Gulf of Mexico. Into this economic malaise came the Vietnamese. They were "different," they overfished and undercut, and they had government assistance. Some Americans became increasingly upset that their government continued to help their competition, the Vietnamese and the Cubans, who seemed too alien to them in the first place.

The situation continued to worsen. For instance, some Americans felt that the Hmong, who came from Laos in the late 1970s and early 1980s, appeared markedly different and would require a long time to assimilate. These Americans noted that the Hmong had had a written language for only a generation; their illiteracy rate remained high; their culture was nonindustrial and Oriental; and they seemingly did not have the skills to make the transition but were able to get onto welfare. Then they clustered together and practiced their strange customs and their animistic religion (animism). Even their food seemed odd.

Colombians, Salvadorans, and others who sought sanctuary from right-wing political regimes seemed less conspicuous and controversial. Their cultural and economic values tended to be similar to those of the surrounding communities, and they fit in nicely—when they could get in. Others, such as the new Irish, felt fully at home within the industrial West but often ended up in the underground economy, frustrated by the insufficient numbers of visas needed for them to become legal, mainstream, fully employed workers utilizing their education, skills, and talents. And the illegal aliens continued to cross the 2,000-mile-long border between poverty and opportunity. They came from Latin America and Mexico at a rate of 250,000 to 750,000 per year. They located first in California, Texas, and the Southwest, finding work as cheap labor and, some said, placing a burden on social services. Then they moved to the midwestern cities, medium and large. By the early years of the twenty-first century, evidence indicated that Europeans, Asians, and Africans as well as Latin Americans all used the southern route of entry.

Immigration restriction proved a hopeless policy. De-

mand did not falter, and the process did not improve despite amnesties in 1982, 1986, and the late 1990s. Among his first actions as president, George W. Bush proposed legalizing the 3 million illegal Mexicans already in the United States in 2001. Yet, as some saw it, amnesties did nothing more than legitimate huge numbers of illegal aliens. And the volume of illegal aliens did not seem to decrease. The continuing failure of policy and the accommodation of illegality increasingly outraged those who felt that the United States already had a sufficient number of tired, poor, and huddled masses.

In the 1980s the first major, widespread backlash occurred. Broader than the Texas and Louisiana friction of the 1970s but based again in a time of economic downturn, this effort took several forms. Supporters of the English-only movement wanted to require English as the official language of government and business. The movement failed to achieve the passage of legislation, which caused some people to lose interest until the issue reemerged later.

In California and many other places, the problems of American society were obvious: crime, moral decay, increased income disparities, racial conflict, and a general malaise and cynicism. California set the pace for immigration restrictions and reforms, and the federal government changed the Immigration and Naturalization Service and immigration laws once again. Meanwhile, on one hand, some Californians fought to eliminate bilingual education, welfare for illegal aliens, social services, and what they perceived as the unfair tax burden they had to assume to support illegal residents who seemed to steal their jobs. Pro-immigrationists, on the other hand, managed to forestall the most drastic changes that would have adversely affected immigrants, arguing that the immigrants filled the low-end jobs and moved quickly out of social services to self-sufficiency: In fact, they rapidly brought more resources to California. Although reformers demanded change and supporters of change argued the economic benefits of either leaving the issue of reform alone or opening it up, Congress passed, on an average, one new reform law each year through the 1990s.

Illegal or legal, the immigrants still had a role in the American economy. They no longer built the railroads, but they replicated the patterns of the late nineteenth century. They moved into neighborhoods that were badly decayed. In New York City they helped to revitalize burned out neighborhoods in the south Bronx and east Brooklyn. Minority-owned businesses in New York grew between 1987 and 1992, with black businesses rising from 17,400 to almost 36,000; Hispanic from 10,000 to over 34,000; and Asian from 27,000 to 46,000. Ninety percent of those businesses belonged to immigrants. They did not open manufacturing businesses already in a long decline. Rather, the emphasis remained on service businesses—delivery services, phone parlors, remittance shops, and import/export firms. Immigrants worked as day laborers and contractors—the dirty, low-profit, low-end counterparts to the stoop labor of the migrants who harvested the Southwest and the Midwest. Koreans ran grocery stores. Russians, then Haitians, then Pakistanis, and then Ethiopians, Dominicans, and Nigerians drove taxis. They even filled the niches, running jitneys after hours or in neighborhoods where the licensed cabs would not run. The multiplier of these tiny businesses came in the multishift operation, the gasoline and tires, and the ability of the stranded and unemployed to get out of the neighborhoods and move to where the jobs were. Entrepreneurial immigrants are also consumers of housing, transportation, and services.

Concern grew that illegal aliens would become an increasing problem because American immigration policy did not match the economic needs of the country; this concern produced a strong restrictionist movement late in the twentieth century. Although supporters of the movement were vocal, they failed to move policy, which remained an inconsistent hodgepodge of enforcement, amnesty, and other flip-flop measures.

The Federation for American Immigration Reform (FAIR), established in 1979, was the first of the restrictionist organizations; in the late 1990s, it had approximately 70,000 members. Restrictionists also founded the Carrying Capacity Network, Californians for Population Stabilization, Population-Environment Balance, and American Immigration Control Foundation. Groups of this sort did not espouse nativism. Their concerns were social and environmental. They pointed to problems of assimilation and the shortage of land or jobs. And they cited pollution as a consequence of overcrowding. As did all, they noted how poorly the Immigration and Naturalization Service operated and how porous America's borders were, giving easy access to criminals and terrorists. FAIR cited an estimated cost for post-1969 immigrants of $65 billion in 1996 and noted that other estimates reached upward of $80 billion. The group projected enforcement costs beyond $100 billion by 2006. The ten-year total equaled $866 billion. Limited restrictionist success came in the 1990s, as in 1996 when Congress increased funding for the Border Patrol, tightened asylum rules, and increased the deportation of undesirables. Most notably, welfare reform took food stamps and disability payments from immigrants. Although state and federal governments restored some welfare benefits for pre-1996 immigrants, the U.S. Supreme Court upheld the welfare restriction laws in 2000.

Congress modified the rules in 1965, 1976, 1978, 1980, 1986, and 1990, each time enlarging the numbers of immigrants eligible to enter the United States. The 1976 Amendments to the Immigration and Nationality Act extended the preference system to all Western Hemisphere countries and established a ceiling of 20,000 immigrants from any one country. The 1978 amendments combined the Eastern and Western Hemisphere ceilings to a single worldwide quota of 290,000. The 1980 Refugee Act set a separate policy for refugees, eliminated the previous emphasis on anticommunism, set a refugee target of 50,000, and reduced the worldwide ceiling to 270,000.

The 1981 "Report of the Select Commission on Immigration and Refugee Policy" recommended stopping illegal immigration and called for a clearly defined, fair immigration policy and an efficient organization to carry it out. The 1986 Immigration Reform and Control Act provided amnesty and temporary status to all illegal aliens who had lived in the United States continuously since before January 1, 1982; it

Table 1 Nativity of the population and place of birth of the native population, 1850 to 1990

		Native population					
				Born abroad			
Year[*]	*Total population*	*Total*	*Born in the United States*	*Total*	*In outlying areas*[†]	*Of American parents*	*Foreign-born population*
Number							
1990[‡]	248,709,873	228,942,557	225,695,826	3,246,731	1,382,446	1,864,285	19,767,316
1980[‡]	226,545,805	212,465,899	210,322,697	2,143,202	1,088,172	1,055,030	14,079,906
1970[‡§]	203,210,158	193,590,856	191,329,489	2,261,367	891,266	1,370,101	9,619,302
1960[‡*]	179,325,671	169,587,580	168,525,645	1,061,935	660,425	401,510	9,738,091
1950[‡]	150,216,110	139,868,715	139,442,390	426,325	329,970	96,355	10,347,395
1940	131,669,275	120,074,379	119,795,254	279,125	156,956	122,169	11,594,896
1930	122,775,046	108,570,897	108,304,188	266,709	136,032	130,677	14,204,149
1920	105,710,620	91,789,928	91,659,045	130,883	38,020	92,863	13,920,692
1910	91,972,266	78,456,380	78,381,104	75,276	7,365	67,911	13,515,886
1900	75,994,575	65,653,299	65,583,225	70,074	2,923	67,151	10,341,276
1890[*]	62,622,250	53,372,703	53,362,371	10,332	322	10,010	9,249,547
1880	50,155,783	43,475,840	43,475,498	342	51	291	6,679,943
1870	38,558,371	32,991,142	32,990,922	220	51	169	5,567,229
1860[**]	31,443,321	27,304,624	27,304,624	—[††]	—	—	4,138,697
1850[**]	23,191,876	20,947,274	20,947,274	—	—	—	2,244,602
Percent Distribution							
1990[‡]	100.0	92.1	90.7	1.3	0.6	0.7	7.9
1980[‡]	100.0	93.8	92.8	0.9	0.5	0.5	6.2
1970[‡§]	100.0	95.3	94.2	1.1	0.4	0.7	4.7
1960[‡*]	100.0	94.6	94.0	0.6	0.4	0.2	5.4
1950[‡]	100.0	93.1	92.8	0.3	0.2	0.1	6.9
1940	100.0	91.2	91.0	0.2	0.1	0.1	8.8
1930	100.0	88.4	88.2	0.2	0.1	0.1	11.6
1920	100.0	86.8	86.7	0.1	—	0.1	13.2
1910	100.0	85.3	85.2	0.1	—	0.1	14.7
1900	100.0	86.4	86.3	0.1	—	0.1	13.6
1890[*]	100.0	85.2	85.2	—	—	—	14.8
1880	100.0	86.7	86.7	—	—	—	13.3
1870	100.0	85.6	85.6	—	—	—	14.4
1860[**]	100.0	86.8	86.8	—	—	—	13.2
1850[**]	100.0	90.3	90.3	—	—	—	9.7

Source: U.S. Census Bureau, Population Division, http://www.census/gov/population/www/documentation/twps0029/tab02/html.

[*] Starting in 1960, includes population of Alaska and Hawaii. For 1890, excludes population enumerated in the Indian Territory and on Indian reservations, for whom information on most topics, including nativity, was not collected.

[†] Puerto Rico is the only outlying area for which the number has ever exceeded 100,000. The numbers for Puerto Rico are: 1,190,533 in 1990; 1,002,863 in 1980; 810,087 in 1970; 617,056 in 1960; 226,010 in 1950; 69,967 in 1940; 52,774 in 1930; 11,811 in 1920; 1,513 in 1910; and 678 in 1900.

[‡] Indicates sample data.

[§] The data shown in Table 1 are based on the 15 percent sample. For 1970, data based on the 5 percent sample show total population as 203,193,774, native population as 193,590,856, born in the United States as 191,836,655, born abroad as 1,617,396, in outlying areas as 873,241, of American parents as 744,155, and foreign-born population as 9,739,723.

[**] In 1850 and 1860, information on nativity was not collected for slaves. The data in the table assume, as was done in 1870 census reports, that all slaves in 1850 and 1860 were native. Of the total black population of 4,880,009 in 1870, 9,645, or 0.2 percent, were foreign-born (1870 Census, vol. I, Dubester #45, Table 22, pp. 606–615).

[††] Dash represents zero or rounds to zero.

extended a more lenient amnesty to farmworkers and provided sanctions for employers of illegal aliens.

In the 1990s the Diversity Lottery (through which 55,000 permanent resident visas are given per year on a lottery basis for people around the world) specifically targeted the underrepresented, including Africans. This step led to an influx of immigrants from countries that had previously been underrepresented in American society, though the number was still minuscule compared with the number of illegal Hispanics. The total for the entire history of African immigration amounts to less than the number of illegal aliens in a single year. But the Africans began moving to St. Paul, Minnesota, and other cities and making the same positive contributions and creating the same dislocations of welfare and culture that other immigrants had.

By 1990 the government began to cave in to pressures for change. The 1990 Immigration Act (IMMACT) increased the total number of visas approved annually to 700,000 and bumped up the number of available visas by 40 percent. The act kept the family reunion provision while doubling employment immigration. It also encouraged increased immigration from underrepresented areas to enhance diversity. Individuals seeking asylum also benefited as the law became more liberal almost every year in the 1990s.

As rules tightened and loosened, as funding fluctuated, as enforcement waxed and waned, the immigrants continued to come (see Table 1). The 1930s total was only 528,000. World War II brought just 120,000. But by the 1970s one year's immigration almost exceeded the two-decade total. By 1978 the annual legal number hit 600,000, which was the average for each year of the 1980s. The 1990s averaged a million per year, and the total of that decade remains the greatest of any decade in American history. On top of the legal millions, another 275,000 to 500,000 illegal aliens enter the United States annually.

America became more diverse after 1970. From 1970 to 1996, the percentage of nonnative-born residents rose from 4.8 percent to 9.3 percent. And America's immigrants—whether legal or illegal, refugees or asylum-seekers—were the world's migrants, not just those of Europe.

Since the terrorist attacks of September 11, 2001, immigration has become more difficult. The Customs Service, now part of the Department of Homeland Security, has received additional resources to prevent illegal immigration across U.S. borders with Canada and Mexico. In addition, a proposed amnesty for illegal immigrants who have lived in the United States for more than five years is no longer being considered in Congress.

—John Barnhill

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Insurance

Insurance before 1810

The American insurance industries that developed during the late eighteenth and early nineteenth centuries were modeled on those already existing in England, where marine, fire, and life insurance all were well established by the eighteenth century. State oversight of the industry initially went little beyond the state chartering of insurance companies.

Marine Insurance

Marine insurance, the oldest form of insurance, dates back to ancient Greece or Babylonia, with modern marine insurance contracts appearing in the Italian city-states of the thirteenth and fourteenth centuries. As Britain became a commercial sea power in the seventeenth century, English merchants came to dominate the marine insurance field.

Until the nineteenth century, individual merchants, not companies, wrote most British insurance contracts. A regular, albeit informal, system whereby shippers and shipowners could acquire insurance revolved around London's coffeehouses, including Edward Lloyd's Coffeehouse (the predecessor of Lloyd's of London), which came to dominate the individual underwriting business by the middle of the eighteenth century.

Individual underwriting in the London style was quite common in eighteenth-century American seaports. Beginning in the 1720s, insurance "offices," where local merchants could underwrite individual voyages, began to appear in a number of port cities, north and south, centered in Philadelphia. But the amount that Americans could cover was limited enough that when larger sums of insurance were needed, shippers and shipowners looked to the far better established London underwriting market.

Fire Insurance

Compared to marine insurance, fire insurance is a relatively recent innovation. The security it provides only became necessary once a certain level of both urbanization and wealth-holding had been achieved. Vast, crowded cities, such as London in the middle to late seventeenth century, posed great fire risks. British fire insurance began to develop after the Great Fire of 1666, which burned nearly a square mile of the city and destroyed over 13,000 houses.

By the early eighteenth century, three different kinds of fire insurance companies were doing business in London: a limited number of firms granting royal charters; unincorporated companies (a form of the extended partnership); and mutual societies, in which each policyholder owned a share.

Although Americans were aware of these developments, the colonies generated little demand for fire insurance. Families and communities could usually meet the needs of those who were burned out of their homes. The first companies formed were mostly mutual companies, filling the need for insurance in a few urban centers where capital was concentrated. These were not considered moneymaking ventures but outgrowths of volunteer firefighting organizations.

Benjamin Franklin was the organizing force behind the first American mutual company, the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire (known familiarly by the name of its symbol, the "hand in hand"). With over 15,000 residents, thousands of buildings, and scores of well-heeled citizens, Philadelphia in the 1750s was the most populous city in North America and one of the few places in the colonies where insurance seemed practicable.

By the 1780s growing demand in other urban areas had led to the formation of additional fire mutuals in Philadelphia, New York, Baltimore, Norwich (Connecticut), Charleston, Boston, Providence, and elsewhere. All initially insured buildings within one city and its immediate outskirts only, although some soon began employing agents to sell insurance in nearby cities. At least one Virginia fire mutual initially sold shares statewide, covering both town and country properties.

Mutual fire insurance companies played a crucial role in the economic development of the new nation, serving as sources of capital, routinely investing their surpluses in banks and other institutions, and making loans. In a capital-poor economy, insurance made a significant contribution to commercial and industrial expansion. Stock fire insurance companies, which would soon enter the market, would provide even greater flows of investment capital than the mutuals.

Joint-Stock Companies
Around the same time that the first mutual companies appeared, a few businesses were formed on another model—the joint-stock company, which raises capital through the sale of shares and distributes dividends. The defining characteristic of a joint-stock company is the limited liability that its charter affords to shareholders. After the Revolution, American insurers found it fairly easy to obtain charters from state legislatures eager to promote a domestic insurance industry, in contrast to the difficulty of securing British royal charters. Joint-stock companies first appeared in the marine sector, where both demand and the potential profit were greater. Not reliant on the fortunes of any one individual, joint-stock companies provided greater security than private underwriting. In addition to their premium income, they maintained a fixed amount of capital, allowing them to cover larger insurance policies.

In 1792 the first successful joint-stock company, the Insurance Company of North America, was formed in Philadelphia to sell marine, fire, and life insurance. By 1810 upwards of 70 such companies had been chartered in the United States. Most of those incorporated prior to 1810 operated primarily in the marine sector, although they were often chartered to handle other lines.

Joint-stock companies further advanced the role of insurers as financial intermediaries, loaning money to their own shareholders and policyholders. In many ways, early insurance companies resembled the banks of the period, which were often established by merchants primarily for their personal use. In many cities, a bank and an insurance company might be closely aligned, sharing the same directors and owning each other's stock.

Investment income kept many insurers afloat during the periodic business disruptions that accompanied the Napoleonic Wars. Despite the profitability of blockade running, increased war premiums could not always cover the costs that were imposed on insurers when ships were seized. When President Thomas Jefferson declared an embargo on American shipping at the end of 1807, marine insurers' premiums dried up completely, forcing them to seek other sources of revenue. The Embargo Act and the War of 1812 also stimulated domestic industries such as textiles. Both the need for new sources of revenue and a growing demand moved many marine insurers toward fire insurance after 1810.

The same growth of demand also led to the formation of a few joint-stock companies that concentrated on fire coverage from the beginning, with little or no marine business. These differed from the mutual insurers in one significant way: They insured personal property as well as real estate, a growing necessity as Americans' personal wealth began to grow.

Life Insurance
Although life insurance also has ancient origins, it was often considered little more than a form of gambling through the eighteenth century. The sale of tontine insurance (whereby those who survived the longest received the benefits) and third-party policies taken out on the lives of famous people did little to discourage this impression. Marine insurers also sold life insurance to ship passengers, primarily to cover the payment of ransom in case they were captured.

The first American life insurance companies were semi-charitable institutions established by churches to insure the lives of ministers. In 1759 the Presbyterian synods in Philadelphia and New York created the Corporation for Relief of Poor and Distressed Widows and Children of Presbyterian Ministers. Ten years later, Episcopalian ministers established a similar corporation. A few joint-stock corporations also organized to sell life insurance in the years prior to 1810, but they sold few policies. None lasted more than a few years.

Insurance from 1810 to 1870
The fire and life insurance industries experienced tremendous growth during the middle years of the nineteenth century, as urbanization and industrialization transformed the risks that most individuals faced. An intensification of market activities resulted in more business and personal property needing protection. At the same time, myriad risks—business failure, disease, injury, and fire—loomed larger, particularly in the cities. Both the wealthy and the members of an emerging middle class drove the demand for products that could help them manage these risks.

By midcentury, most states had adopted general incorporation laws, making it even easier to start an insurance company. At the same time, a regulatory framework began to take shape, with the creation of the first state insurance departments and the passage of laws focusing primarily on assuring the solvency of insurers.

Fire Insurance
During this period, fire insurance developed from a local industry to a national one. Prior to 1835, a number of states enacted legislation taxing out-of-state companies' premiums, which discouraged "foreign" companies from entering markets such as New York City. In that year, a devastating fire destroyed New York's business district, causing between $15 and $26 million in damage and bankrupting 23 of the 26 local fire insurance companies. Fire insurers learned a lesson they were not to forget. From that date on, geographic diversification of risks became a cornerstone of the business.

Diversification meant expanding into new markets under competitive conditions. To minimize costs, companies contracted with independent agents to sell their policies locally. Pioneered mainly by firms based in Hartford, Connecticut, and Philadelphia, the agency system did not become widespread until the 1850s. By 1860 the national company with networks of local agents had replaced the purely local operation as the mainstay of the industry.

As the agency system grew, so, too, did competition. By the 1860s fire insurance was a national affair, with individual firms competing in hundreds of local markets at once. Rate wars and business failures were common.

Marine Insurance
Marine insurance, although still a distinct field, increasingly came to be conflated with fire insurance for regulatory purposes. During the mid-nineteenth century, marine

(and fire-and-marine) insurers served the growing river trade, selling inland marine policies on goods traveling by steamboat and other river conveyances. By the late 1870s, another subcategory of the insurance industry—the steam boiler inspection and insurance company—emerged to insure boilers on steamers and in factories, which were known for their tendency to explode.

Life Insurance

The life insurance industry experienced its first significant period of growth during the 1830s and 1840s. By the 1850s nearly $100 million in policies were in force. Unlike the fire insurance industry, which spread insurance among hundreds of firms of different sizes, a few large firms wrote over half the life insurance in the country.

Two developments accounted for the growth of the life insurance industry during this period. The first was the passage of the Married Women's Acts in New York, Massachusetts, and other states, measures that recognized the insurable interest that married women had in their husbands' lives. These laws allowed women to enter into insurance contracts in their own names, thus protecting their insurance policies (up to a certain value) from their husbands' creditors.

The second factor was the development of mutual life insurance companies in the 1840s. Although this type of insurance had existed in England since the 1760s, no American life insurers adopted this form of organization until the 1840s. But following the panic of 1837, new joint-stock companies were unable to raise enough capital to begin operating. Mutuals, by contrast, could and did enter into business with little capital.

To have enough money to pay claims, mutual life insurers needed to sell large numbers of policies. To achieve the desired volume, the mutual companies promoted membership extensively through advertising and solicitation. Life insurance sales continued to grow during the 1860s, partly because of the Civil War. Although standard life policies excluded coverage for death caused by acts of war, a number of companies would insure soldiers for an increased premium. The heightened awareness of mortality during the war further contributed to a surge in insurance purchases afterward. Dozens of new life insurance companies were created between 1865 and 1870 to meet the demand. As was the case in fire insurance, the late 1860s were years of intense competition.

Regulation

Until the middle of the nineteenth century, state oversight was limited primarily to matters of incorporation and taxation. Most states modeled their insurance regulations after those of either Massachusetts or New York, which established general insurance codes and created bodies to oversee the new laws in the 1840s and 1850s. The first general insurance law, passed in New York in 1849, required all insurers incorporating or doing business in the state to have a minimum capital stock of $100,000; an 1851 statute stipulated that all life insurance companies had to deposit $100,000 with the comptroller of New York. Such capitalization laws were intended to protect consumers from company failures. The measures had the support of the more established insurance companies, whose officers hoped they might block competition from new firms, especially from mutuals.

In 1853 New York passed separate statutes for fire and life insurance. (Massachusetts codified all its insurance laws under a single statute in 1854.) One year earlier, Massachusetts had established a board of insurance commissioners. Made up of the secretary of state, the state auditor, and the state treasurer, the commission was charged with examining the annual returns filed by each insurance company operating in Massachusetts. In 1855 the state organized an insurance department.

Following these examples, other states codified their insurance laws and established insurance boards to supervise companies over the next few decades. As the laws governing insurance became more numerous and complex, states created separate insurance departments to oversee them. Following Massachusetts, those establishing insurance departments included Vermont (1852), New Hampshire (1852), and Rhode Island (1856). By 1870 they were joined by New York (1860), Connecticut (1865), Indiana (1865), California (1868), Maine (1868), West Virginia (1868), Missouri (1869), and Kentucky (1870). Eight other states supervised insurance without establishing separate departments by this time.

The U.S. Supreme Court affirmed state supervision of insurance in 1868 in *Paul v. Virginia,* which found insurance not to be interstate commerce and thus not eligible for regulation by the federal government. Prior to the ruling, the insurance industry had campaigned for federal regulation. For both life and fire insurance firms, the variability of regulations in different states made doing business on a national scale increasingly complex. A Virginia fire insurance agent brought the test case, challenging the state's right to require all out-of-state insurance companies operating in Virginia to obtain a license by depositing special bonds with the state. As a result of *Paul v. Virginia,* insurance would not be subject to any federal regulations over the coming decades.

Insurance from 1870 to 1920

During the late nineteenth and early twentieth centuries, as both industrialization and urbanization intensified, insurers expanded to meet the growing demand for their products. Regulation assumed a new urgency. By the early 1900s, nearly every state had an insurance department. The maturing fire and life insurance industries both sought to shape their own regulatory frameworks, which, in turn, were influenced by larger societal forces. By the 1920s, the foundations of modern insurance regulation were established.

Fire Insurance and Regulation

Rate competition proved disastrous for the fire insurance industry in the early 1870s. The Chicago fire of 1871 and the Boston fire of 1872 bankrupted some 100 companies, leaving policyholders with little or no recompense. After the fires, the industry began to organize in order to set rates collectively. By the mid-1880s, most fire insurance rates were set by boards of local agents, with regional organizations determining rates for areas outside local boards' jurisdictions. Unlike the at-

tempts to set rates in the 1850s and 1860s, which had always broken down, these agreements endured through both the economic boom of the 1880s and the downturn following the panic of 1893. By the early 1900s, local rate setting was entrenched.

At the end of the first decade of the 1900s, fire insurance therefore was regulated as much by the companies as by state governments. This situation prevailed despite the passage of anticompact legislation in 12 states between 1885 and 1900 (22 by 1908). Passed primarily in Populist strongholds in the Midwest and the central states, the laws featured in the larger national antitrust movement. But their effectiveness was limited. Where open collusion was outlawed, insurers established private rating bureaus to set "advisory" rates instead.

Among other regulations opposed by the fire insurance industry were valued-policy laws, which required the face value of a policy to be paid in case of a total loss. Insurers argued that property was often insured for more than it was worth, but consumer lobbying pushed the legislation through, first in Wisconsin in 1874 and then in 22 other states between 1880 and the early 1900s.

By the 1910s, states had begun to abandon anticompact laws in favor of rate regulation, meaning the state either set the rates itself or reviewed industry-set rates. Nearly 30 states had some form of rate regulation by the early 1920s. In 1909, Kansas had become the first to adopt strict rate regulation, followed by Texas in 1910, and Missouri in 1911.

Contesting the constitutionality of the rate regulation law, the insurance industry took the state of Kansas to court. In 1914 *German Alliance Insurance Co. v. Ike Lewis, Superintendent of Insurance* was decided in the state's favor, with the U.S. Supreme Court declaring insurance to be a public good and thus subject to rate regulation.

In 1911, although the Kansas case was still pending, New York entered the rating arena with a much less restrictive law. New York's law was greatly influenced by a legislative investigation undertaken the previous year. The Merritt Committee concluded that cooperation between firms was often in the public interest and recommended that insurance boards continue to set rates. The law mandated state review of rates to prevent discrimination. It also required insurance companies to submit uniform statistics on premiums and losses for the first time. Other states soon adopted similar requirements.

New York's data-collection requirement had far-reaching consequences for the entire fire insurance industry. Because every major insurer in the United States did business in New York (and often a great deal of it), any legislation passed there had national implications. And once New York mandated that companies submit data, the imperative for a uniform classification system was born.

In 1914 the industry responded by creating the Actuarial Bureau within the National Board of Fire Underwriters, the industry's main national organization, to collect uniformly organized data and submit them to the states. Supported by the National Convention of Insurance Commissioners (today called the National Association of Insurance Commissioners, or NAIC), the Actuarial Bureau was soon able to establish uniform classification standards across the industry.

Related Lines

Casualty insurance regulation most closely resembled fire insurance regulation, with the states supervising or setting the rates that companies could charge. From a single firm offering accident insurance in 1864, casualty insurance developed into a full-fledged industry in the early 1900s. By 1910 a total of 23 companies sold liability policies.

In the early years of the twentieth century, both fire-and-marine insurers and casualty companies sold automobile insurance policies. Regulators determined that fire-and-marine companies could write auto policies covering property damage and casualty companies could cover the liability portion. Single forms were used to provide coverage in two companies.

Life Insurance and Regulation

As the demand for life insurance increased during the late nineteenth century, competition continued to rule the industry. To gain market share, life insurers introduced new products, which their agents marketed aggressively. New types of life insurance companies were also established, primarily to serve working-class Americans. A variety of consumer abuses led to calls for increased regulation, but not until after 1906 did real change occur.

In the late 1860s, life insurers began selling tontine, or deferred-dividend policies, in which only part of each premium payment went directly toward an ordinary insurance policy. The rest was held in an investment fund for a set period of time (10, 15, or 20 years), with the benefits paid to those who survived the required period of time without letting his or her policy lapse. Insurers found these types of policies profitable because, unlike traditional policies, they did not pay yearly dividends to policyholders. They also did not require payment of the cash surrender value on forfeited policies (which Massachusetts began requiring in 1880). Policyholders bought the policies hoping for large returns. By 1905 an estimated two-thirds of life insurance policies featured deferred dividends.

Although tontine insurance grew in popularity, new types of insurance companies also formed to serve the emerging market for smaller insurance policies. One was the fraternal benefit society, a cooperative firm whose members contributed to pay death benefits when a member died. (Fraternal societies also sometimes provided sickness benefits, as did unions and employer-sponsored mutual benefit societies.) The other new type of company was the industrial life insurer (following the British model). Starting in the 1870s, a number of firms began to market low-value insurance policies (as small as $100) to working-class families. Premiums for these policies were collected on a door-to-door basis.

With the expansion of the industry came a number of problems, many associated with cutthroat competition: rebating (returning part of the premium to select customers), twisting (convincing people to trade in old policies with accrued cash value for new ones without), and exaggerated claims of future payments on tontine policies. Through local and regional organizations and a national body—the National Association of Life Underwriters (NALU), formed in 1890—the life insurance industry attempted to end these

practices. But unlike their colleagues in the fire insurance industry, life underwriters did not succeed at self-regulation.

To raise revenues during the depression of the 1890s, a number of states tried to increase taxes on life insurers significantly. This was not the first time they attempted such legislation. During the 1870s, New York had tried to raise taxes but met strong industry opposition. Midwestern states, including Missouri, Kansas, and Wisconsin, passed life insurance taxes during the 1880s and 1890s, as did Texas, although they were all eventually reduced or repealed. Texas and Kansas also led a movement in the 1890s to try to force insurance companies doing business in those states to invest locally. Despite public support for such measures, the life insurance lobby was strong enough to keep the laws from passing.

Three large New York firms—New York Life, the Equitable Life Assurance Society, and Metropolitan Life Insurance Company—dominated the life insurance industry of the late nineteenth and early twentieth centuries. They successfully squashed most efforts at reform prior to 1906. Concerns about how the industry did business (including its high operating expenses and salaries, surreptitious financial procedures, and various consumer abuses) eventually led to an investigation of the industry. New York's Armstrong Committee investigation, which commenced in 1905, brought to light myriad improprieties, including political kickbacks, nepotism, extremely high salaries for top officials, and misuse of funds.

New York's investigation led many other states to conduct their own reviews. Their findings led to the passage of a number of life insurance reforms and resulted in strict supervision of the industry for the first time. In 1907 New York outlawed deferred-dividend policies, rebating, and twisting. The new law curtailed lobbying activities, eliminated proxy voting, and mandated standardized policy forms. Other states passed similar laws, but because companies operating in New York were required to follow the new regulations in any state where they did business (the so-called Appleton Rule), New York's life insurance statutes essentially became national.

Following the Armstrong investigation, the life insurance industry experienced another period of tremendous growth, with the number of companies nearly quadrupling between 1905 and 1914. In 1911 the Equitable Life Assurance Society wrote the first group insurance policy. By 1919 a total of 29 companies were writing policies that covered groups of employees (with states requiring a minimum of 50 or 100 individuals to constitute a group).

Related Lines

The first health insurance policies were sold in the 1890s. Between 1900 and 1918, the total amount of health insurance premiums collected annually grew from half a million dollars to over $12 million. This coverage was expensive and excluded many common diseases. During the 1910s, the insurance industry fought a movement for compulsory health insurance, a movement that ultimately failed.

During World War I, the federal government began offering life and disability policies for active service members. State governments had also recently gotten involved in another form of social insurance; during the 1910s, over 40 states mandated some type of workers' compensation coverage.

Insurance from 1920 to 1960

By the 1920s insurance had reached far beyond just the fire, marine, and life fields. With a variety of new products, fire and life evolved into property/casualty and life/health categories, each with its own set of regulations. With multiple lines and more sophisticated technology, insurance regulation became increasingly complex over the following decades. The most substantial changes prior to 1960 focused on property/casualty rating. Life insurance, meanwhile, remained a competitive market, as did the expanding health insurance industry. Starting in the 1930s, the federal government also became increasingly involved in social insurance, creating Social Security in 1935 and expanding it in 1939 and 1954.

Property/Casualty Insurance

Through the 1920s and 1930s, property insurance rating continued as it had before, with various rating bureaus determining the rates that insurers charged and the states reviewing or approving them. Casualty insurance rates were set in much the same way. But in 1944 the Supreme Court struck a blow to the status quo, overturning *Paul v. Virginia.* In a case brought against the Southeastern Underwriters Association (SEUA), which set rates in a number of southern states, the Court decided that the SEUA was in violation of federal antitrust statutes. As a result of *U.S. v. South-Eastern Underwriters Association,* the industry became subject to federal regulation for the first time.

Within a year, to avoid conflicts between federal and state laws, Congress passed the McCarran-Ferguson Act, which allowed states to continue regulating insurance as long as they met certain federal requirements. Congress also granted the industry a limited exemption from antitrust law. The NAIC was given three years to develop model rating laws for the states to adopt.

In 1946 the NAIC adopted model rate laws for fire and casualty insurance, which required a state's "prior approval" of rates before the insurer could use them. Although most of the industry supported this requirement as a way to prevent competition, a group of independent insurers opposed prior approval and instead supported file and use rates, whereby insurers pay on the basis of use.

By the 1950s all states had passed rating laws, although not necessarily the model laws. Some allowed insurers to file deviations from bureau rates; others required bureau membership and strict prior approval of rates. Most regulatory activity through the late 1950s involved the industry's attempts to protect the bureau rating system.

The bureaus' tight hold on rates was soon to loosen, however. In 1959 an investigation into bureau practices by a U.S. Senate antitrust subcommittee (the O'Mahoney Committee) found that competition should be the main regulator of the industry. As a result, states began to make it easier for insurers to deviate from prior approval rates.

Life/Health Insurance

The McCarran-Ferguson Act had much less influence on the life and health insurance industries. Because life insurance rates were based on standard mortality tables, no model rate laws were necessary. The main concern of regulators after 1920 was the solvency of life insurance companies and the assurance of adequate reserves.

Meanwhile, the health insurance industry began to grow. A plan offering a set level of hospital benefits for a monthly fee was first offered in 1929. Within a decade, such hospital plans were identified as Blue Cross plans. The first Blue Shield plan, which covered physician care for a similar monthly fee, was established in California in 1939. Group coverage in Blue Cross/Blue Shield plans and through traditional fee-for-service plans expanded between the 1940s and 1960s as organized labor was able to bargain for better benefit packages. The first health maintenance organizations (HMOs) had also made an appearance by the 1960s.

Insurance from 1960 to 2003

In recent decades, insurance has become an increasingly complex industry with a huge array of lines and products. The private sector of the industry has expanded into new forms of risk management and financial services, and moreover, the federal and state governments have become increasingly involved in providing insurance—often in areas where the private market has failed. Through an expansion of social insurance programs and through the creation of guarantee funds provided by the states to compensate policyholders when companies fail, the government has developed an ever growing level of protection. Most recently, the passage of the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 has revived the debate over federal regulation of the insurance industry.

Property/Casualty Regulation

By the mid-1960s, two different systems of property/casualty regulation were beginning to develop. Although many states got rid of the prior approval requirement and began competitive rating, others strengthened strict rating laws. At the same time, the many rating bureaus that had provided rates for different states began to consolidate. By the 1970s the rates that these combined rating bureaus provided were officially only advisory. Insurers could choose whether to use them or develop their own rates.

Although membership in rating bureaus is no longer mandatory, these advisory organizations continue to play an important part in property/casualty insurance by providing required statistics to the states. They also allow new firms easy access to rating data. The Insurance Services Office (ISO), one of the largest "bureaus," became a for-profit corporation in 1997 and is no longer controlled by the insurance industry.

The end of bureau rates did not mean the end of state rating. A number of states have continued to regulate rates for certain lines (such as automobile and workers' compensation coverage) and require prior approval, often as the result of rising insurance costs. Since the 1970s, states have also taken into consideration companies' investment income when reviewing rates.

Since the 1960s, liability insurance has become increasingly important, with liability components included in both commercial and personal policies. Automobile liability insurance is mandated by most states, and insurance companies are required to provide coverage (often through "assigned-risk pools") to high-risk drivers.

The federal government has also expanded its involvement in property/casualty insurance, providing or guaranteeing coverage in a number of areas where the private market has failed. The National Flood Insurance Act of 1968 made affordable flood insurance available to at-risk homeowners. Although the origins of the federal crop insurance program lie in the depression, the program expanded greatly in the 1980s, covering many more acres and crops. Most recently, in November 2002, Congress passed a bill providing up to $100 billion in reinsurance for the insurance industry over three years in case the country should experience another terrorist attack on the scale of that on September 11, 2001.

Life/Health Insurance Regulation

In 1965 the federal government entered the realm of health insurance with the establishment of Medicare and Medicaid. HMOs received a boost with the passage of the Health Maintenance Organization Act of 1973, which required insurers to offer an HMO option when they provided health insurance for their employees. By the 1980s another form of managed care, the preferred provider network (PPO), was also offered.

Important health care legislation includes the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986, which requires employers to provide continuation of coverage for a varied period of time when an employee leaves a job, and the Health Insurance Portability and Accountability Act (HIPAA) of 1996, which allows insurance benefits to be carried from job to job without a waiting period for coverage of preexisting conditions.

Gramm-Leach-Bliley

Gramm-Leach-Bliley (as the Financial Services Modernization Act of 1999, or GLB, is commonly known) went into effect in November 2000, and leaves state regulators in charge of the day-to-day regulation of insurance. However, it opens the door for federal regulation. GLB has the greatest impact on life insurance companies because of their involvement in the financial services sector, but provisions of the act have consequences for all lines of insurance.

GLB requires states to create uniform "producer" statutes for licensing agents and brokers in all lines. The law mandated that by 2002, over half of the states were to adopt either uniform or reciprocal licensing, a condition that regulators have met. GLB also contains privacy provisions requiring policyholders to give permission before the insurer releases personal data, a condition that is particularly relevant to health insurance. Today, insurance regulation can best be described as a system that is moving slowly toward dual state/federal regulation.

—Dalit Baranoff

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Intellectual Property

Intellectual property is knowledge or expression that is owned by an individual or a corporate entity. Intellectual property has three customary domains: copyright, patent, and trademark. A fourth designation, trade secrets, has emerged as a legal construct over the past two centuries. The term *intellectual property* became popular in legal doctrine, in congressional debate, and with U.S. computer specialists in the early 1980s. Europeans first used the term in the late nineteenth century to describe several disciplines of creative arts and design using a single, broad definition.

Intellectual Propery in the Early Republic

The identification and cataloging of ideas across borders and within trading zones through legalized intellectual property protection grew from English tradition and slowly infiltrated common law in the American colonies in the seventeenth and eighteenth centuries. Federal standards for intellectual property protections expanded with the adoption of the U.S. Constitution in 1789. Interest in the protection of specific goods and services flourished in the nineteenth century as the American consumer market grew, new technologies spawned new products, and advertising methods promoted unique brands. Powerful trading organizations and lobbying groups called for international guidelines designed to mediate legal barriers to knowledge and expression. A growing business press that recorded the economic impact of invention and chronicled the entrepreneurial development of products from inception to incarnation fortified these efforts in nineteenth-century America.

U.S. copyright law protects original forms of expression, such as the movie *Star Wars* or the play *Rent.* Patent law protects commercial designs or formulas produced by inventors and is designed to dissuade other individuals or firms from copying their work. Patent law protects inventions and processes (via "utility" patents) and ornamental designs (via "design" patents). Patent protections developed long before copyrights became controversial. The first American patent was granted by a special act of the Massachusetts colonial government in 1641 for the development of a saltworks. At the beginning of the twenty-first century, the United States granted utility patents for a period of 17 years and design patents for 14 years. Once the patent for an invention or design has expired, anyone can make, use, or sell the invention or design in question.

Trademarks and service marks include words, names, symbols, or devices used by manufacturers of goods and providers of services to identify their goods and services and to distinguish them from those manufactured and sold by others. The brand Taco Bell or the contours of a BMW hood ornament are examples of trademark designations. Historically, U.S. trademark law has not restricted the use of a trademark that is unlikely to cause confusion, mistake, or deception among consumers. However, the 1996 Lanham Act introduced legislation that protected famous marks from uses that dilute their distinctiveness, even in the absence of any likelihood of confusion or competition. Marks qualify as famous if they promote such powerful associations in the consumer's mind that even noncompeting uses can impinge on their value. Before November 1989 a U.S. trademark's owner could file a trademark application only after he or she had actually used the trademark in commerce. U.S. law allows a person who has a bona fide intention to use a trademark in commerce to apply to register the trademark. Certificates of federal trademark registration usually remain in effect for ten years. A federal registration may be renewed for any number of successive ten-year terms as long as the mark is still in use in commerce. The duration of state registration varies.

Trade-secret law only protects information that a company has tried but failed to conceal from competitors. Unique formulas for soft drinks and confidential marketing strategies are examples of trade secrets. Unlike the law in other areas of intellectual property, such as copyright or patent law, trade-secret law imposes liability only when the appropriator acquires, reveals, or uses secrets in a wrongful manner. A wide variety of materials may be protected by trade-secret law, including the following types of technical and business information: customer lists, designs, instructional methods, manufacturing processes, document-tracking processes, and formulas for producing products. Inventions and processes

not patentable might also receive protection under trade-secret law. Patent applicants generally rely on trade-secret law to protect their inventions while the patent applications are pending.

Framers of the U.S. Constitution reviewed over 200 years of English law while formulating language addressing the rights of ideas and inventions. Merging European common law principles with American policies designed to promote individual rights proved difficult. In 1557 Queen Mary I assigned all printing and book sales to a single guild, the Stationers' Company. Guild members purchased manuscripts from writers and held the exclusive right to print and sell them forever. The Crown also granted exclusive rights to print the works of deceased writers, and the guild censored books it considered seditious or heretical. England's guild monopoly frustrated several writers, and eventually, Parliament withdrew royal monopolies. Stationers' Company officials responded by purchasing perpetual licenses to manuscripts. By the eighteenth century the English considered the independent rights for authors a legitimate protection, and Parliament enacted the Statute of Anne, the first modern copyright law, in 1710. The act gave authors the rights to their work and limited the duration of protection to 14 years, a standard unchallenged until late in the twentieth century in Europe and the United States. The guild spent decades trying to recapture its legal monopoly by embarking on a series of lawsuits that maintained the Crown could not strip businesses of their property after 14 years or any other arbitrary length of time. In 1774 the House of Lords clarified that authors and publishers had no absolute property rights over their works. Members determined that rights to products of the mind remained temporary and should be in the public domain after a short period of time, available for use by all.

Framers of the U.S. Constitution considered the merits of independent state laws when assessing whether to define clear national policy or ignore provisions for intellectual property. Before 1787 state assemblies could grant rights to inventions or ideas, but South Carolina was the only state that passed general legislation allowing grants of patents without special acts of the legislature. Although discarding the ineffective Articles of Confederation and proceeding with a drafted version of the Constitution at the Constitutional Convention in Philadelphia, beginning on May 14, 1787, participants reviewed inconsistent decisions in respect to intellectual property. When searching for samples or templates of how to incorporate ideas and inventions as protected commodities, they found that England showcased a more consistent policy than any single American state.

The debate did not address provisions for ideas, inventions, or any other language now associated with intellectual property until the Committee Detail submitted its recommendations. Virginia's James Madison harked back to English law on August 18, 1787, and suggested adding the right "to secure to literary authors their copyrights for a limited time" (*Debates in the Federal Constitution*). On the same day, South Carolina delegate Charles Pinckney recommended a provision "to grant patents for useful inventions" and "to secure to authors exclusive rights" (*Debates in the Federal Constitution*). On August 31 the assembly referred these proposals and others to a committee composed of one member from each state. On September 5, 1787, the committee, which included Madison, reported that Congress should have the power "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." The clause surfaced verbatim in what became Article 1, Section 8, Clause 8 of the Constitution.

Madison's writings demonstrated his belief that federal oversight of ideas and inventions remained a necessary evil as the burgeoning national economy forced goods to pass across borders efficiently. His theories differed from those of Thomas Jefferson, who remained more interested in ensuring that inventions became available to the public. "The copyright of authors has been solemnly adjudged in Great Britain to be a right of common law. . . . The public good fully coincides . . . with the claims of individuals," Madison lectured (*Introduction to the Debates*). He believed that state leaders were poised to give up control of knowledge and ideas for the good of federalism. "The States cannot separately make effectual provision for either of the cases, and most of them have anticipated the decision of this point by law passed at the instance of Congress," he reminded his compatriots.

The pursuit of protection for intellectual property symbolized a national debate stirred by Thomas Jefferson, Alexander Hamilton, and James Madison during the late eighteenth century, after the American Revolution. As American lawmakers moved away from governance via a loose confederation of states managed by separate laws and added centralized control relying on English common law, a fusion of local and national intellectual property protections emerged. The framers of the Constitution pursued a middle ground that protected state autonomy while simultaneously promoting centralized banking, international trade, and interstate commerce. The result of this middle passage resulted in a collision of values and legal interpretations that shifted some power to state authorities and some to federal managers. Judicial interpretation expanded the federal oversight of copyrights and trademarks as the national economy grew and private investment in distant trade surged. American writers discovered new markets for their works, and large, private corporations prospered. Market expansion led independent trade groups and business interests to seek even broader protection for intellectual property ownership. At the twilight of the eighteenth century, the compromise position of part state and part federal protection articulated by American delegates to the Constitution Convention had tilted toward a federal approach. Madison's call to "encourage by premiums and provisions, the advancement of useful knowledge and discoveries" had trumped Jefferson's conclusion that products of the human mind "cannot, in nature, be a subject of property" (*Introduction to the Debates*).

Building from the language of England's Statute of Anne, the U.S. Copyright Act of May 31, 1790, provided creators of books, maps, and charts a 14-year copyright, with the option of renewing for another 14 years. The act became the first major legislative form of intellectual property protection in

the United States. On February 3, 1831, the first general revision of the copyright law added music as a category of works protected against unauthorized printing and vending. The first term of copyright could also extend to 28 years, with the privilege of renewal for a term of 14 years. Until the middle of the nineteenth century, U.S. copyright owners enjoyed little more than protection against verbatim copying of language. A federal circuit court rejected the claim of Harriet Beecher Stowe that a German translation of *Uncle Tom's Cabin* infringed her copyright in 1853, finding the Constitution shielded literal text alone. Only 17 years later did Congress include translations (thereby allowing for legal interpretation of story lines or ideas borrowed from a written work in addition to literal copying) in the revised Copyright Act of July 8, 1870. The new law protected authors from infringement related to close approximations of plots or use of characters to create an unauthorized sequel, beginning a period of more liberal interpretation, championed by artists such as Mark Twain.

Intellectual Property in the Gilded Age

Copyright law was further refined in *Baker v. Selden* (1879), when the Supreme Court ruled that describing a system of accounting in a textbook did not confer copyright protection on the system itself. The Court wrote: "Recurring to the case before us, we observe that Charles Selden, by his books, explained and described a peculiar system of book-keeping, and illustrated his method by means of ruled lines and blank columns, with proper headings on a page, or on successive pages. Now, whilst no one has a right to print or publish his book, or any material part thereof, as a book intended to convey instruction in the art, any person may practice and use the art itself, which he has described and illustrated therein. The use of the art is a totally different thing from a publication of the book explaining it."

As the Supreme Court fine-tuned copyright law, established writers lobbied for continued protection. Mark Twain noted the publishers would not pay for works produced by unrecognized authors when they were not even required to pay famous authors for their works. He astutely co-opted Jefferson's public domain argument by suggesting that extending rights to major authors remained critical for preserving American icons and values. More recently, spokespersons at Disney and other corporations emulated his approach when advocating long-term control of icons such as Mickey Mouse. "It is not merely a question of copyright. . . . It is a question of maintaining in America a national literature, of preserving national sentiment, national politics, national thought, and national morals," announced Twain in the *New York Times.* On July 1, 1909, a third general revision of the copyright law became effective and extended the renewal term from 14 to 28 years. Generally, copyright standards have continued to be extended in respect to duration in America, and in the 1980s and 1990s, copyright doctrine also included detailed legal language addressing computer programs. The December 1, 1990, Computer Software Rental Amendment Act granted the owner of a copyright in computer programs exclusive rights to authorize or prohibit the rental, lease, or lending of the program for direct or indirect commercial purposes.

The U.S. government enacted the first federal patent law on April 10, 1790. The new law placed complete power over the granting of patents in the hands of the secretary of state, the secretary of war, and the attorney general. Secretary of State Thomas Jefferson personally examined each patent application filed. As the number of patents submitted for analysis increased, federal officials became overwhelmed. On February 11, 1793, Congress passed a new patent law, intended to place the burden of evaluating the validity of the claim of original invention on the courts and keep Cabinet officers, who lacked time, from having to examine patent submissions. The new law remained in effect until 1836 and introduced the U.S. Patent Office. An inventor simply submitted a description of the invention, drawings, and a model and paid a fee. In 1842 Congress extended the reach of the patent statute to cover "new and original designs for articles of manufacture." The new act engaged inventor interest in various types of goods that had received little attention before that time. Products such as display racks received protection. In 1849 control over the Patent Office was transferred from the Department of State to the newly created Department of the Interior. The 1952 Patent Act made only general revisions to the law, not substantive changes.

Prior to the Civil War, manufacturers infrequently used trademarks on general merchandise. As a result, members of Congress paid little attention to the trademark issue. However, lobbying by private business interests began to reduce local government oversight of trade within cities and counties. New York State became the epicenter of this shift toward universal American trademark applications. Until the 1840s, the inspection of traded goods in New York cities was treated as a monopoly of the state government. By the middle of the decade, 372 inspectors and 109 weighers, who were responsible for part of the inspection process, occupied 22 percent of the 2,238 political appointee positions filled by the New York governor, and state inspections raised over 30 percent more revenues than state taxes. In response, business leaders lobbied for marks that would signal acceptable products, requiring no review or inspection. State leaders joined the businesspeople who claimed that the collection of inspection fees led to grotesque patronage and remained akin to imposing a commercial surcharge on goods and trade. Laws passed in 1844 and 1845 forbade private inspection in the city and county of New York and in Kings County. In 1845 New York became the first state to legislate private trademark protection for a variety of goods and services, enabling voluntary inspections overseen by company officials and municipal authorities. New York abolished all inspections and weighings in November 1846.

Federal trademark legislation surfaced in 1870 based on the copyright clause of the Constitution. Averill Paints received the first mark under this act. However, the Supreme Court declared the measure unconstitutional in 1879 on the grounds that it impermissibly affected intrastate affairs. The Court held that the basis of any trademark rested on the commerce clause, which allowed for regulation of *interstate*

commerce, not *intrastate* commerce. In response, New York business leaders sprang into action again, now calling for uniform trademark guidelines at the national level to reduce any trade restraints across the United States. Twelve New York industrialists founded the U.S. Trademark Association (USTA) in 1878 and lobbied for enactment of the Trademark Act of 1881, arguing that manufacturers should be able to protect their brands as a necessity of commerce when engaging in foreign trade.

By 1887 the association expanded its activities by publishing *The Bulletin* to circulate articles of interest to trademark owners and law students. Interaction with elected officials and campaign donations resulted in USTA's president, Francis Forbes, being appointed by President William McKinley to head a commission empowered to revise statutes relating to patents, trade, and other marks. The commission's report, submitted to Congress in 1900, made recommendations that formed the basis of the Trademark Act of 1905, a law adopted on the principle of prior ownership and use. Companies establishing marks in the previous ten years received authorization to consolidate ownership through procedural registration. The new law precipitated 16,224 applications for the year, nearly a sevenfold increase from 1904. In 1906, USTA officials expanded the geographic scope of their advice and initiated trademark planning in other nations. Officials in Argentina were counseled to liberalize national law, and the association drafted trademark law for Ecuador in 1908, a model later used in other South American jurisdictions.

Intellectual Property in the Twentieth Century

The 1946 Trademark Act introduced legislation governing federal trademark registration. Thereafter, USTA officials launched a major campaign to reduce the effect of mandatory state trademark registration, which resulted in the 1949 Model State Trademark Bill, approved by the National Association of Secretaries of State and the Council of State Governments. Enactment in 46 states confirmed that all jurisdictions would incorporate uniform registration practices and share information. American state and federal trademarks shifted toward national, rather than regional, data management. In 1993 the USTA recast itself as the International Trademark Association and claimed to have approximately 3,000 members drawn from 110 countries.

Private business representatives did not have to work as hard when advocating legal protections for trade secrets. Nineteenth-century legal decisions regarding the shipment of goods established that packages, cases, and vessels containing commodities could shield their identity. Courts also mandated that imitations of goods as diverse as team uniforms and stationery remained unacceptable. Likewise, competitive companies could not distribute goods that caused consumer confusion or "tarnished" private trademarks. In the *Dow Jones* case, the Supreme Court of Illinois held that the Chicago Board of Trade (CBOT) could not develop a stock index futures contract keyed to the Dow Jones Industrial Average without first obtaining permission from the company that created the market index. Officials at the CBOT used similar reasoning to their advantage as they successfully argued that the organization's price quotations were "like a trade secret," thereby suppressing the sharing of insider pricing with potential competitors. Unlike patent, copyright, and trademark law, no private federal civil cause of action existed in U.S. trade-secret law. In 1979 the American Bar Association approved the Uniform Trade Secrets Act (UTSA) as a model for states to adopt.

Nineteenth- and twentieth-century American popular literature, commerce, and shopping introduced copyrighted books, patented industrial designs, and trademarked consumer goods to millions of consumers across the country. Business journals, engineering specialists, corporate officers, and government officials helped inventors and producers understand the legal terminology serving as the foundation of intellectual property. Marketing efforts ensured that consumers became aware of new brands as they entered the national marketplace, and independent inventors received inspiration from firms such as Munn and Company, the parent firm of *Scientific American Magazine.* Munn officials developed the first professional services organization in the United States dedicated to submitting patent applications. Thomas Edison, the quintessential American inventor and protector of special designs and schemes, was said to never miss an issue of *Scientific American* as a young boy. In 1877 he entered the New York offices of the magazine and demonstrated an early version of his phonograph to great fanfare.

Scientific American captured readers such as Edison by promoting the captivating nature of scientific curiosity and invention. Dreams and success stories dominated every issue, and creative capitalist enterprise abounded. The masthead of the first edition stated: "This paper is especially entitled to the patronage of Mechanics and Manufactures, being the only paper in America, devoted to the interest of those classes." Former painter, schoolmaster, and inventor Rufus Porter launched the magazine on August 28, 1845, and sold the publication to Alfred Ely Beach and Orson Desaix Munn the following year for a small profit.

Beach grew up as the son of Moses Yale Beach, who owned the *New York Sun* and developed the rag-cutting machine for the manufacture of paper. Munn, who had been one of Alfred's classmates at Monson Academy, ran a general store in Monson, Massachusetts, at the time of the purchase. Together, the two men increased the magazine's circulation to 10,000 by 1848, 20,000 by 1852, and 30,000 by 1853. The journal championed the growth in the number of people working in technology across the United States and promoted Munn and Company as the experts necessary for planning and protecting inventors' ideas and design concepts. At the end of 1845, the U.S. Patent Office had issued 4,347 patents throughout its history. By 1890 the number of patents accepted (approximately one-third as many additional applications were denied) by the same office numbered 402,166, and over 20,000 were being granted each year. During the early 1860s, Munn and Company generated one-third of all patents issued in America. By 1924 the firm's number of patents exceeded 200,000, more than one-seventh of all patents ever issued by the Patent Office to that time. Firm officials became active lobbyists. Throughout the 1850s, Beach,

who secured several patents of his own (including one for a typewriter enhancement for the blind), traveled to the District of Columbia every two weeks to personally deliver applications. Munn and Company also opened a branch office in Washington, across the street from the Patent Office. Personnel from the firm wrote letters of advice to Congress members and U.S. presidents, and they tutored government officials interested in technology. The company also published several editions of a handbook specific to patent law. A former patent commissioner even became one of the company's attorneys.

As independent inventors became more sophisticated, corporate leaders followed suit. They received aid from court rulings that further eroded municipal controls over trade and business transactions. Courts ruled that cities could no longer regulate the hours of business within their confines. The Supreme Court decision in *Santa Clara v. Southern Pacific Railroad* (1886) finalized a legal revolution that resulted in corporations being declared "persons" entitled to the constitutional rights and protections guaranteed by the Fourteenth Amendment. Through the emergence of "substantive due process," corporations achieved "natural" economic status as ordinary, private, constitutionally protected enterprises rather than special, public creations of the state. Nineteenth-century corporate officials used these new legal findings to justify closely held control over ideas and inventions. For instance, the DuPont Company developed postemployment covenants designed to prevent the dissemination of knowledge, thereby restricting the spread of workplace knowledge outside the job site. When courts upheld these contracts, company officials drafted comprehensive agreements stipulating that firms legally owned the rights to any employee-developed ideas.

Nineteenth-century U.S. efforts to develop policy relating to ideas and knowledge-based products were consistently influenced by international advocates for protection. Many foreign exhibitors refused to attend the International Exhibition of Inventions in Vienna in 1873 because they were afraid their ideas would be stolen and exploited commercially in other countries. Ten years later, the Paris Convention for the Protection of Industrial Property led to the major international treaty of the same name, which was designed to help individuals in one nation obtain protection in other countries for their inventions, usually patents, trademarks, and industrial designs. The Paris Convention became codified in 1884 with 14 members, and it created an international bureau designed to organize policy across the world. The 1886 Bern Convention for the Protection of Literary and Artistic Works enhanced this effort. The meeting allowed nationals of member states to plan for international protection of their rights to control and receive payment for the use of creative works such as novels, stories, poems, plays, songs, operas, musicals, sonatas, drawings, paintings, sculptures, and architectural works. Emulating the Paris meeting, the Bern Convention established an international bureau to direct tasks. In conjunction with Paris Convention officials, the bureau formed an organization called the United International Bureau for the Protection of Intellectual Property (BIRPI). A staff of seven, based in Bern, Switzerland, preceded what became the World Intellectual Property Organization (WIPO) over 60 years later.

In the twentieth and twenty-first centuries, persistent market expansion and lobbying of government officials resulted in new U.S. law expanding the duration of knowledge protection and a greater focus on world trade standards. Intellectual property increasingly served as a key commodity that American inventors, artists, and business owners used to control uses of their products and to raise investment money. Intellectual property definitions increasingly became key underpinnings for general agreements on trade, drawing interest from business leaders and policymakers. In the wake of other new multilateral institutions dedicated to international economic cooperation, notably the Bretton Woods institutions (now known as the World Bank and the International Monetary Fund), the General Agreement on Tariffs and Trade (GATT) surfaced in 1946. Early GATT negotiations resulted in 45,000 tariff concessions affecting $10 billion—or about one-fifth—of world trade, and they began a worldwide transition toward detailed provisional rules governing trade. A special charter for the International Trade Organization (ITO), a short-lived agency of the United Nations, even set rules relating to employment, commodity agreements, restrictive business practices, and international investment. GATT became officially activated in January 1948 and established a forum that world leaders used to develop international principles of trade and business, including intellectual property.

In 1960 BIRPI moved from Bern to Geneva, and a decade later, the organization became the World Intellectual Property Organization. In 1974 WIPO became a specialized agency of the United Nations and received a mandate to administer intellectual property matters recognized by members. GATT remained the only multilateral instrument governing international trade until the Marrakesh Agreement established the World Trade Organization (WTO) in 1994. The latter body established a council for trade-related aspects of intellectual property rights (TRIPS), operating under the guidance of the WTO's General Council. This interaction codified intellectual property rights within industrial nations in the same fashion the U.S. Constitution merged English law with state law in America. Today, WTO officials encourage global intellectual property provisions and agreement among major trading nations, and government leaders follow the organization's advice. When the European Union, in the mid-1990s, adopted the German copyright standard, which called for a duration based on the author's life plus 70 years, U.S. Congress members increased the U.S. duration from 50 to 70 years. In 1996 WIPO officials entered into a cooperative agreement with WTO administrators. At the beginning of the twenty-first century, the organization had 179 independent member states and a staff of over 800, representing 84 countries around the world.

U.S. corporations became huge supporters of a worldwide agreement regarding intellectual property standards and the protection of these business assets (the property itself) as their own business interests expanded into outlying markets. Federal spending on semiconductor research in northern

California in the later half of the twentieth century led to the rise of Silicon Valley and high-tech areas outside Boston. Other cities and metropolitan areas sought to capture high-tech growth industries fueled by technological expansion, and several cities and states promoted research labs and development centers sometimes affiliated with major universities. These growing R&D centers sprouted new technology designed to convert ideas and products into wealth. Firms relying on medicine, weaponry, and computing systems remained especially popular.

In the 1970s a magazine similar to *Scientific American, Popular Mechanics,* provided inspiration to Microsoft founders Paul Allen and Bill Gates, who discovered the Altair, a home computer kit, in the pages of the magazine. Allen and Gates fastidiously programmed software for the machine and launched a vast empire designed to license ideas through software (Microsoft). As several other companies eschewed business models based on selling machines (hardware, in the case of computers) or services and consulting, licensing software to operate networks, computers, and manufacturing systems became accepted practice. Buying and selling software and technology as commodities, as opposed to using the technology to build something more tangible, was popularized, and the term *intellectual property* emerged as an American definition of knowledge-based assets such as copyrights, patents, trademarks, and trade secrets. Law schools began offering special programs for intellectual property studies, and the term consistently turned up in congressional debates and within proposed congressional bills in the 1980s. The term was eventually replaced by a shortened usage, *IP,* a popular expression incorporated by business executives, investors, technologists, and attorneys.

American venture capital firms seeding start-up companies with capital often focus more on the intellectual property associated with a business or idea than on the company itself. The intellectual property is treated as the critical asset behind the business and as the only tangible, valuable commodity. Intellectual property–related trade has grown into one of the largest economic sectors within the nation's economy. In 1998 high-tech industries accounted for 11 percent of the $12.5 trillion worth of goods produced in the United States, and they grew much faster than other sectors. Management of this growth mandated intense interest by private and public authorities in intellectual property. At the dawn of the twenty-first century, some estimates conclude that copyrighted material alone contributes over $400 billion to the U.S. economy each year, arguably making it the country's single most important export.

—*R. Jake Sudderth*

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Judiciary

Over the span of its history, now covering more than two centuries, the U.S. Supreme Court has had to rule on a series of issues relating to economic matters. In delivering its decrees, the nation's highest judicial tribunal has relied on a set of powers explicitly and implicitly drawn from the U.S. Constitution. Section 8 of Article 1 outlines many of those powers, authorizing Congress "to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defense and general welfare of the United States." The Constitution mandates that all such "duties, imposts and excises shall be uniform throughout the United States." Additionally, it allows Congress "to borrow money on the credit of the United States" and "to regulate commerce with foreign nations, and among the several States, and with the Indian tribes." Furthermore, according to the Constitution, Congress possesses the authority "to establish . . . uniform laws on the subject of bankruptcies throughout the United States," "to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures," and "to provide for the punishment of counterfeiting the securities and current coin of the United States." Finally, Section 8 concludes with an arguably sweeping grant of power—stating that Congress possesses the authority "to make all laws which shall be necessary and proper for carrying into execution the foregoing powers, all other powers vested by this Constitution in the government of the United States, or in any department or officer thereof."

The founding fathers articulated other significant powers pertaining to commercial transactions in Sections 9 and 10 of Article 1. Section 9 mandates that "no capitation, or other direct, tax shall be laid, unless in proportion to the census or enumeration herein before directed to be taken" and that "no tax or duty shall be laid on articles exported from any State." Similarly, "no preference shall be given by any regulation of commerce or revenue to the ports of one State over those of another; nor shall vessels bound to, or from, one State, be obliged to enter, clear, or pay duties to another." Moreover, "no money shall be drawn from the treasury, but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time." Article 10 denies all states the authority to "coin money; emit bills of credit; make anything but gold and silver a tender in payment of debts; pass any bill . . . or law impairing the obligation of contracts." The states, absent congressional approval, are similarly not allowed "to lay any imposts or duties on imposts or exports, except what may be absolutely necessary for executing [their] inspection laws; and the net produce of all duties and imposts . . . shall be for the use of the treasury of the United States." Article 7 states that "all debts contracted and engagements entered into, before the adoption of this Constitution, shall be valid against the United States under this Constitution, as under the Confederation."

Justices, attorneys appearing before the Supreme Court, and legal scholars have argued about the specific nature of such clauses, with some contending that the language in the Constitution is exact and others declaring that it is ambiguous at best. Interpretations pertaining to economic policies and practices of the federal government, states, municipalities, corporations, and private individuals have varied with the passage of time. This essay will explore some of the most significant of those arguments, drawing on a series of seminal Supreme Court rulings.

Concerns about the new nation's chaotic economic makeup, along with fears that the experiment in republican government might not succeed, led to calls for a revision of the Articles of Confederation. The gathering that ensued, the 1787 Constitutional Convention in Philadelphia, resulted in the crafting of a new, national document that gave the central government broad powers, including powers in the economic realm. In fact, little debate occurred in Congress over the commerce clause, which later spawned more legislation than any other component of the U.S. Constitution. Moreover, the commerce clause long provided the chief means for strengthening federal power. However, the contracts clause, not the clause regarding commerce, occupied most of the U.S. Supreme Court's limited docket during its first years of operation. And that clause had been controversial from its

inception, with concerns expressed that the provision would unnecessarily hamper the states. The due process clause and the takings clause of the Fifth Amendment (which declares that "no person shall be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use without just compensation") also proved instrumental.

The Marshall Court, 1801 to 1835

Chief Justice John Marshall turned to both clauses to ensure the early primacy of judicial nationalism. In *Fletcher v. Peck* (1810), Marshall employed the contracts clause to prevent states from encroaching on property rights. To safeguard investors who had acquired land through state grants, he had to disregard past notorious financial dealings involving highly placed officials in Georgia, in the U.S. Senate, and on the federal bench. Avoiding the issue of those unsavory practices, Marshall asserted that the purchaser of land possessed "a title good at law, he is innocent, whatever may be the guilt of others, and equity will not subject him to the penalties attached to that guilt." Otherwise, "all titles would be insecure, and the intercourse between man and man would be very seriously obstructed, if this principle be overturned."

In *Dartmouth College v. Woodward* (1819), Marshall broadened the reach of the contracts clause to include corporate charters. The New Hampshire state legislature sought to revise a 1769 charter that had established Dartmouth College. Daniel Webster argued that the legislature's effort amounted to "impairing the Obligation of Contracts." Effectively accepting Webster's contention that the contracts clause precluded states from interfering with such charters, the chief justice thereby shielded private economic interests from government regulation. Marshall's subsequent effort to overturn a New York insolvency law that purportedly violated the contracts clause, delivered in the case of *Ogden v. Saunders* (1827), proved unavailing.

Marshall had been more successful three years earlier, when he employed the commerce clause for the first time to help nurture an expansive national economy. The case of *Gibbons v. Ogden* (1824) regarded a state-granted monopoly for steam navigation along the Hudson River. With sweeping prose, Marshall indicated that state law "must yield to the law of Congress" when a conflict arises. "Completely internal commerce of a state" was "reserved for the state itself." However, "the power to regulate; that is, to prescribe the rule by which commerce is to be governed . . . like all others vested in Congress, is complete in itself." Thus, he held, it "may be exercised to its utmost extent, and acknowledges not limitations, other than are prescribed in the constitution." Marshall overturned the state court's decree that had sustained the monopoly for steamboats and in the process encouraged the blossoming transportation revolution.

In *McCulloch v. Maryland* (1819), Marshall also employed the necessary and proper clause to further the principle of judicial nationalism. The case involved the establishment of state branches by the Second Bank of the United States. A Maryland statute leveled a tax on banks that operated in the state without legislative approval. In a unanimous ruling, Marshall declared that "the government of the United States . . . though limited in its powers, is supreme; and its laws, when made in pursuance of the Constitution, form the supreme law of the land." The Constitution implicitly authorized the establishment of the national bank, Marshall continued, as indicated in the necessary and proper clause. He wrote, "This provision is made in a constitution intended to endure for ages to come, and, consequently, to be adapted to the various crises of human affairs."

The Taney Court, 1836 to 1864

Roger Taney, a former attorney general and Jacksonian Democrat with a very different conception of judicial power, succeeded John Marshall as chief justice. The difference between the two men became starkly apparent in the case of *Charles River Bridge v. Warren Bridge* (1837), which involved a state charter for a toll bridge. A second corporation, the Warren Bridge Company, subsequently received a charter to construct another bridge close to the first one. That bridge would remain a toll bridge for six years only. Contending that its contractual rights had been violated, the Charles River Company sought injunctive relief. In a forcefully argued 4–3 decision, Chief Justice Taney insisted that "the object and end of all government is to promote the happiness and prosperity of the community." Thus, it could not be assumed "that the government intended to diminish its power of accomplishing the end for which it was created." The defendant's claim that a monopoly could be granted over "a line of traveling," Taney declared, would terminate technological innovations that "are now adding to the wealth and prosperity, and the convenience and comfort of every part of the civilized world." Justice Joseph Story, in his dissent, complained that the majority ruling "destroys the sanctity of contracts."

Another 1837 decision, *Briscoe v. Bank of the Commonwealth of Kentucky,* placed Story in dissent against a transformed Supreme Court. A state-owned public banking corporation in Kentucky had issued paper money, an act that Marshall, in *Craig v. Missouri* (1830), had deemed unconstitutional. Now, the Court declared states' banknotes constitutional, while narrowly defining what constituted a "bill of credit" under Article 1, Section 10 of the Constitution.

A happier ruling in John Swift's estimation involved the unanimous decision handed down by the Supreme Court in *Swift v. Tyson* (1842). Written by Swift himself, this judicial determination involved the question of whether the Court would adhere to general commercial legal principles if they ran counter to state court decrees. Swift answered in the affirmative, thus allowing the federal judiciary to uphold "a general commercial law" related to judicial precedents. Thereby, interstate commerce could avoid local impediments that might otherwise have been established.

Another important case decided by the Taney court, *Cooley v. Board of Wardens of the Port of Philadelphia* (1852), provided a somewhat definitive ruling on the commerce clause's applicability regarding various state-federal issues. A Pennsylvania statute required boats using the port of Philadelphia to pay half of the pilotage fees if the captains did not use local pilots. The Supreme Court affirmed that "the grant of com-

mercial power to Congress does not contain any terms which expressly exclude the States from exercising an authority over its subject matter." The Court then stated, "If they are excluded it must be because the nature of the power, thus granted to Congress, requires that a similar authority should not exist in the States."

The Chase Court, 1864 to 1873

The last third of the nineteenth century witnessed a series of monumental decisions by the U.S. Supreme Court regarding economic matters. During this period, the American economy underwent remarkable transformations. By the close of the nineteenth century, the United States had become the world's most productive country, surpassing Great Britain. Along with a soaring population, itself the by-product of a high natural birthrate and massive immigration from abroad, the American landscape possessed great natural abundance. Scientific and commercial ingenuity, technological innovations, a managerial revolution, and the flowering of corporate capitalism also proved significant. In a series of rulings, the Supreme Court provided judicial support for the economic boom that saw the gross national product increase 33-fold from 1859 to 1919. Many of the decisions made by this activist Court determinedly sustained the liberty of contract, due process of the laws, and equal protection in a legal sense.

The closely fought *Slaughterhouse Cases* (1873) sharply restricted the effectiveness of the privileges and immunities clause of the recently ratified Fourteenth Amendment (1868). The case involved state and local codes passed in Louisiana to safeguard public health. In a 5–4 ruling, the Court declared that the privileges and immunities clause precluded states from restricting only "the privileges or immunities of citizens of the United States," not those articulated by the states. An impassioned dissent presented by Justice Stephen J. Field declared that the Louisiana regulations placing restraints on butchers violated the Fourteenth Amendment's admonition regarding due process of law. Field's dissent planted the seeds for the constitutional theory of substantive due process, while championing the ideal of "inalienable individual liberties." He wrote, "Clearly among these must be placed the right to pursue a lawful employment in a lawful manner, without other restraint such as equally affects all persons." However, Field insisted, "grants of exclusive privileges, such as is made by the act in question, are opposed to the whole theory of free government, and it requires no aid from any bill of rights to render them void."

The Watte Court, 1874 to 1888

The conceptual thrust behind the *Slaughterhouse* dissent ultimately came to prevail in a series of Supreme Court decisions, with certain exceptions carved out along the way. In *Munn v. Illinois* (1877), for example, the Court declared valid the Illinois statute establishing rates for grain elevator operations. Once again, Justice Field tendered a strong dissent, stating that "if this is sound law, all property and all business in the state are held at the mercy of the Legislature." By contrast, Field joined the majority of the justices in the case of *Wabash, St. Louis & Pacific Railway Co. v. Illinois* (1886), when the Supreme Court asserted that the states lacked authority to regulate railroad rates involving interstate commerce. "Indirect" restraints—but not "direct" ones—on interstate transportation, the Court ruled, were permissible. In response to the *Wabash* ruling, the U.S. Congress passed the Interstate Commerce Act of 1887, which authorized the setting of interstate rail rates by the Interstate Commerce Commission. In 1890, the Sherman Anti-Trust Act also became law.

The Fuller Court, 1888 to 1910

In *United States v. E. C. Knight* (1895) and *Pollock v. Farmers' Loan & Trust Co.* (1895), decided within two months of one another, the Supreme Court placed substantial constraints on the ability of the federal government to curb corporate excesses and the power of a small band of individuals who had amassed great wealth during the period of rapid modernization. The case involved an attempt to restrict the growth of the American Sugar Refining Company, which controlled 98 percent of the market share. Chief Justice Melville W. Fuller all but eviscerated the efficacy of the Sherman Anti-Trust Act, drawing a distinction between manufacturing and commerce and declaring the Court should not consider the indirect effects on interstate commerce under that legislation. If the American Sugar Refining Company was a monopoly, Fuller contended, it involved manufacturing only. Justice John Marshall Harlan dissented, declaring that an unlawful restraint on trade impacted an entire state. Harlan wrote, "The general government is not placed by the Constitution in such a condition of helplessness that it must fold its arms and remain inactive while capital combines . . . to destroy competition . . . throughout the entire country, in the buying and selling of articles . . . that go into commerce among the states." In *Pollock,* the Court, with Fuller again delivering the majority ruling, invalidated major portions of the federal income tax law of 1894, which placed a 2 percent tax on incomes greater than $4,000. Fuller declared that "what was intended as a tax on capital would remain in substance a tax on occupations and labor." Justice Harlan dissented, terming the ruling a "judicial revolution that may sow the seeds of hate and distrust among the people of different sections of our common country." Justice Henry Billings Brown dismissed Fuller's opinion as "a surrender of the taxing power to the moneyed class."

Justice Field's determined belief in both freedom of contract and liberty of enterprise came to carry enormous weight with the Supreme Court during the latter stages of the nineteenth century. In 1890 the Court declared that due process required the judicial review of state regulations of railroad rates, but later in the decade, the Court determined that railroads were entitled to a fair profit. In the case of *Allgeyer v. Louisiana* (1897), the Court, relying on the doctrine of substantive due process, overturned a statute mandating that all companies conducting business in Louisiana pay state fees. Justice Rufus Peckham relied on the ideal of "liberty of contract," propounded by the British philosopher Herbert Spencer and other champions of laissez-faire, to invalidate the Louisiana law.

Peckham offered a still more striking justification of liberty of contract in *Lochner v. New York* (1905). In that case, he

delivered a 5–4 ruling that overturned a New York law limiting bakers from toiling more than 10 hours a day or 60 hours a week. Peckham bluntly wrote, "There is not reasonable ground for interfering with the liberty of person or the right of free contract" in such a manner. The law in question, he continued, "involves neither the safety, the morals, nor the welfare, of the public, and . . . the interest of the public is not in the slightest degree affected by such an act." The intended design of the statute, Peckham declared, was "simply to regulate the hours of labor between the master and his employees . . . in a private business." Thus, in such a situation, the ability of the employer and the employee to contract freely with each other "cannot be prohibited or interfered with, without violating the Federal Constitution." In his dissent, Justice Oliver Wendell Holmes Jr. argued that state directives could interfere with the liberty of contract. Moreover, "the 14th Amendment does not enact Mr. Herbert Spencer's *Social Statics* . . . a Constitution is not intended to embody a particular economic theory, whether of paternalism and the organic relation of the citizen to the state or of *laissez faire.*" In a companion dissent, Justice Harlan stated that "the liberty of contact may, within certain limits, be subjected to regulations designed and calculated to promote the general welfare, or to guard the public health, the public morals, or the public safety." Additionally, Harlan noted, "a legislative enactment, Federal or state, is never to be disregarded or held invalid unless it be, beyond question, plainly and palpably in excess of legislative power."

Despite such rulings as *E. C. Knight, Pollock, Allgeyer,* and *Lockner,* the U.S. Supreme Court sustained government regulations in certain instances. In *Champion v. Ames* (1903), Justice Holmes issued the 5–4 majority opinion upholding the lottery act of 1895. Holmes affirmed that "lottery tickets are subjects of traffic, and therefore are subjects of commerce, and the regulation of such tickets from state to state, at least by independent carriers, is a regulation of commerce among the several states." He went on to say "that the power of Congress to regulate commerce among the states is plenary, is complete in itself, and is subject to no limitations except such as may be found in the Constitution." In *McCray v. United States* (1904), Justice Edward E. White upheld an act of Congress that allowed for the regulation of the production of oleomargarine. Such an excise tax, White determined, remained constitutional, notwithstanding the rationale sustaining it. Justice Harlan, in *Northern Securities v. United States* (1904), backed the use of the Sherman Anti-Trust Act against a giant railroad company. The case of *Swift v. United States* (1905) saw Holmes deliver the Court's unanimous decision defending a sweeping interpretation of the commerce clause. In upholding antitrust action against the beef trust in that case, Holmes articulated the "current of commerce" doctrine. Commerce, he wrote, involved a practical legal matter, not a technical one. In another unanimous ruling, *Muller v. Oregon* (1908), the Court upheld an Oregon statute capping a workday at ten hours for women who worked in factories or laundries. Influenced by the brief filed by labor lawyer Louis D. Brandeis, Justice David J. Brewer delivered the majority opinion. Brewer declared that a "woman's physical structure and the performance of maternal functions place her at a disadvantage in the struggle for subsistence."

The White Court, 1910 to 1921

Under Chief Justice White and his successor, William Howard Taft, the U.S. Supreme Court continued to cut a generally conservative swath, with some exceptions. White presented the unanimous ruling in *Standard Oil Co. v. United States* (1911), which declared that a court must resort to a "rule of reason" in determining whether it should apply the Sherman Anti-Trust Act in a particular instance. In that case and in *United States v. American Tobacco Co.* (1911), the Court did sustain government efforts to apply the Sherman Act. Despite his concurrence in the *Standard Oil* ruling, Justice Harlan derided the "rule of reason" as amounting to judicial legislation. The Court also upheld federal legislation regarding the grain, meatpacking, and radio broadcasting industries.

The Supreme Court looked less favorably on social legislation. In *Hammer v. Dagenhart* (1918), Justice William R. Day delivered the 5–4 ruling that the 1916 Keating-Owen Child Labor Act was unconstitutional. Day stated, "Over interstate transportation, or its incidents, the regulatory power of Congress is ample, but the production of articles, intended for interstate commerce, is a matter of local regulation." Deeming the act in question "repugnant to the Constitution," Day declared that "it not only transcends the authority delegated to Congress over commerce but also exerts a power as to a purely local matter to which the federal authority does not extend." If Congress could effect such regulation, he insisted, "all freedom of commerce will be at an end, and the power of the states over local matters may be eliminated, and thus our system of government be practically destroyed." In his dissent, Justice Holmes noted that "it would be not be argued today that the power to regulate does not include the power to prohibit." In his estimation, "the power to regulate commerce and other constitutional powers could not be cut down or qualified by the fact that it might interfere with the carrying out of the domestic policy of any State."

The Taft Court, 1921 to 1930

The Taft court demonstrated its antilabor basis in a series of rulings, including *Truax v. Corrigan* (1921). Chief Justice Taft delivered the 5–4 majority opinion, which invalidated an Arizona statute that restricted courts from issuing injunctions against striking workers. The measure, Taft determined, abridged the due process and equal protection clauses of the Fourteenth Amendment. In *Bailey v. Drexel Furniture Co.* (1922), the Court deemed the Child Labor Tax Law unconstitutional. The act, Taft declared, established a penalty with a "prohibitory and regulatory effect" that would "break down all constitutional limitation of the powers of Congress and completely wipe out the sovereignty of the States." Justice George Sutherland, in *Adkins v. Children's Hospital* (1923), invalidated another federal law, this one setting a minimum-wage standard for women workers in the District of Columbia. Such a measure, from Sutherland's perspective, violated the liberty of contract that was guaranteed under the Fifth

Amendment's due process clause. To Sutherland, "freedom of contract [was] the general rule and restraint the exception." Chief Justice Taft dissented, arguing that legislators, wielding the police power, could limit freedom of contract to afford protection to women laborers. Justice Holmes condemned the liberty of contract doctrine, stating that "pretty much all law consists in forbidding men to do some things that they want to do."

The Hughes Court, 1930 to 1941

The liberal-conservative divide on the Court appeared perhaps starker still as the Great Depression unfolded, when unemployment mushroomed to unprecedented levels, soup kitchens and breadlines appeared across the land, and desperation and anger mounted. In a number of closely argued cases, the Supreme Court ruled on the constitutionality of a series of measures by the federal government designed to improve the nation's economy. Initially, the Court appeared close to adopting a different approach regarding substantive due process. In *Nebbia v. New York,* Justice Owen Roberts offered the Court's 5–4 majority opinion sustaining a New York law that regulated the dairy industry. Roberts asserted, "In the absence of other constitutional restriction, a state is free to adopt whatever economic policy may reasonably be deemed to promote public welfare, and to enforce that policy by legislation adapted to its purpose." Moreover, "if the laws passed are seen to have a reasonable relation to a proper legislative purpose, and are neither arbitrary nor discriminatory, the requirements of due process are satisfied." In his dissent, Justice James Clark McReynolds insisted otherwise: "We must inquire concerning its purpose and decide whether the means proposed have reasonable relation to something within legislative power—whether the end is legitimate and the means appropriate." In *Home Building & Loan Association v. Blaisdell* (1934), another 5–4 ruling, delivered by Chief Justice Charles Evans Hughes, the 1933 Minnesota Mortgage Moratorium Law was upheld. Hughes wrote, "While emergency does not create power, emergency may furnish the occasion for the exercise of power." Affirming that the commerce clause was not absolute, Hughes declared that states possessed the authority to protect the well-being of their residents. The dissenters decried the impairment of the obligation of contracts.

Increasingly, the arguments posed by the dissenters would become part of majority opinions that overturned legislation sponsored by the administration of Franklin Delano Roosevelt. In May 1935 alone, the Supreme Court declared four New Deal enactments unconstitutional. The most important of those cases, *Schechter Poultry v. United States* (1935), resulted in a unanimous ruling delivered by Chief Justice Hughes that effectively invalidated the National Industrial Recovery Act of 1933. That measure, intended to stimulate economic recovery, called for industry groups to establish codes of fair competition. In a crushing blow to the Roosevelt administration, Hughes declared that "extraordinary conditions do not create or enlarge constitutional power." Most tellingly, he argued that the act had unconstitutionally ceded legislative powers to the executive branch. In a 6–3 ruling in *United States v. Butler* (1936), Justice Owen Roberts tossed out various provisions of the Agricultural Adjustment Act of 1933, another centerpiece of the First New Deal. Roberts contested the notion that Article 1, Section 8, of the U.S. Constitution "grants power to provide for the general welfare, independently of the taxing power." In a sharply drawn dissent, Justice Harlan F. Stone termed Robert's decision "a tortured construction of the Constitution." Stone also warned that "courts are not the only agency of government that must be assumed to have capacity to govern. Congress and the courts both unhappily may falter or be mistaken in the performance of their constitutional duty. . . . The only check upon our own exercise of power is our own sense of self-restraint." Yet another 5–4 ruling, *Carter v. Carter Coal Co.* (1936), had Justice George Sutherland invalidate the Bituminous Coal Conservation Act of 1935. "Production," he exclaimed, "is not commerce but a step in preparation for commerce."

As the makeup of the Court began to change and Chief Justice Hughes became more consistently amenable to a liberal perspective, rulings more favorable to later New Deal legislation followed. Consequently, the Court upheld the progressive state laws and the cornerstones of the Second New Deal—the Social Security Act and the National Labor Relations Act (NLRA), both passed in 1935. Indeed, from 1937 through the duration of the Roosevelt administration, the Supreme Court did not overturn any major federal legislation. The case of *West Coast Hotel Co. v. Parrish* (1937) saw a 5–4 decision delivered by the chief justice, who upheld a statute setting a minimum-wage standard for women workers in Washington State. In overruling *Adkins,* Hughes asked, "What is this freedom? The Constitution does not speak of freedom of contract." In his dissent, Justice Sutherland contended that treating men and women differently under the law amounted to arbitrary discrimination. In *NLRB v. Jones & Laughlin Steel Corp.* (1937), yet another hard-fought 5–4 case, Chief Justice Hughes sustained the NLRA, which guaranteed the right of workers to bargain collectively. Hughes wrote: "The congressional authority to protect interstate commerce from burdens and obstructions is not limited to transactions which can be deemed to be an essential part of a 'flow' of interstate or foreign commerce. . . . Although activities may be intrastate in character when separately considered, if they have such a close and substantial relation to interstate commerce that their control is essential or appropriate to protect that commerce from burdens and obstructions, Congress cannot be denied the power to exercise that control."

In *Steward Machine Co. v. Davis* and in *Helvering v. Davis* (1937), the Court prevented the Social Security Act from being discarded. In still one more 5–4 ruling, Justice Benjamin Cardozo denied in *Steward Machine Co.* that the Constitution precluded the government "from assenting to conditions that will assure a fair and just requital for benefits received." In *Helvering,* Cardozo affirmed that "Congress may spend money in aid of the 'general welfare.'" Acknowledging that a distinction had to be made between particular and general welfare, Cardozo declared that "the discretion . . . is not confided to the courts. The discretion belongs to Congress, unless the choice is clearly wrong, a display of arbitrary

power, not an exercise of judgment." Additionally, he said, "when money is spent to promote the general welfare, the concept of welfare or the opposite is shaped by Congress, not the states. So the concept be not arbitrary, the locality must yield."

The Stone Court, 1941 to 1946

In the 1941 ruling of *United States v. Darby Lumber Co.,* Chief Justice Harlan Stone overruled the *Dagenhart* decision in upholding the 1938 Fair Labor Standards Act, which established a 40-hour maximum workweek while mandating a minimum wage of $.40 an hour for workers "engaged in commerce or in the production of goods for commerce." Stone declared that "the shipment of manufactured goods interstate is such commerce and the prohibition of such shipment by Congress is indubitably a regulation of the commerce." Congress's power "over interstate commerce is not confined to the regulation of commerce among the states. It extends to those activities intrastate which so affect interstate commerce or the exercise of the power of Congress over it as to make regulation of them appropriate means to the attainment of a legitimate end, the exercise of the granted power of Congress to regulate interstate commerce."

The case of *Wickard v. Filburn* (1942) further extended the federal government's exercise of power through the commerce clause. In a unanimous ruling, Justice Robert Jackson sustained key provisions of the second Agricultural Adjustment Act, declaring that "the Court's recognition of the relevance of the economic effects in the application of the Commerce Clause . . . has made the mechanical application of legal formulas no longer feasible." Thus, he wrote, "even if an appellee's activity be local and though it may not be regarded as commerce, it may still, whatever its nature, be reached by Congress if it exerts a substantial economic effect on interstate commerce and this irrespective of whether such effect is what might at some earlier time have been defined as 'direct' or 'indirect.'"

The Vinson Court, 1946 to 1953

The U.S. Supreme Court did rule against President Harry S Truman in the case of *Youngstown Sheet and Tube Company v. Sawyer* (1952). In the midst of the Korean War, Truman had ordered Secretary of Commerce Charles Sawyer to take control of the steel mills during a nationwide strike by the United Steelworkers. In a 6–3 ruling, Justice Hugo Black declared that "the President's power, if any, to issue the order must stem either from an act of Congress or from the Constitution itself. There is no statute that expressly authorizes the President to take possession of the property as he did here."

The Warren Court, 1953 to 1969

Throughout the cold war era, the Supreme Court repeatedly affirmed the authority of the federal government to rely on the commerce power. In *Heart of Atlanta Motel v. United States* (1964), Justice Thomas Clark upheld the constitutionality of Title II of the 1964 Civil Rights Act, which banned racial discrimination in public accommodations; that measure relied on the commerce clause. Quoting from an earlier ruling, Clark affirmed that "if it is interstate commerce that feels the pinch, it does not matter how local the operation which applies the squeeze." He declared, "Thus the power of Congress to promote interstate commerce also includes the power to regulate the local incidents thereof, including local activities in both the States of origin and destination, which might have a substantial and harmful effect upon the commerce."

The Burger Court, 1969 to 1986

In 1976 the Supreme Court, for the first time in four decades, declared unconstitutional legislation that relied on the commerce clause. In a 5–4 ruling in the case of *National League of Cities v. Usery,* Justice William Rehnquist invalidated the 1974 amendments to the Fair Labor Standards Act that sought to extend minimum-wage and maximum-hour protections to most state and local public employees. Rehnquist insisted that "this Court has never doubted that there are limits upon the power of Congress to override state sovereignty, even when exercising its otherwise plenary powers to tax or to regulate commerce which are conferred by Article 1 of the Constitution." He declared, "We hold that insofar as the challenged amendments operate to directly displace the States' freedom to structure integral operations in areas of traditional governmental functions, they are not within the authority granted Congress by Art. 1, section 8." In his dissent, Justice William Brennan asserted that Rehnquist's decision amounted to a "patent usurpation of the role reserved for the political process." Brennan went on to say that "today's holding patently is in derogation of the sovereign power of the Nation to regulate interstate commerce."

Only nine years later, the Court overruled the decision in the case of *Garcia v. San Antonio Metropolitan Transit Authority.* Justice Harry Blackmun asserted that "the attempt to draw the boundaries of state regulatory immunity in terms of 'traditional government function' is not only unworkable but is inconsistent with established principles of federalism and, indeed, with those very federalism principles on which National League of Cities purported to rest." Therefore, he declared, "we . . . now reject, as unsound in principle and unworkable in practice, a rule of state immunity from federal regulation that turns on a judicial appraisal or whether a particular governmental function is 'integral' or 'traditional.'" In his dissent, Justice Lewis Powell contended that the decision "substantially alters the federal system embodied in the Constitution."

The Rehnquist Court, 1986 to the Present

In keeping with the *Garcia* case, most Supreme Court rulings following the 1937 "judicial revolution" afforded both the federal and state governments wide latitude in regulating the marketplace. During the 1990s, however, the Rehnquist court displayed a greater readiness than any high court since the mid-1930s to view congressional discretion in the economic realm more critically. In the hotly contested case of *United States v. Lopez* (1995), Chief Justice Rehnquist declared that a statute regulating private individuals exceeded Congress's au-

thority under the commerce clause. The case focused on a congressional enactment that banned guns within 1,000 feet of schools. The 5–4 majority ruling declared that Congress had failed to demonstrate a "substantial" effect on interstate commerce.

In 2000 the U.S. Supreme Court heard an appeal from the Florida Supreme Court over the disputed election between presidential candidates George W. Bush and Al Gore and decided that the Florida recount was unconstitutional. Since 2000 the Rehnquist court has maintained a conservative position on most issues, including upholding the validity of school vouchers. However, in 2003 the Court issued two decisions that deviated from this conservative position. First, in two cases brought against the University of Michigan, the Court split its decisions: It ruled that minority students applying for admission cannot receive an additional 20 points on the entrance application based on their race (an amount that exceeded the points given for a student's grade point average) but that the University of Michigan Law School could use race as a factor to achieve diversity within its student body. Second, on June 27, 2003, the Supreme Court struck down a Texas sodomy law that outlawed gay sex. With a Court that is now deciding social issues on a liberal basis, many in Congress awaited the last day of the Supreme Court session in 2003 to see if any of the justices would retire, but none did.

—Robert C. Cottrell

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Labor

Economic resources are limited or scarce. In general, the term *economic resources* refers to all natural, human, and manufactured resources that go into the production of goods and services, including factory and farm buildings and all sorts of equipment, tools, and machinery used in the production of manufactured goods and agricultural products; a variety of transportation and communication facilities; innumerable types of labor; and, last but not least, land and mineral resources of all kinds. Resources fall into two general classifications: property resources, which include land, raw materials, and capital, and human resources, such as labor and entrepreneurial ability.

Labor is a broad term that the economist uses in referring to all the physical and mental talents people use in producing goods and services. Economists view entrepreneurial ability, with its special significance in capitalistic economies, separately from labor. Thus, the services of a ditchdigger, retail clerk, machinist, teacher, professional football player, and nuclear physicist all fall under the general heading of labor.

Labor in the Colonial Period

In North America by 1775, the original 13 colonies unfurled the standard of revolt. A few of the nonrebel territories, such as Canada and Jamaica, were larger, wealthier, or more populous than the first 13 colonies. And even among the rebellious American colonies, dramatic differences in economic organization, social structure, and ways of life existed.

All the rebellious colonies possessed one outstanding feature in common: Their populations continued to grow rapidly. In 1700 the colonies contained fewer than 300,000 souls, with about 20,000 of African descent. By 1775 some 2.5 million persons inhabited the 13 colonies. Immigration accounted for roughly one-half of the increase. However, most of the spurt stemmed from the remarkable natural fertility of all Americans. To the amazement and dismay of the Europeans, the colonists doubled their numbers every 20 years. Beyond that, lower population densities in some areas slowed the spread of contagious microbes, making American death rates lower than those of the relatively crowded Old World. Colonial America served as a melting pot from the outset. The population, although basically English in stock and language, also contained sizable foreign groups.

Researchers agree that crude frontier life did not permit the flagrant display of class distinctions, and the seventeenth-century colonial society had a simple sameness to it. Would-be American blue bloods resented the pretensions of those who were less fortunate than they were and passed laws to keep them in their place. Massachusetts in 1751, for example, prohibited poorer folk from "wearing gold or silver lace," and in eighteenth-century Virginia, a tailor could receive a fine or imprisonment for arranging to race his horse, a sport that was "only for gentlemen." In the southern colonies, landholding served as the passport to power, prestige, and wealth. The Virginia gentry proved remarkably adept at keeping the land in a small circle of families over several generations, largely because they parceled out their huge holdings among several children rather than just to the eldest son, as was the custom in England.

Luckless black slaves remained consigned to society's lowest class. Though enchained in all the colonies, blacks were heavily concentrated in the South, where their numbers rose dramatically throughout the eighteenth century. Blacks in the tobacco-growing Chesapeake region had a somewhat easier lot. Farms were closer together, which permitted more frequent contact with friends and relatives, and tobacco proved a less physically demanding crop to work than those of the deeper South.

A few of the blacks had been freed, but the vast majority were condemned to a life under the lash. The universal passion for freedom vented itself during the colonial era in numerous incidents of arson, murder, and insurrection or near insurrection. Yet the Africans made a significant contribution to America's early development through their labor, chiefly the arduous toil of cleaning swamps, grubbing out trees, and other menial tasks. A few of them became artisans, carpenters, bricklayers, and tanners, thus refuting the common prejudice that assumed black people lacked the intelligence to perform skilled labor.

In addition to slaves, the labor force of the early colonies also consisted of indentured servants, or indentures. Receiving

passage to the New World in exchange for a specified period of labor, usually five to seven years, indentured servants enjoyed the same rights as other colonists. During the period of employment, they performed tasks ranging from domestic chores to skilled labor, and in exchange, they received room and board. At the end of the indentures' contracts, employers provided them with clothes, tools of their trades, and other essentials to help them start out on their own. The system alleviated the overcrowding of orphanages in England and provided opportunities for poorer English people displaced by the Industrial Revolution. As slavery increased, the number of indentured servants declined. By the American Revolution, the system of indentured servitude had virtually disappeared.

Labor from Independence to 1815

Economic changes wrought by the War of Independence proved likewise noteworthy but not overwhelming. States seized control of former Crown lands, and although rich speculators had their way, many colonial officials confiscated Loyalist holdings and eventually cut them up into small farms. A sharp stimulus was given to manufacturing by the prewar nonimportation agreements and later by the war itself. Goods that had formerly been imported from England were cut off for the most part, but the ingenious Yankees simply made their own replacements.

Economically speaking, independence had numerous drawbacks. Much of the coveted commerce of the home country was still reserved for the loyal parts of the empire; and now the independent Americans had to find new customers for the goods and services they produced. Fisheries were disrupted, and bounties for ships' stores abruptly ended. In some respects, the hated British Navigation Laws became even more disagreeable after independence.

New commercial outlets fortunately compensated, at least partially, for the loss of old ones. Americans could now trade freely with foreign nations, subject to local restrictions—a boon they had not enjoyed in the old days of mercantilism. Enterprising Yankee shippers ventured boldly and profitably into the Baltic and China Seas. In 1784 the empress of China, carrying a valuable weed (ginseng) that was highly prized by Chinese herb doctors as a cure for impotence, led the way into the East Asian markets.

Many researchers agree that war had spawned demoralizing extravagance, speculation, and profiteering, with profits as indecently high as 300 percent. Runaway inflation had been ruinous to middle-class citizens on fixed incomes, and Congress had failed in its feeble attempts to curb economic laws by fixing prices. In fact, the whole economic and social atmosphere was unhealthy. The controversy leading to the war had bred a keen distaste for taxes, and the wholesale seizure of Loyalist estates had encouraged disrespect for private property.

In 1791 the national debt had swelled to $75 million because of Alexander Hamilton's insistence on honoring the outstanding federal and state obligations alike. A man less determined to establish a healthy public credit could have sidestepped $13 million in back interest and could have avoided the state debts entirely. Where was the money to come from to pay interest on this huge debt and to run the government? Hamilton proposed customs duties derived from a tariff. Tariff revenues, in turn, depended on a vigorous foreign trade, another crucial link in Hamilton's overall economic strategy for the new Republic.

Congress passed the first tariff in 1789, a low one with rates of about 8 percent on the value of dutiable imports. Raising revenue was by far the main goal, but the measure also advocated the erection of a low protective wall around infant industries. Hamilton had the vision to see that the Industrial Revolution would soon reach America, and he argued strongly in favor of more protection for the well-to-do manufacturing groups, another vital element in his economic program. In his *Report on the Subject of Manufactures,* Hamilton urged the industrial development of the United States. He noted that since the country had a "scarcity of hands," meaning laborers, the establishment of industries would encourage immigration. It would also provide Americans, primarily women and children, with additional work that would benefit their families, especially during the winter season when farmwork diminished. But Congress, still dominated by the agricultural and commercial interests, voted only two slight increases in the tariff during George Washington's presidency.

The War of 1812 was a small conflict, in which about 6,000 Americans were killed or wounded. Indeed, it became but a footnote to the mighty European conflagration in the same year. When Napoleon invaded Russia with about 500,000 men in 1812, President James Madison tried to invade Canada with about 5,000. However, if the American conflict was globally unimportant, its results proved highly significant to the United States.

Moreover, a new nation was welded in the fiery furnace of armed conflict. Sectionalism, now identified with discredited New England Federalists, was given a black eye. The painful events of the war glaringly revealed, as perhaps nothing else could have done, the folly of sectional disunity. In a sense, the most conspicuous casualty of the war was the Federalist Party. New war heroes emerged, men such as Andrew Jackson, William Henry Harrison, and Winfield Scott. All three became presidential candidates, two of them successful.

Hostile Indians of the South had been crushed by Jackson at Horseshoe Bend (1814) and those of the North by Harrison at the Battle of the Thames (1813). Left in the lurch by their British friends in the Treaty of Ghent, the Indians negotiated such terms as they could. They reluctantly consented, in a series of treaties, to relinquish vast areas of forested land north of the Ohio River.

Manufacturing increased behind the wall of the British blockade. In an economic sense as well as a diplomatic one, the War of 1812 could be regarded as the second War of Independence. The industries stimulated by the fighting rendered America less dependent on the workshops of Europe.

Labor from 1815 to the Civil War

The postwar upsurge of nationalism between 1815 and 1924 manifested itself in manufacturing. Patriotic Americans took pride in the factories that had recently mushroomed, largely as a result of the self-imposed embargo and the war. When hostilities ended in 1815, British competitors tried to recover

lost ground. They began to dump the contents of their bulging warehouses on the United States, often cutting their prices below cost and thus forcing war baby factories out of business. The infant industries demanded protection.

In their view, a nationalist Congress responded by passing the Tariff of 1816. This tariff became the first in American history with protective aims. The rates ranged roughly from 20 to 25 percent on the value of dutiable imports—not high enough to provide complete protection but a bold beginning nonetheless.

The first textile factories employed young women and children, a labor force that worked for lower wages than men. These workers toiled long hours, sometimes up to sixteen hours a day six days a week, in poorly lit factories with inadequate ventilation. Children performed menial tasks, such as changing out bobbins and running errands. Men rarely handled these duties, working instead on farms or at a particular craft.

Sectional tensions increased in 1819 when the territory of Missouri petitioned Congress for admission as a slave state. This fertile and well-watered area contained sufficient population to warrant statehood. However, the House of Representatives introduced the incendiary Tallmadge Amendment, which stipulated that no more slaves should be taken into Missouri and also provided for the gradual emancipation of children born to slave parents already there.

Southerners saw in the Tallmadge Amendment, subsequently defeated in the Senate, an ominous threat to the sectional balance and to the system of labor used in the South. When the Constitution was adopted in 1788, the North and South were running neck and neck in terms of wealth and population. However, with every passing decade, the North became wealthier and more thickly settled, an advantage reflected in an increasing northern majority in the House of Representatives. The future of the slave system caused southerners profound concern. Missouri became the first state entirely west of the Mississippi River that was carved out of the Louisiana Purchase, and the Missouri emancipation amendment might have set a damaging precedent for the rest of the area.

During the decade between 1840 and 1850, the railroad significantly contributed to a solution to one great American problem: distance. Railroads proved fast, reliable, and cheaper to construct than canals, and they did not freeze over in winter. Inevitably, the hoarse screech of the locomotive sounded the doom of various vested interests, who railed against progress in defense of their pocketbooks. Turnpike investors and tavern keepers did not relish the loss of business, and farmers feared for their hay-and-horse market. The canal backers became especially violent. Mass meetings were held along the Erie Canal, and in 1833 the legislature of New York, anxious to protect its canal investment, prohibited the railroads from carrying freight, at least temporarily.

Revolutionary advances in manufacturing and transportation brought increased prosperity to all Americans, but they also widened the gulf between the rich and the poor. Millionaires were rare on the eve of the Civil War, but several colossal financial successes existed.

Cities bred the greatest extremes of economic inequality. Unskilled workers, then as always, fared worst. Many of them made up a floating mass of "drifters," buffeted from town to town by the shifting prospects for menial jobs. These wandering workers accounted, at various times, for up to half the population of the sprawling industrial centers. Though their numbers grew big, they left little behind them but the simple fruits of their transient labor. Largely without stories and unsung themselves, they remain among the forgotten men and women of American history.

Ulrich B. Phillips made two key points in his study *American Negro Slavery* (1918) about the years leading up to the Civil War. He noted that slavery remained a relatively benign social system and that it had become a dying economic institution, unprofitable to the slaveowner and an obstacle to the economic development of the South as a whole. Phillips's study followed two different implications. First, the abolitionists had fundamentally misconstrued the nature of the "peculiar institution," as Southerners referred to their society's slave system. Second, the Civil War was probably unnecessary because slavery might eventually have expired from "natural economic causes."

For more than half a century, historians have debated these issues, sometimes heatedly. Despite the increasing sophistication of economic analysis, no consensus exists on the degree of slavery's profitability. In regard to the social character of the system, a large number of modern scholars refuse to concede that slavery functioned as a benign institution. However, much evidence confirms the health and vitality of black culture in slavery, as reflected in the strength of family ties, religious institutions, and cultural forms of all kinds.

Many historians could argue that historical treatments of the 1850s have long reflected the major controversy of that decade: whether the principal issue involved slavery itself or simply the expansion of slavery into the western territories. Historians have generally emphasized the geographic factor, describing a contest for control of the territories and for control of the central government that disposed of those territories. Recently, however, some analysts, probably reflecting the pro–civil rights agitation of the times, have stressed broader issues, including morality. In this view, the territorial question remains real enough, but it also is seen as symbolizing a pervasive threat posed by the slave power to the free, Northern way of life. In the end, the problems of Southern slavery and "free soil" in the West proved inseparable and insoluble, except by war.

Labor from 1865 to 1900

Economic miracles wrought during the decades after the Civil War enormously increased the wealth of the Republic. The standard of living rose sharply, and well-fed American workers enjoyed more physical comforts than their counterparts in any other industrial nation. Urban centers prospered as the insatiable factories demanded more American labor and as immigrants poured into the vacuums created by new job openings.

The sweat of the laborer lubricated the vast new industrial machine. Yet the wageworkers did not share proportionately with their employers the benefits of the age of big business.

The worker, suggestive of the Roman galley slave, became a lever-puller in a giant mechanism that placed more emphasis on manual skills. After the Civil War, the factory hand employed by a corporation became depersonalized, bodiless, soulless, and frequently conscienceless.

New machines often replaced workers. In the long run, the Second Industrial Revolution (1860–1890) created more jobs than it destroyed, but in the short run, the manual worker suffered. A glutted labor market, moreover, severely handicapped the wage earners. The vast new railroad network could shuttle unemployed workers, including blacks and immigrants, into areas where wages remained high. Immigrating Europeans further worsened conditions. During the 1880s and 1890s and later, the labor market had to absorb several thousand unskilled workers a year. Individual workers became powerless to battle single-handedly against giant industry. Forced to organize and fight for basic rights, they found the scenario to their disadvantage. The corporation could dispense with the individual worker much more easily than the worker could dispense with the corporation. A corporation might even own the "company town," with its high-priced grocery stores and easy credit. Often, the worker sank into perpetual debt, a status that strongly resembled serfdom.

The public, annoyed by recurrent strikes, grew deaf to the outcry of the worker. American wages were perhaps the highest in the world, although a dollar a day for pick-and-shovel labor does not seem excessive. Andrew Carnegie and John D. Rockefeller had battled their way to the top of the steel and oil industries by paying their workers the minimum wages necessary to survive. Big businesses might have combined into trusts to raise prices, but workers were not able to combine into unions to raise wages.

Labor unions, which had been few and disorganized in 1861, received a strong boost by the Civil War. By 1872 several hundred thousand organized workers and 32 national unions existed, including unions for bricklayers, typesetters, shoemakers, and other craftspeople. The National Labor Union, organized in 1866, represented a huge advance for workers. It lasted six years and attracted an impressive total of some 600,000 members, including skilled and unskilled workers as well as farmers. Its keynote involved social reform, although it agitated for such specific goals as the eight-hour day and the arbitration of industrial disputes. The devastating depression of the 1870s dealt it a knockout blow. Wage reductions in 1877 touched off a series of strikes on railroads, collectively known as the Great Railroad Strike of 1877, which became so violent that federal troops were used to restore order.

A new organization, the Knights of Labor, seized the torch dropped by the former National Labor Union. Officially known as the Noble and Holy Order of the Knights of Labor, the organization began inauspiciously in1869 as a secret society, complete with a private ritual, passwords, and a grip. This secrecy, which continued until 1881, was intended to forestall possible reprisals by employers. Initially, the Knights of Labor conducted a series of significant strikes against the financier Jay Gould. When Gould hired Pinkerton detectives to thwart another strike in 1886, union members protested in Haymarket Square in Chicago. Violence erupted, several police officers were killed, and officials blamed the whole incident on the "socialist" union members. Because of the continued violence, the Knights organization had melted down to 100,000 members by 1890, and these remaining individuals gradually fused with other protest groups.

As the Knights of Labor declined in membership, Samuel Gompers organized skilled workers under the American Federation of Labor (AFL). Vowing to keep the union out of politics, Gompers increased membership, and by 1920 the total number of union members reached 4 million. The AFL managed to survive the public dissatisfaction that followed two violent strikes in the 1890s. In 1892 miners struck at Andrew Carnegie's Homestead steel plant. When negotiations between unionists and the plant manager, H. C. Frick, failed, Frick hired 300 Pinkerton detectives to bust the union. As the detectives floated down the river toward the plant, the union members waited for them on the banks. Shots were fired, and a bloody battle ensured that resulted in the death of nine union members and seven Pinkerton detectives. Carnegie then asked for and received assistance from the National Guard. This pattern of government intervention continued until the twentieth century when President Theodore Roosevelt mediated the anthracite coal strike, which resulted in labor receiving an increase in wages. This strike and the president's intervention reversed the pattern of the government providing assistance to business only. The American public, already upset by the violence at the Homestead plant, witnessed another strike in 1894—this time involving the Pullman Sleeping Car Company. The panic of 1893 resulted in the railroad company laying off more than half of its workers and cutting the wages of the remaining crews by 25 to 40 percent. Meanwhile, the rent and prices in the company-controlled town and store remained the same. The president of the American Railroad Union, Eugene V. Debs, called for a general strike of all railroad workers. The strike did not turn violent, but the shutting down of the entire railway system forced the government to intervene, and it used the Sherman Anti-Trust Act against the union. Once again, the federal government sided with big business.

Labor in the Progressive Era

Nearly 76 million Americans greeted the new century in 1900. Of them, almost one in seven had been born in a foreign country. Theodore Roosevelt, though something of an imperialistic president, supported progressivism within the United States. He promised a "square deal" for capital, labor, and the public at large. Broadly speaking, his program embraced three Cs: control of the corporations, consumer protection, and conservation of natural resources.

The square deal for labor received its acid test in 1902 when a crippling strike broke out in the anthracite coal mines of Pennsylvania. Some 140,000 workers, many of them illiterate immigrants, had long been frightfully exploited and decimated by accidents. They demanded, among other improvements, a 20 percent increase in pay and a reduction of the working day from ten to nine hours.

Unsympathetic mine owners, confident that a chilled public would react against the miners, refused to arbitrate or even

negotiate. As coal supplies dwindled, factories and schools shut down, and even hospitals felt the icy grip of winter. Desperately seeking a solution, Roosevelt summoned representatives of the striking miners and the mine owners to the White House. He finally resorted to his trusty big stick when he threatened to seize the mines and operate them with federal troops. Faced for the first time with a threat to use federal troops against capital rather than labor, the owners grudgingly consented to arbitration. A compromise decision ultimately gave the miners a 10 percent pay boost and a working day of nine hours.

Keenly aware of the mounting antagonisms between capital and labor, Roosevelt urged Congress to create the new Department of Commerce and Labor in 1903. (Ten years later, the department split into two different agencies.) An important arm of the newly formed department involved the Bureau of Corporations, which was authorized to probe businesses engaged in interstate commerce. However, the bureau also became highly useful in helping to break the stranglehold of monopoly and in clearing the road for the era of "trust busting" that lay ahead.

Labor in the Interwar Years

During World War I, labor worked in unison with the government to provide the supplies needed for the war. After the war, a brief period of labor unrest occurred, but the U.S. economy quickly converted from wartime to peacetime production. From 1922 to 1929, the country experienced prosperous times. The wages of workers continued to increase, with Henry Ford leading the way. Ford deviated from traditional business practices that called for paying workers subsistence-level wages. Instead, he believed that by paying his employees enough so that they could purchase automobiles themselves, he would increase his profits. Throughout the 1920s, the United States experienced prosperous times, with labor enjoying higher wages, better working conditions, and shorter work hours. Then the Great Depression hit in October 1929. By 1930 the depression had become a national calamity. Through no fault of their own, a host of industrious citizens lost everything. They wanted to work, but employers were not hiring. Herbert Hoover created the Reconstruction Finance Corporation, which provided funds to banks and businesses, based on the trickle-down philosophy that business would reinvest the money by hiring employees or purchasing capital goods. Unfortunately, those at the top of banks and companies kept the money to cover their own expenses. The situation grew worse when the Federal Reserve Bank raised interest rates and constricted the money supply.

After the election of Franklin D. Roosevelt (FDR), Congress approved a series of measures that helped labor. During his first 100 days, Congress created the Civilian Conservation Corps (CCC), which became the most popular of all the New Deal "alphabetical agencies." This program provided employment in fresh-air government camps for about 3 million uniformed young men. They worked on projects that included reforestation, fire fighting, flood control, and swamp drainage. The recruits helped their families by sending home most of their pay.

Congress also grappled with the millions of unemployed adults through the Federal Emergency Relief Act. Its chief aim was to provide immediate relief rather than long-range recovery. Immediate relief was also given to two large and hard-pressed special groups by the Hundred Days Congress. One section of the Agricultural Adjustment Act made many millions of dollars available to help farmers meet their mortgages. Another law created the House Owners Loan Corporation (HOLC). Designed to refinance mortgages on nonfarm homes, it ultimately assisted about a million badly pinched households and bailed out mortgage-holding banks.

Harassed by the continuing plague of unemployment, FDR himself established the Civil Works Administration (CWA) late in 1933. As a branch of the Federal Emergency Relief Administration designed to provide purely temporary jobs during the cruel winter emergency, it served a useful purpose. Tens of thousands of jobless people were put to work at leaf raking and other make-work tasks; they were dubbed "boondogglers." Because this kind of labor put a premium on shovel-leaning slow motion, the scheme received wide criticism.

The Emergency Congress authorized a daring attempt to stimulate a nationwide comeback with the passage of the National Recovery Administration (NRA) measure. This ingenious scheme became by far the most complex and far-reaching effort by the New Dealers to combine immediate relief with long-term recovery and reform. A triple-barreled approach, it assisted industry, labor, and the unemployed.

Labor, under the NRA, received additional benefits. Workers were formally guaranteed the right to organize and bargain collectively through representatives of their own choosing, not handpicked agents of the company's choosing, through Section 7A of the National Recovery Administration measure. The hated yellow-dog, or antiunion, contract remained expressively forbidden, and certain safeguarding restrictions continued on the use of child labor.

Unskilled workers now pressed their advantage. A better deal for labor continued when Congress passed the memorable Fair Labor Standards Act (a wages and hours bill) in 1938. Industries involved in interstate commerce set up minimum-wage and maximum-hour levels. Though not immediately established, the specific goals were $.40 an hour (which was later raised) and a 40-hour week. Labor by children under 16 was forbidden (if the occupation involved more dangerous work, the age limit was 18). Many industrialists opposed these reforms, especially southern textile manufacturers who had profited from low-wage labor.

Labor in World War II

During the World War II period, the armed services enrolled more than 15 million men and women. The draft was tightened after Pearl Harbor, as millions of youngsters were plucked from their homes and clothed in "GI" (government issue) uniforms. With the government keeping an eye on the long pull, key workers in industry and agriculture often received draft deferments. Women desk warriors came into their own. They had been used sparingly in 1917 and 1918, but now some 216,000 women were efficiently employed for

noncombat duties, chiefly clerical. The best known of these "women in arms" were the army's WAACs (Women's Auxiliary Army Corps), the marines/navy's WAVES (Women Accepted for Volunteer Emergency Service), and the coast guard's SPARs, named after the coast guard motto "Semper Paratus" (Always Ready).

The "War of Survival" of 1941 to 1945, more than that of 1917 and 1918, became an all-out conflict. Old folks came out of retirement "for the duration" to serve in industry or as air-raid wardens in civilian defense. Western Union telegraph "boys" were often elderly men. Women left the home to work in the heavier industries such as shipbuilding, where Rosie the Riveter won laurels. Rosie also helped to build tanks and airplanes, and when the war ended, she was in no hurry to put down her tools. She and millions of her sisters wanted to keep on working outside the home, and many of them did. The war thus touched off a revolution in the roles played by women in American society.

Labor from the Postwar Years to the Present

During the years following World War II, the growing power of organized workers proved deeply disturbing to many conservatives. Asserting that big labor had become a menace just as big business had once been, die-hard industrialists demanded a showdown. The Republicans gained control of the Congress in 1947, for the first time in 14 years, and proceeded to call the tune. Balding, blunt-spoken Robert A. Taft of Ohio, son of the former president and one of the Republican big guns in the Senate, became the cosponsor of a controversial new labor law known as the Taft-Hartley Act. Congress passed the measure in June 1947, over President Harry S Truman's vigorous veto.

The new Taft-Hartley law promptly became the center of controversy. Partly designated to protect the public, this piece of legislation contained a number of provisions that caused labor leaders to condemn the entire act as a "slave labor law." The provisions outlawing the closed (all-union) shop while making unions liable for damages resulting from jurisdictional disputes among themselves proved especially problematic. The law also required union leaders to take an oath against communism, though employers did not have to comply with the new ruling. But despite labor's pained outcries, Taft-Hartleyism, though annoying, did not cripple the labor movement. By 1950 the AFL could boast 8 million members and the Congress of Industrial Organization (CIO) had 6 million.

Wretched housing became another grievance of labor, as indeed it was for much of the population. New construction had been slowed or halted by the war, while at the same time, the country had experienced a baby boom. Tens of thousands of migrant workers, moreover, had hived around war industries. This trend was most conspicuous in northern industrial areas such as Detroit and along the Pacific Coast, notably in California, which experienced a spectacular increase of population.

In response to Truman's persistent prodding, Congress finally tackled the housing problem. It passed laws in 1948 and 1949 to provide federally financed construction, despite the protests of real estate promoters and other vested interests. However, these measures, though promising steps forward, fell far short of meeting the pressing need for more and better housing.

During the early 1960s, John F. Kennedy took office, with a narrow Democratic majority in Congress. President Kennedy faced strong opposition from southern Republicans, who put the ax to New Frontier proposals such as medical assistance for the aged and increased federal aid to education. Another vexing problem involved the economy. Kennedy had campaigned on the theme of getting the country moving again after the recession of the Eisenhower years. His administration helped negotiate a noninflationary wage agreement in the steel industry in early 1962.

The current labor force has changed significantly since the turbulent 1960s, the recessional 1970s, the internationally defiant 1980s, and the prosperous 1990s. Today's labor force includes more working women, single parents, workers of color, and older persons. Many companies hire contingent or part-time workers, often for shared jobs. The use of temporary and leased employees has also increased. Disabled employees are being included in the labor force in growing numbers, and this trend has accelerated because of the passage of the Americans with Disabilities Act. After the terrorist attacks of September 11, 2001, even temporary hiring declined sharply as employers downsized to maximize profits. Society may also exert pressures on corporate managers. Increasingly, firms must accomplish their purposes while meeting societal norms. Change continues to occur at an ever increasing rate, and few firms operate today as they did even a decade ago.

A major concern to management is the effect technological changes have had and will have on business. In recent years, small and midsize companies have created 80 percent of the new jobs. Every year thousands of individuals motivated by a desire to be their own bosses, to earn better incomes, and to realize the American dream launch new business ventures. And many new immigrants from developing areas, especially Southeast Asia and Latin America, continue to swell the U.S. labor force.

Since the recession of 2001 and the terrorist attacks of September 11, many Americans have lost their jobs as the recession has worsened. Early indications of a recovery appeared in June 2003, but with the slow economy, laborers continue to struggle. Many unemployed workers have had their unemployment benefits extended under Social Security regulations that cover unemployment in states where the levels exceed normal rates due to crises.

—Albert Atkins

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Land Policies

In the original colonial charters, the king granted land to the joint-stock companies or proprietors who then organized the eastern seaboard. Prior to the formation of the United States, most settlers could purchase land, but the terms and quantities allotted to individuals varied with each colony. In Virginia, land could be acquired through outright purchase or under the headright system. Under that system, an individual who paid for the transatlantic passage of another person received 50 acres of land for free; the more passages that were paid for, the more land the individual received. In Massachusetts Bay, the local town officials parceled out the land. In New York, officials received large land grants in lieu of payment for their services. No uniform system of land disbursement existed.

After the formation of the government established under the Articles of Confederation, various states, especially Virginia, ceded land to the national government. Since the Articles did not grant the federal government the power to tax, land sales became the only available source of direct revenue, although states did receive requests for funds (which were usually ignored). The legislative representatives passed three acts that dealt with this territory. The Ordinance of 1784, proposed by Thomas Jefferson, divided the entire region into ten self-governing districts that could apply for statehood once the population equaled the number of people living in the smallest state. The next year, Congress passed the Ordinance of 1785. This act established the method of selecting surveyors, the system of surveying the land, and the terms of the land sale. Surveyors mapped out 7 east-west ranges of 6-mile townships located north of the Ohio River. Each of these townships was divided into 36 sections of 640 acres each. In each township, officials designated section 16 for educational purposes. In addition, the national government, until 1804, reserved the right to 4 other sections as well as one-third of the mines located in the area. Private individuals or speculators could purchase a minimum of 640 acres for $1 per acre plus any costs. Since the government desperately needed money, all sales had to be transacted in specie (coins) or the paper currency called Continentals. Most individuals could not afford to purchase $640 worth of land in cash all at once, so the early sales went to speculators, who then sold smaller plots to individual farmers at a higher rate per acre. Congress passed the final act under the Articles, the Northwest Ordinance of 1787, which united all of the territory into 1 administrative unit that could later be subdivided into 3 to 5 territories. When the population of the territory reached 60,000, the territory could apply for admission as a state. A state constitution had to be drafted that guaranteed the freedom of religion and a right to trial by jury, and then Congress could approve admission. Although this last law did not deal directly with the sale of land, it did encourage investment and migration by promising that individuals who moved west would be treated just like every other American.

Land Policies in the Early Republic

After the ratification of the U.S. Constitution, the federal government continued its former land policies until 1796. In that year Congress allowed the sale of larger plots, ranging from 640 to 5,760 acres, on credit. An investor would purchase the land at $2 per acre and pay 5 percent down, 50 percent in 30 days, and the balance in a year. If the transaction was done in cash, the investor received a 5 percent discount. Four years later, Congress passed the Harrison Land Act of 1800. This legislation allowed for the sale of 320 acres at $2 per acre, with the payments due over four years. By 1804 the minimum size of plots that could be sold fell to 160 acres.

As a result of the smaller purchase requirements and the extension of credit, more speculators purchased land from the federal government, especially after the War of 1812. By 1819 the government held more than $24 million worth of notes, and then a panic hit the United States. Within a few months, the government began requiring cash payment for all future transactions. Congress also established the General Land Office, first under the Department of the Treasury and then under the Department of the Interior. At the same time, the minimum purchase requirement dropped to 80 acres and then fell to 40 by 1820. Nine years later, individuals could

purchase public domain land for $1.25 per acre before any government auction.

As the country moved from a subsistence economy to a market economy, the amount of land sold dramatically increased. By 1840 the federal Treasury experienced a surplus from the profits and from higher tariffs. Henry Clay proposed that the national government disburse some of the funds to the states for internal improvements such as roads, canals, and land reclamation. The only stipulation he placed on his bill suspended the disbursements if the average tariff rate exceeded 20 percent. Since the rate went up the following year, only one disbursement payment was made. In 1841 Congress passed Clay's Land Distribution Bill, which granted citizens, individuals who had applied for citizenship, a head of household, or a male over the age of 21 the opportunity to claim 320 acres of land with one year to pay off the balance. Land sales boomed. Then, in 1854, Congress authorized the sale of unsold land after a 30-year period at the rate of $1.25 per acre. These low prices created a speculation fury. Veterans of the Mexican-American War also received military bounties in 1847, 1850, 1852, and 1855. Each veteran who had not already received land could receive 160 acres for his services. Many of these veterans redeemed the bounties and then sold the land to investors for a cheaper price than that asked by the government.

Land Acquisition (1803 to 1860)

By the time of the Civil War, the United States had acquired additional lands. The first major acquisition occurred in 1803 when the government negotiated with France to buy the Louisiana Purchase. President Thomas Jefferson hoped to buy an island at the mouth of the Mississippi as a point of transshipment for American goods traveling from the interior down the Mississippi River. He sent special envoys to France to negotiate the agreement, but Napoleon had other plans for the land. He had hoped to use the Louisiana Territory to feed the slave population on Haiti. Once the Haitian revolutionary Toussaint-Louverture led a successful slave rebellion against the French, Napoleon proposed that the United States buy the approximately 529 million acres of the Louisiana Purchase for $15 million. Although Congress debated the agreement, it finally ratified the treaty, thereby increasing the public domain substantially.

The United States also increased the size of its territory in 1819 with the cession of lands from Spain, under the Transcontinental Treaty. Then, in 1846, the United States and Great Britain finalized an agreement over the Oregon Territory. The United States obtained all the territory south of the forty-ninth parallel, adding an additional 180,644,480 acres to the public domain. Two years later, at the conclusion of the Mexican-American War, the United States acquired most of the Southwest—another 338,680,690 acres in present-day Arizona, New Mexico, and California—in the Treaty of Guadalupe Hidalgo. In 1850 the U.S. Congress passed a joint resolution that allowed for the annexation of Texas. According to the Compromise of 1850, Congress agreed to pay the outstanding debts of Texas in exchange for a cession of land to New Mexico, and Texas became part of the United States. When Congress appropriated funds for the construction of the Transcontinental Railroad, the proposed route had to go through part of Mexico to achieve the best grade for the tracks. In 1853 Congress ratified a treaty with Mexico for the Gadsden Purchase, paying $15 million for 78,926,720 acres of land. The only other substantial acquisition of land occurred in 1867 when the United States purchased 375,303,680 acres in Alaska from Russia, at a cost of $7.2 million. (See Table 1.)

Table 1 Major land acquisitions

	Year of acquisition
State cessions	1781–1802
Louisiana Purchase	1803
Transcontinental Treaty (Spain)	1819
Oregon	1846
Mexican-American War	1848
Texas	1850
Gadsden Purchase	1853
Alaska	1867

Land Policies from the Civil War through 1900

Between 1867 and 1879, Congress appropriated funds for four land surveys: the Hayden survey from 1867 to 1878, the King survey from 1867 to 1872, the Wheeler survey from 1869 to 1879, and the Powell survey from 1869 to 1879. The United States established the U.S. Geological Survey in 1879 and charged it with classifying public lands and studying the geology and natural resources of the public domain.

Prior to the Civil War, Congress debated several homestead acts and passed one that the President James Buchanan vetoed in 1860. The South resisted the passage of such an act, but once Northern Republicans controlled Congress during the Civil War, they secured passage of the Homestead Act of 1862. The legislation allowed citizens, individuals in the process of becoming naturalized citizens, any head of household, Union veteran, and males over the age of 21 who had never been an enemy or aided an enemy of the United States to claim 160 acres for only a small filing fee. Before title could be transferred, the individual had to establish residency on the land for five years and improve the property. People could also pay for the land after six months instead of waiting out the five years. Smaller plots of 80 acres in alternate sections to railroad lands could also be settled. After the Civil War, Congress allocated 160 acres for Union veterans, and two years later, the residency requirements for the veterans changed when Congress passed legislation that permitted the years of military service to be deducted from the five-year requirement. Congress also passed the Morrill Land-Grant College Act in 1862. Designed to encourage the growth of agricultural and mechanical schools (A&Ms), this legislation granted each state 30,000 acres for every representative it had in Congress. The land could be sold and the profits used to construct school buildings, or it could become the location of the institution.

During the 1870s, Congress actively promoted westward migration by passing several acts that helped persuade

Americans to settle in the arid region west of Kansas. In 1873 the Timber Culture Act granted individuals 160 acres of land if they planted one-quarter of the property in trees. Five years later, Congress passed the Timber and Stone Culture Act, under which individuals could purchase land rich in timber and stone for $2.50 per acre. More Americans took advantage of these two acts than the third, the Desert Land Act of 1877. Hoping to entice Americans to settle the Great American Desert, the government offered 640 acres for irrigation at $.25 per acre at the time of filing and another $1 per acre at the end of two years. The sale of land under the Homestead, Timber Culture, Timber and Stone, and Desert Land Acts proved so successful that the superintendent of the census noted that by 1890, the frontier line had disappeared. However, during the 1870s, numerous fraudulent claims created the need to establish the Public Lands Commission to investigate land claims made under the Preemption and Homestead Laws that were sold to investors. Subsequently, Congress reformed land policies in 1891. Under the General Revision Act, legislators stopped government land auctions, repealed the Timber Culture Act, restricted the total number of acres available to one individual to 160 acres, and allowed the president to establish forest reserves.

Land Policies from 1891 to the Present

The General Revision Act of 1891 marks a transition point in federal land policies. Congress increased the size of the plots being sold to as high as 640 acres and lowered residency requirements to three years in 1912. Ranchers could receive an entire section of land if engaged in the raising of livestock. Other pieces of legislation dealt with restricting the use of the land or managing federal reserves.

During the late nineteenth century, Presidents Benjamin Harrison, Grover Cleveland, William McKinley, and Theodore Roosevelt exercised their power under the General Revision Act to set aside 194 million acres of land as reserves. Roosevelt placed a tremendous emphasis on the scientific management of these lands, appointing Gifford Pinchot as his chief forester. He would also remove 172 million acres of forest from the land available for settlement, under the terms of the Forest Reserve Act of 1891. He, more than any other president, encouraged the shift from land disposal to conservation and the setting aside of reserves. By 1905 Congress created the Forest Service under the Department of the Interior and then the Department of Agriculture, to administer national forests. In 1916 the management of the national parks transferred to the National Park Service.

Although the federal government restricted the available land for sale to individuals, homestead grants continued at an escalated pace after the passage of the Forest Homestead Law of 1906, which opened up agricultural lands in forest reserves. Congress also passed a new policy in 1905 to encourage the sale and improvement of desert lands. The Newlands Reclamation Act allowed states to use 95 percent of the revenue generated by land sales in the western states to fund irrigation projects. The act proved more successful than the Desert Land Act of 1877.

By the Great Depression, the amount of land available for homesteading had declined dramatically. Yet some pockets remained. Then, in 1934, Congress passed the Taylor Grazing Act, which removed an additional 80 million acres of grazing lands in 22 western states from the property available to the public. Homesteading continued to decline from 1934 on, except in Alaska (where Americans could claim land as late as 1986).

Beginning in the 1960s, Congress passed a series of acts designed to protect the natural resources of the country. The Wilderness Act of 1964 covered all wilderness areas. In the same year, Congress also approved the Land and Water Conservation Fund, which appropriated money for the creation and maintenance of outdoor recreational facilities. In 1965 legislators passed the Water Quality Act, establishing clean water standards on the federal level. And by 1968 the Wild and Scenic Rivers Act allowed for the preservation of rivers with "remarkable recreational, geologic, fish and wildlife, historic, cultural, or other similar values."

The policies of the 1960s continued into the 1970s. At the beginning of the decade, the national government made the protection of the environment a priority by passing the National Environmental Policy Act of 1970. Three years later, Washington issued a list of threatened wildlife granted protection under the Endangered Species Act. In Alaska 80 million acres of land were withdrawn from public use as forest reserves, wildlife refuges, and scenic areas, and by 1980 Congress had added an additional 47 million acres to the national park system in Alaska. Finally, in 1976, Congress approved the Federal Land Policy and Management Act (FLPMA) to retain all remaining public lands, to survey all natural resources on the land, and to manage the land. Following the passage of the FLPMA, Congress repealed the Homestead Act in the lower 48 states and in Alaska in 1986.

As of the year 2000, the United States no longer had a policy of free or cheap land for its citizens. Debate in the federal government continues to focus on issues such as controlled fires in the national parks and the preservation of endangered species. (See Table 2.)

Table 2 Land policy legislation

Act	Year
Homestead Act	1862
General Mining Law	1872
Timber Culture Act	1873
Desert Land Act	1877
Timber and Stone Act	1878
General Revision Act	1891
Forest Reserve Act	1891
Forest Management Act	1897
Newlands Reclamation Act	1902
Forest Homestead Act	1906
Enlarged Homestead Act	1909
Taylor Grazing Act	1934
Water Quality Act	1965
Wild and Scenic Rivers Act	1968
National Environmental Policy Act	1970
Alaska Native Claims Settlement Act	1971
Endangered Species Act	1973
Federal Land Policy and Management Act	1976
Alaska National Interest Lands Conservation Act	1980

Finances

The original intent of the founding fathers in selling land held in the public domain focused on generating revenue for the fledgling nation. Land sales comprised between 1.3 to 9.1 percent of the total receipts of the government in 1801 and 1820, respectively. That amount jumped to a maximum of 49 percent in 1836. The percentage of income derived from the sale of land declined dramatically in the post–Civil War period, as high protective tariffs generated the majority of the federal revenues: By 1880 land receipts amounted to a mere 0.3 percent of the federal income. However, during this same period, the government initiated policies to encourage Americans to migrate westward by offering free or inexpensive land.

Since the amount of revenue generated from the sale of public lands continued to decline, the increased legislation that facilitated the disposal of the public domain occurred for other reasons. Congress was not interested in simply generating money to pay the federal debt. Other motivations include the need to address social problems, such as a wave of massive immigration, a rise in the number of squatters in the post–Civil War period as the country experienced several financial panics that left many Americans deeply in debt, and the rise of tenant farming in the South. By opening up western lands, the government solidified control over the West, and as the population increased in these areas, the territories completed the process of becoming states as specified in the Northwest Ordinance of 1787. In this respect, another of the original intentions of the founding fathers was fulfilled.

U.S. policies regarding land sales also created a variety of problems. First among these was the problem of incomplete record keeping. Although the General Land Office had the responsibility for recording sales, land agents failed to use a uniform system to document transactions. In addition, many people attempted to defraud the government by not fulfilling residency or improvement requirements. The American public, from the beginning, argued that the government policies benefited the speculator more than the individual farmer. Some contended that the sale of public lands at auction allowed groups of investors to form combinations that could artificially hold down the prices. A huge outcry occurred as railroad companies, after receiving more than 64,900,000 acres in land grants, began charging high prices to transport the produce of farmers while providing rebates to large trusts such as Standard Oil.

Although historians do not agree on the exact motivations behind specific bills, they do find patterns indicating that the political parties influenced land policies. For instance, the Republican Party favored giving free land to homesteaders, the Whigs encouraged the sale of land and the disbursement of revenues to the states for internal improvements, and the Democrats promoted preemption. Other patterns concern the amount of land sold or granted during specific periods. Interestingly, the amount of land disposed of under the Homestead Act increased after the General Revision Act of 1891. Prior to the passage of the act, only 52 million acres had been claimed, whereas an additional 230 million acres fell under the Homestead Act provisions after 1891. The federal government's disposition of public land occurred in 1910, when approximately 25 million acres were sold or granted to individuals or the states. Table 3 illustrates how the government disposed of public lands.

Table 3 Disposition of the public domain, 1781–2002

Type of disposition	*Acres*
Disposition by methods not elsewhere classified*	303,500,000
Granted or sold to homesteaders†	287,500,000
Total unclassified and homestead dispositions	**591,000,000**
Granted to states for:	
Support of common schools	77,630,000
Reclamation of swampland	64,920,000
Construction of railroads	37,130,000
Support of miscellaneous institutions‡	21,700,000
Purposes not elsewhere classified§	117,600,000
Canals and rivers	6,100,000
Construction of wagon roads	3,400,000
Total granted to states	**328,480,000**
Granted to railroad corporations	94,400,000
Granted to veterans as military bounties	61,000,000
Confirmed as private land claims**	34,000,000
Sold under timber and stone law††	13,900,000
Granted or sold under timber culture law‡‡	10,900,000
Sold under desert land law§§	10,700,000
Total miscellaneous dispositions	**224,900,000**
Granted to state of Alaska	
State selections***	90,100,000
Native selections†††	37,400,000
Total granted to state of Alaska	**127,500,000**
Grand total	**1,271,880,000**

Source: Bureau of Land Management; http://www.blm.gov/natacq/pls02/pl1-2_02.pdf; accessed June 29, 2003.

Note: Data are estimated from available records.

* Chiefly public, private, and preemption sales, but includes mineral entries, scrip locations, and sales of townsites and townlots.

† The homestead laws generally provided for the granting of lands to homesteaders who settled upon and improved vacant agricultural public lands. Payment for the lands was sometimes permitted, or required, under certain conditions.

‡ Universities, hospitals, asylums, etc.

§ For construction of various public improvements (individual items not specified in the granting acts), reclamation of desert lands, construction of water reservoirs, etc.

** The government has confirmed title to lands claimed under valid grants made by foreign governments prior to the acquisition of the public domain by the United States.

†† The timber and stone laws provided for the sale of lands valuable for timber or stone and unfit for cultivation.

‡‡ The timber culture laws provided for the granting of public lands to settlers if they planted and cultivated trees on the lands granted. Payments for the lands were permitted under certain conditions.

§§ The desert land laws provided for the sale of arid agricultural public lands to settlers who irrigated them and brought them under cultivation. Some desert land patents are still being issued.

*** Alaska Statehood Act of July 7, 1958 (72 Stat. 338), as amended.

††† Alaska Native Claims Settlement Act of December 18, 1971 (43 U.S.C. 1601).

The land policies of the U.S. government have influenced settlement patterns, facilitated the development of an internal land transportation system, and assisted states in creating recreation, education, and municipal areas. Since the 1970s, the government has increasingly focused on managing the remaining natural resources, and the disposition of the public domain has virtually ceased. Nonetheless, it is clear that the decisions made in the past continue to impact Americans today.

—*Cynthia Clark Northrup*

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Law

The United States of America, a former colony of the British Empire, has a legal heritage descended from the English common law system. The American legal system maintains law and order; manages large populations, commerce, and the wealth of the nation; and reflects American culture. Through judicial decisions and legislative action, the law has evolved to remain up-to-date and to represent contemporary society. Consequently, the U.S. Constitution, one of the governing documents of American law, functions as a living organic law, a product of the American experience. An understanding of the American legal system requires an examination of the common law system, how it evolved, and how it came to the United States of America.

Common law refers to the system of laws developed in England and adopted by most of the English-speaking world. Common law uses the concept of stare decisis (let the decision stand) as a basis for its system, with past decisions serving as a high source of authority. Judges draw their decisions from existing principles of law, thus reflecting the living values, attitudes, and ethical ideas of the people. English common law developed purely as a product of English constitutional development. By contrast, most countries of continental Europe and the nations settled by them employ the civil law system—the other principal legal system of the democratic world. Civil law rests on Roman law, which was extended to the limits of the Roman Empire. Islamic law, the third major legal system, relies on the Koran, as interpreted by tradition and juristic writings.

During the reign of Henry II (1154–1189), England adopted a system of royal courts and common law throughout the country. The Judicature Act of 1873 further consolidated a series of statutes and overturned the whole classical structure of the English courts. In the early thirteenth century, the Normans, under William the Conqueror, took to England their laws, which descended from the Scandinavian conquerors of western France. Anglo-Saxon law at that time was well established in England, but the Normans offered refined administrative skills. They established a system of government to deal with the highly decentralized British shires, bringing all the English counties under one common rule. The colonists carried this system of laws to the British colonies in the New World.

The early American legal system adhered to English law but gradually changed over the centuries. Law emerged from the necessary customs and morals of society, even though the colonial judicial system of the eighteenth century in the United States remained notably English. The common law evolved from the customs of the royal courts, though as the legal system developed, previous cases became a source of law. The skeleton of colonial law was shaped in the courts but followed English practice. Unlike the situation in the English system, though, the colonies started off with one court that passed necessary laws. Until 1776 law libraries contained mainly English documents and William Blackstone's *Commentaries on the Laws of England* (1765–1769), a concise and updated resource covering the basics of English law that is still employed today. Early American law literature remained quite sparse.

Although many of the old English laws and traditions prevailed in the colonies, no standardized law existed there. Each colony developed its own system of law, as each state does today (allowing for the existence of the Quebec provincial and Louisiana state legal systems). In 1776 the colonies declared themselves independent. The founding fathers drew up the Articles of Confederation, but they proved unsatisfactory. After the failure of the Articles due to a lack of taxing power, delegates to the Constitutional Convention drafted the federal Constitution that the states signed in 1787. The states also drew up their own constitutions, and federal courts served as the courts of appeal for major state courts. Ultimately, debates developed as to whether the common law system should be overthrown.

Doubts existed as to whether the English common law system would come to dominate North America. With the different nations that were colonizing the North American continent came varying legal systems: The British, French, and Spanish and even the Dutch in Delaware carried with them their own legal cultures and heritages as they settled into their

respective territories across the continent. However, by the turn of the nineteenth century, the common law system had taken a firm hold in the United States, and there was little risk that it would be supplanted by the French Napoleonic Code, the only real alternative. Just two remnants of the French legal system continue today in two of France's old colonies—the Province of Quebec in Canada and the State of Louisiana.

By the middle of the nineteenth century, the preconditions for a separate and distinct American jurisprudence had been achieved. Enough time had elapsed since the Declaration of Independence for an American legal heritage to develop. American precedence had been built up, legal texts had been written, and lawyers had been trained in the United States. The American legal system was not yet completely autonomous, and judges still referred to English law for precedents where American law was lacking, but those areas became fewer and fewer as the years went by. One clear distinction came with the transition in land laws. In England the legal system facilitated land inheritance through primogeniture. A significant break came in the 1850s when the United States rejected the notion of passing on all land to the eldest son. This decision reflected the emergence of a legal system independent from English law.

Legal Terms and Applications

Two types of court cases—civil and criminal—exist in the United States. Plaintiffs initiate civil cases, in which a company or an individual sues for financial reparations, whereas the state prosecutes criminal cases, which involve punishments of fines or imprisonment. Common law and equity (whereby both parties benefit) remain separate in that equity deals with more than simply financial reparations. In England, the Courts of Chancery and the Star Chamber, which deal with equity matters, have the authority to force people to undertake certain actions, such as selling property—something that is not done in a civil case. Equity receiverships allow courts to take possession of assets and redistribute them. In the United States, the process of equity receivership was not dealt with until the formulation of stable bankruptcy laws in 1898.

Most legal thought develops institutionally, not individually, through processes occurring in the courtroom and legislative chambers. Legislation, which is promulgated in the legislative branch of the government, involves a new rule or law that has just taken effect and specifies when the law is applicable. Case law, by contrast, is retroactive. Taxes offer a good case study in this regard. With legislation, individuals can only be taxed on money they have earned from the moment the law was passed, whereas with a case law, a ruling can deem that individuals owe the government back taxes. For this reason, courts must take into account the effects their decisions will have; consequently, courts usually issue conservative decisions.

A contract constitutes a binding agreement that two or more individuals or entities enter into—an enforceable promise that is to be carried out at a future date. Two types of contracts exist. A contract of sale is the most common and is usually made instantaneously, as when purchasing goods. The second involves a more complicated transaction, usually associated with a trading or commercial situation, involving a guarantee to provide goods or services in the future. In Anglo-American law, contracts can be formal (written documents) or informal (implied in speech or writing). A stable society requires both types of contracts.

For almost 700 years, the jury system has been an important part of the legal system. There are two types of juries. The petit jury hears both civil cases (to establish damages that will be awarded) and criminal cases (to establish guilt). The grand jury, which functions as an accusatory body, establishes, based on evidence presented to it, whether a case warrants trial. The jury system is much criticized for being flawed because jurors tend to make their decisions based on emotion rather than rational thought. Presently, the grand jury exists in only half the United States and in the federal courts.

Commerce Clause

The commerce clause, as presented in the U.S. Constitution, gives the government the power "to regulate commerce with foreign nations, and among the several states, and with the Indian tribes." In order to regulate enormously powerful business corporations, to carry forward programs of social welfare and economic justice, to safeguard the rights of individual citizens, and to allow that diversity of state legislation so necessary in a federal system of government, the Supreme Court eventually defined what constituted commerce.

The period from 1824 to 1937 saw several important events in the adjudication of the commerce clause before the Supreme Court. *Gibbons v. Ogden* (1824) was the first case in which the Court interpreted and applied that particular clause of the U.S. Constitution. The commerce clause came about because states erected barriers to protect manufacturers within their borders. *Gibbons v. Ogden* emerged because the state of New York prevented Thomas Gibbons, a resident of Elizabethtown, New Jersey, from running his ferry service between New Jersey and New York, in competition with the ferry service of Col. Aaron Ogden, of New York. Lawyers argued the steamboat case in front of the Supreme Court in February 1824. Daniel Webster and William Wirt (the U.S. attorney general from 1817 to 1829) represented Gibbons, and Thomas J. Oakley and Thomas A. Emmet represented Ogden. Webster argued that the federal government retained the sole authority over commerce and that the states lacked the power to enact laws affecting it. Emmet, for his part, argued for a narrow definition of commerce. He contended that Congress might have an incidental power to regulate navigation but only insofar as that navigation occurred for the limited purposes of commerce. Emmet argued that the individual states had always exercised the power of making material regulations respecting commerce.

On March 2, 1824, Justice John Marshall handed down his decision. He rejected the premise that the expressly granted powers of the Constitution should be constructed strictly. He took the word *commerce* and gave it a broad definition, he extended the federal power to regulate commerce within state

boundaries, and he gave wide scope to the Constitution grant in applying these powers.

Following the *Gibbons v. Ogden* case, the Supreme Court presided over the watershed case *Cooley v. Board of Wardens of the Port of Philadelphia* (1852), which cleared up questions raised in the *Gibbons v. Ogden* decision. First, the Supreme Court held that certain subjects of national importance demanded uniform congressional regulation, whereas others of strictly local concern properly remained under the jurisdiction of state regulation. Second and perhaps most important, the Court gave itself great power by becoming the final arbitrator in decisions that would affect the core of the American federal system. The commerce clause has proven extremely important in America's legal history because through it, the government has exercised a tremendous amount of centralized authority. Using the commerce clause, the government could weld the diverse parts of the country into a single nation.

As a result of *Cooley v. Board of Wardens,* states were able to impose tariffs on shipping through their territories, but the courts would strike down laws if state regulation favored local businesses. On February 4, 1887, Congress passed the Interstate Commerce Act to regulate rail rates, which were running rampant. It also established the five-person Interstate Commerce Commission (ICC), but the act could not properly enforce the Interstate Commerce Act until the passage of the Hepburn Act in 1906, the Mann-Elkins Act of 1910, and the Federal Transportation Act of 1920. Around 1900 Congress used the commerce clause to regulate the national economy and certain businesses as well. The Supreme Court, in the process, gave an expanded interpretation of the scope of national authority contained in that delegated power, but it never gave complete free rein to the commerce clause, which led to the rise of the doctrine of dual federalism.

The concept of dual federalism involves the notion that the national government functions as one of two powers and that the two levels of government—national and state—operate as sovereign and equal entities within their respective spheres. With dual federalism, state powers expanded. And as a direct consequence of dual federalism, the federal government could not regulate child labor: The Supreme Court reasoned that child labor remained purely a local matter, keeping it out of the regulatory reach of the federal government.

With the New York Stock Market crash in 1929 and the onset of the Great Depression, the Court reversed its policy on dual federalism. To deal with the depression, President Franklin D. Roosevelt implemented his reforms in economics, agriculture, banking and finance, manufacturing, and labor, all of which involved statutes that the Court had struck down before. Congress passed the National Labor Act (Wagner Act) on July 5, 1935, regulating labor-management relations in industry and creating the National Labor Relations Board (NLRB). *National Labor Relations Board v. Jones & Laughlin* (1937) became the first test case before the Supreme Court. The circuit courts had ruled in favor of the Jones & Laughlin Steel Corporation of Pittsburgh, citing *Carter v. Carter Coal Co.,* which distinguished between production and commerce. The Supreme Court did not uphold this distinction, and as a result, the NLRB was able to order companies to desist from certain labor practices if they adversely affected commerce in any way. By the end of 1938, the authority of the NLRB extended to companies that were wholly intrastate, that shipped goods in interstate commerce, or that provided essential services for the instrumentation of commerce.

The two other important cases dealing with the commerce clause were *United States v. Darby* (1941) and *Wickard v. Filburn* (1942). The rulings from these cases resolved the confusion surrounding the commerce clause once and for all. The Supreme Court found that the clause "could reach any individual activity, no matter how insignificant in itself, if, when combined with other similar activities, it exerted a 'substantial economic effect' on interstate commerce." The Court did away with the old distinction between commerce and production, bringing manufacturing, mining, and agriculture into—and making them inseparable from—commerce. The Supreme Court also did away with the constitutional doctrine of dual federalism and denied states the power to limit the delegated powers of the federal government.

Since 1937, the Court's interpretation of the commerce clause has given Congress broad and sweeping powers to regulate labor-management relations. By the end of 1942, the Supreme Court had also given Congress extensive authority to regulate commerce, but this authority did not extend to the insurance industry because insurance was deemed more of a contract than a business. The Court refused to hear cases dealing with insurance until 1944 in *United States v. South-Eastern Underwriters Association,* a case in which Justice Hugo L. Black held that both the commerce clause and the Sherman Anti-Trust Act could be applied to the insurance business.

Bankruptcy Law

Bankruptcy law in the United States gives more favorable treatment to debtors than to creditors. Moreover, the courts view bankruptcy not as a last resort but rather as another option to resolve financial difficulties. Famous individuals declare bankruptcy quite frequently and for different reasons; for example, they may use bankruptcy to get out of a contract.

Another characteristic of U.S. bankruptcy law is that lawyers are used to declare bankruptcy, whereas in other nations, bankruptcy decisions are made through an administrative process. A bankruptcy judge oversees the process in the United States, and both the debtor and the creditor usually retain counsel. By contrast, in England, another market-based economy, an administrator supervises the process, and the debtor (whether an individual or a business) rarely has the option of being represented by counsel. This is an interesting development, given the fact that when U.S. bankruptcy laws were first enacted in 1800, they resembled the English laws almost exactly.

Two types of bankruptcies exist in the U.S. legal system—one for individuals and another for corporations. For indi-

viduals, Chapter 7 bankruptcy involves a straight liquidation, whereby all of the individual's assets are liquidated and used to pay off creditors. The court then relieves the debtor of his or her entire burden. An individual may also file a Chapter 13 bankruptcy. This chapter of the Bankruptcy Code provides for a rehabilitation case, whereby the debtor pays a portion of the debt over a period of three to five years—making this a less stigmatizing form of bankruptcy. Thus, an individual has two options when declaring bankruptcy: either liquidation (Chapter 7) or rehabilitation (Chapter 13). In both cases, the debtor can retain certain assets in order to be able to make a fresh start. A debtor or creditor can initiate a bankruptcy claim, but most of the time, such claims are made voluntarily by the debtor.

As with individual bankruptcy, a company can file for either liquidation or reorganization. For the corporation, Chapter 7 involves liquidation, but it is complete and with no exemptions. Chapter 11 allows for the rehabilitation of companies. On occasion, individuals can invoke Chapter 11 and small businesses can file Chapter 13 bankruptcies.

In the late eighteenth century, bankruptcy law involved an ideological struggle between opposing groups. On the one hand, Alexander Hamilton and the Federalists believed that the future of America lay with commerce and that bankruptcy laws were essential to protect both creditors and debtors; they argued that these laws would encourage credit, thereby fueling commercial growth. Thomas Jefferson and the Republicans, on the other hand, feared that a federal bankruptcy law would erode the importance of farmer's property rights and shift power from the state to the federal court.

Debates raged throughout the nineteenth century on such issues as whether only debtors could invoke bankruptcy laws. Congress enacted three bankruptcy laws (in 1800, 1841, and 1867) but repealed each of them a few years later, since legislators had hastily formulated the acts to respond to grave economic distress. The bankruptcy legislation of 1898, however, had staying power. In the end, the nation's first large-scale corporate reorganization, which involved the bankruptcy of many railroads during the 1890s, resulted in stable bankruptcy laws. The courts, not Congress, dealt with this problem, creating a process known as equity receivership.

Effective U.S. bankruptcy laws went through three eras. The first involved the enactment of the 1898 Bankruptcy Act and the perfection of the equity receivership technique for large-scale reorganizations. The Great Depression and the New Deal marked the second era, during which bankruptcy reforms reinforced and expanded the general bankruptcy practice and completely reshaped the landscape of large-scale corporate reorganization. The enactment of the 1978 Bankruptcy Code and the revitalization of bankruptcy practice initiated the final era.

Antitrust Law

Today, antitrust law shapes the policy of almost every large company in the world. Following World War II, the United States wanted to impose its antitrust tradition on the rest of the world. Contradictions existed between nations, as most industrial countries tolerated (or even encouraged) cartels whereas the United States banned them. The antitrust concept has a hallowed place in American economic and political life. Antitrust legislation focuses on preventing collusion among competing firms hoping to raise prices and hinder competition. European markets, by contrast, set minimum prices and cooperated with cartels. This policy protected the smaller firms, stabilized markets, and kept the overall economy stable.

In the 50 years before World War II, nations backed away from the idea of economic competition as promoting the common good. The pace of the retreat, at first gradual, picked up with the outbreak of World War I. The expansion of cartels was among the chief manifestations of this trend, and cartels played an ever growing role in domestic and international trade and by 1939 had become a major factor in the world economy. The United States remained the only country of the industrialized world to reject the notion of cartels, and it reacted to cartels abroad by increasing tariff barriers. Americans respected the efficiency of big business but feared its economic and political powers. They placed great confidence in economic competition as a check on the power of big business, and they looked askance at cartels. As a result, Washington regulated the activities of large firms, outlawing cartels and imposing other restrictions on companies.

Congress passed the Sherman Act of 1890 as the first measure directed against big business. In 1914, during the administration of President Woodrow Wilson, Congress also passed the Clayton Anti-Trust and Federal Trade Commission Acts. With the Great Depression, however, Franklin Roosevelt secured passage of the National Recovery Act (NRA), which suspended the antitrust laws and allowed cartels during the economic downturn under "codes of conduct for each industry." In his second term, Roosevelt went on a strong antitrust crusade, creating the Temporary National Economic Committee (TNEC) and the Justice Department's Antitrust Division, headed by Thurman Arnold. Before the outbreak of war in Europe in 1939, Arnold concentrated on domestic conditions. But the war forced him to pay more attention to foreign affairs. His Antitrust Division operated constructively in peacetime, but he failed to see the importance of cartels in wartime, when free market rules are suspended and close cooperation is needed. Although the government retreated from its antitrust position during the war, Washington would pick it up again afterward.

With the onset of World War II, American firms participating in cartels experienced difficulties, as did those involved in the antitrust drive. Since the United States remained technically neutral, cartel agreements with German firms remained in place. American businesses did not sever their ties because of the advantages gained, such as access to innovations, and Congress did not suspend cartel agreements because if it had, the executive branch would have had to admit that war with Germany remained a possibility. Furthermore, the need to coordinate mobilization and placate the business community led to sharp restrictions on the antitrust drive.

After World War II, the United States began to focus its attention on foreign cartels. A small group associated with the Antitrust Division of the Justice Department took an interest in foreign affairs and used the division's position in the world to attack foreign cartels, believing that Europe's failures resulted from its lack of an antitrust tradition. But domestic markets outside the United States facilitated cartels because they remained necessary to the smaller economies. According to Wyatt Wells, in his work *Antitrust and the Formation of the Postwar World,* the successful export of the antitrust concept depended on economic development abroad. After 1945 the nations of Western Europe integrated their markets, stabilized their currencies, and built or reinforced democratic governments. In this context, companies could afford competition, and most European governments responded to Washington's urging and enacted antitrust statutes roughly comparable to those in American law. Yet in the absence of favorable conditions—for example, in Japan—antitrust foundered.

The postwar attack on cartels was advanced, in part, under the banner of free trade. However, long-term goals such as commercial liberalization would have to wait, as nations simply tried to stabilize the postwar world economy. They created the International Trade Organization (ITO) to deal with this concern, and few firms (the De Beers diamond cartel and shipping businesses being the notable exceptions) escaped the blows dealt by the U.S. courts. In the early 1950s, as Western nations achieved a measure of prosperity, cartel policy also achieved a certain equilibrium. Radical decartelization failed in Japan and Germany, but court decisions in the United States had struck the seriously weakened international cartels. Monopoly remained suspect, and cartels were largely forbidden, but big business would continue as long as competition persisted. In practice, some cartels were allowed to exist if they could cite special circumstances or command substantial political support.

Legal Education

In the early days of the colonies, lawyers played a small role and were generally unwelcome; indeed, pleading for hire was prohibited by the Massachusetts *Body of Liberties* (1641). Over time, however, lawyers came to fulfill two important functions in the legal system: providing advice and practicing advocacy. Today, some lawyers specialize in courtroom work (like English barristers), and others work in their offices (like English solicitors/attorneys). In Britain, the two specializations remained separate, though this is not the case in the United States. In America, lawyers receive training at law schools, which are usually affiliated with a university, whereas in Britain, they train at one of the four Inns of Court, a combination of law school and professional organization.

The history of the law school in the United States differs from that of legal education in the rest of the common law system. Only in North America can a law school function completely apart from the rest of the university with which it is affiliated. Before the Civil War, law schools played a minor role in the training of lawyers. The trend of educating attorneys in law schools began only in the early years of the twentieth century, and it developed for numerous reasons, mainly to achieve higher standards, establish standardization, and exclude immigrants from the field. (The American Bar Association [ABA] and the American Association of Law Schools [AALS] wanted to excluded immigrants because they did not espouse the values of the dominant Anglo-Saxon Protestants.) Clearly, the raising of standards played an important role, for elite lawyers (like elites in other fields of the time) wished to establish more rigorous academic instruction.

The ABA and AALS campaigned on two fronts: (1) to increase standards required of accredited universities, and (2) to secure legislation that would impose these higher standards. Not until 1928 did states require attorneys to attend law school before practicing in the field. This mandatory policy largely involved competition with schools that taught law on a part-time basis or at night that could not meet the required standards. These schools fiercely resisted any attempt at change, but the economic situation of the Great Depression forced many of them to shut down.

With the closure of the "lesser" law schools, the ABA and AALS had the freedom to implement a legal training system of their choosing. The bar exam became compulsory, and without passing it, lawyers could not practice in any state. The standards of the bar rose, making it more difficult to pass the exam. Harvard University played a large part in setting these standards. Christopher Columbus Langdell, the first dean of the Harvard Law School, promoted graduate professional education for lawyers in order to elevate the Harvard program from mediocrity to distinction. Other universities quickly followed suit by establishing law schools of their own or by bringing independent institutions under their auspices. Acceptance into law school became more selective, especially with the implementation of the Law School Admission Test (LSAT) in 1948.

Today's law schools in the United States produce considerable legal writings in their law reviews. Most of these schools publish journals, and eminent lawyers and law professors write the lead articles. These works are probably more valuable than any other secondary legal source. Indeed, doctrinal writing holds an important place as a secondary source of law in the Anglo-American legal system.

Conclusion

The American legal system, once intrinsically linked with English law, has come into its own over the past couple of centuries. Today, it has become a model for many of the emerging democracies. Through the legal and legislative branches of the government, American law has adequately managed the commerce and the wealth of the nation, while also reflecting American values. At the turn of the twentieth century, antitrust legislation, bankruptcy legislation, and the commerce clause all emerged to deal with the rise of big business. In addition, modern American law schools successfully train American lawyers, thus maintaining an independent American legal tradition.

—Matthieu J-C. Moss

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Monetary Policy

Monetary policy is the branch of economic policy that attempts to achieve goals such as stabilizing employment and prices as well as fostering economic growth through the manipulation of the monetary system; it achieves these goals by employing certain variables, among them the supply of money, the level and term structure of interest rates, and the overall availability of credit in the economy. Modern central banks, such as the Federal Reserve system (the Fed), have a variety of policy goals. Although most focus on price stability, the Federal Reserve strives to meet six different, legislatively mandated goals: (1) price stability, (2) financial market stability, (3) high employment, (4) economic growth, (5) foreign exchange stability, and (6) interest rate stability.

Money is anything generally accepted in exchange for goods or services or in the payment of debts. Money also has three functions: It serves as a medium of exchange, as a unit of account, and as a store of value. A medium of exchange is an item that facilitates exchange between parties; a unit of account is the standard for assessing value or price; and a store of value is an asset function for money. Money fits into the national economy in many ways. The government finances its spending by taxing, by borrowing through the issuing of bonds, and by printing money. There are other beneficial aspects to monetary policy as well, such as interest rate management. The goals of monetary policy were similar even before the existence of the Fed.

To understand monetary policy, one must understand interest rates. According to the relationship known as the Fisher equation, nominal interest rates (the rates that are quoted in the financial market) can be broken down into two separate parts—the real interest rate (that is, the real cost of borrowing) and peoples' expectations of inflation, with inflation defined as a sustained increase in the general level of prices. Roughly speaking, the nominal interest rate is equal to the real interest rate plus expected inflation.

For a substantial portion of its history, the United States operated on a specie standard, with other currency (such as banknotes or Treasury notes) being convertible into specie (gold or silver). The price of gold was fixed in terms of dollars, which meant that any other countries that guaranteed the convertibility of currency—that is, any other countries on a gold standard—had a fixed exchange rate relationship with the United States. The price-specie flow mechanism would then keep the exchange rates balanced. A fall in prices in the United States caused by an aggregate demand shock or an increase in aggregate supply meant that U.S. goods were relatively cheap compared to foreign goods. This situation resulted in an increase in foreign demand for U.S. goods and larger flows of gold into the country to pay for larger purchases of goods. The increased gold stock in the United States boosted the money supply, and as a result, the price level would rise to its original level.

Policy goals are seldom achieved directly, and the enactment of monetary policy thus comes through the manipulation of the bank system. Specifically, the monetary policy authority changes the level of reserves in the banking system, influencing the ability of banks to provide credit to customers. Increases in reserves lead to increases in credit availability, which is expansionary, and the reverse process leads to contraction. Even without an official central bank, governments enact policy in this fashion.

The British North American Colonies

The North American colonies of England experienced several changes in monetary policy. Specie was the legal tender for international payments and was equated with wealth and power. Each colony had its own pound (£) as the unit of account, with a mandated exchange rate of £133.33 colonial to £100 sterling. The colonies did attempt to manage their exchange rates and attract gold to the borders by selling items to foreign countries directly instead of through Britain. They also experimented with paper money, which was considered legal tender for domestic transactions only. Of course, the institutions developed to operate this policy were not the same as the ones existing today. For instance, there was no central bank, such as the Federal Reserve system, to oversee the colonial money supply. Instead, each colony ran its own independent policy, and as a result, the supply of paper notes in

any colony typically included the notes of bordering colonies; this situation led to difficulties in defining the money supply and problems in terms of price level in the region. The individuals responsible for operating fiscal policy, government spending, and taxing decisions also made the monetary policy decisions. There was a perceived shortfall of media of exchange at this time, and the notes were to add liquidity to the economy. The media included paper notes issued by the colonial government; any minted gold and silver coins in circulation, both foreign and domestic; and sterling bills of exchange. The notes were issued as mortgages, typically a loan of up to one-half the value of pledged property. The government accepted the notes in payment for the loan but also imposed taxes at the same time, for which the notes were legal tender. In this way, the government would be able to retire the notes and avoid inflation. Unfortunately, retirements and issues were at times excessive, leading to large increases in the value of notes in circulation and fluctuations in the price level, though this was not universal. In fact, price-level fluctuations did not match well the changes in the stock of money in many colonies. There is serious debate about why this was the case, centering on the idea of the backing for the currency. The future tax receipts were considered as the backing of the currency, much like gold is when the country is on a gold standard. Disputes focus on the issues of exchange rates and the credibility of taxing authorities.

The Revolutionary War provides another early lesson in monetary policy. The Continental Congress acted as the government for the rebelling colonies and needed to finance the war effort. Lacking the ability to tax and unable to issue bonds, the Congress turned to a third option—printing money, the now famous Continental. The Continental Congress issued excessive amounts of the notes, to the point that they depreciated dramatically: thus the phrase "Not worth a Continental." In all, continental currency, state paper notes, and quartermaster certificates totaled nearly $400 million, which clearly contributed to inflation. The debate over this currency can be cast in the same light as the one over the colonial government note issues, in which the value of the currency wildly fluctuated.

The First and Second Banks of the United States

With great effort and skill, Treasury Secretary Alexander Hamilton convinced Congress to approve the First Bank of the United States in 1791, with a 20-year charter. There were serious political concerns about the operations of the First Bank, particularly the lack of state control over a branch bank operating within the state's borders. It also seemed unfair to many that state banks would be forced to compete against a national commercial bank. Despite its name, the First Bank was not to have the same functions and goals as a modern central bank; instead, it would increase the productive capacity of the economy. The bank would be large and have operations in many states and therefore would provide a uniform paper currency throughout the United States. At the same time, it would also maintain the government's credit. The bulk of the bank's capitalization took the form of government bonds, which provided an additional benefit to the government. By holding a portion of the debt as capital, the bank helped keep government borrowing costs, or the interest rates on government debt, low.

The First Bank did not realize its full potential as a commercial bank, but this was the result of a prudent strategy. The complaints already mentioned would have multiplied if the First Bank branches had made large numbers of loans, taking business from state-chartered banks. The First Bank did, however, take some actions that resembled those of a central bank. For instance, if general financial market conditions dictated a reduction in available credit, the First Bank would present accumulated notes of other banks for redemption in specie, forcing those banks to further reduce their note issues because they now had a smaller reserve of specie. If the First Bank deemed looser credit conditions were necessary, it could expand its own lending operations, either to businesses or to banks, and create a multiplied expansion of bank credit. The First Bank could also affect this policy by declining to present banknotes for redemption in specie. Its government deposits and larger than normal reserve holdings allowed it to adopt this function. The First Bank then conducted monetary policy by manipulating the specie holdings, or reserves, of other banks in the nation. The bank performed its functions well throughout its charter, but because of the continued political controversy, particularly on the constitutionality of the First Bank, its charter was not renewed upon expiration. The Treasury then became the primary economic policymaker for the U.S. government.

In the absence of the First Bank, the Treasury came to rely on the state banks. Treasury deposits in state banks led to expansions of bank credit and eventually inflation and problems with the payment system in the United States. The financing of the War of 1812 increased the Treasury debt and contributed to the expansion of bank credit. The Treasury notes functioned as bank reserves, since they were a partial legal tender and national money, and this led to a large expansion in available bank credit and in the number of banks. The inflation caused problems with convertibility, an export of gold and silver to other countries, and a concentration of domestic deposits of gold and silver in the Northeast, as banks in that region did not have such a high number of banknotes in circulation.

The note issues were so excessive that the Treasury accepted banknotes as payment because a failure to do so would lead to a financial crisis and bank failures. The supporters of a new national bank pointed to the improved security that would exist in the banking sector as a significant reason to establish a new institution. The Treasury, in particular, endorsed the idea of a national bank to aid in a return to more stable monetary and financial conditions.

The United States was concerned with resuming the specie convertibility of banknotes in 1816, and it was into this policy era that the Second Bank of the United States entered. Treasury Secretary William H. Crawford recognized the role of the Treasury notes in the large issues of bank paper notes. As government receipts increased in the period after the War

of 1812, the Treasury was able to retire a significant number of its notes, which reduced bank reserves and led to a decrease in available bank credit and note issue. The deflation that ensued moved the Second Bank toward the resumption of specie payments. In this way, the Treasury was acting as a modern central bank, directing monetary policy and using the Second Bank as a scapegoat to take the complaints of bankers, businesses, and debtors hurt by the decline in prices and economic activity.

Initially, the Second Bank had the same role as the First Bank—providing a source of demand for government debt. The Treasury was the active player in monetary policy, adjusting its issues of debt and levels of deposits in the banking system. Later in the life of the Second Bank, Nicholas Biddle implemented monetary policy through the bank. He did not come to the bank with these ideas but rather developed them after examining the institution's practices and the financial conditions in the United States. The banking system at the time was based on the convertibility of bank-issued paper currency, or notes, into gold. In an effort to guarantee both the security and the soundness of the banking system, as well as control the level of currency in circulation, the Second Bank undertook to control banknote issues. As the depository institution of the federal government, the Second Bank had a larger source of funds to use than the rest of the banking system. As such, it came to hold a large number of commercial banknotes. If leaders of the Second Bank felt that the note issues of any commercial bank were excessive (or nearly excessive), they could threaten to present sufficient amounts of the bank's paper currency in their possession for payment in specie. If the bank did not have a sufficient reserve of gold available, they would be forced to suspend conversion—essentially, they would fail. Through this mechanism, the Second Bank was able to use its gold reserves to exert significant control over the banking system, but it was exactly this ability that caught the attention of many legislators who abhorred this authority in general and especially in a nonelected official such as the president of the Bank of the United States, who was appointed. The ability to conduct monetary policy was also a political liability, as many were concerned that there was the potential for much to go wrong with an inept or "evil" person in control of the bank.

From the post–Civil war era to the founding of the Federal Reserve, the Department of the Treasury was responsible for monetary policy management in the United States. To finance the Civil War, the Union had an option not truly available to the Confederacy—issuing bonds. Unfortunately, the large issues of bonds would drive up the costs of borrowing by raising the interest rate. As it had done with the First and Second Banks, the government looked to create a demand for its debt. It did this through the National Bank system. The capital of the banks in this system could be U.S government debt, which created a demand for the bonds. To get banks to switch from state charters to national bank charters required further legislation. The state banks were doing fine and did not see any reason to adopt more stringent federal rules in their operations. To provide an incentive for the banks to switch charters, the government imposed a prohibitive tax of 10 percent on state banknote issues. The costs were so high that many switched their charters. It was through adjustments in the level of Treasury deposits in the banking system that policy changes were enacted. These changes also altered the level of reserves in the system and either expanded or contracted the available amount of bank credit. This situation would lead to an adjustment throughout the entire banking sector, which would change the prevailing credit conditions and result, it was hoped, in achievement of the desired policy goal. A significant change in the banking system came as part of the Union's effort to finance the Civil War.

The Federal Reserve System before the Great Depression

When members of Congress created the Federal Reserve system, they intended to reduce the seasonal fluctuations observed in the economy over the course of a year and to end the cycle of panics in the financial system. (The system experienced major banking crises in 1873, 1884, 1890, 1893, and 1907.) The Fed was to meet these goals by providing an elastic currency. The credit flowing from the Federal Reserve to the commercial banking sector would counter the normal cyclical behavior of the economy and smooth out fluctuations in economic performance and activity. The only tool available to the Fed was the discounting of eligible securities. Through this process, banks would increase reserves and have more credit available when needed (for example, during a recession).

World War I was an early challenge for the monetary policy of the Fed. Although initially not directly involved in the conflict, the United States supplied the warring parties with goods, which resulted in a large inflow of gold to the country. The Fed did not have sufficient stocks of securities to sterilize, or offset, the increase in money supply. Sterilization would involve the government selling securities for gold, which would reduce the reserves in the system. The only option was to increase the discount rate, though the Fed did not do that. The gold influx stopped when the United States entered the war and provided its Allies with credit for purchases. At this time, the young central bank agreed to an accommodation policy with the Treasury, wherein the Fed kept government borrowing costs low in order to assist with the war effort. The accommodation created an expansionary environment for bank credit, which led to acceleration of inflation. The gold standard eventually triggered an export of gold from the United States, which reduced the supply of money. The Fed did not take action until 1920, when outflows of gold reached critical levels. The Fed raised the discount rate, which stopped the exodus of gold but, in turn, led to a decrease in the price level and economic activity and a recession in 1920 and 1921.

During the 1920s, the Fed discovered its second policy tool—open market operations, or the purchase and sale of government securities. Although these operations were known before the 1920s, they were used only as a source of revenue for the Fed, not as part of a monetary policy.

Gradually, the effect of purchases on interest rates was noticed. The connection between the bank reserves and a fractional reserve system led to the conclusion that if the Fed purchased securities from commercial banks, that would lead to an increase in bank reserves and the ability of banks to increase credit in the economy through the multiple expansion of deposits and loans and thus lower interest rates. Despite its importance, this understanding was not always used appropriately in the 1920s to offset expansions in the money supply.

The Federal Reserve System and the Great Depression

The Fed's failure to end stock market speculation early in the 1920s led to a large run-up in stock prices, which it felt unable to stop. The Fed was not able to help strengthen the weakening economy for fear of feeding the speculation in equities. Moral suasion proved ineffective, and eventually, the Fed signaled its policy change by raising the discount rate. The economic hardship of the Great Depression is well documented: nearly 25 percent unemployment; a reduction in the U.S. capital stock; and a dramatic weakness in the banking sector, with thousands of bank failures and millions in lost deposits. The inaction of the Fed at that time can be explained as the result of a battle between policy camps. Procyclical supporters urged no action; countercyclical advocates urged an expansionary, countercyclical policy. International conditions required the Fed to increase the discount rate in order to return gold to the United States and increase the reserves in many banks. The banks held some of these reserves as excess reserves—a cushion to ensure their ability to meet depositor demands for liquidity. The Fed misinterpreted this sign, believing that banks found inadequate lending opportunities, and it failed to adopt a policy stance that led to further expansion.

Many of the institutional changes that occurred during the Great Depression affected monetary policy and the Fed directly. Congress gave the Fed its last policy tool—the ability to set reserve requirements. There were significant changes in the banking sector, including the separation of commercial bank activities, life insurance, and brokerage activities. The Federal Deposit Insurance Corporation (FDIC) guaranteed the deposits of customers up to a maximum amount. The United States abandoned the gold standard and saw the price of a troy ounce of gold in dollars increase nearly 70 percent to $35. Gold flowed back into the United States, and as a result, the money supply expanded. The creation of deposit insurance also increased peoples' confidence in the banking system, and so cash flowed back into banks. In addition, the expansion in reserves led to an increase in excess reserves, or the funds the banks held to provide extra liquidity. The Fed misinterpreted this increase as a sign of few acceptable lending options and decided to conduct open market sales in order to reduce the risk of inflation in the future.

World War II presented a significant challenge for the Fed, just as World War I had. Before America entered the hostilities, there was a buildup of gold in the United States as European nations and citizens sent gold overseas for purchases and security. The Treasury also requested that the Fed adopt an accommodation policy once again, though the effects on the price level were less than those that occurred in World War I. Inflation was low in this instance because of the entry of the United States into the war in 1941. The inflationary pressures did not have sufficient time to build, and the economy experienced a mix of price controls and public saving because of a reduced availability of consumer goods. In addition, the Treasury's efforts to finance the war led to patriotic calls for sacrifice and saving, for example, through the purchase of war bonds.

After the war, several factors combined to increase the level of inflation: People spent the accumulated savings and wealth from the war period; the Fed continued to accommodate Treasury borrowing to keep the cost of funds low; and the government adopted the Employment Act of 1946, making it the duty of the government, including the Fed, to maintain employment at a high level. The Bretton Woods system of exchange rates, which centered on narrow bands for fluctuations with the U.S. dollar fixed in terms of gold, came into existence and was thought to be strong enough to prevent the transmission of crisis as had occurred in the 1930s. To help maintain the system of exchange rates and keep international financial flows moving, the International Monetary Fund (IMF) was created.

Monetary policy became more active in the 1950s as inflation increased because of U.S. government buildup and expenditures for the Korean War. The Fed was certain that the accommodation policy was at least partly to blame. The Fed and the Treasury agreed to lift the accommodation policy, though the Treasury made the Fed promise not to allow rates to rise too quickly. The 1950s saw open market operations become the primary tool of monetary policy.

The Fed also became more concerned about targets for monetary policy at this time and looked to measures such as free reserves, or bank excess reserves less discount loans. High levels of free reserves represented a relaxed policy conducive to expansion, since banks had more reserves available to use in making loans. The Fed's other target, short-term interest rates, functioned little better because of the increase in the public's inflationary expectations. As a result, the Fed was constantly feeding the cycle rather than muting it. These concerns dogged the Fed over the entire course of the 1960s.

The Federal Reserve since the 1960s

The Fed's policy record did not improve much in the early 1970s, despite the recognition by many economists that a procyclical policy did not work. Arthur Burns became chair of the Federal Reserve's Board of Governors in 1970 and adjusted the Fed's focus to monetary aggregates (that is, everything in the financial sector, including savings accounts and money market accounts). Unfortunately, the Fed was about to discover that some choices of targets were inconsistent and would force policy to be procyclical once again. The Fed used two sets of targets, one for the monetary aggregates and one for short-term interest rates, the federal funds rate. The problem was the bandwidth adopted for the two separate targets.

The monetary aggregate growth rates were typically quite large, whereas the bandwidth for the federal funds rate tended to be smaller. The result was that although the Fed thought it targeted the aggregates, it was actually focusing on the short-term interest rates. As economic events caused market rates to rise outside the prescribed bandwidth, the Fed would conduct open market purchases to add credit to the system and lower the interest rate. The side effect of this policy was that it also increased the monetary base and reserves in the banking system. The multiple expansion of deposits led to larger levels of the monetary aggregates than targeted and an increase in inflation, which tended to result in an increase in market interest rates again.

In 1979, with the appointment of Paul Volcker to the position of chair of the Board of Governors, the Fed began a long fight against inflation and the expectations of inflation in the economy. Volcker de-emphasized the interest rate targets of the Fed to allow them to rise. To slow inflation, the economy needed to experience a slowdown. Part of the difficulty in this process was the lack of Federal Reserve credibility. Despite numerous previous attempts at reducing inflation, monetary policy did not seem capable of reaching this goal. People were unsure whether the current Fed policy would actually reduce the level of inflation permanently, and consequently, adjustment was quite difficult. Also at question was whether the Fed would stick to its policy or recant in the face of public pressure and economic weakness. Additional complicating factors at the time were financial innovation and regulation.

The high interest rates of the 1970s led to a process known as disintermediation, as people withdrew their deposits from banks with rate ceilings set lower than the market rate or completely disallowed, as on demand deposits. People and companies attempted to hold as little in transactions accounts as possible. Money market mutual funds were a popular destination for these monies. Banks countered with negotiable order of withdrawal (NOW) and automatic transfer from savings (ATS) accounts that paid market rates, but it was not really enough. The 1982 Garn-St. Germain Depository Institutions Act introduced money market deposit accounts (MMDAs), which had no interest rate ceilings. The Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980 extended Fed reserve requirements to all depository institutions and allowed nonmember banks access to the Fed's discount window. Financial and technological innovations diminished the predictive power of relationships between monetary aggregates and other economic variables of interest to monetary policy makers.

The 1980s saw the adoption of a borrowed reserves target, that is, discount loans. As interest rates rise, there is an incentive for banks to increase their borrowing from the central bank to boost their levels of reserves available for lending. To offset this upward pressure on interest rates, the Fed conducted open market purchases in an effort to increase the available supply of credit and lower the interest rate. Although the interest rates were under tighter control, the open market purchases resulted in an increase in the money supply. The large fluctuations in money supply caused by this target led the Fed to abandon its M1 target in the late 1980s and eventually its M2 in the 1990s. (M1 is a measure of the U.S. money stock that consists of currency held by the public, travelers' checks, demand deposits, and other checkable deposits, including negotiable order of withdrawal [NOW] and automatic transfer service [ATS] account balances and share draft account balances at credit unions. M2 is M1 plus savings accounts and small-denomination time deposits, plus shares in money market mutual funds [other than those restricted to institutional investors], plus overnight Eurodollars and repurchase agreements.)

The 1990s brought new challenges to the Fed. The 1990–1991 recession was an important economic event, and the fear of a slow recovery or a prolonged recession resulted in the Fed maintaining a low federal funds rate of 3 percent. The easy credit policy provided banks with the reserves they needed to make loans and expand economic activity. The Fed was still wary of inflation expectations, however, and in the mid-1990s, when it was clear that the economy was recovering, it increased the federal funds rate to 6 percent. This move has been termed a preemptive strike against inflation. The Fed was signaling to financial markets that it was still wary of inflation and would take the necessary steps to prevent its return, so much so that it would not let expectations of inflation take root in the economy.

The stock market decline in the year 2000 and the terrorist attacks of September 11, 2001, have posed additional problems for the Fed. To complicate matters, the accounting practices of American corporations and several large bankruptcies resulted in instability in the financial markets for much of the years 2001 and 2002. At this point, the Fed must attempt to balance several of its goals, such as achieving financial market stability and price stability. The federal funds rate stands at historically low levels in an attempt to foster a sustained recovery in the American economy. The active and early response of the Fed to the problems of 2000–2001 prevented prolonged recession and economic crisis. However, as the economy expands, the Fed will keep a close eye on the market's expectations of inflation and take action accordingly.

—David T. Flynn

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Money Laundering

Money laundering is the process by which the proceeds of crime are transferred through the financial system to conceal their illicit origins and make the illegal profits appear to be legitimate funds. The laundering of these illicit assets is routinely linked to criminal acts that generate significant proceeds, such as drug trafficking, extortion, prostitution, and people smuggling. Additionally, white-collar crimes, such as fraud, insider trading, and tax evasion, are frequently associated with laundering schemes. In recent years, considerable attention has also been devoted to deterring terrorist groups from laundering illicit profits through banking and nonbanking institutions. Each of these groups has utilized financial institutions in the United States to launder illicit assets and fund future criminal or terrorist acts. Moreover, the immense sum of illicit money laundered through U.S. financial institutions, more than $100 billion annually, has the potential to damage the reputation of individual financial sectors, such as the banking industry or brokerage houses, that depend upon the perception that financial transactions are conducted under the highest legal and ethical standards. Money launderers also negatively affect communities by reducing tax revenues, competing unfairly with legitimate businesses, and diminishing the amount of funds devoted to economic development and social programs.

The Laundry Cycle

The conversion of illicit assets into seemingly legitimate funds is known as the laundry cycle. The laundry cycle consists of three distinct stages: (1) placement, the process of introducing the illegal assets into the financial system through a series of transactions, including deposits and wire transfers; (2) layering, the process of engaging in a series of conversions or movements to distance the funds from their illicit origins; and (3) integration, by which, after successfully completing the placement and layering of illicit assets, the funds are reintroduced as legitimate earnings. Each stage may involve single or multiple transactions. The most common technique for laundering illicit profits is a process known as "smurfing," which entails the structured placement of illicit funds into financial institutions in amounts that are below the threshold levels for recognizing suspicious or unusual deposits. Other widespread forms of laundering include cross-border currency smuggling and the funneling of illicit profits through loosely regulated casinos. Money is also routinely laundered through brokerage houses, jewelry dealers, automobile dealerships, and insurance companies. Once the money is laundered, the assets are typically used to fund future criminal acts or purchase real estate, luxury goods, and legitimate businesses.

Laundering Illicit Funds in the United States

The placement of illegal profits in legitimate ventures dates to the beginning of the Republic, when individuals used illicit earnings to purchase real estate, livestock, or high-priced goods. Until the early twentieth century, enforcement efforts were largely directed at traditional criminal offenses, such as smuggling and theft, that generated modest amounts of illicit income; little attention was devoted to the funds generated from criminal acts. Although the eighteenth and nineteenth centuries were replete with examples of schemes to place criminal assets in U.S. financial institutions, no legislation was passed to combat financial crimes, and the funds were usually kept in banks and later reinvested in the economy without fear of confiscation. This situation changed during the Prohibition era, when law enforcement agencies showed a growing concern over the immense sums of illegal assets that funded sophisticated criminal enterprises. Throughout the 1920s and 1930s, organized criminal groups led by crime bosses, such as Mayer Lansky and Al Capone, routinely avoided paying income taxes by investing illegal profits in legitimate businesses. The illicit profits earned through prostitution, drug trafficking, and the production and distribution of alcohol were invested in legitimate, cash-based businesses, such as clothes laundries and restaurants. Thus, the illicit earnings were commingled with the licit revenues received from seemingly legitimate businesses. The first known usage of the expression *money laundering* by American enforcement and regulatory agencies occurred during the Watergate scandal in the 1970s, but money laundering was not criminalized in the United States until the passage of the Money Laundering Control Act of 1986.

Early Efforts to Combat Money Laundering

The continued growth of organized crime in the United States throughout the twentieth century demanded action from the U.S. government. In an effort to tackle the rising number of criminal gangs, including East Coast mob families, Congress passed three pieces of legislation from the mid-1950s until the early 1960s to combat illicit finance schemes. The first was the Laundering of Monetary Instruments Act of 1956. This law criminalized the act of knowingly transferring unlawfully obtained assets through financial institutions; further, the act of concealing or disguising the source or ownership of illicit funds also became a crime. One year later, Congress passed the Monetary Transactions in Property Derived from Specified Unlawful Activity Act of 1957, which established penalties for "attempts to engage in a monetary transaction in criminally derived property that is of a value greater than $10,000." The law also set penalties for violating the statute: For funneling illicit proceeds through financial institutions, these penalties included (1) a fine of $500,000 or imprisonment for up to ten years, or (2) a fine and imprisonment. The third major piece of legislation to combat money laundering was the Prohibition of Unlicensed Money Transmitting Businesses Act of 1960; it would be the last measure of its type enacted for a decade. This law was designed to assure oversight of the numerous money transmitter businesses in the United States, including many that failed to register with state governments. The act mandated registration but did not address other regulatory issues, such as record-keeping requirements. Ultimately, it had little effect because prosecutors had to prove the defendant knew that the money transmitter was unlicensed, that state law required a license, and that the operation of an unlicensed business was a criminal offense.

The U.S. Response to the Narcotics-Trafficking Boom

The first major effort by the United States to curtail the laundering of illicit assets occurred in 1970 with the passage of the Bank Secrecy Act (BSA). The BSA was enacted for two reasons: first, to improve detection and investigation of tax violations, including white-collar crimes, and second, to respond to reports that organized criminal groups that oversaw lucrative narcotics-trafficking routes were transporting large amounts of currency across U.S. borders. In an effort to curtail bulk cash smuggling, the BSA was designed to create a paper trail for large currency transactions and establish stringent regulatory reporting standards. Most important, the law directed financial institutions to introduce record-keeping requirements. And through the new currency transaction report (CTR) regime, the statute required such institutions to notify the Internal Revenue Service of any individual who withdrew or deposited more than $10,000 in a single day.

Soon after the passage of the BSA, the momentum to combat illicit finance schemes waned. The Watergate scandal, economic concerns, and the growing enmity between the United States and the Soviet Union effectively overshadowed additional efforts against money laundering for more than a decade. However, by the mid-1980s, the substantial rise in narcotics trafficking caused immense concern over the mounting number of illicit finance schemes and resulted in a sustained effort by Congress to construct a comprehensive regime to tackle money laundering. With the introduction of the Money Laundering Control Act of 1986 (MLCA) as a part of the Anti–Drug Abuse Act of 1986, Congress enacted sweeping changes to curtail the structured deposits, or smurfing, of illicit assets. Most important, the legislation criminalized money laundering and established three new criminal offenses for money-laundering activities through banking or nonbanking institutions. The new offenses included knowingly helping to launder money from a criminal activity, engaging in a transaction of more than $10,000 that involved property from a criminal activity, and structuring transactions to avoid BSA reporting. Moreover, the statute established strict penalties for convicted launderers, including imprisonment for a maximum of 20 years and fines up to $500,000 or two times the amount laundered. The law also granted the Internal Revenue Service the power to seize property involved in the breach of money-laundering laws. Finally, the legislation bolstered regulatory and enforcement efforts by mandating the reporting of suspicious or unusual transactions through the submission of a suspicious activity report (SAR). The form was designed to specifically report instances of structured deposits in U.S. financial institutions.

The MLCA was the first important statute passed to combat money laundering in over a decade. The new legislation, however, lacked instruments to promote international cooperation in the fight against money laundering. After a debate on the deficiencies of the MLCA, Congress passed the Anti–Drug Abuse Act of 1988, which reinforced efforts to fight money laundering in several ways, especially through the establishment of channels to facilitate cooperation with foreign regulatory and enforcement agencies. The statute granted the Department of the Treasury the right to negotiate bilateral international agreements to promote the exchange of information related to illicit finance schemes. The new law also significantly increased civil, criminal, and forfeiture sanctions for laundering crimes, and it authorized the forfeiture of "any property, real or personal, involved in a transaction or attempted transaction in violation of laws." Additionally, the legislation increased the criminal penalty for tax evasion when the funds at issue were connected with criminal activity.

The growing narcotics trade in the Americas and Asia in the 1980s demonstrated that crime had become global, and criminal groups were routinely utilizing rapid advances in technology and the globalization of the financial services industry to launder illicit assets. Changes in banking activities necessitated increased cooperation between the United States and foreign jurisdictions in order to monitor illegal cash flows. The Crime Control Act, which was passed by Congress in 1990, enhanced enforcement efforts by permitting federal banking agencies (such as the Federal Reserve Board and the Federal Deposit Insurance Corporation) to request the assistance of a foreign banking authority in conducting any investigation, examination, or enforcement action. The United States also signed a large number of mutual legal assistance

treaties (MLATs), which are negotiated by the Department of State in cooperation with the Department of Justice to facilitate cooperation in criminal matters, including money laundering and asset forfeiture. The MLATs are designed to promote the exchange of evidence and information in criminal matters and are extremely useful as a means of obtaining banking and other financial records. International assistance was further extended with the passage of the Federal Deposit Insurance Corporation Improvement Act of 1991, which permitted U.S. authorities to disclose information obtained in the course of exercising their supervisory or examination authority to foreign bank regulatory officials.

International cooperation has been strongly promoted at all levels of the U.S. government, and the United States has often taken a leadership role in international efforts devoted to combating money laundering. For example, the United States is a signatory to the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention), which calls on nations to criminalize money laundering; assure that bank secrecy is not a barrier to criminal investigations; and promote the removal of legislative impediments to investigation, prosecution, and international cooperation. The United States is also a member of the Financial Aid Task Force (FATF), which was created at the economic summit of the major industrialized countries in 1989. The FATF is an intergovernmental body that develops and promotes national legislative and regulatory reforms to combat money laundering. Composed of representatives from 29 countries, the FATF has compiled and issued 40 recommendations to assist states in tackling money-laundering schemes, specifically addressing record-keeping requirements, the mandatory reporting of suspicious or large financial transactions, the identification of beneficial ownership, and the elimination of anonymous accounts. The United States has also promoted the need for conventions and declarations designed to unite the global financial centers in the fight against laundering schemes. As a result, U.S. financial institutions adhere to the nonbinding 1988 Basil Declaration, which encourages all banks to ensure that persons conducting business with their institutions are properly identified, illicit transactions are discouraged, and cooperation with law enforcement agencies in financial investigations is achieved with alacrity.

The U.S. Response to the BCCI Scandal

Domestic efforts to assure adequate oversight of U.S. financial transactions were proven to be largely inadequate with the uncovering of the Bank of Credit and Commerce International (BCCI) scandal in 1991. BCCI was a Pakistani-managed, Middle East–financed international private bank with branches in over 70 countries, including the United States, and assets of over $20 billion. Investigators were shocked at the number of jurisdictions involved in the scandal (the United States among them) and the secrecy provisions that permitted BCCI to conduct a series of criminal acts and funnel illicit profits through front companies in the Cayman Islands to U.S. and European banks. In response to the BCCI revelations, Congress passed the Housing and Community Development Act of 1992, often referred to as the Annunzio-Wylie Anti–Money Laundering Act. This statute requires financial institutions and their employees to report any suspicious transactions that may be relevant to a possible violation of a law or regulation, and it specifically protects those parties from any civil suits arising from the submission of such reports. The legislation further mandates financial institutions to carry out programs to thwart money laundering by addressing training and due diligence concerns, and it authorizes financial institutions to maintain stringent record-keeping procedures. The statute also requires each financial institution to designate a compliance officer and conduct routine audits to assess the adequacy of in-house programs to curb money laundering.

In addition, the statute strengthens penalties for depository institutions found guilty of money laundering. Under the Annunzio-Wylie Anti–Money Laundering Act, the Federal Deposit Insurance Corporation and the Department of the Treasury are granted the power to act as comptroller for an insured depository institution that is found guilty of any money-laundering offense or a criminal Bank Secrecy Act violation. Upon receipt of written notification from the attorney general that a national bank or an agency of a foreign bank has been found guilty of money laundering, a comptroller appointed by the U.S. government schedules a hearing to determine whether to revoke the bank's charter. The decision to terminate the charter is based on a set of factors, including whether the senior executive officers had knowledge of the illicit activity and whether the bank had policies and procedures in place to prevent money laundering; the institution's level of cooperation with agencies investigating the alleged offense is also considered. Finally, to assure adequate cooperation between governmental agencies that investigate money-laundering offenses, the Annunzio-Wylie Anti–Money Laundering Act established the BSA Advisory Group, which includes representatives from the Treasury and Justice Departments and the Office of National Drug Control Policy, as well as other interested persons and financial institutions.

The last major statute on money laundering to be passed before the turn of the century was the Money Laundering Suppression Act of 1994. Until the passage of this measure, criminals routinely utilized unregulated brokerage or securities firms to launder illicit assets. This act amended the BSA by requiring nonbank financial institutions, such as brokerage firms, to submit to a series of reporting requirements. These firms, however, remained loosely regulated and failed to institute self-policing measures to combat money-laundering schemes. As a result, organized criminal groups continued to launder illicit proceeds until the passage of the Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, which mandated stringent reporting requirements for security firms and brokerage houses.

The Criminal Response to U.S. Efforts to Combat Money Laundering

In response to the nearly decade-long strengthening of the U.S. financial sector, criminal groups devised a series of new

schemes to avoid increasingly rigorous reporting requirements. Instead of directly challenging the capabilities of U.S. financial institutions in combating money laundering, criminal networks began to deposit illicit proceeds abroad and transfer the assets to the United States through a series of wire transfers. Especially problematic was their use of offshore financial centers, including a number of jurisdictions in the Caribbean and South Pacific. These centers are composed of institutions that restrict access to the offshore sector to nonresidents. Most of the offshore banking institutions lack stringent regulatory regimes, and they provide clients with anonymous accounts for the placement of assets. The offshore nonbanking institutions, such as insurance agencies and security brokers, are particularly troubling because they lack even the most rudimentary oversight mechanisms. Throughout the 1990s, the offshore sector was a safe haven for the deposit of criminal assets and a desirable location for individuals determined to evade home-country tax regimes. On countless occasions, funds from offshore zones were later transferred through U.S. financial institutions.

Another means utilized throughout the 1990s to avoid money-laundering oversight mechanisms was the highly successful Black Market Peso Exchange System (BMPE), a trade-based regime that depends on commercial traffic between the United States and Colombia to launder profits from the sale of illegal drugs in America. The process begins when a Colombian drug organization sells narcotics in the United States in exchange for U.S. currency. That currency is sold to a Colombian black market peso broker's agent in the United States. Once the dollars are delivered to the U.S.-based agent, the peso broker in Colombia deposits the agreed upon equivalent in Colombian pesos into the organization's account in Colombia. The Colombian broker now has a pool of laundered dollars to sell to Colombian importers. These importers then use the dollars to purchase goods, either from the United States or from other markets, that are transported to Colombia. Law enforcement agencies estimate that the black market peso exchange launders between $3 billion and $6 billion annually.

Another area of concern is the routine passage of illicit funds through wire transfer services. The enormous volume of financial transactions conducted through U.S. banking and nonbanking institutions routinely facilitates money-laundering schemes and hinders effective regulation of banking activities. Every day, in fact, the U.S. financial system handles more than 700,000 wire transfers, valued at over $2 trillion. Determining which of these transactions might be related to money laundering creates an immense problem for both private-sector institutions and law enforcement or regulatory agencies. The massive amount of funds transferred through U.S. financial institutions provided a means to cloak the transfer of billions of illicit dollars in the late 1990s via a number of U.S. banks, including the Bank of New York. The so-called Bank of New York scandal demonstrated that launderers could move tens of billions of dollars through a couple of computers housed at an unregistered money-transmission business that had full access to the Bank of New York's international wire transfer services.

White-collar criminals also routinely use wire transfer services provided by offshore financial institutions. After an extensive investigation, the Federal Reserve and its chair, Alan Greenspan, concluded that the offshore location of Long Term Capital Management, a hedge fund based in the Cayman Islands, had prevented U.S. regulators from realizing that the entity had accumulated leverage amounting to more than $1 trillion and used U.S. banks to finance the huge risks involved in the hedge fund. The collapse of Long Term Capital Management resulted in increased pressure on offshore zones from U.S. regulatory bodies. Most of the jurisdictions responded by increasing oversight of wire transfers to the United States and other global financial centers.

With the increased attention on traditional banking mechanisms such as wire transfers, the laundering of illicit funds was expanded to nonregulated sectors throughout the 1990s. For instance, alternative remittance, or underground, banking systems emerged as new means to avoid attracting the attention of regulatory and law enforcement personnel in the United States. The very nature of the alternative remittance system makes it extremely difficult to monitor and track the flow of money. One example is the *hawala* system, which, in its simplest form, consists of two persons in distant locations communicating by phone, fax, or e-mail. No money is exchanged between the hawala brokers themselves, only between the brokers and the customers, and the broker does not maintain records of the transactions. The anonymity and secrecy of the remittance transactions facilitates the transfer of illicit funds linked to a variety of criminal activities, including money laundering, corruption of government officials, and tax evasion. In 2001 the use of hawala was linked by U.S. law enforcement agencies to a number of terrorist financing schemes.

In an effort to curtail abuses of wire services and the offshore sector, black market peso schemes, and the rise of alternative remittance systems, the U.S. government initiated a comprehensive plan to assure adequate oversight of U.S. institutions; it also devised long-range plans to combat the growing number of illicit finance schemes. On October 15, 1998, Congress passed the Money Laundering and Financial Crimes Strategy Act. The legislation called upon the president, acting in consultation with the secretary of the treasury and the attorney general, to develop a national strategy for combating money laundering and related financial crimes. The first national strategy was to be sent to Congress in 1999 and updated annually.

The U.S. Response to International Terrorism Financing

After the terrorist attacks on the United States on September 11, 2001, the government launched a series of significant initiatives to thwart money laundering and terrorist financing. Like criminal networks, terrorist groups commingle illicit revenues with legitimate funds drawn from the profits of commercial enterprises, as well as charitable donations from witting and unwitting sympathizers. Although tracking terrorist financial transactions is more difficult than following the money trails of mainstream criminal groups, both terror-

ists and conventional criminals use similar methods to launder assets through U.S. financial institutions.

In an effort to curtail terrorist finance passing through financial institutions located in the United States, President George W. Bush signed into law on October 26, 2001, the most significant financial crimes legislation since the Bank Secrecy Act of 1970. The new statute, known as the Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, contains substantial amendments to previous money-laundering laws. Notably, Title III of the new measure—the United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, commonly known as the Patriot Act—includes comprehensive regulatory and enforcement provisions that affect the daily operations of U.S. banking and nonbanking financial institutions.

The legislation mandates that U.S. financial institutions establish programs to thwart money laundering, and it expands the reporting of SARs to brokers and dealers and a number of other financial sectors. The Patriot Act requires every financial institution, including such previously unregulated sectors as hedge funds and commercial loan and finance companies, to maintain programs of this type. Some 25 different categories of financial institutions are required to develop internal policies, procedures, and controls; designate compliance officers; conduct ongoing employee training programs; and perform independent audit functions to test programs. The measure also sets toughened standards for due diligence and for customer identification and verification, mandating extremely intrusive obligations to identify the ownership of institutions and assets deemed to be high-risk. High-risk accounts and transactions subject to enhanced due diligence include most offshore banks (other than those in a group of jurisdictions approved by the U.S. Federal Reserve); accounts involving foreign senior political figures, families, and friends; and private banking accounts defined as accounts or sets of accounts involving $1 million or more managed on behalf of identifiable individuals or groups of individuals.

Other salient provisions of Title III of the Patriot Act include:

- Section 311, which gives the United States the authority to apply graduated, proportionate measures against a foreign jurisdiction, foreign financial institution, type of transaction, or account that the secretary of the Treasury determines to be a "primary money laundering concern."
- Section 313, which generally prohibits U.S. financial institutions from maintaining a correspondent account in the United States for a foreign shell bank, that is, a foreign bank that does not have a physical presence in any country. The provision also generally requires financial institutions to take reasonable steps to ensure that foreign banks with correspondent accounts do not use those accounts to indirectly provide banking services to a foreign shell bank.
- Section 319, which allows the secretary of the treasury or the attorney general to subpoena records of a foreign bank that maintains a correspondent account in the United States. The subpoena can request any records relating to the account, including records located in a foreign country that involve the deposit of funds into the foreign bank.
- Section 359, which brings informal banking systems, such as hawalas, under the Bank Secrecy Act.
- Section 362, which requires the secretary of the Treasury to establish a secure network to (1) allow financial institutions to file Bank Secrecy Act reports electronically through the secure network, and (2) provide financial institutions with alerts regarding suspicious activities.
- Section 1006, which amends the Immigration and Nationality Act to exclude aliens engaged in or seeking to engage in money laundering as described in U.S. law or those that aid, abet, assist, or collude in such activity. This section also requires the secretary of state to establish a watch list identifying persons worldwide who are known for or suspected of money laundering.

The United States also signed two important international agreements after the September 11, 2001, attacks to assist in the international effort to combat money-laundering offenses. In October 2001 the United States agreed to adhere to the newly adopted UN Security Council Resolution 1373 (UNSCR 1373), a binding document that requires all UN member states to:

- Criminalize the use or collection of funds intended or known to be intended for terrorism;
- Immediately freeze funds, assets, or economic resources of persons who commit, attempt to commit, or facilitate terrorist acts and entities owned or controlled by them;
- Prohibit nationals or persons within their territories from aiding or providing any aid to persons and entities involved in terrorism;
- Refrain from providing any form of support to entities or persons involved in terrorism;
- Deny safe haven to (1) those who finance, plan, support, or commit terrorist acts, and (2) individuals who themselves provide safe havens for such persons.

Moreover, each UN member state is required to submit progress reports, providing information as to how it has implemented UNSCR 1373.

In another effort to support the international fight against financial crimes, the United States pledged to implement the Eight Special FATF Recommendations to combat terrorist finance. The recommendations require FATF members to:

- Ratify and implement the 1999 UN International Convention for the Suppression of the Financing of Terrorism and UNSCR 1373.
- Criminalize the financing of terrorism, terrorist acts, and terrorist organizations and ensure that such

offenses are designated as money-laundering predicate offenses.

- Implement measures to freeze, without delay, funds or other assets of terrorists, those who finance terrorism, and terrorist organizations in accordance with the UN resolutions relating to the prevention and suppression of the financing of terrorist acts.
- Subject financial institutions or other businesses or entities to obligations designed to combat money laundering.
- Offer another country, on the basis of a treaty, arrangement, or other mechanism for mutual legal assistance or information exchange, the greatest possible measure of assistance in connection with criminal, civil enforcement, and administrative investigations, inquiries, and proceedings relating to the financing of terrorism, terrorist acts, and terrorist organizations.
- Take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, be licensed or registered and subject to all the FATF recommendations that apply to banks and nonbank financial institutions.
- Require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address, and account number) on funds transfers and related messages that are sent. Further, the information should remain with the transfer or related message through the payment chain.
- Review the adequacy of laws and regulations that relate to entities that can be abused for the financing of terrorism. Nonprofit organizations are particularly vulnerable, and countries should ensure that such organizations could not be misused by terrorist organizations posing as legitimate entities.

Conclusion

Generally, the U.S. provisions regarding money-laundering offenses and forfeiture are sound and are actively used. After the passage of a series of statutes in this regard, criminal networks increasingly relied on nonbanking institutions to launder illicit profits. The effectiveness of U.S. policy in establishing a regime to combat money laundering is evidenced by the fact that fees charged by criminals to assist in money-laundering schemes have risen dramatically since 1985. These fees totaled 6 percent before 1986, but the increased risk involved with laundering illicit assets thereafter resulted in fees of more than 25 percent. Nevertheless, launderers are employing increasingly sophisticated schemes to place criminal assets in U.S. financial institutions. The immense size and sophistication of the financial service sector in the United States continue to provide enormous opportunity for criminal and terrorist groups to pass funds through U.S. banking and nonbanking institutions.

The attacks on the United States in September 2001 resulted in massive changes in terms of the efforts undertaken to tackle the money-laundering problem. Investigations into a number of terrorist acts have established a clear link between illicit finance schemes and the funding of attacks on civilian populations across the globe. Consequently, the United States strengthened legislation related to money laundering and increased the oversight of nonbanking institutions. Although the legislative amendments were initiated by terrorist attacks in the United States, improved oversight of U.S. financial institutions will also result in an increase in asset seizures and arrests of individuals engaged in organized criminal activity and white-collar crimes.

Since the mid-1950s, legislation has been designed to curtail criminal activities and assure U.S. citizens that domestic financial transactions are based on the highest ethical standards. For the foreseeable future, legislative and law enforcement efforts will focus on the urgent need to prevent illicit funds from entering the United States to underwrite attacks on American citizens.

—Trifin J. Roule

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Science and Technology

One of the central questions of economic policy explores how the government can foster economic growth. Although expanding the borders of a nation or its resources promises to create growth, politicians cannot easily control the circumstances or consequences of such expansion. As a result, economic thinkers have often focused on policies that the state can control more easily—including those related to the progress of science and technology. Economists and policymakers have frequently posited a causal relationship between new technologies and economic growth, often looking to Britain's industrialization as an example. In Great Britain, the scientific revolution of Isaac Newton and Robert Boyle in the late seventeenth century led to the Industrial Revolution of the late eighteenth century and created Britain's unparalleled economic supremacy in the nineteenth century. Although causality in this chain of events remains hotly disputed by many historians, the correlation between the growth of science and technology, on the one hand, and the national economy, on the other, cannot be simply dismissed—economic and technological developments accompany one another. Consequently, this Baconian equation—whereby science yields technology, which yields economic growth—has always been and continues to be an unwritten assumption of economic policy. Attacks on this formula in the post–World War II period have not dissuaded economic policy makers from building programs to encourage the development of science and technology in the name of national growth.

The ways in which scientific and technological development has been fostered have differed over time. The differences often hinge on how significant a role the federal government plays in the business life of the nation. Consequently, for most of America's history, the government's involvement in science and technology has waxed and waned, increasing in periods of crisis (such as wartime) and decreasing in periods of less urgent need. Furthermore, the kinds of activities the government has undertaken in the name of science remain quite diverse, from intellectual property law to military investment, from education to the direct funding of research.

Science and Technology in the Eighteenth and Nineteenth Centuries

Economic policy as it applies to science and technology extends back to the nation's very beginnings and the ratification of the U.S. Constitution. The Constitution mentions science once in Article 1, Section 8, and states that Congress has the power "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." To do this, George Washington signed the country's first patent act into effect on July 31, 1790. According to this act, the federal government could grant patents for "any useful art, manufacture, engine, machine, or device, or any improvement thereon not before known or used." A three-member patent board, which included Thomas Jefferson (the first patent examiner and secretary of state), Secretary of War Henry Knox, and Attorney General Edmund Randolph, granted the patents. Each applicant had to supply a specification, a drawing, or preferably a model and pay a nominal fee. The board decided the duration of each patent, up to a maximum of 14 years. In addition, it established penalties for patent infringements.

The system created by the Patent Law of 1790 relied heavily on the secretary of state's oversight and involvement. Since this responsibility conflicted with the numerous other duties of the position, Jefferson strove to change the system. Furthermore, with only 55 patents approved between 1790 and 1793, patent applicants expressed dissatisfaction with the delays in issuing patents caused by the competing demands on the patent examiner's time. Consequently, Congress passed a new patent act in 1793. This legislation left the administration of patents in the secretary of state's office but created a registration system under which patents were granted pro forma upon the completion of the required paperwork, ensuring the granting of virtually every patent. By the 1830s complaints against this system had mounted, and the 1836 Patent Act further revised the system. That measure codified standards for the approval of patents—definitions that persist to the present day. Essentially, it required that inventions had to be novel, useful, and nonobvious to a practitioner

skilled in the relevant area. In many ways, the 1836 system combined the scrutiny of the 1790 system with the bureaucracy of the 1793 act.

The government's first involvement in creating an institution for the study of science came with Jefferson's election to the presidency in 1800. Jefferson advocated a national institution for the sciences, which would generate graduates who could put their knowledge to work for the common good. Although the new president initially opposed the creation of a national military academy, his opposition waned when he realized that with the right personnel, his institution for science and a national military academy could operate as one and the same entity. Further, he recognized that a military academy would attract far less political and regional opposition than a national university.

Congress established the U.S. Military Academy at the garrison at West Point, New York, in March 1802. The academy operated as a continuation of a military school that had been in existence at West Point since 1796, albeit without the endorsement of the federal government. Superintendent Jonathan Williams, a man of the Enlightenment who had assisted his great-uncle Benjamin Franklin in numerous experiments, headed the school. Williams had also traveled extensively in France and knew French scientific and military institutions, including the Ecole Polytechnique—the model for the U.S. Military Academy. Jefferson clearly chose Williams to head West Point on the basis of his scientific reputation.

Williams's tenure at West Point was rocky, however, because of his efforts to create a scientific, as well as a military, institution. He established the U.S. Military Philosophical Society, a scientific society open to civilians that he hoped would become a leading organization for the production and dissemination of new scientific knowledge. The society's membership rolls included Jefferson, James Madison, James Monroe, John Quincy Adams, John Marshall, Robert Fulton, and Eli Whitney, among others. Although the society never achieved the distinction in science that its illustrious membership promised, West Point nonetheless did become the leading educational institution for science and especially engineering in the antebellum period.

At least until West Point graduates proved their mettle in the Mexican-American War (1846–1848), the academy had to survive periods of wavering federal support, as well as outright hostility from some members of Congress. Many Americans underestimated the scientific importance of West Point, but it did produce the nation's most important promoter of science in the nineteenth century—Alexander Dallas Bache (class of 1825)—and an overwhelming majority of the nation's university-trained engineers, many of whom went on to hold important positions in the construction of the nation's infrastructure. West Point produced more scientists and engineers than science education colleges themselves.

In the early nineteenth century, technology assumed an increasingly central role in the nation, particularly in terms of the industry and commerce. Engineers constructed roads, canals, and harbors to facilitate domestic and international trade, and inventors developed, patented, and sold the machines that underpinned the industrial and agricultural development of the nation. The government maintained a laissez-faire policy relative to this technological development. But with technological progress inevitably came technological difficulties, forcing the government to eventually adjudicate and prevent disasters. The first technology to require government intervention for public safety involved the steam engine. The invention and diffusion of the steamboat in the early nineteenth century played an important role in opening up the commerce of the nation to the western territory, which was reachable through the country's extensive rivers. The steamboat made river transportation fast and inexpensive. But by the 1830s, the United States experienced a rash of steam-boiler explosions, victims of which numbered in the hundreds. Yet no government agency with the authority to investigate the accidents existed.

As long as the public used high-pressure steam engines, accidents continued. Scientists in the private sector realized that this problem had become a subject ripe for empirical study. Alexander Dallas Bache, then a professor at the University of Pennsylvania, organized an investigation into the causes of boiler explosions at the Franklin Institute, a privately endowed organization in Philadelphia. After a six-year study, the institute found that most explosions occurred because of negligence; in other words, they were preventable. The Franklin Institute's report called on the government to develop some sort of regulatory legislation and advocated inspections, licensing, and penalties for noncompliance. However, all attempts to get legislation passed in Congress failed, with arguments over the constitutionality, efficacy, and expense of such regulation stalling passage. Then, in July 1838, a bill was passed that provided for licensing, certification, and the appointment of regional inspectors without financial ties to manufacture. Furthermore, it established liability for owners and operators in the case of accidents. However, since the act did not specify the inspection criteria, inspectors enforced the laws haphazardly across the nation. No one liked the law as passed, and it failed to prevent accidents, as evidenced by the 70 explosions that occurred between 1841 and 1848.

In 1852 Congress returned to the issue of regulation. Sen. John Davis of Massachusetts worked with engineers to construct more effective legislation. The bill Davis introduced proved quite similar to the recommendations of the Franklin Institute's 1836 report. Davis's 1852 bill met resistance from a small but vocal number of Congress members who opposed any kind of interference in commerce. To them, regulation threatened private property rights. Nonetheless, the bill passed, and a new role for government had begun. In some ways, the 1852 bill became a model for the regulation of technology, setting manufacturing standards, operating standards, a system of annual inspections, and licensing procedures for engineers. Congress authorized stiff penalties for noncompliance, especially for fraudulent and falsified documentation. Inspection boards investigated accidents. This legislation established a precedent that has justified further regulatory oversight of new technologies to the present day.

Despite the willingness of Congress to consider a more active role in the nation's technology, support for the develop-

ment of new science and technology remained a foreign notion. For example, congressional reluctance to involve the government in the pursuit of science, regardless of the economic costs, delayed the creation of the Smithsonian Institution. In his will, James Smithson, a wealthy British bachelor, bequeathed his entire estate to the United States for the purpose of developing "an establishment for the increase and diffusion of knowledge among men." He did not specify any other stipulation in the bequest, so Congress debated whether to accept the gift and what to establish using the half million dollars. Finally, in August 1846, Congress passed a bill for this project, providing a secretary, a board of regents, and a building that would include space for laboratories, libraries, museums, lecture rooms, and an art gallery. Clearly, a wide range of activities were planned for this endeavor, but Congress had not decided exactly what role the government might take in the sponsorship of science, even without the expenditure of tax dollars. Bache served as the sole scientist on the board, and under his direction, the Smithsonian moved toward becoming an institution of scientific research. He ensured this trajectory when he appointed his friend Joseph Henry, a professor of physics at Princeton, as the institution's first director. Under Henry's management, despite constant struggles about funding and direction, the Smithsonian became a precedent-setting private foundation that supported scientific research as its primary goal, rather than as a by-product of other priorities.

The American Civil War presented the federal government with new and unprecedented military and technological problems, from ironclad ships to steam engines to submarines. It also presented an opportunity for those pushing for a greater federal role in the direction and funding of science and engineering. War changed the climate in Congress, making legislators much more receptive to the idea of encouraging research, though, ironically, the cost of fighting the war meant that funds for scientific research almost disappeared. During the Civil War, the federal government approved several institutions that would exert a lasting influence on science into the twentieth century, including the Department of Agriculture, the National Academy of Sciences, and the Morrill system of land-grant colleges. Congress created the Department of Agriculture from the agricultural division of the Patent Office, which was responsible for patenting plants. Although headed by a chemist, the department's scientific mission would become subjugated to the demands of American farmers until well into the twentieth century.

The Morrill Act also bridged the divide between science and farming. Vermont Republican Justin Morrill had become convinced that the nation was failing to provide useful knowledge to its farmers and workers. He imagined that new educational institutions would improve America's productivity by making practical scientific and technical education accessible to all. After years of fighting between northerners and southerners, he drafted a bill in 1862 that offered 30,000 acres of federal land to each state for each senator and representative to create "at least one college where the leading object shall be . . . to teach such branches of learning as are related to agriculture and the mechanic arts." States could either designate existing universities to fulfill this function, as in the case of Wisconsin, or found new institutions, such as the University of California. After the war, southern states divided the appropriation between separate agricultural and mechanical colleges for whites and blacks. The colleges created by the act became sites for the pursuit of new knowledge in engineering and agriculture. For agriculture, the 1887 Hatch Act furthered this mission by allocating funds for agricultural experiment stations operated in conjunction with the land-grant schools.

Of the developments in the Civil War era, the National Academy of Sciences possessed the most direct mission in terms of supporting and directing scientific research. Bache had been arguing since the 1840s for an American equivalent to the French Academie des Sciences—to support research through government subsidy, centrally organize and coordinate research in the nation's interest, and advise the government on scientific and engineering issues. By 1862, with Congress seemingly interested in authorizing greater government activity in science and with the pressing need for expert advice about military technologies, Bache decided the time was right to pursue his notion of the academy. To do so, he secured the support of Massachusetts senator Henry Wilson. On March 3, 1863, Wilson presented the act to incorporate the National Academy of the Sciences, which required approval from Congress but no appropriation, and it passed. The National Academy of the Sciences Act named the 50 charter members of the academy who would remain members for life, a move that elicited some ire from the American scientific community, particularly since the new members represented Bache's interests in the physical sciences more often than they represented the numerically larger community of natural historians. Even among those elected to the academy, considerable discontent existed. But following the lead of Joseph Henry, who accepted his nomination as a member despite his dislike of the autocratic setup of the academy and its prescribed membership, all nominees for membership eventually accepted their appointments.

Controversy over the origins of the National Academy of Sciences soon gave way to a more devastating congressional apathy. Despite the fact that Congress had chartered the academy, it failed to consult with it for scientific and technical advice. In fact, only seven requests were made to the academy during the war, and the Treasury and Navy Departments resisted paying the expenses of the committees that had formed within the academy to study specific issues.

Economic policy regarding science and technology in nineteenth-century America continued to be characterized more by belief than action. American politicians and scientists alike commonly believed that technological progress would lead to a more prosperous nation. However, politicians remained wary of claiming that the federal government should assume responsibility for pursuing scientific and technological research. Scientists, for their part, wanted to avoid offering the government any real control over scientific endeavors. So, while admitting that science and technology had a central role to play in the economic life of the nation, neither scientists nor politicians were willing to

coordinate a partnership between science, technology, and the government.

Science and Technology in the Twentieth Century

The 1901 founding of the industrial research laboratory at General Electric (GE) set a new tone for science and technology at the beginning of a new century. GE's lab was neither the first nor the only industrial research laboratory in the United States, and the industrial research laboratory was not a uniquely American development. Still, GE's reputation, the size of its research arm, and its high visibility helped establish a growing tradition of commercial research facilities. Industrial research labs represented a new alliance between science, technology, and industry in America. The corporate pursuit of research and development (R&D) helped set the new tone: Science no longer functioned as an esoteric activity pursued only at universities and by private scientific societies—rather, it became germane to the economic life of General Electric and therefore the nation. This development promised to produce a national attitude more conducive to government interest in scientific and industrial research. In addition, intellectuals such as Charles Sanders Pierce and John Dewey trusted technology to improve the life of the nation, both socially and economically. Those politicians who resisted greater government involvement in science often did so not because they doubted science's economic promise but rather because they came from a laissez-faire ideological position—believing that the government should not interfere in the market and that supporting research was interference. According to this view, GE and other large corporations should have set up large industrial research facilities precisely because their work involved a business mission. Although national interests required successful companies, they argued, the government should not directly aid those companies.

But national defense proved another matter altogether, and in that sphere, the notion of governmental involvement met no resistance. As a result, scientists advocating more government support often heightened their efforts during wartime. This dynamic occurred during both world wars. Although the federal government did create new agencies related to scientific and technological research—such as the National Bureau of Standards (in 1901), which became the government's first physical laboratory during peacetime—Congress established nearly all the agencies with scientific missions under the cloud of war.

In 1915 the promise of the airplane as a military tool helped create support for an agency devoted to the study of aeronautical research. Attaching it to a naval appropriations bill, Congress created the National Advisory Committee for Aeronautics, or NACA, "to direct the scientific study of the problems of flight." Although only $5,000 was appropriated for research, the move to direct federal support for research in any field constituted a notable change from congressional attitudes in the past. NACA's board consisted of 12 members appointed by the president, though notably no one from the aircraft industry received an appointment until 1939. NACA originally operated as a committee to provide technological advice and as such reported directly to the president, but it gradually evolved into more of a research agency. In 1917 NACA set up its primary research facility, Langley Field in Hampton Roads, Virginia; others would follow. NACA became a model agency that was largely devoted to research into civilian flight, and the military branches took control of their own research. In addition to its work in aeronautical research, NACA helped gain passage for bills such as the Kelly Air Mail Act of 1925, which authorized the use of private companies for airmail delivery, acting essentially as a government subsidy of the nascent commercial air travel industry. The Air Commerce Act of 1926 created the Bureau of Aeronautics within the Department of Commerce, which provided regulatory oversight of the whole air industry, in ways not entirely dissimilar to earlier steam-boiler regulation. In 1958 NACA became the National Aeronautics and Space Administration, or NASA.

The success of NACA as a site for limited government-sponsored research notwithstanding, prominent scientists had greater visions for the marriage between federal support and scientific research. Early in the twentieth century, George Ellery Hale, founder and director of the Mount Wilson Observatory in Pasadena, California, and one of the founders of the California Institute of Technology, saw the war in Europe as an opportunity to promote American science. He presented a plan to the National Academy of Sciences in April 1916: If the United States proceeded to go to war with Germany, the academy would offer its services and resources to the president. This plan received a unanimous endorsement by the membership of the academy, and the academy planned to send a delegation to Woodrow Wilson. A group of five imminent scientists met with the president and stressed the importance of science to the nation's defense. Wilson agreed to involve the academy in the creation of an arsenal of science. Back at the academy, the National Research Council, or NRC, was formed to promote cooperation between research institutions and leading scientists and engineers in universities, industry, government, and the military.

Hale's plan was highly centralized, investing a great deal of power in the NRC. Consequently, it generated some resistance, though it also made the secrecy needed for wartime more manageable. Hale intended to work directly with the president instead of through any intermediary institutions. For this reason, he also sought the approval of Wilson's 1916 Republican opponent, Charles Evans Hughes; Hale wanted to ensure the NRC's position regardless of who won the 1916 election. However, like Bache before him, he sought the cooperation but not the oversight of the government. His National Research Council would contract to perform and coordinate research for the government, but it would not operate as a government agency. As a result, the NRC continued to be funded by private gifts, just as the National Academy of Sciences had. Given the short duration of the war after the United States entered into it, little time remained to test these arrangements.

In March 1918 Hale worked to make the National Research Council and its connections to government permanent. He wanted to do this though an executive order, so that the NRC could remain a private organization without gov-

ernmental control. Wilson agreed and signed an order in May 1918 to make the NRC a permanent executive scientific advisory council. Hale reorganized the NRC for peacetime in 1919 and placed the research focus on pure, instead of industrial, research. As the United States retreated into its isolationist position, Congress cut funding, and the NRC's connections with government, especially the military, suffered.

The NRC reinforced the role of American universities as the frontline institutions in scientific research. In the face of extremely limited governmental support, the council also worked closely with the growing number of philanthropic patrons of science, such as the Carnegie Institution and the Rockefeller and Guggenheim Foundations.

During the Great Depression of the 1930s, even the small amount of funding that had supported limited scientific research dried up. Debates about whether technology, by increasing productivity, had increased unemployment changed the public's impression of technology. The Progressive Era's unparalleled faith in technological progress vanished, replaced by a suspicion that technology had contributed to the dire circumstances of the period. However, policy changed with Franklin Delano Roosevelt's New Deal. The Works Progress Administration (WPA), committed to finding jobs for skilled people, ended up supporting some scientific research and many engineering projects. By 1938 most federal spending on science (including technology and agriculture) had been restored to predepression levels. And as the United States grew closer to war, the WPA moved into defense projects, with increasing scientific and technological components.

War again provided a significant catalyst for government interest in scientific research, and like Hale and Bache in previous wars, one individual played a prominent role in creating a new vision of scientific and technological cooperation with the government. In 1939 Vannevar Bush went to Washington from his position as a dean at the Massachusetts Institute of Technology (MIT) to head the Carnegie Institution, one of the philanthropies primarily involved in funding scientific research. Bush received an appointment as the chair of NACA. An electrical engineer, he possessed a centralized, hierarchical vision of science. Concerned about Germany's aggression in Europe, he supported military modernization and preparedness.

Bush took the lead in organizing science for war. He approached Harry Hopkins, Roosevelt's closest adviser, in May 1940 with a plan to mobilize and coordinate researchers under nongovernmental experts like himself. Hopkins saw Bush as the man who could harness America's considerable technical resources in the national interest. By June Roosevelt had created the National Defense Research Committee (NDRC), and the president began to delegate science and technology policy to Bush. In hindsight, it is clear that, with the NDRC, the mobilization of scientific and technological resources began a full year and a half before the United States entered World War II. When the government needed science to advance the war effort, science was ready.

Whereas earlier attempts by scientists to contribute to war efforts had been more promise than action, science played a much more important role in World War II. In May 1941 Bush headed the Office of Scientific Research and Defense (OSRD), a newly created agency put in charge of the NDRC. This office, though providing scientific and technological R&D for the military, remained under civilian control. Bush sought out scientists, engineers, and technicians; offered over 9,000 draft deferments; and placed people where their skills and experiences would be most useful. The OSRD also contracted research to additional private, university, and government institutions, and Bush could move projects between institutions. The OSRD oversaw most of the important technological developments of the war, from radar to the proximity fuse—with the notable exception of the Manhattan Project, which began as an OSRD project but, for reasons of budget and secrecy, was transferred to the Army Corps of Engineers, where it essentially functioned autonomously. In addition to Bush's OSRD, the military branches themselves spawned new R&D capabilities during the war. These agencies often quarreled with the OSRD over personnel and projects. Still, Congress rarely limited funding in the war years, and the federal R&D budget (including agriculture) grew from $74.1 million in 1940 to $1.59 billion in 1945. The government spent over $2 billion on research during World War II—not including the Manhattan Project—divided roughly equally between the army, the navy, the army air corps, and the OSRD.

The size of the federal government swelled during the war, and although it did contract afterward, it did not shrink all the way back to prewar levels. Vannevar Bush wanted to ensure a continued partnership between his researchers and the government. However, he hoped to make certain that scientists, not politicians or bureaucrats, made the key decisions about what research to pursue. Like Hale, he envisioned government support without government supervision. However, the Keynesian vision of the state's role in the economy came into conflict with Bush's vision. If Bush argued that scientific research played a central role in economic and technological development, which he did, then it would be hard for him to convince the government to leave the direction of that research to a small, elite committee. As argued by Harley Kilgore of West Virginia, Bush's opponent in the debates about the structure of the National Science Foundation, something with such a strong influence on the nation's economic future belonged in democratic hands. For five years, from 1945 to 1950, Bush and Kilgore engaged in a high-profile debate over the government's role in the sponsorship of science. They agreed that the government should aid R&D spending, but they disagreed about just how much direction and oversight the federal government should provide. Kilgore advocated a central agency to direct and fund research in the interest of economic growth. Bush wanted an agency controlled by scientists, with basic science as their priority.

Meanwhile, others in Congress remained less supportive of funding science and instead sought policies to create an economic environment in which market forces would encourage companies to invest in R&D. They contended that private R&D should be supported by university research, which could be funded to a lesser extent by the government. In its 1947 report, the president's Scientific Research Board called for the nation to spend 1 percent of its national income

on R&D. By the 1950s this level of funding had become a standard expectation.

In May 1950, a month and half before the beginning of the Korean War, President Harry Truman signed the National Science Foundation (NSF) Act. The act fixed the structure of the NSF, which would be supervised by a board appointed by the president that would share power with a director. Alan Waterman, the chief scientist at the Office of Naval Research, became the first director of the NSF. Hardly the dictator Bush feared, Waterman worked cooperatively and deferentially with scientists in the academy. Through the NSF, the federal government sponsored research, but scientists at nongovernmental institutions, principally universities, would perform the work. In addition, the NSF supported the kind of basic research that Bush had promoted in his report *Science, the Endless Frontier.* During the five-year fight for the NSF, other new and existing institutions and agencies, such as the National Institutes for Health and the Atomic Energy Commission, had taken over many of the functions that Kilgore had imagined for the NSF. However, the orientation to so-called pure science left the NSF vulnerable to questions about its utility—Congress often wanted more concrete commitments about the benefits of funding basic science. The NSF faced extinction in 1952 and fought for its existence in its first several years.

The NSF's worries ended in 1957 with the Soviet Union's launch of their *Sputnik* satellite. To many Americans, *Sputnik* became a technological symbol of Moscow's growing and aggressive power. The United States had been developing a similar satellite since 1955, under the navy's Project Vanguard. In fact, the country successfully launched *Explorer 1* only three months after *Sputnik* in 1958. But the impact of seeing the Soviets arrive first in space cannot be underestimated. The government's science policy in response to *Sputnik* encompassed several dimensions, all of which justified considerable increases in funding. In the wake of *Sputnik,* the federal government created new agencies, increased the funding and visibility of old agencies, and constructed initiatives for scientific and technological education. In 1958 Congress created NASA, which, as mentioned, was a transformation of NACA. NASA constituted the most visible government response to *Sputnik.* In addition, the National Defense Education Act created a student loan program; provided financial assistance for instruction in science, mathematics, and foreign languages; and gave fellowships for graduate training in science and engineering. By 1960, spurred by the cold war, the federal government had clearly taken responsibility for funding scientific research.

Between 1958 and 1968, federal funding of science remained high. Private investment in R&D grew more regularly and steadily than the more volatile federal expenditure. Still, the federal share of national R&D investment hovered around 63 percent from 1960 to 1985. NASA expenses accounted for a considerable proportion of federal expenditures and peaked in 1968, in the wake of John F. Kennedy's pledge to send a man to the moon in the decade of the 1960s. The effort to achieve that goal, called Project Apollo, cost $25.4 billion and ultimately succeeded with the 1968 orbit of the moon and the 1969 lunar landing of *Apollo 11.*

However, just as spending on science reached unprecedented levels, Bush's vision of pure science in the national interest came under fire. In 1965 the Department of Defense sponsored its own study of the efficacy of scientific research, called Project Hindsight. The report, issued in 1969, examined the development of 20 weapon systems and overwhelmingly credited targeted, applied research, not Bush's pure research, for their development. Although there was some criticism of Project Hindsight—including a refutation by the NSF—the study changed the policy climate, casting a much more favorable light on targeted research.

The Vietnam conflict also affected R&D spending. Although public opposition to the war and to the military more generally cast a shadow over defense research, military procurement channeled money to the defense industry and its R&D. Some new military technologies had been developed under federal contracts, but others emerged more independently. Procurement acted as another way for the government to direct R&D. For example, in 1962, the federal government purchased the entire output of integrated circuits in their initial year of production. Many of these technologies also worked their way into public, nonmilitary applications, from television to the computer to the microwave. In the twentieth century, the aircraft industry oversaw particularly successful transfers of technology from military to civilian applications.

The end of the cold war in 1989 caused considerable confusion in terms of science and technology policy. The cold war had given policymakers a clear national security imperative for the R&D funding, and the generally strong postwar economy ensured access to the necessary funds. Even after the stagnant economy of the 1970s, President Ronald Reagan's emphasis on national defense nearly returned defense-related R&D to its 1960s levels. By 1986 defense expenditures peaked at 69 percent of the federal R&D budget. Combining the public and private sectors, two-thirds of the $120 billion spent on R&D funded defense work. Still, by 1992, defense spending as a proportion of total R&D had only shrunk to 60 percent. Even President Bill Clinton, who claimed to favor R&D with more direct technological consequences, sought only for civilian R&D to achieve parity with military R&D by 1998. Yet the reduction in defense research brought consequences. As the national security basis of the federal investment in science eroded, so did congressional interest in supporting large scientific research projects. The 1993 collapse of support for the $8 billion superconducting supercollider would become the most visible casualty.

In the postwar period, as expenses grew, so did Congress's interest in adjudicating scientific and technological budget allocations. By the 1960s, concerns arose that Congress members lacked the expertise to make these technical decisions and that they needed better access to expert advice, much like the president had had from organizations such as the National Academy of Sciences since the Civil War. Emilio Daddario, a Connecticut Democrat and chair of the congressional Subcommittee on Science, Research, and Development, called for a study of Congress's access to technical advice and information. He found that although a system of scientific and technical advisers for the executive branch ex-

isted, the legislative branch lacked such accommodation. Daddario began to push for an advisory agency for Congress. However, his interests remained more than organizational—he hoped Congress could take a greater role in managing technology, especially moderating its negative environmental consequences. For Daddario, the promising tool was technology assessment, and the agency he sought for Congress would take a leading role in such efforts. He introduced his legislation in 1970 and immediately encountered resistance, with most of the opposition aimed directly at the regulatory dimension of technology assessment. Although Daddario was no longer in the House when it was formed, Congress created the Office of Technology Assessment (OTA) in 1972 as a supplement to the General Accounting Office. When OTA began operating in 1974, Daddario became its chair. In practice, the OTA served as an advisory body for the Congress, and Daddario's hopes for true technology assessment failed to materialize. Following the 1994 Republican takeover of Congress, congressional action eliminated the OTA.

During the 20-year existence of the OTA, the president's system of science advisers also underwent several changes. In 1976 the Office of Science and Technology Policy was created to "serve as a source of scientific and technological analysis and judgment for the President with respect to major policies, plans, and programs of the Federal Government." George H. Bush's President's Committee of Advisors on Science and Technology (PCAST) provided further support to the chief executive. This committee coordinated access to experts in the private sector and academic community, particularly on matters of technological development, setting scientific research priorities, and reforming math and science education. President Bill Clinton created another group, the National Science and Technology Council (NSTC), in 1993 to coordinate federal R&D. This council, which was to report to the vice-president, followed clear goals for federal investments in science and technology. George W. Bush reformed PCAST in 2001 when he created the President's Council of Advisors on Science and Technology (PCAST 2001), in large part to advise and aid in decisions about stem-cell research. Each of these groups operated with specific issues in mind, and the subtle differences and hierarchies between these advisory bodies created room to discuss controversial subjects. Unlike the OTA, whose ineffectiveness at investigating controversial problems stemmed from its dependent political position, the presidential committees operated independently and, generally, in limited time frames.

The history of science and technology policy in the United States is necessarily multifaceted because so many factors affect the development of scientific and technological knowledge. The most direct influence in this field remains federal funding, but that funding often comes with federal control, which scientific and technological practitioners have often resisted. In addition, national security continues to be the most common rationale for federal research support, and that orientation clearly affects the nature of the science and technology produced. Federal support in the education of both highly trained technical personnel and the public also plays an important role in a nation's ability to produce science and engineering advances. In the twentieth century, the role of private corporations in the pursuit of scientific knowledge grew increasingly important, and government policies, such as taxation, had the capacity to affect the methods and levels of private research support. In the case of existent technologies, federal and state regulation clearly influences both regional and national economies. Lastly, matter related to intellectual property law should not be dismissed as critical factors in technological development, as recent issues in technology transfer and pharmaceutical patenting have shown.

—Ann Johnson

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Slavery

Even today, roughly 150 years since its demise as a legal institution, American slavery remains a focus of controversy, albeit of a rather different character than that which preceded its extinction. In the mid-1800s Southern planters passionately defended the morality of their "peculiar institution" against equally impassioned denunciations by (mostly Northern) abolitionists. Planters insisted that the system of slave labor was good and right not only for themselves and their communities but also for the slaves. The abolitionists, however, long ago won the day both on the field of battle and on the field of public discourse, and few if any will take up the challenge of a moral defense of slavery today. That particular controversy, which for so long troubled the American conscience, is over.

The controversies that swirl around slavery today are of a more historical and technical nature. Why did the slave system of labor, for example, embed itself so deeply in the American South while gradually disappearing in virtually every other New World colony? Was American slavery comparatively humane, at least relative to other New World systems of slavery? Did American slaves live in materially worse conditions than free industrial workers in the North? Did slaves benefit substantially from the value that they produced? Was the American slave-labor system inefficient in comparison with "free" agricultural labor? Was American slavery moribund by the eve of the Civil War, or was it dynamic and expanding? In short, setting aside the issue of its morality, was slavery at least economically rational?

Much of the controversy that has surrounded these questions—and the consequent impulse to reexamine the evidence relating to them—was instigated by the publication of Robert Fogel and Stanley Engerman's *Time on the Cross: The Economics of American Negro Slavery* in 1974. In this groundbreaking text, the authors attacked the two contending approaches that had dominated scholarship on American slavery up to that period. The first approach was exemplified by the well-known American historian Ulrich B. Phillips, particularly in his classic *American Negro Slavery* (1918). Phillips's study focused almost exclusively on white slaveowners and their organization and management of the slave system of labor. Regarding the slaves themselves, he infamously remarked that whites helped the slaves to become as good as they were. Phillips's approach can be summarized as a view of slavery through the owners' eyes, and his work falls into a category that is sometimes called the literature of slave domination. No doubt this approach was not merely ideologically satisfactory from the perspective of white Southerners but also convenient from the perspective of historians, as slaveowners left a much wider array of artifacts and records from which a picture of a time and place could be reconstructed than did illiterate slaves with few possessions. Working from such material does seem likely, however, to produce a very one-sided account of the American experience of slavery.

The alternate approach to which Fogel and Engerman equally responded was, in a sense, the mirror opposite of the first approach. It could be called the literature of slave victimization, and it is probably best represented in Stanley M. Elkins's *Slavery: A Problem in American Institutional and Intellectual Life* (1959). Instead of seeing slavery through the owners' eyes, this approach attempted to reconstruct something of the slaves' own experience of slavery. Elkins noted that, in contrast to Brazil and the Caribbean Islands, the American South experienced no large and sustained slave revolts, and he tried to explain this absence by arguing that the American slave-labor system in the South, especially the Deep South, was, from the slave's perspective, harsher than the comparable systems in the Caribbean and in South America. Elkins argued that Southern slavery was similar to Nazi concentration camps in the sense of constituting a "total experience" that utterly isolated the individual slave, cutting off all meaningful social relations except with the paternal figure of the owner as "the good father." The individual slave was thus rendered psychologically defenseless and then systematically transformed into what Elkins termed a "Sambo"—a docile and childlike creature who identified with the very master who was the source of his emasculation. In a way, Elkins's book and the enormous lit-

erature that it spawned re-created the same picture of "the slave as the object of the Master's will" that lay at the heart of Phillips's book but now revealed from a different perspective.

Fogel and Engerman responded to the literatures of domination and victimization by stressing two main themes. On the one hand, their analysis emphasized the resilience of African Americans trapped within the slave system and the spaces of autonomy and distinctive culture they were able to carve out and preserve for themselves within the system. On the other hand, they argued that slavery itself was not based simply on irrational or archaic domination or victimization but rather on an economically rational and highly effective system of (exploitative) production. They employed new econometric techniques to engineer a careful reassessment of the extensive raw statistical data on slavery, and they argued that their analysis revealed that, contrary to received wisdom, the American slave was not lazy but worked as hard as the white laborer. Although critics of slavery argued that the system was inefficient, the authors found that slave agriculture was actually 35 percent more efficient than free agriculture. Moreover, the purchase of a slave was a highly rational investment, just the same as an investment in a manufacturing company. Further, the authors noted, slavery continued as an economically viable and even expanding system up to the Civil War. Finally and perhaps most problematically, Fogel and Engerman argued that the costs of owning a slave amounted to 90 percent of the profit derived from his or her labor.

Many historians and economists have disputed Fogel and Engerman's analysis and conclusions, but some have come to their defense, and Fogel and Engerman themselves have, in the intervening years, published several books of essays and evidence supporting their initial claims. The result has been a large and diverse literature. What this literature reveals broadly, without retracing the specific lines of argument, is that although there is a good deal of general evidence supporting most of Fogel and Engerman's analysis, especially their more strictly economic conclusions, there are also enormous regional and historical disparities underlying the American experience of slavery, which are masked by an aggregate quantitative focus. Statistical analysis needs to be balanced with historical, regional, and microlevel examination if it is to be illuminating. Although microlevel analyses of individual plantations are somewhat beyond the parameters of this short interpretive essay, a brief historical overview sensitive to regional divergences and the evolution of slavery over time should help to contextualize Fogel and Engerman's findings.

Historical Overview

American slavery was a system of labor based on ownership of persons rather than on consent and contract. It applied almost exclusively to blacks (mainly Africans or people of African extraction). It ended formally in 1865 with the Northern victory in the Civil War and the passage of the Thirteenth Amendment to the U.S. Constitution. The more difficult and controversial question is when slavery effectively began as a general system of labor in the British colonies that would eventually become the United States. Slavery was, of course, permitted virtually everywhere in the colonies during most of the seventeenth century, and it was formally legal throughout the colonies by 1750 (when Georgia overturned its short-lived antislavery statutes of 1733). But until the Anglo-Dutch War (1664–1667), the slave trade was dominated by the Portuguese and the Dutch, and there was little commerce with the American colonies. Records show that one Dutch captain sold 20 slaves in Virginia in 1619, but this transaction seems to have been rather exceptional. Although the historical records are unclear about the numbers of black slaves in the early colonies, the scholarly consensus is that although they were not unknown, they were a rarity. In general, the colonists showed a marked preference for importing indentured servants from Europe to fill their growing demands for labor. African slaves were considered too expensive, too difficult to acclimatize and train, and too time-consuming to supervise in comparison with European servants. The American colonists did experiment with using native Indians as slaves (for example, the government of South Carolina in 1708 estimated the colony had 1,400 Indian slaves in a total population of 12,580), but they were frustrated by cultural barriers (the men frequently refused to perform agricultural tasks they regarded as women's work), the proximity of escape, and the vulnerability of natives to European diseases. The initial experiment with slavery was a failure.

In the latter part of the seventeenth century, however, the economic incentives concerning the importation of labor began to change. This shift in incentives had three main causes. First, there was an enormous increase in the demand for labor. In the Virginia colony, for example, the highly labor-intensive tobacco agriculture took off economically while at the same time the overall population of the colony and of those attempting tobacco cultivation tripled in the years from 1750 to 1800. The demand for labor correspondingly increased. Second, political stabilization and economic growth in Europe and particularly the United Kingdom led to a sharp reduction in the availability of indentured servants as well as a sharp rise in the cost of importing them. Third, the successful English war against the Dutch and the consequent British takeover of the Dutch slave trade led to a sharp reduction in the price and an increase in the availability of African slaves to American colonists. Historian Russel Menard, for example, has calculated that the comparative price of African slaves to indentured servants fell between 1674 and 1791 from a ratio of 2.88 to 1 to 1.83 to 1. When the permanence of slave labor (and the slaves' progeny) is factored into these comparative costs, it is easy to see why the colonists began to rationally opt for slave labor over the importation of indentured servants.

The result of this combination of a new structure of incentives and the new accessibility of the African slaves was the development of a triangular system of trade. Ships would typically depart from ports such as Liverpool and Boston loaded with weapons, manufactured goods, and rum and sail

for the coast of northwest Africa, where they would trade these goods with coastal forts, sometimes called factories, and local tribes in exchange for slaves. The ships would then sail for the New World laden with a human cargo that would later be sold in South America (most notoriously in Brazil), in the Caribbean Islands (for instance, Saint Domingue [later Haiti], Jamaica, Cuba, or Bermuda), or in the American colonies. Historian Philip Curtin estimated in 1969 that, despite the expiration of between 5 and 20 percent of the human cargo (mainly in the infamous "middle passage" portion of the journey), around 9.5 million Africans were transported as slaves to the New World. Current estimates range as high as 11 million. Around 85 percent of the slaves transported to the New World were sold in Brazil and many more in the Caribbean Islands (Jamaica, for example, is estimated to have imported 750,000 slaves to work on its sugar plantations). Before the banning of the slave trade by Congress in 1808, the American colonies (and later the United States) probably imported somewhere between 600,000 and 650,000 slaves, about 6 percent of the New World total.

It is estimated that by 1680, the American colonies, though still overwhelmingly white, contained around 7,000 African slaves. By 1790, however, the population of African slaves in the colonies had increased almost a hundred times, to close to 700,000. By 1810 the number had risen to 1.1 million, and by 1860, on the eve of the Civil War, the population stood at almost 4 million. The rapidly rising number of slaves in the United States begs an important question, which, in turn, illuminates one of the highly distinctive characteristics of American slavery. If only around 650,000 slaves were imported into the States and if the trade was ended in 1808, what accounts for the fast and continuing growth of the slave population? The answer is simply that, unlike virtually every other slave society in the New World (except Bermuda), the American slave population grew naturally through reproduction, and it grew very rapidly—by four times between 1810 and 1860 alone. The remarkable character of this feature of American slavery can be illustrated by briefly comparing the demographics of slavery in America and in Jamaica. Of the 750,000 slaves imported into Jamaica, only 311,000 remained at the time of emancipation in 1834, whereas the smaller population imported into America had already grown well into the millions.

A number of factors have been cited to explain the remarkable fertility of the American slave population, four of which have received the most attention. First, the food self-sufficiency of the American mainland is thought to have allowed slaveowners to provide their slaves with a larger, healthier, and more consistent diet than was practicable for most other New World slave populations. After all, the owners had an important vested interest in the health and strength of their slaves. Second, the absence of tropical diseases has been frequently identified as an important contributor to the high growth rate of the slave population. Third, the fact that slaves in America were largely involved in the cultivation of tobacco, rice, and later cotton rather than sugar (with the exception of a few large plantations in Louisiana) is thought to help explain a comparatively lower mortality rate, which contributed to the rate of overall population growth. Sugar cultivation typically exposed workers to grim and harsh conditions and an exhausting pace of labor, which raised mortality rates and permitted little time for raising families. Finally, it is often pointed out that there was a self-reenforcing quality to the natural growth of a slave population. In short, although the initially imported populations tended to be, for obvious reasons, disproportionately male, reproduction over generations tended to rapidly balance out the gender gap, encouraging further population growth.

Of course, slaveowners also had a vested interest in the numerical increase of their slaves for the simple reason that it augmented their property and personal worth and the amount of labor under their control. It has correspondingly sometimes been argued that owners deliberately bred their slaves (or bred *with* their slaves) as a sort of investment. Although there can be no doubt that many slaveowners often took advantage of their female property and that at least some of them encouraged shorter lactation periods (often only a year), which encouraged more rapidly renewed fertility, there is little evidence that these behaviors were carried out systematically in a manner that would explain the pervasive phenomenon of natural population growth. Moreover, many of the same behaviors were recorded in other slave societies, in which the population shrank precipitously.

At any rate, regardless of the precise explanation (and it is likely, in fact, some combination of all the factors mentioned here), the phenomenon of rapid natural population growth is a distinctive and unambiguously established feature of American slavery, which tends broadly to support Fogel and Engerman's thesis that American slaves enjoyed a significantly better material condition than slaves elsewhere in the New World. Two further important and distinctive features of American slavery may be noted at this point. First, most owners tended to run or at least to personally oversee their own business affairs (as compared to the phenomenon of absentee ownership that characterized the bulk of New World slavery). Second, African slaves were always dispersed in America among a large white population. Even in the South, slaves never accounted for much more than a third of the total population, whereas in much of the Caribbean, they ended up outnumbering whites by ratios as high as 10 to 1. Still, although these statistical generalities are useful in establishing a framework for exploring American slavery, they also conceal a great deal of the very real diversity that developed on the ground. To understand that diversity, it is essential to distinguish the growth of different regional concentrations of slave labor organized around the cultivation of different crops.

As Table 1 illustrates, the slave population was by no means evenly spread through the colonies, and indeed, following the War of Independence, African American slavery quickly became a wholly Southern phenomenon. In 1790 the Northern states contained just over 40,000 slaves (mainly concentrated in New York State and Rhode Island) out of a

Table 1 Slave population and distribution, 1790 and 1860

	1790	*1860*
United States	697,897 (17.8%)*	3,953,760 (12.6%)
North	40,370 (2.1%)	64† (0.0%)
Regional share	5.8%	0.0%
South	657,527 (33.5%)	3,953,696 (32.1%)
Regional share	94.2%	100.0%
Upper South	521,169 (32.0%)	1,530,229 (22.1%)
Regional share	74.7%	38.7%
Deep South	136,358 (41.1%)	2,423,467 (44.8%)
Regional share	19.5%	61.3%
Upper South by state		
Delaware	8,887 (15.0%)	1,798 (1.6%)
Maryland	103,036 (32.2%)	87,189 (12.7%)
District of Columbia		3,185 (4.2%)
Virginia	293,427 (39.2%)	490,865 (30.7%)
North Carolina	100,572 (25.5%)	331,059 (33.4%)
Kentucky	11,830 (16.2%)	225,483 (19.5%)
Missouri		114,931 (9.7%)
Tennessee	3,417 (9.5%)	275,719 (24.8%)
Deep South by state		
South Carolina	107,094 (43.0%)	402,406 (57.2%)
Georgia		462,198 (43.7%)
Florida		61,745 (44.0%)
Arkansas		111,115 (25.5%)
Alabama		435,080 (45.1%)
Louisiana	16,544 (51.6%)‡	331,726 (46.9%)
Mississippi		436,631 (55.2%)
Texas		182,566 (30.2%)

Sources:
http://fisher.lib.viriginia.edu/cgi-local/censusbin/census/cen.pl?year=790;
http://fisher.lib.viriginia.edu/cgi-local/censusbin/cen.pl?year=860.

* Parenthetical numbers represent percentage of local population.
† Includes 18 lifetime apprentices in New Jersey.
‡ In 1785; not included in regional or nation totals.

broader population of 697,897, accounting in total for just under 6 percent of the American slave population as a whole. By 1860, however, slavery had been effectively eliminated in the North, whereas the total slave population, now entirely in the South, continued to rise to close to 4 million.

Even within the South, however, slaves were not evenly distributed. In 1790 a little under half of the slave population (293,427) was concentrated in Virginia (accounting for close to 40 percent of the state's total population), with Maryland, North Carolina, and South Carolina accounting for most of the other half. By 1860 slavery had expanded geographically along with the South. Although Virginia and North Carolina continued to lead the states of the Upper South and South Carolina and Georgia continued to be among the leading states of the Deep South (with well over half of South Carolina's population being made up by slaves), Alabama, Mississippi, and Louisiana had also emerged as major slave states, and, equally important, the institution had infiltrated every Southern state.

The distribution of slaves throughout the United States and its change over time reflected basic economic realities on the ground. In the preindependence period, the colonies could be usefully divided into three basic groups: the North, the Upper South, and the Deep South. The primary early demand for slaves was concentrated in Virginia, Maryland, and the upper part of North Carolina and was mostly driven by the development of commercial tobacco farming, which grew rapidly through the latter part of the seventeenth century (increasing from exports of 20,000 pounds in 1619 to 38 million pounds in 1700). Toward the end of the century, South Carolina and later Georgia emerged as a second major source of demand for slaves as the commercial farming of rice developed in the low country (growing from exports of 12,000 pounds in 1698 to 18 million pounds in 1730 and 83 million pounds in 1770).

Finally, at the turn of the century and into the antebellum period, technological advances (such as the harnessing of steam power and the invention of the cotton gin in 1793) resulted in a sharply rising demand, particularly in England, for cotton, a crop for which the conditions of the Deep South were particularly well suited. Although America exported only 3,000 bales of cotton in 1790, total exports rose to 178,000 bales by 1810 and surpassed 4 million bales by 1860. The cultivation of cotton initially was restricted to South Carolina and Georgia but quickly expanded into newly settled states, such as Arkansas, Florida, Texas, and, most prominently, Alabama, Mississippi, and Louisiana (which together grew more than half of the nation's cotton by 1834). The highly labor-intensive character of cotton cultivation generated an insatiable demand for labor. The steep growth of the cotton industry and its rapid expansion westward through the Deep South correspondingly help to account for both for the spread of slavery throughout the states of the South, especially the Deep South, and the remarkable increase in the numbers of slaves working in these states.

The distinctive character of the intensive slavery that emerged with the opening of the Deep Southwest suggests a final subdistinction that is useful to keep in mind. The Deep Southeast continued to mix limited cotton cultivation with traditional rice (and indigo) cultivation, whereas the Deep Southwest concentrated on intensive cotton cultivation. The resulting demand for labor in the Deep Southwest generated high prices for slaves and resulted in enormous sales of slaves "down the river"—farther into the West and deeper into the South. Although statistics are not precise, scholars estimate that over a million slaves were sent westward between 1790 and 1860—perhaps up to twice as many as made the transatlantic passage.

The danger of being sold down the river into the "new" South represented a genuine horror for slaves, not only because of the trauma of adjusting to unknown owners and the separation from family that was often implied (usually permanently) but also because of the rumors they heard of a harsher and more brutal slavery awaiting them in the West. The rumors were not wrong. It was generally better to be a slave in the Southeast than in the Southwest (although rice cultivation in the Southeast was probably worse than tobacco cultivation in the Upper South or the kind of slavery that had developed in the North). This state of affairs evolved for

sound economic reasons. With the dearth of labor in the West and the enormous profits to be made on cotton exports, planters worked the slaves that they could get as hard as they could. In short, there were undoubtedly important differences in the character of slavery in the regions that have been distinguished in this essay, and these differences of character changed over time.

In broad terms, the situation of slaves worsened from North to South and from East to West. In the North, where commercial cultivation of cash crops was never the focus of the economy, slavery remained relatively marginal (although the slave population rose by 1790, just before slavery was legally prohibited, to around 20 percent of the total population in some regions of states such as New York and Rhode Island). Slaves were used in domestic service, in skilled crafts, and as day labor. Some slaves were also used in larger commercial projects—they cultivated wheat along the banks of the Hudson River or raised horses and dairy cows in Rhode Island—but there is little evidence in these cases of an extensive use of the harsh discipline and cruel punishments employed throughout the South. Slaveholdings were typically small, rarely exceeding five, and slaves worked with or under their owners and usually enjoyed a significant degree of autonomy in arranging their lives outside the workplace—choosing a spouse and raising a family. The conditions of work were generally good by comparison with those in the South, and the proportion of free blacks was comparatively high and rose continually through the postindependence period (already reaching over 40 percent of the total Northern black population by 1790).

In the latter part of the eighteenth century, the obvious implications of the War of Independence, fought in the name of a right of all men to "liberty," had a deep impact on Northern views of slavery. Although the founding fathers (many of them among the largest slaveholders of their time) compromised with powerful slaveowner interests in drafting the Constitution and so declined to constitutionally abolish slavery, they did indicate an intention to banish the slave trade in 20 years' time (a number of slave states in the meantime acted on their own to do this, including Virginia in 1778). The War of Independence produced a reorientation of attitude in the North, which led to laws outlawing slavery in all Northern states by 1804 (although some of these included gradualist features).

In the Upper South, as Table 2 indicates, slaves typically lived in larger holdings than in the North but distinctly smaller holdings than in the Deep South (around half as large), especially once Louisiana (purchased in 1803), with its large sugar plantations, is factored in. The smaller size of holdings reflects the fact that tobacco, the predominant cash crop in the Upper South, could be cultivated successfully in small or medium-sized plots. In general, tobacco farming was less labor-intensive than rice or cotton cultivation, and it did not expose laborers to the health risks associated with working in rice fields in the midsummer. Most of these slaves worked in small groups either directly or indirectly under the supervision of their owners and thus were less often and less

Table 2 Median holdings of slaves in the South by state

	1790	*1850*	*1860*
Louisiana		38.9	49.3
South Carolina	36.2	38.2	38.9
Mississippi		33.0	35.0
Alabama		29.9	33.4
Florida		28.5	28.4
Georgia		26.0	26.4
Arkansas		18.4	23.4
North Carolina	13.3	18.6	19.3
Virginia	17.4	18.1	18.8
Texas		14.9	17.6
Tennessee		15.2	15.1
Maryland	15.5	12.2	14.0
Kentucky		10.3	10.4
Missouri		8.6	8.3
Delaware		5.7	6.3
Total Deep South		30.9	32.5
Total Upper South		15.3	15.6
Total South		20.6	20.3

Source: Lewis C. Gray, *History of Agriculture in the Southern United States to 1860* (Washington, DC: Carnegie Institute of Washington, 1933), pp. 530–531. Reprinted with permission.

thoroughly subject to professional overseers and drivers. The smaller scale of production did not demand the rigid systems of rules characteristic of large plantations and the harsh punishments associated with those rules. Moreover, in the second half of the eighteenth century, land exhaustion led to a tobacco crisis, and many planters turned all or part of their fields toward the cultivation of other, even less labor-intensive crops, such as wheat. On average, the food and habitation provided for slaves were simple but adequate and certainly better than the crowded collective dwellings and more regimented life further south and west. Finally, as the overall slave population shifted from transported Africans to native-born slaves, with slaves thus becoming more fully socialized into the life of the Upper South and gaining the confidence of their owners, slaves were frequently allowed a good deal of independence in organizing their personal affairs.

Finally, Elkins in particular makes a convincing case that slavery in the Deep South, both in the East and especially in the West, was particularly harsh, although the further claim that it was worse than the forms of slavery that developed in South America and the Caribbean remains problematic. It is difficult to systematically quantify these differences, but extensive anecdotal evidence suggests that demands on slaves were greater, life was more rigidly and intrusively organized, and punishments were more severe and more frequently employed in the large slaveholdings of the Deep South. In general, the intensity of economic exploitation of the slave-labor systems seems to have been comparatively higher, especially in the early period of western expansion.

As slavery in the South became increasingly isolated through the later antebellum period, however, the most harsh and brutal features of the system were moderated or at least de-emphasized, and the distinctive characteristics of American slavery began to coalesce into the "peculiar institution"

that the South defended in the Civil War. To begin with, Southerners found themselves increasingly alone. In 1750 slavery extended throughout the American colonies and indeed through virtually all of the New World. By 1850, however, the North had done away with slavery, and in the Western Hemisphere, only Brazil and the Spanish islands of Cuba and Puerto Rico retained it. At the same time, a strong abolition movement developed both in the North and, to a much more limited extent, in the South (mostly among Quakers). Finally, two great religious revivals that swept across the South instigated growing concern with the spiritual condition and humane treatment of the slave population. Both the Great Awakening of the 1730s and 1740s and a second wave of religious revivalism that ran through the South in the 1770s and 1780s emphasized the "equality of all souls before God" and thus led, by the turn of the century, to an increasingly widespread concern with the moral implications of slavery; in some cases, they even led to direct antislavery agitation in the South itself (particularly among Methodists and Baptists in the Upper South). This last development, however, should not be overexaggerated. Explicit abolitionism never developed into a significant mainstream movement within the South itself. Nonetheless, as a result of the increasing isolation of slavery in the American South, the widespread calls for abolition in the North, and at least the emergence of doubts and concerns about slavery in the South, Southern slaveowners (who never made up a majority of the white population, even in the South) were increasingly called upon to explicitly defend their "peculiar institution."

These external pressures on slavery were complemented by a number of internal developments, and together, they generated a gradual shift through the antebellum period from an aggressive and nakedly exploitative form of slavery to a more moderate and paternalistic slavery across the South, although important regional disparities in terms of harshness remained. In the first place, the slave population itself was becoming more and more pervasively American-born, particularly following the ban of the slave trade in 1804. As Fogel and Engerman argued, the foreign-born proportion of the black population in America had fallen to around 20 percent by 1800, and it fell off further as imports were banned. American-born slaves did not generally require the same extreme measures to "break their spirits" as many of the adult Africans who had been sold into slavery and transported to America. Their socialization typically occurred more smoothly and gradually while they were growing up, and although a background regime of discipline was certainly deemed necessary, flogging (or whipping) generally proved adequate. Punishment did not need to take the flagrant and brutal forms, such as branding, castration, amputation, and hanging, that were often required to "break in" new slaves or to make examples of those who refused to accept their new status. Finally, the passage of the Eighth Amendment to the U.S. Constitution, prohibiting cruel and unusual punishment, may have also contributed to the progressive shift away from the harshest forms of slave discipline.

A second distinctive feature of American slavery also influenced the later antebellum character of slavery in the South. Southern owners were typically resident owners, and even in the larger slaveholdings of the Deep South, as more slaves were born in the States, they increasingly knew and were personally known by their owners. The Southern slaveowners in the late antebellum period continually emphasized their care and concern for their slaves, and it was common to hear a slaveowner describe these slaves as "my people." Indeed, slaveowners' professions of "love" for their people filled the literature of the time. Moreover, slavery was increasingly defended as a tutelary situation, which above all benefited the slaves themselves. No doubt, much of this talk of care and concern was hypocritical hyperbole, all of which never stopped most slaveowners from extracting extensive profit from the labor of their property. Yet it is important that many Southern slaveowners made at least superficial efforts to improve the condition of "their people" (although often in a manner designed to reinforce their dependence on their masters), either by improving their habitations, food, clothing, and skills; by rewarding them when they performed noteworthy services; by allowing them greater leisure and more autonomy over their leisure time; or by assigning them greater responsibilities when warranted (often involving the supervision or direction of other slaves).

There is evidence, then, of a general improvement in the material conditions of Southern slaves, particularly in the late antebellum period. In some cases, indeed, their material condition may have compared favorably (particularly in the Upper South) with that of industrial workers in the North, as Fogel and Engerman insisted. Thus, it is ironic that the war to end slavery may have been fought at just the time when slavery was reaching its least onerous stage. The point that must, however, be borne in mind is that slavery remained slavery—a degraded and morally repugnant condition, regardless of any marginal improvements in slaves' material welfare.

The growing strength of abolitionism in the North along with the decline of the Whig Party opened the way in the 1850s for the emergence of the new Republican Party, with strong antislavery sensibilities. Drawing on the growing concentration of population in the industrialized North, as well as division and disaffection in the South, the Republican Party presidential candidate, Abraham Lincoln, defeated Stephen Douglas, the (Northern) Democratic candidate, in the 1860 election. Despite Lincoln's assurances that, to preserve the integrity of the Union, he would refrain from outlawing slavery, seven Southern states had seceded from the Union by the time of his inauguration in March 1861. Then, on April 12, 1861, South Carolina fired on Fort Sumter. The Civil War, which would ultimately lead to the elimination of American slavery, had begun.

Conclusion

With a basic historical and regional sense of the development of American slavery, it may now be productive to return to some of continuingly controversial questions with which this essay began. Why did the slave system of labor, for example, embed itself so deeply in the American South while gradually

disappearing in virtually every other New World colony? The answer must be, as is so often the case, a combination of factors: the continuously high demand for and corresponding scarcity of labor throughout America's colonial and antebellum history; the emergence and rapid growth of a manageable population of native-born slaves; the commercial success of American slave-based cultivation; and the continuing dispersion of slaves among a majority white population, which militated against any organized, armed resistance. All of these factors contribute to explaining the resilience and longevity of American slavery.

Did American slaves live in materially worse conditions than free industrial workers in the North? Did slaves benefit substantially from the value that they produced? The answer here is that sometimes they benefited, and sometimes they were materially better off, depending on which regions and historical periods of slavery are under consideration and which industrial workers, living where and when, are taken as a basis of comparison. Slaves in the postindependence North or late antebellum South may have done moderately well on some such material comparisons, and this finding may also help to explain why American slavery survived for so long. But even where they did compare favorably, the comparison only reveals a misleadingly tiny aspect of the slaves' overall condition. Slaves were the explicit and legal property of others, an indefensibly degraded moral condition that has no comparator among Northern industrial workers.

Was American slavery comparatively humane, at least relative to other New World systems of slavery? In general, it probably was, and this was likely another factor contributing to its longevity, although results would likely vary somewhat depending on region and period (if not according to individual owners). Early American slavery in the low lands of Georgia or the sugar plantations of early-nineteenth-century Louisiana may not have been noticeably more humane than slavery in Bermuda, for example. Finally, American slavery ultimately outlasted slavery almost everywhere else in the New World, and it is unlikely that it was more humane than any free system of contract labor.

Was the American slave-labor system inefficient in comparison with "free" agricultural labor? Historians Alfred Conrad and John Meyer reversed much of the received wisdom about low slave-labor productivity and profitability by showing that the rate of return produced by an average male slave on Southern antebellum plantations was typically between 5 and 8 percent of his initial cost annually (falling to 2 to 5 percent in the exhausted lands of the eastern seaboard and rising as high as 10 to 13 percent on the best lands in Mississippi, Alabama, and South Carolina), with a slightly lower rate for female slaves. They further argued that these numbers compare favorably, on average, with the vast bulk of both agriculture and industrial concerns in the North. This analysis helps to explain the rapid economic growth of the antebellum South. Fogel and Engerman later revisited Conrad and Meyer's analysis in detail, and in what probably remains the most comprehensive and compelling examination of slave-labor profitability, they determined that Conrad and Meyer had somewhat underestimated the level of profitability for male and especially female slaves. Their revised conclusion was an approximately 10 percent aggregate rate of annual return for both male and female slaves. Again, this rate compared favorably with both successful agricultural and industrial concerns in the North. Although Fogel and Engerman's conclusions are still disputed by many scholars and may legitimately be accused of slanting far more to the antebellum than the colonial period, a consensus seems to be emerging that slave cultivation was generally far more profitable than was previously thought and was probably not only a better investment than free Northern agriculture but also likely comparable with some more successful industrial investments.

Was American slavery moribund by the eve of the Civil War, or was it dynamic and expanding? Between the War of Independence and the Civil War, nine new states adopted the system of slave labor, and vast new territories came under its control. Slavery virtually monopolized the cultivation of America's biggest and most valuable export, cotton. In 1854 Congress's Kansas-Nebraska Act opened up Northern states, which had been closed to slavery by the Northwest Ordinance. Meanwhile, the Southern economy was growing much faster than the economies of England, France, or Brazil throughout the late antebellum period. There can be little question, then, that slavery was not only healthy in America in the 1850s but also rapidly growing. Indeed, it was the threat posed by the rapid expansion of slavery that galvanized the North to take the drastic action of electing a Republican president. Lincoln himself argued, in a speech in Springfield, Illinois, on June 16, 1858, that the United States had to quickly confront the slavery question once and for all, or all would ultimately succumb to its temptations—the Union had to be "all slave or all free," for "a house divided cannot stand."

Finally, setting aside the issue of its morality, was slavery at least economically rational? Unquestionably, it was. Slavery was stable and highly profitable and could, at times at least, be arguably beneficial in a material sense to those subjected to it (in comparison to comparable free labor). The market could coexist as easily with a slave-labor system as it could with a contract-labor system in the North. The choice to invest in slavery, to practice slavery, and to legalize and defend slavery was fully rational in economic terms.

The moral of this long story, then, is simply this: The American experience with slavery illustrates that the market is morally neutral—it can reward and encourage morally abhorrent institutions as easily as morally laudable ones. The market itself is in no sense a dependable moral guide. Attention must be paid to the way that culture, politics, and law shape the dynamics of the market, and the consequences of market interactions must be carefully examined to avoid such disasters in the future.

—Avery Plaw

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Stock Market

A stock market is a market for the trade of securities and other financial instruments. Like a market in books, transcription services, or labor, a stock market need not have a geographic reference, and it can be more or less fragmented into autonomous markets. More abstractly, the term *stock market* refers to aggregate supply and aggregate demand forces for securities. The supply of such securities is generally fixed, although new securities are issued from time to time by extant and new public and private corporate organizations. The principal actors in stock markets are investors (representing themselves or clients), brokers (who act as intermediaries between investors and the exchange and who may, on some exchanges, trade for themselves as well as their clients), and regulators (who, depending on the exchange, may be either the brokers themselves or quasi-public or public bodies). In contrast to the abstract stock market, a stock exchange is the organization and institution at which trading in stocks takes place—for example, the New York Stock Exchange.

A wide variety of institutionalist scholars have made the reasonable argument that economic markets require certain legal, social, political, or cultural institutions in order to function. For example, the Nobel Prize–winning economic historian Douglass C. North has argued throughout his career that what distinguishes European and American economies from those in the developing world are the superior economic institutions in the former. Such institutions can be formal (for instance, legal property rights or government economic policies) or informal (for instance, norms, culture, or ideology). As North and others have contended, superior institutions structure human interactions so as to promote economic efficiency, minimize uncertainty, and thereby promote economic growth.

Recent research by Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer (1999) has made a persuasive case for the necessity of certain basic institutions for the operation of a stock market. These scholars created a database of 49 countries that describes each nation's basic shareholder rights, creditor rights, and quality of law enforcement. Through a systematic comparison of the countries' legal rights and the quality of their stock markets, La Porta and colleagues argued that only countries with a legal system that protects minority shareholder rights can allow dispersed ownership of corporations to occur and thus have a thriving stock market. The argument, as outlined in the first paragraph of their work, is quite intuitive. Who would voluntarily purchase an equity share in a corporation without legal protection from the majority shareholders (or from the controlling management), so as to ensure that the company will continue to behave as it has in the past? The scholars' intuitive finding was that only countries with strong minority investor protection legislation also have vibrant stock markets.

An older and more historical literature agrees, as popularized in Michel Albert's global best-seller *Capitalism versus Capitalism* and in the academic research of Mark J. Roe. These authors described a world in which countries can choose to adopt one of two types of financial systems. One financial system is like that of Germany or Japan and is characterized by concentrated ownership of corporations and bank-based capital markets. The other system features dispersed ownership of corporations within vibrant stock markets, as exemplified by the United States and United Kingdom. John C. Coffee Jr. summarized the conventional wisdom of the two opposing forms of financial markets that we see in the world today. The German model, he said, operates on a consolidated basis controlled by blockholders and wealthy individuals with little accountability except to some large banks. The antithesis is the American model, a decentralized system controlled by the Securities and Exchange Commission with its stringent disclosure and reporting rules and enforcement capabilities.

And yet, Coffee noted, the U.S. stock market, the paragon of a dispersed ownership system, had strong securities markets in the eighteenth and nineteenth centuries but lacked *stringent reporting requirements and openness within the markets.* Moreover, the nineteenth-century stock market in the United States not only lacked federal or state legal protections but also generally lacked an uncorrupt judiciary or legislature; this was especially true in New York City, where the political machine both selected and controlled local judges. Through the placement of bribes or the movement of law-

suits between competing state jurisdictions, powerful economic actors had wide latitude to ensure that the few extant laws concerning the stock market were interpreted in their favor.

The Early Stock Market

The early U.S. stock market was geographically fragmented and operated without the benefits of exchanges or security-specific legislation. Today, the term *broker* is narrowly defined in securities markets as one who specializes in the purchase and sale of securities, but the word had a far broader meaning in the late 1700s. Brokers in the early Republic were generalist middlemen who brought together buyers and sellers and profited from a transaction's commission. It was common for brokers to not only buy and sell securities but also insure cargo, run a private lottery, and act as business partners in private banks, issuing their own notes to be used as currency. With the exception of shipbuilding and pig-iron production, there was practically no manufacturing at that time, so most businesspeople were, in fact, brokers. Brokers were concentrated where wealth was concentrated—in the port cities of New York, Boston, and the nation's temporary capital, Philadelphia.

The early national stock market was an ad hoc and transient creation of brokers who facilitated the trading of securities from their separate offices or by meeting in the streets. In 1781, for example, a New Yorker who wished to purchase equity in the new Bank of North America (the country's first blue-chip investment) could do so only from other New York traders with the aid of one of the handful of brokers' offices and curb traders located in the city. For a New Yorker to trade with a Philadelphian, he would need to travel to Philadelphia himself or have his broker communicate with that city.

The First Catalyst of Development

Shortly after independence, the country was in financial chaos and fragmented, with hundreds of private banks issuing their own currencies. The Continental Congress had issued fiat money, known as Continentals, of unproven value and paid for arms with forced loans. In addition, the government had gone deeply in debt to France and the Netherlands in order to finance the Revolution.

In the 1790s Secretary of the Treasury Alexander Hamilton restructured America's debts by paying off the country's creditors (both foreign and domestic) and the debts of state governments by issuing new bonds in the name of the federal government. Market analysts viewed this positively; the young country had enormous growth potential, and the new national government was portraying itself by its actions as fiscally responsible to its creditors. As a result, the United States had the highest credit rating in Europe, with its bonds typically selling at 10 percent premium over par (face value). This massive issuance of high-quality public debt securities dramatically altered the national stock market but provided both quality listings as well as a large supply that was met with increased demand. Trading volume surged, and many brokers abandoned other forms of brokerage to concentrate on the lucrative trading of government bonds. As a by-product of fiscal prudence, Hamilton single-handedly created the nation's first stock market bubble. (A bubble is created when stocks become overvalued, and when the bubble bursts, the prices fall quickly and dramatically.)

The price bubble surged further with the issuance of stock in the country's first central bank, the Bank of the United States. Manipulation in the unregulated stock market was simple to accomplish and a common practice. Hamilton's former assistant at the Treasury, William Duer, profited mightily with market manipulation that suggested there were syndicates stretching to the highest levels of government. The bubble finally collapsed in March 1792, and brokers returned to their former businesses as generalist middlemen—but not without seeing profound institutional change. The bubble's high trading volume provided sufficient motivation for the more successful brokers to form exclusive trading cartels with fixed commissions. This situation resulted in the creation of the Philadelphia Stock Exchange, organized in 1790. And in 1792, with the Buttonwood Agreement, a group of New York brokers formed the symbolic ancestor of the New York Stock Exchange.

In the development of the U.S. stock market, a repeated pattern can be detected: war financed with a rapid buildup of government debt, an increase of demand due to the government's reasonable debt management, and an escalation of trading in response to this increase in supply. In each time period, such a pattern has led to an expansion of the brokerage industry.

Another stock market bubble was created when the United States entered the fiscally and militarily disastrous War of 1812. Government debt rose from $45 million in 1811 to $127 million just four years later. This escalation was partly financed with high inflation. The rising debt and inflation as well as a proliferation of state-chartered banks all contributed not only to additional monetary chaos but also to a brisk business in the trading of both government debt and the monies of private and state-chartered banks—particularly in Philadelphia, where the large banks and the more organized Philadelphia Stock Exchange were located.

The Civil War debt created a decadent atmosphere of unprecedented wealth from unprecedented trading volume on Wall Street. The Union government borrowed on an extraordinary scale; the national debt rose from $64.8 million in 1861 to $2.755 billion in 1865, an increase by a factor of 42. By the war's end, the interest payments alone were twice the size of annual government expenditures before the war. This debt was in large part financed through the sale of federal bonds in the world's first mass sale of securities to individuals. By 1865 approximately 5 percent of the population of the North had purchased bonds. World War I and its debt created a similar pattern, as did World War II (although the stock market boom itself was delayed until after the war's end).

In sum, the skyrocketing government debt dramatically increased the supply of securities that could be traded and acted as a powerful stimulus for stock market development. These surges of investment volume occurred irrespective of

the quantity or quality of economic regulation in each time period. The fiscally responsible financing of war repeatedly resulted in a high amount of investment.

Capital-Intensive Corporations and Speculative Industries

In addition to war and government debt, the U.S. stock market experienced rapid development from the growth of capital-intensive industries (for example, financial services, canal building, and the railroad industry) as well as speculative industries (for example, speculative mining and speculative Internet technologies). This essay will examine the effect on U.S. stock markets of the following industries, in rough chronological order: financial corporations, speculative mining ventures, and transportation corporations.

Financial Corporations

The banking and insurance industries dominated the eighteenth- and early-nineteenth-century stock market because of their sheer numbers. Such early corporations date at least as far back as 1791 with the widely distributed publicly traded Bank of the United States, which was chartered as the country's first central bank. An exceptional proliferation of regional banks (many corporately held and publicly traded on stock markets) was prompted by three unusual economic policies of the early United States. First, previous to the Civil War, there was no federal currency, and thus, private banks and many other organizations issued their own. Second, state governments subscribed to a strategy of mercantilism that opposed other states' banks from competing within their own borders, while at the same time frequently collecting bribes and indulging in other corrupt practices in the granting of banking licenses. This situation created segmented financial and money markets. Third, because of competing ideologies and national political maneuvers, the federal government's two attempts at creating a central bank failed. The effect was an enormous demand for banking services (including the use of currency)—a demand that was unfulfilled by the government. The early private banks were often diversely owned corporations listed on the stock market. It is instructive to note that as late as 1836, of the 81 corporations listed on the New York Stock Exchange, 38 were banks and 32 were insurance companies whereas only 8 were railroads and canal companies. In sum, the segmented state markets, with politicized licensing requirements, resulted not only in monopoly profits in financial services such as banking but also in the growth of U.S. stock markets that traded securities in these corporations.

Mining

Like the California gold rush itself, the speculation of mining corporations was conducted with little information in the gamble for great riches. Security prices boomed and collapsed based on rumors, purported news, expert opinions, new complications, and so on. The history of mining securities is an excellent case study of two competing pressures on regulators. On one hand, there was the pressure to maintain a stock exchange with relatively high-quality listings. On the other hand, there was the high volume and corresponding profitable commissions that could be realized by lowering listing standards and including the trading of highly speculative securities.

Historically, the established U.S. exchanges have tended to eschew such listings, thereby facilitating the creation and flowering of competing stock exchanges with lower listing standards. As mineral discoveries dried up, these competing mining exchanges rapidly folded. The established exchanges, though they lost a great deal of business during the boom, nevertheless survived and prospered or merged in later years.

The 1860s were years of wealth and misery, laying the foundation for the inequality and corruption of the Gilded Age. The era suffered the slaughter of soldiers and civilians during the Civil War and also saw a series of major discoveries of precious metals in the West. This combination of newfound money in the mountains and the rise and fall of gold prices during successive Confederate and Union victories resulted in volatile markets in precious metals—and also enormous opportunities for speculative profit. In New York City, demand for trading gold or for the speculative purchase of moneymaking mines was so great that the established exchanges were unable to cope with the volume. Many brokers were earning $800 to $10,000 per day from trading commissions alone, at a time when $1,500 per year was a middle-class income. The demand for trading was so great that daytime trading in the downtown stock exchanges spilled over into the evening in fashionable uptown hotels. After the Civil War, 24-hour securities trading would not return to New York for well over a century.

Despite this surge in volume, the more established exchanges, such as the New York Stock and Exchange Board (NYS&EB), briefly even refused to trade in gold (as it was viewed as unpatriotic), and the NYS&EB continued to refuse to list the more speculative mining ventures, which, of course, meant most of them. As a result, several new stock exchanges formed in New York City to compete with the established ones (among them Gilpin's Gold Exchange in 1862, Gallaher's Evening Exchange in uptown hotels in 1864, the New York Mining Stock Board in 1864, the Petroleum Stock Exchange in 1864, and the Wishart and Company's Petroleum Exchange in 1865). The high volume also created the necessity for continuous auction trading rather than twice-daily auctions at 10:30 A.M. and 2:30 P.M. But even this financial innovation was resisted by the NYS&EB until a competing exchange forced it to adopt the practice and merge with the competitor.

Outside New York, approximately 25 stock exchanges opened in the 1860s. The majority of them were mining stock exchanges, primarily formed in 1863 and 1864 in California and Nevada. These western exchanges were located near the mines seeking financing. The Nevada exchanges were ephemeral, tending to close during the local depression of 1864 and 1865. In the Mississippi Valley, exchanges were set up in Chicago, Cincinnati, St. Louis, and New Orleans to cater primarily to local investors and local businesses and specializing in speculation of gold trading. However, with the exception of Chicago (with its vast trunk lines of railroad), the Mississippi Valley cities that served as conduits for gold were hampered during the Civil War. Although most of the

exchanges were short-lived, they paved the way for the creation of new exchanges in later years. As a result, each major city with an exchange that opened in the 1860s found itself with an exchange during the Roaring Twenties.

Transportation

More speculative than finance but generally with a higher amount and quality of information than mining stocks, the transportation industry and its high capital requirements dramatically developed the U.S. stock market.

One of eighteenth-century America's gravest political and economic dilemmas was the high cost of overland transportation. The well-settled eastern seaboard had only expensive access to the agricultural produce of the West via two river networks. Moreover, routes without rivers were terribly costly. Before 1825 it would take three weeks and $120 for a ton of flour (worth $40) to leave Buffalo and reach New York City, effectively quadrupling the cost.

The Erie Canal was an elegant proposal to solve this political economic problem. The engineering task was monumental, however. The proposed route from Lake Erie to the Hudson River was 363 miles long and would descend through 83 locks and 555 feet. The entire canal, 44 feet wide and 4 feet deep, was to be dug by hand. Were that same bag of flour to float via a canal between Buffalo and New York City, it would take a mere eight days at a cost of $6. To provide food and goods in one-third the time and at one-twentieth the prior cost would transform New York City and its environs into a growth engine. The canal was by far the boldest engineering project prior to the Civil War.

In 1792 two corporations were chartered to complete the Erie Canal project. This arrangement was not unusual. In fact, two-thirds of all chartered corporations between the Revolution and 1801 were formed to complete infrastructure projects such as bridges, turnpikes, canals, and wharves. Their stock was rarely in demand, for the projects could tie up capital for years and the charters frequently restricted the tolls that could be charged. Moreover, such infrastructure projects were frequently fraught with labor, management, and engineering difficulties. Purchasers of stock in these corporations frequently either viewed the investment as civic philanthropy or viewed the infrastructure as an indirect means of improving the value of their businesses or land. The Erie Canal, constructed under such uncertainty and risk, could not be fully financed through the stock market, even with the New York State government promising to purchase shares. Insufficient demand for the stock led to the project being underfinanced. Engineering and management difficulties compounded the problem, and both corporations failed.

Several decades later, after lengthy debate in New York's state legislature and after suave politicking by the mayor of New York City, DeWitt Clinton, the state agreed to build the canal itself and finance it with bonds secured by the state's credit. The Erie Canal bonds were marketed as low-risk securities because of the state guarantee to honor the bonds regardless of whether the canal was completed or not or profitable or not. The issue was an enormous success, with 42 separate flotations between 1817 and 1825. Despite the doubts of many that the canal could ever be completed, it was finished in only eight years, thanks, in part, to the adequate financing provided by state-secured bonds.

The successive financing of other canals was similar to that for the Erie Canal. State and municipal bonds were sold overseas through merchant bankers' personal networks or through the Second Bank of the United States. Between 1815 and 1860, total expenditures on canals was an estimated $188 million, of which 73 percent was raised through the sales of state and municipal bonds.

The creation of railroad tracks and a steam engine capable of speeds of up to 18 miles per hour transformed the economics of transit on a scale equivalent to the canals. Unlike the canals, however, the early railroads were not nearly as constrained by nature's topography. The earliest railroads of the 1840s and 1850s were short local lines intended to more rapidly connect a town with a river or port. These roads were generally financed locally by the sale of corporate bonds, which were purchased by the businesses and families located along the route. The railroad company would organize public meetings, circulate petitions, canvas from door to door, and organize propaganda parades and other public functions. For residents with little cash, bonds were frequently sold in return for labor or goods, and loans were offered for the purchase of bonds using the family farm or property as collateral.

The demand for railroads and the entrepreneurial energy to create them quickly outstripped such local financing and was, of course, ineffective on routes passing through unsettled territories. By the mid-1850s, numerous investment banks had opened in New York City specializing in the trade of railroad bonds to European investors. In the years following the Civil War, between 1865 and 1873, railroad mileage doubled, and the total capital invested more than tripled. By the Civil War, the financing of railroads had been transformed so that such investment bankers became critical middlemen. Investment bankers designed the menu of financial instruments with which to purchase existing tracks and build connections between them, underwrote the new issues, and orchestrated syndicates to disseminate the securities to bankers and wealthy investors.

In the post–Civil War decades of the nineteenth century, the railroad industry was easily the largest consumer of capital on the nation's stock exchanges. Unfortunately, the rapid construction of railroad track was creating ruinous competition. During the 1880s, approximately 75,000 miles of track were laid, by far the largest amount ever built anywhere in the world in any decade. By the late 1890s, the industry began consolidating through a combination of foreclosure sales, mergers, and acquisitions organized by the great investment banks, such as the House of Morgan, or through alliances between competitors cemented with cross-ownership of equity and interlocking directorships.

The Peak of Nongovernmental Regulation and Continued Abuse

During the 50 years from 1880 to the end of the Roaring Twenties, the U.S. political economy was dramatically transformed by increased urbanization and large-scale migration

to the cities, the creation of great industrial and manufacturing corporations, and the consolidation and concentration of corporate power. Between 1897 and 1904, 4,277 U.S. firms consolidated into 257 corporations. The largest was unquestionably U.S. Steel, as engineered by J. P. Morgan and a syndicate of investment bankers.

Shortly after 1900, new forms of equity began to be sold on the stock market by the investment banking houses, including dual class stocks, voting trusts, and pyramid holding company structures. The effect was to further separate stock ownership from voting rights; majority stock ownership was no longer necessary to control a corporation. Since the beginning of U.S. stock markets, control of a corporation by stock ownership had been a partial illusion given the ability to manipulate many corporations' stock prices and dilute share ownership at will. But with the institutionalization of these new forms of stock, corporate control became a fiction entirely unrelated to stock ownership. By 1930 a famous study by Adolf A. Berle and Gardiner C. Means determined that in 21 percent of the 200 largest corporations, such legal devices, rather than majority share ownership, held corporate control. In 1925 it was exposed that agents owning less than 5 percent of the total stock controlled several leading corporations.

Under such extreme circumstances, why would individuals invest in the stock market without minority rights protections or even an uncorrupt judiciary to protect them? A partial answer involves the existence of powerful representatives to protect investors' interests. In the large railroad corporations and large merged manufacturing corporations, the great investment banking houses acquired seats on the boards of directors. By holding these directorships, the money trusts represented their clients' interests, monitored the controlling management, and, most important, protected the value of their investors' share ownership by preventing predatory raids by outsiders seeking to purchase controlling shares without paying a premium for acquiring control.

A second institution functioning as a substitute for insufficient minority rights protection was the self-regulation of stock exchanges where securities were traded. For example, in 1868, in response to the battle for ownership and control of the Erie Railroad, the New York Stock Exchange (NYSE) required that all listed corporations divulge yearly financial information so that investors could appraise the value of those corporations. In practice, this was ineffectual until the development of double-entry bookkeeping, the accounting industry, and the credentialing of accountants in the 1890s. A more successful example of the way in which investors were protected by new stock exchange regulations was the NYSE's implementation of the bright-line rules in the 1920s. These rules included prohibiting listed corporations from issuing nonvoting common stock or permitting a transfer of corporate control without an explicit shareholder vote. However, the alleged strengths of self-regulation should not be exaggerated. In retrospect, it was largely ineffective in preventing market manipulation, profitable trading based on insider information, or abuse by brokers of trading in front of their client's orders. In sum, despite the inability of the NYSE (or other stock exchanges, for that matter) to prevent market manipulation and the abuse of broker's power over their customers, the NYSE took clear steps toward making corporate financial information transparent and a few steps toward shareholder democracy.

An Attempt at State Regulation

Prior to 1933, with the significant exception of the federal postal laws that contained antifraud provisions, there was no federal regulation of the national stock market or the states' stock exchanges. Stocks were traded like any other commodity, in spite of significant differences between financial markets and other product markets.

Despite a century of reports by historians, journalists, and industry commentators about notorious public stock market scandals, cases of grievous yet licit market manipulation, and numerous acts of fraud; despite similar findings by the congressionally established Industrial Commission in 1900 and again in 1902; despite the 1913 public reports by the congressionally established Pujo Committee or the popular summary of the committee's findings by jurist Louis Brandeis in *Other People's Money,* the public debate in each case did not lead to federal government legislation. States, however, took the lead with so-called blue-sky laws, intended to protect investors from fraudulent investments—speculative schemes that had no more basis than so many feet of blue sky (as described by Supreme Court Justice Joseph McKenna in 1917).

Broadly speaking, such nineteenth-century state legislation was almost exclusively designed to regulate the business activities of corporations chartered by the state. Only rarely did legislation seek to regulate the securities transactions themselves. For example, the first blue-sky law was enacted by a progressive bank commissioner in Kansas in 1911. Kansas's merit-based regime required that all securities of businesses incorporated in the state had to be licensed by the state. Moreover, the bank commissioner was permitted to withhold licenses not only to businesses that were deemed fraudulent but also even to those deemed to be a poor investment and unable, therefore, to promise a fair return for investors. Thus, Kansas's blue-sky law, though allegedly designed to prevent fraud within the state, contained wide powers to ensure the quality of listed companies incorporated in Kansas. Within two years, 23 states adopted their own blue-sky statutes, and by 1933 every state with the exception of Nevada had also adopted some form of blue-sky legislation.

In practice, such legislation was ineffectual. States had no means of enforcing the legislation against financiers residing out of state. Moreover, the states failed to create administrations charged with investigation and enforcement. By the early 1930s, only eight states had full-time commissions charged with enforcing blue-sky laws. A skeptic could easily argue that the main practical effect of blue-sky laws was providing an additional source of state revenue through securities licensing.

This is not to say that blue-sky laws were inconsequential. They produced numerous pragmatic case studies of merit-based securities licensing. And when the first federal legislation was enacted, it closely mirrored extant blue-sky legislation.

The Era of Federal Regulation

The reversal of the long-standing federal government policy of laissez-faire with regard to securities markets was reversed during President Franklin Roosevelt's first hundred days and the avalanche of legislation enacted in that period to pull the United States out of the Great Depression. When federal legislation of the national stock market began in 1933, it was rapid and radical. Within the space of just 15 months, the federal government implemented the Securities Act, the Glass-Steagall Act, and the Securities Exchange Act. These three acts in concert required material financial information about corporations to be disclosed in annual financial reports and quarterly earnings statements (what the NYSE and individual state blue-sky laws had tried to do with only partial success). They created a new federal administrative organization to oversee securities markets, the Securities and Exchange Commission (SEC), something states with blue-sky laws generally failed to do. And they legislated the full separation of commercial and investment banking, thereby forcing banks to choose to either take deposits and provide commercial loans or engage in the lucrative business of originating and distributing corporate securities as investment bankers.

In 1934 the NYSE, under its elected president, Richard Whitney, attempted self-reform so as to convince the public that further federal legislation was unnecessary. The NYSE governors voted to prohibit market manipulation syndicates, forbade specialist brokers from giving inside information to others, and prohibited brokers from purchasing options in stocks for which they made a market. In the public's mind, such late reforms merely amounted to an admission of grave moral failures on Wall Street. Whitney proved to be a poor role model for the moral stature of Wall Street: In 1938 he was indicted for defrauding his wife's trust, for stealing from the New York Yacht Club (for which he was treasurer), stealing from his brokerage clients' accounts, and even embezzling from a fund for widows and orphans of deceased NYSE members (for which he had been appointed a trustee).

The Postwar Stock Market

Prior to the 1940s, stock brokerage firms were uniformly small boutique companies of perhaps 50 accounts or less; their clients were primarily the friends and family of the brokerage's partners. But in the early years following World War II, firms such as Merrill Lynch pioneered a mass-market business model featuring small accounts and a high trading volume. By the end of the 1940s, Merrill Lynch was the largest brokerage house on Wall Street. By 1960 its gross income was nearly four times the size of the second-biggest brokerage house and roughly as large as the next four firms combined. Players in the industry referred to Merrill's 540,000 accounts as the thundering herd. Individual investors participating in the stock market tripled between the war and the mid-1960s, and they doubled again over the following 20 years.

Capital poured into the U.S. stock market after the war, not only from the reentry of the middle classes into the stock market but also because of the inflow of institutional investors. Previously, institutional investors were concerned about the uncertain value of listed corporations and wary of the routinely practiced market manipulation and insider trading. But one by one, they reappraised the developing stock market. With the institutionalization of uniform and comparable quarterly earnings between corporations, the accuracy of that information confirmed by independent auditors, and the market's first constraints on market manipulation and insider trading given the surveillance of the Securities and Exchange Commission, institutional investors determined that the stock market was no longer as risky or uncertain as it had been in the past.

The new records of high trading volume, although welcome, were drowning the smaller and less administratively capable brokerage houses. Not all brokerage houses could afford the transition from paper trades to electronic trading. In 1975, with the elimination of fixed commissions on trading, the volume of trading increased further—but at the expense of weaker brokerage firms that drowned in the paperwork. Expensive mistakes were routinely made. Money was lost. In December 1968 investigators discovered that $4.1 billion in securities simply could not be accounted for.

As a result, brokerage houses with fewer accounts and undercapitalized or administratively disadvantaged houses began to go bankrupt or merge with more successful brokerage firms. The federal government stepped in again in 1970 and founded the Securities Investor Protection Corporation to insure customer funds placed with brokers. In return for this valuable protection, stock brokerage companies were later subjected to greater surveillance, auditing, and regulatory requirements.

In the last quarter of the twentieth century, numerous economic sectors were deregulated, including the railroad, airline, utility, and telecommunications industries. By 1999, when the Financial Services Modernization Act was enacted, the death knell of the Glass-Steagall Act of 1933 had been sounded. Over time, the regulatory power of the Securities and Exchange Commission, that other great creation of 1933, has swelled and ebbed with strong or weak presidentially appointed chairpersons. Moreover, although the stock market has grown in complexity and size, the SEC has, in recent years, been unable to keep pace with its strong surveillance, investigation, and prosecution goals because of an insufficient budget set by Congress.

It is reasonable to believe that this power imbalance between financial capital and its regulators led, in 2001, to the $50 billion collapse of Enron Corporation, the largest bankruptcy in U.S. corporate history, because of fraudulent accounting and securities market manipulation. Yet Enron pales in comparison to the largest one-year loss in U.S. corporate history, which occurred when AOL Time Warner wrote off nearly $100 billion from its books in 2002 because of excessively creative accounting in previous years.

It is a paradox of eighteenth- and nineteenth-century stock market development that investors were repeatedly willing to invest with so little oversight. The second half of the twentieth century demonstrated that federal regulation

and oversight could create a stock market with sufficient protections so as to significantly encourage institutional and individual investors to invest. The fundamental regulatory question for much of the twenty-first century will be how to successfully reregulate after 25 years of experimentation with deregulation.

—*Aaron Z. Pitluck*

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Taxation

Taxes are compulsory payments to a government based on financial criteria that indicate capacity to pay. Tax payments differ from prices because they lack any connection to a specific purchase of a governmental good or service. Taxpayers do not contribute on the basis of their sense of civic pride or duty. Congress establishes tax statutes and administrative regulations through a political process. Some taxes may have quasi-market effects, especially those designed so that the heaviest users of a governmental good or service pay the majority of its cost.

The three primary measures of the taxpayer's capacity to bear a tax burden include income, purchases or sales, and property ownership or wealth. The U.S. government relies on corporate and individual income taxes, and the Social Security tax, levied on payrolls, has become an additional income-type tax. The federal government levies neither a general sales tax nor a property tax; however, it does collect selective excise taxes on some items and customs duties on imported products. Taxes on the purchase or sale of goods and services remain the largest source of state revenues. All states have either a sales or gross receipts tax, and almost all have a general sales tax as well. A great majority of states also levy individual income taxes and/or corporate income taxes. Fewer than half levy a general property tax. Although property taxes constitute the majority of local tax revenues, localities also levy general sales taxes, selective excise taxes, individual income taxes, and corporate income taxes. State laws authorize municipalities to establish local tax rates.

Some taxes discourage an undesirable individual or business activity, but a tax levied for revenue proves adequate if it can generate sufficient revenues at socially acceptable rates. A zero percent tax would raise no revenue. A 100 percent tax also would raise no revenue because no one would engage in an activity that delivered all of the proceeds to government. Thus, taxing agencies utilize a rate-to-revenue curve to determine or estimate any tax. Depending on the rate-to-revenue curve, either a tax increase or a tax reduction could generate greater or lesser revenues.

Tax adequacy has both long-term and short-term aspects. A tax with cyclical aspects will collect adequate revenues during short-term economic fluctuations. Property taxes have cyclical stability, whereas general sales taxes and corporate income taxes are less stable. Although a tax system must deliver adequate revenues during cyclical economic downturns in order to finance public assistance expenditures, it must also increase revenues as an economy expands in order to meet the growing demands for government services.

In *The Wealth of Nations,* Adam Smith proposed four principles of taxation (italics added):

I. *The subjects* of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.

II. *The tax* which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.

III. *Every tax* ought to be levied at a time or in the manner, in which it is most likely to be convenient for the contributor to pay it.

IV. *Every tax* ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state.

Smith believed that tax laws should be adopted in an open legislative process and based on objective and explicit criteria that are understandable and fair to all taxpayers.

Economists George Break and Joseph Pechman declared that taxation was wealth redistribution accomplished without disrupting other economic activities. In addition to transferring purchasing power from the private sector to the public sector, taxes redistribute purchasing power within the private sector.

Since a tax system creates winners and losers, tax policy must determine who will bear the tax burden. Officials can levy taxes according to the benefit the taxpayer receives or

according to the taxpayer's ability to pay. A benefit-received system operates as a quasi-market, with individuals paying for government services that they want and use. However, two problems exist with a benefit-received system. First, many government agencies provide services (such as social assistance) even though the recipients cannot purchase them. Second, many government services, including the safety provided by police patrols, benefit all residents although only some of the residents pay for them. Some benefit-based selective excise taxes, such as those levied on motor fuels or automobile tires, remain closely linked to the use of a governmental good or service, such as a highway. Many Americans accept use taxes if the tax burden remains consistent with the taxpayer's usage—that is, they will not use public services if the low taxes create wasteful oversupplies, and they will not utilize a public service if the tax rate exceeds the value of the service in their minds. However, since some consumers cannot pay the tax and since some services benefit those who do not share the cost, the adoption of the ability-to-pay principle remains necessary.

The ability-to-pay approach requires the development of sliding-scale fees and a determination of the distribution of the tax bill among taxpayers. Horizontal equity considers equal treatment of taxpayers who have equal capacities to pay taxes. Vertical equity concerns the proper relationship between the relative tax burdens paid by individuals and different capacities to pay taxes. A tax structure becomes regressive if tax rates are lower in high-ability groups than in low-ability groups. It is proportional if tax rates remain equal for all groups. Progressive tax rates charge higher rates for high-ability (higher-income) groups than for low-ability (lower-income) groups. Thus, a proportional rate does not alter a population's income distribution, a regressive rate transfers wealth to higher-ability individuals, and a progressive rate transfers wealth to lower-ability individuals. Increasing collection rates can decrease equity because taxing payrolls remains convenient, but higher-income individuals have more interest, dividend, rental, and capital gain incomes, which are difficult to locate and tax.

Accounting records disclose who makes tax payments, but the distribution may not accurately show the final impact of the tax burden. Both businesses and individuals make tax payments, and those bearing the initial tax impact may shift a portion of the tax burden by changing prices or by altering purchasing behavior. A tax paid by a business may lower the owners' profits, the management's salaries, the suppliers' prices, or the employees' salaries or benefits. Or it may raise the prices that customers pay.

Business taxes include property taxes, income taxes, gross receipts taxes, franchise taxes, licenses, severance taxes, document and stock transfer taxes, and miscellaneous business and occupation taxes. Taxes on individuals include property taxes, income taxes, retail sales taxes, and selective excise taxes. In all cases, the final and total responsibility for personal taxes belongs to an individual, owner, manager, employer, employee, or customer. State and local governments favor taxes on business because the ultimate burden of such taxes may fall on owners or customers who live outside the state or municipality. However, an attempt to put the majority of a government's tax burden on businesses could cause the businesses to move to another jurisdiction. The area's economy would suffer, so state and local governments weigh the impact that taxes have on economic development and job creation. Officials often compare tax types and rates to those of neighboring governments and offer tax concessions if businesses will relocate into a given jurisdiction. Access to raw materials or markets; the availability of skilled or unskilled labor; convenient air, ground, or water transportation; and a variety of production costs may have an equal or greater influence on business-location decisions, but elected and appointed government officials eagerly offer tax incentives as part of an industrial development package. Tax considerations often may determine the choice of a final location, but they are unlikely to influence the choice of a general area. If officials offer no tax incentives and a business locates elsewhere, voter dissatisfaction might occur if the area's economy declines. Consequently, officials often offer incentives such as tax abatements, exemptions, or credits in exchange for industrial location or job creation.

The tax burden includes both the tax bill and the cost of calculating and paying the tax. A complicated tax system increases compliance costs, compliance problems, and governmental administrative duties and expenses. Changes in the tax system increase the cost of compliance, and they prohibit effective business and personal planning.

A broader-based tax, which places a tax on larger sums of money, can raise greater amounts of revenue with a lower tax rate, causing fewer economic dislocations. Higher tax rates may induce individuals to choose to enjoy more leisure time instead of working more hours, or the higher rate may cause workers to work more hours to replace the income taken by the taxes. High tax rates on specific types of business organizations, production techniques, and distribution or marketing systems may cause owners to quit an industry or change their firm's methods. Business owners or individuals may also alter their after-tax rates of return by modifying their investment types or techniques and savings rates.

Income Taxes

Because of a U.S. Supreme Court ruling that declared the personal income tax unconstitutional, Congress in 1913 enacted the Sixteenth Amendment, which sanctions an income tax. During World War II, the levy became a mass tax at a rate that applied to the majority of the population. The national government also uses payroll taxes to finance the social insurance system, including Social Security and Medicare.

The federal government defines income as the money or other gain received in a given period of time by an individual, corporation, or other economic entity for labor, goods, or services or from property, natural resources, investments, or operations. However, any government can establish its own definition of income. In fact, the government defines income and decides what sums are exempted, how the amounts are manipulated, and by what rates the defined income is multiplied or divided. The basic tax calculation equals the total income less adjustments, including deductions and exclusions, multiplied by a percentage rate ob-

tained from a tax schedule, less any tax credits. Partnerships or proprietorships usually pay the same tax as the individual. Governments can designate the income or payroll tax to be levied on the employer, the employee, or a combination of both, although the employers can place the final impact on employees by adjusting salaries or benefits. Nevertheless, income remains an important measure of tax capacity, and governments can adopt exemptions, deductions, or credits to adjust the tax base in light of family size, physical or mental infirmities, or economic circumstances. The income tax's broad base allows for the collection of large revenues without making unacceptable impacts on the overall economy. However, the adjustments complicate the income tax, making it expensive to administer, and most taxpayers have a difficult time understanding the complicated tax structure. Aspects of the tax system also discourage saving and investment and specifically discourage investment in certain sectors of the economy. Since the federal government taxes corporate profits as well as investors' dividends from profits, the United States doubly taxes corporate profits paid out in dividends.

Personal deductions, subtracted from total income, can improve horizontal and vertical equity by adjusting the tax base. Deductions for uncontrollable expenditures, such as medical or property casualty losses; for meritorious expenditures, such as charitable or religious contributions; and for expenditures necessary to generate income, such as travel expenses, union dues, or work uniforms, can lower the tax obligation. Tax credits are subtracted from a calculated tax liability. Credits can be refundable, meaning the taxpayer receives a payment from the government, or they can be nonrefundable, meaning they can only be subtracted from a tax liability. A credit can be given for an entire expenditure or for some portion of it.

Congress taxes corporations as legal persons. A depreciation schedule uses a formula to allocate portions of the cost of long-lived assets to particular years in order to create a deduction similar to the individual's deductions for the cost of earning income. Similarly, nations and states must calculate the portion of a corporation's income subject to the jurisdiction's tax system.

Consumption Taxes

Taxes on wages, goods, and services operate as broad-based taxes that raise large amounts of revenues with low tax rates. Consumption taxes provide a way for governments to collect revenues from persons with high taxpaying capacities but low current incomes. States and localities collect a majority of their revenues from general sales or selective excise taxes. States cannot tax expenditures in interstate commerce, but purchases may be taxed at the destination of the purchase rather than at the location of the seller.

A general sales tax applies to all transactions, with possible exceptions such as prescription medicines or food for at-home consumption. An excise tax applies to specific transactions, such as purchases of tobacco, alcohol, or motor fuels. Excise tax revenues, levied as unit taxes on each item purchased or ad valorem taxes as a percentage of the purchase price, grow slowly because the unit taxes do not reflect increasing prices. The tax is collected from a purchaser or from the manufacturer, who then raises the sale price to recapture all or part of the tax levy. An excise tax can be adopted to discourage the use of a particular item, such as the sumptuary taxes on tobacco and alcohol; it can be adopted as a quasi-price for a government service, as is the case with the benefit-based tax on motor fuels as a quasi-price of highways; or it can be used as a method of taxing extraordinary taxpaying capacity, as with hotel and motel lodging taxes. Excise taxes can also be applied to business purchases—for example, the regulatory and environmental taxes on chemicals that contribute to environmental pollution. With both sales taxes and excise taxes, revenues can be collected for the general support of the government, or they may be earmarked for a specific government function.

Retail sales taxes are ad valorem taxes either on consumers' purchases or on merchants' gross receipts. Final determination of purchases and the associated payment of taxes falls primarily on the purchaser. Business purchases of raw materials, components and materials, or equipment used in production are exempted because to tax those items would raise finished goods' prices and increase inflation. The taxation of commercial purchases between businesses would also lead to increased mergers of suppliers and manufacturers.

Purchases of services are often exempted from sales taxes, often for purely historical reasons. In addition, business purchases of specific professional services are exempted because taxing the purchases from professionals would encourage the practice of moving the services into the organization rather than making purchases from outside the organization. Commodity exemptions for purchases of consumer goods such as prescription medicines, food for at-home consumption, and sometimes clothes are politically popular because they make up higher percentages of the purchases made by low-income families and because these are necessary, not discretionary, expenditures.

Property Taxes

Local governments rely heavily on the revenue derived from property taxes. States developed taxes on goods and services because during the Great Depression, property taxes, which were the predominant revenue source at the time, could not be collected. Subdivisions within states, such as counties and special districts, are greatly dependent on property taxes for their operating revenues.

Property taxes are not wealth taxes because some items of personal property are exempted. In addition, the tax on a home is based on the gross value, which is not adjusted for any mortgage liability. Some properties are taxed twice, which occurs, for example, when a corporation's assets are taxed and then an owner's corporate stock, representing a share of the assets, is taxed.

Taxed property can be either real property, including real estate and improvements on the land, or personal property, including machinery, automobiles, jewelry, and stocks and bonds. Some jurisdictions tax personal property more heavily than real property. Many others exempt personal property

from the tax assessment. Even more jurisdictions tax businesses' property at higher rates than individuals' property. Intangible property, such as stocks and bonds, may be exempted from property taxation, or it may be taxed at a different rate than tangible property, such as machinery or automobiles.

Property tax rates are often determined as part of the jurisdiction's annual budget process, with the rate set at the level necessary to create adequate revenues to finance governmental activities, including debt service. Property taxes on real estate are based on assessments in order to determine the tax base. One standard of assessment, market value, is the cash price that the real property would bring in a competitive and open market, but the value is hypothetical because most property is not for sale in such a market. Sales of comparable properties can be used to estimate a property's value. Some jurisdictions assess value on a cost-summation approach, with each building characteristic having a predetermined dollar value and with the sum adjusted for the property's age and depreciation. Many jurisdictions assess the property base on its current usage, and they often have different tax rates for different property uses, including lower rates for agricultural land. Although most states have some system of periodic reassessment, others revalue real estate only when it is sold, leading to very different tax levies on adjoining and otherwise identical properties that have been sold in different years. Real property can be assessed yearly; every piece of property can be assessed in the same year on a periodic schedule; or the jurisdiction can divide the property into groups, with the groups being assessed in a rotation. In all cases, new construction would be immediately assessed.

Property tax relief is offered in the form of reductions in the tax base, preferential rates, or tax credits. A homestead exemption reduces the tax base for an owner who lives on a property. Veterans and the elderly often receive tax exemptions. The exemptions are popular, but other property owners' taxes are increased to create adequate tax revenues. Businesses and industries often receive tax rebates or exemptions for industrial development or job creation. Churches, charities, and other governments do not pay property taxes. Many jurisdictions have adopted circuit-breaker systems to refund property taxes if they become an excessive part of low-income individuals' expenditures. Some jurisdictions defer property taxes on real estate owned by the elderly but calculate the growing liability and recoup the sum from the person's estate. Many jurisdictions tax agricultural property at a lower rate than residential or industrial property, but when the real estate is converted to another use, the deferred taxes from a specific number of years are collected.

Property can be assessed at its calculated value or at some percentage of the calculated value. If the property were assessed at its calculated value, a tax rate would be established. If the property were assessed at a fraction of its calculated value, possibly half of the market value, the tax rate would be adjusted, possibly to twice the existing rate. Fractional adjustment can lead to taxpayer confusion when a taxpayer believes that the low assessment means that a tax bill is being similarly reduced. Because property taxes require assessment, confusing fractional assessment can produce differing assessments in different areas of the same jurisdiction, either by accident or by favoritism.

Property owners receive a statement each year detailing the amount of property taxes that they pay to each jurisdiction in which they live, including the city, the county, the school districts, and all of the special districts. Similarly, taxpayers each year calculate their income tax payments and submit tax returns detailing all of their tax liabilities. Although sales taxes once were deductible from the federal income tax, there is no reason today for taxpayers to total the consumption taxes that they pay. Property taxes and income taxes generate significant taxpayer dissatisfaction, but consumption taxes receive comparatively little attention.

Among the industrialized nations, the United States is a low-tax country, with total taxes being approximately 30 percent of the gross domestic product (GDP). The average in industrialized nations is approximately 40 percent of the GDP.

—Theo Edwin Maloy

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Trade Policy

Benjamin Franklin once said, "No nation was ever ruined by trade." As America's most savvy commerce expert and the man who negotiated the nation's first commercial agreement, Franklin possessed the wisdom to render such a judgment. He had observed his land's trade policies under three distinct governments and gained insights from their successes and failures. Throughout the centuries after his passing, the United States has continued to embrace the spirit—if not always the practice—of his philosophy concerning the goodness of trade.

Trade Policy and the Colonial Experience

As feudalism declined in Europe in the period after the Renaissance, the ideology of mercantilism quickly replaced it. Striving for economic self-sufficiency and a favorable balance of trade through the influx of bullion and the establishment of overseas colonies, most of the European great powers allowed their colonies little freedom in matters of foreign trade. England and its colonies proved an exception. Civil and international wars as well as haphazard colonization initially left England's politicians with little time for or interest in regulating the trade of the British colonies. Although American colonists, like all British subjects, were barred from challenging the East India Company's monopoly on trade with Asia, no legal restrictions prevented them from trading with the French West Indies, the Dutch West Indies, the British West Indies, or the Spanish West Indies. Legal barriers prevented the colonists from conducting trade with adversarial nations, but these restrictions seldom proved effective. In fact, much of the currency circulating in the American colonies came from trade with forbidden areas, with the tacit consent of many royal customs officers.

The 12 years between 1660 and 1672 saw the first etchings of a British trade policy in the American colonies as Parliament passed the Acts of Trade and Navigation. Reflecting the dominant mercantilist ideology in that era, the acts created a list of enumerated articles legally traded only with Britain. Initially, the enumerated goods included tobacco, sugar, and cotton, but between 1705 and 1722, Parliament expanded the list to include rice, molasses, furs, and naval stores. The enumerated articles list continued to expand until the beginning of the American Revolution, at which time salt fish was the only significant nonenumerated good.

Such laws did not prevent America's trade relations with the Indian tribes to the west. These tribes served as some of the earliest trading partners of the American colonists, and regular trade became established throughout the sixteenth and seventeenth centuries. The Narragansett Indians in particular prized European-style manufactures and tools for their utility, superior design, and value as status symbols. The Narragansetts initially exchanged furs for the goods. Such trade proved lucrative for both sides while furs maintained their tremendous popularity in Europe, but many tribes found themselves stuck with an unfavorable balance of trade when the value of their furs plummeted but their dependence on European goods remained steady. Other tribes traded heavily with Massachusetts colonists for firearms, ammunition, and alcohol both before and after the colony passed a law in 1633 that fixed the penalty for selling arms to Indians at £10 per gun, £5 for powder, and 40s. for shot.

The outbreak of King Philip's War (1675–1676) between colonists and Indians drastically changed the nature of trade with the native peoples. Colonial leaders, desperate for a means of generating revenue to fill the coffers emptied by the war, began to tacitly permit the practice of selling captured Indians into foreign slavery in 1675. At first, this slave trade satisfied colonial leaders' needs; the market rate for captured natives averaged £3 per Indian, and Massachusetts's colonists alone obtained a remarkable £387.13 for 188 Indian slaves sold to foreigners. Even Indians living peaceably in colonial hamlets often found themselves "captured" by their colonist neighbors and sold into slavery. Although never fully legal, the practice of selling Indians into slavery ceased only as a result of market forces: As foreigners heard New Englanders' allegations that the Indians of King Philip's War were "subtle, bloody, and dangerous," they feared the risk of owning them; ultimately, Indian slaves became almost entirely unmarketable.

Although the American colonies eventually could not trade in Indian slaves, the African slave market persisted

throughout the colonial period. American ships obtained West Africans, and shipmasters sold them as slaves in the West Indies. With the profits from their cargo, the shipmasters purchased molasses and sold it upon their return to New England. New Englanders converted this molasses into the rum that was used to purchase more slaves in the West African market, thus continuing the triangular trade. By 1750 half of the 340 ships in Newport, Rhode Island, were engaged in the slave trade.

To understand the potential magnitude of this trade, it should be noted that in 1750, Massachusetts alone contained 63 rum distilleries producing 12,500 hogsheads (757,500 gallons) of rum. The cost of a man in West Africa equaled 115 gallons of rum. The market for rum proved so vast that, in 1752, a Yankee captain who wanted to fill his sloop with rum before traveling to West Africa five weeks in the future was told by his agent that the demand for rum so exceeded its supply that it would be at least three months before the liquor would be available. The British colonists' rum choked out their French competitors' alcoholic products in West Africa.

The end of the Seven Years' War between the French and the British forced England to reconsider its treatment of the American colonies in terms of their foreign trade. The war had depleted the royal treasury, and the colonies had done little to help out financially. Parliament began to regulate strictly America's trade. It tightened customs collections, which had previously been considered especially lax, and found long lists of items in the Acts of Trade and Navigation that could produce revenue for the Crown. Parliament also ruled that American exports to the European continent first had to be cleared through a British port, which swelled shipping costs beyond any hope for profit.

Ironically, perhaps the worst blow to American trade actually came from a lowering of tax rates. The import tax on non-English molasses had previously stood at 6d. per gallon, but customs officers had always collected a much lower rate. Parliament cut the official rate to 3d. per gallon on paper but warned of strict enforcement—and this combination of events drove the taxes to twice their previous rate in practice. All this effectively restricted molasses imports to that obtained from the British West Indies alone. Cash reserves melted away, and the export market slowed dramatically. The restrictive trade acts became collectively known as the Sugar Act.

Parliament followed the Sugar Act with another tax, the Stamp Act, which called for a duty on a variety of paper items in the colonies. Opposition to the Stamp Act flared among the colonists, who resented the fact that Parliament had not recognized their objections to the new tax. Further, after the implementation of the Sugar Act, many colonists had already begun to reject the theoretical notions of British sovereignty over the colonies. The Stamp Act hastened the spread of such ideas.

On the eve of the Revolution, in protest against the Sugar Act and other restrictive trade acts against the colonies, 900 American merchants agreed to boycott British imports until Parliament repealed the Stamp and Sugar Acts. Scared British merchants forced an irate Parliament to take action, and by 1766 the Stamp Act became void and the molasses tax fell to insignificant levels. However, the colonists remained angered over Prime Minister William Pitt's requirement that all colonial exports had to pass through British ports, and anger turned into outrage over a new order that the New England colonies could only trade with England or the British West Indies. Then, in 1773, Parliament noticed that the popularity in the colonies of imported tea from Britain presented an opportunity for revenue growth. Parliament levied a tariff on tea imports, incorrectly assuming that the colonists would not mind the duty because it allowed the price of British tea to remain at levels below those of smuggled Dutch tea. Opposition to this act proved overwhelming and resulted in the Boston Tea Party as well as other forms of opposition that made a clash between Britain and its American colonies inevitable.

Trade Policy from Independence to 1815

Early on, the federal government took a lax attitude toward trade regulation. The Articles of Confederation, operational from 1781 until 1789, forbade Congress from concluding any commercial treaty that would limit the states' rights to customs duties. In effect, Congress avoided rendering decisions on foreign trade policy matters. Foreign nations wishing to conduct commerce with the former American colonies now found that they had to negotiate individual trade treaties with each of the newly empowered American states, a process that proved cumbersome for foreigners and discouraged international trade. In 1789 the ratification of the Constitution drastically changed the direction that the Articles of Confederation had set for America's trade policy. The Constitution clearly permitted Congress to levy and collect taxes, and the first Congress quickly imposed a customs tariff to collect revenue for the fledgling government.

In the 1790s the U.S. economy boomed, and foreign trade became a source of American optimism. By this decade Virginia and the Carolinas recovered their prewar volume of exports in tobacco, naval stores, and rice. Additionally, a poor harvest in France provided a favorable grain market for the middle states. England demonstrated its willingness to become an American rice and tobacco marketplace as trade between the two nations flourished. Restless Jamaican and Barbadian citizens aided American shipmasters as they smuggled goods onto those two islands. No longer forbidden to trade with Asia by the monopoly powers of the British East India Company, northern shipowners participated in a booming trade with Calcutta, India, and Canton, China. In 1789 America conducted more trade in these two cities than any other nation save for Britain.

As foreign trade became increasingly important to the new nation, Treasury Secretary Alexander Hamilton issued the "Report on Privileges and Restrictions on the Commerce of the United States in Foreign Countries" to detail America's current foreign trade relationships and proffer to Congress a trade policy. At this time, the largest U.S. exports were breadstuffs, tobacco, rice, and wood. Great Britain purchased more American exports than any other nation, taking in approxi-

Table 1 Exports to various nations, 1789–1790

Spain and its dominions	$2,005,905
Portugal and its dominions	1,283,462
France and its dominions	4,698,735
Great Britain and its dominions	9,363,416
United Netherlands and its dominions	1,963,880
Denmark and its dominions	224,415
Sweden and its dominions	47,240

Table 2 Imports from various nations, 1789–1790

Spain and its dominions	$335,110
Portugal and its dominions	95,763
France and its dominions	2,068,348
Great Britain and its dominions	15,285,428
United Netherlands and its dominions	1,172,692
Denmark and its dominions	351,364
Sweden and its dominions	14,325

mately twice as many American goods as French items and more than four times as many products as Spain or Portugal. However, America's imports from these nations lacked proportion with its exports; the U.S. import relationship with Great Britain rose to 7 times as much as that with France and 50 times as much as that with Spain (see Tables 1 and 2).

The "Report on Privileges" showed that American firms faced barriers to trading with European nations and especially with their colonies. These countries imposed heavy barriers to trade in Europe and prohibited much of America's commerce with their colonies. The Jefferson administration's recommendations to remedy this situation included promoting free trade through friendly agreements or, if necessary, by imposing countervailing tariffs and barriers against these countries.

Jefferson removed the excise tax on distilled liquors to make them more affordable relative to imports, but this action had the undesirable consequence of making the federal government even more dependent on tariff revenues. As aggressive European powers in the early nineteenth century continued to discriminate against American commerce and violate U.S. claims to neutral commercial rights, Jefferson and his successor, James Madison, both experimented with trade sanctions, including embargoes and nonintercourse, to remedy the problem. (The nonintercourse sanction meant that America would not trade with England or France but would trade with everyone else. Also, America would resume trade with the first of these two countries to promise to respect America's rights as a nation, and then it would declare war on the other country.) However, the federal government's dependence on customs income and the subsequent decline in foreign trade before the War of 1812 caused national leaders to resort to bolder measures for the restoration of foreign trade and neutral rights.

Trade Policy from 1815 to the Civil War

The Anglo-American Commercial Treaty of 1815 ended the British policy of discriminating against U.S. ships in British markets. This accursed barrier removed, the United States could return to the course of expanding foreign trade that its leaders had pursued before the war. Thus, President Madison shocked the nation when he rallied for a protective tariff in February 1815.

American foreign trade policy began to shift markedly from its free trade leanings before the War of 1812 to the origins of the American System in the years immediately after it. A national consensus emerged that demanded the development of a manufacturing base diverse enough to secure American independence from foreign military and trade conflicts. As long as mercantilist systems prevailed throughout the world, the leaders of the United States in this era believed that the nation had to pursue a similar policy.

The Democratic Party promoted a higher tariff policy to protect and facilitate American manufacturing. Henry Clay and John C. Calhoun, congressional leaders in the years after the War of 1812, also pressed for heavy protective tariffs for manufactured goods, even though both men represented states that surely would have benefited from increased foreign trade. Politicians viewed the tariff not as a device for overcharging American consumers in the short term but instead as a means of stimulating investment in the United States and reaping the full benefits of production and consumption at home. That tariffs during this era also provided the government with a steady stream of revenue must have been viewed as a boon to such politicians.

In 1816, as a result of these and other arguments in favor of trade restrictions, Congress passed the nation's first protective tariff. Duties of 30 percent on iron products and 25 percent on cotton and woolen goods were set in place. President James Monroe advocated broad tariff increases in his message to Congress in 1822, and Henry Clay also helped to persuade Congress to raise tariffs again in 1824. Then, the Tariff Act of 1828, also known as the Tariff of Abominations, raised tariffs to their highest rates in American history. Under this act, average rates on durable goods hovered around 61.7 percent.

The Tariff of Abominations opened up a debate between advocates of free trade and proponents of protectionism that would continue throughout the century. The South Carolina nullification crisis induced Clay to engineer a tariff reduction in 1833 that cut tariff rates to 20 percent over ten years. This tariff deviated from the hitherto dominant protectionist philosophy, but the depression of 1837 caused a swing back to a more protective tariff in 1842. In the 40 years from 1821 to 1861, the high-tariff position generally dominated that of free trade.

Nevertheless, in the decades between the War of 1812 and the Civil War, both exports and imports flourished despite the high tariffs. Cotton exports soared 1,300 percent, and tobacco exports doubled. At the same time, the expectation that tariffs would stimulate internal investment came to fruition as private investment in textiles and other import-competing industries increased greatly.

A greater exporting prowess in the South and a changing sentiment toward lower tariffs in the 1840s induced Democrats to shift their party position in favor of tariffs for revenue purposes only, a position close to the free trade stance in the 1800s. In 1854 Democrats negotiated a Canadian reciprocity treaty that allowed for limited free trade. However, because

that treaty covered only raw materials, Canada increased its import duties on U.S. manufactures, and American fishing and lumber industries suffered. Democrats also obtained highly biased treaties that provided Americans with virtually unlimited trading privileges in the nations of Japan and China as well as in the Middle East and Africa.

Thus, the debate over tariffs and free trade also served to divide the nation between the free trade, agrarian South and the protectionist, manufacture-driven North. The last president elected before the outbreak of the Civil War, Abraham Lincoln, advocated a high tariff. He believed that free trade would inevitably lead to low wages and financial ruin. After the Civil War began, Secretary of the Treasury Salmon Chase encouraged Congress to double customs duties to pay for the expense of the war.

Trade Policy from the Civil War to World War I

Immediately after the Civil War, the United States experienced a tremendous economic expansion that again changed the nation's attitude toward foreign trade. Finished manufactures, which made up half of all imports before the Civil War, fell to less than a third of all imports 20 years later. American exports became increasingly prevalent in the world markets. The people were convinced that selling, buying, and investing in foreign markets would prove crucial to the economic wealth and development of the nation. More specifically, Americans felt that overproduction and unemployment, which became all too familiar during the severe depressions of the 1890s, could be prevented by opening up foreign markets to American agricultural and manufacturing surpluses. Foreign commerce became a symbol of national power, the navy and the foreign service industry expanded to protect business interests, and citizens called for an imperialist and activist foreign policy.

Latin America became fertile soil for businesses seeking to exploit the desire of Americans for greater foreign trade. Bananas were especially popular at home after the Civil War, and entrepreneurs found Latin America to have ideal growing conditions for that crop. Although most were never legally American colonies, the nations of Central America, South America, and the Caribbean kowtowed to extremely powerful businesses backed by the American government. Companies such as United Fruit and Standard Fruit negotiated land concessions, tax exemptions, the use of national resources, and the free import of numerous products with host governments. These companies also imported their own labor forces, constructed company towns, and built the entire infrastructure for modern communities in the areas that they dominated.

Soon, the United States had acquired an informal empire in this region, based on economic and political control rather than colonial annexation. American companies controlled the tariff revenues, budgets, foreign debts, and internal investments of a plethora of Latin American countries. Although bananas and coffee often would account for 80 percent of the exports from Central American countries at the time, U.S. conglomerates owned almost all of the concession taxes and import rights on these products. This Central American trade became so important that in 1913, when the Senate Finance Committee debated the proposed Underwood-Simmons Tariff, it found that a meager $.05 tariff on bananas would generate $1 million a year for the federal government. However, the public backlash against taxing these Central American imports proved so strong that Congress removed the banana tariff from the tariff bill.

America's imperial experience in Asia lacked the power that it had in Latin America. England became a prospective colonizer of China long before the United States had the capacity to dominate the region, and by the late nineteenth century, most European empires had carved a sphere of influence for themselves in China, to the exclusion of U.S. interests. Although ambitious American traders profited greatly as opium-peddling middlemen between the warring Chinese and English in the mid-eighteenth century, legitimate American businesses saw that they had been shut out of China in the years following the Civil War. To combat this combination of barriers, President William McKinley's expansionist secretary of state, John Hay, issued the first "Open Door note," which committed America to free trade in Asia and urged all European nations to follow suit.

Hay feared that China's antiforeigner Boxer Rebellion of 1900 would give foreign powers a reason to overturn the Open Door notes and strengthen their spheres of influence in China, so the United States justified sending military forces to China under the Open Door policy. Later, as Russia and Japan fought the Russo-Japanese War for Chinese territorial conquest, President Theodore Roosevelt feared that the belligerents would disrupt American commerce in China. Roosevelt used the Open Door notes as motivation to bring the warring parties to the peace table.

In 1909 Roosevelt's successor, President William Howard Taft, supplemented the Open Door notes with the policy of "dollar diplomacy," which increased U.S. trade abroad by supporting American enterprises and investments in China. Also in 1909 Japan and Russia violated the Open Door policy without U.S. retaliation, and U.S. commercial enterprises began to reduce their investment in China. By 1913 President Woodrow Wilson's preoccupation with isolationism and the European conflict caused him to abandon the Open Door policy.

Despite the widely held belief that America should rely on foreign trade to increase its world power and domestic economy, laissez-faire sentiments fell into disfavor again after the Civil War. Indeed, in the waning years of the nineteenth century, high protectionism garnered some of its most fervent support in American history. In the 1880 election, tariffs became the sole divisive issue between the high tariff Republican candidate James Garfield and the free trade Democratic candidate Winfield S. Hancock. Garfield's narrow victory ensured that tariffs would continue to increase; indeed, high tariffs caused Treasury surpluses every year from 1866 to 1888. President Grover Cleveland, the first Democrat elected after the Civil War, thought the Treasury surplus was highly undesirable for the American people and sought to reverse

the postwar trend of escalating tariffs. But Congress proved unwilling to lower tariffs, and Benjamin Harrison's defeat of Cleveland in the 1890 election made the passage of the McKinley Tariff inevitable. Protectionists dropped the pretense that fledgling industries required high tariffs for protection. Instead, they argued that high tariffs would reduce the Treasury surplus by making imports unbearably costly for the American public.

At the turn of the twentieth century, tariff revisionist groups began to form and attempt to lobby the government for a change in trade policy. These organizations generally supported tariffs based on reciprocity and urged the federal government to create a commission to oversee the process in a scientific manner. The National Tariff Commission Association (NTCA), the lobbying organization that worked for the creation of the Tariff Board and strove to see it modeled after the German tariff commission, was the most influential of these groups. Presidents Theodore Roosevelt and William Taft both supported the revisionists in their quest for lower rates. Indeed, Taft so vehemently supported the Payne-Aldrich Tariff of 1909, the first act addressing tariff rates since the Dingley Act of 1897, that he agreed to the Sixteenth Amendment (which provided for a national income tax) just to gain the Democrats' support for the tariff reduction.

World War I accelerated the growth of America's international commerce. European and Asian warring states all sought access to U.S. resources. Exports to the Allies quickly began to soar, rising from $825 million in 1914 to $3.2 billion by 1916. Trade between the Central Powers and the United States fell off dramatically after Britain blockaded Germany in the beginning of the war. Germany cried out for the United States to stop selling munitions to England and complained that Washington showed a bias toward the Allies in its extension of war loans. U.S. officials curtly replied that a reduction in trade with the Allies would not compromise America's neutrality, a position that reflected President Wilson's disapproval of America simply being the well-paid arsenal of the Allies.

Virtually all trade with the Central Powers ceased with the October 6, 1917, passage of the Trading with the Enemy Act, which forbade commerce with enemy nations or their associates. The act gave the Wilson administration the power to impose an embargo on imports from enemy nations, and the War Trade Board became authorized to prevent trade with the enemy. Congress clearly intended to use this act against the Central Powers. The act also authorized censorship of foreign newspapers.

Trade Policy in the Interwar Period

After World War I, the exporting prowess that the U.S. had gained during the war endured, and American products proved competitive in world markets beyond what had seemed possible only years before. U.S. trade during the war enriched the nation, and its continuation after the war made possible the Roaring Twenties. Europe desperately struggled to rebuild, and American goods made that goal possible. World War I had rendered the United States a creditor nation, with many more goods flowing from America into Europe than vice versa. Relatively high tariffs intensified the imbalance of payments between the Continent and the United States.

An unfavorable balance of trade between Europe and the United States, coupled with increased competition from goods flowing out of Asia and Latin America and agricultural production slumps, signaled problems for American exports. A depression began in the late 1920s, and in 1930 Congress intensified America's foreign trade slump by passing the Hawley-Smoot Tariff Act. This piece of legislation raised tariffs to their highest level since the Tariff of Abominations over 100 years before, with agricultural and some manufacturing goods receiving the greatest tariff increases. Congressional motives for this increase stemmed from a "beggar thy neighbor" policy, as governmental leaders who desired to stop the economic slump domestically cared little for the effects of the tariffs on the economies of other nations. However, other countries soon levied reciprocal tariffs against American goods, which further depressed world trade.

President Franklin D. Roosevelt waited until 1934 to ask Congress for legislation to allow negotiation with other countries for lower tariffs. He received the Reciprocal Trade Agreements Act in the summer of 1934. Secretary of State Cordell Hull believed that this precursor to the 1948 General Agreement on Tariffs and Trade (GATT) would reverse the high-tariff policies that he thought had wreaked havoc on American exporting.

As a severe depression developed at home, President Roosevelt set about tackling America's problems abroad. Between 1935 and 1941, Congress passed what became known as the Neutrality Acts, which imposed an arms and loan embargo against all warring states. Roosevelt, strongly supportive of the Allies but aware that the American public wished to avoid direct involvement in a war, allowed trade policy to dictate foreign policy by attempting twice in 1939 to persuade Congress to repeal the Neutrality Acts and allow for economic intermediation with the Allies. Congress grudgingly acceded on the second attempt and removed the arms embargo but added the stipulation that arms be sold on a "cash-and-carry" basis only. On August 2, 1940, Roosevelt signed an executive order to trade destroyers for military bases, and on March 11 of the following year, Congress authorized a lend-lease proposal after Britain could no longer come up with the cash necessary to purchase American weapons for war. Twenty-six days later, Congress authorized its first lend-lease package, earmarking $7 billion for the Allies. Roosevelt froze all Axis assets in the United States in June 1941.

Just as Germany lost its battle with England for a share of wartime trade with America, Japan, too, found that U.S. trade policy was a dangerous substitute for foreign policy. In the pre–World War II era, Japan remained utterly dependent upon the United States for much of the products it required to pursue its belligerent policy in Asia. After going against U.S. wishes and pressuring France to allow Japanese troops to enter French Indochina, Japan found itself the target of an

American embargo on U.S. iron and steel. In July 1941 Japan further extended its troops in Asia, forcing the United States to freeze all Japanese assets and implement an embargo against the island nation on all products except for food and cotton. Without trade with countries under the U.S. economic sphere of dominion, Japan lost access to 66 percent of its export market and 39 percent of its imports. Far more significantly, Japan imported 84 percent and 80 percent of its oil from the United States in the years 1938 and 1940, respectively. Without U.S. oil, Japan anticipated exhausting its supply in one and a half to two years. The Japanese prime minister, Tojo, considered the embargo an act of war because a lack of oil would destroy the imperial navy even as it rested in port. In his diary, he described America's high post–World War I tariff policies and the pre–World War II economic blockade as inflicting a mortal blow to Japan.

Trade Policy from World War II to the Present

Roosevelt's fear of the revival of the protectionism and high tariffs that contributed to the depression and war in the first half of the century led him to take preventative measures. In 1947 and 1948, the administration of his successor, Harry S Truman, helped develop the GATT, which further liberalized trade by gradually reducing and eliminating tariffs, subsidies, quotas, and other trade barriers. In October 1962 Congress passed the Trade Expansion Act at the behest of President John F. Kennedy, allowing the president to cut tariffs by up to 50 percent over five years and to remove many tariffs altogether on goods traded between Western Europe and the United States. This act gave the executive branch leverage in the Kennedy Round of GATT negotiations, which ran from 1964 to 1967, and it also served as an extension of U.S. foreign policy in its pressure on the Soviet Union. The Kennedy Round modified GATT rules and allowed for the lowering of rates across the board instead of on a product-by-product basis. The United States lowered its tariffs on a variety of products. European nations failed to reciprocate by lowering their trade barriers, and in many cases, they increased rates through less visible but equally potent forms of trade restrictions. The most recent round of GATT negotiations, the Uruguay Round (1986–1994), cut tariffs by 34 percent on average (see Table 3). The Uruguay Round agreement revised the rules regarding dumping and export subsidies, and it eliminated voluntary export restrictions (VERs) and extended intellectual property rights internationally. Finally, the Uruguay Round ended the GATT and created in its place the World Trade Organization (WTO), which now supervises the implementation of trade agreements and settles trade disputes.

Members of both the GATT and WTO organized around the liberal economic principles of nondiscrimination and fair national treatment of imports. The goals of these two organizations focused on lowering trade barriers and enacting a rules-based trading system. The GATT and WTO did, however, allow for conditions under which trade restrictions remained permissible. Today, member nations can discriminate against nonmember nations, retaliate against unfairly trading member nations, and establish preferential trading areas that provide trade benefits in excess of the terms of GATT and WTO. Further, certain escape clauses or safeguards permit the temporary exemption of some industries from the rules of trade restrictions.

Table 3 Average tariffs on industrial products (in percentages)

	Pre–Uruguay Round	*Post–Uruguay Round*
By country/region		
Developed countries' imports from:		
World	6.2	3.7
North America	5.1	2.8
Latin America	4.9	3.3
Western Europe	6.4	3.5
Central and Eastern Europe	4.0	2.4
Africa	2.7	2.0
Asia	7.7	4.9
Developing countries' imports from:		
World	20.5	14.4
North America	23.2	15.7
Latin America	27.6	18.5
Western Europe	25.8	18.3
Central and Eastern Europe	18.4	15.1
Africa	12.3	8.0
Asia	17.8	12.7
By product		
All industrial products	6.3	3.8
Fish and fish products	6.1	4.5
Wood, pulp, paper, and furniture	3.5	1.1
Textiles and clothing	15.5	12.1
Leather, rubber, and footwear	8.9	7.3
Metals	3.7	1.4
Chemicals and photographic supplies	6.7	3.7
Transport equipment	7.5	5.8
Nonelectric machinery	4.8	1.9
Electric machinery	6.6	3.5
Mineral products and precious stones	2.3	1.1

It was not simply a desire to return to normalcy that led American leaders to encourage trade. The emergence of a bipolar postwar world and the conflict between the communist Soviet Union and capitalist United States meant that America again needed a strong economic base. When Mao Zedong declared China a communist state, President Truman resisted becoming involved in mainland Asian affairs. But the outbreak of the Korean War caused the United States to stress Taiwanese trade and economic development as another Asian check to communist designs in the region. The United States became Taiwan's biggest trading partner until the 1970s, when Taiwan diversified its commercial relations.

China viewed the exchange of military systems between the United States and Taiwan as an extension of a hostile U.S. foreign policy. It struggled to remain closed to U.S. trade until 1999, when entrance into the WTO induced Chinese leaders to open their market to the United States and lower tariffs in

exchange for support of China's WTO bid. Both countries reached an agreement to phase out quotas on Chinese textiles by 2005.

After World War II, America helped reconstruct the Japanese economy as a capitalist bulwark against Soviet ambitions in Asia. Japan remained the biggest trading partner of the United States for several decades. Although America held a favorable balance of trade with Japan during the early postwar years, by the 1970s this trade balance had shifted. America, which had proved a willing dumping ground for Japanese products while asking little in return, suddenly demanded that Japan rescind its highly stringent import regulations and open its markets to American goods. The Japanese government found that it could placate the United States by implementing voluntary export restrictions against the products that America wished to restrict. In 1971 Japan enacted VERs against textiles, followed in later years by steel and chemicals, then against consumer electronics, automobiles, metal-working machines, and, most recently, against computer chips.

Voluntary export restraints benefited Japan on a deeper level than simply appeasing the United States. VERs essentially represent a collusion between two governments, and Japan stood to gain much economically by implementing them with Washington's consent. Had the United States simply levied a tariff against the Japanese goods that threatened U.S. businesses, the federal government would have received the tariff revenues, which would have amounted to the difference between the world price and the U.S. tariff-heightened market price. But by voluntarily restricting the supply of their goods, the Japanese theoretically could contract the world supply and effectively drive up the world price for those goods. Japanese manufacturers would effectively absorb the higher profits created by their government's collusive agreement with the United States. This approach would work particularly well in postwar Japan, whose government remained dominated by the interests of government and large business partnerships known as *zaibatsu*. The close relationship between government and industry in Japan made VERs a viable response to U.S. pressure.

The VERs proved effective, helping the yen to appreciate relative to the dollar and causing the Japanese trade surplus with the United States to fall. But they also created long-term difficulties for the United States. In addition to causing the sacrifice of potential tariff revenues to the Japanese government, the VERs also lowered the opportunity cost of the foreign industries for diversifying into another type of manufacture. When they agreed to restrict the export of small automobiles, Japanese businesses found it profitable to begin exporting midsize cars and trucks. Although U.S. trade negotiators pursued short-term U.S. interests, the U.S.-requested VERs have created more problems for domestic industry in the long run.

Nevertheless, Japan's red tape and its outright ban on certain American imports still angers many Americans. Although Japan remains the largest importer of certain U.S. farm products, not until 1991 did it allow the importation of U.S. beef and citrus products. Enormous tariffs, such as a 70 percent tariff on American beef, still hinder foreign trade between the two nations. U.S. firms clamor against regulations such as the so-called Big Store Law, which prevents large chain stores from operating in Japan, as well as the "closed system" under which the Japanese government exerts protectionism with the consent of domestic big business. These artificial barriers to trade extend monopoly-like powers to domestic industries at the expense of foreign competitors and are seen by many as an unfair restriction of free trade.

The European Union (EU) has proven to be a barb in postwar trade relations between Europe and America. Since 1989 the EU has banned the import of bananas and hormone-treated beef and has not heeded U.S. and WTO objections. In 1999 the United States took action, levying retaliatory tariffs of 100 percent against 15 EU products. As Europe and the United States continue to compete with one another for global trade power, the further liberalization of trade between the two regions remains uncertain.

Although Canada and Mexico are America's largest and third-largest trading partners, respectively, no serious effort at integrating trade between the three partners has existed since efforts were made toward the Canadian reciprocity treaty of 1854. In 1989 the widely hailed Canada-U.S. Free Trade Agreement (CUFTA) began the process of eliminating all bilateral tariffs either immediately or in equal annual steps. Momentum encouraging free trade generated the North American Free Trade Agreement (NAFTA) of 1992, which created a free trade zone between Mexico, Canada, and the United States. Since it began the 15-year process of eliminating tariffs between the three partners in 1994, NAFTA has created a free trade area rivaling the EU in terms of GDP and population encompassed. Although some difficulties still hamper the implementation of the agreement, the transition has generally been smooth.

Such cooperative trade agreements represent a worldwide trend in the postwar era toward the liberalization of trade. In casting off many of the conservative trade ideologies of the past and paying little heed to Marxist critiques, industrialized nations are seeking to reduce most trade barriers with their biggest trading partners. Some of this reduction in protectionism may have resulted from governments' increased awareness that protection may force costs on society and even on the domestic industries receiving protection. In addition to the previously discussed flaws of VERs, all forms of trade protection may result in the misallocation of factors of production into industries in which they are utilized less efficiently. Further, industries believing that a government may be willing to extend protection will see potentially great gains in diverting otherwise productive resources into lobbying efforts against the government. Finally, as economists Neil Vousden and Neil Campbell argue, industries characterized by little competition often will not make the effort to succeed in their fields, a phenomenon known as x-efficiency.

What of the future of American trade liberalization in the Western Hemisphere? In 1995 a group of 34 trade ministers from North, South, and Central America met to create a free trade area of the Americas (FTAA), which would be developed through an evolution of the continents' many subregional

trade agreements. If realized, this trade liberalization effort would be the most ambitious example of economic cooperation to date. Additionally, the United States, through participating in the Asia Pacific Economic Cooperation Forum (APEC), has worked toward achieving free trade in the Asia-Pacific region by the year 2020. These goals, if accomplished, would fundamentally change the way America conducts trade through the first quarter of the twenty-first century.

—*Josh Pratt*

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Transportation Policy

Transportation policy remains of vital importance because it lies at the heart of the American economy. A synergistic relationship exists between the transportation industries and the rest of the economy. Systems and methods of moving goods and people have driven the American economy forward, and advances in the general economy have propelled improvements in transportation. Transportation developments have been determined by geographic factors and human actions. Some of the human actions affecting transportation have been unthinking responses to the "invisible hand" of the market or to other unplanned factors, but many changes have resulted from conscious policy decisions made by the government at all levels and sometimes by nongovernmental policymakers, such as the heads of large corporations or unions.

Transportation Policy in the Colonial Period

Geography often determines how people and freight move from one place to another. During the colonial period, before the Industrial Revolution came to America, geographic factors such as the deep estuaries and navigable rivers along the Atlantic coast far outweighed human policy, but nevertheless, colonists consciously adopted some noteworthy policies to control transportation between the populations of the seaboard colonies and the six other areas with which they traded: the European continent, the Caribbean Islands, the interior inhabited by Native Americans, Africa (especially West Africa), French Canada, and the Spanish American borderlands. Government policies modified or limited relations with all six regions but almost never as effectively as the policymakers desired. The Navigation Acts provide the most famous example of such regulations. First in 1651 when Oliver Cromwell controlled England and then in 1660 after the Restoration, England tried to ensure that trade into and out of the American colonies would be carried on English ships manned mainly by English sailors (with the understanding that "English" included colonial Americans). Exporting "enumerated" goods such as tobacco to the continent of Europe and, after 1663, importing most European goods occurred only through England. When the Caribbean Islands concentrated on sugar production in the second half the seventeenth century and those islands became a major market for New England fish and the middle colony cereals, Parliament tried to channel North American foodstuffs to the British West Indies rather than to the French or Dutch West Indies. The Molasses Act of 1733, an attempt to direct North American ships to Jamaica, Barbados, and other British islands, imposed a prohibitive duty of 6d. per gallon on molasses imported from non-British islands, but the chicanery of American merchants and the greed of bribable customs collectors nullified the act.

At various times, the imperial government and individual provinces established policies concerning trade and transportation with areas other than Europe or the Caribbean. In the seventeenth century, the English government gave the Royal African Company a monopoly over the sordid business of transporting slaves from Africa to the New World. Ironically, by the end of the eighteenth century, the British nation, which had become the dominant carrier in the transatlantic slave business, experienced an awakening of conscience, and the British navy began to effectively patrol against slavers. Freight to and from the other three areas mentioned—the interior of North America, Canada, and nearby Spanish territories—was carried by packhorses, wagons, canoes, or sailing vessels and at different times fell subject to a combination of provincial, British, or foreign laws, with widely varying degrees of effectiveness. Provincial governments regularly licensed traders who transported rum, firearms, and trade goods to Native Americans—sometimes to prevent an outrageous exploitation of these people and sometimes to protect favored traders from interlopers from a different province.

The American Revolutionary War shifted most major policy decisions about transportation from London to the new nation, but the formation of the American transportation policy has never been entirely free from the policies of foreign nations. For instance, England retained some say about U.S. transportation policy long after the Revolution. The British negotiators of the Treaty of Paris of 1783 obtained a provision giving Britain navigation rights on the Mississippi. Much later, in the 1846 Clayton-Bulyer Treaty,

Britain secured equal rights to control any future transisthmian canal Americans might build, a right it retained until the 1901 Hay-Pauncefote Treaty. Even in the late twentieth and early twenty-first centuries, Britain, along with its fourteen European Union colleagues, has had a voice in U.S. transportation policies over such issues as landing rights of American airlines and mergers of transportation companies; an example of the latter is the recent merger of Chrysler with Daimler-Benz, a leading manufacturer in America of heavy-duty trucks and school buses.

Transportation Policy in the Early Republic

Upon achieving independence, Americans rejoiced in their expansive new country, but several major transportation issues confronted policymakers. These problems included inadequate access to the two great waterways that could afford easy transportation across much of North America—the Mississippi/Ohio and the Great Lakes/St. Lawrence systems; the Appalachian barrier to communications between the eastern and western halves of the United States; and poor north-south roads along the eastern seaboard.

To the frustration of Americans, full access to the Mississippi/Ohio and the Great Lakes/St. Lawrence systems remained tantalizingly just out of reach. For years to come, American policymakers sought to make those two great systems provide effective transportation. The challenge proved particularly great in the prerailroad age, when only waterways could economically transport high-volume, low-value farm products for distances greater than 20 or 30 miles.

The Paris peace settlement of the 1780s gave the United States the eastern side of the Mississippi Valley down to Florida, but Florida, controlled by Britain since 1763, reverted back to Spain. Spain knew that if farmers living on the three-eighths of American soil drained by the Mississippi, the Ohio, and their tributaries had access to the world's oceans through New Orleans, a flood of settlers would spill over into Louisiana and Texas, leading to a spread of American power. Therefore, Spain resolutely resisted the efforts of John Jay and other American diplomats to let American rafts and flatboats float down to New Orleans to connect with shipping on Lake Pontchartrain. America's inability to change Spain's attitude caused many frontierspeople to support the new U.S. Constitution, since a stronger national government would be more capable of pressuring Spain into negotiating navigation rights. In 1795 New Orleans finally became incorporated in America's transportation system when Spain acquiesced to Pinckney's Treaty out of fear that if it did not unlock New Orleans, Americans would ally with George III, their former king, and seize the city. So Pinckney's Treaty opened up the Ohio and Mississippi Valleys, but Spain's cession of New Orleans and Louisiana to powerful France in 1800 again threatened to stifle the West. President Thomas Jefferson remained determined to enable western farmers to transport their produce through New Orleans. He told Robert R. Livingston and James Monroe that the United States should "marry the British fleet and nation" if Napoleon would not sell New Orleans. The crisis ended in 1803 when Napoleon agreed to sell New Orleans and all of Louisiana. With the political problem solved, the question became how to turn the "father of waters" into a practical, two-way highway. Over the next two centuries, steamboats (and their diesel successors) and the dams, locks, navigation aids, and dredging of the Corps of Engineers fulfilled this goal.

The history of transportation policies in regard to the Great Lakes and the St. Lawrence River differs from that of the Mississippi. Very different geography, British control of the St. Lawrence, and the eagerness of merchants and investors in New York City, Philadelphia, and Baltimore to bridge the Appalachian barrier between the East and the West created transportation routes into the middle of the country. These new routes diminished the interest of American politicians in Montreal and Quebec as possible entrepôts of the Midwest. Several geographic considerations made the St. Lawrence less important than the Mississippi as an outlet to saltwater: Most of the rivers in the middle of the country flowed south into the Mississippi, not into the Great Lakes; the lakes and the St. Lawrence froze in the winter; and an impassible obstacle, Niagara Falls, existed between Lake Erie and Lake Ontario until the Welland Canal provided a bypass in 1829. Not until the mid-twentieth century, during President Dwight D. Eisenhower's administration, did American policymakers join with Canada in developing the St. Lawrence Seaway (1959) to make the St. Lawrence a practical outlet for mid-America.

In the early nineteenth century, Thomas Jefferson's secretary of the treasury, Albert Gallatin, proposed a grand system of canals and turnpikes to connect eastern river systems with the trans-Appalachian Ohio/Mississippi system and to provide north-south roads to supplement seaboard coastal shipping. The National Road (or Cumberland Pike), which initially (in 1818) connected the Potomac at Cumberland, Maryland, with the Ohio at Wheeling, Virginia, and later was extended at each end to Baltimore and central Illinois, is a tangible result of Gallatin's plan. Two twentieth-century highways, U.S. 40 and Interstate 70, followed the route of that first federal highway. But by the 1830s the job of developing transportation routes across the Appalachians shifted from the federal government to states and seaboard cities. Henry Clay and President John Quincy Adams, proponents of the American System that would have given the federal government responsibility for developing a transportation system, lost control of the national government to Andrew Jackson (president from 1829 to 1837) and his followers, who favored a limited federal role. Jackson demonstrated his attitude most famously with his "Maysville veto" (1830), a refusal to spend federal funds on a highway. In the 1830s the national government handed over maintenance of the National Road to the states through which it ran. The prevailing consensus was that the formation of an American transportation policy should be decentralized.

Rivers and Canals

Before the Civil War, East Coast ports vied with each other to extend their hinterlands across the Appalachians. Investors and local leaders wanted the produce of the Midwest to reach world markets through their cities rather than via New Or-

leans and the Mississippi or by the St. Lawrence. Clearly, New York City became far more successful than its rivals, and the Erie Canal served as the foundation of its success.

In all of American history, the decision to build the Erie Canal may be the most significant example of a well-conceived transportation policy. As early as the 1740s, New York's lieutenant governor, Cadwallader Colden, had realized that a canal through the Mohawk Valley could connect the Hudson to Lake Erie and thereby expand New York City's hinterland to encompass the heart of the continent. In the early 1800s, as New Yorkers planned to build the canal, the federal government declined to participate in the project. President James Madison had constitutional scruples about whether the federal government should undertake such a project—especially since it would not benefit Virginia—so it became an undertaking of solely the state government of New York. DeWitt Clinton, its most vociferous supporter, won the backing of the state legislature (and the governorship for himself) and began construction on July 4, 1817. When the canal opened in 1825, it ran 363 miles from Lake Erie at Buffalo to Albany on the Hudson, and its impact on New York City, 150 miles downriver from Albany, became apparent immediately. Western grain went through New York City, and manufactures and immigrants headed for Ohio, Indiana, and Illinois traveled up the Hudson from the city.

The success of the Erie Canal stimulated Boston, Philadelphia, Baltimore, and Charleston to attempt to duplicate New York's achievement. Pennsylvania's rugged Allegheny Mountains between Philadelphia and Pittsburgh yielded no pathway for a canal crossing, so Philadelphians persuaded the state legislature to underwrite the Main Line system. Instead of a single canal like the Erie, Pennsylvania's Main Line connected Philadelphia on the Delaware River to Pittsburgh at the Ohio with a mix of canals, railroads, and inclined planes. (Inclined planes used steam-powered winches placed on the tops of ridges to pull flatcars up railroad tracks.) The Main Line system, a brave effort that enthralled Charles Dickens with its scenic views, proved a colossal economic failure.

Railroads

Also a failure, the Chesapeake and Ohio Canal, financed by investors from the Baltimore/Washington region, did not breach Maryland's mountains and never reached its second namesake. By the 1830s most of New York's rivals realized that their best hope of reaching the other side of the Appalachians depended on the new British invention—railroads. On July 4, 1828, investors at Baltimore watched Charles Carroll of Carrolton, Maryland, a signer of the Declaration of Independence, inaugurate a new transportation age as he turned the first shovelful of dirt to begin construction of the Baltimore and Ohio Railroad. In the early 1830s, the longest single railroad line in the world, the Charleston and Hamburg, stretched from Charleston, South Carolina, toward the Mississippi. In the 1850s Philadelphians, having given up on the Main Line system, completed the Pennsylvania Railroad to connect the City of Brotherly Love with Pittsburgh. But unfortunately for all of New York City's rivals, by the time their railroads reached the beginnings of the Ohio/Mississippi system on the other side of the mountains, New York merchants had two western rail connections of their own. The Erie Railroad, completed in 1851, ran from the Hudson to Lake Erie along the latitude of the Pennsylvania–New York border, and by the middle of the 1850s, the steamboat operator Cornelius Vanderbilt had tied together a series of small railroads between Albany and Buffalo into the New York Central, which soon had connections into Manhattan.

By the time of the Civil War, maps of the U.S. transportation system showed a vast array of railroads and a few key canals—of which the Erie remained by far the most important, for it carried from the Midwest to New York more freight than the combined total carried by all the major railroads that crossed the mountains. Four key railroad trunk lines existed: the Erie and the New York Central ran from Lake Erie to New York City, the Pennsylvania ran from Pittsburgh to Philadelphia, and the Baltimore and Ohio ran from Wheeling to Baltimore; each of the four had subsidiaries or partners that continued into the heartland. In the South, a railroad route from Charleston to Memphis had been built, and the Boston and Albany brought Boston in touch with the West, albeit over one of New York's railroads. But as George Rogers Taylor and other transportation historians have noted, America's railroads and canals were not the product of a carefully planned national transportation policy. They had resulted from a series of rival policies, with each financed and supported by individuals and concerns representing parochial interests that had little or no care about a national transportation policy. No uniform gauge existed on American railroads. In cities such as Philadelphia, Richmond, or Pittsburgh, transferring cargo from one railroad to another required the use of a horse and wagon because "connecting" railroad companies often did not physically join each other. The national government did become interested in transportation policy in a limited capacity when officials authorized the use of army engineers to survey the line of the Baltimore and Ohio and in 1850 when Congress approved a grant of federal land to finance the Illinois Central's route from Chicago to New Orleans. But between the administrations of Thomas Jefferson and Abraham Lincoln, local investors and city and state governments continued to make the key decisions about transportation policy.

After the election of Lincoln and the Civil War, even though states, municipalities, and private investors continued to have considerable input concerning transportation policy, major decisions occurred at the national level. The two biggest issues in the last third of the nineteenth century involved the building of railroads between the heartland and the Pacific Coast and determining how much public regulation should be exercised over the railroad companies that had become so dominant in the American economy. At a time when railroads had no competition from motor vehicles or airplanes, they employed more people than the U.S. government, and more money was invested in them than in all of America's manufacturing.

By the 1850s many people had foreseen a rail connection between the Mississippi Valley and California. Jefferson Davis, secretary of war in Franklin Pierce's administration, ordered a study of possible routes, and just five years after Mexico

had ceded a huge part of its territory in the treaty ending the Mexican-American War of 1846 to 1848, negotiators persuaded Mexico to sell the Gadsden Purchase to the United States. The purchase ceded the Gila Valley to the United States, a good southern route to California. Before the United States lurched into the Civil War and during the war as well, several general assumptions developed about what the policy should be in regard to a Pacific railroad. Because of the vast distances, sparse population, and rugged terrain involved, private investors could not bear the entire cost of construction; government aid would be required, and it had to come from the national government, not from states. Furthermore, people believed a Pacific railroad should be a privately owned entity, not a government-operated route like the Erie Canal or the failed Pennsylvania Main Line. When Americans first started envisioning a transcontinental railroad, no one could foresee the construction of as many railroads as would be built by 1893—five!

In the 1850s every major city in the Mississippi Valley, from New Orleans northward, hoped to become the terminus of the transcontinental railroad. When President Lincoln signed legislation chartering two companies, the Union Pacific and the Central Pacific, to build the rail connection between the center of the country and California, the South had already seceded, eliminating any possibility of a route from New Orleans or Memphis. The Pacific Railway Act of 1862 and an amending law in 1864 chartered two private companies, the Central Pacific and the Union Pacific, to construct the railway. The Union Pacific built from Omaha westward, and initially, the Central Pacific was to build from Sacramento 150 miles into Nevada. However, effective lobbying by the Central Pacific brought authorization (in 1866) for that railroad to go indefinitely eastward until it met the tracks of the Union Pacific. The joining of the two lines occurred on May 10, 1869, at Promontory Point, Utah Territory, in a celebrated ceremony that was instantly reported to the entire nation by telegraph. Congress gave generous land grants and cash loans to the Central Pacific and Union Pacific and to three other transcontinental railroad companies that were soon chartered: The Southern Pacific joined San Francisco to New Orleans in 1883; the Northern Pacific connected St. Paul and Portland, Oregon, in 1883; and the Atchinson, Topeka, and Santa Fe reached southern California in 1888. In return for the generous help of the nation, the railroads committed to carrying troops for half fare, a provision the nation appreciated during World War II (after which the discount ended). A fifth transcontinental line, the Great Northern, completed between St. Paul and Seattle by James J. Hill in 1893, was built when the nation no longer felt compelled to give railroads huge land grants. By the end of the nineteenth century, many Americans thought national policy had been much too favorable to the railroads, and disgust over the Crédit Mobilier scandal and other reports of unsavory corporate influence on members of Congress increased the dissatisfaction. (Crédit Mobilier was a company established by the Union Pacific Railroad and received contracts to construct its rail lines. Company stock was given to members of Congress, who then granted land and federal subsidies to the company to increase their profits. The involvement of prominent politicians was exposed in 1872 and 1873, with several resigning from office as a result.) But historians have not reached a consensus about the wisdom of the policy of giving great gifts of land to expedite construction of the western railroads.

Now, in the twenty-first century, when almost all long-distance passenger travel occurs by automobiles or airplanes and when trains no longer carry most freight, it is hard to envision how much railroads dominated both freight and passenger business in the late nineteenth century. However, because railroads had overbuilt, extending their lines into places with too few customers to maintain a profit, and because managers looted many companies, even in the age of railroad dominance, railroad bankruptcies were very common, especially during the economic downturns of 1873 and 1893. Yet, despite the weak financial condition of many lines, the public became convinced that the railroads still took advantage of their customers. Farmers in states such as Kansas or Minnesota, many served by only a single railroad, resented paying higher freight rates than shippers between Chicago and New York. They thought the only explanation for higher rates west of the Mississippi and the still higher rates west of the Missouri was that competition between the several trunk lines running east from Chicago kept rates low, whereas out on the prairies, the lack of competition allowed companies to gouge their captive clients. Farmers in Texas, a state that had given considerable public land to the railroads, were infuriated by the rail companies' failure to complete their lines in the time required by their charters. Everywhere, Americans wondered if the free railroad passes given to members of Congress and other legislators constituted bribes, designed to persuade them to ignore unfair rates. The public's unhappiness with railroads in the late nineteenth century led to a national policy of strictly regulating and supervising railroads, which was destined to endure into the last quarter of the twentieth century. When railroads had a natural monopoly, it made sense for the public to intervene in the absence of competition, but the country's determination to control railroads persisted long after real competition developed from automobiles and trucks running on government-financed highways and airplanes taking off from publicly built airports.

The national policy of strictly controlling the railroad industry took root in the 1870s with the so-called Granger Laws—laws passed by Midwestern farming states to regulate railroads. Those laws, named after a farmer's organization, the National Grange of the Patrons of Husbandry, eventually ran afoul of the interstate commerce clause in the Constitution. When an 1886 Supreme Court decision (the *Wabash* case) drastically limited states' ability to regulate intrastate commerce that had interstate links, Congress gave the federal government jurisdiction over railroad traffic. The Interstate Commerce Act of 1887 mandated fair rates for interstate railroad traffic and established the quasi-judicial Interstate Commerce Commission (ICC) to supervise railroads. Congress approved the act by a vote of 219 to 49 in the House of Representatives and 43 to 15 in the Senate, indicating strong public support for it. The creation of the ICC constituted a landmark in the evolution of national transportation policy,

but a series of court decisions over the next quarter century undermined the ICC's effectiveness. Not until the Progressive Era, during the presidencies of Theodore Roosevelt, William Howard Taft, and Woodrow Wilson, did the ICC effectively control railroads. The 1903 Elkins Act forbade secret rebates to favored shippers. The Hepburn Act of 1906, one of Roosevelt's most important reforms, gave the ICC power to actually set railroad rates (subject to appeal in the courts) and extended its jurisdiction to express companies and oil pipelines. During World War I, the federal government took total control of railroad operations after bad weather and inept distribution of freight cars caused a breakdown in the nation's rail system. After the war, however, railroad operations returned to prewar conditions, but the government retained a high degree of control over the railroads. For the next 60 years, the ICC opposed the railroads' efforts to fight truckers for freight by slashing rates, and the government's antitrust policies discouraged railroad mergers and consolidations.

In the early twentieth century, just when the public began insisting on strict regulation of the apparently monopolistic railroads, two new technologies—the automobile and the airplane—emerged, for which new transportation policies had to be devised.

Automobiles

Although an experimental automobile was demonstrated in France in 1769, the first really modern cars were invented in Germany in 1886. Despite being steadily improved in succeeding years, autos remained unreliable and expensive until Henry Ford introduced his Model T in 1908, a truly revolutionary advance over earlier vehicles. Remarkably sturdy, easily repairable, and priced at $825 initially—and sold for under $300 in the 1920s—it was within the reach of the middle class. Ford's Model T and a range of cars produced by over 200 other manufacturers brought a public clamor for good roads, and governments at every level responded. From the 1830s to the early years of the 1900s, the federal government had contributed little to America's roads, but from Woodrow Wilson's administration to the present, it has consistently played a major role in the building and maintaining of America's highways.

Wilson signed the Federal Aid Road Act in 1916, laying the foundation of the federal highway policy. This act, which had epochal implications for federal-state relations because of its matching-dollar provision, offered cooperating states $5 million in 1917 and an additional $5 million each year thereafter (culminating in $25 million in 1921) if they would spend a dollar of state money for each dollar they received from the federal government. Allocation of the 50:50 matching dollars to the 48 states occurred according to a formula based equally on area, population, and post road mileage. For nearly a hundred years, the federal government has appropriated highway money to states under such a matching-dollar system, but the ratio between federal and state dollars has varied greatly, sometimes going to 90:10 for parts of the interstate system. The formulas, always the subject of intense political debate, have become far more complicated than the original one based on population, area, and post roads. The most important of the federal highway matching-dollar programs, the interstate system launched in 1956 during Eisenhower's administration, began after fierce debates. The creation of that system required major decisions about transportation policy. Should trucks pay fuel and tire taxes comparable to the real estate taxes railroads paid to states and localities? Should truckers' fuel taxes be as high in relation to their vehicle weight as passenger car fuel taxes were to the weight of automobiles? Should most of the interstates be toll roads paid for by users? Americans answered all these questions in the negative.

Airplanes

The Wright brothers realized one of humanity's greatest dreams in 1903. News of their flight spread speedily, and within a quarter century, large numbers of Americans had seen airplanes thanks to the barnstormers who seemingly flew into every hamlet. Although airlines and airplane manufacturers operated as private industries, a consensus developed that government at the national, state, and local levels should establish policies that would help this exciting new form of transportation—all the more so after World War I demonstrated the military significance of airplanes. The earliest planes were marvels, but they were not very efficient. Not until the first modern airliner, the Douglas DC-3, began flying in 1935 was it possible for an airline to make a profit just from the passengers its planes carried. In the 1920s, under the pretense that the U.S. Post Office had a desperate need to speed mail through the air, the federal government began awarding airmail contracts to airlines. This stimulus and the creation of a system of navigation aids with federally paid air controllers, became as vital to the airlines as federal land grants had been for the Union Pacific and Central Pacific Railroads in the 1860s, and few among the public begrudged that help. States and localities assisted the airlines by constructing airports and not charging the airlines for the total cost. And in the mid-twentieth century, to ensure that airlines made money, the Federal Aviation Administration limited the number of airline routes and regulated ticket prices.

In the last third of the twentieth century, a fundamental change in national transportation policy occurred as the nation adopted deregulation—although it would be more accurate to describe this as a policy of less regulation. In 1978 President Jimmy Carter approved legislation deregulating the airline industry. Total deregulation had not occurred—federal inspectors continued to enforce rules about safety and proper maintenance, and the actual flights of air carriers remained under the watchful eyes of air controllers. Deregulation actually meant a virtual end to restrictions on who could serve which routes and what prices airlines could charge for tickets. The results proved dramatic. Increased competition, lowered ticket prices, and passenger mileage more than doubled. New airlines sprang into existence, and some airlines, most notably Southwest, flourished. But all did not. Bankruptcy or forced takeover became the fate of some of the famous pioneering airlines, such as Pan American, TWA, and Eastern.

Jimmy Carter's administration also deregulated the railroad industry with the 1980 Staggers Act, named for a congressman from West Virginia—a state whose coal companies

had long chafed under the railroads' inability to cut freight rates without going through the onerous process of obtaining ICC approval. Even before the Staggers Act, the federal government had begun easing its antitrust policies to permit the railroad industry to merge troubled lines, and it had agreed to let the railroads shed their unprofitable passenger service to local governments' transit systems or, in the case of long-distance service, to a federally supported quasi-governmental agency, Amtrak (founded in 1970). A series of mergers resulted in two giant railroad companies, the Union Pacific and the Burlington Northern Santa Fe, controlling the West's historical routes from the center of the country to California; two other giants, CSX and Norfolk Southern, dominating railroad traffic east of the Mississippi; and two medium-sized railroads, Kansas City Southern and Illinois Central (the latter a subsidiary of a Canadian railroad), operated in between the western and eastern giants. As part of the trend toward less regulation, President Bill Clinton signed a law in 1995 that curtailed some of the ICC's powers, dividing its remaining responsibilities between the Surface Transportation Board and the Federal Highway Administration and terminating the ICC itself. In that same year, a federal trucking deregulation superseded most state trucking regulations.

As the United States proceeded into the twenty-first century, national transportation policy rested on the assumption that much of the regulation that had developed since the late-nineteenth-century days of the Granger Laws unduly hampered American economic development. Recent trends continue to move toward some sort of deregulation, but that does not mean railroads, airlines, trucks, passenger cars, tugboats and barges, and pipelines operate in a totally laissez-faire state. Through the power of the purse, in such laws as the Intermodal Surface Transportation Act of 1991 and its 2001 successor, the national government continues to mold transportation policy. Using the threat of withholding highway funds, for example, Washington has successfully pressured states to enact laws requiring the use of seat belts and curbing driving under the influence of alcohol.

In the coming years, debates about transportation policy will center on certain key issues. How far should deregulation proceed? How should the nation weigh the social benefits of Amtrak against its inability to be self-supporting? In the urban areas, how should federal money be divided between mass transit and highways? What is the relationship between transportation policy and urban sprawl? How should transportation policy relate to petroleum policy?

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Urbanization

Urbanization involves an ongoing process of social and economic transformation resulting in and maintaining high-density population concentrations. The U.S. Bureau of the Census defines an area with a population concentration of 2,500 as urban land. Early urban areas (predating 1850) were associated with centers of finance and modes of transportation such as ships and railroads. In the midwestern and northeastern United States, many urban centers expanded at the turn of the twentieth century when immigrant populations from Europe and migrant populations from more rural areas moved into the factory cities of the Northeast for economic opportunities in mass industry and commercial districts.

At first, the urban expansion of the nineteenth and early twentieth centuries occurred in an unplanned manner. The industrialized American city of the late eighteenth and early nineteenth centuries prompted economic growth, and the forces of trade and commerce created both advantages and disadvantages for the urban dwellers. Prior to mass industry and modern transportation systems, the maximum expansion of an urban population remained relatively small, around 30,000—enough to maintain a social cohesion within the urban geography. With the advent of industrialization, as cities expanded beyond former proportions with populations of various cultural and ethnic characteristics, component neighborhoods developed according to the social and economic attributes of the resident population. As a result, social cohesion became more characteristic within neighborhood boundaries, and neighborhood locations took on patterns that distinguished the wealthy from the poor. Wealthier neighborhoods were located near commercial districts or in suburban locations, whereas low-income neighborhoods often developed near the factories where residents worked.

The three essential components of the city were the factory, the railroad, and the slum. According to the Tenement House Commission of 1894, around the turn of the twentieth century in New York City, three out five residents lived in slum neighborhoods. Experts define the term *slums* as urban developments and poor neighborhoods; more typically, they are described as working-class neighborhoods characterized by deteriorating and overcrowded housing. However, new tenement apartments, built by investors to maximize the number of people per square foot with minimal ventilation, also made up part of the slum landscape. In the beginning of the twentieth century, some Americans responded to slum development by attempting to alter the behaviors of workers through such measures as closing down saloons, teaching immigrants to behave like Americans, increasing police forces to maintain order, and providing health services to prevent contagious diseases from spreading into more affluent neighborhoods. Therefore, this period of urbanization became characterized by urban administration and charitable organizations that treated poverty-ridden slum neighborhoods as elements of diseases, something to be controlled, contained, and reformed (hence the term *blight* for working-class sections of the urban environment). By the 1920s housing investigations and urban zoning were incorporated in the functions of many local urban administrations. But investigations often were limited to reporting on the immoral and unsanitary behaviors of individuals rather than criticizing the owners of slum housing who profited from the rental properties.

Urban studies in the 1930s relied on the ideology and methods of analysis that developed in an age of emergent sociological studies; these studies were dominated by the work of Charles Darwin in the field of biology and then Herbert Spencer and Social Darwinism. Spencer's basic Darwinian premise held that everything in the universe starts out incoherently and gradually becomes coherent. Therefore, it was argued, human society and the urban hierarchy, from rich to poor, developed as part of a natural order of things. Those who were most successful had superior skills in the division of labor and subsequently reaped rewards through differences in the wage structure and in the quality of urban housing. Experts described the emergence of a variety of urban neighborhoods, from the slums to the mansions of the rich, as functional in natural Darwinistic models of the human evolution of inferior and superior social groups, often identified by race

or cultural attributes. Establishing the classical tradition in urban studies based on Darwinian ideology, Robert E. Park and E. W. Burgess provided a seminal work, *The City,* on urban development theory in the field of human ecology. There, the relationship between social changes, group mobility, and housing quality became established. In an article titled "Succession: An Ecological Concept," Park explained his notion of cities and growth as the movement of populations to natural areas. Cities were locations that grew like rings on a tree, with the growth based on the social characteristics of populations. In fact, the analogy of tree rings is a biological reference that presumed human society had two levels of natural organization that determined growth—the biotic (natural) and the cultural. The biotic occurred in the unthinking realm of human existence that was analogous to plants, where plants have natural areas of development based on unthinking natural competition. For Park, all else with regard to humans and the social order remained cultural.

Park and Burgess based their work on economic ideas of evolutionary change as the product of competition resulting in the survival of the fittest, another Darwinian concept. Processes of neighborhood development began, they contended, with the commercial development of the city. Component neighborhoods surrounding the commerce of the city competed for space. The relationship between unique resident groups and their status in the division of labor, so necessary to the economy and efficiency of the city, determined the relative status for each neighborhood. The less necessary or redundant the labor was, the lower the quality and value of the neighborhood. However, they noted that these changes had dimensions limited by preexisting structural or cultural formations that created the larger collective civilization. Park found that society, in its biotic and cultural forms, took on territorial dimensions, whereby some cultures lived in poorer inner-city areas near industrial sites and other cultures lived in more desirable urban and suburban areas. He likened this phenomenon to Darwin's web of life, which, in human dimensions, took on the particularly human characteristics of survival of the fittest within the framework of laws and customs. In the human ecology model for urban development, there was a parallel theory fundamental to economics at that time. In *Introduction to Economic History* (1922), Norman Scott Brien Gras outlined the entire story of economic history as evolutionary stages manifested in metropolitan society, the economy, and the natural laws of human nature and competition.

Based on the work of Burgess and Park, economists often describe the ideas of social mobility, housing, and labor as the natural order of human activity, tied to the characteristics and behaviors of social groups. Such arguments underpinned public and private policies that guided institutions to discriminate against minority communities. In the 1940s Amos Hawley took the focus of analysis away from the "natural" abilities of particular social groups and instead examined human ecology as it adapted to the demands of a capitalist system. Although Hawley discussed the urban model of community development as clusters or neighborhoods identified by residents characterized by divisions of labor, his theory defined community as part of a social system that was primarily economic in its dimensions. Similar to Park and Burgess, Hawley observed that a community functions as a society that takes shape around the local economy, similar to an organism that takes shape around its particular function. But Hawley regarded the economic system, not culture or human nature, as the ultimate determinant of the internal development of the community. In spite of his differences with the Park and Burgess work, Hawley described the community's development in urban society using evolutionary references to the natural world, much as succession theory did. His term *system* development was analogous to the development of a biological system. Hawley regarded a society as a formation interdependent between a population and the capitalist environment—similar to the system of an organism in formation in a particular environment. The circulation of the system remained dependent on the way that capital maximized the operation of the system toward profit. In Hawley's view, capital interacted with people in the system, just like the rest of the environment, and it was responsible for the characteristics of community development. He prioritized the capitalist economy as an external environmental factor and a source of contention to assimilate within the system in order to take on particular and useful dimensions. Hawley proposed that the development of the urban system should be scientifically examined as a way of understanding a capitalist society and its methods of circulation and evolution as it entered the system and reformed the community. He regarded the capitalist economy as invasive and sometimes counterproductive in social formation and advocated for an ecological approach to class analysis. The environment did not exist as a deterministic evolutionary process in this case, he said, but was part of an interactive and interdependent economic process.

Hawley explicitly stated the economic dynamics in a human ecology of change. In fact, any theory of the communities formed as people come together in a particular place cannot dismiss the economically interdependent relationship. In this sense, households, neighborhoods, and communities operate as interdependent economic units, and within the community, each household creates a value. Economists describe households and the places within which they live as subunits of neighborhoods within a larger community and the sustaining economic system. The logic seems clear in terms of the literature on slums in the twentieth century. People with poor wages lived in poor dwellings. Therefore, society and the various neighborhoods in the community environment of the urban work world will change as work opportunities change. In terms of the industrial economy, the booming demand for workers during both world wars and the populations that migrated into the urban areas for jobs where opportunities and the demand for labor opened up caused the urban character to expand and change. In periods of depression, the reverse process would occur. As work opportunities decreased, some neighborhoods would become more vulnerable than others to adverse effects. In many cases,

low-skilled labor in the manufacturing sector realized the changing tide of the economy first.

Changes in the urban economy and society appeared before World War II. Without effective housing programs for inner-city neighborhoods, many buildings continued to deteriorate. The U.S. Housing Act of 1937, defined the term *slum* as "any area where dwellings predominate, which, by reason of dilapidation, overcrowding, faulty arrangement or design, lack of ventilation, light or sanitation facilities, or any combination of these factors are detrimental to safety, health, or morals." In the 1930s the federal legislation designed to address urban slums came under the short-lived Public Works Administration and public housing programs. Subsidized public housing developed as a new legislative concept that was never popular with strong lobbies such as the National Association of Real Estate Boards (NAREB). In the 1950s public housing programs came under heavy attack in the hearings led by Sen. Joseph McCarthy, where they were depicted as part of a socialist or communist policy agenda.

Slum neighborhoods in cities throughout the nation remained neglected because of opposition to government housing programs for the poor. But there was no similar opposition to other federal housing programs aimed at private home ownership. Subsidized loans for homes helped to bail out failing banks at a time when many Americans attributed economic depression and previous economic hardships to the devastating effects of business cycles in the capitalist system—a situation that led many to question the viability of such a system. So the government gave the economy a source of growth by subsidizing the private home market. Specifically, in the 1930s the federal government provided incentives for home ownership in the form of subsidies, including support for contractors who built large suburban communities. Subsidized home ownership also shifted economic growth and employment from the city to the suburbs, leaving inner-city residents with limited opportunities for jobs or affordable, quality housing. By the time the Great Depression ended, some major precedents had been set that would create the basis for all future developments in housing legislation.

The housing legislation of the 1930s bailed out banks, provided opportunities for home ownership, and quieted much of the social unrest of the times. But the critical response to the challenges of the day provided a form of long-term legislation for home ownership and housing that led to "suburbanization," at a time when transportation made it feasible to establish residential neighborhoods farther from factories. These compound developments led to a population decline in the major cities of the Midwest and Northeast. Subsidized housing loans helped to create massive suburbs in the periphery of urban centers, and new transportation infrastructures redeveloped cities in response to the demand for automobile travel in an era marked by the commuter relationship between suburbia and the city financial center. Eventually, as critical masses located outside city boundaries, the financial industry and economic growth followed as nodes of suburban financial centers, as opposed to the former model of central finance in inner-city commercial and financial districts. But subsidized home ownership remained exclusively for white city dwellers. Many people of color found their communities were left behind; they clustered in poor neighborhoods and found their job opportunities had decreased.

Urbanization in the 1950s occurred as a result of public and private policies for investment and the perception of the characteristics of poverty associated with the inner-city minorities and a variety of problems that existed only in certain urban neighborhoods—the other America. In the classical tradition, the other America included a population that existed outside the economic and social mainstream of the rest of the nation. The classical theory of urban development lacked a critical perspective discussed in the work of David Harvey (1973), a prominent author on city planning and social justice issues. Urban planning and zoning had a history of maintaining the "city beautiful" with parks and eliminating or degrading poor neighborhoods in the interest of new transportation systems to convey suburban populations to jobs and shopping in the core city. The poor and minorities were restricted to certain zones and kept out of wealthier neighborhoods to preserve property values. Raymond Mohl noted that American planning focused on the needs of city officials and businesspeople instead of the lower classes—the opposite of European planning, which incorporated all aspects of the city. Social concerns continued to drive urban planning in Europe, whereas in the United States, the movement focused on real estate values and re-creating the aristocratic city.

Harvey's work on the topic of urban development contributed greatly to changing ideas about the natural processes of housing deterioration and real estate investments in rental properties. Harvey described urbanization as a development in modern history within the context of an environment of local power and business interests. He coined the term *redlining* in describing discrimination and the banking system and the related aspects of rental property and landlord disinvestments that existed both in urban planning and in federal and local guidelines for lending. In Harvey's analysis, nothing natural or evolutionary brought about urban decay. Rather, these developments occurred as the result of human decisions made within institutions that condoned racism by singling out communities of color as high-risk neighborhoods that could not qualify for the loans necessary to their development.

In the 1950s a neoclassical analysis of urban neighborhoods and slums ignored the social justice issues Harvey raised. Milton Friedman provided the theoretical basis for eminent domain in his classic work *Democracy and Freedom* (1963), in which he described the forced removal of particular urban neighborhoods and their populations as a necessary plan for the improvement of the entire city. According to Friedman, as local governments selected neighborhoods for purposes of redevelopment, a decrease in low-income housing led to the displacement of poor populations. But the social consequences for slum residents translated into gains for the greater community as luxury apartments and commercial buildings replaced dilapidated buildings surrounded by

business districts. City planners typically referred to slum residents as part of a cost-benefit equation, whereby the slum dweller as a social deviant required scarce municipal resources in the form of services. As Friedman saw it, the result increased taxes and neighborhood effects that compromised property values and caused the flight of the middle class. In addition to the consumption of scarce services, the slum dweller existed outside the social and economic norms of the larger community and was thus responsible for the physical condition of the slum neighborhood. Friedman noted that slums fulfilled their requirements by providing basic housing to unproductive or underproductive members of society.

The Friedman analysis failed to provide a historical context for the accumulated problems of segregated zoning, preferences in home loans, community disinvestments, or the real estate interests of absentee landlords. The fact was that poor communities and largely communities of color found themselves permanently displaced as city officials destroyed entire neighborhoods for the purposes of slum clearance when investors found that new commercial buildings for banks, offices, and luxury apartments could increase the value of inner-city property and bring a better return on their real estate investments.

In the works of both Hawley and Harvey, the lack of a critical perspective led to viable alternatives to the classical economics of evolutionary urban development. Hawley addressed the factors of capital accumulation in a capitalist society, and Friedman acknowledged important factors regarding urban economies, unemployment, and the slums. For his part, Harvey brought to the fore the fact that communities of color were excluded from housing opportunities during the period of suburbanization and that many urban communities became zoned or redlined into areas that were denied access to loans; further, he argued that these developments occurred as the result of a public policy calculated in a racist institutional environment and were lobbied for by powerful interests. However, in their differing versions of urbanization, all three authors discussed the logic of natural competition and the inability of certain groups to adapt. It should be noted that Harvey's and Friedman's arguments were advanced in a time when federal programs set the stage for urban riots—violent uprisings that occurred throughout major cities. The chaos of urban riots led to a more organized community activism that was an outgrowth of city development issues and public policy. Activist planners—students of the social justice argument who were concerned with issues of equity and social justice in the city—took up the cause of urban activism.

In the 1970s and 1980s, the social justice approach to urbanization failed to account for the reality that an economic shift had limited job opportunities in the city. Suburbanization, transportation, and technological changes created new locations for economic development outside the city. Urbanization under inner-city activism contributed to an inner-city population that was dependent on increases in public welfare and bereft of opportunities for social mobility. The failure of social programs, the findings of the McGone Commission on the Watts riots (in 1965), and President Lyndon Johnson's Kerner Commission's investigations into the large number of people of color acting against local symbols of white American society in 1967 challenged the limitations of the social justice model. In the 1970s these findings led to theories of "spatial mismatch"—theories that examined inner-city population locations and economic growth as two distinct and separate developments that led to a mismatch of jobs and people seeking jobs. Both commission reports discussed the problems of residential segregation that contributed to a lack of access to the economic growth that shifted from the city to the suburbs. A contributing work on this issue, written by John F. Kain and titled "The Effect of the Ghetto on the Distribution and Level of Nonwhite Employment in Urban Areas," acknowledged that as certain groups received access and opportunity to move to the suburbs, so did the economy. Cities that were formerly the centers of industrial production moved to the periphery of postindustrial developments around employment associated with jobs such as those in services and high technology. By the 1970s and 1980s, theories of spatial mismatch became tangible explanations for increases in urban decay and urban poverty. The central business districts of urban areas saw retail increasingly move to megamalls in suburban areas, and inner-city core businesses and employment continued to decline. The inner-city poverty rate, which had been decreasing, began to rise. Large portions of the population in cities were simply left behind, and inner-city people of color who never escaped poverty found their opportunities were even more limited.

In "The Spatial Mismatch Hypothesis: Three Decades Later," Kain discussed the historical and statistical warfare between proponents and opponents of the spatial mismatch theory. The basis for the theory was that housing discrimination led to the residential isolation of minority populations, which denied them access to employment opportunities. William Julius Wilson revived the theory in his book *The Truly Disadvantaged: The Inner City, the Underclass and Public Policy.* Wilson's work revisited the idea that inner-city poverty was the result of a racial group being isolated from opportunity because of a disparity between the locations of residences and job opportunities. Bennett Harrison discounted this argument by using empirical evidence to demonstrate the prevalence of the "dual labor market" in the postindustrial era. In his analysis, Harrison concluded that lack of skills, not spatial dislocation, created the problem. Inner-city minority populations did not possess the skills to adapt to the new technological industries that were replacing older, less-skilled industrial production lines. Therefore, in a dual labor market—one for the less skilled and one for those with higher-level technological skills—the compensation for the skilled workers proved adequate, whereas that for individuals without skills remained less secure and certainly less rewarding; in turn, this situation reduced the unskilled worker's capacity to find and keep a job.

Spatial mismatch provides an analysis of the factors of unemployment and wages based on the history of housing discrimination. Harrison argued that changes in the require-

ments for skilled labor had put inner-city minorities in poverty. But in both cases, the opportunity structure of employment for communities of color remained limited, either by a lack of educational opportunities or a lack of economic opportunities. And in any case, housing and investment opportunities were limited, putting inner-city communities at risk for high unemployment and poor housing conditions.

Sen. Daniel Patrick Moynihan offered a radical departure from the notion of institutional discrimination. The Moynihan argument concluded that the problems could be traced to the dysfunctional and pathological culture of the minority population typically found in African American, inner-city neighborhoods. The aberrant urban culture was primarily distinguished by the prevalence of female-headed households, crime, and out-of-wedlock births, all of which caused the deterioration of inner-city neighborhoods. Whereas spatial mismatch acknowledged the compounded problems of institutionalized and historical racism, Moynihan's arguments established a basis for social welfare reforms designed to encourage responsible behaviors (marriage and employment), rather than institutional reforms and civil rights.

David Bartlet, David Elesh, Ira Goldstein, George Leon, and William Yancey, in their work "Islands in the Stream: Neighborhoods and the Political Economy of the City," examined the political economy of urbanization in a work on the postindustrial city. The authors outlined the history of redlining and disinvestments for urban communities of color throughout the period of industrial flight in the 1970s and 1980s to dispel evolutionary notions concerning urban populations. They provided the basis for a continued discussion of urbanization as located in a period of deurbanization in the absence of institutional reforms. Their argument held that the continued discriminatory practices of financial institutions and government policies accelerated the decline of specific neighborhoods in the period of transition that occurred as industries moved from urban centers to other regions or nations. At that time, the phrase *postindustrial economy* was often used to describe a major trend in evolutionary urban changes in the Western world. In the literature, *postindustrialism* meant the process whereby losses in mass-manufacturing jobs were replaced with jobs in high-technology or service industries. The postindustrial age was incorporated into postmodern theories of a society that moved in social stages through major changes in production. Modern societies invested in the technology for mass production, and postmodern societies moved out of mass production and into the information age with more advanced computer technology. In this developmental model, service industries were seen to operate as the predominant sources for employment in the postindustrial/modern age. In "Neighborhoods and the Political Economy," the authors described the city as various neighborhoods, not in the biotic system of the evolutionary economics of natural development but as a composite of neighborhoods within an urban environment, where officials and investors continued to target certain neighborhoods for redevelopment. Neighborhoods became *islands in the stream,* a phrase used to describe areas within a city context as changing and interrelated entities. These neighborhoods were part of the circulation of labor, investments, and disinvestments that was organized by the various levels of governance in relationship to the larger context of the economy affecting the city. The discussion was posed as an alternative to a more simplistic and classical version of a monocentric city, or the city that grows "naturally" from the central business district to surrounding areas, like the rings in a tree. The deindustrialization and urbanization processes of the postindustrial cities coincide with the reindustrialization and urbanization of other areas, generally from the northeastern and midwestern industrial cities of the United States to the southern and the Sun Belt states. By the 1970s the movement and transformation of industry required changes in local government initiatives and practical and theoretical changes in planning that left some neighborhoods in economic and social disintegration.

The theories of postmodern industrial societies influenced the planning principles of urban development. The success of urban land-use strategies became measured by their capacity to prepare cities for future development in order to conform to the needs of service industries in the information age. Downtowns in large cities built new businesses and offices for corporate headquarters and financial services with computerized and centralized operations. Such plans have led to residential development for the modern aristocrat, the cosmopolitan urbanite, in a period when cities seek to revitalize and to increase populations with gentrified neighborhoods. In this case, the political economy of the city, rather than the science of nature and evolution, shapes urbanization. Even more classical authors of urban theory acknowledge that, as economic growth creates obsolescent spaces in postindustrial cities, revitalization plans displace poor populations considered obsolescent in the new industrial technologies. By contrast, spatial mismatch theories also describe the obsolescence of low-skilled populations. Therefore, urbanization would appear to be a natural and functional operation of society and the economy, combined with the more political dimensions of urban management on the part of government administration.

Even if the economic principles of the free market are the only standard by which to examine urbanization and its development, the contradictions are still remarkable because government policy and administration have directed urbanization. Government interventions, such as those in the Great Depression, have compensated for financial and social failures in the free market. Public subsidies for home ownership and transportation infrastructure have determined urban development. And planning and targeted public investments continue to influence the demographics of urban centers. The continued presence of poor neighborhoods, characterized by low-income groups and decreasing property values, serves as an impetus for urban redevelopment and the fluctuation of populations, moving back and forth from the suburban to the urban and from one region to another as the economy and jobs shift and as housing locations become targeted for change. This is an evolutionary model, but the

stages function as part of a decision-making process that has equated human development with profits in industry and housing and provided few opportunities for social mobility for those left behind in poor urban neighborhoods.

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War

The relationship of war to economic policy has been a two-way street throughout American history. The dynamics of wars have greatly affected the country's economic policy, and scholars often see at least some of the causes of America's wars as related to its economic policy. At first, the colonies that would become the United States were bound by the mercantilist economic policies of the British Empire, which frequently led the British to war with rival European empires. That situation eventually proved unbearable, resulting in the War of American Independence and a new set of economic policies. During the antebellum period, war and economic policy were almost always geared toward establishing American dominance and control over Native American land and turning it into surplus-producing farmland. As the Industrial Revolution progressed in the latter part of the nineteenth century, economic policies to aid industrialization came to drive American military action. By the end of the century, America was involved in wars to increase its share of the world's markets, not to expand the amount of the North American mainland that it settled. Eventually, the goal of increasing America's share of world markets gave way to a desire to restructure the basis upon which the global economy operated. Both these policies caused conflict, but slowly, America's preferred economic policies for the world economy triumphed. Despite this success, the United States still uses—and must use—military means to maintain the hegemony of its vision of appropriate economic policy.

From Colony to Republic, 1580s through the1780s

As noted, economic policy dominated America's history from the beginning. The very settlement of North America and the Caribbean by the English began as part of England's adoption of a mercantilist economic policy. Settling North America contributed to that policy by providing the markets and raw materials that England needed to achieve the mercantilist goal of trade surpluses. The process of settlement produced frequent conflicts. Native peoples resisted the loss of land and resources to settlers, sparking countless wars between the groups. And rival European powers tried to control the same areas that England did, leading to a series of wars between the major European countries.

As time wore on, these wars between the British and the Native Americans and the British and their European rivals merged. This outcome was most apparent in the aptly named French and Indian War, a conflict that proved to be a critical turning point in British policy toward what would ultimately become the United States. Both sides made extensive use of Native Americans during the war. The British and their American colonists prevailed in the war, giving the British Empire authority over all of mainland North America east of the Mississippi River except for Florida. Britain was now free from the interference of European rivals in its development and exploitation of its North American colonies.

Britain's colonists, however, proved to be a new obstacle to the Crown's plan, for their vision of the future of North America was increasingly divergent from that of the home country after the French and Indian War. The colonists supported an economic policy of expansion and settlement on Native American lands. The primary goal of the British, by contrast, was to ensure that North America play its role in the trade patterns of the empire. Settlement on Native American land interfered with this plan by creating potential conflicts that could easily disrupt the established trade patterns between Britain and either its colonies or its Native American allies. To prevent that outcome, the British government issued the Proclamation of 1763, which prohibited the colonists from settling on much of the land over which Britain recently had gained control, directly contradicting the desires and expectations of the colonists.

As if that were not galling enough to the colonists, the British began tightening up enforcement of the mercantilist policies that ensured that the trading relationship between the colonies and Britain worked in Britain's favor. Earlier British governments had created a series of laws known as the Navigation Acts to accomplish this; however, enforcement of these laws had been lax because previous generations of British officials held an attitude of salutary neglect toward their New World possessions. This attitude changed

dramatically after the French and Indian War, and the British government began to enforce laws such as the Navigation Acts more vigorously. These measures were designed to limit the types of products that the colonists could produce, forcing them to provide surplus raw materials for export and to import manufactured goods and agricultural products that could not be grown in British North America. The linchpin of the system was the requirement that all this trade had to pass through ports in Britain. These policies limited the diversity of the colonial economic structure and ensured that all trade throughout the British Empire passed through the hands of British-based merchants.

Resentment over these new policies was one of the issues that led 13 of Britain's North American colonies to declare independence from the Crown in 1776 and form the United States. Even while mired in its War of Independence, the government of the new country made dramatic reversals of British economic policy. States began giving citizens who were willing to help in the war grants of land that had been put off-limits by the Proclamation of 1763. People who took the land grants now had a vested interest in the success of the war. If it failed, their land grants would be worthless.

Instead of all trade having to go through Britain, the new government allowed direct trade with any country except Britain. This exception was a foreshadowing of a common American policy during times of war and conflict—embargoing trade against the country's foes. When the dust settled after the chaos of the War of Independence and early attempts at forming a government, a new United States of America emerged; its Constitution gave the central government the power to determine economic policy and make decisions regarding war.

The Early Republic, 1790s through the 1830s

Almost immediately, the new government of the United States found itself faced with wars on multiple fronts. In 1793 the French Revolution and the Napoleonic Wars broke out, engulfing the major states of Europe. Both sides engaged in activities bordering on piracy, which many Americans saw as provocation for war. Although President George Washington tried to pursue a policy of neutrality, how to respond to these conflicts became a contentious issue for the emerging factions of American politics, the Federalists and the Democratic-Republicans.

The Federalists hoped to make America the junior partner in a British-dominated global economy, and going to war against Britain was obviously not conducive to achieving that goal. The first step toward bringing about the Federalist policy was the negotiation of Jay's Treaty. This treaty put American trade with Britain on a most-favored-nation status, closely tying together British and American trade. It also contained promises from Britain to refrain from the types of provocative acts that had led to calls for war. With the country's trade tied to Britain and the reasons for war against that nation muted, the Federalists next tried to further cement the Anglo-American alliance by leading the country to war with Britain's enemy, France. Highlighting provocative French actions, Federalists tried to scare up war hysteria in what became known as the quasi-war with France. Their attempt failed, and they lost power to the Democratic-Republicans in the election of 1800.

The Democratic-Republicans felt that American policy should be based on the ideas of freedom of the seas and the right of neutral countries to carry on trade without harassment by belligerent countries. Ironically, to bring this about, they pursued a policy of setting up embargoes against belligerent countries, thereby denying American merchants the freedom to work out trade arrangements with their counterparts in warring countries. The embargoes were poorly and inconsistently implemented and incredibly unpopular. Worse, they proved economically devastating. Despite this failure, the policy of embargoing countries to accomplish foreign policy objectives became a mainstay of American diplomacy.

To obtain support for the embargoes, the Democratic-Republicans whipped up war hysteria, particularly against Britain. This hysteria, combined with continued British provocation, led President James Madison to declare war against Britain in 1812. America's motives and aims in the War of 1812 illustrate important points about Democratic-Republican economic policy. Geographic expansion to get more farmland so that future generations could live as yeoman farmers was the primary concern of the Democratic-Republicans. They believed a successful war with Britain would solidify American control over areas such as the Louisiana Purchase (which the Democratic-Republicans had obtained for the United States peacefully) and perhaps lead to the addition of British-held territory to the United States. The war ended in a stalemate in December 1814, although many historians conclude that America's respectable showing in it ensured that European powers would not seize the unsettled American lands west of the Mississippi River.

Wars with European powers were not the only conflicts that Americans faced in this period. The policy of allowing settlement on Native American land led to a series of small-scale frontier wars. The Native Americans were often aided by Britain and Spain, the two countries that claimed the North American mainland outside the United States. Despite these conflicts and the deaths of thousands of settlers and tens of thousands of Native Americans, the U.S. government continued unabated to pursue its policy of conquest and expansion in Native American lands. Although it took until the 1830s before the last Native American tribes were moved west of the Mississippi River, the policy of turning their land into American settlements, through warfare if necessary, continued with great success throughout the period. This process would be repeated after the Civil War, when widespread interest in the settlement of the Louisiana Purchase area began. Changes in warfare technology made it even easier then for the U.S. government to push the Native Americans aside.

Be Careful What You Ask For: Manifest Destiny and Civil War, 1830s through the 1860s

By the 1830s many American political leaders spoke of the United States having a "Manifest Destiny" to expand, by force if necessary, across the continent to the Pacific Ocean. This

ethic was an intensification of the previous policy of taking land and opening it up for settlement. Control of the West Coast was also seen as important by the merchant class, which was trying to gain markets and products in East Asia. Fulfilling this destiny would bring the United States into armed conflict not only with Native Americans but also with the new country of Mexico. Ultimately, the success in those conflicts would leave America with new, internal conflicts to address, which were only resolved by the most damaging war the United States ever fought—the American Civil War.

In an attempt to dilute the Native American population with Anglos, the Mexican government began a policy of encouraging American citizens to settle in its northern frontier areas, especially Texas. Soon, the number of Americans in much of the Mexican northern frontier greatly exceeded the number of Mexicans. Conflict arose when the Mexican government began to enforce its prohibition of slavery in Texas. In 1836 the Americans successfully revolted and established an independent Texas, which sought admission to the United States. Although domestic political considerations prevented the Texans' request from being accepted until 1845, many U.S. citizens felt that the controversy between American Texans and Mexico would be the catalyst that would allow the nation to complete its Manifest Destiny mission.

This belief was well founded. As soon as the United States annexed Texas, Mexico, which had never fully accepted the independence of Texas, began mobilizing troops and sending them to a disputed border region. The United States responded by dispatching troops there as well. Inevitably, this led to skirmishes and casualties, which the administration of President James Polk used as justification for war. The United States won the war and added much of Mexico's northern frontier to its holdings, completing the southern part of its Manifest Destiny project. A treaty with Britain in1845 divided the Oregon Territory between the United States and Britain, giving America control over the areas needed to complete its Manifest Destiny goals in the more northern latitudes.

The Polk administration's acquisition of such large amounts of territory created a serious problem for the American political system. The expansion of slavery had become an increasingly controversial issue since the Missouri Compromise, which allowed Missouri to enter the Union as a slave state and Maine as a free state and established 36º30' as the northern boundary for slavery in the United States. The addition of new territory opened this issue up once again. Generally speaking, Americans' positions on the expansion of slavery fell along regional and economic lines, with Southerners supportive of it and Northerners opposed.

The country's economic development had led to regional economic specialization, which also caused people in different regions to support different economic policies. Northerners, increasingly reliant on manufacturing as their economic base, favored high tariffs to protect the domestic market from foreign competition. They also felt the revenue generated from those tariffs should be used to fund public works and infrastructure projects, known as "internal improvements," that would facilitate the movement of goods within the United States. Southerners generally held opposing views on economic policy. They believed tariffs should be low and that the federal government should not fund internal improvements. Those living in the western frontier areas often leaned toward the Northerners' position. The issue of expanding slavery clearly tipped the balance in the western frontier toward that position in this sectional conflict. A local economy dominated by large plantations worked by slaves was generally incompatible with the lifestyle of the yeoman family farmer, a way of life that was sought by many on the frontier.

These regional cleavages about the country's economic policies deepened throughout the 1850s. After the election of 1860 showed that the North and the western frontier had firmly lined up against the South, the South attempted to secede from the rest of the nation and establish its own country in which it could follow the economic policies it favored. This precipitated the American Civil War. And just as the divisions that led to the Civil War were, in large measure, about economic policy, the war's outcome radically changed the direction of American economic policy.

In terms of economic policy, the primary winners of the American Civil War were the emerging industrialists of the North. The scale of the war and the mobilization efforts dwarfed previous American military endeavors. Congress gave generous subsidies to railroads to ensure that the transportation infrastructure needed to coordinate and prosecute the war would be available. Furthermore, contracts with the Union army greatly enriched several Northern industries. Although the American military's consumption had always had economic benefits, the Civil War brought such consumption to unprecedented heights.

The Civil War also settled the regional conflicts over the direction of American economic policy. The federal government laid the groundwork to continue its subsidization of railroad construction after the war through the Pacific Railroad Act. Slavery was abolished, forcing a redefinition of labor practices in large-scale agricultural enterprises. The Morrill Tariff, passed during the Civil War, began a policy of high tariffs to protect domestic manufacturers—an approach that would persist for over 50 years. In short, economic policy, which had previously operated largely in accord with the wishes of Southerners by condoning slavery and opposing high tariffs and internal improvements, underwent a dramatic reversal to favor those policies desired by Northern industrialists.

Empire Versus Free Trade, 1870s through the 1930s

The generation after the Civil War had only minimal experience with military conflicts, none of which touched the Civil War in terms of its sheer horror and intensity. There were, to be sure, campaigns to subdue the last remaining Native Americans west of the Mississippi River. But these campaigns, though devastating to the Native Americans, involved little mobilization effort on the part of U.S. government. And unlike previous conflicts in which state militias had to be activated, the post-1865 Indian wars were handled entirely by

the very small permanent, professional army that the United States maintained. Although the goal of these campaigns was the same as that embodied in the pre–Civil War policy of conquering land and expanding settlement, they were more about finishing up unfinished business rather than a resurgent domination of proagrarian economic policy.

The first major initiative spawned by the post–Civil War, proindustrialist economic policy that led to conflict was the attempt to gain an empire. Although Americans were busy putting down the last Native American resistance to white settlement, many other industrial countries were dividing the world's markets into formal and informal empires in an era known as the age of imperialism. Americans seemed oblivious to this subjugation of the world's markets until the depression of 1893, when some of them saw increased exports as a way to revive declining American industrial production and reduce price-crippling agricultural surpluses. America's tariffs had provoked retaliatory tariffs from other industrial countries, and the age of imperialism had closed off almost all the markets of the nonindustrial world, leaving the United States with few opportunities to export its surpluses.

American policymakers came up with two contradictory solutions to this problem. One was to ask the other industrial countries to abandon their empires and allow international trade to operate along the free trade principles first articulated in Secretary of State John Hay's Open Door notes. Although other countries politely paid lip service to Hay's principles, they made no fundamental change in how international economic relations were conducted.

At the same time, the U.S. government asked other countries to give up the economic privileges of their empires even as it was establishing an empire of its own. Citing the human rights abuses perpetrated by the Spanish colonial administration against the Cubans it governed, American media and policymakers whipped up anti-Spanish war fervor. When an American battleship, provocatively sent to Cuba to intimidate the Spanish, mysteriously blew up in the waters of Havana's harbor, the public demanded war, and the administration of President William McKinley quickly complied, asking for a declaration of war in April 1898. The United States easily won the Spanish-American War, and Spain ceded control of all its remaining overseas possessions outside of Africa to the United States.

The taking of Spain's colonial empire represented a fundamental change in America's economic goals in warfare. Previously, lands acquired by the United States were more or less cleared of the native populations and opened to settlement. This was not the case with the lands obtained from Spain. In fact, the way in which the United States established its rule over these areas was designed to discourage large-scale American migration and settlement. Cuba was made a nominally independent country, although with the Platt Amendment, the United States claimed the right to overthrow and replace any Cuban government with which it disagreed. The Philippines were made a direct colony of the United States. In regard to Puerto Rico, the Foraker Act created a new category (the unincorporated territory) that explicitly prohibited the process of territorial self-government and opportunity for statehood that had traditionally been observed. These policies suggest that America's desire was not to settle these areas; rather, it was to establish control of the economic activity and markets in them. To grow, an agrarian economy needs to bring more land under cultivation, but an industrial economy needs access to raw materials and markets. The policies practiced during and after the Spanish-American War suggest that American policymakers were shaping war policy to meet the needs of the country's changing economy.

American policymakers found ample opportunity to create economic policies to further economic growth during World War I. Much like the situation during the French Revolution and the Napoleonic Wars, the United States first followed a policy of neutrality and trade, and combatants on both sides again engaged in aggressive acts to disrupt American trade with their enemies. Eventually, again as in the earlier conflicts, these acts led America to enter into the war.

The U.S. government encouraged American businesses to take advantage of the increased opportunities for trade brought about by the war. As a neutral nation with an impressive productive capacity, the United States began supplying belligerent countries with many of the goods their war-diminished economies could not provide. Soon, both sides laid mines in shipping lanes, the British imposed a blockade around their enemies, and Germany announced a policy of unrestricted submarine warfare. Although the U.S. government protested these actions, it came down much harder on Germany, and American economic interaction increasingly favored the Allies. When the Allies no longer had the foreign exchange to buy American goods, the U.S. government allowed American banks to loan Allied governments money so they could continue their purchases. By 1917 the U.S. economy and many private banks and businesses had a vested interest in an Allied victory because of these economic ties.

This vested interest, created by American economic policy, appeared to be threatened in early 1917 by the Central Powers' increasing dominance over Russia, one of the Allies. Also, the Germans became more aggressive with their unrestricted submarine warfare, sinking three American ships in less than a week in March 1917. These developments led President Woodrow Wilson to seek a war declaration from Congress, which he received in April 1917.

The ideas of the Progressive movement heavily influenced wartime domestic economic policy in the United States. An expanded income tax was used to finance a sizable amount of the war effort. The Progressive notion of civic participation imbued the government's efforts to get the public to limit consumption of scarce resources and to buy bonds to finance the portion of the war that tax revenues could not. Using the regulatory boards established by the Progressives as a model, the government established the War Industries Board, which basically had the power to make all production, resource allocation, pricing, and labor decisions for industries critical to the war effort. Although the power was used only sporadically and for short periods of time, this was an important new development in wartime economic policy. For the first time in American history, the government claimed the right to run private-sector industry in times of national emergency.

Wilson devised a set of policies called the Fourteen Points of Peace to convince the public to support the war. These policies were to be a blueprint for how countries should conduct relations with one another after the war. Economic policy was very prominent in Wilson's plan. The Fourteen Points reiterated American economic policies such as the Open Door and the right of neutrals to trade unmolested in times of war.

The war ended favorably for the Allies, and in 1919, they drew up the Treaty of Versailles to reestablish peaceful and cooperative patterns of international relations. Wilson had hoped his Fourteen Points would be the basis for the treaty. Although the other industrial countries still largely paid only lip service to the Open Door policy, they did agree to accept Wilson's idea of the League of Nations, an organization that pledged to defend the rights of countries to carry out commerce in international waters. The league also set up a mechanism, the mandate system, that was designed to move nonindustrial countries from being ruled directly as colonies to formal independence. Ironically, although the league was Wilson's idea, the U.S. Congress chose not to join it, depriving the organization of the primary voice that sought to liberalize the world economy.

Despite these moves toward realizing the American vision of an international economy increasingly run by free trade principles, the United States itself followed policies that contradicted that aim during the 1920s and 1930s. As a result of the disruption of international trade patterns during World War I, Americans picked up a substantial market share in Latin America, which had been under the informal economic control of Britain since the early 1800s. To maintain control of these markets, the United States engaged in a series of small military interventions to remove Latin American governments that were practicing policies counter to that control. So, even as the United States was urging other countries to surrender economic control of their empires, it was unwilling to participate in the vehicle it had established to facilitate that end and it was creating its own informal empire in Latin America.

The outbreak of World War II led to substantial change in American economic policy. During the mid-1930s, a series of laws called the Neutrality Acts were passed, designed to cut off economic interaction between the United States and warring countries. The hope was that this move would prevent situations like those that contributed to America's entry into World War I. When World War II actually started in the late 1930s, the United States not only ignored or changed these laws but also clearly used economic policy to favor one side in the conflict. The most obvious examples of this are the Lend-Lease program and the embargo against Japan. Under the Lend-Lease program, the United States gave Germany's enemies surplus military equipment to use in the war effort. America had just started a massive military buildup, so it now had a great deal of "surplus" military equipment. America's policy was intended to make the country, as President Franklin D. Roosevelt described it, the "arsenal of democracy." The United States would use its economic might to equip other countries, which would do the actual fighting against the tyrannical forces around the world.

The United States began to use economic coercion against Japan to get it to end its war against China. By the summer of 1941, Washington had cut off all trade with Japan. Americans thought this economic pressure would force Japanese leaders to do as the U.S. government wished, since America was Japan's primary source of petroleum. Instead, the pressure led the Japanese to devise a plan to seize the oil-rich Dutch East Indies. To prevent American interference with that plan, the Japanese military felt it was necessary to destroy the U.S. Pacific Fleet and seize the American colony of the Philippines. The attack on Pearl Harbor was the first step in the plan, and with it came American entry into the war.

The war effort resulted in a wide range of radical economic changes. The policies followed during World War I were revived and expanded. Government agencies such as the War Production Board and the Office of War Mobilization took near complete control of the economy. By the end of the war, government spending accounted for almost half of the country's gross national product (GNP). Wages and prices were controlled by the government, as was the consumption of many goods through rationing. Many New Deal policies found expression in the war. Executive Order 8802 prohibited employment discrimination by firms with war contracts, and other regulations virtually required union membership for those in war-related industries. As a result, union membership rose by over 50 percent to almost 15 million by the war's end. The Commodity Credit Corporation became the model for a U.S. policy dubbed the "warehouse war," which sought to corner the global market in strategic commodities in order to deprive the enemy of them. Although these policies proved to be temporary, they demonstrate how vital economic policy is in situations of total war.

Creating and Maintaining a Liberal Global Economy

As World War II drew to a close, American policymakers turned their energies toward finding an economic policy that would help prevent future worldwide conflicts. Not surprisingly, their solution called for the world to embrace free market capitalism and the free trade principles of the Open Door system. Much of the world, however, had little interest in such policies. The stiffest resistance came from the communist Soviet Union, which was able to help spread communism to several places in Europe and Asia in the years after World War II. A new type of war, the cold war, erupted as a consequence. The cold war was often described as fundamentally being a clash of economic ideologies—U.S. capitalism versus Soviet communism. Each side devoted its foreign policy to making its economic policies the basis for the world economy.

Economic policy provided many tactics employed in waging the cold war. The United States used economic aid to shore up anticommunist governments. The most famous example of that was the Marshall Plan, by which Congress authorized the expenditure of several billion dollars to rebuild the war-ravaged economic infrastructure of Western Europe. This tactic established economic aid to foreign countries as a permanent tool of American diplomacy. However, the United States was quick to use military and economic coercion against those countries that did not support its economic

vision in the cold war. Some leaders who pursued economic policies contrary to America's wishes were overthrown, such as Mohammed Mossadeq of Iran and Salvador Allende of Chile. Others faced embargoes, such as Gamal Abdel Nasser in Egypt and Fidel Castro in Cuba.

Using economic policy to win the cold war sometimes led to policies that seemed counterintuitive to America's overall goal of making the world economy run along the lines of free trade and capitalism. The General Agreement on Tariffs and Trade (GATT), an institution designed to bring freer trade to the global economy, became a vehicle for economically tying countries to the United States through trade agreements. Global free trade gave way to trade bound to America.

The cold war had important influences on the domestic economic policy of the United States. For instance, the Keynesian revolution in economic policy was essentially completed by the cold war as governments accepted the theory that deficit spending was necessary to offset business cycles that included high unemployment and slow business growth. Government spending increased to fund the military necessary to fight the war, including an enormously expensive arms race with the Soviet Union and large-scale American military interventions in Korea and Vietnam. President Lyndon B. Johnson's decision not to raise taxes to pay for involvement in Vietnam led to serious economic difficulties by the early 1970s, prompting his successor to try to impose government controls over the economy (most notably, a temporary wage-and-price freeze). The cold war also provided some justification for expanding and maintaining the Keynesian welfare state that began with the New Deal. Keeping the population stable and prosperous took on greater saliency with the dynamics of the cold war, and a larger welfare state aided that process.

The cold war began to fizzle out in 1989 as the Communist governments of the Soviet Union and Eastern Europe collapsed. Even in the war's latter days, it was increasingly apparent that the next likely battlefield, both for combat and economic policy, would be the oil fields of the Middle East. Middle Eastern countries flexed their economic muscle during the 1970s, spearheading huge price increases that drove crude oil prices from $2 per barrel to $32 per barrel. Such dramatic price increases on this vital commodity wreaked havoc on the economies of the industrial countries of the world, America's cold war allies. This scenario foreshadowed the importance of the oil-rich Middle East in the post–cold war era.

The bulk of America's warfare and military operations in the 1990s were devoted to maintaining control of and stability in those oil-rich Middle Eastern areas. Unfortunately, these aims were somewhat contradictory. The post–cold war problems of the Middle East began with the 1990 Iraqi invasion of Kuwait. In what became known as the Gulf War, the United States obtained a UN sanction to lead a military operation designed to drive out Iraq and restore Kuwait's independence. The United States was concerned that Iraq would control too much of the world's oil supply if it kept control of Kuwait and that it might be tempted to seize Kuwait's oil-rich neighbors. After forcing the Iraqis out, the United States maintained tens of thousands of troops in the oil kingdoms of the Persian Gulf to prevent an Iraqi attack. The presence of these troops, however, offended religious extremists in the Arab world, who responded by forming a terrorist network called Al Qaeda. Al Qaeda launched a series of attacks against the United States, culminating in the assaults on the World Trade Center and the Pentagon on September 11, 2001. These attacks, which killed over 3,000 Americans, led President George W. Bush to declare the War on Terrorism.

The War on Terrorism led to a revival of many cold war economic policies, especially in regard to military spending and increased deployments of U.S. forces overseas. It was necessitated by America's economic policy of keeping the oil-rich countries of the Persian Gulf separate and independent. This policy was, in turn, the product of economic policy choices that created both an increasingly integrated world economy and an American economic structure that is heavily dependent on imported petroleum.

As America moves into its third century, it finds itself still pursuing economic policies that lead to war. Overall, the drive to make the world's markets work along free market and free trade principles has seen great success, reflected in the almost universal acceptance of the World Trade Organization. The only part of America's economic vision for the world that seems to require sustained military effort is the policy of ensuring the separateness of the oil-rich Persian Gulf states.

—*G. David Price*

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Welfare State

During the first half of the twentieth century, the United States experienced a tremendous expansion in its welfare programs at the federal level, developing into what is termed the "welfare state." During the 1950s and 1960s, this expansion continued even further, increasing programs such as Social Security and Aid to Families with Dependent Children. A new understanding of social reform, poverty, and state responsibility helped to influence the creation of welfare programs beginning in the Progressive Era, but two disparate economic trends aided in putting this new philosophy into action. First, the effects of the Great Depression created a greater atmosphere of need, placing unprecedented demands on any programs already in place and resulting in the creation of new programs. Once the welfare state became fixed, expectations of assistance for the less fortunate rose in America, and though this subject was greatly debated, post–World War II prosperity allowed for the continued and often increased funding of programs. But although the welfare state as we have come to know it evolved comparatively quickly in the last century, it had established roots long before.

Much of the sentiment and practical measures present in the modern welfare state appeared in the English Poor Laws of the sixteenth and seventeenth centuries. As English society shifted from feudalism to a wage-based economy, the lower classes no longer enjoyed the guarantee of security that they once held. Under feudalism, the serf could rely on—for better or worse—a lasting relationship with his or her master. Although wage earners enjoyed more freedom, they lacked a guarantee of economic security. When jobless, they often turned to begging or stealing. In response, the landed gentry encouraged passage of legislation compelling people to work for a living and punishing those caught begging or giving money or goods to beggars.

As the English economy transformed into one based on the production of wool for a larger market, population and social shifts demanded that society pay more attention to the poor. First, the enclosure system, which gave large tracts of land to sheep raisers, forced the small landowners off their land and into urban areas. In addition, the growing economy encouraged the migration of potential workers into regions where they hoped to find work but could not. At the same time, Henry VIII, in his break from the Catholic Church, worked to abolish monasteries, institutions that for centuries had been largely responsible for addressing the needs of the poor. During the sixteenth century, Parliament passed a series of laws in this arena, essentially taking a harsh position against those in need, but by 1600 some attitudes and terminology regarding poverty began to change. Parliament had designed earlier legislation to punish vagabonds and beggars, but the Act of 1597 focused on the "relief of the poor." The Elizabethan Poor Law of 1601 served as a model and was fundamentally unchanged for centuries. Though the measure was enacted at the national level, local officials carried it out, emphasizing work and family responsibility. As with a number of institutions, English Poor Law was transplanted in the American colonies.

The colonies had comparatively fewer poor than did the home country. The availability of land and access to it—either by ownership or through common grazing rights—and the need for labor left fewer people without a means to live. However, America remained far from a paradise, and many arrived in the colonies ill or otherwise unable to work. Subsequent generations eventually produced more individuals with physical or mental problems that prevented them from working. In addition, comparatively few individuals amassed substantial wealth in the early years of the colonies, which placed the responsibility of poor relief on those with moderate means. As a result, colonial assemblies enacted poor laws similar to those in England.

The laws varied from colony to colony, as the economies, social structure, and needs differed. For example, colonies such as Virginia depended on large numbers of indentured servants, who often struggled financially once their contracts of service ended. Able-bodied adults often "bonded out," whereas parents placed their children in apprenticeship programs. In southern colonies, free education remained virtually nonexistent, but in colonies such as Massachusetts, which was much more "community-minded" from its foundation, education functioned as a means of creating productive citizens. Port cities, such as New York, developed legislation to

address issues involved with the incoming poor, and various urban centers experienced an influx of desperate people who had fled from the frontier after encountering serious problems there, such as the Indian wars. Although laws varied from place to place, most all were influenced by religious beliefs, which generally viewed the poor with pity and considered them deserving of help. In many cases, assistance originated in the local church or parish.

As the nation evolved in its early years of independence, new ideas of welfare appeared as well. The French and Indian War and the American Revolution had left large numbers of widows and children in the various colonies and new states, a situation that demanded new attention to funding. Religious groups, such as the Quakers, became well known for their efforts to support those in need, as did certain nonreligious organizations, such as nationality groups (representing immigrants from Scotland, Ireland, Germany, and France) and fraternal societies. Public aid and individual philanthropy originated from seemingly endless sources and in many forms. Furthermore, the revolutionary philosophy, which declared universal human rights, drew increasing attention to the needs of all people. Although the war itself disrupted the implementation of many programs, the sentiment supporting assistance expanded.

Immediately following the Revolutionary War, the poor laws themselves remained essentially the same; retaining their variations from state to state, they were transplanted into the new territories. Frontier issues such as housing, school construction, and Indian relations helped to shape whatever legislation was deemed necessary. In 1790 townships in the newly created Northwest Territory gained jurisdiction over the poor and responsibility for distribution of relief, a structure that continued when the region divided into the various states of Ohio, Michigan, Indiana, Illinois, and Wisconsin. The Revolution brought about a more significant change in the southern states, where the churches had primarily accepted responsibility for poor relief. The war brought greater separation between church and state, which encouraged states to place poor relief under civil jurisdiction in the South.

One of the most complex notions regarding the responsibility for poor relief in the United States developed during the early years of nationhood. In the decades before the Civil War, the demand for states' rights resulted in a continued fragmentation of relief programs. The U.S. Constitution's general welfare clause (Article 1, Section 8) stated that "the Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defence and general welfare of the United States," but many argued over the founders' intention. Though that single clause might have given the federal government ultimate power in developing and sustaining a national system of poor relief from the start, the strength of the defenders of states' rights effectively limited the role played by the federal government in this case. At the same time, Americans developed a sense of national identity, which included ethics of individualism and self-reliance, promoting the idea that anyone could make a living if willing to do so. Territorial expansion and economic growth advanced this notion as possibilities for individual economic independence grew. Overall, Americans seemed to prefer voluntary philanthropy to public programs when the need to provide relief arose. The separation of church and state, combined with the fervor of the Second Great Awakening, resulted in competition between numerous religious denominations, each with its own hospitals, orphanages, and schools.

New population theories inspired by the work of Thomas Malthus at the dawn of the nineteenth century, originating in Europe but international in scope, often argued against poor relief. One of the greatest fears—which has continued into the twenty-first century—was that offering assistance would encourage the poor to have more children. Population theorists insisted that refusing them aid would force them to limit their family size. Though such arguments held less weight in land-rich America, the notion that poor laws contributed to overpopulation took root in the United States as well. In addition, classical economists believed there was a finite amount of capital available to support the working class and that money spent on assistance would take away from the wage-earning pool. These beliefs, combined with nineteenth-century ideals of individualism and industriousness, resulted in a sharp decline in support for public assistance.

Renaissance, Reformation, and Enlightenment philosophies, which had challenged the notion of poverty as inevitable, helped to lay the groundwork for reform movements that shaped early-nineteenth-century American society. But though reformers sought real improvement in the conditions of the poor, they also worked within an atmosphere in which the poor were increasingly blamed for their own poverty. Before the early nineteenth century, the idea that "the poor will always be with us" existed alongside the notion that society should address the needs of the poor. During the early 1800s, reformers attempted to put into action a kind of democracy that coexisted with individual responsibility. Only in a minority of cases did Americans see people in need as "worthy" of assistance, and a large percentage of those were put to work in workhouses.

People in need of assistance lived and worked under watchful eyes. Society housed those deemed unable to provide for themselves, such as the permanently disabled, in institutions, often in horrid conditions. Social reformers recommended the development of workhouses and almshouses as more humane and effective means of dealing with the poor. New York's secretary of state, J. V. N. Yates, provided one of the nation's most influential documents supporting this move. Commissioned in 1834 by the state legislature to survey the state of poor relief, he reported tremendous problems and proposed to correct the situation by placing the poor in institutions. Within a short time, various states had constructed almshouses (Massachusetts alone had 219 by 1860), but reformers subsequently reported the existence of inhumane conditions in a number of them.

Social reformers sought both state and federal assistance in addressing the poor housing conditions. Dorothea Dix fought one of the more pronounced battles in her effort to obtain federal funding to address the needs of the mentally ill

who were often held under inhumane conditions in almshouses and jails. After years of research and lobbying, she finally convinced both houses of Congress in 1854 to pass legislation appropriating land for the construction of adequate mental hospitals. However, President Franklin Pierce vetoed the legislation because he feared the idea of making the federal government the "greatest almoner of public charity throughout the United States," a move he saw as contrary to the U.S. Constitution. The federal government had previously given land grants to a number of efforts considered to be social welfare projects, but Pierce's comments set the tone for federal resistance on the welfare front. On the state and municipal levels, surveys of poverty continued, but private charities distributed most of the funds.

The Civil War placed unforeseen demands on charity organizations, which failed to meet all of the needs of people affected by the conflict. Unprecedented concerns about public health and medical care issues demanded much attention, spurring the creation of the U.S. Sanitary Commission. Led and staffed primarily by women, the commission provided supplies and services to meet the critical demands for medical treatment of injured individuals. The Sanitary Commission not only served as a foundation for subsequent developments in the field of medicine but also demonstrated that provisions for assistance were possible and desirable on a national scale. Furthermore, the conclusion of the Civil War brought about a philosophical and political shift that strengthened the position of the federal government relative to issues of states' rights.

The establishment of the Freedmen's Bureau (Bureau of Refugees, Freedmen, and Abandoned Lands) in 1865 as the nation's first federal welfare agency demonstrated the willingness and ability of the federal government to address welfare needs when the local governments failed to do so. Though dismantled in 1872, the bureau helped to establish schools for more than a half million freed slaves, operating under the philosophy that education could serve as the means to escape poverty. It also supported medical care, the maintenance of hospitals, and assistance in land distribution. The act that established the bureau signaled the first solid attempt by the federal government to take responsibility for social welfare. At the same time, however, American economic philosophy discouraged such a role.

During the nineteenth century, broad-based industrial capitalism left workers increasingly dependent on larger forces for employment, but laissez-faire attitudes in business and government provided little protection for workers who were injured or laid off, with the poor being generally neglected. Adam Smith's free market economic philosophy reigned, and officials viewed regulations designed to protect workers as an imposition and generally detrimental to the natural balance of a free and profitable economy. Much resistance existed to any government demands that business provide for the welfare of their workers, especially at the federal level. Many Americans criticized the idea of taxing the wealthy to provide for the indigent because it interfered with the natural laws of economics.

Social Darwinists, who applied elements of the survival of the fittest concept to business, also applied them to society, justifying the existence of poor people as a factor of natural selection. In other words, they believed that the poor became poor because they did not have the inherent qualities necessary to become wealthy. Social Darwinists argued that "do-gooders" should ignore individuals with disabilities or illnesses that many believed contributed to poverty. In their view, charitable aid only hurt society, as it allowed the weaker to survive. Reformers, by contrast, believed that providing assistance to all Americans in need was a fundamental role in a democracy. Yet even reformers blamed individuals, personal circumstances, or character flaws for poverty in the nineteenth century. With the best intentions, the Society for the Prevention of Pauperism and similar groups attempted to help the poor overcome any shortcomings that had led them to a life of poverty.

The subsequent development of charity organization societies in the 1870s featured the use of scientific management principles to address social ills and provide individuals with "scientific charity." Still, ideas inherent in the American work ethic and Social Darwinism abounded. Mutual-aid societies (including secret societies, sick and funeral benefit societies, and life insurance societies) that had promoted fraternity and association since the early nineteenth century continued to thrive. They served as vehicles to collect contributions and distribute relief to those in need of aid, and they did so with fewer stigmas attached. By the late nineteenth century, Americans viewed both private and public charity as patronizing, with the needy placed in a position of inferiority, but they considered fraternal societies far more egalitarian because those giving and those receiving coexisted on more equal terms.

The dawn of the twentieth century brought a wealth of reforms, inspired by Progressives who sought to apply scientific principles, modern understanding, and democratic ideals to the task of improving conditions in the changing American city. Rapid urbanization, industrialization, and immigration resulted in demands on housing and health services, and though many groups sought changes at the municipal level, some changes took place through congressional legislation. Proponents of proposals for federal mandates addressed social welfare issues by employing models from Germany and Great Britain, where reform at the national level had made great strides. Unions urged the federal government to force businesses to put protective measures in place. In 1912 the American Association for Labor Legislation proposed compulsory health insurance, which would have required disability, hospitalization, maternity care, and burial benefits to be financed by employers, workers, and taxpayers.

But the United States resisted the adoption of programs that had found success in other countries. By 1884 Germany had implemented a broad social insurance system, and other Europeans subsequently followed. However, the United States opted for a system of "welfare capitalism," in which corporations periodically implemented measures that would pacify workers by providing benefits. Refusing to take orders from the government or from labor unions, company owners gradually began to provide just enough in insurance policies

and pensions to prevent litigation and strikes. In reality, workers did not always have access to promised benefits, since the law had not mandated them. And workers often viewed the company store system—in which companies provided stores, homes, and recreational facilities for their employees—as feudalistic, making them even more dependent on the companies and living at the mercy of factory owners who controlled every aspect of their lives.

Still, the turn of the twentieth century saw the beginning of increased focus on social welfare and reform. Writers such as Upton Sinclair, who vividly depicted the horrid lives of immigrants working in Chicago's meatpacking industry in *The Jungle,* shed light on social ills in a way that eventually drew a significant government response. That work alone receives credit for inspiring the Pure Food and Drug Act of 1906. But such writings also influenced reforms in housing, factory conditions, and child labor.

Children drew much attention in social reform programs, as the state assumed an increasing responsibility for their welfare. With new attitudes toward education, certification, and professionalization, modern "experts" addressed public health concerns through nutrition, disease prevention, and education programs and even juvenile courts. They argued that a failure to address needs beginning in early childhood could prove costly—monetarily and otherwise—to society at large. The year 1912 marked the creation of the U.S. Children's Bureau, a significant shift toward the nationalization of welfare. The Children's Bureau took up causes of maternal and child health, maternal and child mortality rates, and health provisions for mothers and children in poor urban and rural areas.

The country's entrance into World War I altered the role of the federal government considerably. The government expanded its powers during the Great Depression and World War II, but the foundations for such expansion developed during World War I. A peacetime economy was transformed into a wartime economy largely through the creation of the War Industries Board, as well as the U.S. Food Administration, the National War Labor Board, the U.S. Railroad Administration, the U.S. Fuel Administration, and so on. These agencies would fix prices and control production and resources at the federal level, all for the good of the nation and the war effort.

This new position of the federal government had a significant impact on its approach to welfare programs. First, the creation of federal agencies with substantial powers to address needs permeated the arena of social welfare. In addition, the government transmitted information and scientific knowledge gathered in the war effort to the civilian sector. For example, social workers noted that the prevention of many of society's ills required addressing the needs of America's children—such as nutrition, health care, education, and juvenile courts, as mentioned earlier. The Progressive Era had brought attention to social ills that often seemed too costly to solve, but reformers insisted that prevention programs involving children were a good investment and saved dollars in the long run. When the government began a program to provide detailed physical examinations for draftees into the armed forces, experts found that many disabilities (or problems termed "defects" at the time) could have been prevented by improved care during pregnancy and early childhood. As a result, the Children's Bureau expanded programs in public health. This sense of federal responsibility would continue after the war. In 1921 women's groups successfully lobbied for passage of the Sheppard-Towner Maternity and Infancy Act, allocating federal funds to create maternity and pediatric clinics.

Though during the first few decades of the twentieth century the nation experienced a growing sense of duty in terms of addressing the needs of the poor, society was unprepared to handle the demands of the Great Depression. In October 1929 the stock market crashed, setting off a downward spiral of the economy that would raise unemployment rates to unprecedented levels. State, municipal, and private philanthropic agencies inadequately addressed the burden of relief, as the needs exceeded their resources. As the depression set in, tax revenues and donations diminished, forcing the federal government to assume responsibility and initiate new programs. President Herbert Hoover instituted plans for public works programs that would rely on cooperation from the various states, but such programs could not provide immediate solutions to the growing number of unemployed. The Hoover administration also established the President's Committee for Employment, but it would limit itself to overseeing state, local, and private relief programs. Those programs lacked the resources necessary, given the severity of the situation, and directors of the programs lobbied Washington for a federal relief program. Despite much resistance, Congress and the president granted authority to the Reconstruction Finance Corporation (RFC) to make $300 million in loans available to the states for unemployment relief. However, the program proved ineffective, largely because of a lack of federal regulations on administering the money. Hoover received heavy criticism for his unwillingness to take strong action as president when the economy collapsed.

In 1932 the American electorate blamed Hoover for failing to confront the depression effectively and voted in Franklin Delano Roosevelt. In his first 100 days, Roosevelt convinced Congress to implement a vast array of programs to address difficulties across the American economy, including banking, agriculture, and industry. In an unprecedented move, the government created the Federal Emergency Relief Administration (FERA) to provide assistance to the unemployed. It abolished the existing loans established through the RFC under Hoover, replacing them with grants, and strengthened administrative powers to oversee the program.

Myriad other programs followed. In November 1933, Congress created the Civil Works Administration (CWA), a work relief program designed to put at least half of the nation's unemployed to work. In 1934 the government replaced the CWA with the Emergency Work Relief Program, which, in turn, the Works Progress Administration (WPA) replaced. During that time, the WPA employed an average of 2 million Americans per month. To address the special needs of young men and boys—who, experts warned, could cause significant

problems in society if left idle for too long—the federal government designed the Civilian Conservation Corps (CCC). The War Department supervised the CCC work camps, and the Departments of Agriculture and the Interior planned projects that primarily put them to work in reforestation and flood control.

Even as various programs successfully assisted those in need, members of Congress recommended implementing something more long term. Members proposed the Lundeen Bill, or the Workers' Unemployment, Old Age and Social Insurance Bill to provide unemployment benefits at prevailing wages for all those who were unemployed through no fault of their own. But many Americans viewed the legislation as too far-reaching. The economic tradition of the United States had seen periods of significant layoffs, and would see layoffs in the future. To suggest that the federal government should assume responsibility for all people involuntarily unemployed seemed unimaginable. Instead, Congress passed the Social Security Act of 1935. Though more specific and more limited, that measure signaled a historic turning point in the shift toward general, long-term federal responsibility in providing for Americans who found themselves in need. In addition to providing a kind of social insurance for retirement in old age, the act established a program of federal grants-in-aid to states providing assistance to the elderly, the blind, and dependent children.

Though it has remained the cornerstone of social welfare in the United States, the Social Security Act met with significant resistance from a variety of critics. Ideological and political differences among supporters of Social Security acted as obstacles to developing a unified lobbying force. In addition, conservatives argued that such a program too closely mirrored the welfare programs of a more nationalist and socialist nature that were then expanding in other countries—something feared during the rise of Hitler and Stalinist Russia. And American businesspeople opposed an increase in taxes to support such a program while the economy continued to struggle.

One of the most significant influences in developing the Social Security Act of 1935 came from the Townsend movement, a grassroots force spearheaded by Francis Townsend, a physician. Townsend served as a powerful advocate for the elderly, whom he believed needed protection from destitution. Although many social welfare programs had historically centered on the needs of children, Townsend and his supporters effectively brought the needs of the elderly to the nation's attention. Calls for "old-age insurance" had gained some attention during the 1920s, but they gained momentum during the depression as pensions voluntarily established by companies suddenly went bankrupt. In addition, the elderly had formed a powerful lobbying group that cut across class lines. They did not represent a small group of poor or underprivileged. Rather, they represented all but the very wealthy, who could afford not to work even in old age. But Congress did not limit the Social Security Act to helping the elderly. Very important, it established the first federal program to aid dependent children—a program that would see significant expansion in the 1960s—and it recognized severe physical disabilities such as blindness as obstacles to gainful employment.

The 1930s' trend toward federal responsibility for the welfare of the American people did not cease when the depression ended. Instead, the long-term policies expanded during the subsequent period of prosperity. America's entrance into World War II helped to boost the economy by shifting it to one based on war production. Though ultimately advantageous for economic rebirth and individual income, industrial and agricultural restructuring resulted in a tremendous dislocation and relocation of workers, raising new concerns about housing and settlement. These changes appeared especially pronounced among minorities. White workers received a warm welcome into areas that needed workers, but the loss of potential workers into the military forced companies to draw from pools of women, blacks, and Latinos in order to fill positions. When minorities moved into industrial areas in hopes of finding employment, they encountered racism and discriminatory housing policies, making resettlement difficult. Because bosses generally preferred to hire Caucasian women, minorities often remained unemployed, forcing the federal government to reexamine its new welfare policies. Furthermore, the employment of women inspired a remarkable—though short-lived—federal child care program.

The GI Bill remains the most significant piece of wartime "welfare" legislation. Federally sponsored benefits for the families of soldiers who were killed or disabled already existed, but this bill went further. It was passed principally in order to honor those who served in the war, but it also helped to ensure national stability. Advocates warned of massive social and economic instability when millions of veterans began to seek jobs during a critical period of economic restructuring, as the country shifted from wartime to peacetime production. The GI Bill offered educational assistance to returning veterans and loans for the purchase of a home, business, or farm. The program eased resettlement in a way that would not harm an already fragile economy, and it reflected the more general trend toward a growing role for the federal government in welfare.

During the 1950s, economic prosperity drew new criticism of the Social Security system, with some people contending that Americans no longer needed it. However, the system kept expanding. President Harry S Truman worked to continue this and other New Deal programs initiated by Roosevelt and see them grow under what he called his Fair Deal. He supported an increase in the minimum wage, an expansion of Social Security, and new public works projects. In addition, he proposed federally funded slum clearance and the construction of low-income housing. He even went as far as proposing federal aid for education and a system of national health care, neither of which passed. But even under the more conservative Republican administration of President Dwight D. Eisenhower, the nation witnessed a massive expansion of Social Security. Disabled workers became eligible for social insurance benefits, and states obtained federal public assistance. And in what would become a historic move, Eisenhower authorized the creation of the Department of Health, Education, and Welfare.

The postwar period brought tremendous economic prosperity to the nation, which lasted into the 1950s. Poverty had seemingly become invisible. American optimism tended to gloss over any economic shortcomings that might have existed, and there was little debate about poverty. Although poverty still existed, confident depictions of prosperity served to place American economics on the side of good in the struggle against communism. Late in the decade, however, all that began to change. In his *Affluent Society* (1958), economist John Kenneth Galbraith extolled the virtues of economic progress but painted a less than perfect picture of American society. In *The Other America* (1962), Michael Harrington went further in exposing the seriousness of economic injustice within various segments of American society. Both of these works influenced new attacks on poverty.

Under John F. Kennedy's administration, poverty resurfaced as an evil to be confronted. His successor, Lyndon B. Johnson, made such an effort a primary goal, and within six months of taking office, he outlined his War on Poverty. By August 1964, Johnson convinced Congress to pass the Economic Opportunity Act, which created antipoverty programs under the direction of a new federal agency, the Office of Economic Opportunity (OEO). Johnson's War on Poverty sparked a heated debate, and many questioned its effectiveness. Conservative critics argued that the programs were unnecessary and costly and would create a dependency for people who should be working harder to find their own success. Others argued that Johnson had taken on too much by even suggesting that the nation might see a victory over poverty through the creation of federally funded programs. Defenders of Johnson's policies maintained that they did see some success and that the country would have experienced greater results if the government had not spent so much money on the Vietnam War. In fact, some programs did achieve success, remaining in place for decades. The Job Corps, a work-t.raining program for young people, and Head Start, an early childhood education program, proved quite effective.

Richard Nixon responded to critics of the "welfare mess" by dismantling many of the programs begun under the War on Poverty. But under the Nixon administration, a quiet revolution took place and demonstrated the strength of the federal government's role in social welfare. In 1965 Congress allocated some 42 percent of the federal budget for defense and only 25 percent for social welfare—the basis for protests surrounding America's priorities. However, by 1975 defense expenditures accounted for only 25 percent of the federal budget, whereas welfare expenditures had reached 43 percent. Even with the fiscal demands of the Vietnam War and with the new conservative Republican administration, welfare expenditures rose.

The election of Ronald Reagan in 1980 introduced a new kind of conservatism with the dawn of a new decade—a conservatism, not only in foreign policy but also in domestic policy, that would attack social welfare. A disillusioned American public saw that the federal government had not eradicated poverty and described liberal economic and social policies begun in the 1960s as failures. Reagan campaigned and won on the basis of this disillusionment, and he offered a new plan for a better economic future for all Americans. His economic policy—referred to as Reaganomics—called for severe tax cuts, which he maintained would provide greater incentives for hard work, stimulate individual productivity, and thereby improve the American economy. He promised he would not cut welfare programs designed to protect the truly needy, insisting that a "safety net" would remain in place. However, he excluded Aid to Families with Dependent Children and Food Stamps from this plan. He did defend Social Security and Medicare, which benefited all Americans regardless of income. He converted other programs into a system of "block grants," by which the federal government granted money to various states for welfare needs. His administration also eliminated federal revenue sharing, which had been established in the 1960s to address housing, health, and nutrition needs in poor communities. He met his goals of bringing to an end the welfare bureaucracy in Washington and decreasing welfare expenditures.

The George H. W. Bush administration promised a kinder, gentler America, but the new president continued many of Reagan's policies. He opposed tax hikes and encouraged states to maintain welfare responsibilities. In addition, he called upon states to act as "laboratories" experimenting with new and often controversial programs that would discourage dependency on welfare and provide alternative incentives for self-improvement. He also carried on Reagan's theme of privatization, encouraging private charities and other organizations to provide social services instead of local, state, or federal governments. He often made references to America's "1,000 points of light"—or volunteers who would provide assistance to those who were less fortunate.

The election of Bill Clinton introduced the possibility of new approaches to federal responsibility for social welfare. First Lady Hillary Clinton espoused the idea that "it takes a village to raise a child," suggesting that society should take a more active role in seeing to the welfare of individuals. But such a philosophy came under attack. In the first few months of the Clinton administration, proposals for health care reform, whereby the federal government would more directly provide adequate health care for Americans, met defeat. The conflict over social welfare concerns intensified with the election of a Republican majority in Congress in 1994 and the positioning of outspoken conservative Newt Gingrich as Speaker of the House. Gingrich and House Republicans strongly supported what they termed a "Contract with America," which would bring an end to entitlement welfare and place the blame on unmarried mothers, who were said to demonstrate a lack of personal responsibility in creating lives of welfare dependency for themselves. In essence, the same arguments used some 200 years before—that relief tended to make people lazy and encouraged the poor to have even more children—persisted.

Although social programs in education, health care, and family leave have expanded and have become expected in other industrialized nations of the world, the United States has continued to take a comparatively conservative stance, relying on individual responsibility and privately funded charities. The fear that able people will refuse to work, depending

on the government for something to which they consider themselves entitled, had persisted. Above all, welfare policy makers have worked diligently to convince American taxpayers that only the "deserving" will receive benefits.

—*Kathleen A. Tobin*

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Documents

Ordinance of the Northwest Territory (1787)

Passed on July 13, 1787, the Ordinance of the Northwest Territory, commonly referred to as the Northwest Ordinance, established the procedures by which the western lands ceded to the national government by the states would form territorial governments. Congress appointed a governor, secretary, and three judges to administer the territory until the number of voting citizens reached 5,000. At that point the citizens elected a legislature. When the population increased to 60,000, the territory could apply for statehood on an equal basis with the other states. The ordinance also guaranteed the validity of contracts, prohibited individuals born in the territory from becoming slaves, and ensured freedom of religion. The passage of this act encouraged investors and settlers to migrate to the region.

Source: www.law.ou.aku.ordinance.html.

An ordinance for the government of the Territory of the United States northwest of the river Ohio.

SECTION 1. Be it ordained by the United States on Congress assembled, That the said territory, for the purpose of temporary government, be one district, subject, however, to be divided into two districts, as future circumstances may, in the opinion of Congress, make it expedient.

SEC. 2. Be it ordained by the authority aforesaid, That the estates both of resident and non-resident proprietors in the said territory, dying intestate, shall descend to, and be distributed among, their children and the descendants of a deceased child in equal parts, the descendants of a deceased child or grandchild to take the share of their deceased parent in equal parts among them; and where there shall be no children or descendants, then in equal parts to the next of kin in equal degree; and among collaterals, the children of a deceased brother or sister of the intestate shall have, in equal parts among them, their deceased parent's share; and there shall, in no case, be a distinction between kindred of the whole and half blood; saving in all cases to the widow of the intestate, her third part of the real estate for life, and one-third part of the personal estate; and this law relative to descents and dower, shall remain in full force until altered by the legislature of the district. And until the governor and judges shall adopt laws as hereinafter mentioned, estates in the said territory may be devised or bequeathed by wills in writing, signed and sealed by him or her in whom the estate may be, (being of full age), and attested by three witnesses; and real estates may be conveyed by lease and release, or bargain and sale, signed, sealed, and delivered by the person, being of full age, in whom the estate may be, and attested by two witnesses, provided such wills be duly proved, and such conveyances be acknowledged, or the execution thereof duly proved, and be recorded within one year after proper magistrates, courts, and registers, shall be appointed for that purpose; and personal property may be transferred by delivery, saving, however to the French and Canadian inhabitants, and other settlers of the Kaskaskies, Saint Vincents, and the neighboring villages, who have heretofore professed themselves citizens of Virginia, their laws and customs now in force among them, relative to the descent and conveyance of property.

SEC. 3. Be it ordained by the authority aforesaid, That there shall be appointed, from time to time, by Congress, a governor, whose commission shall continue in force for the term of three years, unless sooner revoked by Congress; he shall reside in the district, and have a freehold estate therein, in one thousand acres of land, while in the exercise of his office.

SEC. 4. There shall be appointed from time to time, by Congress, a secretary, whose commission shall continue in force for four years, unless sooner revoked; he shall reside in the district, and have a freehold estate therein, in five hundred acres of land, while in the exercise of his office. It shall be his duty to keep and preserve the acts and laws passed by the legislature, and the public records of the district, and the proceedings of the governor in his executive department, and transmit authentic copies of such acts and proceedings every six months to the Secretary of Congress. There shall also be appointed a court, to consist of three judges, any two of whom to form a court, who shall have a common-law jurisdiction, and reside in the district, and have each therein a freehold estate, in five hundred acres of land, while in the exercise of their offices; and their commissions shall continue in force during good behavior.

SEC. 5. The governor and judges, or a majority of them, shall adopt and publish in the district such laws of the original States, criminal and civil, as may be necessary, and best suited to the circumstances of the district, and report them to Congress from time to time, which laws shall be in force in the district until the organization of the general assembly therein, unless disapproved of by Congress; but afterwards the legislature shall have authority to alter them as they shall think fit.

SEC. 6. The governor, for the time being, shall be commander-in-chief of the militia, appoint and commission all officers in the same below the rank of general officers; all general officers shall be appointed and commissioned by Congress.

SEC. 7. Previous to the organization of the general assembly the governor shall appoint such magistrates, and other civil officers, in each county or township, as he shall find necessary for the preservation of the peace and good order in the same. After the general assembly shall be organized the powers and duties of magistrates and other civil officers shall be regulated and defined by the said assembly; but all magistrates and other civil officers, not herein otherwise directed, shall, during the continuance of this temporary government, be appointed by the governor.

SEC. 8. For the prevention of crimes and injuries, the laws to be adopted or made shall have force in all parts of the district, and for the execution of process, criminal and civil, the governor shall make proper divisions thereof; and he shall proceed, from time to time, as circumstances may require, to lay out the parts of the district in which the Indian titles shall have been extinguished, into counties and townships, subject, however, to such alterations as may thereafter be made by the legislature.

SEC. 9. So soon as there shall be five thousand free male inhabitants, of full age, in the district, upon giving proof thereof to the governor, they shall receive authority, with time and place, to elect representatives from their counties or townships, to represent them in the general assembly: PROVIDED, That for every five hundred free male inhabitants there shall be one representative, and so on, progressively, with the number of free male inhabitants, shall the right of representation increase, until the number of representatives shall amount to twenty-five; after which the number and proportion of representatives shall be regulated by the legislature: PROVIDED, That no person be eligible or qualified to act as a representative, unless he shall have been a citizen of one of the United States three years, and be a resident in the district, or unless he shall have resided in the district three years; and, in either case, shall likewise hold in his own right, in fee simple, two hundred acres of land within the same: PROVIDED ALSO, That a freehold in fifty acres of land in the district, having been a citizen of one of the States, and being resident in the district, or the like freehold and two years' residence in the district, shall be necessary to qualify a man as an elector of a representative.

SEC. 10. The representatives thus elected shall serve for the term of two years; and in case of the death of a representative, or removal from office, the governor shall issue a writ to the county or township, for which he was a member, to elect another in his stead, to serve for the residue of the term.

SEC. 11. The general assembly, or legislature, shall consist of the governor, legislative council, and a house of representatives. The legislative council shall consist of five members to continue in office five years, unless sooner removed by Congress; any three of whom to be a quorum; and the members of the council shall be nominated and appointed in the following manner, to wit: As soon as representatives shall be elected the governor shall appoint a time and place for them to meet together, and when meet they shall nominate ten persons, resident in the district, and each possessed of a freehold in five hundred acres of land, and return their names to Congress, five of whom Congress shall appoint and commission to serve as aforesaid; and whenever a vacancy shall happen in the council, by death or removal from office, the house of representatives shall nominate two persons, qualified as aforesaid, for each vacancy, and return their names to Congress, one of whom Congress shall appoint and commission for the residue of the term; and every five years, four months at least before the expiration of the time of service of the members of the council, the said house shall nominate ten persons, qualified as aforesaid, and return their names to Congress, five of whom Congress shall appoint and commission to serve as members of the council five years, unless sooner removed. And the governor, legislative council, and house of representatives shall have authority to make laws in all cases for the good government of the district, not repugnant to the principles and articles in this ordinance established and declared. And all bills, having passed by a majority in the house, and by a majority in the council, shall be referred to the governor for his assent; but no bill, or legislative act whatever, shall be of any force without his assent. The governor shall have power to convene, prorogue, and dissolve the general assembly when, in his opinion, it shall be expedient.

SEC. 12. The governor, judges, legislative council, secretary, and such other officers as Congress shall appoint in the district, shall take an oath or affirmation of fidelity, and of office; the governor before the President of Congress, and all other officers before the governor. As soon as a legislature shall be formed in the district, the council and house assembled, in one room, shall have authority, by joint ballot, to elect a delegate to Congress, who shall have a seat in Congress, with a right of debating, but not of voting, during this temporary government.

SEC. 13. And for extending the fundamental principles of civil and religious liberty, which form the basis whereon these republics, their laws and constitutions, are erected; to fix and establish those principles as the basis of all laws, constitutions, and governments, which forever hereafter shall be formed in the said territory; to provide, also, for the establishment of States, and permanent government therein, and for their admission to a share in the Federal councils on an equal footing with the original States, at as early periods as may be consistent with the general interest.

SEC. 14. It is hereby ordained and declared, by the authority aforesaid, that the following articles shall be considered as

articles of compact, between the original States and the people and States in the said territory, and forever remain unalterable, unless by common consent, to wit:

ARTICLE I

No person, demeaning himself in a peaceable and orderly manner, shall ever be molested on account of his mode of worship, or religious sentiments, in the said territory.

ARTICLE II

The inhabitants of the said territory shall always be entitled to the benefits of the writs of habeas corpus, and of the trial by jury; of a proportionate representation of the people in the legislature, and of judicial proceedings according to the course of the common law. All persons shall be bailable, unless for capital offences, where the proof shall be evident, or the presumption great. All fines shall be moderate; and no cruel or unusual punishments shall be inflicted. No man shall be deprived of his liberty or property, but by the judgment of his peers, or the law of the land, and should the public exigencies make it necessary, for the common preservation, to take any person's property, or to demand his particular services, full compensation shall be made for the same. And, in the just preservation of rights and property, it is understood and declared, that no law ought ever to be made or have force in the said territory, that shall, in any manner whatever, interfere with or affect private contracts, or engagements, bona fide, and without fraud previously formed.

ARTICLE III

Religion, morality, and knowledge being necessary to good government and happiness of mankind, schools and the means of education shall forever be encouraged. The utmost good faith shall always be observed towards the Indians; their lands and property shall never be taken from them without their consent; and in their property, rights, and liberty they never shall be invaded or disturbed, unless in just and lawful wars authorized by Congress; but laws founded in justice and humanity shall, from time to time, be made, for preventing wrongs being done to them, and for preserving peace and friendship with them.

ARTICLE IV

The said territory, and the States which may be formed therein, shall forever remain a part of this confederacy of the United States of America, subject to the Articles of Confederation, and to such alterations therein as shall be constitutionally made; and to all the acts and ordinances of the United States in Congress assembled, conformable thereto. The inhabitants and settlers in the said territory shall be subject to pay a part of the Federal debts, contracted, or to be contracted, and a proportional part of the expenses of government to be apportioned on them by Congress, according to the same common rule and measure by which apportionments thereof shall be made on the other States; and the taxes for paying their proportion shall be laid and levied by the authority and direction of the legislatures of the districts, or districts, or new States, as in the original States, within the time agreed upon by the United States in Congress assembled. The legislatures of those districts, or new States, shall never interfere with the primary disposal of the soil by the United States in Congress assembled, nor with any regulations Congress may find necessary for securing the title in such soil to the bona fide purchasers. No tax shall be imposed on lands the property of the United States; and in no case shall non-resident proprietors be taxed higher than residents. The navigable waters leading into the Mississippi and Saint Lawrence, and the carrying places between the same shall be common highways, and forever free, as well to the inhabitants of the said territory as to the citizens of the United States, and those of any other States that may be admitted into the confederacy, without any tax, impost, or duty therefor.

ARTICLE V

There shall be formed in the said territory not less than three nor more than five States; and the boundaries of the States, as soon as Virginia shall alter her act of cession and consent to the same, shall become fixed and established as follows, to wit: The western State, in the said territory, shall be bounded by the Mississippi, the Ohio, and the Wabash rivers; a direct line drawn from the Wabash and Post Vincents, due north, to the territorial line between the United States and Canada; and by the said territorial line to the Lake of the Woods and Mississippi. The middle State shall be bounded by the said direct line, the Wabash from Post Vincents to the Ohio, by the Ohio, by direct line drawn due north from the mouth of the Great Miami to the said territorial line and by the said territorial line. The eastern State shall be bounded by the last mentioned direct line, the Ohio, the Pennsylvania, and the said territorial line: PROVIDED, HOWEVER, And it is further understood and declared, that the boundaries of these three States shall be subject so far to be altered, that, if Congress shall hereafter find it expedient, they shall have authority to form one or two States in that part of the said territory which lies north of an east and west line drawn through the southerly bend or extreme of Lake Michigan. And whenever any of the said States shall have sixty thousand free inhabitants therein, such State shall be admitted, by its delegates, into the Congress of the United States, on an equal footing with the original States, in all respects whatever; and shall be at liberty to form a permanent constitution and State government; PROVIDED, The constitution and government, so to be formed, shall be republican, and in conformity to the principles contained in these articles, and, so far as it can be consistent with the general interest of the confederacy, such admission shall be allowed at an earlier period, and when there may be a less number of free inhabitants in the State than sixty thousand.

ARTICLE VI

There shall be neither slavery nor involuntary servitude in the said territory, otherwise than in the punishment of crimes, whereof the party shall have been duly convicted: PROVIDED ALWAYS, That any person escaping into the

same, from whom labor or service is lawfully claimed in any one of the original States, such fugitive may be lawfully reclaimed, and conveyed to the person claiming his or her labor or service as aforesaid.

Be it ordained by the authority aforesaid, That the resolutions of the 23rd of April, 1784, relative to the subject of this ordinance, be, and the same are hereby, repealed, and declared null and void.

Done by the United States, in Congress assembled, the 13th day of July, in the year of our Lord 1787, and of their sovereignty and independence the twelfth.

Report on the Subject of Manufactures (1791)

On December 5, 1791, Secretary of the Treasury Alexander Hamilton submitted his Report on the Subject of Manufactures *to Congress. Hamilton argued that the United States needed to develop domestic manufacturing as a means of protecting its economic freedom. As a supplier of raw materials for industrial England and other European powers, the United States remained dependent on foreign governments in economic matters. Hamilton pointed out that if the United States would initiate a protective tariff, then investors would contribute to the development of industries within the country. These enterprises could take advantage of the internal availability of natural resources. Although there were not enough workers for a large number of these factories, Hamilton pointed out that such a policy would also encourage immigration and thereby eliminate the problem of a "scarcity of hands." Although Congress failed to implement all of Hamilton's proposals, after the War of 1812 the first protective tariff was passed. "Protectionism," as Hamilton's philosophy became known, continued in the United States until the post–World War II era. Consequently, the nation developed into an industrialized country instead of an agricultural one.*

Source: American Memory: A Century of Lawmaking for a New Nation: U.S. Congressional Documents and Debates, 1774–1875, Annals of Congress, 2nd Congress, pp. 971–1035, http://www.loc.gov. Errors that appear in the following reflect the document as transcribed on this Internet site.

The Secretary of the Treasury, in obedience to the order of the House of Representatives, of the 15th day of January 1790, has applied his attention, at as early a period as his other duties would permit, to the subject of Manufactures; and particularly to the means of promoting such as will tend to render the United States, independent of foreign nations, for military and other essential supplies. And he there(upon) respectfully submits the following Report.

The expediency of encouraging manufactures in the United States, which was not long since deemed very questionable, appears at this time to be pretty generally admitted. The embarrassments, which have obstructed the progress of our external trade, have led to serious reflections on the necessity of enlarging the sphere of our domestic commerce: the restrictive regulations, which in foreign markets abridge the vent of the increasing surplus or our Agricultural produce, serve to beget an earnest desire, that a more extensive demand for that surplus may be created at home: And the complete success, which has rewarded manufacturing enterprise, in some valuable branches, conspiring with the promising symptoms, which attend some less mature essays, in others, justify a hope, that the obstacles to the growth of this species of industry are less formidable that they were apprehended to be; and that it is not difficult to find, in its further extension: a full indemnification for any external disadvantages, which are or may be experienced, as well as an accession of resources, favorable to national independence and safety.

There still are, nevertheless, respectable patrons of opinions, unfriendly to the encouragement of manufacturers. The following are, substantially, the arguments, by which these opinions are defended.

"In every country (say those who entertain them) Agriculture is the most beneficial and *productive* object of human industry. This position, generally, if not universally true, applies with peculiar emphasis to the United States, on account of their immense tracts of fertile territory, uninhabited and unimproved. Nothing can afford so advantageous an employment for capital and labour, as the conversion of this extensive wilderness into cultivated farms. Nothing equally with this, can contribute to the population, strength and real riches of the country."

"To endeavor by the extraordinary patronage of Government, to accelerate the growth of manufactures, is in fact, to endeavor, by force and art, to transfer the natural current of industry, from a more, to a less beneficial channel. Whatever has such a tendency must necessarily be unwise. Indeed it can hardly ever be wise in a government, to attempt to give a direction to the industry of its citizens. This, under the quick-sighted guidance of private interest, will, if left to itself, infallibly find its own way to the most profitable employment: and 'tis by such employment, that the public prosperity will

be more effectually promoted. To leave industry to itself, therefore, is, in almost every case, the soundest as well as the simplest policy."

"This policy is not only recommended to the United States, by considerations which affect all nations, it is, in a manner, dictated to them by the imperious force of a very peculiar situation. The smallness of their population compared with their territory—the constant allurements of emigration from the settled to the unsettled parts of the country—the facility with which the less independent condition of a artisan can be exchanged for the more independent condition of a farmer, these and similar causes conspire to produce, and for a length of time must continued to occasion, a scarcity of hands for manufacturing occupation, and dearness of labor generally. To these disadvantages for the prosecution of manufactures, a deficiency of pecuniary capital being added, the prospect of a successful competition with the manufactures of Europe must be regarded as little less than desperate. Extensive manufactures can only be the offspring of a redundant, at least of a full population. Till the latter shall characterise the situation of the county, 'tis vain to hope for the former."

"If, contrary to the natural course of things, an unseasonable and premature spring can be given to certain fabrics, by heavy duties, prohibitions, bounties, or by other forced expedients; this will only be to sacrifice the interests of the community to those of particular classes. Besides the misdirection of labour, a virtual monopoly will be given to the persons employed on such fabrics: and an enhancement of price, the inevitable consequence of every monopoly, must be defrayed at the expence of the other parts of society. It is far preferable, that those persons should be engaged in the cultivation of the earth, and that we should procure, in exchange for its productions, the commodities, with which foreigners were able to supply us in greater perfection, and upon better terms."

This mode of reasoning is founded upon facts and principles, which have certainly respectable pretensions. If it had governed the conduct of nations, more generally than it has done, there is room to suppose, that it might have carried them faster to prosperity and greatness, than they have attained by the pursuit of maxims too widely opposite. Most general theories, however, admit of numerous exceptions, and there are few, if any, of the political kind, which do not blend a considerable portion of error, with the truths they inculcate.

In order to an accurate judgment how far that which has been just stated ought to be deemed liable to a similar imputation, it is necessary to advert carefully to the considerations, which plead in favor of manufactures, and which appear to recommend the special and positive encouragement of them; in certain cases, and under certain reasonable limitations.

It ought readily to be conceded that the cultivation of the earth—as the primary and most certain source of national supply—as the immediate and chief source of subsistence to a man—as the principal source of those materials which constitute the nutriment of other kinds of labor—as including a state more favourable to the freedom and independence of the human mind—one, perhaps, most conducive to the multiplication of the human species—has *intrinsically a strong claim to pre-eminence over every other kind of industry.*

But, that is has a title to any thing like an exclusive predilection, in any country, ought to be admitted with great caution. That is even more productive than every other branch of Industry requires more evidence, than has yet been given in support of the position. That its real interests, precious and important as without the help of exaggeration and importance, they truly are, will be advantaged, rather than injured by the due encouragement of manufactures, may, it is believed, be satisfactorily demonstrated. And it is also believed that the expediency of such encouragement in a general view may be shewn to be recommended by the most cogent and persuasive motives of national policy.

It has been maintained, that Agriculture is, not only, the most productive, but the only productive species of industry. The reality of this suggestion in either aspect has, however, not been verified by any accurate detail of facts and calculations; and the general arguments, which are adduced to prove it, are rather subtil and paradoxical, than solid or convincing.

Those which maintain its exclusive productiveness are to this effect.

Labour, bestowed upon the cultivation of land produces enough, not only to replace all the necessary expences incurred in the business, and to maintain the persons who are employed in it, but to afford together with the *ordinary profit* on the stock and capital of the Farmer, a nett surplus, or *rent* for the landlord or proprietor of the soil. But the labor of Artificers does nothing more, than replace the Stock which employees them (or which furnishes materials tools and wages) and yield the *ordinary profit* of that Stock. It yields nothing equivalent to the *rent* of the land and labour of the country. The additional value given to those parts of the produce of land, which are wrought into manufacturers, is counterbalanced by the value of those other parts of that produce, which are consumed by the manufacturers. It can therefore only be by saving, or *parsimony,* not by the positive *productiveness* of their labour, that the classes of Artificers can in any degree augment the revenue of the Society.

To this it has been answered—

I "That inasmuch as it is acknowledged, that manufacturing labour reproduces a value equal to that which is expended or consumed in carrying it on, and continues in existence the original Stock or capital employed—it ought on that account alone, to escape being considered as wholly unproductive: That though is should be admitted, as alleged, that the consumption of the produce of the soil, by the classes of Artificers or Manufacturers, is exactly equal to the value added by there labour to the materials upon with it is exerted; yet it would not thence follow, that it added nothing to the Revenue of the Society, or to the aggregate value of the annual produce of its land and labour. If the consumption for any given period amounted to a *given sum* in the *increased* value of the produce manufactured, in the same period, to a *like sum,* the total amount of the consumption and production during that period, will be equal to the *two sums,* and consequently double the value of the agriculture produce con-

sumed. And though the increment of value produced by the classes of Artificers should at no time exceed the value of the produce of the land consumed by them, yet there would be at every moment, in consequence of labour, a greater value of goods in the market then would exist independent of it."

II—"That the position, that Artificers can augment the revenue of a Society, only by parsimony, is true, in no other sense, than in one, which is equally applicable to Husbandmen or Cultivators. It may be alike affirmed of all these classes, that the fund acquired by there labor destined for their support is not, in an ordinary way, more than equal to it. And hence it will follow, that augmentations of the wealth or capital of the community (except in the instances of some extraordinary dexterity or skill) can only proceed, with respect to any of them, from the savings of the more thrifty and parsimonious."

III—"That the annual produce of the land and labour of a country can be encreased, in two ways—by some improvement in the *productive powers* of the useful labour, which actually exists within it, or by some increase in the quantity of such labour: That with regard to the first, the labour of Artificers being capable of greater subdivision in simplicity of operation, within that of Cultivators, it is susceptible, in a proportionably greater degree, of improvement in its *productive powers,* whether to be derived from an accession of Skill, or from the application of ingenious machinery; in which particular, therefore, the labour employed in the cultural of land can pretend to no advantage over that engaged in manufactures: That with regard to an augmentation of the quantity of useful labuor, this, excluding adventitious circumstances, must depend essentially upon an increase of *capital,* which again must depend upon the savings made out of the revenues of those, who furnish or manage *that,* which is at any time employed, whether in Agricultural or Manufactures, or in any other way."

But while the *exclusive* productiveness of Agricultural labour has been thus denied and refuted, the superiority of its productiveness has been conceded without hesitation. As this concession involves a point of considerable magnitude, in relation to maxims of public administration, the grounds which it rests are worthy of a distinct and particular examination.

One of the arguments made use of, in support of the idea maybe pronounced both quaint and superficial. It amounts to this—That in the productions of the soil, nature cooperates with man; and that the effect of their joint labour must be greater than that of the labour of man alone.

This, however, is far from being a necessary inference. It is very conceivable, that the labor of man alone laid out upon a work, requiring great skill and art to bring it to perfection, may be more productive, *in value,* than the labour of nature and man combined, when directed toward more simple operations and objects: And when it is recollected to what an extent the Agency of nature, in the application of the mechanical powers, is made auxiliary to the prosecution of manufactures, the suggestion, which has been noticed, loses even the appearance of plausibility.

It might also be observed, with a contrary view, that the labour employed in Agriculture is in a great measure periodical and occasional, depending on the seasons, liable to various and long intermissions; while that occupied in many manufactures is constant and regular, extending through the year, embracing in some instances night as well as day. It is also probable, that there are among the cultivators of land more examples of remissness, than among artificers. The farmer, from the peculiar fertility of his land, or some other favorable circumstance, may frequently obtain a livelihood, even with a considerable degree of carelessness in the mode of cultivation; but the artisan can with difficulty effect the same object, without exerting himself pretty equally with all those, who are engaged in the same pursuit. And if it may likewise be assumed as a fact, that manufactures open a wider field to exertions of ingenuity than agriculture, it would not be a strained conjecture, that the labour employed in the former, being at once more *constant,* more uniform, and more ingenious, than that which is employed in the latter, will be found at the same time more productive.

But it is not meant to lay stress on observations of this nature—they ought only to serve as a counterbalance to those of a similar complexion. Circumstances so vague and general, as well as so abstract, can afford little instruction in a matter of this kind.

Another, and that which seems to be the principal argument offered for the superior productiveness of Agricultural labour, turns upon the allegation, that labour employed on manufactures yields nothing equivalent to the rent of land; or to that nett surplus, as it is called, which accrues to the proprietor of the soil.

But this distinction, important as it has been deemed, appears rather *verbal* than *substantial.*

It is easily discernable, that what in the first instance is divided into two parts under the denominations of the *ordinary profit* of the Stock of the farmer and *rent* to the landlord, is in the second instance united under the general appellation of the *ordinary profit* on the Stock of the Undertaker; and that this formal or verbal distribution constitutes the whole difference in the two cases. It seems to have been overlooked, that the land is itself a Stock or capital, advanced or lent by its owner to the occupier or tenant, and that the rent he receives is only the ordinary profit of a certain Stock in land, not managed by the proprietor himself, but by another to whom he leads or lets it, and who on his part advances a second capital to stock & improve the land, upon which he also receives the usual profit. The rent of the landlord and the profit of the farmer are therefore nothing more than the *ordinary profits* of *two* capitals, belonging to *two* different persons, and united in the cultivation of a farm: As in the other case, the surplus which arises upon any manufactory, after replacing the expences of carrying it on, answers to the ordinary profits of *one* or *more* capitals engaged in the persecution of such manufactory. It is said *one* or *more* capitals; because, in fact the same thing which is contemplated, in the case of the farm, sometimes happens in that of a manufactory. There is one, who furnishes a part of the capital, or lends a part of the money, by which it is carried on, and another, who carries it on, with the addition of his own capital. Out of the surplus,

which remains, after defraying expences, an interest is paid to the money-lender for the portion of the capital furnished by him, which exactly agrees with the rent paid to the landlord; and the residue of that surplus constitutes the profit of the undertaker or manufacturer, and agrees with what is denominated the ordinary profits on the Stock of the farmer. Both together make the ordinary profits of two capitals (employed in a manufactory; as in the other case the rent of the landlord and the revenue of the farmer compose the ordinary profits of two Capitals) employed in the cultivation of a farm.

The rent therefore accruing to the proprietor of the land, far from being a criterion of *exclusive* productiveness, as has been argued, is no criterion even of superior productiveness. The question must still be, whether the surplus, after defraying expences of a *given capital* employed in the *purchase* and *improvement* of a piece of land, is greater or less, than that of a like capital employed in the prosecution of a manufactory: or whether the *whole value produced* from a *given capital* and a *given quantity* of *labour,* employed in one way, be greater or less, than the *whole value produced* from an *equal capital* and an *equal quantity* of *labour* employed in the other way: or rather, perhaps whether the business of Agriculture or that of Manufactures will yield the greatest product, according to a *compound ratio* of the quantity of the Capital and the quantity of labour, which are employed in the one or in the other.

The solution of either of these questions is not easy; it involves numerous and complicated details, depending on an accurate knowledge of the objects to be compared. It is not known that the comparison has ever yet been made upon sufficient data properly ascertained and analised. To be able to make it on the present occasion with satisfactory precision would demand more previous enquiry and investigation, than there has been hitherto either leisure or opportunity to accomplish.

Some essays however have been made towards acquiring the requisite information; which have rather served to throw doubt upon, than to confirm the Hypothesis, under examination: But it ought to be acknowledged, that they have been too little diversified, and are too imperfect, to authorise a definitive conclusion either way; leading rather to probable conjecture than to certain deduction. They render it probable, there are various branches of manufactures, in which a given Capital will yield a greater *total* product, and a considerably greater *nett* product, than an equal capital invested in the purchase and improvement of lands; and that there are also *some* branches, in which both the *gross* and the *nett* produce will exceed that of Agricultural industry; according to a compound ratio of capital and labour: But it is on this last point, that there appears to be the greatest room for doubt. It is far less difficult to infer generally, that the *nett produce* of Capital engaged in manufacturing enterprises is greater than that of Capital engaged in Agriculture.

In stating these results, the purchase and improvement of lands, under previous cultivation are alone contemplated. The comparison is more in favour of Agriculture, when it is made with reference to the settlement of new and waste lands; but an argument drawn from so temporary a circumstance could have no weight in determining the general question concerning the permanent relative productiveness of the two species of industry. How far it ought to influence the policy of the United States, on the score of particular situation, will be averted to in another place.

The foregoing suggestions are *not designed to inculcate an opinion that manufacturing industry is more productive than that of Agriculture.* They are intended rather to shew that the reverse of this proposition is not ascertained; that the general arguments which are brought to establish it are not satisfactory; and consequently that a supposition of the superior productiveness of Tillage ought to be no obstacle to listening to any substantial inducements to the encouragement of manufactures, which may be otherwise perceived to exist, through an apprehension, that they may have a tendency to divert labour from a more to a less profitable employment.

It is extremely probable, that on a full and accurate devellopment of the matter, on the ground of fact and calculation, it would be discovered that there is no material difference between the aggregate productiveness of the one, and of the other kind of industry; and that the propriety of the encouragements, which may in any case be proposed to be given to either ought to be determined upon considerations irrelative to any comparison of that nature.

II But without contending for the superior productiveness of Manufacturing Industry, it may conduce to a better judgment of the policy, which ought to be pursued respecting its encouragement, to contemplate the subject, under some additional aspects, tending not only to confirm the idea, that this kind of industry has been improperly represented as unproductive in itself; but [to] evince in addition that the establishment and diffusion of manufactures have the effect of rendering the total mass of useful and productive labor in a community, *greater than it would otherwise be.* In prosecuting this discussion, it may be necessary briefly to resume and review some of the topics, which have been already touched.

To affirm, that the labour of the Manufacturer is unproductive, because he consumes as much of the produce of land, as he adds value to the raw materials which he manufactures, is not better founded, than it would be to affirm, that the labour of the farmer, which furnishes materials to the manufacturer, is unproductive, *because he consumes an equal value of manufactured articles.* Each furnishes a certain portion of the produce of his labor to the other, and each destroys a correspondent proportion of the produce of the labour of the other. In the mean time, the maintenance of two Citizens, instead of one, is going on; the State has two members instead of one; and they together consume twice the value of what is produced from the land.

If instead of a farmer and artificer, there were a farmer only, he would be under the necessity of devoting a part of his labour to the fabrication of cloathing and other articles, which he would procure of the artificer, in the case of there being such a person; and of course he would be able to devote less labor to the cultivation of his farm; and would draw from it a proportionably less product. The whole quantity of production, in this state of things, in provisions, raw materials and manufactures, would certainly not exceed in value the

amount of what would be produced in provisions and raw materials only, if there were an artificer as well as a farmer.

Again—if there were both an artificer and a farmer, the latter would be left at liberty to pursue exclusively the cultivation of his farm. A greater quantity of provisions and raw materials would of course be produced—equal at least—as has been already observed, to the whole amount of the provisions, raw materials and manufactures, which would exist on a contrary supposition. The artificer, at the same time would be going on in the production of manufactured commodities; to an amount sufficient not only to repay the farmer, in those commodities, for the provisions and materials which were procured from him, but to furnish the Artificer himself with a supply of similar commodities for his own use. Thus then, there would be two quantities or values in existence, instead of one; and the revenue and consumption would be double in one case, what it would be in the other.

If in place of both these suppositions, there were supposed to be two farmers, and no artificer, each of whom applied a part of his labour to the culture of land, and another part to the fabrication of Manufactures—in this case, the portion of the labour of both bestowed upon land would produce the same quantity of provisions and raw materials only, as would be produced by the intire sum of the labour of one applied in the same manner, and the portion of the labour of both bestowed upon manufactures, would produce the same quantity of manufactures only, as would be produced by the intire sum of the labour of one applied in the same manner. Hence the produce of the labour of the two farmers would not be greater than the produce of the labour of the farmer and artificer; and hence, it results, that the labour of the artificer is as possitively productive as that of the farmer, and, as positively, augments the revenue of the Society.

The labour of the Artificer replaces to the farmer that portion of his labour, with which he provides the materials of exchange with the Artificer, and which he would otherwise have been compelled to apply to manufactures: and while the Artificer thus enables the farmer to enlarge his stock of Agricultural industry, a portion of which he purchases for his own use, *he also supplies himself with the manufactured articles of which he stands in need.*

He does still more—Besides this equivalent which he gives for the portion of Agricultural labour consumed by him, and this supply of manufactured commodities for his own consumption—he furnishes still a surplus, which compensates for the use of the Capital advanced either by himself or some other person, for carrying on the business. This is the ordinary profit of the Stock employed in the manufactory, and is, in every sense, as effective an addition to the income of the Society, as the rent of land.

The produce of the labour of the Artificer consequently, may be regarded as composed of three parts; one by which the provisions for his subsistence and the materials for his work are purchased of the farmer, one by which he supplies himself with manufactured necessaries, and a third which constitutes the profit on the Stock employed. The two last portions seem to have been overlooked in the system, which represents manufacturing industry as barren and unproductive.

In the course of the preceding illustrations, the products of equal quantities of the labour of the farmer and artificer have been treated as if equal to each other. But this is not to be understood as intending to assert any such precise equality. It is merely a manner of expression adopted for the sake of simplicity and perspicuity. Whether the value of the produce of the labour of the farmer be somewhat more or less, than that of the artificer, is not material to the main scope of the argument, which hitherto has only aimed at shewing, that the one, as well as the other, occasions a possitive augmentation of the total produce and revenue of the Society.

It is now proper to proceed a step further, and to enumerate the principal circumstances, from which it may be inferred—That manufacturing establishments not only occasion a possitive augmentation of the Produce and Revenue of the Society, but that they contribute essentially to rendering then greater than they could possibly be, without such establishments. These circumstances are—

1. The division of Labour.
2. An extension of the use of Machinery.
3. Additional employment to classes of the community not ordinarily engaged in the business.
4. The promoting of emigration from foreign Countries.
5. The furnishing greater scope for the diversity of talents and dispositions which discriminate men from each another.
6. The affording a more ample and various field of enterprize.
7. The creating in some instances a new, and securing in all, a more certain and steady demand for the surplus produce of the soil.

Each of these circumstances has a considerable influence upon the total mass of industrious effort in a community. Together, they add to it a degree of energy and effect, which are not easily conceived. Some comments upon each of them, in the order in which they have been stated, may serve to explain their importance.

I. As to the Division of Labour.

It has justly been observed, that there is scarcely any thing of greater moment in the œconomy of a nation, than the proper division of labour. The seperation of occupations causes each to be carried to a much greater perfection, than it could possible acquire, if they were blended. This arises principally from three circumstances.

1st—The greater skill and dexterity naturally resulting from a constant and undivided application to a single object. It is evident, that these properties must increase, in proportion to the separation and simplification of objects and the steadiness of the attention devoted to each; and must be less, in proportion to the complication of objects, and the number among which the attention is distracted.

2nd. The œconomy of time—by avoiding the loss of it, incident to a frequent transition from one operation to another of a different nature. This depends on various circumstances—the transition itself—the orderly disposition of the implements, machines and materials employed in the operation to be relinquished—the preparatory steps to the

commencement of a new one—the interruption of the impulse, which the mind of the workman acquires, from being engaged in a particular operation—the distractions hesitations and reluctances, which attend the passage from one kind of business to another.

3rd. An extension of the use of Machinery. A man occupied on a single object will have it more in his power, and will be more naturally led to exert his imagination in devising methods to facilitate and abrige labour, than if he were perplexed by a variety of independent and dissimilar operations. Besides this, the fabrication of Machines, in numerous instances, becoming itself a distinct trade, the Artist who follows it, has all the advantages which have been enumerated, for improvement in his particular art; and in both ways the invention and application of machinery are extended.

And from these causes united, the mere separation of the occupation of the cultivator, from that of the Artificer, has the effect of augmenting the *productive powers* of labour, and with them, the total mass of the produce or revenue of a Country. In this single view of the subject, therefore, the utility of Artificers or Manufactures, towards promoting an increase of productive industry, is apparent.

II. As to an extension of the use of Machinery a point which though partly anticipated requires to be placed in one or two additional lights.

The employment of Machinery forms an item of great importance in the general mass of national industry 'Tis an artificial force brought in aid of the natural force of man; and, to all the purposes of labour, is an increase of hands; an accession of strength, *unencumbered too by the expence of maintaining the laborer.* May it not therefore be fairly inferred, that those occupations, which give greatest scope to the use of this auxiliary, contribute most to the general Stock of industrious effort, and, in consequence, to the general product of industry?

It shall be taken for granted, and the truth of the position referred to observation, that manufacturing pursuits are susceptible in a greater degree of the application of machinery, than those of Agriculture. If so all the difference is lost to a community, which, instead of manufacturing for itself, procures the fabrics requisite to its supply from other Countries. The substitution of foreign for domestic manufactures is a transfer to foreign nations of the advantages accruing from the employment of Machinery, in the modes in which it is capable of being employed, with most utility and to the greatest extent.

The Cotton Mill invented in England, within the last twenty years, is a signal illustration of the general proposition, which has been just advanced. In consequence of it, all the different processes for spining Cotton are performed by means of Machines, which are put in motion by water, and attended chiefly by women and Children; [and by a smaller] number of [persons, in the whole, than are] requisite in the ordinary mode of spinning. And it is an advantage of great moment that the operations of this mill continue with convenience, during the night, as well as through the day. The prodigious affect of such a Machine is easily conceived. To this invention is to be attributed essentially the immense progress, which has been so suddenly made in Great Britain in the various fabrics of Cotton.

III. As to the additional employment of classes of the community, not ordinarily engaged in the particular business.

This is not among the least valuable of the means, by which manufacturing institutions contribute to augment the general stock of industry and production. In places where those institutions prevail, besides the persons regularly engaged in them, they afford occasional and extra employment to industrious individuals and families, who are willing to devote the leisure resulting from the intermissions of their ordinary pursuits to collateral labours, as a resource of multiplying their acquisitions or [their] enjoyments. The husbandman himself experiences a new source of profit and support from the encreased industry of his wife and daughters; invited and stimulated by the demands of the neighboring manufactories.

Besides this advantage of occasional employment to classes having different occupations, there is another of a nature allied to it [and] of a similar tendency. This is—the employment of persons who would otherwise be idle (and in many cases a burthen on the community), either from the byass of temper, habit, infirmity of body, or some other cause, indisposing, or disqualifying them for the toils of the Country. It is worthy of particular remark, that, in general, women and Children are rendered more useful and the latter more early useful by manufacturing establishments, than they would otherwise be. Of the number of persons employed in the Cotton Manufactories of Great Britain, it is computed the 4/7 nearly are women and children; of whom the greatest proportion are children and many of them of a very tender age.

And thus it appears to be one of the attributes of manufactures, and one of no small consequence, to give occasion to the exertion of a greater quantity of Industry, even by the *same number* of persons, where they happen to prevail, than would exist, if there were no such establishments.

IV. As to the promoting of emigration from foreign Countries.

Men reluctantly quit one course of occupation and livelihood for another, unless invited to it by very apparent and proximate advantages. Many, who would go from one country to another, if they had a prospect of continuing with more benefit the callings, to which they have been educated, will often not be tempted to change their situation, by the hope of doing better, in some other way. Manufacturers, who listening to the powerful invitations of a better price for their fabrics, or their labour, of greater cheapness of provisions and raw materials, of an exemption from the chief part of the taxes burthens and restraints, which they endure in the old world, of greater personal independence and consequence, under the operation of a more equal government, and of what is far more precious than mere religious toleration—a perfect equality of religious privileges; would probably flock from Europe to the United States to pursue their own trades or professions, if they were once made sensible of the advantages they would enjoy, and were inspired with an assurance of encouragement and employment, will, with difficulty, be

induced to transplant themselves, with a view to becoming Cultivators of Land.

If it be true then, that it is the interest of the United States to open every possible [avenue to] emigration from abroad, it affords a weighty argument for the encouragement of manufactures; which for the reason just assigned, will have the strongest tendency to multiply the inducements to it.

Here is perceived an important resource, not only for extending the population, and with it the useful and productive labour of the country, but likewise for the prosecution of manufactures, without deducting from the number of hands, which might otherwise be drawn to tillage; and even for the indemnification of Agriculture for such as might happen to be diverted from it. Many, whom Manufacturing views would induce to emigrate, would afterwards yield to the temptations, which the particular situation of this Country holds out to Agricultural pursuits. And while Agriculture would in other respects derive many signal and unmingled advantages, from the growth of manufactures, it is a problem whether it would gain or lose, as to the article of the number of persons employed in carrying it on.

V. As to the furnishing greater scope for the diversity of talents and dispositions, which discriminate men from each other.

This is a much more powerful mean of augmenting the fund of national Industry than may at first sight appear. It is a just observation, that minds of the strongest and most active powers for their proper objects fall below mediocrity and labour without effect, if confined to uncongenial pursuits. And it is thence to be inferred, that the results of human exertion may be immensely increased by diversifying its objects. When all the different kinds of industry obtain in a community, each individual can find his proper element, and can call into activity the whole vigour of his nature. And the community is benefitted by the services of its respective members, in the manner in which each can serve it with most effect.

If there be any thing in a remark often to be met with—namely that there is, in the genius of the people of this country, a peculiar aptitude for mechanic improvements, it would operate as a forcible reason for giving opportunities to the exercise of that species of talent, by the propagation of manufactures.

VI. As to the affording a more ample and various field for enterprise.

This also is of greater consequence in the general scale of national exertion, than might perhaps on a superficial view be supposed, and has effects not altogether dissimilar from those of the circumstance last noticed. To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of the expedients, by which the wealth of a nation may be promoted. Even things in themselves not positively advantageous, sometimes becomes so, by their tendency to provoke exertion. Every new scene which is opened to the busy nature of man to rouse and exert itself, is the addition of a new energy to the general stock of effort.

The spirit of enterprise, useful and prolific as it is, must necessarily be contracted or expanded in proportion to the simplicity or variety of the occupations and productions, which are to be found in a Society. It must be less in a nation of mere cultivators, than in a nation of cultivators and merchants; less in a nation of cultivators and merchants, than in a nation of cultivators, artificers and merchants.

VII. As to the creating, in some instances, a new, and securing in all a more certain and steady demand, for the surplus produce of the soil.

This is among the most important of the circumstances which have been indicated. It is a principal mean, by which the establishment of manufactures contributed to an augmentation of the produce or revenue of a country, and has an immediate and direct relation to the prosperity of Agriculture.

It is evident, that the exertions of the husbandman will be steady or fluctuating, vigorous or feeble, in proportion to the steadiness or fluctuation, adequateness, or inadequateness of the markets on which he must depend, for the vent of the surplus, which may be produced by his labour; and that such surplus in the ordinary course of things will be greater or less in the same proportion.

For the purpose of this vent, a domestic market is greatly to be preferred to a foreign one; because it is in the nature of things, far more to be relied upon.

It is a primary object of the policy of nations, to be able to supply themselves with subsistence from their own soils; and manufacturing nations, as far as circumstances permit, endeavor to procure, from the same source, the raw materials necessary for their own fabrics. This disposition, urged by the spirit of monopoly, is sometimes even carried to an injudicious extreme. It seems not always to be recollected, that nations, who have neither mines nor manufactures, can only obtain the manufactured articles, of which they stand in need, by an exchange of the products of their soils; and that, if those who can best furnish them with such articles are unwilling to give a due course to this exchange, they must of necessity make every possible effort to manufacture for themselves, the effect of which is that the manufacturing nations abrige the natural advantages of their situation, through an unwillingness to permit the Agricultural countries to enjoy the advantages of theirs, and sacrifice the interests of a mutually beneficial intercourse to the vain project of *selling every thing and buying nothing.*

But it is also a consequence of the policy, which has been noted, that the foreign demand for the products of Agricultural Countries, is, in a great degree, rather casual and occasional, than certain or constant. To what extent injurious interruptions of the demand for some of the staple commodities of the United States, may have been experienced, from that cause, must be referred to the judgment of those who are engaged in carrying on the commerce of the country; but it may be safely assumed, that such interruptions are at times very inconveniently felt, and that cases not unfrequently occur, in which markets are so confined and restricted, as to render the demand very unequal to the supply.

Independently likewise of the artificial impediments, which are created by the policy in question, there are natural causes tending to render the external demand for the surplus

of Agricultural nations a precarious reliance. The differences of seasons, in the countries, which are the consumers make immense differences in the produce of their own soils, in different years; and consequently in the degrees of their necessity for foreign supply. Plentiful harvests with them, especially if similar ones occur at the same time in the countries, which are the furnishers, occasion of course a glut in the markets of the latter.

Considering how fast and how much the progress of new settlements in the United States must increase the surplus produce of the soil, and weighing seriously the tendency of the system, which prevails among most of the commercial nations of Europe; whatever dependence may be placed on the force of national circumstances to counteract the effects of an artificial policy; there appear strong reasons to regard the foreign demand for that surplus as too uncertain a reliance, and to desire a substitute for it, in an extensive domestic market.

To secure such a market, there is no other expedient, than to promote manufacturing establishments. Manufacturers who constitute the most numerous class, after the Cultivators of land, are for that reason the principal consumers of the surplus of their labour.

This idea of an extensive domestic market for the surplus produce of the soil is of the first consequence. It is of all things, that which most effectually conduces to a flourishing state of Agriculture. If the effect of manufactories should be to detach a portion of the hands, which would otherwise be engaged in Tillage, it might possibly cause a smaller quantity of lands to be under cultivation but by their tendency to procure a more certain demand for the surplus produce of the soil, they would, at the same time, cause the lands which were in cultivation to be better improved and more productive. And while, by their influence, the condition of each individual farmer would be meliorated, the total mass of Agricultural production would probably be increased. For this must evidently depend as much, if not more, upon the degree of improvement; than upon the number of acres under culture.

It merits particular observation, that the multiplication of manufactories not only furnishes a Market for those articles, which have been accustomed to be produced in abundance, in a country; but it likewise creates a demand for such as were either unknown or produced in inconsiderable quantities. The bowels as well as the surface of the earth are ransacked for articles which were before neglected. Animals, Plants and Minerals acquire an utility and value, which were before unexplored.

The foregoing considerations seem sufficient to establish, as general propositions, That it is the interest of nations to diversify the industrious pursuits of the individuals, who compose them—That the establishment of manufactures is calculated not only to increase the general stock of useful and productive labour; but even to improve the state of Agriculture in particular; certainly to advance the interests of those who are engaged in it. There are other views, that will be hereafter taken of the subject, which it is conceived, will serve to confirm these inferences.

III Previously to a further discussion of the objections to the encouragement of manufactures which had been stated, it will be of use to see what can be said, in reference to the particular situation of the United States, against the conclusions appearing to result from what has been already offered.

It may be observed, and the idea is of no inconsiderable weight, that however true it might be, that a State, which possessing large tracts of vacant and fertile territory, was at the same time secluded from foreign commerce, would find its interest and the interest of Agriculture, in diverting a part of its population from Tillage to Manufactures; yet it will not follow, that the same is true of a State, which having such vacant and fertile territory, has at the same time ample opportunity of procuring from abroad, on good terms, all the fabrics of which it stands in need, for the supply of its inhabitants. The power of doing this at least secures the great advantage of a division of labour; leaving the farmer free to pursue exclusively the culture of his land, and enabling him to procure with its products the manufactured supplied requisite either to his wants or to his enjoyments. And though it should be true, that in settled countries, the diversification of Industry is conducive to an increase in the productive powers of labour, and to an augmentation of revenue and capital; yet it is scarcely conceivable that there can be any [thing] of so solid and permanent advantage to an uncultivated and unpeopled country as to convert its wastes into cultivated and inhabited districts. If the Revenue, in the mean time, should be less, the Capital, in the event, must be greater.

To these observations, the following appears to be a satisfactory answer—

1. If the system of perfect liberty to industry and commerce were the prevailing system of nations—the arguments which dissuade a country in the predicament of the United States, from the zealous pursuits of manufactures would doubtless have great force. It will not be affirmed, that they might not be permitted, with few exceptions, to serve as a rule of national conduct. In such a state of things, each country would have the full benefit of its peculiar advantages to compensate for its deficiencies or disadvantages. If one nation were in condition to supply manufactured articles on better terms than another, that other might find an abundant indemnification in a superior capacity to furnish the produce of the soil. And a free exchange, mutually beneficial, of the commodities which each was able to supply, on the best terms, might be carried on between them, supporting in full vigour the industry of each. And though the circumstances which have been mentioned and others, which will be unfolded hereafter render it probable, that nations merely Agricultural would not enjoy the same degree of opulence, in proportion to their numbers, as those united manufactures with agriculture: yet the progressive improvement of the lands of the former might, in the end, atone for an inferior degree of opulence in the mean time: and in a case in which opposite considerations are pretty equally balanced, the option ought perhaps always to be, in favour of leaving Industry to its own direction.

But the system which has been mentioned, is far from characterising the general policy of Nations. [The prevalent one has been regulated by an opposite spirit.]

The consequence of it is, that the United States are to a certain extent in the situation of a country precluded from foreign Commerce. They can indeed, without difficulty obtain from abroad the manufactured supplies, of which they are in want; but they experience numerous and very injurious impediments to the emission and vent of their own commodities. Nor is this the case in reference to a single foreign nation only. The regulations of several countries, with which we have the most extensive intercourse, throw serious obstructions in the way of the principal staples of the United States.

In such a position of things, the United States cannot exchange with Europe on equal terms; and the want of reciprocity would render them the victim of a system, which should induce them to confine their views to Agriculture and refrain from Manufactures. A constant and encreasing necessity, on their part, for the commodities of Europe, and only a partial and occasional demand for their own, in return, could not but expose them to a state of impoverishment, compared with the opulence to which their political and natural advantages authorise them to aspire.

Remarks of this kind are not made in the spirit of complaint. 'Tis for the nations, whose regulations are alluded to, to judge for themselves, whether, by aiming at too much they do not lose more than they gain. 'Tis for the United States to consider by what means they can render themselves least dependent, on the combinations, right or wrong of foreign policy.

It is no small consolation, that already the measures which have embarrassed our Trade, have accelerated internal improvements, which upon the whole have bettered our affairs. To diversify and extend these improvements is the surest and safest method of indemnifying ourselves for any inconveniences, which those or similar measures have a tendency to beget. If Europe will not take from us the products of our soil, upon terms consistent with out interest, the natural remedy is to contract as fast as possible our wants of her.

2. The conversion of their waste into cultivated lands is certainly a point of great moment in the political calculations of the United States. But the degree in which this may possibly be retarded by the encouragement of manufactories does not appear to countervail the powerful inducements to affording that encouragement.

An observation made in another place is of a nature to have great influence upon this question. If it cannot be denied, that the interests even of Agriculture may be advanced more by having such of the lands of a state as are occupied under good cultivation, than by having a greater quantity occupied under a must inferior cultivation, and if Manufactories, for the reasons assigned, must be admitted to have a tendency to promote a more steady and vigorous cultivation of the lands occupied than would happen without them—it will follow, that they are capable of indemnifying a country for a diminution of the progress of new settlements; and may serve to increase both the capital [value] and the income of its lands, even though they should abrige the number of acres under Tillage.

But it does, by no means, follow, that the progress of new settlements would be retarded by the extension of Manufactures. The desire of being an independent proprietor of land is founded on such strong principles in the human breast, that where the opportunity of becoming so is as great as it is in the United States, the proportion will be small of those, whose situations would otherwise lead to it, who would be diverted from it towards Manufactures. And it is highly probable, as already intimated, that the accessions of foreigners, who originally drawn over by manufacturing views would afterwards abandon them for Agricultural, would be more than equivalent for those of our own Citizens, who might happen to be detached from them.

The remaining objections to a particular encouragement of manufactures in the United States now require to be examined.

One of these turns on the proposition, that Industry, if left to itself, will naturally find its way to the most useful and profitable employment: whence it is inferred, that manufactures without the aid of government will grow up as soon and as fast, as the natural state of things and the interest of the community may require.

Against the solidity of this hypothesis, in the full latitude of the terms, very cogent reasons may be offered. These have relation to—the strong influence of habit and the spirit of imitation—the fear of want of success in untried enterprises—the intrinsic difficulties incident to first essays towards a competition with those who have previously attained to perfection in the business to be attempted—the bounties premiums and other artificial encouragements, with which foreign nations second the exertions of their own Citizens in the branches, in which they are to be rivalled.

Experience teaches, that men are often so much governed by what they are accustomed to see and practice, that the simplest and most obvious improvements, in the [most] ordinary occupations, are adopted with hesitation, reluctance and by slow graduations. The spontaneous transition to new pursuits, in a community long habituated to different ones, may be expected to be attended with proportionably greater difficulty. When former occupations ceased to yield a profit adequate to the subsistence of their followers, or when there was an absolute deficiency of employment in them, owing to the superabundance of hands, changes would ensue; but these changes would be likely to be more tardy than might consist with the interest either of individuals or of the Society. In many cases they would not happen, while a bare support could be ensured an adherence to ancient courses; though a resort to a more profitable employment might be practicable. To produce the desireable changes, as early as may be expedient, may therefore require the incitement and patronage of government.

The apprehension of failing in new attempts is perhaps a more serious impediment. There are dispositions apt to be attracted by the mere novelty of an undertaking—but these

are not always those best calculated to give it success. To this, it is of importance that the confidence of cautious sagacious capitalists both citizens and foreigners, should be excited. And to inspire this description of persons with confidence, it is essential, that they should be made to see in any project, which is new, and for that reason alone, if, for no other, precarious, the prospect of such a degree of countenance and support from government, as may be capable of overcoming the obstacles, inseperable from first experiments.

The superiority antecedently enjoyed by nations, who have preoccupied and perfected a branch of industry, constitutes a more formidable obstacle, than either of those, which have been mentioned, to the introduction of the same branch into a country, in which it did not before exist. To maintain between the recent establishments of one country and the long matured establishments of another country, a competition upon equal terms, both as to quality and price, is in most cases impracticable. The disparity in the one, or in the other, or in both, must necessarily be so considerable as to forbid a successful rivalship, without the extraordinary aid and protection of government.

But the greatest obstacle of all to the successful prosecution of a new branch of industry in a country, in which it was before unknown, consists, as far as the instances apply, in the bounties premiums and other aids which are granted, in a variety of cases, by the nations, in which the establishments to be imitated are previously introduced. It is well known (and particular examples in the course of this report will be cited) that certain nations grant bounties on the exportation of particular commodities, to enable their own workmen to undersell and supplant all competitors, in the countries to which those commodities are sent. Hence the undertakers of a new manufacture have to contend not only with the natural disadvantages of a new undertaking, but with the gratuities and remunerations which other governments bestow. To be enabled to contend with success, it is evident, that the interference and aid of their own government are indispensable.

Combinations by those engaged in a particular branch of business in one country, to frustrate the first efforts to introduce it into another, by temporary sacrifices, recompensed perhaps by extraordinary indemnifications of the government of such country, are believed to have existed, and are not to be regarded as destitute of probability. The existence or assurance of aid from the government of the country, in which the business is to be introduced, may be essential to fortify adventurers against the dread of such combinations, to defeat their effects, if formed and to prevent their being formed, by demonstrating that they must in the end prove fruitless.

Whatever room there may be for an expectation that the industry of a people, under the direction of private interest, will upon equal terms find out the most beneficial employment for itself, there is none for a reliance, that it will struggle against the force of unequal terms, or will of itself surmount all the adventitious barriers to a successful competition, which may have been erected either by the advantages naturally acquired from practice and previous possession of the ground, or by those which may have sprung from positive regulations and an artificial policy. This general reflection might alone suffice as an answer to the objection under examination; exclusively of the weighty considerations which have been particularly urged.

The objections of the pursuit of manufactures in the United States, which next present themselves to discussion, represent an impracticability of success, arising from three causes—scarcity of hands—dearness of labour—want of capital.

The two first circumstances are to a certain extent real, and within due limits, ought to be admitted as obstacles to the success of manufacturing enterprize in the United States. But there are various considerations, which lessen their force, and tend to afford an assurance that they are not sufficient to prevent the advantageous prosecution of many very useful and extensive manufactories.

With regard to scarcity of hands, the fact itself must be applied with no small qualification to certain parts of the United States. There are large districts, which may be considered as pretty fully peopled; and which notwithstanding a continual drain for distant settlement, are thickly interspersed with flourishing and increasing towns. If these districts have not already reached the point, at which the complaint of scarcity of hands ceases, they are not remote from it, and are approaching fast towards it: And having perhaps fewer attractions to agriculture, than some other parts of the Union, they exhibit a proportionally stronger tendency towards other kinds of industry. In these districts, may be discerned, no inconsiderable maturity for manufacturing establishments.

But there are circumstances, which have been already noticed with another view, that materially diminish every where the effect of a scarcity of hands. These circumstances are—the great use which can be made of women and children; on which point a very pregnant and instructive fact has been mentioned—the vast extension given by late improvements to the employment of Machines, which substituting the Agency of fire and water, has prodigiously lessened the necessity for manual labor—the employment of persons ordinarily engaged in other occupations, during the seasons, or hours of leisure; which, besides giving occasion to the exertion of a greater quantity of labour by the same number of persons, and thereby encreasing the general stock of labour, as has been elsewhere remarked, may also be taken into the calculation, as a resource for obviating the scarcity of hands—lastly the attraction of foreign emigrants. Whoever inspects, with a careful eye, the composition of our towns will be made sensible to what an extent this resource may be relied upon. This exhibits a large proportion of ingenious and valuable workmen, in different arts and trades, who, by expatriating from Europe, have improved their own condition, and added to the industry and wealth of the United States. It is a natural inference from the experience, we have already had, that as soon as the United States shall present the countenance of a serious prosecution of Manufactures—as soon as foreign artists shall be made sensible that the state of things here affords a moral certainty of employment and

encouragement—competent numbers of European workmen will transplant themselves, effectually to ensure the success of the design. How indeed can it otherwise happen considering the various and powerful inducements, which the situation of this country offers; addressing themselves to so many strong passions and feelings, to so many general and particular interests?

It may be affirmed therefore, in respect to hands for carrying on manufactures, that we shall in a great measure trade upon a foreign Stock; reserving our own, for the cultivation of our lands and the manning of our Ships; as far as character and circumstances [shall] incline. It is not unworthy of remark, that the objection to the success of manufactures, deduced from the scarcity of hands, is alike applicable to Trade and Navigation; and yet these are perceived to flourish, without any sensible impediment from that cause.

As to the dearness of labour (another of the obstacles alledged) this has relation principally to two circumstances, one that which has been just discussed, or the scarcity of hands, the other, the greatness of profits.

As far as it is a consequence of the scarcity of hands, it is mitigated by all the considerations which have been adduced as lessening that deficiency.

It is certain too, that the disparity in this respect, between some of the most manufacturing parts of Europe and a large proportion of the United States, is not nearly so great as is commonly imagined. It is also much less in regard to Artificers and manufacturers than in regard to country labourers; and while a careful comparison shews, that there is, in this particular, much exaggeration; it is also evident that the effect of the degree of disparity, which does truly exist, is diminished in proportion to the use which can be made of machinery.

To illustrate this last idea—Let it be supposed, that the difference of price, in two Countries, of a given quantity of manual labour requisite to the fabrication of a given article is as 10; and that some *mechanic power* is introduced into both countries, which performing half the necessary labour, leaves only half to be done by hand, it is evident, that the difference in the cost of the fabrication of the article in question, in the two countries, as far as it is connected with the price of labour, will be reduced from 10. to 5, in consequence of the introduction of that *power.*

This circumstance is worthy of the most particular attention. It diminishes immensely one of the objections most strenuously urged, against the success of manufactures in the United States.

To procure all such machines as are known in any part of Europe, can only require a proper provision and due pains. The knowledge of several of the most important of them is already possessed. The preparation of them here, is in most cases, practicable on nearly equal terms. As far as they depend on Water, some superiority of advantages may be claimed, from the uncommon variety and greater cheapness of situations adapted to Mill seats, with which different parts of the United States abound.

So far as the dearness of labour may be a consequence of the greatness of profits in any branch of business, it is no obstacle of its success. The Undertaker can afford to pay the price.

There are grounds to conclude the undertakers of Manufacturers in this Country can at this time afford to pay higher wages to the workmen they may employ than are paid to similar workmen in Europe. The prices of foreign fabrics, in the markets of the United States, which will for a long time regulate the prices of the domestic ones, may be considered as compounded of the following ingredients—The first cost of materials, including the Taxes, if any, which are paid upon them where they are made: the expence of grounds, building machinery and tools: the wages of the persons employed in the manufactory: the profits on the capital or Stock employed: the commissions of Agents to purchase them where they are made; the expence of transportation to the United States [including insurance and other incidental charges;] the taxes or duties, if any [and fees of office] which are paid on their exportation: the taxes or duties [and fees of office] which are paid on their importation.

As to the first of these items, the cost of materials, the advantage upon the whole, is at present on the side of the United States, and the difference, in their favor, must increase, in proportion as a certain and extensive domestic demand shall induce the proprietors of land to devote more of their attention to the production of those materials. It ought not to escape observation, in a comparison on this point, that some of the principal manufacturing Countries in Europe are much more dependent on foreign supply for the materials of the manufactures, than would be the United States, who are capable of supplying themselves, with a greater abundance, as well as a greater variety of the requisite materials.

As to the second item, the expence of grounds buildings machinery and tools, an equality at least may be assumed; since advantages in some particulars will counterbalance temporary disadvantages in others.

As to the third item, or the article of wages, the comparison certainly turns against the United States, though as before observed not in so great a degree as is commonly supposed.

The fourth item is alike applicable to the foreign and to the domestic manufacture. It is indeed more properly a *result* than a particular, to be compared.

But with respect to all the remaining items, they are alone applicable to the foreign manufacture, and in the strictest sense extraordinaries; constituting a sum of extra change on the foreign fabric, which cannot be estimated, at less than [from 15 to 30] per Cent. on the cost of it at the manufactory.

This sum of extra charge may confidently be regarded as more than a Counterpoise for the real difference in the price of labour; and is a satisfactory proof that manufactures may prosper in defiance of it in the United States. To the general allegation, connected with the circumstances of scarcity of hands and dearness of labour, that extensive manufactures can only grow out of a redundant or full population, it will be sufficient, to answer generally, that the fact has been otherwise—That the situation alleged to be an essential condition of success, has not been that of several nations, at periods when they had already attained to maturity in a variety of manufactures.

The supposed want of Capital for the prosecution of manufactures in the United States is the most indefinite of the objections which are usually opposed to it.

It is very difficult to pronounce any thing precise concerning the real extent of the monied capital of a Country, and still more concentrating the proportion which it bears to the objects that invite employment of Capital. It is not less difficult to pronounce how far the *effect* of any given quantity of money, as capital, or in other words, as a medium for circulating the industry and property of a nation, may be encreased by the very circumstance of the additional motion, which is given to it by the new objects of employment. That effect, like the momentum of descending bodies, may not improperly be represented, as in a compound ratio to *mass* and *velocity.* It seems pretty certain, that a given sum of money, in a situation, in which the quick impulses of commercial activity were little felt, would appear inadequate to the circulation of as great a quantity of industry and property, as in one, in which their full influence was experienced.

It is not obvious, why the same objection might not as well be made to external commerce as to manufactures; since it is manifest that our immense tracts of land occupied and unoccupied are capable of giving employment to more capital than is actually bestowed upon them. It is certain, that the United States offer a vast field for the advantageous employment of Capital; but it does not follow, that there will not be found, in one way or another, a sufficient fund for the successful prosecution of any species of industry which is likely to prove truly beneficial.

The following considerations are of a nature to remove all inquietude on the score of want of Capital.

The introduction of Banks, as has been shewn on another occasion has a powerful tendency to extend the active Capital of a Country. Experience of the Utility of these Institutions is multiplying them in the United States. It is probable that they will be established wherever they can exist with advantage; and wherever, they can be supported, if administered with prudence, they will add new energies to all pecuniary operations.

The aid of foreign Capital may safely, and, with considerable latitude be taken into calculation. Its instrumentality has been long experienced in our external commerce; and it has begun to be felt in various other modes. Not only our funds, but our Agriculture and other internal improvements have been animated by it. It has already in a few instances extended even to our manufactures.

It is a well known fact, that there are parts of Europe, which have more Capital, than profitable domestic objects of employment. Hence, among other proofs, the large loans continually furnished to foreign states. And it is equally certain that the capital of other parts may find more profitable employment in the United States, than at home. And notwithstanding there are weighty inducements to prefer the employment of capital at home even at less profit, to an investment of it abroad, though with greater gain, yet these inducements are overruled either by a deficiency of employment or by a very material difference in profit. Both these Causes operate to produce a transfer of foreign capital to the United States. 'Tis certain, that various objects in this country hold out advantages, which are with difficulty to be equalled elsewhere; and under the increasingly favorable impressions, which are entertained of our government, the attractions will become more and More strong. These impressions will prove a rich mine of prosperity to the Country, if they are confirmed and strengthened by the progress of our affairs. And to secure this advantage, little more is now necessary, than to foster industry, and cultivate order and tranquility, at home and abroad.

It is not impossible, that there may be persons disposed to look with a jealous eye on the introduction of foreign Capital, as if it were an instrument to deprive our own citizens of the profits of our own industry: But perhaps there never could be a more unreasonable jealousy. Instead of being viewed as a rival, it ought to be Considered as a most valuable auxiliary; conducing to put in Motion a greater Quantity of productive labour, and a greater portion of useful enterprise than could exist without it. It is at least evident, that in a Country situated like the United States, with an infinite fund of resources yet to be unfolded, every farthing of foreign capital, which is laid out in internal ameliorations, and in industrious establishments of a permanent nature, is a precious acquisition.

And whatever be the objects which originally attract foreign Capital, when once introduced, it may be directed towards any purpose of beneficial exertion, which is desired. And to detain it among us, there can be no expedient so effectual as to enlarge the sphere, within which it may be usefully employed: Though induced merely with views to speculations in the funds, it may afterwards be rendered subservient to the Interests of Agriculture, Commerce & Manufactures.

But the attraction of foreign Capital for the direct purpose of Manufactures ought not to be deemed a chimerial expectation. There are already examples of it, as remarked in another place. And the examples, if the disposition be cultivated can hardly fail to multiply. There are also instances of another kind, which serve to strengthen the expectation. Enterprises for improving the Public Communications, by cutting canals, opening the obstructions in Rivers and erecting bridges, have received very material aid from the same source.

When the Manufacturing Capitalist of Europe shall advert to the many important advantages, which have been intimated, in the Course of this report, he cannot but perceive very powerful inducements to a transfer of himself and his Capital to the United States. Among the reflections, which a most interesting peculiarity of situation is calculated to suggest, it cannot escape his observation, as a circumstance of Moment in the calculation, that the progressive population and improvement of the United States, insure a continually increasing domestic demand for the fabrics which he shall produce, not to be affected by any external casualties or vicissitudes.

But while there are Circumstances sufficiently strong to authorise a considerable degree of reliance on the aid of foreign Capital towards the attainment of the object in view, it is satisfactory to have good grounds of assurance, that there are domestic resources of themselves adequate to it. It happens,

that there is a species of Capital actually existing within the United States, which relieves from all inquietude on the score of want of Capital—This is the funded Debt.

The effect of a funded debt, as a species of Capital, has been Noticed upon a former Occasion; but a more particular elucidation of the point seems to be required by the stress which is here laid upon it. This shall accordingly be attempted.

Public Funds answer the purpose of Capital, from the estimation in which they are usually held by Monied men; and consequently from the Ease and dispatch with which they can be turned into money. This capacity of prompt convertibility into money causes a transfer of stock to be in a great number of Cases equivalent to a payment in coin. And where it does not happen to suit the party who is to receive, to accept a transfer of Stock, the party who is to pay, is never at a loss to find elsewhere a purchaser of his Stock, who will furnish him in lieu of it, with the Coin of which he stands in need. Hence in a sound and settled state of the public funds, a man possessed of a sum in them can embrace any scheme of business, which offers, with as much confidence as if he were possessed of an equal sum in Coin.

This operation of public funds as capital is too obvious to be denied; but it is objected to the Idea of their operating as an *augmentation* of the Capital of the community, that they serve to occasion the *destruction* of some other capital to an equal amount.

The Capital which alone they can be supposed to destroy must consist of—The annual revenue, which is applied to the payment of Interest on the debt, and to the gradual redemption of the principal—The amount of the Coin, which is employed in circulating the funds, or, in other words, in effecting the different alienations which they undergo.

But the following appears to be the true and accurate view of this matter.

1st. As to the point of the Annual Revenue requisite for Payment of interest and redemption of principal.

As a determinate proportion will tend to perspicuity in the reasoning, let it be supposed that the annual revenue to be applied, corresponding with the modification of the 6 per Cent stock of the United States, is in the ratio of eight upon the hundred, that is in the first instance six on Account of interest, and two on account of Principal.

Thus far it is evident, that the Capital destroyed to the capital created, would bear no greater proportion, than 8 to 100. There would be withdrawn from the total mass of other capitals a sum of eight dollars to be paid to the public creditor; while he would be possessed of a sum of One Hundred dollars, ready to be applied to any purpose, to be embarked in any enterprize, which might appear to him eligible. Here then the *Augmentation* of Capital, or the excess of that which is produced, beyond that which is destroyed is equal to Ninety two dollars. To this conclusion, it may be objected, that the sum of Eight dollars is to be withdrawn annually, until the whole hundred is extinguished, and it may be inferred, that in the process of time a capital will be destroyed equal to that which is at first created.

But it is nevertheless true, that during the whole of the interval, between the creation of the Capital of 100 dollars, and its reduction to a sum not greater than that of the annual revenue appropriated to its redemption—there will be a greater active capital in existence than if no debt had been Contracted. The sum drawn from other Capitals *in any one year* will not exceed eight dollars; but there will be *at every instance of time* during the whole period, in question a sum corresponding *with so much of the principal,* as remains *unredeemed,* in the hands of some person, or other, employed, or ready to be employed in some profitable undertaking. There will therefore constantly be more capital, in capacity to be employed, than capital taken from employment. The excess for the first year has been stated to be Ninety two dollars; it will diminish yearly, but there always will be an excess, until the principal of the debt is brought to a level with the *redeeming annuity,* that is, in the case which has been assumed by way of example, to *eight dollars.* The reality of this excess becomes palpable, if it is supposed, as often happens, that the citizen of a foreign Country imports into the United States 100 dollars for the purchase of an equal sum of public debt. Here is an absolute augmentation of the mass of Circulating Coin to the extent of 100 dollars. At the end of a year the foreigner is presumed to draw back eight dollars on account of his Principal and Interest, but he still leaves, Ninety two of his original Deposit in circulation, as he in like manner leaves Eighty four at the end of the second year, drawing back then also the annuity of Eight Dollars: And thus the Matter proceeds; The capital left in circulation diminishing each year, and coming nearer to the level of the annuity drawnback. There are however some differences in the ultimate operation of the part of the debt, which is purchased by foreigners, and that which remains in the hands of citizens. But the general effect in each case, though in different degrees, is to add to the active capital of the Country.

Hitherto the reasoning has proceeded on a concession of the position, that there is a destruction of some other capital, to the extent of the annuity appropriated to the payment of the Interest and the redemption of the principal of the deb(t) but in this, too much has been conceded. There is at most a temp(orary) transfer of some other capital, to the amount of the Annuity, from those who pay to the Creditor who receives; which he again restor(es) to the circulation to resume the offices of capital. This he does ei(ther) immediately by employing the money in some branch of Industry, or mediately by lending it to some other person, who does so employ (it) or by spending it on his own maintenance. In either sup(position) there is no destruction of capital, there is nothing more (than a) suspension of its motion for a time; that is, while it is (passing) from the hands of those who pay into the Public coffers, & thence (through) the public Creditor into some other Channel of circulation. (When) the payments of interest are periodical and quick and made by instrumentality of Banks the diversion or suspension of capita(l) may almost be denominated momentary. Hence the deduction on this Account is far less, than it at first sight appears to be.

There is evidently, as far as regards the annuity no destruction nor transfer of any other Capital, than that por(tion) of the income of each individual, which goes to make up the

Annuity. The land which furnishes the Farmer with the s(um) which he is to contribute remains the same; and the like m(ay) be observed of other Capitals. Indeed as far as the Tax, w(hich) is the object of contribution (as frequently happens, when it doe(s) not oppress, by its weight) may have been a Motive to *greate(r) exertion* in any occupation; it may even serve to encrease the contributory Capital: This idea is not without importanc(e) in the general view of the subject.

It remains to see, what further deduction out to be mad(e) from the capital which is created, by the existence of the Debt; on account of the coin, which is employed in its circulation. This is susceptible of much less precise calculation, than the Article which has been just discussed. It is impossible to say what proportion of coin in necessary to carry on the alienations which any species of property usually undergoes. The quantity indeed varies according to circumstances. But it may still without hesitation be pronounced, from the quickness of the rotation, or rather of the transitions, that the *medium* of circulation always bears but a small proportion to the amount of the *property* circulated. And it is thence satisfactorily deductible, that the coin employed in the Negociations of the funds and which serves to give them activity, as capital, is incomparably less than the sum of the debt negotiated for the purposes of business.

It ought not, however, to be omitted, that the negotiation of the funds becomes itself a distinct business; which employs, and by employing diverts a portion of the circulating coin from other pursuits. But making due allowance for this circumstance there is no reason to conclude, that the effect of the diversion of coin in the whole operation bears any considerable proportion to the amount of the Capital to which it gives activity. The sum of the debt in circulation is continually at the Command, of any useful enterprise—the coin itself which circulates it, is never more than momentarily suspended from its ordinary functions. It experiences an incessant and rapid flux and reflux to and from the Channels of industry to those of speculations in the funds.

There are strong circumstances in confirmation of this Theory. The force of Monied Capital which has been displayed in Great Britain, and the height to which every species of industry has grown up under it, defy a solution from the quantity of coin which that kingdom has ever possessed. Accordingly it has been Coeval with its funding system, the prevailing opinion of the men of business, and of the generality of the most sagacious theorists of that country, that the operation of the public funds as capital has contributed to the effect in question. Among ourselves appearances this far favour the same Conclusion. Industry in general seems to have been reanimated. There are symptoms indicating an extension of our Commerce. Our navigation has certainly of late had a Considerable spring, and there appears to be in many parts of the Union a command of capital, which till lately, since the revolution at least, was unknown. But it is at the same time to be acknowledged, that other circumstances have concurred, (and in a great degree) in producing the present state of things, and that the appearances are not yet sufficiently decisive, to be entirely relied upon.

In the question under discussion, it is important to distinguish between an *absolute increase of Capital, or an accession of real wealth,* and *an artificial increase of Capital,* as an engine of business, or as an instrument of industry and Commerce. In the first sense, a funded debt has no pretensions to being deemed an increase in Capital; in the last, it has pretensions which are not easy to be controverted. Of a similar nature is bank credit and in an inferior degree, every species of private credit.

But though a funded debt is not in the first instance, an absolute increase of Capital, or an augmentation of real wealth; yet by serving as a New power in the operation of industry, it has within certain bounds a tendency to increase the real wealth of a Community, in like manner as money borrowed by a thrifty farmer, to be laid out in the improvement of his farm may, in the end, add to his Stock of real riches.

There are respectable individuals, who from a just aversion to an accumulation of Public debt, are unwilling to concede to it any kind of utility, who can discern no good to alleviate the ill with which they suppose it pregnant; who cannot be persuaded that it ought in any sense to be viewed as an increase of capital lest it should be inferred, that the more debt the more capital, the greater the burthens the greater the blessings of the community.

But it interests the public Councils to estimate every object as it truly is; to appreciate how far the good in any measure is compensated by the ill; or the ill by the good, Either of them is seldom unmixed.

Neither will it follow, that an accumulation of debt is desirable, because a certain degree of it operates as capital. There may be a plethora in the political, as in the Natural body; There may be a state of things in which any such artificial capital is unnecessary. The debt too may be swelled to such a size, as that the greatest part of it may cease to be useful as a Capital, serving only to pamper the dissipation of idle and dissolute individuals: as that the sums required to pay the Interest upon it may become oppressive, and beyond the means, which a government can employ, consistently with its tranquility, to raise them; as that the resources of taxation, to face the debt, may have been strained too far to admit of extensions adequate to exigencies, which regard the public safety.

Where this critical point is, cannot be pronounced, but it is impossible to believe, that there is not such a point.

And as the vicissitudes of Nations beget a perpetual tendency to the accumulation of debt, there ought to be in every government a perpetual, anxious and unceasing effort to reduce that, which at any time exists, as fast as shall be practicable consistently with integrity and good faith.

Reasonings on a subject comprehending ideas so abstract and complex, so little reducible to precise calculation as those which enter into the question just discussed, are always attended with a danger of running into fallacies. Due allowance ought therefore to be made for this possibility. But as far as the Nature of the subject admits of it, there appears to be satisfactory ground for a belief, that the public funds operate as a resource of capital to the Citizens of the United States, and, if they are a resource at all, it is an extensive one.

To all the arguments which are brought to evince the impracticability of success in manufacturing establishments in the United States, it might have been a sufficient answer to have referred to the experience of what has been already done. It is certain that several important branches have grown up and flourished with a rapidity which surprises: affording an encouraging assurance of success in future attempts: of these it may not be improper to enumerate the most considerable.

I. Of Skins. Tanned and tawed leather dressed skins, shoes, boots and Slippers, harness and sadlery of all kinds. Portmanteau's and trunks, leather breeches, gloves, muffs and tippets, parchment and Glue.

II. Of Iron. Barr and Sheet Iron, Steel, Nail—rods & Nails, implem⟨ents⟩ of husbandry, Stoves, pots and other household utensils, the steel and Iron work of carriages and for Shipbuildin⟨g,⟩ Anchors, scale beams and Weights & Various tools of Artificers, arms of different kinds; though the manufacture of these last has of late diminished for want of demand.

III. Of Wood. Ships Cabinet Wares and Turnery, Wool and Cotton ca⟨rds⟩ and other Machinery for manufactures and husband⟨ry,⟩ Mathematical instruments, Coopers wares of every kind.

IV. Of flax & Hemp. Cables, sail-cloth, Cordage, Twine and packthread.

V. Bricks and course tiles & Potters Wares.

VI. Ardent Spirits, and malt liquors.

VII. Writing and printing Paper, sheathing and wrapping Paper, pasteboards, fillers or press papers, paper hangings.

VIII. Hats of furr and Wool and of mixtures of both, Womens Stuff and Silk shoes.

IX. Refined Sugars.

X. Oils of Animals and seeds; Soap, Spermaceti and Tallow Candles.

XI. Copper and brass wares, particularly utensils for distillers, Sugar refiners and brewers, And—Irons and other Articles for household Use, philosophical apparatus.

XII. Tin Wares, for most purposes of Ordinary use.

XIII. Carriages of all kinds

XIV. Snuff, chewing & smoaking Tobacco.

XV. Starch and Hairpowder.

XVI. Lampblack and other painters colours.

XVII. Gunpowder

Besides manufactories of these articles which are carried on as regular Trades, and have attained to a considerable degree of maturity, there is a vast scene of household manufacturing, which contributes more largely to the supply of the Community, than could be imagined; without having made it an object of particular enquiry. This observation is the pleasing result of the investigation, to which the subject of the report has led, and is applicable as well to the Southern as to the middle and Northern States; great quantities of coarse cloths, coatings, serges, and flannels, linsey Woolseys, hosiery of Wool, cotton & thread, coarse fustians, jeans and Muslins, check⟨ed⟩ and striped cotton and linen goods, bed ticks, Coverlets and Counterpanes, Tow linens, coarse shirtings, sheetings, toweling and table linen, and various mixtures of wool and cotton, and of Cotton & flax are made in the household way, and in many instances to an extent not only sufficient for the supply of the families in which they are made, but for sale, and (even in some cases) for exportation. It is computed in a number of districts the $^2/_3$ $^3/_4$ and even $^4/_5$ of all the clothing of the Inhabitants are made by themselves. The importance of so great a progress, as appears to have been made in family Manufactures, within a few years, both in a moral and political view, renders the fact highly interesting.

Neither does the above enumeration comprehend all the articles, that are manufactured as regular Trades. Many others occur, which are equally well established, but which not being of equal importance have been omitted. And there are many attempts still in their Infancy, which though attended with very favorable appearances, could not have been properly comprized in an enumeration of manufactories, already established. There are other articles also of great importance, which tho' strictly speaking manufactures are omitted, as being immediately connected with husbandry: such are flour, pot & pearl ash, Pitch, tar, turpentine and the like.

There remains to be noticed an objection to the encouragement of manufactures, of a nature different from those which question the probability of success. This is derived from its supposed tendency to give a monopoly of advantages to particula⟨r⟩ classes at the expence of the rest of the community, who, it is affirmed, would be able to procure the requisite supplies of manufactured articles on better terms from foreigners, than from our own Citizens, and who it is alledged, are reduced to a necessity of paying an enhanced price for whatever they want, by every measure, which obstructs the free competition of foreign commodi⟨es⟩.

It is not an unreasonable supposition, that measures, which serve to abridge the free competition of foreign Articles, have a tendency to occasion an enhancement of prices and it is not to be denied that such is the effect in a number of Cases, but the fact does not uniformly correspond with the theory. A reduction of prices has in several instances immediately succeeded the establishment of a domestic manufacture. Whether it be that foreign Manufacturers endeavor to suppla⟨nt⟩ by underselling our own, or whatever else be the cause, the effect has been such as is stated, and the reverse of what mig⟨ht⟩ have been expected.

But though it were true, that the immedi⟨ate⟩ and certain effect of regulations controuling the competition of foreign with domestic fabrics was an increase of price, it is universally true, that the contrary is the ultimate effect with every successful manufacture. When a domestic manufacture has attainted to perfection, and has engaged in the prosecution of it a competent number of Persons, it invariably becomes cheaper. Being free from the heavy charges, which attend the importation of foreign commodities, it can be afforded, and

accordingly seldom or never fails to be sold Cheaper, in process of time, than was the foreign Article for which it is a substitute. The internal competition, which takes place, soon does away every thing like Monopoly, and by degrees reduces the price of the Article to the *minimum* of a reasonable profit on the Capital employed. This accords with the reason of the thing and with experience.

Whence it follows, that it is the interest of a community with a view to eventual and permanent œconomy, to encourage the growth of manufactures. In a national view, a temporary enhancement of price must always be well compensated by a permanent reduction of it.

It is a reflection, which may with propriety be indulged here, that this eventual diminution of the prices of manufactured Articles; which is the result of internal manufacturing establishments, has a direct and very important tendency to benefit agriculture. It enables the farmer, to procure with a smaller quantity of his labour, the manufactured produce of which he stan(ds) in need, and consequently increases the value of his income and property.

The objections which are commonly made to the expediency of encouraging, and to the probability of succeeding in manufacturing pursuits, in the United states, having now been discussed; the Considerations which have appeared in the Course of the discussion, recommending that species of industry to the patronage of the Government, will be materially strengthened by a few general and some particular topics, which have been naturally reserved for subsequent Notice.

I There seems to be a moral certainty, that the trade of a country which is both manufacturing and Agricultural will be more lucrative and prosperous, than that of a Counry, which is, merely Agricultural.

One reason for this is found in that general effort of nations (which has been already mentioned) to procure from their own soils, the articles of prime necessity requisite to their own consumption and use; and which serves to render their demand for a foreign supply of such articles in a great degree occasional and contingent. Hence, while the necessities of nations exclusively devoted to Agriculture, for the fabrics of manufacturing st(ates) are constant and regular, the wants of the latter for the products of the former, are liable to very considerable fluctuations and interruptions. The great inequalities resulting from difference of seasons, have been elsewhere remarked: This uniformity of deman(d) on one side, and unsteadiness of it, on the other, must necessarily ha(ve) a tendency to cause the general course of the exchange of commodit(ies) between the parties to turn to the disadvantage of the merely agricultural States. Peculiarity of situation, a climate and soil ada(pted) to the production of peculiar commodities, may, sometimes, contradi(ct) in the rule; but there is every reason to believe that it will be fou(nd) in the Main, a just one.

Another circumstance which gives a superiority of commercial advantages to states, that manufact(ure) as well as cultivate, consists in the more numerous attractions, which a more diversified market offers to foreign Customers, and greater scope, which it affords to mercantile enterprise. It is (a) position of indisputable truth in Commerce, depending too on very obvious reasons, that the greatest resort will ever be to those mar(ts) where commodities, while equally abundant, are most various. Each difference of kind holds out an additional inducement. And it is a position not less clear, that the field of enterprise must be enlarged to the Merchants of a Country, in proportion (to) the variety as well as the abundance of commodities which they find at home for exportation to foreign Markets.

A third circumstance, perhaps not inferior to either of the other two, conferring the superiority which has been stated has relation to the stagnations of demand for certain commodities which at some time or other interfere more or less with the sale of all. The Nation which can bring to Market, but few articles is likely to be more quickly and sensibly affected by such stagnations, than one, which is always possessed of a great variety of commodities. The former frequently finds too great a proportion of its stock of materials, for sale or exchange, lying on hand—or is obliged to make injurious sacrifices to supply its wants of foreign articles, which are *Numerous* and *urgent* in proportion to the smallness of he number of its own. The latter commonly finds itself indemnified, by the high prices of some articles, for the low prices of others—and the Prompt and advantageous sale of those articles which are in demand enables its merchant the better to wait for a favorable change, in respect to those which are not. There is ground to believe, that a difference of situation, in this particular, has immensely different effect(ts) upon the wealth and prosperity of Nations.

From these circumstances collectively, two important inferences are to be drawn, one, that there is always a higher probability of a favorable balance of Trade, in regard to countries in which manufactures founded on the basis of a thriving Agriculture flourish, than in regard to those, which are confined wholly or almost wholly to Agriculture; the other (which is also a consequence of the first) that countries of the former description are likely to possess more pecuniary wealth, or money, than those of the later.

Facts appear to correspond with this conclusion. The importations of manufactured supplies seem invariably to drain the merely Agricultural people of their wealth. Let the situation of the manufacturing countries of Europe be compared in this particular, with that of Countries which only cultivate, and the disparity will be striking. Other causes, it is true, help to Account for this disparity between some of them; and among these causes, the relative state of Agriculture; but between others of them, the most prominent circumstance of dissimilitude arises from the Comparative state of Manufactures. In corroboration of the same idea, it ought not to escape remark, that the West India Islands, the soils of which are the most fertile, and the Nation, which in the greatest degree supplies the rest of the world, with the precious metals, exchange to a loss with almost every other Country.

As far as experience at home may guide, it will lead to the same conclusion. Previous to the revolution, the quantity of coin, possessed by the colonies, which now compose the United states, appeared, to be inadequate to their circulation; and their debt to Great-Britain was progressive. Since the Revolution, the States, in which manufactures have most

increased, have recovered fastest from the injuries of the late War, and abound most in pecuniary resources.

It ought to be admitted, however in this as in the preceding case, that causes irrelative to the state of manufactures account, in a degree, for the Phœnomena remarked. The continual progress of new settlements has a natural tendency to occasion an unfavorable balance of Trade; though it indemnifies for the inconvenience, by that increase of the national capital which flows from the conversion of waste into improved lands: And the different degrees of external commerce, which are carried on by the different States, may make material differences in the comparative state of their wealth. The first circumstance has reference to the deficien(cy) of coin and the increase of debt previous to the revolution; the last to the advantages which the most manufacturing states appear to have enjoyed, over the others, since the termination of the late War.

But the uniform appearance of an abundance of specie, as the concomitant of a flourishing state of manufacture(s) and of the reverse, where they do not prevail, afford a strong presumption of their favourable operations upon the wealth of a Country.

Not only the wealth; but the independence and security of a Country, appear to be materially connected with the prosperity of manufactures. Every nation, with a view to those great objects, ought to endeavor to possess within itself all the essentials of national supply. These comprise the means of *Subsistence habitation clothing* and *defence.*

The possession of these is necessary to the perfection of the body politic, to the safety as well as to the welfare of the society; the want of either, is the want of an important organ of political life and Motion; and in the various crises which await a state, it must severely feel the effects of such deficiency. The extreme embarrassments of the United States during the late War, from an incapacity of supplying themselves, are still matter of keen recollection: A future war might be expected again to exemplify the mischiefs and dangers of a situation, to which that incapacity is still in too great a degree applicable, unless changed by timely and vigorous exertion. To effect this change as fast as shall be prudent, merits all the attention and all the Zeal of our Public Councils; 'tis the next great work to be accomplished.

The want of a Navy to protect our external commerce, as long as it shall Continue, must render it a peculiarly precarious reliance, for the supply of essential articles, and must serve to strengthen prodigiously the arguments in favour of manufactures.

To these general Considerations are added some of a more particular nature.

Our distance from Europe, the great fountain of manufactured supply, subjects us in the existing state of things, to inconvenience and loss in two Ways.

The bulkiness of those commodities which are the chief productions of the soil, necessarily imposes very heavy charges on their transportation, to distant markets. These charges, in the Cases, in which the nations, to whom our products are sent, maintain a Competition in the supply of their own markets, principally fall upon us, and form material deductions from the primitive value of the articles furnished. The charges on manufactured supplies, brought from Europe are greatly enhanced by the same circumstance of distance. These charges, again, in the cases in which our own industry maintains no competition, in our own markets, also principally fall upon us; and are an additional cause of extraordinary deduction from the primitive value of our own products; these bei(ng) the materials of exchange for the foreign fabrics, which we consume.

The equality and moderation of individual prope(rty) and the growing settlements of new districts, occasion in this country an unusual demand for coarse manufactures; The charges of which being greater in proportion to their greater bulk augment the disadvantage, which has been just described.

As in most countries domestic supplie(s) maintain a very considerable competition with such foreign productions of the soil, as are imported for sale; if the extensive establishment of Manufactories in the United states does not create a similar competition in respect to manufactured articles, it appears to be clearly deducible, from the Considerations which have been mentioned, that they must sustain a double loss in their exchanges with foreign Nations; strongly conducive to an unfavorable balance of Trade, and very prejudicial to their Interests.

These disadvantages press with no small weight, on the landed interest of the Country. In seasons of peace, they cause a serious deduction from the intrinsic value of the products of the soil. In the time of a War, which shou'd either involve ourselves, or another nation, possessing a Considerable share of our carrying trade, the charges on the transportation of our commodities, bulky as most of them are, could hardly fail to prove a grievous burthen to the farmer; while obliged to depend in so great degree as he now does, upon foreign markets for the vent of the surplus of his labour.

As far as the prosperity of the Fisheries of the United states is impeded by the want of an adequate market, there arises another special reason for desiring the extension of manufactures. Besides the fish, which in many places, would be likely to make a part of the subsistence of the persons employed; it is known that the oils, bones and skins of marine animals, are of extensive use in various manufactures. Hence the prospect of an additional demand for the produce of the Fisheries.

One more point of view only remains in which to Consider the expediency of encouraging manufactures in the United states.

It is not uncommon to meet with an opin(ion) that though the promoting of manufactures may be the interest of a part of the Union, it is contrary to that of another part. The Northern & southern regions are sometimes represented as having adverse interests in this respect. Those are called Manufacturing, these Agricultural states; and a species of opposition is imagined to subsist between the Manufacturing a(nd) Agricultural interests.

This idea of an opposition between those two interests is the common error of the early periods of every country, but experience gradually dissipates it. Indeed they are perceived so often to succour and to befriend each other, that they come

at length to be considered as one: a supposition which has been frequently abused and is not universally true. Particular encouragements of particular manufactures may be of a Nature to sacrifice the interests of landholders to those of manufacturers; But it is nevertheless a maxim well established by experience, and generally acknowledged, where there has been sufficient experience, that the *aggregate* prosperity of manufactures, and the *aggregate* prosperity of Agriculture are intimately connected. In the Course of the discussion which has had place, various weighty considerations have been adduced operating in support of that maxim. Perhaps the superior steadiness of the demand of a domestic market for the surplus produce of the soil, is alone a convincing argument of its truth.

Ideas of a contrariety of interests between the Northern and southern regions of the Union, are in the Main as unfounded as they are mischievious. The diversity of Circumstances on which such contrariety is usually predicated, authorises a directly contrary conclusion. Mutual wants constitute one of the strongest links of political connection, and the extent of the(se) bears a natural proportion to the diversity in the means of mutual supply.

In proportion as the mind is accustomed to trace the intimate connexion of interest, which subsists between all the parts of a Society united under the *same* government—the infinite variety of channels which serve to Circulate the prosper(ity) of each to and through the rest—in that proportion will it be little apt to be disturbed by solicitudes and Apprehensions which originate in local discriminations. It is a truth as important as it is agreeable, and one to which it is not easy to imagine exceptions, that every thing tending to establish *substantial* and *permanent order,* in the affairs of a Country, to increase the total mass of industry and opulence, is ultimately beneficial to every part of it. On the Credit of this great truth, an acquiescence may safely be accorded, from every quarter, to all institutions & arrangements, which promise a confirmation of public order, and an augmentation of National Resource.

But there are more particular considerations which serve to fortify the idea, that the encouragement of manufactures in the interest of all parts of the Union. If the Northern and middle states should be the principal scenes of such establishments, they would immediately benefit the more southern, by creating a demand for productions; some of which they have in common with the other states, and others of which are either peculiar to them, or more abundant, or of better quality, than elsewhere. These productions, principally are Timber, flax, Hemp, Cotton, Wool, raw silk, Indigo, iron, lead, furs, hides, skins and coals. Of these articles Cotton & Indigo are peculiar to the southern states; as are hitherto *Lead & Coal.* Flax and Hemp are or may be raised in greater abundance there, than in the More Northern states, and the Wool of Virginia is said to be of better quality than that of any other state: a Circumstance rendered the more probable by the reflection that Virginia embraces the same latitudes with the finest Wool Countries of Europe. The Climate of the south is also better adapted to the production of silk.

The extensive cultivation of Cotton can perhaps hardly be expected, but from the previous establishment of domestic Manufactories of the Article; and the surest encouragement and vent, for the others, would result from similar establishments in respect to them.

If then, it satisfactorily appears, that it is the Interest of the United states, generally, to encourage manufactures, it merits particular attention, that there are circumstances, which Render the present a critical moment for entering with Zeal upon the important business. The effort cannot fail to be materially seconded by a considerable and encreasing influx of money, in consequence of foreign speculations in the funds—and by the disorders, which exist in different parts of Europe.

The first circumstance not only facilita(tes) the execution of manufacturing enterprises; but it indicates them as a necessary mean to turn the thing itself to advantage, and to prevent its being eventually an evil. If useful employment be not found for the Money of foreigners brought to the country to be invested (i)n purchase(s) of the public debt, it will quickly be reexported to defray the expence of an extraordinary consumption of foreign luxuries; and distressing drains of our specie may hereafter be experienced to pay the interest and redeem the principal of the purchased debt.

This useful employment too ought to be of a Nature to produce solid and permanent improvements. If the money merely serves to give temporary spring to foreign commerce; as it cannot procure new and lasting outlets for the products of the Country; there will be no real or durable advantage gained. As far as it shall find its way in Agricultural ameliorations, in opening canals, and in similar improvements, it will be productive of substantial utility. But there is reason to doubt, whether in such channels it is likely to find sufficient employment, and still more whether many of those who possess it, would be as readily attracted to objects of this nature, as to manufacturing pursuits; which bear greater analogy to those to which they are accustomed, and to the spirit generated by them.

To open the one field, as well as the other, will at least secure a better prospect of useful employment, for whatever accession of money, there has been or may be.

There is at the present juncture a certain fermentation of mind, a certain activity of speculation and enterprise which if properly directed may be made subservient to useful purposes; but which if left entirely to itself, may be attended with pernicious effects.

The disturbed state of Europe, inclining its citizens to emigration, the requisite workmen, will be more easily acquired, than at another time; and the effect of multiplying the opportunities of employment to those who emigrate, may be an increase of the number and extent of valuable acquisitions to the population arts and industry of the Country. To find pleasure in the calamities of other nations, would be criminal; but to benefit ourselves, by opening an asylum to those who suffer, in consequence of them, is as justifiable as it is pol(itic.)

A full view having now been taken of the inducements to the promotion of Manufactures in the United states, accom-

panied with an examination of the principal objections which are commonly urged *in opposition,* it is proper in the next place, to consider the means, by which it may be effected, as introductory to a Specification of the objects which in the present state of things appear the most fit to be encouraged, and of the particular measures which it may be adviseable to adopt, in respect to each.

In order to a better judgment of the Means proper to be resorted to by the United states, it will be of use to Advert to those which have been employed with success in other Countries. The principal of these are.

I Protecting duties—or duties on those foreign articles which are the rivals of the domestic ones, intented to be encouraged.

Duties of this Nature evidently amount to a virtual bounty on the domestic fabrics since by enhancing the charges on foreign Articles, they enable the National Manufacturers to undersell all their foreign Competitors. The propriety of this species of encouragement need not be dwelt upon; as it is not only a clear result from the numerous topics which have been suggested, but is sanctioned by the laws of the United states in a variety of instances; it has the additional recommendat(ion) of being a resource of revenue. Indeed all the duties imposed on imported articles, though with an exclusive view to Revenue, have the effect in Contemplation, and except where they fall on raw materials wear a beneficent aspect towards the manufactures of the Country.

II Prohibitions of rival articles or duties equivalent to prohibitions.

This is another and an efficacious mean of encouraging national manufactures, but in general it is only fit to be employed when a manufacture, has made such a progress and is in so many hands as to insure a due competition, and an adequate supply on reasonable terms. Of duties equivalent to prohibitions, there are examples in the Laws of the United States, and there are other Cases to which the principle may be advantageously extended, but they are not numero(us).

Considering a monopoly of the domestic market to its own manufacturers as the reigning policy of manufacturing Nations, a similar policy on the part of the United states in every proper instance, is directed, it might almost be said, by the principles of distributive justice; certainly by the duty of endeavouring to secure to their own Citizens a reciprocity of advantages.

III Prohibitions of the exportation of the materials of manufactures.

The desire of securing a cheap and plentiful supply for the national workmen, and, where the article is either peculiar to the Country, or a peculiar quality there, the jealousy of enabling foreign workmen to rival those of the nation, with its ow(n) Materials, are the leading motives to this species of regulation. (It) ought not to be affirmed, that it is in no instance proper, but it is certainly one which ought to be adopted with great circumspect(ion) and only in very plain Cases. It is seen at once, that its immedi(ate) operation, is to abridge the demand and keep down the price of the produce of some other branch of industry, generally speaking, of Agriculture, to the prejudice of those, who carry it on; and tho(ough) if it be really essential to the prosperity of any very important nati(onal) Manufacture, it may happen that those who are injured in the first instance, may be eventually indemnified, by the superior (steadiness) of an extensive domestic market, depending on that prosperity; yet in a matter, in which there is so much room for nice and difficult combinations, in which such considerations combat each other, prudence seems to dictate, that the expedient in question, ought to be indulged with a sparing hand.

IV Pecuniary bounties

This has been found one of the most efficacious means of encouraging manufactures, and it is in some views, the best. Though it has not yet been practiced by the Government of the United states (unless the allowance on the exportation of dried an pickled Fish and salted meat could be considered as a bounty) and though it is less favored by public opinion that some other modes.

Its advantages, are these—

1. It is a species of encouragement more positive and direct than any other, and for that very reason, has a more immediate tendency to stimulate and uphold new enterprises, increasing the chances of profit, and diminishing the risks of loss, in the first attempts.

2. It avoids the inconvenience of a temporary augmentation of price, which is incident to some other modes, or it produces it to a less degree; either by making no addition to the charges on the rival foreign article, as in the Case of protecting duties, or by making a small addition. The first happens when the fund for the bounty is derived from a different object (which may or may not increase the price of some other article, according to the nature of that object) the second, when the fund is derived from the same or a similar object of foreign manufacture. One per cent duty on the foreign article converted into a bounty on the domestic, will have an equal effect with a duty of two per Cent, exclusive of such bounty; and the price of the foreign commodity is liable to be raised, in the one Case, in the proportion of 1 per Cent; in the other, in that of two per Cent. Indeed the bounty when drawn from another source is calculated to promote a reduction of price, because without laying any new charge on the foreign article, it serves to introduce a competition with it, and to increase the total quantity of the article in the Market.

3. Bounties have not like high protecting duties, a tendency to produce scarcity. An increase of price is not always the immediate, though, where the progress of a domestic Manufacture does not counteract a rise, it is commonly the ultimate effect of an additional duty. In the interval, between the laying of the duty and a proportional increase of price, it may discourage importation, by interfering with the profits to be expected from the sale of the article.

4. Bounties are sometimes not only the best, but the only proper expedient, for uniting the encouragement of a new object of agriculture, with that of a new object of manufacture. It is the Interest of the farmer to have the production of the raw material promoted, by counteracting the interference of the foreig(n) material of the same kind. It is the interest of

the manufactu(rer) to have the material abundant and cheap. If prior to the domes(tic) production of the Material, in sufficient quantity, to supply the manufacturer on good terms; a duty be laid upon the importation of it from abroad, with a view to promote the raising of it at home, the Interests both of the Farmer and Manufacturer will be disserved. By either destroying the requisite supply, or raising the price of the article, beyond what can be afforded to be given for it, by the Conductor of an infant manufacture it is abandoned or fails; an(d) there being no domestic manufactories to create a demand for t(he) raw material, which is raised by the farmer, it is in vain, that the Competition of the like foreign articles may have been destroy(ed).

It cannot escape notice, that a duty upon the importation of (an) articles can not otherwise aid the domestic production of it, than giving the latter greater advantages in the home market. It ca(n) have no influence upon the advantageous sale of the article produced, in foreign markets; no tendency, there(fore) to promote its exportation.

The true way to conciliate these two interests, is to lay a duty on foreign *manufactures* of the material, the growth of which is desired to be encouraged, and to apply the produce of that duty by way of bounty, either upon the production of the material itself or upon its manufacture at home or upon both. In this disposition of the thing, the Manufacturer commences his enterprise under every advantage, which is attainable, as to quantity or price, of the raw material: And the Farmer if the bounty be immediately to him, is enabled by it to enter into a successful competition with the foreign material; if the bounty be to the manufacturer on so much of the domestic material as he consumes, the operation is nearly the same; he has a motive of interest to prefer the domestic Commodity, if of equal quality, even at a higher price than the foreign, so long as the difference of price is any thing short of the bounty which is allowed upon the article.

Except the simple and ordinary kinds of household Manufactures, or those for which there are very commanding local advantages, pecuniary bounties are in most cases indispensable to the introduction of a new branch. A stimulus and a support not less powerful and direct is generally speaking essential to the overcoming of the obstacles which arise from the Competitions of superior skill and maturity elsewhere. Bounties are especially essential, in regard to articles, upon which those foreigners, who have been accustomed to supply a Country, are in the practice of granting them.

The continuance of bounties on manufactures long established must almost always be of questionable policy: Because a presumption would arise in every such Case, that there were natural and inherent impediments to success. But in new undertakings, they are as justifiable, as they are oftentimes necessary.

There is a degree of prejudice against bounties from an appearance of giving away the pubic money, without an immediate consideration, and from a supposition, that they serve to enrich particular classes, at the expence of the Community.

But neither of these sources of dislike will bear a serious examination. There is no purpose, to which public money can be more beneficially applied, than to the acquisition of a new and useful branch of industry; no Consideration more valuable than a permanent addition to the general stock of productive labour.

As to the second source of objection, it equally lies against other modes of encouragement, which are admitted to be eligible. As often as a duty upon a foreign article makes an addition to its price, it causes an extra expence to the Community, for the benefit of the domestic manufacturer. A bounty does no more: But it is the Interest of the society in each case, to submit to a temporary expence, which is more than compensated, by an increase of industry and Wealth, by an augmentation of resources and independence; & by the circumstance of eventual cheapness, which has been noticed in another place.

It would deserve attention, however, in the employment of this species of encouragement in the United states, as a reason for moderating the degree of it in the instances, in which it might be deemed eligible, that the great distance of this country from Europe imposes very heavy charges on all the fabrics which are brought from thence, amounting from [15 to 30] per Cent on their value, according to their bulk.

A Question has been made concerning the Constitutional right of the Government of the United States to apply this species of encouragement, but there is certainly no good foundation for such a question. The National Legislature has express authority "To lay and Collect taxes, duties, imposts and excises, to pay the debts and provide for the *Common defence* and *general welfare*" with no other qualifications than that all duties, imposts and excises, shall be *uniform* throughout the United states, that no capitation or other direct tax shall be laid unless in proportion to numbers ascertained by a census or enumeration taken on the principles prescribed in the Constitution, and that "no tax or duty shall be laid on articles exported from any state." These three qualifications excepted, the power to *raise money* is *plenary,* and *indefinite;* and the objects to which it may be *appropriated* are no less comprehensive, than the payment of the public debts and the providing for the common defence and "*general Welfare.*" The terms "*general Welfare*" were doubtless intended to signify more than was expressed or imported in those which Preceded; otherwise numerous exigencies incident to the affairs of a Nation would have been left without a provision. The phrase is as comprehensive as any that could have been used; because it was not fit that the constitutional authority of the Union, to appropriate its revenues shou'd have been restricted within narrower limits than the "General Welfare" and because this necessarily embraces a vast variety of particulars, which are susceptible neither of specification nor of definition.

It is therefore of necessity left to the discretion of the National Legislature, to pronounce, upon the subjects, which concern the general Welfare, and for which under that description, an appropriation of money is requisite and proper. And there seems to be no room for a doubt that whatever concerns the general Interests of *learning* of *Agriculture* of *Manufactures* and of *Commerce* are within the sphere of the national Councils *as far as regards an application of Money.*

The only qualification of the generallity of the Phrase in question, which seems to be admissible, is this—That the object to which an appropriation of money is to be made *General* and not *local;* its operation extending in fact, or by possibility, throughout the Union, and not being confined to a particular spot.

No objection ought to arise to this construction from a supposition that it would imply a power to do whatever else should appear to Congress conducive to the General Welfare. A power to appropriate money with this latitude which is granted too in *express terms* would not carry a power to do any other thing, not authorized in the constitution, either expressly or by fair implication.

V Premiums

These are of a Nature allied to bounties, though distinguishable from them, in some important features.

Bounties are applicable to the whole quantity of an article produced, or manufactured, or exported, and involve a correspondent expence. Premiums serve to reward some particular excellence or superiority, some extraordinary exertion or skill, and are dispensed on(ly) in a small number of cases. But their effect is to stimulate gener(al) effort. Contrived so as to be both honorary and lucrative, they address themselves to different passions; touching the chords as well of emulation as of Interest. They are accordingly a very economical mean of exciting the enterprise of a Whole Community.

There are various Societies in different countries, whose object is the dispensation of Premiums for the encouragemen(t) of *Agriculture Arts manufactures* and *Commerce;* and though they are for the most part voluntary associations, with comparatively slender funds, their utility has been immense. Much has been done by this mean in great Britain: Scotland in particular owes materially to it a prodigious amelioration of Condition. From a similar establishment in the United states, supplied and supported by the Government of the Union, vast benefits might reasonably be expected. Some further ideas on this head, shall accordingly be submitted, in the conclusion of this report.

VI The Exemption of the Materials of manufactures from duty.

The policy of that Exemption as a general rule, particularly in reference to new Establishments, is obvious. It can hardly ever be advisable to add the obstructions of fiscal burthens to the difficulties which naturally embarrass a new manufacture; and where it is matured and in condition to become an object of revenue, it is generally speaking better that the fabric, than the Material should be the subject of Taxation. Ideas of proportion between the quantum of the tax and the value of the article, can be more easily adjusted, in the former, than in the latter case. An argument for exemptions of this kind in the United States, is to be derived from the practice, as far as their necessities have permitted, of those nations whom we are to meet as competitors in our own and in foreign Markets.

There are however exceptions to it; of which some examples will be given under the next head.

The Laws of the Union afford instances of the observance of the policy here recommended, but it will probably be found adviseable to extend it to some other Cases. Of a nature, bearing some affinity to that policy is the regulation which exempts from duty the tools and implements, as well as the books, cloths and household furniture of foreign artists, who come to reside in the United states; an advantage already secured to them by the Laws of the Union, and which, it is, in every view, proper to Continue.

VII Drawbacks of the duties which are imposed on the Materials of Manufactures.

It has already been observed as a general rule that duties on those materials, ought with certain exceptions to be foreborne. Of these exceptions, three cases occur, which may serve as examples—one—where the material is itself, an object of general or extensive consumption, and a fit and productive source of revenue: Another, where a manufacture of a simpler kind [the competition of which with a like domestic article is desired to be restrained,] partakes of the Nature of a raw material, from being capable, by a further process to be converted into a manufacture of a different kind, the introduction of growth of which is desired to be encouraged; a third where the Material itself is a production of the Country, and in sufficient abundance to furnish cheap and plentiful supply to the national Manufacturer.

Under the first description comes the article of Molasses. It is not only a fair object of revenue; but being a sweet, it is just that the consumers of it should pay a duty as well as the Consumer(s) of sugar.

Cottons and linens in their White state fall under the second description. A duty upon such as are imported is proper to promote the domestic Manufacture of similar articles in the same state. A drawback of that duty is proper to encourage the printing and staining at home of those which are brought from abroad: When the first of these manufac(tures) has attained sufficient maturity in a Country, to furnish a full supply for (the) second, the utility of the drawback ceases.

The article of Hemp either now does or may be expected soon to exemplify the third Case, in the United states.

Where duties on the materials of manufactures are not laid for the purpose of preventing a competition with some domestic production, the same reasons which recommend, as a general rule, the exemption of those materials from duties, would recommend as a like General rule, the allowance of draw backs, in favor of the manufacturer. Accordingly such drawbacks are familiar in countries which systematically pursue the business of manufactures; which furnishes an argument for the observance of a similar policy in the United states; and the Idea has been adopted by the laws of the Union in the stances of salt and Molasses. It is believed that it will be found advantageous to extend it to some other Articles.

VIII The encouragement of new inventions and discoveries, at home, and of the introduction into the United States of such as may have been made in other countries; particularly those, which relate to machinery.

This is among the most useful and unexceptionable of the aids, which can be given to manufactures. The usual means of that encouragement are pecuniary rewards, and, for a time, exclusive privileges. The first must be employed, according to the occasion, and the utiity of the invention, or discovery: For the last, so far as respects "authors and inventors" provision has been made by Law. But it is desireable in regard to improvements and secrets of extraordinary value, to be able to extend the same benefit to Introducers, as well as Authors and Inventors; a policy which has been practiced with advantge in other countries. Here, however, as in some other cases, there is cause to regret, that the competency of the authority of the National Government to the *good,* which might be done, is not without a question. Many aids might be given to industry; many internal improvements of primary magnitude might be promoted, by an authority operating throughout the Union, which cannot be effected, as well, if at all, by an authority confined within the limits of a single state.

But if the legislature of the Union cannot do all the good, that might be wished, it is at least desirable, that all may be done, which is practicable. Means for promoting the introduction of foreign improvements, though less efficaciously than might be accomplished with more adequate authority, will form a part of the plan intended to be submitted in the close of this report.

It is customary with manufacturing nations to prohibit, under severe penalties, the exportation of implements and machines, which they have either invented or improved. There are already objects for a similar regulation in the United States; and others may be expected to occur from time to time. The adoption of it seems to be dictated by the principle of reciprocity. Great liberality, in such respects, might better comport with the general spirit of the country; but a selfish and exclusive policy in other quarters will not always permit the free indulgence of a spirit, which would place us upon an unequal footing. As far as prohibitions tend to prevent foreign competitors from deriving the benefit of the improvements made at home, they tend to increase the advantages of those by whom they may have been introduced; and operate as an encouragement to exertion.

IX Judicious regulations for the inspection of manufactured commodities.

This is not among the least important of the means, by which the prosperity of manufactures may be promoted. It is indeed in many cases one of the most essential. Contributing to prevent frauds upon consumers at home and exporters to foreign countries—to improve the quality & preserve the character of the national manufactures, it cannot fail to aid the expeditious and advantageous Sale of them, and to serve as a guard against successful competition from other quarters. The reputation of the flour and lumber of some states, and of the Pot ash of others has been established by an attention to this point. And the like good name might be procured for those articles, wheresoever produced, by a judicious and uniform system of Inspection; throughout the ports of the United States. A like system might also be extended with advantage to other commodities.

X The facilitating of pecuniary remittances from place to place is a point of considerable moment to trade in general, and to manufactures in particular; by rendering more easy the purchase of raw materials and provisions and the payment for manufactured supplies. A general circulation of Bank paper, which is to be expected from the institution lately established will be a most valuable mean to this end. But much good would also accrue from some additional provisions respecting inland bills of exchange. If those drawn in one state payable in another were made negotiable, everywhere, and interest and damages allowed in case of protest, it would greatly promote negotiations between the Citizens of different states, by rendering them more secure; and, with it the convenience and advantage of the Merchants and manufacturers of each.

XI The facilitating of the transportation of commodities.

Improvements favoring this object intimately concern all the domestic interests of a community; but they may without impropriety be mentioned as having an important relation to manufactures. There is perhaps scarcely any thing, which has been better calculated to assist the manufactures of Great Britain, then the ameliorations of the public roads of that Kingdom, and the great process which has been of late made in opening canals. Of the former, the United States stand much in need; and for the latter they present uncommon facilities.

The symptoms of attention to the improvement of inland Navigation, which have lately appeared in some quarters, must fill with pleasure every breast warmed with a true Zeal for the prosperity of the Country. These examples, it is to be hoped, will stimulate the exertions of the Government and the Citizens of every state. There can certainly be no object, more worthy of the cares of the local administrations; and it were to be wished, that there was no doubt of the power of the national Government to lend its direct aid, on a comprehensive plan. This is one of those improvements, which could be prosecuted with more efficacy by the whole, than by any part or parts of the Union. There are cases in which the general interest will be in danger to be sacrificed to the collission of some supposed local interests. Jealousies, in matters of this kind, are as apt to exist, as they are apt to be erroneous.

The following remarks are sufficiently judicious and pertinent to deserve a literal quotation. "Good roads, canals, and navigable rivers, by diminishing the expence of carriage, put the *remote parts of a country* more nearly upon a level with those in the neighborhood of the town. They are *upon that account* the greatest of all improvements. They encourage the cultivation of the remote, which must always be the most extensive circle of the country. They are advantageous to the Town by breaking down the monopoly of the country in its neighborhood. They are advantageous *even to that part of the Country.* Though they introduce some rival commodities into the old Market, they open many new markets to its produce. Monopoly besides is a great enemy to good management, which can never be universally established, but in consequence of that free and universal competition, which forces every body to have recourse to it for the sake of self defence. It is not more than Fifty years ago that *some of the*

countries in the neighborhood of London petitioned the Parliament, against the extension of the turnpike roads, into the remoter counties. Those remoter counties, they pretended, from the cheapness of Labor, would be able to sell their grass and corn cheaper in the London Market, than themselves, and they would thereby reduce their rents and ruin their cultivation. Their rents however have risen and their cultivation has been improved, since that time.

Specimens of a spirit, similar to that which governed the counties here spoken of present themselves too frequently to the eye of an impartial observer, and render it a wish of patriotism, that the body in the Country, in whose councils a local or partial spirit is least likely to predominate, were at liberty to pursue and promote the general interest, in those instances, in which there might be danger of the interference of such a spirit.

The foregoing are the principal of the means, by which the growth of manufactures is ordinarily promoted. It is, however, not merely necessary, that the measures of government, which have a direct view to manufactures, should be calculated to assist and protect them, but that those which only collaterally affect them, in the general course of the administration, should be gaurded from any peculiar tendency to injure them.

There are certain species of taxes, which are apt to be oppressive to different parts of the community, and among other ill effects have a very unfriendly aspect towards manufactures. All Poll or Capitation taxes are of this nature. They either proceed, according to a fixed rate, which operates unequally, and injuriously to the industrious poor; or they vest a discretion in certain officers, to make estimates and assessments which are necessarily vague, conjectural and liable to abuse. They ought therefore to be abstained from, in all but cases of distressing emergency.

All such taxes (including all taxes on occupations) which proceed according to the amount of capital *supposed* to be employed in a business, or of profits *supposed* to be made in it are unavoidably hurtful to industry. It is in vain, that the evil may be endeavoured to be mitigated by leaving it, in the first instance, in the option of the party to be taxed, to declare the amount of his capital or profits.

Men engaged in any trade of business have commonly weighty reasons to avoid disclosures, which would expose, with any thing like accuracy, the real state of their affairs. They most frequently find it better to risk oppression, than to avail themselves of so inconvenient a refuge. And the consequence is, that they often suffer oppression.

When the disclosure too, if made, is not definitive, but controulable by the discretion, or in other words, by the passions & prejudices of the revenue officers, it is not only an ineffectual protection, but the possibility of its being so is an additional reason for not resorting to it.

Allowing to the public officers the most equitable dispositions; yet where they are to exercise a discretion, without certain data, they cannot fail to be often misled by appearances. The quantity of business, which seems to be going on, is, in a vast number of cases, a very deceitful criterion of the profits which are made; yet it is perhaps the best they can have, and it is the one, on which they will most naturally rely. A business therefore which may rather require aid, from the government, than be in a capacity to be contributory to it, may find itself crushed by the mistaken conjectures of the Assessors of taxes.

Arbitrary taxes, under which denomination are comprised all those, that leave the *quantum* of the tax to be raised on each person, to the *discretion* of certain officers, are as contrary to the genius of liberty as to the maxims of industry. In this light, they have been viewed by the most judicious observers on government; who have bestowed upon them the severest epithets of reprobation; as constituting one of the worst features usually to be met with in the practice of despotic governments.

It is certain at least, that such taxes are particularly inimical to the success of manufacturing industry, and ought carefully to be avoided by a government, which desires to promote it.

The great copiousness of the subject of this Report has insensibly led to a more lengthy preliminary discussion, than was originally contemplated, or intended. It appeared proper to investigate principles, to consider objections, and to endeavour to establish the utility of the thing proposed to be encouraged; previous to a specification of the objects which might occur, as meriting or requiring encouragement, and of the measures, which might be proper, in respect to each. The first purpose having been fulfilled, it remains to pursue the second. In the selection of objects, five circumstances seem intitled to particular attention; the capacity of the Country to furnish the raw material—the degree in which the nature of the manufacture admits of a substitute for manual labour in machinery—the facility of execution—the extensiveness of the uses, to which the article can be applied—its subserviency to other interests, particularly the great one of national defence. There are however objects, to which these circumstances are little applicable, which for some special reasons, may have a claim to encouragement.

A designation of the principal raw material of which each manufacture is composed will serve to introduce the remarks upon it. As, in the first place—

Iron

The manufactures of this article are entitled to preeminent rank. None are more essential in their kinds, nor so extensive in their uses. They constitute in whole or in part the implements or the materials or both of almost every useful occupation. Their instrumentality is everywhere conspicuous.

It is fortunate for the United States that they have peculiar advantages for deriving the full benefit of this most valuable material, and that they have every motive to improve it, with systematic care. It is to be found in various parts of the United States, in great abundance and of almost every quality; and fuel the chief instrument in manufacturing, it is both cheap and plenty. This particularly applies to Charcoal; but there are productive coal mines already in operation, and strong indications, that the material is to be found in abundance, in a variety of places.

The inquiries to which the subject of this report has led have been answered with proofs that manufactories of Iron, though generally understood to be extensive, are far more so than is commonly supposed. The kinds, in which the greatest progress has been made, have been mentioned in another place, and need not be repeated; but there is little doubt that every other kind, with due cultivation, will rapidly succeed. It is worthy of remark that several of the particular trades, of which it is the basis, are capable of being carried on without the aid of large capitals.

Iron works have very greatly increased in the United States and are prosecuted, with much more advantage than formerly. The average price before the revolution was about Sixty four Dollars per Ton—at present it is about Eighty; a rise which is chiefly to be attributed to the increase of manufactures of the material.

The still further extension and multiplication of such manufactures will have the double effect of promoting the extraction of the Metal itself, and of converting it to a greater number of profitable purposes.

Those manufactures too united in a greater degree, than almost any others, the several requisites, which have been mentioned, as proper to be consulted in the selection of objects.

The only further encouragement of manufactories of this article, the propriety of which may be considered as unquestionable, seems to be an increase of the duties on foreign rival commodities.

Steel is a branch, which has already made a considerable progress, and it is ascertained that some new enterprizes, on a more extensive scale, have been lately set on foot. The facility of carrying it to an extent, which will supply all internal demands, and furnish a considerable surplus for exportation cannot be doubted. The duty upon the importation of this article, which is at present seventy five cents per Cwt., may it is conceived be safely and advantageously extended to 100 Cents. It is desirable, by decisive arrangements, to second the efforts, which are making in so very valuable a branch.

The United States already in a great measure supply themselves with Nails & Spikes. They are able, and ought certainly, to do it intirely. The first and most laborious operation, in this manufacture is performed by water mills; and of the persons afterwards employed a great proportion are boys, whose early habits of industry are of importance to the community, to the present support of this families, and to their own future comfort. It is not less curious than true, that in certain parts of the country, the making of Nails is an occasional family manufacture.

The expendiency of an additional duty on these materials is indicated by an important fact. About one million 800,000 pounds of them were imported into the United States in the course of a year ending the 30th. of September 1790. A duty of two Cents per lb would, it is presumable, speedily put an end to so considerable an importation. And it is in every view proper that an end should be put to it.

The manufacture of these articles, like that of some others, suffers from the carelessness and dishonesty of a part of those who carry it on. An inspection in certain cases might tend to correct the evil. It will deserve consideration whether a regulation of this sort cannot be applied, without inconvenience, to the exportation of the articles either to foreign countries, or from one state to another.

The implements of husbandry are made in several States in great abundance. In many places it is done by the common blacksmiths. And there is no doubt that an ample supply for the whole country can with great ease be procured among ourselves.

Various kinds of edged tools for the use of Mechanics are also made; and a considerable quantity of hollow wares; though the business of castings has not yet attained the perfection which might be wished. It is however improving, and as there are respectable capitals in good hands, embarked in the prosecution of those branches of iron manufactories, which are yet in their infancy, they may all be contemplated as objects not difficult to be acquired.

To ensure the end, it seems equally safe and prudent to extend the duty *ad valorem* upon all manufactures of Iron, or of which iron is the article of chief value, to ten per Cent.

Fire arms and other military weapons may it is conceived, be placed without inconvenience in the class of articles rates at 15 per Cent. There are already manufactories of these articles, which only require the stimulus of a certain demand to render them adequate to the supply of the United States.

It would also be a material aid to manufactories of this nature, as well as a mean of public security, if provision should be made for an annual purchase of military weapons, of home manufacture to a certain determinate extent, in order to the formation of Arsenals; and to replace from time to time such as should be withdrawn from use, so as always to have in store the quantity of each kinds, which should be deemed a competent supply.

But it may hereafter deserve legislative consideration, whether manufactories of all the necessary weapons of war ought not to be established, on account of the Government itself. Such establishments are agreeable on the usual practice of Nations and that practice seems founded on sufficient reason.

There appears to be an improvidence, in leaving these essential instruments of national defence to the casual speculations of individual adventure; a resource which can less be relied upon, in this case than in most others; the articles in question not being objects of ordinary and indispensable private consumption or use. As a general rule, manufactories on the immediate account of Government are to be avoided; but this seems to be one of the few exceptions, which that rule admits, depending on very special reasons.

Manufactures of Steel, generally, or of which steel is the article of chief value, may with advantage be placed in the class of goods rated at 7 1/2 per Cent. As manufactures of this kind have not yet made any considerable progress, it is a reason for not rating them as high as those of iron; but as this material is the basis of them, and as their extension is not less practicable, than important, it is desirable to promote it by a somewhat higher duty than the present.

A question arises, how far it might be expedient to permit the importation of iron in pigs and bars free from duty. It

would certainly be favourable to manufactures of the article; but the doubt is whether it might not interfere with its production.

Two circumstances, however, abate if they do not remove apprehension, on this score; one is, the considerable increase of price, which has been already remarked, and which renders it probable, that the free admission of foreign iron would not be inconsistent with an adequate profit to the proprietors of Iron Works; the other is, the augmentation of demand, which would be likely to attend the increase in manufactures of the article, in consequence of the additional encouragements proposed to be given. But caution nevertheless in a matter of this kind is most adviseable. The measure suggested ought perhaps rather to be contemplated, subject to the lights of further experience, than immediately adopted.

Copper

The manufactures of which this article is susceptible are also of great extent and utility. Under this description, those of brass, of which it is the principal ingreedient, are intended to be included.

The material is a natural production of the Country. Mines of Copper have actually been wrought, and with profit to the undertakers, though it is not known, that any are now in this condition. And nothing is easier, than the introduction of it, from other countries, on moderate terms, and in great plenty.

Coppersmiths and brass founders, particularly the former, are numerous in the United States; some of whom carry on business to a respectable extent.

To multiply and extend manufactories of the materials in question is worthy of attention and effort. In order to this, it is desireable to facilitate a plentiful supply of the materials. And a proper mean to this end is to place them in the class of free articles. Copper in plates and brass are already in this predicament, but copper in pigs and bars is not—neither is *lapis calaminaris,* which together with *copper* and *charcoal,* constitute the component ingredients of brass. The exemption from duty, by parity of reason, ought to embrace all such of these articles, as are objects of importation. An additional duty, on brass wares, will tend to the general end in view. These now stand at 5 per Cent, while those of tin, pewter and copper are rates at 7 $^{1}/_{2}$. There appears to be a propriety in every view in placing brass wares upon the same level with them; and it merits consideration whether the duty upon all of them ought not to be raised to 10 per Cent.

Lead

There are numerous proofs, that this material abounds in the United States, and requires little to unfold it to an extent, more than equal to every domestic occasion. A prolific mine of it has long been open in the South Western parts of Virginia, and under a public administration, during the late war, yielded a considerable supply for military use. This is now in the hands of individuals, who not only carry it on with spirit; but have established manufactories of it, at Richmond, in the same State.

The duties, already laid upon the importation of this article, either in its unmanufactured, or manufactured state, ensure it a decisive advantage in the home market—which amounts to considerable encouragement. If the duty on pewter wares should be raised it would afford a further encouragement. Nothing else occurs as proper to be added.

Fossil Coal

This, as an important instrument of manufactures, may without impropriety be mentioned among the subjects of this Report.

A copious supply of it would be of great consequence to the iron branch: As an article of household fuel also it is an interesting production; the utility of which must increase in proportion to the decrease of wood, by the progress of settlement and cultivation. And its importance to navigation, as an immense article of transportation coastwise, is signally exemplified in Great Britain.

It is known, that there are several coal mines in Virginia, now worked; and appearances of their existence are familiar in a number of places.

The expediency of a bounty on all the species of coal of home production, and of premiums, on the opening of new mines, under certain qualifications, appears to be worthy of particular examination. The great importance of the article will amply justify a reasonable expence in this way, if it shall appear to be necessary to and shall be thought it likely to answer the end.

Wood

Several manufactures of this article flourish in the United States. Ships are no where built in greater perfection, and cabinet wares, generally, are made little if at all inferior to those of Europe. Their extent is such as to have admitted of considerable exportation.

An exemption from duty of the several kinds of wood ordinarily used in these manufactures seem to be all, that is requisite, by way of encouragement. It is recommended by the consideration of a similar policy being pursued in other countries, and by the expediency of giving equal advantages to our own workmen in wood. The abundance of Timber proper for ship building in the United States does not appear to be an objection to it. The increasing scarcity and the growing importance of that article, in the European countries, admonish the United States to commerce, and systematically to pursue, measures for the preservation of their stock. Whatever may promote the regular establishment of the Magazines of Ship Timber is in various views desirable.

Skins

There are scarcely any manufactories of greater importance, than of this article. Their direct and very happy influence upon Agriculture, by promoting the raising of Cattle of different kinds, is a very material consideration.

It is pleasing too, to observe the extensive progress they have made in their principal branches; which are so far matured as almost to defy foreign competition. Tanneries in particular are not only carried on as a regular business, in

numerous instances and in various parts of the Country; but they constitute in some places a valuable item of incidental family manufactures.

Representations however have been made, importing the expediency of further encouragement to the Leather-Branch in two ways—one by increasing the duty on the manufactures of it, which are imported—the other by prohibiting the exportation of bark. In support of the latter it is alleged that the price of bark, chiefly in consequence of large exportations, has risen within a few years from [about three Dollars to four dollars and a half per cord.]

These suggestions are submitted rather as intimations, which merit consideration, than as matters, the propriety of which is manifest. It is not clear, that an increase of duty is necessary: and in regard to the prohibition desired, there is no evidence of any considerable exportation hitherto; and it is most probable, that whatever augmentation of price may have taken place, is to be attributed to an extension of the home demand from the increase of manufactures, and to a decrease of the supply in consequence of the progress of Settlement; rather than to the quantities which have been exported.

It is mentioned however, as an additional reason for the prohibition, that one species of the bark usually exported is in some sort peculiar to the country, and the material of a very valuable dye, of great use in some other manufactures, in which the United States have begun a competition.

There may also be this argument in favor of an increase of duty. The object is of importance enough to claim decisive encouragement and the progress, which has been made, leaves no room to apprehend any inconvenience on the score of supply from such an increase.

It would be of benefit to this branch, if glue which is now rated at 5 perCent, were made the object of an excluding duty. It is already made in large quantities at various tanneries; and like paper, is an entire œconomy of materials, which if not manufactured would be left to perish. It may be placed with advantage in the class of articles paying 15 perCent.

Grain

Manufactures of the several species of this article have a title to peculiar favor; not only because they are most of them immediately connected with the subsistence of the citizens; but because they enlarge the demand for the most precious products of the soil.

Though flour may with propriety be noticed as a manufacture of Grain, it were useless to do it, but for the purpose of submitting the expediency of a general system of inspection, throughout the ports of the United states; which, if established upon proper principles, would be likely to improve the quality of our flour every where, and to raise its reputation in foreign markets. There are however considerations which stand in the way of such an arrangement.

Ardent spirits and malt liquors are, next to flour, the two principal manufactures of Grain. The first has made a very extensive, the last a considerable progress in the United States. In respect to both, an exclusive possession of the home market ought to be secured to the domestic manufacturers; as fast as circumstances will admit. Nothing is more practicable & nothing more desireable.

The existing laws of the United States have done much towards attaining this valuable object; but some additions to the present duties, on foreign distilled spirits, and foreign malt liquors, and perhaps an abatement of those on home made spirits, would more effectually secure it; and there does not occur any very weighty objection to either.

An augmentation of the duties on imported spirits would favour, as well as the distillation of Spirits from molasses, as that from Grain. And to secure to the nation the benefit of the manufacture, even of foreign materials, is always of great, though perhaps of secondary importance.

A strong impression prevails in the minds of those concerned in distilleries (including too the mot candid and enlightened) that greater differences in the rates of duty on foreign and domestic spirits are necessary, completely to secure the successful manufacture of the latter; and there are fact which entitle this impression to attention.

It is known, that the price of molasses for some years past, has been successively rising in the West India Markets, owing partly to competition, which did not formerly exist, and partly to an extension of demand in this country; and it is evident, that the late disturbances in those Islands, from which we draw our principal supply, must so far interfere with the production of the article, as to occasion a material enhancement of price. The destruction and devastation attendant on the insurrection in Hispaniola, in particular, must not only contribute very much to that effect, but may be expected to give it some duration. These circumstances, and the duty of three cents per Gallon on molasses, may render it difficult for the distillers of that material to maintain with adequate profit a competition, with the rum brought from the West Indies, the quality of which is so considerably superior.

The consumption of Geneva or Gin in this country is extensive. It is not long since distilleries of it have grown up among us, to any importance. They are now becoming of consequence, but being still in their infancy, they require protection.

It is represented, that the price of some of the materials is greater here, than in Holland, from which place large quantities are brought, the price of labour considerably greater, the capitals engaged in the business there much larger, than those which are employed here, the rate of profits, at which the Undertakers can afford to carry it on, much less—the prejudices, in favor of imported Gin, strong. These circumstances are alleged to outweigh the charges, which attend the bringing of the Article, from Europe to the United states and the present difference of duty, so as to obstruct the prosecution of the manufacture, with due advantage.

Experiment could perhaps alone decide with certainty the justness of the suggestions, which are made; but in relation to branches of manufacture so important, it would seem inexpedient to hazard an unfavourable issue, and better to err on the side of too great, than of too small a difference, in the particular in question.

It is therefore submitted, that an addition of two cents per Gallon be made to the duty on imported spirits of the first

class of proof, with a proportionable increase on those of higher proof; and that a deduction of one cent per Gallon be made from the duty on spirits distilled within the United states, beginning with the first class of proof, and a proportionable deduction from the duty on those of higher proof.

It is ascertained, that by far the greatest part of the malt liquors consumed in the United States are the produce of domestic breweries. It is desireable, and, in all likelihood, attainable, that the whole consumption should be supplied by ourselves.

The malt liquors, made at home, though inferior to the best are equal to a great part of those, which have been usually imported. The progress already made is an earnest of what may be accomplished. The growing competition is an assurance of improvement. This will be accelerated by measures, tending to invite a greater capital into this channel of employment.

To render the encouragement to domestic breweries decisive, it may be adviseable to substitute to the present rates of duty eight cents per gallon generally; and it will deserve to be considered as a guard against evasions, whether there ought not to be a prohibition of their importation, except in casks of considerable capacity. It is to be hoped, that such a duty would banish from the market, foreign malt liquors of inferior quality; and that the best kind only would continue to be imported till it should be supplanted, by the efforts of equal skill or care at home.

Till that period, the importation so qualified would be an useful stimulous to improvement: And in the mean time, the payment of the increased price, for the enjoyment of a luxury, in order to the encouragement of a most useful branch of domestic industry, could not reasonably be deemed a hardship.

As a further aid to the manufactures of grain, though upon a smaller scale, the article of Starch, hair powder and wafers, may with great propriety be placed among those, which are rate at 15 perCent. No manufactures are more simple, nor more completely within the reach of a full supply, from domestic sources, and it is a policy, as common as it is obvious, to make them the objects either of prohibitory duties, or of express prohibition.

Flax and Hemp

Manufactures of these articles have so much affinity to each other, and they are so often blended, that they many with advantage be considered in conjunction. The importance of the linnin branch to agriculture—its precious effects upon household industry—the ease, with which the materials can be produced at home to any requisite extend—the great advances, which have been already made, in the coarser fabricks of them, expecially in the family way, constitute claims, of peculiar force, to the patronage of the government.

This patronage may be afford in various ways; by promoting the growth of the materials; by increasing the impediments to an advantageous competition of rival foreign articles; by direct bounties or premiums upon the home manufacture.

First. As to promoting the growth of the materials.

In respect to hemp, something has been already done by the high duty upon foreign hemp. If the facilities for domestic production were not unusually great, the policy of the duty, on the foreign raw material, would be highly questionable, as interfering with the growth of manufactures of it. But making the proper allowances for those facilities, and with an eye to the future and natural progress, of the country, the measure does not appear, upon the whole, exceptionable. A strong wish naturally suggests itself, tha(t) some method could be devised of affording a more direct encouragement to the growth both of flax and hemp; such as would be effectual, and at the same time not attended with too great inconveniences. To this end, bounties and premiums offer themselves to *consideration;* but no modification of them has yet occurred, which would not either hazard too much expence, or operate unequally in reference to the circumstances of different parts of the Union, and which would not be attended with very great difficulties in the execution.

Secondly—

As to encreasing the impediments to an advantageous competition of rival foreign articles.

To this purpose, an augmentation of the duties on importation is the obvious expedient; which, in regard to certain articles, appears to be recommended by sufficient reasons.

The principal of these articles is Sail cloth; one intimately connected with navigation and defence; and of which a flourishing manufactory is established at Boston and very promising ones at several other places.

It is presumed to be both safe and adviseable to place this in the class of articles rated at 10 Per cent. A strong reason for it results from the consideration that a bounty of two pence sterling per ell is allowed, in Great Britain, upon the exportation of the sail cloth manufactured in that Kingdom.

It would likewise appear to be good policy to raise the duty to 7 1/2 perCent on the following articles. Drillings, Osnaburghs, Ticklenburghs, Dowlas, Canvas, Brown Rolls, Bagging, and upon all other linnens the first cost of which at the place of exportation does not exceed 35 cents per yard. A bounty of 12 1/2 per Cent, upon an average on the exportation of such similar linens from Great-Britain encourages the manufacture of them in that country and increases the obstacles to a successful competition in the countries to which they are sent.

The quantities of tow and other household linnens manufactured in different parts of the United States and the expectations, which are derived from some late experiments, of being able to extend the use of labour-saving machines, in the coarser fabrics of linnen, obviate the danger of inconvenience, from an increase of the duty upon such articles, and authorize a hope of speedy and complete success to the endeavours, which may be used for procuring an internal supply.

Thirdly. As to direct bounties, or premiums upon the manufactured articles.

To afford more effectual encouragement to the manufacture, and at the same time to promote the cheapness of the article for the benefit of navigation, it will be of great use to allow a bounty of two Cents per yard on all Sail Cloth, which

is made in the United States from materials of their own growth. This would also assist the Culture of those materials. An encouragement of this kind if adopted ought to be established for a moderate term of years, to invite to new undertakings and to an extension of the old. This is an article of importance enough to warrant the employment of extraordinary means in its favor.

Cotton

There is something in the texture of this material, which adapts it in a peculiar degree to the application of Machines. The signal Utility of the mill for spinning of cotton, not long since invented in England, has been noticed in another place; but there are other machines scarcely inferior in utility which, in the different manufactories of this article are employed either exclusively, or with more than ordinary effect. This very important circumstance recommends the fabricks of cotton, in a more particular manner, to a country in which a defect of hands constitutes the greatest obstacles to success.

The variety and extent of the uses to which the manufactures of this article are applicable is another powerful argument in their favor.

And the faculty of the United States to produce the raw material in abundance, & of a quality, which though alledged to be inferior to some that is produced in other quarters, is nevertheless capable of being used with advantage, in many fabrics, and is probably susceptible of being carried, by a more experienced culture, to much greater perfection—suggests an additional and a very cogent inducement to the vigorous pursuit of the cotton branch, in its several subdivisions.

How much has been already done has been stated in a preceding part of this report.

In addition to this, it may be announced, that a society is forming with a capital which is expected to be extended to at lease half a million of dollars; on behalf of which measures are already in train for prosecuting on a large scale, the making and printing of cotton goods.

These circumstances conspire to indicate the expediency of removing any obstructions, which may happen to exist, to the advantageous prosecution of the manufactories in question, and of adding such encouragements, as may appear necessary and proper.

The present duty of three cents per lb. on the foreign raw material, is undoubtedly a very serious impediment to the progress of those manufactories.

The injurious tendency of similar duties either prior to the establishment, or in the infancy of the domestic manufacture, of the article, as it regards the manufacture, and their worse than inutility, in relation to the home production of the material itself, have been anticipated particularly in discussing the subject of pecuniary bounties.

Cotton has not the same pretensions, with hemp, to form an exception to the general rule.

Not being, like hemp an universal production of the Country it affords less assurance of an adequate internal supply; but the chief objection arises from the doubts; which are entertained concerning the quality of the national cotton. It is alledged, that the fibre of it is considerably shorter and weaker, than that of some other places; and it has been observed as a general rule, that the nearer the place of growth to the Equator, the better the quality of the cotton. That which comes from Cayenne, Surrinam and Demarara is said to be preferable, even at a material difference of price, to the Cotton of the Islands.

While a hope may reasonably be indulged, that with due care and attention the national cotton may be made to approach nearer than it now does to that of regions, somewhat more favored by climate; and while facts authorize an opinion, that very great use may be made of it, and that it is a resource which gives greater security to the cotton fabrics of this country, than can be enjoyed by any which depends wholly on external supply it will certainly be wise, in every view, to let our infant manufactures have the full benefit of the best materials on the cheapest terms.

It is obvious that the necessity of having such materials is proportioned to the unskilfulness and inexperience of the workmen employed, who if inexpert, will not fail to commit great waste, where the materials they are to work with are of an indifferent kind.

To secure to the national manufactures so essential an advantage, a repeal of the present duty on imported cotton is indispensible.

A substitute for this, far more encouraging to domestic production, will be to grant a bounty on the national cotton, when wrought at a home manufactory; to which a bounty on the exportation of it may be added. Either or both would do much more towards promoting the growth of the article, than the merely nominal encouragement, which it is proposed to abolish. The first would also have a direct influence in encouraging the manufacture.

The bounty which has been mentioned as existing in Great Britain, upon the exportation of coarse linnens not exceeding a certain value, applies also to certain discriptions of cotton goods of similar value.

This furnishes an additional argument for allowing to the national manufacturers the species of encouragement just suggested, and indeed for adding some other aid.

One cent per yard, not less than of a given width, on all goods of cotton, or of cotton and linnen mixed, which are manufactured in the United States; with the addition of one cent per lb weight of the material; if made of national cotton; would amount to an aid of considerable importance, both to the production and to the manufacture of that valuable article. And it is conceived, that the expence would be well justified by the magnitude of the object.

The printing and staining of cotton goods is known to be a distinct business from the fabrication of them. It is one easily accomplished and which, as it adds materially to the value of the article in its white state, and prepares it for a variety of new uses, is of importance to be promoted.

As imported cottons, equally with those which are made at home, may be objects of this manufacture, it will merit consideration, whether the whole, or a part of the duty, on the white goods, ought not to be allowed to be drawn back in favor of those, who print or stain them. This measure would certainly operate as a powerful encouragement to the

business; and though it may in a degree counteract the original fabrication of the articles it would probably more than compensate for this disadvantage, in the rapid growth of a collateral branch, which is of a nature sooner to attain to maturity. When a sufficient progress shall have been made, the drawback may be abrogated; and by that time the domestic supply of the articles to be printed or stained will have been extended.

If the duty of 7 1/2 per Cent on certain kinds of cotton goods were extended to all goods of cotton, or of which it is the principal material, it would probably more than counterbalance the effect of the drawback proposed, in relation to the fabrication of the article. And no material objection occurs to such an extension. The duty then considering all the circumstances which attend goods of this description could not be deemed inconveniently high; and it may be inferred from various causes that the prices of them would still continued moderate.

Manufactories of cotton goods, not long since established at Beverly, in Massachusetts, and at Providence in the state of Rhode Island and conducted with a perseverence corresponding with the patriotic motives which began them, seem to have overcome the first obstacles to success; producing corduroys, velverets, fustians, jeans, and other similar articles of a quality, which will bear a comparison with the like articles brought from Manchester. The one at Providence has the merit of being the first in introducing [into the United States] the celebrated cotton mill; which not only furnishes materials for that manufactory itself, but for the supply of private families for household manufacture.

Other manufactories of the same material; as regular businesses, have also been begun at different places in the state of Connecticut, but all upon a smaller scale, than those above mentioned. Some essays are also making in the printing and staining of cotton goods. There are several small establishments of this kind already on foot.

Wool

In a country, the climate of which partakes of so considerable a proportion of winter, as that of a great part of the United States, the woolen branch cannot be regarded, as inferior to any, which relates to the cloathing of the inhabitants.

Household manufactures of this material are carried on, in different parts of the United States, to a very interesting extent; but there is only one branch, which, as a regular business, can be said to have acquired maturity. This is the making of hats.

Hats of wool, and of wool mixed with fur, are made in large quantities, in different States; & nothing seems wanting, but an adequate supply of materials, to render the manufacture commensurate with the demand.

A promising essay, towards the fabrication of cloths, cassimires and other woolen goods, is likewise going on at *Hartford* in Connecticut. Specimens of the different kinds which are made, in the possession of the Secretary, evince that these fabrics have attained a very considerable degree of perfection. Their quality certainly surpasses anything, that could have been looked for, in so short a time, and under so great disadvantages; and conspires with the scantiness of the means, which have been at the command of the directors, to form the eulogium of that public spirit, perseverence and judgment, which have been able to accomplish so much.

To cherish and bring to maturity this precious embryo must engage the most ardent wishes—and proportionable regret, as far as the means of doing it may appear difficult or uncertain.

Measures, which should tend to promote an abundant supply of wool, of good quality, would probably afford the most efficacious aid, that present circumstances permit.

To encourage the raising and improving the breed of sheep, at home, would certainly be the most desireable expedient, for the purpose; but it may not be alone sufficient, especially as it is yet a problem, whether our wool be capable of such a degree of improvement, as to render it fit for the finer fabrics.

Premiums would probably be found the best means of promoting the domestic, and bounties the foreign supply. The first may be within the compass of the institution hereafter to be submitted—The last would require a specific legislative provision. If any bounties are granted they ought of course to be adjusted with an eye to quality, as well as quantity.

A fund for the purpose may be derived from the addition of 2 1/2 per Cent, to the present rate of duty, on Carpets and Carpeting; an increase, to which the nature of the Articles suggests no objection, and which may at the same time furnish a motive the more to the fabrication of them at home; towards which some beginnings have been made.

Silk

The production of this Article is attended with great facility in most parts of the United States. Some pleasing essays are making in Connecticut, as well towards that, as towards the Manufacture of what is produced. Stockings, Hankerchiefs Ribbons & Buttons are made though as yet but in small quantities.

A Manufactory of Lace upon a scale not very extensive has been long memorable at Ipswich in the State of Massachusetts.

An exemption of the material from the duty, which it now pays on importation, and premiums upon the production, to be dispensed under the direction of the Institution before alluded to, seem to be the only species of encouragement adviseable at so early a stage of the thing.

Glass

The Materials for making Glass are found every where. In the United States there is no deficiency of them. The sands and Stones called Tarso, which include flinty and chrystalline substances generally, and the Salts of various plants, particularly of the Sea Weed Kali or Kelp constitute the essential ingredients. An extraordinary abundance of Fuel is a particular advantage by this Country for such manufactures. They, however, require large Capitals and involve much manual labour.

Different manufactories of Glass are not on foot in the United States. The present duty of 12 1/2 per Cent on all imported articles of glass amount to a considerable encouragement of those Manufactories. If any thing in addition is judged eligible, the most proper would appear to be a direct bounty, on Window Glass and black Bottles.

The first recommends itself as an object of general convenience; the last adds to that character, the circumstance of being an important item in breweries. A Complaint is made of great deficiency in this respect.

Gun Powder

No small progress has been of late made in the manufacture of this very important article: It may indeed be considered as already established; but its high importance renders its further extension very desireable.

The encouragements, which it already enjoys, are a duty of 10 per Cent on the foreign rival article, and an exemption of Salt petre one of the principal ingredients of which it is composed, from duty. A like exemption of Sulphur, another chief ingredient, would appear to be equally proper. No quantity of this Article has yet been produced, from internal sources. The use made of it in finishing the bottoms of Ships, is an additional inducement to placing it in the class of free goods. Regulations for the careful inspection of the article would have a favourable tendency.

Paper

Manufactories of paper are among those which are Arrived at the greatest maturity in the United States, and are most adequate to national supply. That of paper hangings is a branch, in which respectable progress has been made.

Nothing material seems wanting to the further success of this valuable branch which is already protected by a competent duty on similar imported Articles.

In the enumeration of the several kinds, made subject to that duty, Sheathing and Cartridge paper have been omitted. These, being the most simple manufactures of the sort, and necessary to military supply, as well as Ship building, recommend themselves equally with those of other descriptions, to encouragement, and appear to be as fully within the compass of domestic exertions.

Printed books

The great number of presses disseminated throughout the Union, seem to afford an assurance, that there is not need of being indebted to foreign Countries for the printing of the Books, which are used in the United States. A duty of ten per Cent instead of five, which is now charged upon the Article, would have a tendency to aid the business internally.

It occurs, as an objection to this, that it may have an unfavourable aspect towards literature, by raising the prices of Books in universal use in private families Schools and other Seminaries of learning. But the difference it is conceived would be without effect.

As to Books which usually fill the Libraries of the wealthier classes and of professional Men, such as Augmentation of prices, as might be occasioned by an additional duty of five per Cent would be too little felt to be an impediment to the acquisition.

And with regard to books which may be specially imported for the use of particular seminaries of learning, and of public libraries, a total exemption from duty would be adviseable, which would go far towards obviating the objection just mentioned. They are now subject to a duty of 5 per Cent.

As to the books in most general family use, the constancy and universality of the demand would insure exertions to furnish them at home and the means are compleatly adequate. It may also be expected ultimately, in this as in other cases, that the extension of the domestic manufacture would conduce to the cheapness of the article.

It ought not to pass unremarked, that to encourage the printing of books is to encourage the manufacture of paper.

Refined Sugars and Chocolate

Are among the number of extensive and prosperous domestic manufactures.

Drawbacks of the duties upon the materials, of which they are respectively made, in cases of exportation, would have a beneficial influence upon the manufacture, and would conform to a precedent, which has been already furnished, in the instance of molasses, on the exportation of distilled spirits.

Cocoa the raw material now pays a duty of one cent per lb., while chocolate which is a prevailing and very simple manufacture, is comprised in a mass of articles rated at no more than five per Cent.

There would appear to be a propriety in encouraging the manufacture, by a somewhat higher duty, on its foreign rival, than is paid on the raw material. Two cents per lb. on imported chocolate would, it is presumed, be without inconvenience.

The foregoing heads comprise the most important of the several kinds of manufactures, which have occurred as requiring, and, at the same time, as most proper for public encouragement; and such measures for affording it, as have appeared best calculated to answer the end, have been suggested.

The observations, which have accompanied this delineation of objects, supercede the necessity of many supplementary remarks. One or two however may not be altogether superfluous.

Bounties are in various instances proposed as one species of encouragement.

It is a familiar objection to them, that they are difficult to be managed and liable to frauds. But neither that difficulty nor this danger seems sufficiently great to countervail the advantages of which they are productive, when rightly applied. And it is presumed to have been shewn, that they are in some cases, particularly in the infancy of new enterprises indispensable.

It will however be necessary to guard, with extraordinary circumspection, the manner of dispensing them. The requisite precautions have been thought of; but to enter into the detail would swell this report, already voluminous, to a size too inconvenient.

If the principle shall not be deemed inadmissible the means of avoiding an abuse of it will not be likely to present insurmountable obstacles. There are useful guides from practice in other quarters.

It shall therefore only be remarked here, in relation to this point, that any bounty, which may be applied to the *manufacture* of an article, cannot with safety extend beyond those manufactories, at which the making of the article is a *regular trade.*

It would be impossible to annex adequate precautions to a benefit of that nature, if extended to every private family, in which the manufacture was incidentally carried on, and its being a merely incidental occupation which engages a portion of time that would otherwise be lost, it can be advantageously carried on, without so special an aid.

The possibility of a diminution of the revenue may also present itself, as an objection to the arrangements, which have been submitted.

But there is no truth, which may be more firmly relied upon, than the interests of the revenue are promoted, by whatever promotes an increase of National industry and wealth.

In proportion to the degree of these, is the capacity of every country to contribute to the public Treasury; and where the capacity to pay is increased, or even is not decreased, the only consequence of measures, which diminish any particular resource is a change of the object. If by encouraging the manufacture of an article at home, the revenue, which has been wont to accrue from its importation, should be lessened, an indemnification can easily be found, either out of the manufacture itself, or from some other object, which may be deemed more convenient.

The measures however, which have been submitted, taken aggregately, will for a long time to come rather augment than decrease the public revenue.

There is little room to hope, that the progress of manufactures, will so equally keep pace with the progress of population, as to prevent, even, a gradual augmentation of the product of the duties on imported articles.

As, nevertheless, an abolition in some instances, and a reduction in others of duties, which have been pledged for the public debt, is proposed, it is essential, that is should be accompanied with a competent substitute. In order to this, it is requisite, that all the additional duties which shall be laid, be appropriated in the first instance, to replace all defalcations, which may proceed from any such abolition or diminution. It is evident, at first glance, that they will not only be adequate to this, but will yield a considerable surplus.

This surplus will serve.

First. To constitute a fund for paying the bounties which shall have been decreed.

Secondly. To constitute a fund for the operations of a Board, to be established, for promoting Arts, Agriculture, Manufactures and Commerce. Of this institution, different intimations have been given, in the course of this report. An outline of a plan for it shall now be submitted.

Let a certain annual sum, be set apart, and placed under the management of Commissioners, not less than three, to consist of certain Officers of the Government and their Successors in Office.

Let these Commissioners be empowered to apply the fund confided to them—to defray the expences of the emigration of Artists, and Manufacturers in particular branches of extraordinary importance—to induce the prosecution and introduction of useful discoveries, inventions and improvements, by proportionate rewards, judiciously held out and applied—to encourage by premiums both honorable and lucrative the exertions of individuals, And of classes, in relation to the several objects, they are charged with promoting—and to afford such other aids to those objects, as may be generally designated by law.

The Commissioners to render [to the Legislature] an annual account of their transactions and disbursements; and all such sums as shall not have been applied to the purposes of their trust, at the end of every three years, to revert to the Treasury. It may also be enjoined upon them, not to draw out the money, but for the purpose of some specific disbursement.

It may moreover be of use, to authorize them to receive voluntary contributions; making it their duty to apply them to the particular objects for which they may have been made, if any shall have been designated by the donors.

There is reasons to believe, that the progress of particular manufactures has been much retarded by the want of skilful workmen. And it often happens that the capitals employed are not equal to the purposes of bringing from abroad workmen of a superior kind. Here, is case worthy of it, the auxiliary agency of Government would in all probability be useful. There are also valuable workmen, in every branch, who are prevented from emigrating solely by the want of means. Occasional aids to such persons properly administered might be a source of valuable acquisitions of the country.

The propriety of stimulating by rewards, the invention and introduction of useful improvements, is admitted without difficulty. But the success of attempts in this way must evidently depend much on the manner of conducting them. It is probable, that the placing of the dispensation of those rewards under some proper discretionary direction, where they may be accompanied by *collateral expedients,* will serve to give them the surest efficacy. It seems impracticable to apportion, by general rules, specific compensations for discoveries of unknown and disproportionate utility.

The great use which may be made of a fund of this mature to procure and import foreign improvements is particularly obvious. Among these, the article of machines would form a most important item.

The operation and utility of premiums have been adverted to; together with the advantages which have resulted from the dispensation, under the direction of certain public and private societies. Of this some experience has been had in the instance of the Pennsylvania society, [for the Promotion of Manufactures and useful Arts;] but the funds of that association have been too contracted to produce more than a very small portion of the good to which the principles of it would have led. It may confidently be affirmed that there is scarcely any thing, which has been devised, better calculated to excite

a general spirit of improvement than the institutions of this nature. They are truly invaluable.

In countries where there is a great private wealth much may be effected by the voluntary contributions of patriotic individuals, but in a community situated like that of the United States, the public purse must supply the deficiency of private resource. In what can it be so useful as in prompting and improving the efforts of industry?

All which is humbly submitted
Alexander Hamilton
Secretary of the Treasury

Treaty between the United States of America and the French Republic with Conventions (Louisiana Purchase, 1803)

The Louisiana Purchase opened up the western expansion of the United States. In 1803 Thomas Jefferson instructed his special envoy Robert Livingston to negotiate with the French for access to the port of New Orleans once it was learned that the Spanish were in the process of ceding the territory back to the French. The possibility for Americans to ship goods down the Mississippi River and from there transship the products to the eastern seaboard or other parts of the world determined the economic future of the new settlers in the Ohio Valley region. Napoleon, embroiled in a war with Great Britain for dominance over Europe, decided to sell Louisiana after the slave revolt on Haiti. His plan had initially been to use Louisiana as the breadbasket for the slaves on his sugar plantations. Livingston agreed to the $15 million purchase price without authorization, but the Senate ratified the treaty anyway.

Source: http://www.imu.edu/madison/louisianapurchase/treatytext.htm.

The President of the United States of America and the First Consul of the French Republic in the name of the French People desiring to remove all Source of misunderstanding relative to objects of discussion mentioned in the Second and fifth articles of the Convention of the 8th Vendémiaire on 9/30 September 1800 relative to the rights claimed by the United States in virtue of the Treaty concluded at Madrid the 27 of October 1795, between His Catholic Majesty & the Said United States, & willing to Strengthen the union and friendship which at the time of the Said Convention was happily reestablished between the two nations have respectively named their Plenipotentiaries to wit The President of the United States, by and with the advice and consent of the Senate of the Said States; Robert R. Livingston Minister Plenipotentiary of the United States and James Monroe Minister Plenipotentiary and Envoy extraordinary of the Said States near the Government of the French Republic; And the First Consul in the name of the French people, Citizen Francis Barbé Marbois Minister of the public treasury who after having respectively exchanged their full powers have agreed to the following Articles.

Article I

Whereas by the Article the third of the Treaty concluded at St Ildefonso the 9th Vendémiaire on 1st October 1800 between the First Consul of the French Republic and his Catholic Majesty it was agreed as follows.

"His Catholic Majesty promises and engages on his part to cede to the French Republic six months after the full and entire execution of the conditions and Stipulations herein relative to his Royal Highness the Duke of Parma, the Colony or Province of Louisiana with the Same extent that it now has in the hand of Spain, & that it had when France possessed it; and Such as it Should be after the Treaties subsequently entered into between Spain and other States."

And whereas in pursuance of the Treaty and particularly of the third article the French Republic has an incontestible title to the domain and to the possession of the said Territory—The First Consul of the French Republic desiring to give to the United States a strong proof of his friendship doth hereby cede to the United States in the name of the French Republic for ever and in full Sovereignty the said territory with all its rights and appurtenances as fully and in the Same manner as they have been acquired by the French

Republic in virtue of the above mentioned Treaty concluded with his Catholic Majesty.

Article II

In the cession made by the preceding article are included the adjacent Islands belonging to Louisiana all public lots and Squares, vacant lands and all public buildings, fortifications, barracks and other edifices which are not private property.—The Archives, papers & documents relative to the domain and Sovereignty of Louisiana and its dependances will be left in the possession of the Commissaries of the United States, and copies will be afterwards given in due form to the Magistrates and Municipal officers of such of the said papers and documents as may be necessary to them.

Article III

The inhabitants of the ceded territory shall be incorporated in the Union of the United States and admitted as soon as possible according to the principles of the federal Constitution to the enjoyment of all these rights, advantages and immunities of citizens of the United States, and in the mean time they shall be maintained and protected in the free enjoyment of their liberty, property and the Religion which they profess.

Article IV

There Shall be Sent by the Government of France a Commissary to Louisiana to the end that he do every act necessary as well to receive from the Officers of his Catholic Majesty the Said country and its dependances in the name of the French Republic if it has not been already done as to transmit it in the name of the French Republic to the Commissary or agent of the United States.

Article V

Immediately after the ratification of the present Treaty by the President of the United States and in case that of the first Consul's shall have been previously obtained, the commissary of the French Republic shall remit all military posts of New Orleans and other parts of the ceded territory to the Commissary or Commissaries named by the President to take possession—the troops whether of France or Spain who may be there shall cease to occupy any military post from the time of taking possession and shall be embarked as soon as possible in the course of three months after the ratification of this treaty.

Article VI

The United States promise to execute Such treaties and articles as may have been agreed between Spain and the tribes and nations of Indians until by mutual consent of the United States and the said tribes or nations other Suitable articles Shall have been agreed upon.

Article VII

As it is reciprocally advantageous to the commerce of France and the United States to encourage the communication of both nations for a limited time in the country ceded by the present treaty until general arrangements relative to commerce of both nations may be agreed on; it has been agreed between the contracting parties that the French Ships coming directly from France or any of her colonies loaded only with the produce and manufactures of France or her Said Colonies; and the Ships of Spain coming directly from Spain or any of her colonies loaded only with the produce or manufactures of Spain or her Colonies shall be admitted during the Space of twelve years in the Port of New-Orleans and in all other legal ports-of-entry within the ceded territory in the Same manner as the Ships of the United States coming directly from France or Spain or any of their Colonies without being Subject to any other or greater duty on merchandize or other or greater tonnage than that paid by the citizens of the United States.

During that Space of time above mentioned no other nation Shall have a right to the Same privileges in the Ports of the ceded territory—the twelve years Shall commence three months after the exchange of ratifications if it Shall take place in France or three months after it Shall have been notified at Paris to the French Government if it Shall take place in the United States; It is however well understood that the object of the above article is to favour the manufactures, Commerce, freight and navigation of France and of Spain So far as relates to the importations that the French and Spanish Shall make into the Said Ports of the United States without in any Sort affecting the regulations that the United States may make concerning the exportation of the produce and merchandize of the United States, or any right they may have to make Such regulations.

Article VIII

In future and for ever after the expiration of the twelve years, the Ships of France shall be treated upon the footing of the most favoured nations in the ports above mentioned.

Article IX

The particular Convention Signed this day by the respective Ministers, having for its object to provide for the payment of debts due to the Citizens of the United States by the French Republic prior to the 30th Sept. 1800 (8th Vendé miaire an 9) is approved and to have its execution in the Same manner as if it had been inserted in this present treaty, and it Shall be ratified in the same form and in the Same time So that the one Shall not be ratified distinct from the other.

Another particular Convention Signed at the Same date as the present treaty relative to a definitive rule between the contracting parties is in the like manner approved and will be ratified in the Same form, and in the Same time and jointly.

Article X

The present treaty Shall be ratified in good and due form and the ratifications Shall be exchanged in the Space of Six months after the date of the Signature by the Ministers Plenipotentiary or Sooner if possible.

In faith whereof the respective Plenipotentiaries have Signed these articles in the French and English languages; declaring nevertheless that the present Treaty was originally agreed to in the French language; and have thereunto affixed their Seals.

Done at Paris the tenth day of Floreal in the eleventh year of the French Republic; and the 30th of April 1803.

Robt R Livingston [seal]
Jas. Monroe [seal]
Barbé Marbois [seal]

A CONVENTION BETWEEN THE UNITED STATES OF AMERICA AND THE FRENCH REPUBLIC

The President of the United States of America and the First Consul of the French Republic in the name of the French people, in consequence of the treaty of cession of Louisiana which has been Signed this day; wishing to regulate definitively every thing which has relation to the Said cession have authorized to this effect the Plenipotentiaries, that is to say the President of the United States has, by and with the advice and consent of the Senate of the Said States, nominated for their Plenipotentiaries, Robert R. Livingston, Minister Plenipotentiary of the United States, and James Monroe, Minister Plenipotentiary and Envoy-Extraordinary of the Said United States, near the Government of the French Republic; and the First Consul of the French Republic, in the name of the French people, has named as Pleniopotentiary of the Said Republic the citizen Francis Barbé Marbois: who, in virtue of their full powers, which have been exchanged this day, have agreed to the following articles:

Article 1

The Government of the United States engages to pay to the French government in the manner Specified in the following article the sum of Sixty millions of francs independant of the Sum which Shall be fixed by another Convention for the payment of the debts due by France to citizens of the United States.

Article 2

For the payment of the Sum of Sixty millions of francs mentioned in the preceding article the United States shall create a Stock of eleven millions, two hundred and fifty thousand Dollars bearing an interest of Six per cent: per annum payable half yearly in London Amsterdam or Paris amounting by the half year to three hundred and thirty Seven thousand five hundred Dollars, according to the proportions which Shall be determined by the French Govenment to be paid at either place: The principal of the Said Stock to be reimbursed at the treasury of the United States in annual payments of not less than three millions of Dollars each; of which the first payment Shall commence fifteen years after the date of the exchange of ratifications:—this Stock Shall be transferred to the government of France or to Such person or persons as Shall be authorized to receive it in three months at most after the exchange of ratifications of this treaty and after Louisiana Shall be taken possession of the name of the Government of the United States.

It is further agreed that if the French Government Should be desirous of disposing of the Said Stock to receive the capital in Europe at Shorter terms that its measures for that purpose Shall be taken So as to favour in the greatest degree possible the credit of the United States, and to raise to the highest price the Said Stock.

Article 3

It is agreed that the Dollar of the United States Specified in the present Convention shall be fixed at five francs 3333/100000 or five livres eight Sous tournois.

The present Convention Shall be ratified in good and due form, and the ratifications Shall be exchanged the Space of Six months to date from this day or Sooner if possible.

In faith of which the respective Plenipotentiaries have Signed the above articles both in the french and english languages, declaring nevertheless that the present treaty has been originally agreed on and written in the french language; to which they have hereunto affixed their Seals.

Done at Paris the tenth of Floreal eleventh year of the french Republic, 30th April 1803.

Robt R Livingston [seal]
Jas. Monroe [seal]
Barbé Marbois [seal]

CONVENTION BETWEEN THE UNITED STATES OF AMERICA AND THE FRENCH REPUBLIC

The President of the United States of America and the First Consul of the French Republic in the name of the French People having by a Treaty of this date terminated all difficulties relative to Louisiana, and established on a Solid foundation the friendship which unites the two nations and being desirous in complyance with the Second and fifth Articles of the Convention of the 8th Vendémiaire ninth year of the French Republic (30th September 1800) to Secure the payment of the Sums due by France to the citizens of the United States have respectively nominated as Plenipotentiaries that is to Say The President of the United States of America by and with the advise and consent of their Senate Robert R. Livingston Minister Plenipotentiary and James Monroe Minister Plenipotentiary and Envoy Extraordinary of the Said States near the Government of the French Republic: and the First Consul in the name of the French People the Citizen Francis Barbé Marbois Minister of the public treasury; who after having exchanged their full powers have agreed to the following articles.

Article 1

The debts due by France to citizens of the United States contracted before the 8th Vendémiaire ninth year of the French Republic (30th September 1800) Shall be paid according to the following regulations with interest at Six per Cent; to commence from the period when the accounts and vouchers were presented to the French Government.

Article 2

The debts provided for by the preceeding Article are those whose result is comprised in the conjectural note annexed to the present Convention and which, with the interest cannot exceed the Sum of twenty millions of Francs. The claims comprised in the Said note which fall within the exceptions

of the following articles, Shall not be admitted to the benefit of this provision.

Article 3

The principal and interests of the Said debts Shall be discharged by the United States, by orders drawn by their Minister Plenipotentiary on their treasury, these orders Shall be payable Sixty days after the exchange of ratifications of the Treaty and the Conventions Signed this day, and after possession Shall be given of Louisiana by the Commissaries of France to those of the United States.

Article 4

It is expressly agreed that the preceding articles Shall comprehend no debts but Such as are due to citizens of the United States who have been and are yet creditors of France for Supplies for embargoes and prizes made at Sea, in which the appeal has been properly lodged within the time mentioned in the Said Convention 8th Vendémiaire ninth year, (30th Sept 1800).

Article 5

The preceding Articles Shall apply only, First: to captures of which the council of prizes Shall have ordered restitution, it being well understood that the claimant cannot have recourse to the United States otherwise than he might have had to the Government of the French republic, and only in case of insufficiency of the captors—2d the debts mentioned in the Said fifth Article of the Convention contracted before the 8th Vendé miaire an 9/30th September 1800 the payment of which has been heretofore claimed of the actual Government of France and for which the creditors have a right to the protection of the United States;—the Said 5th Article does not comprehend prizes whose condemnation has been or Shall be confirmed: it is the express intention of the contracting parties not to extend the benefit of the present Convention to reclamations of American citizens who Shall have established houses of Commerce in France, England or other countries than the United States in partnership with foreigners, and who by that reason and the nature of their commerce ought to be regarded as domiciliated in the places where Such house exist.—All agreements and bargains concerning merchandize, which Shall not be the property of American citizens, are equally excepted from the benefit of the said Conventions, Saving however to Such persons their claims in like manner as if this Treaty had not been made.

Article 6

And that the different questions which may arise under the preceding article may be fairly investigated, the Ministers Plenipotentiary of the United States Shall name three persons, who Shall act from the present and provisionally, and who shall have full power to examine, without removing the documents, all the accounts of the different claims already liquidated by the Bureaus established for this purpose by the French Republic, and to ascertain whether they belong to the classes designated by the present Convention and the principles established in it or if they are not in one of its exceptions and on their Certificate, declaring that the debt is due to an American Citizen or his representative and that it existed before the 8th Vendémiaire 9th year/30 September 1800 the debtor shall be entitled to an order on the Treasury of the United States in the manner prescribed by the 3d Article.

Article 7

The Same agents Shall likewise have power, without removing the documents, to examine the claims which are prepared for verification, and to certify those which ought to be admitted by uniting the necessary qualifications, and not being comprised in the exceptions contained in the present Convention.

Article 8

The Same agents shall likewise examine the claims which are not prepared for liquidation, and certify in writing those which in their judgement ought to be admitted to liquidation.

Article 9

In proportion as the debts mentioned in these articles Shall be admitted they Shall be discharged with interest at Six per Cent: by the Treasury of the United States.

Article 10

And that no debt shall not have the qualifications above mentioned and that no unjust or exorbitant demand may be admitted, the Commercial agent of the United States at Paris or such other agent as the Minister Plenipotentiary or the United States Shall think proper to nominate shall assist at the operations of the Bureaus and cooperate in the examinations of the claims; and if this agent Shall be of the opinion that any debt is not completely proved, or if he shall judge that it is not comprised in the principles of the fifth article above mentioned, and if notwithstanding his opinion the Bureaus established by the french Government should think that it ought to be liquidated, he shall transmit his observations to the board established by the United States, who, without removing documents, shall make a complete examination of the debt and vouchers which Support it, and report the result to the Minister of the United States.—The Minister of the United States Shall transmit his observations in all Such cases to the Minister of the treasury of the French Republic, on whose report the French Government Shall decide definitively in every case.

The rejection of any claim Shall have no other effect than to exempt the United States from the payment of it, the French Government reserving to itself, the right to decide definitively on Such claim So far as it concerns itself.

Article 11

Every necessary decision Shall be made in the course of a year to commence from the exchange of ratifications, and no reclamation Shall be admitted afterwards.

Article 12

In case of claims for debts contracted by the Government of France with citizens of the United States Since the 8th Vendé miaire 9th year/30 September 1800 not being com-

prised in this Convention may be pursued, and the payment demanded in the Same manner as if it had not been made.

Article 13

The present convention Shall be ratified in good and due form and the ratifications Shall be exchanged in Six months from the date of the Signature of the Ministers Plenipotentiary, or Sooner if possible.

In faith of which, the respective Ministers Plenipotentiary have signed the above Articles both in the french and english languages, declaring nevertheless that the present treaty has been originally agreed on and written in the french language, to which they have hereunto affixed their Seals.

Done at Paris, the tenth of Floreal, eleventh year of the French Republic. 30th April 1803.

Robt R Livingston [seal]
Jas. Monroe [seal]
Barbé Marbois [seal]

Treaty of Guadalupe Hidalgo (1848)

The Treaty of Guadalupe Hidalgo ended the Mexican War between the United States and Mexico. Signed on February 2, 1848, the treaty established the southern boundary of the United States as the Rio Grande River. Mexico agreed to cede to the United States all of its land known as California and New Mexico—an area that comprises present-day California, Nevada, Utah, parts of Arizona, New Mexico, Colorado, and Wyoming. In exchange the United States offered $15 million in compensation to Mexico and assumed the debts of the Mexican government to U.S. citizens. The following year gold was discovered in California. The natural resources and availability of this land have had a great impact on the U.S. economy.

Source: http://www.yale.edu/lawweb/avalon/diplomacy/mexico/guadhida.htm.

TREATY OF PEACE, FRIENDSHIP, LIMITS, AND SETTLEMENT BETWEEN THE UNITED STATES OF AMERICA AND THE UNITED MEXICAN STATES CONCLUDED AT GUADALUPE HIDALGO, FEBRUARY 2, 1848; RATIFICATION ADVISED BY SENATE, WITH AMENDMENTS, MARCH 10, 1848; RATIFIED BY PRESIDENT, MARCH 16, 1848; RATIFICATIONS EXCHANGED AT QUERETARO, MAY 30, 1848; PROCLAIMED, JULY 4, 1848.

IN THE NAME OF ALMIGHTY GOD

The United States of America and the United Mexican States animated by a sincere desire to put an end to the calamities of the war which unhappily exists between the two Republics and to establish Upon a solid basis relations of peace and friendship, which shall confer reciprocal benefits upon the citizens of both, and assure the concord, harmony, and mutual confidence wherein the two people should live, as good neighbors have for that purpose appointed their respective plenipotentiaries, that is to say: The President of the United States has appointed Nicholas P. Trist, a citizen of the United States, and the President of the Mexican Republic has appointed Don Luis Gonzaga Cuevas, Don Bernardo Couto, and Don Miguel Atristain, citizens of the said Republic; Who, after a reciprocal communication of their respective full powers, have, under the protection of Almighty God, the author of peace, arranged, agreed upon, and signed the following:

Treaty of Peace, Friendship, Limits, and Settlement between the United States of America and the Mexican Republic.

ARTICLE I

There shall be firm and universal peace between the United States of America and the Mexican Republic, and between their respective countries, territories, cities, towns, and people, without exception of places or persons.

ARTICLE II

Immediately upon the signature of this treaty, a convention shall be entered into between a commissioner or commissioners appointed by the General-in-chief of the forces of the United States, and such as may be appointed by the Mexican Government, to the end that a provisional suspension of hostilities shall take place, and that, in the places occupied by the said forces, constitutional order may be reestablished, as regards the political, administrative, and judicial branches, so far as this shall be permitted by the circumstances of military occupation.

ARTICLE III

Immediately upon the ratification of the present treaty by the Government of the United States, orders shall be transmitted to the commanders of their land and naval forces, requiring the latter (provided this treaty shall then have been ratified by the Government of the Mexican Republic, and the ratifications exchanged) immediately to desist from blockading any Mexican ports and requiring the former (under the same condition) to commence, at the earliest moment practicable, withdrawing all troops of the United States then in the interior of the Mexican Republic, to points that shall be selected by common agreement, at a distance from the seaports not exceeding thirty leagues; and such evacuation of the interior of the Republic shall be completed with the least possible delay; the Mexican Government hereby binding itself to afford every facility in its power for rendering the same con-

venience to the troops, on their march and in their new positions, and for promoting a good understanding between them and the inhabitants. In like manner orders shall be dispatched to the persons in charge of the custom houses at all ports occupied by the forces of the United States, requiring them (under the same condition) immediately to deliver possession of the same to the persons authorized by the Mexican Government to receive it, together with all bonds and evidences of debt for duties on importations and on exportations, not yet fallen due. Moreover, a faithful and exact account shall be made out, showing the entire amount of all duties on imports and on exports, collected at such customhouses, or elsewhere in Mexico, by authority of the United States, from and after the day of ratification of this treaty by the Government of the Mexican Republic; and also an account of the cost of collection; and such entire amount, deducting only the cost of collection, shall be delivered to the Mexican Government, at the city of Mexico, within three months after the exchange of ratifications.

The evacuation of the capital of the Mexican Republic by the troops of the United States, in virtue of the above stipulation, shall be completed in one month after the orders there stipulated for shall have been received by the commander of said troops, or sooner if possible.

ARTICLE IV

Immediately after the exchange of ratifications of the present treaty all castles, forts, territories, places, and possessions, which have been taken or occupied by the forces of the United States during the present war, within the limits of the Mexican Republic, as about to be established by the following article, shall be definitely restored to the said Republic, together with all the artillery, arms, apparatus of war, munitions, and other public property, which were in the said castles and forts when captured, and which shall remain there at the time when this treaty shall be duly ratified by the Government of the Mexican Republic. To this end, immediately upon the signature of this treaty, orders shall be dispatched to the American officers commanding such castles and forts, securing against the removal or destruction of any such artillery, arms, apparatus of war, munitions, or other public property. The city of Mexico, within the inner line of entrenchments surrounding the said city, is comprehended in the above stipulation, as regards the restoration of artillery, apparatus of war, & c.

The final evacuation of the territory of the Mexican Republic, by the forces of the United States, shall be completed in three months from the said exchange of ratifications, or sooner if possible; the Mexican Government hereby engaging, as in the foregoing article to use all means in its power for facilitating such evacuation, and rendering it convenient to the troops, and for promoting a good understanding between them and the inhabitants.

If, however, the ratification of this treaty by both parties should not take place in time to allow the embarcation of the troops of the United States to be completed before the commencement of the sickly season, at the Mexican ports on the Gulf of Mexico, in such case a friendly arrangement shall be entered into between the General-in-Chief of the said troops and the Mexican Government, whereby healthy and otherwise suitable places, at a distance from the ports not exceeding thirty leagues, shall be designated for the residence of such troops as may not yet have embarked, until the return of the healthy season. And the space of time here referred to as, comprehending the sickly season shall be understood to extend from the first day of May to the first day of November.

All prisoners of war taken on either side, on land or on sea, shall be restored as soon as practicable after the exchange of ratifications of this treaty. It is also agreed that if any Mexicans should now be held as captives by any savage tribe within the limits of the United States, as about to be established by the following article, the Government of the said United States will exact the release of such captives and cause them to be restored to their country.

ARTICLE V

The boundary line between the two Republics shall commence in the Gulf of Mexico, three leagues from land, opposite the mouth of the Rio Grande, otherwise called Rio Bravo del Norte, or Opposite the mouth of its deepest branch, if it should have more than one branch emptying directly into the sea; from thence up the middle of that river, following the deepest channel, where it has more than one, to the point where it strikes the southern boundary of New Mexico; thence, westwardly, along the whole southern boundary of New Mexico (which runs north of the town called Paso) to its western termination; thence, northward, along the western line of New Mexico, until it intersects the first branch of the river Gila; (or if it should not intersect any branch of that river, then to the point on the said line nearest to such branch, and thence in a direct line to the same); thence down the middle of the said branch and of the said river, until it empties into the Rio Colorado; thence across the Rio Colorado, following the division line between Upper and Lower California, to the Pacific Ocean.

The southern and western limits of New Mexico, mentioned in the article, are those laid down in the map entitled "Map of the United Mexican States, as organized and defined by various acts of the Congress of said republic, and constructed according to the best authorities. Revised edition. Published at New York, in 1847, by J. Disturnell," of which map a copy is added to this treaty, bearing the signatures and seals of the undersigned Plenipotentiaries, And, in order to preclude all difficulty in tracing upon the ground the limit separating Upper from Lower California, it is agreed that the said limit shall consist of a straight line drawn from the middle of the Rio Gila, where it unites with the Colorado, to a point on the coast of the Pacific Ocean, distant one marine league due south of the southernmost point of the port of San Diego, according to the plan of said port made in the year 1782 by Don Juan Pantoja, second sailing-master of the Spanish fleet, and published at Madrid in the year 1802, in the atlas to the voyage of the schooners Sutil and Mexicana; of which plan a copy is hereunto added, signed and sealed by the respective Plenipotentiaries.

In order to designate the boundary line with due precision, upon authoritative maps, and to establish upon the ground land-marks which shall show the limits of both republics, as described in the present article, the two Governments shall each appoint a commissioner and a surveyor, who, before the expiration of one year from the date of the exchange of ratifications of this treaty, shall meet at the port of San Diego, and proceed to run and mark the said boundary in its whole course to the mouth of the Rio Bravo del Norte. They shall keep journals and make out plans of their operations; and the result agreed upon by them shall be deemed a part of this treaty, and shall have the same force as if it were inserted therein. The two Governments will amicably agree regarding what may be necessary to these persons, and also as to their respective escorts, should such be necessary.

The boundary line established by this article shall be religiously respected by each of the two republics, and no change shall ever be made therein, except by the express and free consent of both nations, lawfully given by the General Government of each, in conformity with its own constitution.

ARTICLE VI

The vessels and citizens of the United States shall, in all time, have a free and uninterrupted passage by the Gulf of California, and by the river Colorado below its confluence with the Gila, to and from their possessions situated north of the boundary line defined in the preceding article; it being understood that this passage is to be by navigating the Gulf of California and the river Colorado, and not by land, without the express consent of the Mexican Government.

If, by the examinations which may be made, it should be ascertained to be practicable and advantageous to construct a road, canal, or railway, which should in whole or in part run upon the river Gila, or upon its right or its left bank, within the space of one marine league from either margin of the river, the Governments of both republics will form an agreement regarding its construction, in order that it may serve equally for the use and advantage of both countries.

ARTICLE VII

The river Gila, and the part of the Rio Bravo del Norte lying below the southern boundary of New Mexico, being, agreeably to the fifth article, divided in the middle between the two republics, the navigation of the Gila and of the Bravo below said boundary shall be free and common to the vessels and citizens of both countries; and neither shall, without the consent of the other, construct any work that may impede or interrupt, in whole or in part, the exercise of this right; not even for the purpose of favoring new methods of navigation. Nor shall any tax or contribution, under any denomination or title, be levied upon vessels or persons navigating the same or upon merchandise or effects transported thereon, except in the case of landing upon one of their shores. If, for the purpose of making the said rivers navigable, or for maintaining them in such state, it should be necessary or advantageous to establish any tax or contribution, this shall not be done without the consent of both Governments.

The stipulations contained in the present article shall not impair the territorial rights of either republic within its established limits.

ARTICLE VIII

Mexicans now established in territories previously belonging to Mexico, and which remain for the future within the limits of the United States, as defined by the present treaty, shall be free to continue where they now reside, or to remove at any time to the Mexican Republic, retaining the property which they possess in the said territories, or disposing thereof, and removing the proceeds wherever they please, without their being subjected, on this account, to any contribution, tax, or charge whatever.

Those who shall prefer to remain in the said territories may either retain the title and rights of Mexican citizens, or acquire those of citizens of the United States. But they shall be under the obligation to make their election within one year from the date of the exchange of ratifications of this treaty; and those who shall remain in the said territories after the expiration of that year, without having declared their intention to retain the character of Mexicans, shall be considered to have elected to become citizens of the United States.

In the said territories, property of every kind, now belonging to Mexicans not established there, shall be inviolably respected. The present owners, the heirs of these, and all Mexicans who may hereafter acquire said property by contract, shall enjoy with respect to it guarantees equally ample as if the same belonged to citizens of the United States.

ARTICLE IX

The Mexicans who, in the territories aforesaid, shall not preserve the character of citizens of the Mexican Republic, conformably with what is stipulated in the preceding article, shall be incorporated into the Union of the United States and be admitted at the proper time (to be judged of by the Congress of the United States) to the enjoyment of all the rights of citizens of the United States, according to the principles of the Constitution; and in the mean time, shall be maintained and protected in the free enjoyment of their liberty and property, and secured in the free exercise of their religion without restriction.

ARTICLE X

[Stricken out by the United States Amendments]

ARTICLE XI

Considering that a great part of the territories, which, by the present treaty, are to be comprehended for the future within the limits of the United States, is now occupied by savage tribes, who will hereafter be under the exclusive control of the Government of the United States, and whose incursions within the territory of Mexico would be prejudicial in the extreme, it is solemnly agreed that all such incursions shall be forcibly restrained by the Government of the United States whensoever this may be necessary; and that when they cannot be prevented, they shall be punished by the said Government, and satisfaction for the same shall be exacted all

in the same way, and with equal diligence and energy, as if the same incursions were meditated or committed within its own territory, against its own citizens.

It shall not be lawful, under any pretext whatever, for any inhabitant of the United States to purchase or acquire any Mexican, or any foreigner residing in Mexico, who may have been captured by Indians inhabiting the territory of either of the two republics; nor to purchase or acquire horses, mules, cattle, or property of any kind, stolen within Mexican territory by such Indians.

And in the event of any person or persons, captured within Mexican territory by Indians, being carried into the territory of the United States, the Government of the latter engages and binds itself, in the most solemn manner, so soon as it shall know of such captives being within its territory, and shall be able so to do, through the faithful exercise of its influence and power, to rescue them and return them to their country or deliver them to the agent or representative of the Mexican Government. The Mexican authorities will, as far as practicable, give to the Government of the United States notice of such captures; and its agents shall pay the expenses incurred in the maintenance and transmission of the rescued captives; who, in the mean time, shall be treated with the utmost hospitality by the American authorities at the place where they may be. But if the Government of the United States, before receiving such notice from Mexico, should obtain intelligence, through any other channel, of the existence of Mexican captives within its territory, it will proceed forthwith to effect their release and delivery to the Mexican agent, as above stipulated.

For the purpose of giving to these stipulations the fullest possible efficacy, thereby affording the security and redress demanded by their true spirit and intent, the Government of the United States will now and hereafter pass, without unnecessary delay, and always vigilantly enforce, such laws as the nature of the subject may require. And, finally, the sacredness of this obligation shall never be lost sight of by the said Government, when providing for the removal of the Indians from any portion of the said territories, or for its being settled by citizens of the United States; but, on the contrary, special care shall then be taken not to place its Indian occupants under the necessity of seeking new homes, by committing those invasions which the United States have solemnly obliged themselves to restrain.

ARTICLE XII

In consideration of the extension acquired by the boundaries of the United States, as defined in the fifth article of the present treaty, the Government of the United States engages to pay to that of the Mexican Republic the sum of fifteen millions of dollars.

Immediately after the treaty shall have been duly ratified by the Government of the Mexican Republic, the sum of three millions of dollars shall be paid to the said Government by that of the United States, at the city of Mexico, in the gold or silver coin of Mexico. The remaining twelve millions of dollars shall be paid at the same place, and in the same coin, in annual installments of three millions of dollars each, together with interest on the same at the rate of six per centum per annum. This interest shall begin to run upon the whole sum of twelve millions from the day of the ratification of the present treaty by the Mexican Government, and the first of the installments shall be paid at the expiration of one year from the same day. Together with each annual installment, as it falls due, the whole interest accruing on such installment from the beginning shall also be paid.

ARTICLE XIII

The United States engage, moreover, to assume and pay to the claimants all the amounts now due them, and those hereafter to become due, by reason of the claims already liquidated and decided against the Mexican Republic, under the conventions between the two republics severally concluded on the eleventh day of April, eighteen hundred and thirty-nine, and on the thirtieth day of January, eighteen hundred and forty-three; so that the Mexican Republic shall be absolutely exempt, for the future, from all expense whatever on account of the said claims.

ARTICLE XIV

The United States do furthermore discharge the Mexican Republic from all claims of citizens of the United States, not heretofore decided against the Mexican Government, which may have arisen previously to the date of the signature of this treaty; which discharge shall be final and perpetual, whether the said claims be rejected or be allowed by the board of commissioners provided for in the following article, and whatever shall be the total amount of those allowed.

ARTICLE XV

The United States, exonerating Mexico from all demands on account of the claims of their citizens mentioned in the preceding article, and considering them entirely and forever canceled, whatever their amount may be, undertake to make satisfaction for the same, to an amount not exceeding three and one-quarter millions of dollars. To ascertain the validity and amount of those claims, a board of commissioners shall be established by the Government of the United States, whose awards shall be final and conclusive; provided that, in deciding upon the validity of each claim, the board shall be guided and governed by the principles and rules of decision prescribed by the first and fifth articles of the unratified convention, concluded at the city of Mexico on the twentieth day of November, one thousand eight hundred and forty-three; and in no case shall an award be made in favour of any claim not embraced by these principles and rules.

If, in the opinion of the said board of commissioners or of the claimants, any books, records, or documents, in the possession or power of the Government of the Mexican Republic, shall be deemed necessary to the just decision of any claim, the commissioners, or the claimants through them, shall, within such period as Congress may designate, make an application in writing for the same, addressed to the Mexican Minister of Foreign Affairs, to be transmitted by the Secretary of State of the United States; and the Mexican

Government engages, at the earliest possible moment after the receipt of such demand, to cause any of the books, records, or documents so specified, which shall be in their possession or power (or authenticated copies or extracts of the same), to be transmitted to the said Secretary of State, who shall immediately deliver them over to the said board of commissioners; provided that no such application shall be made by or at the instance of any claimant, until the facts which it is expected to prove by such books, records, or documents, shall have been stated under oath or affirmation.

ARTICLE XVI

Each of the contracting parties reserves to itself the entire right to fortify whatever point within its territory it may judge proper so to fortify for its security.

ARTICLE XVII

The treaty of amity, commerce, and navigation, concluded at the city of Mexico, on the fifth day of April, A.D. 1831, between the United States of America and the United Mexican States, except the additional article, and except so far as the stipulations of the said treaty may be incompatible with any stipulation contained in the present treaty, is hereby revived for the period of eight years from the day of the exchange of ratifications of this treaty, with the same force and virtue as if incorporated therein; it being understood that each of the contracting parties reserves to itself the right, at any time after the said period of eight years shall have expired, to terminate the same by giving one year's notice of such intention to the other party.

ARTICLE XVIII

All supplies whatever for troops of the United States in Mexico, arriving at ports in the occupation of such troops previous to the final evacuation thereof, although subsequently to the restoration of the custom-houses at such ports, shall be entirely exempt from duties and charges of any kind; the Government of the United States hereby engaging and pledging its faith to establish and vigilantly to enforce, all possible guards for securing the revenue of Mexico, by preventing the importation, under cover of this stipulation, of any articles other than such, both in kind and in quantity, as shall really be wanted for the use and consumption of the forces of the United States during the time they may remain in Mexico. To this end it shall be the duty of all officers and agents of the United States to denounce to the Mexican authorities at the respective ports any attempts at a fraudulent abuse of this stipulation, which they may know of, or may have reason to suspect, and to give to such authorities all the aid in their power with regard thereto; and every such attempt, when duly proved and established by sentence of a competent tribunal, They shall be punished by the confiscation of the property so attempted to be fraudulently introduced.

ARTICLE XIX

With respect to all merchandise, effects, and property whatsoever, imported into ports of Mexico, whilst in the occupation of the forces of the United States, whether by citizens of either republic, or by citizens or subjects of any neutral nation, the following rules shall be observed:

(1) All such merchandise, effects, and property, if imported previously to the restoration of the custom-houses to the Mexican authorities, as stipulated for in the third article of this treaty, shall be exempt from confiscation, although the importation of the same be prohibited by the Mexican tariff.

(2) The same perfect exemption shall be enjoyed by all such merchandise, effects, and property, imported subsequently to the restoration of the custom-houses, and previously to the sixty days fixed in the following article for the coming into force of the Mexican tariff at such ports respectively; the said merchandise, effects, and property being, however, at the time of their importation, subject to the payment of duties, as provided for in the said following article.

(3) All merchandise, effects, and property described in the two rules foregoing shall, during their continuance at the place of importation, and upon their leaving such place for the interior, be exempt from all duty, tax, or imposts of every kind, under whatsoever title or denomination. Nor shall they be there subject to any charge whatsoever upon the sale thereof.

(4) All merchandise, effects, and property, described in the first and second rules, which shall have been removed to any place in the interior, whilst such place was in the occupation of the forces of the United States, shall, during their continuance therein, be exempt from all tax upon the sale or consumption thereof, and from every kind of impost or contribution, under whatsoever title or denomination.

(5) But if any merchandise, effects, or property, described in the first and second rules, shall be removed to any place not occupied at the time by the forces of the United States, they shall, upon their introduction into such place, or upon their sale or consumption there, be subject to the same duties which, under the Mexican laws, they would be required to pay in such cases if they had been imported in time of peace, through the maritime custom-houses, and had there paid the duties conformably with the Mexican tariff.

(6) The owners of all merchandise, effects, or property, described in the first and second rules, and existing in any port of Mexico, shall have the right to reship the same, exempt from all tax, impost, or contribution whatever.

With respect to the metals, or other property, exported from any Mexican port whilst in the occupation of the forces of the United States, and previously to the restoration of the custom-house at such port, no person shall be required by the Mexican authorities, whether general or state, to pay any tax, duty, or contribution upon any such exportation, or in any manner to account for the same to the said authorities.

ARTICLE XX

Through consideration for the interests of commerce generally, it is agreed, that if less than sixty days should elapse between the date of the signature of this treaty and the restoration of the custom houses, conformably with the stipulation in the third article, in such case all merchandise, effects and property whatsoever, arriving at the Mexican ports after the restoration of the said custom-houses, and previously to the expiration of sixty days after the day of signature of this treaty, shall be admitted to entry; and no other

duties shall be levied thereon than the duties established by the tariff found in force at such custom-houses at the time of the restoration of the same. And to all such merchandise, effects, and property, the rules established by the preceding article shall apply.

ARTICLE XXI

If unhappily any disagreement should hereafter arise between the Governments of the two republics, whether with respect to the interpretation of any stipulation in this treaty, or with respect to any other particular concerning the political or commercial relations of the two nations, the said Governments, in the name of those nations, do promise to each other that they will endeavour, in the most sincere and earnest manner, to settle the differences so arising, and to preserve the state of peace and friendship in which the two countries are now placing themselves, using, for this end, mutual representations and pacific negotiations. And if, by these means, they should not be enabled to come to an agreement, a resort shall not, on this account, be had to reprisals, aggression, or hostility of any kind, by the one republic against the other, until the Government of that which deems itself aggrieved shall have maturely considered, in the spirit of peace and good neighbourship, whether it would not be better that such difference should be settled by the arbitration of commissioners appointed on each side, or by that of a friendly nation. And should such course be proposed by either party, it shall be acceded to by the other, unless deemed by it altogether incompatible with the nature of the difference, or the circumstances of the case.

ARTICLE XXII

If (which is not to be expected, and which God forbid) war should unhappily break out between the two republics, they do now, with a view to such calamity, solemnly pledge themselves to each other and to the world to observe the following rules; absolutely where the nature of the subject permits, and as closely as possible in all cases where such absolute observance shall be impossible:

(1) The merchants of either republic then residing in the other shall be allowed to remain twelve months (for those dwelling in the interior), and six months (for those dwelling at the seaports) to collect their debts and settle their affairs; during which periods they shall enjoy the same protection, and be on the same footing, in all respects, as the citizens or subjects of the most friendly nations; and, at the expiration thereof, or at any time before, they shall have full liberty to depart, carrying off all their effects without molestation or hindrance, conforming therein to the same laws which the citizens or subjects of the most friendly nations are required to conform to. Upon the entrance of the armies of either nation into the territories of the other, women and children, ecclesiastics, scholars of every faculty, cultivators of the earth, merchants, artisans, manufacturers, and fishermen, unarmed and inhabiting unfortified towns, villages, or places, and in general all persons whose occupations are for the common subsistence and benefit of mankind, shall be allowed to continue their respective employments, unmolested in their persons. Nor shall their houses or goods be burnt or otherwise destroyed, nor their cattle taken, nor their fields wasted, by the armed force into whose power, by the events of war, they may happen to fall; but if the necessity arise to take anything from them for the use of such armed force, the same shall be paid for at an equitable price. All churches, hospitals, schools, colleges, libraries, and other establishments for charitable and beneficent purposes, shall be respected, and all persons connected with the same protected in the discharge of their duties, and the pursuit of their vocations.

(2) In order that the fate of prisoners of war may be alleviated all such practices as those of sending them into distant, inclement or unwholesome districts, or crowding them into close and noxious places, shall be studiously avoided. They shall not be confined in dungeons, prison ships, or prisons; nor be put in irons, or bound or otherwise restrained in the use of their limbs. The officers shall enjoy liberty on their paroles, within convenient districts, and have comfortable quarters; and the common soldiers shall be disposed in cantonments, open and extensive enough for air and exercise and lodged in barracks as roomy and good as are provided by the party in whose power they are for its own troops. But if any officer shall break his parole by leaving the district so assigned him, or any other prisoner shall escape from the limits of his cantonment after they shall have been designated to him, such individual, officer, or other prisoner, shall forfeit so much of the benefit of this article as provides for his liberty on parole or in cantonment. And if any officer so breaking his parole or any common soldier so escaping from the limits assigned him, shall afterwards be found in arms previously to his being regularly exchanged, the person so offending shall be dealt with according to the established laws of war. The officers shall be daily furnished, by the party in whose power they are, with as many rations, and of the same articles, as are allowed either in kind or by commutation, to officers of equal rank in its own army; and all others shall be daily furnished with such ration as is allowed to a common soldier in its own service; the value of all which supplies shall, at the close of the war, or at periods to be agreed upon between the respective commanders, be paid by the other party, on a mutual adjustment of accounts for the subsistence of prisoners; and such accounts shall not be mingled with or set off against any others, nor the balance due on them withheld, as a compensation or reprisal for any cause whatever, real or pretended. Each party shall be allowed to keep a commissary of prisoners, appointed by itself, with every cantonment of prisoners, in possession of the other; which commissary shall see the prisoners as often as he pleases; shall be allowed to receive, exempt from all duties and taxes, and to distribute, whatever comforts may be sent to them by their friends; and shall be free to transmit his reports in open letters to the party by whom he is employed.

And it is declared that neither the pretense that war dissolves all treaties, nor any other whatever, shall be considered as annulling or suspending the solemn covenant contained in this article. On the contrary, the state of war is precisely that for which it is provided; and, during which, its stipulations are to be as sacredly observed as the most acknowledged obligations under the law of nature or nations.

ARTICLE XXIII

This treaty shall be ratified by the President of the United States of America, by and with the advice and consent of the Senate thereof; and by the President of the Mexican Republic, with the previous approbation of its general Congress; and the ratifications shall be exchanged in the City of Washington, or at the seat of Government of Mexico, in four months from the date of the signature hereof, or sooner if practicable.

In faith whereof we, the respective Plenipotentiaries, have signed this treaty of peace, friendship, limits, and settlement, and have hereunto affixed our seals respectively. Done in quintuplicate, at the city of Guadalupe Hidalgo, on the second day of February, in the year of our Lord one thousand eight hundred and forty-eight.

N. P. TRIST
LUIS P. CUEVAS
BERNARDO COUTO
MIGL. ATRISTAIN

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Article IX was modified and Article X was stricken by the U.S. Congress. The following are the original articles. An explanation or agreement of why the articles were stricken, known as the protocol of Querétaro, is also included below.

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ARTICLE IX

The Mexicans who, in the territories aforesaid, shall not preserve the character of citizens of the Mexican Republic, conformably with what is stipulated in the preceding Article, shall be incorporated into the Union of the United States, and admitted as soon as possible, according to the principles of the Federal Constitution, to the enjoyment of all the rights of citizens of the United States. In the mean time, they shall be maintained and protected in the enjoyment of their liberty, their property, and the civil rights now vested in them according to the Mexican laws. With respect to political rights, their condition shall be on an equality with that of the inhabitants of the other territories of the United States; and at least equally good as that of the inhabitants of Louisiana and the Floridas, when these provinces, by transfer from the French Republic and the Crown of Spain, became territories of the United States.

The same most ample guaranty shall be enjoyed by all ecclesiastics and religious corporations or communities, as well in the discharge of the offices of their ministry, as in the enjoyment of their property of every kind, whether individual or corporate. This guaranty shall embrace all temples, houses and edifices dedicated to the Roman Catholic worship; as well as all property destined to its support, or to that of schools, hospitals and other foundations for charitable or beneficent purposes. No property of this nature shall be considered as having become the property of the American Government, or as subject to be, by it, disposed of or diverted to other uses.

Finally, the relations and communication between the Catholics living in the territories aforesaid, and their respective ecclesiastical authorities, shall be open, free and exempt from all hindrance whatever, even although such authorities should reside within the limits of the Mexican Republic, as defined by this treaty; and this freedom shall continue, so long as a new demarcation of ecclesiastical districts shall not have been made, conformably with the laws of the Roman Catholic Church.

ARTICLE X

All grants of land made by the Mexican government or by the competent authorities, in territories previously appertaining to Mexico, and remaining for the future within the limits of the United States, shall be respected as valid, to the same extent that the same grants would be valid, to the said territories had remained within the limits of Mexico. But the grantees of lands in Texas, put in possession thereof, who, by reason of the circumstances of the country since the beginning of the troubles between Texas and the Mexican Government, may have been prevented from fulfilling all the conditions of their grants, shall be under the obligation to fulfill the said conditions within the periods limited in the same respectively; such periods to be now counted from the date of the exchange of ratifications of this Treaty: in default of which the said grants shall not be obligatory upon the State of Texas, in virtue of the stipulations contained in this Article.

The foregoing stipulation in regard to grantees of land in Texas, is extended to all grantees of land in the territories aforesaid, elsewhere than in Texas, put in possession under such grants; and, in default of the fulfillment of the conditions of any such grant, within the new period, which, as is above stipulated, begins with the day of the exchange of ratifications of this treaty, the same shall be null and void.

THE PROTOCOL OF QUERÉTARO

In the city of Queretaro on the twenty sixth of the month of May eighteen hundred and forty-eight at a conference between Their Excellencies Nathan Clifford and Ambrose H. Sevier Commissioners of the United States of America, with full powers from their Government to make to the Mexican Republic suitable explanations in regard to the amendments which the Senate and Government of the said United States have made in the treaty of peace, friendship, limits and definitive settlement between the two Republics, signed in Guadalupe Hidalgo, on the second day of February of the present year, and His Excellency Don Luis de la Rosa, Minister of Foreign Affairs of the Republic of Mexico, it was agreed, after adequate conversation respecting the changes alluded to, to record in the present protocol the following explanations which Their aforesaid Excellencies the Commissioners gave in the name of their Government and in fulfillment of the Commission conferred upon them near the Mexican Republic.

First.

The American Government by suppressing the IXth article of the Treaty of Guadalupe and substituting the III article

of the Treaty of Louisiana did not intend to diminish in any way what was agreed upon by the aforesaid article IXth in favor of the inhabitants of the territories ceded by Mexico. Its understanding that all of that agreement is contained in the IIId article of the Treaty of Louisiana. In consequence, all the privileges and guarantees, civil, political and religious, which would have been possessed by the inhabitants of the ceded territories, if the IXth article of the Treaty had been retained, will be enjoyed by them without any difference under the article which has been substituted.

Second.

The American Government, by suppressing the Xth article of the Treaty of Guadalupe did not in any way intend to annul the grants of lands made by Mexico in the ceded territories. These grants, notwithstanding the suppression of the article of the Treaty, preserve the legal value which they may possess; and the grantees may cause their legitimate titles to be acknowledged before the American tribunals.

Conformably to the law of the United States, legitimate titles to every description of property personal and real, existing in the ceded territories, are those which were legitimate titles under the Mexican law in California and New Mexico up to the I3th of May 1846, and in Texas up to the 2d March 1836.

Third.

The Government of the United States by suppressing the concluding paragraph of article XIIth of the Treaty, did not intend to deprive the Mexican Republic of the free and unrestrained faculty of ceding, conveying or transferring at any time (as it may judge best, the sum of the twelve millions of dollars which the same Government of the United States is to deliver in the places designated by the amended article.

And these explanations having been accepted by the Minister of Foreign Affairs of the Mexican Republic, he declared in name of his Government that with the understanding conveyed by them, the same Government would proceed to ratify the Treaty of Guadalupe as modified by the Senate and Government of the United States. In testimony of which their Excellencies the aforesaid Commissioners and the Minister have signed and sealed in quintuplicate the present protocol.

[Seal] A. H. Sevier
[Seal] Nathan Clifford
[Seal] Luis de la Rosa

Gadsden Purchase Treaty (1853)

In 1853, just five years after the signing of the Treaty of Guadalupe Hidalgo, the United States negotiated the purchase of a narrow strip of land in the Mesilla Valley of northern Mexico. The Gadsden Purchase, named after U.S. negotiator James Gadsden, covered approximately 30,000 square miles. Mexico received $10 million in compensation from the United States. Used for the southern route of the railroad to the Pacific, this land currently is located in the southern portions of Arizona and New Mexico.

Source: http://www.yale.edu/lawweb/avalon/diplomacy/mexico/mx1853.htm.

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION.

WHEREAS a treaty between the United States of America and the Mexican Republic was concluded and signed at the City of Mexico on the thirtieth day of December, one thousand eight hundred and fifty-three; which treaty, as amended by the Senate of the United States, and being in the English and Spanish languages, is word for word as follows:

IN THE NAME OF ALMIGHTY GOD:

The Republic of Mexico and the United States of America desiring to remove every cause of disagreement which might interfere in any manner with the better friendship and intercourse between the two countries, and especially in respect to the true limits which should be established, when, notwithstanding what was covenanted in the treaty of Guadalupe Hidalgo in the year 1848, opposite interpretations have been urged, which might give occasion to questions of serious moment: to avoid these, and to strengthen and more firmly maintain the peace which happily prevails between the two republics, the President of the United States has, for this purpose, appointed James Gadsden, Envoy Extraordinary and Minister Plenipotentiary of the same, near the Mexican government, and the President of Mexico has appointed as Plenipotentiary "ad hoc" his excellency Don Manuel Diez de Bonilla, cavalier grand cross of the national and distinguished order of Guadalupe, and Secretary of State, and of the office of Foreign Relations, and Don Jose Salazar Ylarregui and General Mariano Monterde as scientific commissioners, invested with full powers for this negotiation, who, having communicated their respective full powers, and finding them in due and proper form, have agreed upon the articles following:

ARTICLE I.

The Mexican Republic agrees to designate the following as her true limits with the United States for the future: retaining the same dividing line between the two Californias as already defined and established, according to the 5th article of the treaty of Guadalupe Hidalgo, the limits between the two republics shall be as follows: Beginning in the Gulf of Mexico, three leagues from land, opposite the mouth of the Rio Grande, as provided in the 5th article of the treaty of Guadalupe Hidalgo; thence, as defined in the said article, up the middle of that river to the point where the parallel of 31° 47' north latitude crosses the same; thence due west one hundred miles; thence south to the parallel of 31° 20' north latitude; thence along the said parallel of 31° 20' to the 111th meridian of longitude west of Greenwich; thence in a straight line to a point on the Colorado River twenty English miles below the junction of the Gila and Colorado rivers; thence up the middle of the said river Colorado until it intersects the present line between the United States and Mexico.

For the performance of this portion of the treaty, each of the two governments shall nominate one commissioner, to the end that, by common consent the two thus nominated, having met in the city of Paso del Norte, three months after the exchange of the ratifications of this treaty, may proceed to survey and mark out upon the land the dividing line stipulated by this article, where it shall not have already been surveyed and established by the mixed commission, according to the treaty of Guadalupe, keeping a journal and making proper plans of their operations. For this purpose, if they should judge it necessary, the contracting parties shall be at

liberty each to unite to its respective commissioner, scientific or other assistants, such as astronomers and surveyors, whose concurrence shall not be considered necessary for the settlement and of a true line of division between the two Republics; that line shall be alone established upon which the commissioners may fix, their consent in this particular being considered decisive and an integral part of this treaty, without necessity of ulterior ratification or approval, and without room for interpretation of any kind by either of the parties contracting.

The dividing line thus established shall, in all time, be faithfully respected by the two governments, without any variation therein, unless of the express and free consent of the two, given in conformity to the principles of the law of nations, and in accordance with the constitution of each country respectively.

In consequence, the stipulation in the 5th article of the treaty of Guadalupe upon the boundary line therein described is no longer of any force, wherein it may conflict with that here established, the said line being considered annulled and abolished wherever it may not coincide with the present, and in the same manner remaining in full force where in accordance with the same.

ARTICLE II.

The government of Mexico hereby releases the United States from all liability on account of the obligations contained in the eleventh article of the treaty of Guadalupe Hidalgo; and the said article and the thirty-third article of the treaty of amity, commerce, and navigation between the United States of America and the United Mexican States concluded at Mexico, on the fifth day of April, 1831, are hereby abrogated.

ARTICLE III.

In consideration of the foregoing stipulations, the Government of the United States agrees to pay to the government of Mexico, in the city of New York, the sum of ten millions of dollars, of which seven millions shall be paid immediately upon the exchange of the ratifications of this treaty, and the remaining three millions as soon as the boundary line shall be surveyed, marked, and established.

ARTICLE IV.

The provisions of the 6th and 7th articles of the treaty of Guadalupe Hidalgo having been rendered nugatory, for the most part, by the cession of territory granted in the first article of this treaty, the said articles are hereby abrogated and annulled, and the provisions as herein expressed substituted therefor. The vessels, and citizens of the United States shall, in all time, have free and uninterrupted passage through the Gulf of California, to and from their possessions situated north of the boundary line of the two countries. It being understood that this passage is to be by navigating the Gulf of California and the river Colorado, and not by land, without the express consent of the Mexican government; and precisely the same provisions, stipulations, and restrictions, in all respects, are hereby agreed upon and adopted, and shall be scrupulously observed and enforced by the two contracting governments in reference to the Rio Colorado, so far and for such distance as the middle of that river is made their common boundary line by the first article of this treaty.

The several provisions, stipulations, and restrictions contained in the 7th article of the treaty of Guadalupe Hidalgo shall remain in force only so far as regards the Rio Bravo del Forte, below the initial of the said boundary provided in the first article of this treaty; that is to say, below the intersection of the 31° 47' parallel of latitude, with the boundary line established by the late treaty dividing said river from its mouth upwards, according to the fifth article of the treaty of Guadalupe.

ARTICLE V.

All the provisions of the eighth and ninth, sixteenth and seventeenth articles of the treaty of Guadalupe Hidalgo, shall apply to the territory ceded by the Mexican Republic in the first article of the present treaty, and to all the rights of persons and property, both civil and ecclesiastical, within the same, as fully and as effectually as if the said articles were herein again recited and set forth.

ARTICLE VI.

No grants of land within the territory ceded by the first article of this treaty bearing date subsequent to the day—twenty-fifth of September—when the minister and subscriber to this treaty on the part of the United States, proposed to the Government of Mexico to terminate the question of boundary, will be considered valid or be recognized by the United States, or will any grants made previously be respected or be considered as obligatory which have not been located and duly recorded in the archives of Mexico.

ARTICLE VII.

Should there at any future period (which God forbid) occur any disagreement between the two nations which might lead to a rupture of their relations and reciprocal peace, they bind themselves in like manner to procure by every possible method the adjustment of every difference; and should they still in this manner not succeed, never will they proceed to a declaration of war, without having previously paid attention to what has been set forth in article twenty-one of the treaty of Guadalupe for similar cases; which article, as well as the twenty-second is here reaffirmed.

ARTICLE VIII.

The Mexican Government having on the 5th of February, 1853, authorized the early construction of a plank and railroad across the Isthmus of Tehuantepec, and, to secure the stable benefits of said transit way to the persons and merchandise of the citizens of Mexico and the United States, it is stipulated that neither government will interpose any obstacle to the transit of persons and merchandise of both nations; and at no time shall higher charges be made on the transit of persons and property of citizens of the United States, than may be made on the persons and property of other foreign nations, nor shall any interest in said transit way, nor in the proceeds thereof, be transferred to any foreign government.

The United States, by its agents, shall have the right to

transport across the isthmus, in closed bags, the mails of the United States not intended for distribution along the line of communication; also the effects of the United States government and its citizens, which may be intended for transit, and not for distribution on the isthmus, free of custom-house or other charges by the Mexican government. Neither passports nor letters of security will be required of persons crossing the isthmus and not remaining in the country.

When the construction of the railroad shall be completed, the Mexican government agrees to open a port of entry in addition to the port of Vera Cruz, at or near the terminus of said road on the Gulf of Mexico.

The two governments will enter into arrangements for the prompt transit of troops and munitions of the United States, which that government may have occasion to send from one part of its territory to another, lying on opposite sides of the continent.

The Mexican government having agreed to protect with its whole power the prosecution, preservation, and security of the work, the United States may extend its protection as it shall judge wise to it when it may feel sanctioned and warranted by the public or international law.

ARTICLE IX.

This treaty shall be ratified, and the respective ratifications shall be exchanged at the city of Washington within the exact period of six months from the date of its signature, or sooner, if possible.

In testimony whereof, we, the plenipotentiaries of the contracting parties, have hereunto affixed our hands and seals at Mexico, the thirtieth (30th) day of December, in the year of our Lord one thousand eight hundred and fifty-three, in the thirty-third year of the independence of the Mexican republic, and the seventy-eighth of that of the United States.

JAMES GADSDEN,
MANUEL DIEZ DE BONILLA
JOSE SALAZAR YLARBEGUI
J. MARIANO MONTERDE,

And whereas the said treaty, as amended, has been duly ratified on both parts, and the respective ratifications of the same have this day been exchanged at Washington, by WILLIAM L. MARCY, Secretary of State of the United States, and SENOR GENERAL DON JUAN N. ALMONTE, Envoy Extraordinary and Minister Plenipotentiary of the Mexican Republic, on the part of their respective Governments:

Now, therefore, be it known that I, FRANKLIN PIERCE, President of the United States of America, have caused the said treaty to be made public, to the end that the same, and every clause and article thereof, may be observed and fulfilled with good faith by the United States and the citizens thereof.

In witness whereof I have hereunto set my hand and caused the seal of the United States to be affixed.

Done at the city of Washington, this thirtieth day of June, in the year of our Lord one thousand eight hundred and fifty-four, and of the Independence of the United States the seventy-eighth.

BY THE PRESIDENT:
FRANKLIN PIERCE,
W. L. MARCY, Secretary of State.

Homestead Act (1862)

Signed into law by the Northern Republican Congress during the Civil War, the Homestead Act allowed individuals to acquire 160 acres of public land for a nominal filing fee after five years of residency or for $1.25 per acre after just six months of residency. Between 1862 and 1986, more than 25 percent of all public lands were disposed of under this act. The total number of acres amounted to 287,500,000. Homesteaders, enticed by the opportunity to receive free land, helped settle the West.

Source: Congressional Globe online, 37th Congress, 2nd session, pp. 352–353, http://www.loc.gov.

An act to Secure Homesteads to actual Settlers on the Public Domain.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any person who is the head of a family, or who has arrived at the age of twenty-one years, and is a citizen of the United States, or who shall have filed his declaration of intention to become such, as required by the naturalization laws of the United States, and who has never borne arms against the United States Government or given aid and comfort to its enemies, shall, from and after the first of January, eighteen hundred and sixty-three, be entitled to enter one quarter section or a less quantity of unappropriated public lands, upon which said person may have filed a preemption claim, or which may, at the time the application is made, be subject to preemption at one dollar and twenty-five cents, or less, per acre; or eighty acres or less of such unappropriated lands, at two dollars and fifty cents per acre, to be located in a body, in conformity to the legal subdivisions of the public lands, and after the same shall have been surveyed: Provided, That any person owning and residing on land may, under the provisions of this act, enter other land lying contiguous to his or her said land, which shall not, with the land so already owned and occupied, exceed in the aggregate, one hundred and sixty acres.

Section 2. And be it further enacted, That the person applying for the benefit of this act shall, upon application to the register of the land office in which he or she is about to make such entry, make affidavit before the said register or receiver that he or she is the head of a family, or is twenty-one years or more of age, or shall have performed service in the army or navy of the United States, and that he has never borne arms against the Government of the United States or given aid and comfort to its enemies, and that such application is made for his or her exclusive use and benefit, and that said entry is made for the purpose of actual settlement and cultivation, and not either directly or indirectly for the use or benefit of any other person or persons whomsoever; and upon filing the said affidavit with the register or receiver, and on payment of ten dollars, he or she shall thereupon be permitted to enter the quantity of land specified: Provided, however, That no certificate shall be given or patent issued therefor until the expiration of five years from the date of such entry; and if, at the expiration of such time, or at any time within two years thereafter, the person making such entry; or, if he be dead, his widow; or in case of her death, his heirs or devisee; or in the case of a widow making such entry, her heirs or devisee, in the case of her death; shall prove by two credible witnesses that he, she, or they have resided upon or cultivated the same for the term of five years immediately succeeding the time of filing the affidavit aforesaid, and shall make affidavit that no part of said land has been alienated, and he has borne true allegiance to the Government of the United States; then, in such case, he, she, or they, if at that time a citizen of the United States, shall be entitled to a patent, as in other cases provided for by law: And, provided, further, That in case of the death of both father and mother, leaving an infant child, or children, under twenty-one years of age, the right and fee shall enure to the benefit of said infant child or children; and the executor, administrator, or guardian may, at any time within two years after the death of the surviving parent, and in accordance with the laws of the State in which such children for the time being have their domicil, sell said land for the benefit of said infants, but for no other purpose; and the purchaser shall acquire the absolute title by the purchase, and be entitled to a patent from the United States, on payment of the office fees and sum of money herein specified.

Section 3. And be it further enacted, That the register of the land office shall note all such applications on the tract books and plats of his office, and keep a register of all such entries, and make return thereof to the General Land Office, together with the proof upon which they have been founded.

Section 4. And be it further enacted, That no lands acquired under the provisions of this act shall in any event become liable to the satisfaction of any debt or debts contracted prior to the issuing of the patent therefor.

Section 5. And be it further enacted, That if, at any time after the filing of the affidavit, as required in the second section of this act, and before the expiration of the five years aforesaid, it shall be proven, after due notice to the settler, to the satisfaction of the register of the land office, that the person having filed such affidavit shall have actually changed his or her residence, or abandoned the said land for more than six months at any time, then and in that event the land so entered shall revert to the government.

Section 6. And be it further enacted, That no individual shall be permitted to acquire title to more than one quarter section under the provisions of this act; and that the Commissioner of the General Land Office is hereby required to prepare and issue such rules and regulations, consistent with this act, as shall be necessary and proper to carry its provisions into effect; and that the registers and receivers of the several land offices shall be entitled to receive the same compensation for any lands entered under the provisions of this act that they are now entitled to receive when the same quantity of land is entered with money, one half to be paid by the person making the application at the time of so doing, and the other half on the issue of the certificate by the person to whom it may be issued; but this shall not be construed to enlarge the maximum of compensation now prescribed by law for any register or receiver: Provided, That nothing contained in this act shall be so construed as to impair or interfere in any manner whatever with existing preemption rights: And provided, further, That all persons who may have filed their applications for a preemption right prior to the passage of this act, shall be entitled to all privileges of this act: Provided, further, That no person who has served or may hereafter serve, for period of not less than fourteen days in the army or navy of the United States, either regular or volunteer, under the laws thereof, during the existence of an actual war, domestic or foreign, shall be deprived of the benefits of this act of account of not having attained the age of twenty-one years.

Section 7. And be it further enacted, That the fifth section of the act entitled "An act in addition to an act more effectually to provide for the punishment of certain crimes against the United States, and for other purposes," approved the third of March, in the year eighteen hundred and fifty-seven, shall extend to all oaths, affirmations, and affidavits, required or authorized by this act.

Section 8. And be it further enacted, That nothing in this act shall be so construed as to prevent any person who has availed him or herself of the benefits of the first section of this act, from paying the minimum price, or the price to which the same may have graduated, for the quantity of land so entered at any time before the expiration of the five years, and obtaining a patent therefor from the government, as in other cases provided by law, on making proof of settlement and cultivation as provided by existing laws granting preemption rights.

Approved, May 20, 1862.

Emancipation Proclamation (1863)

On January 1, 1863, President Abraham Lincoln declared that all slaves in areas of open rebellion were free. Although the Emancipation Proclamation did not have any immediate effect on the status of slaves in the Confederacy, after the Civil War the United States abolished slavery with the ratification of the Thirteenth Amendment to the Constitution. The end of slavery had a dramatic impact on the economic structure of the South. Individuals lost a large portion of their wealth as slaves received their freedom with no compensation to the prior owners. Consequently, the primary asset of the Southern whites remained the land, which they rented out to former slaves who became tenant farmers.

Source: http://www.yale.edu/lawweb/avalon/emancipa.htm.

By the President of the United States of America:
A Proclamation.

Whereas, on the twenty-second day of September, in the year of our Lord one thousand eight hundred and sixty-two, a proclamation was issued by the President of the United States, containing, among other things, the following, to wit:

"That on the first day of January, in the year of our Lord one thousand eight hundred and sixty-three, all persons held as slaves within any State or designated part of a State, the people whereof shall then be in rebellion against the United States, shall be then, thenceforward, and forever free; and the Executive Government of the United States, including the military and naval authority thereof, will recognize and maintain the freedom of such persons, and will do no act or acts to repress such persons, or any of them, in any efforts they may make for their actual freedom.

"That the Executive will, on the first day of January aforesaid, by proclamation, designate the States and parts of States, if any, in which the people thereof, respectively, shall then be in rebellion against the United States; and the fact that any State, or the people thereof, shall on that day be, in good faith, represented in the Congress of the United States by members chosen thereto at elections wherein a majority of the qualified voters of such State shall have participated, shall, in the absence of strong countervailing testimony, be deemed conclusive evidence that such State, and the people thereof, are not then in rebellion against the United States."

Now, therefore I, Abraham Lincoln, President of the United States, by virtue of the power in me vested as Commander-in-Chief, of the Army and Navy of the United States in time of actual armed rebellion against the authority and government of the United States, and as a fit and necessary war measure for suppressing said rebellion, do, on this first day of January, in the year of our Lord one thousand eight hundred and sixty-three, and in accordance with my purpose so to do publicly proclaimed for the full period of one hundred days, from the day first above mentioned, order and designate as the States and parts of States wherein the people thereof respectively, are this day in rebellion against the United States, the following, to wit: Arkansas, Texas, Louisiana, (except the Parishes of St. Bernard, Plaquemines, Jefferson, St. John, St. Charles, St. James Ascension, Assumption, Terrebonne, Lafourche, St. Mary, St. Martin, and Orleans, including the City of New Orleans) Mississippi, Alabama, Florida, Georgia, South Carolina, North Carolina, and Virginia, (except the forty-eight counties designated as West Virginia, and also the counties of Berkley, Accomac, Northampton, Elizabeth City, York, Princess Ann, and Norfolk, including the cities of Norfolk and Portsmouth), and which excepted parts, are for the present, left precisely as if this proclamation were not issued.

And by virtue of the power, and for the purpose aforesaid, I do order and declare that all persons held as slaves within said designated States, and parts of States, are, and henceforward shall be free; and that the Executive government of the United States, including the military and naval authorities thereof, will recognize and maintain the freedom of said persons.

And I hereby enjoin upon the people so declared to be free to abstain from all violence, unless in necessary self-defence; and I recommend to them that, in all cases when allowed, they labor faithfully for reasonable wages.

And I further declare and make known, that such persons of suitable condition, will be received into the armed service of the United States to garrison forts, positions, stations, and other places, and to man vessels of all sorts in said service.

And upon this act, sincerely believed to be an act of justice, warranted by the Constitution, upon military necessity, I invoke the considerate judgment of mankind, and the gracious favor of Almighty God.

In witness whereof, I have hereunto set my hand and caused the seal of the United States to be affixed.

Done at the City of Washington, this first day of January, in the year of our Lord one thousand eight hundred and sixty three, and of the Independence of the United States of America the eighty-seventh.

By the President: ABRAHAM LINCOLN
WILLIAM H. SEWARD, Secretary of State.

Timber Culture Act (1873)

Although the Homestead Act encouraged Americans to settle in certain parts of the West, Congress also recognized the need to encourage growth of timber on the prairies. Under the Timber Culture Act, settlers could claim an additional 160 acres of public land in the region for a small fee if they planted one-quarter of the land in trees. This policy not only enticed settlers onto the Great Plains, which would become the breadbasket of the United States, but also prevented soil erosion.

Source: Public Statutes at Large, Vol. 17, p. 602.

An Act to encourage the Growth of Timber on western Prairies.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, That any person who shall plant, protect, and keep in a healthy, growing condition for ten years forty acres of timber, the trees thereon not being more than twelve feet apart each way on any quarter-section of any of the public lands of the United States shall be entitled to a patent for the whole of said quarter-section at the expiration of said ten years, on making proof of such fact by not less than two credible witnesses; Provided, That only one quarter in any section shall be thus granted.

Section 2. That the person applying for the benefit of this act shall, upon application to the register of the land-office in which he or she is about to make such entry, make affidavit before said register or receiver that said entry is made for the cultivation of timber, and upon filing said affidavit with said register and receiver, and on payment of ten dollars, he or she shall thereupon be permitted to enter the quantity of land specified: Provided however, That no certificate shall be given at patent issue therefor until after the expiration of at least ten years from the date of such entry; and if at the expiration of such time, or at any time within three years thereafter, the person making such entry, or if he or she be dead, his or her heirs or legal representatives, shall prove by two credible witnesses that he, she, or they have planted, and not for less than ten years have cultivated and protected such quantity and character of timber as aforesaid, they shall receive the patent for such quarter-section of land.

Section 3. That if at any time after the filing of said affidavit, and prior to the issuing of the patent for said land, it shall be proven after due notice to the party making such entry and claiming to cultivate such timber, to the satisfaction of the register of the land-office that such person has abandoned or failed to cultivate, protect and keep in good condition such timber, then, and in that event, said land shall revert to the United States.

Section 4. That each and every person who, under the provisions of an act entitled "An act to secure homesteads to actual settlers on the public domain" approved May twentieth, eighteen hundred and sixty-two, or any amendment thereto, having a homestead on said public domain, who at the end of the third year of his or her residence thereon, shall have had under cultivation, for two years, one acre of timber, the trees thereon not being more than twelve feet apart each way, and in a good, thrifty condition, for each and every sixteen acres of said homestead, shall upon due proof of said fact by two credible witnesses receive his or her patent for said homestead.

Section 5. That no land acquired under provisions of this act shall, in any event, become liable to the satisfaction of any debt or debts contracted prior to the issuing of patent therefor.

Section 6. That the commissioner of the general land-office is hereby required to prepare and issue such rules and regulations, consistent with this act, as shall be necessary and proper to carry its provisions into effect; and the registers and the receivers of the several land-offices shall be entitled to receive the same compensation for any lands entered under the provisions of this that they are now entitled to receive when the quantity of land is entered without money.

Section 7. That the fifth section of the act entitled "An act in addition to an act to punish crimes against the United States, and for other purposes" approved March third, eighteen hundred and fifty-seven, shall extend to all oaths, affirmations, and affidavits required or authorized by this act.

Approved, March 3, 1873.

Timber and Stone Culture Act (1878)

Like the Homestead and Timber Culture Acts, the Timber and Stone Culture Act allowed Americans settlers to obtain another 160 acres of public land. Under this piece of legislation the land could be purchased for $1.25 per acre. Only land located in the far western states could be obtained in this manner. Since much of the land remained unfit for cultivation, the government offered it for sale at a reduced rate.

Source: Public Statutes at Large, Vol. 20, pp. 89–91.

An act for the sale of timber lands in the States of California, Oregon, Nevada, and in Washington Territory.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That surveyed public lands of the United States within the States of California, Oregon and Nevada and in Washington Territory, not included within military, Indian, or other reservations of the United States, valuable chiefly for timber, but unfit for cultivation, and which have not been offered at public sale according to law, may be sold to citizens of the United States, or persons who have declared their intention to become such, in quantities not exceeding one hundred and sixty acres to any one person or associations of persons, at the minimum price of two dollars and fifty cents per acre; and lands valuable chiefly for stone may be sold on the same terms as timber lands: Provided, That nothing herein contained shall defeat or impair any bona-fide claim under any law of the United States, or authorize the sale of any mining claim, or the improvements of any bona-fide settler, or lands containing gold, silver, cinnabar, copper, or coal, or lands selected by said States under any law of the United States donating lands for internal improvements, education, or other purposes: And provided further, That none of the rights conferred by the act approved July twenty-six, eighteen hundred and sixty-six, entitled "An act granting the right of way to ditch and canal owners over the public lands, and for other purposes," shall be abrogated by this act; and all patents granted shall be subject to any vested and accrued water rights, or rights to ditches and reservoirs used in connection with such water rights, as may have been acquired under and by the provisions of said act; and such rights shall be expressly reserved in any patent issued under this act.

Sec. 2. That any person desiring to avail himself of the provisions of this act shall file with the register of the proper district a written statement in duplicate, one of which is to be transmitted to the General Land Office, designating by legal subdivisions the particular tract of land he desires to purchase, setting forth that the same is unfit for cultivation, and valuable chiefly for its timber or stone; that it is uninhabited; contains no mining or other improvements, except for ditch or canal purposes, where any such do exist, save such as were made by or belong to the applicant, nor, as deponent verily believes, any valuable deposit of gold, silver, cinnabar, copper, or coal; that deponent had made no other application under this act; that he does not apply to purchase the same on speculation, but in good faith to appropriate it to his own exclusive use and benefit; and that he has not, directly or indirectly, made any agreement or contract, in any way or manner, with any person or persons whatsoever, by which the title which he may acquire from the government of the United States should inure, in whole or in part, to the benefit of any person except himself; which statement must be verified by the oath of the applicant before the register or the receiver of the land-office within the district where the land is situated; and if any person taking such oath shall swear falsely in the premises, he shall be subject to all the pains and penalties of perjury, and shall forfeit the money which he may have paid for said lands, and all right and title to the same; and any grant or conveyance which he may have made, except in the hands of the bona-fide purchasers, shall be null and void.

Sec. 3. That upon the filing of said statement, as provided in the second section of this act, the register of the land office, shall post a notice of such application embracing a description of the land by legal subdivisions, in his office, for a period of sixty days, and shall furnish the applicant a copy of the same for publication, at the expense of such applicant, in a newspaper published nearest the location of the premises, for a like period of time; and after the expiration of said sixty days, if no adverse claim shall have been filed, the person desiring to purchase shall furnish to the register of the land-

office satisfactory evidence, first, that said notice of the application prepared by the register as aforesaid was duly published in a newspaper as herein required; secondly, that the land is of the character contemplated in this act, unoccupied and without improvements, other than those excepted, either mining or agricultural, and that it apparently contains no valuable deposits of gold, silver, cinnabar, copper, or coal; and upon payment to the proper officer of the purchase money of said land, together with the fees of the register and the receiver, as provided for in case of mining claims in the twelfth section of the act approved May tenth, eighteen hundred and seventy-two, the applicant may be permitted to enter said tract, and, on the transmission to the General Land Office of the papers and testimony in the case, a patent shall issue thereon: Provided, That any person having a valid claim to any portion of the land may object, in writing, to the issuance of a patent to lands so held by him, stating the nature of his claim thereto; and evidence shall be taken, and the merits of said objection shall be determined by the officers of the land-office, subject to appeal, as in other land cases. Effect shall be given to the foregoing provisions of this act by regulations to be prescribed by the Commissioner of the General Land Office.

Sec. 4. That after the passage of this act it shall be unlawful to cut, or cause or procure to be cut, or wantonly destroy, any timber growing on any lands of the United States, in said States and Territory or remove, or cause to be removed, any timber from said public lands, with intent to export or dispose of the same; and no owner, director, or agent of any railroad, shall knowingly transport the same, or any lumber manufactured therefrom; and any person violating the provisions of this section shall be guilty of a misdemeanor, and, on conviction, shall be fined for every such offense a sum not less than one hundred nor more than one thousand dollar: Provided, That nothing herein contained shall prevent any miner or agriculturist from clearing his land in the ordinary working of his mining claim, or preparing his farm for tillage, or from taking the timber necessary to support his improvements, or the taking of the timber for the use of the United States; and the penalties herein provided shall not take effect until ninety days after the passage of this act.

Sec. 5. That any person prosecuted in said States and Territory for violating section two thousand four hundred and sixty-one of the Revised Statutes of the United States who is not prosecuted for cutting timber for export from the United States, may be relieved from further prosecution and liability therefor upon payment, into the court wherein such action is pending, of the sum of two dollars and fifty cents per acre for all lands on which he shall have cut or caused to be cut timber, or removed or caused to be removed the same: Provided, That nothing contained in this section shall be construed as granting to the person hereby relieved the title to said lands for said payment; but he shall have the right to purchase the same upon the same terms and conditions as other persons, as provided hereinbefore in this act: And further provided, that all moneys collected under this act shall be covered into the Treasury of the United States. And section four thousand seven hundred and fifty-one of the Revised Statutes is hereby repealed, so far as it relates to the States and Territory herein named.

Sec 6. That all acts and parts of this act inconsistent with the provisions of this act are hereby repealed.

Approved, June 3, 1878.

Sherman Anti-Trust Act (1890)

Initially passed to prevent big business from forming monopolies, the Sherman Anti-Trust Act resulted in a case against the sugar company E. C. Knight and Company. Although the sugar producer controlled 98 percent of the market, the Supreme Court ruled that a monopoly did not exist. However, the act was used successfully against the American Railway Union during the 1894 Pullman strike, when all railroad employees went out on strike. Congress would eventually pass the Clayton Anti-Trust Act, which would be used to bust up the trusts.

Source: Public Statutes at Large, Vol. 26, pp. 209–210.

An act to protect trade and commerce against unlawful restraints and monopolies.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled,

Sec. 1. Every contract, combination in the form and trust or otherwise, or conspiracy, in restraint of trade or commerce among the United States, or with foreign nations, is hereby declared to be illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Sec. 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or both said punishments, in the discretion of the court.

Sec. 3. Every contract, combination in form of trust or otherwise, or conspiracy, in restraint of trade or commerce in any Territory of the United States or of the District of Columbia, or in restraint of trade and commerce between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or with foreign nations, or between the District of Columbia and any State or States or foreign nations, is hereby declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Sec. 4. The several circuit courts of the United States are hereby invested with jurisdiction to prevent and restrain violations of this act; and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. Such proceedings may be by way of petition setting forth the case and praying that such violation shall be enjoined or otherwise prohibited. When the parties complained of shall have been duly notified of such petition the court shall proceed, as soon as may be, to the hearing and determination of the case; and pending such petition and before final decree, the court may at any time make such temporary restraining order or prohibition as shall be deemed just in the premises.

Sec. 5. Whenever it shall appear to the court before which any proceeding under section four of this act may be pending, that the ends of justice require that the other parties should be brought before the court, the court may cause them to be summoned, whether they reside in the district in which the court is held or not; and subpoenas to that end may be served in any district by the marshal thereof.

Sec. 6. Any property owned under any contract or by any combination, or pursuant to any conspiracy (and being the subject thereof) mentioned in section one of this act, and being in the course of transportation from one State to another, or to a foreign country, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law.

Sec. 7. Any person who shall be injured in his business or property by any other person or corporation by reason of anything forbidden or declared to be unlawful by this act, may sue therefor in any circuit court of the United States in the district in which the defendant resides or is found, without respect to the amount in controversy, and shall recover three fold the damages by him sustained, and the costs of suit, including a reasonable attorney's fee.

Sec. 8. That the word "person," or "persons," wherever used in this act shall be deemed to include corporations and associations existing under or authorized by the laws of either the United States, the laws of any of the Territories, or the laws of any State, or the laws of any foreign country.

Approved, July 2, 1890.

Panama Canal Treaty of 1903

The construction of the Panama Canal opened up trade between the Pacific and the Atlantic Oceans for the United States as well as the rest of the world. Although previous to the building of the canal ships could circumvent South America to reach the other ocean, the canal reduced the amount of time and cost of shipping goods. The United States controlled a 10-mile wide strip of land along the 40-mile canal until 1978 when the canal was ceded back to the country of Panama effective on December 31, 1999.

Source: http://www.owecc.net/his/09/panama_canal_treaty.htm.

Concluded November 18, 1903; ratification advised by the Senate February 23, 1904; ratified by President February 25, 1904; ratifications exchanged February 26, 1904; proclaimed February 26, 1904. (U.S. Stats., vol. 33.)

The United States of America and the Republic of Panama being desirous to insure the construction of a ship canal across the Isthmus of Panama to connect the Atlantic and Pacific oceans, and the Congress of the United States of America having passed an act approved June 28, 1902, in furtherance of that object, by which the President of the United States is authorized to acquire within a reasonable time the control of the necessary territory of the Republic of Colombia, and the sovereignty of such territory being actually vested in the Republic of Panama, the high contracting parties have resolved for that purpose to conclude a convention and have accordingly appointed as their plenipotentiaries,

The President of the United States of America, John Hay, Secretary of State, and

The Government of the Republic of Panama, Philippe Bunau-Varilla, Envoy Extraordinary and Minister Plenipotentiary of the Republic of Panama, thereunto specially empowered by said government, who after communicating with each other their respective full powers, found to be in good and due form, have agreed upon and concluded the following articles:

ARTICLE I

The United States guarantees and will maintain the independence of the Republic of Panama.

ARTICLE II

The Republic of Panama grants to the United States in perpetuity the use, occupation and control of a zone of land and land under water for the construction maintenance, operation, sanitation and protection of said Canal of the width of ten miles extending to the distance of five miles on each side of the center line of the route of the Canal to be constructed; the said zone beginning in the Caribbean Sea three marine miles from mean low water mark and extending to and across the Isthmus of Panama into the Pacific ocean to a distance of three marine miles from mean low water mark with the proviso that the cities of Panama and Colon and the harbors adjacent to said cities, which are included within the boundaries of the zone above described, shall not be included within this grant. The Republic of Panama further grants to the United States in perpetuity the use, occupation and control of any other lands and waters outside of the zone above described which may be necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said Canal or of any auxiliary canals or other works necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said enterprise.

The Republic of Panama further grants in like manner to the United States in perpetuity all islands within the limits of the zone above described and in addition thereto the group of small islands in the Bay of Panama, named, Perico, Naos, Culebra and Flamenco.

ARTICLE III

The Republic of Panama grants to the United States all the rights, power and authority within the zone mentioned and described in Article II of this agreement and within the limits of all auxiliary lands and waters mentioned and described in said Article II which the United States would possess and

exercise if it were the sovereign of the territory within which said lands and waters are located to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power or authority.

ARTICLE IV

As rights subsidiary to the above grants the Republic of Panama grants in perpetuity to the United States the right to use the rivers, streams, lakes and other bodies of water within its limits for navigation, the supply of water or water-power or other purposes, so far as the use of said rivers, streams, lakes and bodies of water and the waters thereof may be necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said Canal.

ARTICLE V

The Republic of Panama grants to the United States in perpetuity a monopoly for the construction, maintenance and operation of any system of communication by means of canal or railroad across its territory between the Caribbean Sea and the Pacific Ocean.

ARTICLE VI

The grants herein contained shall in no manner invalidate the titles or rights of private land holders or owners of private property in the said zone or in or to any of the lands or waters granted to the United States by the provisions of any Article of this treaty, nor shall they interfere with the rights of way over the public roads passing through the said zone or over any of the said lands or waters unless said rights of way or private rights shall conflict with rights herein granted to the United States in which case the rights of the United States shall be superior. All damages caused to the owners of private lands or private property of any kind by reason of the grants contained in this treaty or by reason of the operations of the United States, its agents or employees, or by reason of the construction, maintenance, operation, sanitation and protection of the said Canal or of the works of sanitation and protection herein provided for, shall be appraised and settled by a joint Commission appointed by the Governments of the United States and the Republic of Panama, whose decisions as to such damages shall be final and whose awards as to such damages shall be paid solely by the United States. No part of the work on said Canal or the Panama railroad or on any auxiliary works relating thereto and authorized by the terms of this treaty shall be prevented, delayed or impeded by or pending such proceedings to ascertain such damages. The appraisal of said private lands and private property and the assessment of damages to them shall be based upon their value before the date of this convention.

ARTICLE VII

The Republic of Panama grants to the United States within the limits of the cities of Panama and Colon and their adjacent harbors and within the territory adjacent thereto the right to acquire by purchase or by the exercise of the right of eminent domain, any lands, buildings, water rights or other properties necessary and convenient for the construction, maintenance, operation and protection of the Canal and of any works of sanitation, such as the collection and disposition of sewage and the distribution of water in the said cities of Panama and Colon, which in the discretion of the United States may be necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said Canal and railroad. All such works of sanitation, collection and disposition of sewage and distribution of water in the cities of Panama and Colon shall be made at the expense of the United States, and the Government of the United States, its agents or nominees shall be authorized to impose and collect water rates and sewerage rates which shall be sufficient to provide for the payment of interest and the amortization of the principal of the cost of said works within a period of fifty years and upon the expiration of said term of fifty years the system of sewers and water works shall revert to and become the properties of the cities of Panama and Colon respectively, and the use of the water shall be free to the inhabitants of Panama and Colon, except to the extent that water rates may be necessary for the operation and maintenance of said system of sewers and water.

The Republic of Panama agrees that the cities of Panama and Colon shall comply in perpetuity with the sanitary ordinances whether of a preventive or curative character prescribed by the United States and in case the Government of Panama is unable or fails in its duty to enforce this compliance by the cities of Panama and Colon with the sanitary ordinances of the United States the Republic of Panama grants to the United States the right and authority to enforce the same.

The same right and authority are granted to the United States for the maintenance of public order in the cities of Panama and Colon and the territories and harbors adjacent thereto in case the Republic of Panama should not be, in the judgment of the United States, able to maintain such order.

ARTICLE VIII

The Republic of Panama grants to the United States all rights which it now has or hereafter may acquire to be property of the New Panama Canal Company and the Panama Railroad Company as a result of the transfer of sovereignty from the Republic of Colombia to the Republic of Panama over the Isthmus of Panama and authorizes the New Panama Canal Company to sell and transfer to the United States its rights, privileges, properties and concessions as well as the Panama Railroad and all the shares or part of the shares of that company; . . . the public lands situated outside of the zone described in Article II of this treaty now included in the concessions to both said enterprises and not required in the construction or operation of the Canal shall revert to the Republic of Panama except any property now owned by or in the possession of said companies within Panama or Colon or the ports or terminals thereof.

ARTICLE IX

The United States agrees that the ports at either entrance of the Canal and the waters thereof, and the Republic of Panama agrees that the towns of Panama and Colon shall be free for all time so that there shall not be imposed or collected custom house tolls, tonnage, anchorage, lighthouse, wharf, pilot, or quarantine dues or any other charges or taxes of any kind upon any vessel using or passing through the Canal or belonging to or employed by the United States, directly or indirectly, in connection with the construction, maintenance, operation, sanitation and protection of the main Canal, or auxiliary works, or upon the cargo, officers, crew, or passengers of any such vessels, except such tolls and charges as may be imposed by the United States for the use of the Canal and other works, and except tolls and charges imposed by the Republic of Panama upon merchandise destined to be introduced for the consumption of the rest of the Republic of Panama, and upon vessels touching at the ports of Colon and Panama and which do not cross the Canal.

The Government of the Republic of Panama shall have the right to establish in such ports and in the towns of Panama and Colon such houses and guards as it may deem necessary to collect duties on importations destined to other portions of Panama and to prevent contraband trade. The United States Shall have the right to make use of the towns and harbors of Panama and Colon as places of anchorage, and for making repairs, for loading, unloading, depositing, or transshipping cargoes either in transit or destined for the service of the Canal and for other works pertaining to the Canal.

ARTICLE X

The Republic of Panama agrees that there shall not be imposed any taxes, national, municipal, departmental, or of any other class, upon the Canal, the railways and auxiliary works, tugs and other vessels employed in the service of the Canal, store houses, work shops, offices, quarters for laborers, factories of all kinds, warehouses, wharves, machinery and other works, property, and effects appertaining to the Canal or railroad and auxiliary works, or their officers or employees, situated within the cities of Panama and Colon, and that there shall not be imposed contributions or charges of a personal character of any kind upon officers, employees, laborers, and other individuals in the service of the Canal and railroad and auxiliary works.

ARTICLE XI

The United States agrees that the official dispatches of the Government of the Republic of Panama shall be transmitted over any telegraph and telephone lines established for canal purposes and used for public and private business at rates not higher than those required from officials in the service of the United States.

ARTICLE XII

The Government of the Republic of Panama shall permit the immigration and free access to the lands and workshops of the Canal and its auxiliary works of all employees and workmen of Whatever nationality under contract to work upon or seeking employment upon or in any wise connected with the said Canal and its auxiliary works, with their respective families, and all such persons shall be free and exempt from the military service of the Republic of Panama.

ARTICLE XIII

The United States may import at any time into the said zone and auxiliary lands, free of custom duties, imposts, taxes, or other charges, and without any restrictions, any and all vessels, dredges, engines, cars, machinery, tools, explosives, materials, supplies, and other articles necessary and convenient in the construction, maintenance, operation, sanitation and protection of the Canal and auxiliary works, and all provisions, medicines, clothing, supplies and other things necessary and convenient for the officers, employees, workmen and laborers in the service and employ of the United States and for their families. If any such articles are disposed of for use outside of the zone and auxiliary lands granted to the United States and within the territory of the Republic, they shall be subject to the same import or other duties as like articles imported under the laws of the Republic of Panama.

ARTICLE XIV

As the price or compensation for the rights, powers and privileges granted in this convention by the Republic of Panama to the United States, the Government of the United States agrees to pay to the Republic of Panama the sum of ten million dollars ($10,000,000) in gold coin of the United States on the exchange of the ratification of this convention and also an annual payment during the life of this convention of two hundred and fifty thousand dollars ($250,000) in like gold coin, beginning nine years after the date aforesaid.

The provisions of this Article shall be in addition to all other benefits assured to the Republic of Panama under this convention.

But no delay or difference of opinion under this Article or any other provisions of this treaty shall affect or interrupt the full operation and effect of this convention in all other respects.

ARTICLE XV

The joint commission referred to in Article VI shall be established as follows:

The President of the United States shall nominate two persons and the President of the Republic of Panama shall nominate two persons and they shall proceed to a decision; but in case of disagreement of the Commission (by reason of their being equally divided in conclusion) an umpire shall be appointed by the two Governments who shall render the decision. In the event of the death, absence, or incapacity of a Commissioner or Umpire, or of his omitting, declining or ceasing to act, his place shall be filled by the appointment of another person in the manner above indicated. All decisions by a majority of the Commission or by the Umpire shall be final.

ARTICLE XVI

The two Governments shall make adequate provision by future agreement for the pursuit, capture, imprisonment,

detention and delivery within said zone and auxiliary lands to the authorities of the Republic of Panama of persons charged with the commitment of crimes, felonies or misdemeanors without said zone and for the pursuit, capture, imprisonment, detention and delivery without said zone to the authorities of the United States of persons charged with the commitment of crimes, felonies and misdemeanors within said zone and auxiliary lands.

ARTICLE XVII

The Republic of Panama grants to the United States the use of all the ports of the Republic open to commerce as places of refuge for any vessels employed in the Canal enterprise, and for all vessels passing or bound to pass through the Canal which may be in distress and be driven to seek refuge in said ports. Such vessels shall be exempt from anchorage and tonnage dues on the part of the Republic of Panama.

ARTICLE XVIII

The Canal, when constructed, and the entrances thereto shall be neutral in perpetuity, and shall be opened upon the terms provided for by Section I of Article three of, and in conformity with all the stipulations of, the treaty entered into by the Governments of the United States and Great Britain on November 18, 1901.

ARTICLE XIX

The Government of the Republic of Panama shall have the right to transport over the Canal its vessels and its troops and munitions of war in such vessels at all times without paying charges of any kind. The exemption is to be extended to the auxiliary railway for the transportation of persons in the service of the Republic of Panama, or of the police force charged with the preservation of public order outside of said zone, as well as to their baggage, munitions of war and supplies.

ARTICLE XX

If by virtue of any existing treaty in relation to the territory of the Isthmus of Panama, whereof the obligations shall descend or be assumed by the Republic of Panama, there may be any privilege or concession in favor the Government or the citizens and subjects of a third power relative to an interoceanic means of communication which in any of its terms may be incompatible with the terms of the present convention, the Republic of Panama agrees to cancel or modify such treaty in due form, for which purpose it shall give to the said third power the requisite notification within the term of four months from the date of the present convention, and in case the existing treaty contains no clause permitting its modification or annulment, the Republic of Panama agrees to procure its modification or annulment in such form that there shall not exist any conflict with the stipulations of the present convention.

ARTICLE XXI

The rights and privileges granted by the Republic of Panama to the United States in the preceding Articles are understood to be free of all anterior debts, liens, trusts, or liabilities, or concessions or privileges to other Governments, corporations, syndicates or individuals, and consequently, if there should arise any claims on account of the present concessions and privileges or otherwise, the claimants shall resort to the Government of the Republic of Panama and not to the United States for any indemnity or compromise which may be required.

ARTICLE XXII

The Republic of Panama renounces and grants to the United States the participation to which it might be entitled in the future earnings of the Canal under Article XV of the concessionary contract with Lucien N. B. Wyse now owned by the New Panama Canal Company and any and all other rights or claims of a pecuniary nature arising under or relating to said concession, or arising under or relating to the concessions to the Panama Railroad Company or any extension or modification thereof; and it likewise renounces, confirms and grants to the United States, now and hereafter, all the rights and property reserved in the said concessions which otherwise would belong to Panama at or before the expiration of the terms of ninety-nine years of the concessions granted to or held by the above mentioned party and companies, and all right, title and interest which it now has or many hereafter have, in and to the lands, canal, works, property and rights held by the said companies under said concessions or otherwise, and acquired or to be acquired by the United States from or through the New Panama Canal Company, including any property and rights which might or may in the future either by lapse of time, forfeiture or otherwise, revert to the Republic of Panama, under any contracts or concessions, with said Wyse, the Universal Panama Canal Company, the Panama Railroad Company and the New Panama Canal Company.

The aforesaid rights and property shall be and are free and released from any present or reversionary interest in or claims of Panama and the title of the United States thereto upon consummation of the contemplated purchase by the United States from the New Panama Canal (company, shall be absolute, so far as concerns the Republic of Panama, excepting always the rights of the Republic specifically secured under this treaty.

ARTICLE XXIII

If it should become necessary at any time to employ armed forces for the safety or protection of the Canal, or of the ships that make use of the same, or the railways and auxiliary works, the United States shall have the right, at all times and in its discretion, to use its police and its land and naval forces or to establish fortifications for these purposes.

ARTICLE XXIV

No change either in the Government or in the laws and treaties of the Republic of Panama shall, without the consent of the United States, affect any right of the United States under the present convention, or under any treaty stipulation between the two countries that now exists or may hereafter exist touching the subject matter of this convention.

If the Republic of Panama shall hereafter enter as a constituent into any other Government or into any union or

confederation of states, so as to merge her sovereignty or independence in such Government, union or confederation, the rights of the United States under this convention shall not be in any respect lessened or impaired.

ARTICLE XXV

For the better performance of the engagements of this convention and to the end of the efficient protection of the Canal and the preservation of its neutrality, the Government of the Republic of Panama will sell or lease to the United States lands adequate and necessary for naval or coaling stations on the Pacific coast and on the western Caribbean coast of the Republic at certain points to be agreed upon with the President of the United States.

ARTICLE XXVI

This convention when signed by the Plenipotentiaries of the Contracting Parties shall be ratified by the respective Governments and the ratifications shall be exchanged at Washington at the earliest date possible.

In faith whereof the respective Plenipotentiaries have signed the present convention in duplicate and have hereunto affixed their respective seals.

Done at the City of Washington the 18th day of November in the year of our Lord nineteen hundred and three.

JOHN HAY
P. BUNAU VARILLA

Federal Reserve Act (1913)

The Federal Reserve Act established the modern banking system of the United States. Designed to provide elasticity of the money supply and to be a lender of last resort for banks, the Federal Reserve (Fed) regulates the money supply by increasing or decreasing interest rates. The Fed also acts as a clearinghouse for financial transactions. During its nine decades of operation the policies of the Fed have helped stabilize the U.S. economy.

Source: Public Statutes at Large, Vol. 38, Part I, pp. 251–275.

An Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

Whenever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Boards; the term "district" shall be held to mean Federal Reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS.

Sec. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal Reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: Provided, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which the Federal reserve banks are to organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and

one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not for one another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscription to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all the damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than $25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors at such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a subscribed capital less than $4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall be deemed necessary; and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of $100,000, or so much thereof as may be necessary, is hereby appropriated, out of the moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

BRANCH OFFICES.

Sec. 3. Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

FEDERAL RESERVE BANKS.

Sec. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts.

The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of

directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and the State in which said bank is to located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint by its board of directors, such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors, by in-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted for the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consists of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the Capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the power and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

Directors of class A and B shall be chosen in the following manner:

The chairman of the board of directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization

of such chairman, the organization committee shall classify the member banks of the districts into three groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group. Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of class A and B, respectively, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any candidate.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column from other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the federal reserve bank he shall be required to maintain under regulations to be established by the Federal Reserve Board a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent to exercise the powers of the chairman of the board and Federal reserve agent in case of absence or disability of his principal.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by board of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B, and C respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL.

Sec. 5. The capital stock of each Federal reserve bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last divi-

dend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrounded and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

Sec. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

Sec. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes in real estate.

Sec. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency:

Provided, however, That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have the power to execute all other papers and do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS.

Sec. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a shareholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulation prescribed by the organization committee or by the Federal Reserve Board. No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking Act.

Any bank becoming a member of the Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and as the Federal Reserve Board may, in pursuance thereof, prescribe.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

FEDERAL RESERVE BOARD.

Sec. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. The five members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of $12,000, payable monthly with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of $7,000 annually for his services as member of said board.

The members of said board, the Secretary of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

The Federal Reserve Board shall have the power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, of Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five

members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have the power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire thirty days after the next session of the Senate convenes.

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agents appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes shall be amended so as to read as follows: There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by the United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of Currency and shall perform his duties under the general directions of the Secretary of the Treasury.

Sec. 11. The Federal Reserve Board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.

(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act: Provided, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: And provided further, That when the gold reserve held against Federal reserve notes falls below forty per centum the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserve falls to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe.

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four

hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: Provided, That nothing herein shall prevent the President from placing said employees in the classified service.

FEDERAL ADVISORY COUNCIL.

Sec 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies, shall serve for the unexpired term.

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regards to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

POWERS OF FEDERAL RESERVE BANKS.

Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation.

Upon the indorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: Provided, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up capital stock and surplus.

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

The rediscount by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

OPEN-MARKET OPERATIONS.

Sec. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, pur-

chase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereof, exchange Federal reserve notes for gold, gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its endorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more reasonable parties.

GOVERNMENT DEPOSITS.

Sec. 15. The moneys held in the general fund of the Treasury except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in and bank not belonging to the system established by this Act: Provided, however, That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

NOTE ISSUES.

Sec. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve noted hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes and bills, accepted for rediscount under the provisions of section thirteen of this Act, and the Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which it is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal reserve agent. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes

remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasury, otherwise than for redemption, may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board, and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this Act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing, with the Federal reserve agent, its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of such notes.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it and shall at the same time substitute therefor other like collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board.

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of $5, $10, $20, $50, $100, as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided for by this Act.

The plates and dies to be procured by the Comptroller of Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces, and so forth, and regulations relating to such examination of plates, dies, and so forth, of national-bank notes provided for in section fifty-one hundred and seventy-four Revised Statutes, is hereby extended to include notes herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: Provided, however, That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for the exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve

bank and the charge which may be imposed for the service and clearing or collection rendered by the Federal reserve bank. The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at their discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

Sec. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking associations shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds is hereby repealed.

REFUNDING BONDS.

Sec. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made: Provided, That Federal reserve banks shall not be permitted to purchase an amount to exceed $25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.

Provided further, That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.

Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law, shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited. Such notes shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national-bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national-bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: Provided, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under any State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

BANK RESERVES.

Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank shall establish and maintain reserves as follows:

(a) A bank not in a reserve or central reserve city as now or hereafter defined shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date five-twelfths thereof and permanently thereafter four-twelfths.

In the Federal reserve bank of its district, for a period of twelve months after said date, two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.

(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date six-fifteenths thereof, and permanently thereafter five-fifteenths.

In the Federal reserve bank of its district for a period of twelve months after the date aforesaid at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank, or in both, at the option of the member bank.

(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults six-eighteenths thereof.

In the Federal reserve bank seven-eighteenths.

The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section fourteen properly indorsed and acceptable to the said reserve bank.

If a State bank or trust company is required by law of its State to keep its reserves either in its own vaults or with another State bank or trust company, such reserve deposits so kept in such State bank or trust company shall be construed, within the meaning of this section, as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board.

The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be described by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

In estimating the reserves required by this Act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which the reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

National banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this Act.

Sec. 20. So much of sections two and three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, is hereby

repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

BANK EXAMINATIONS.

Sec. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: Provided, however, That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in so doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall affix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expenses of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

The Federal Reserve Board shall, at least once a year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

Sec. 22. No member bank or any officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national-bank examiner. No national-bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

Other than the usual salary or director's fee paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank. No examiner, public or private, shall disclose the names of the borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this section shall be punished by a fine not exceeding $5,000 or by imprisonment not exceeding one year, or both.

Except as provided in existing laws, this provision shall not take effect until sixty days after the passage of this Act. The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

LOANS OF FARM LANDS.

Sec. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its

time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have the power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

FOREIGN BRANCHES.

Sec. 25. Any banking association possessing a capital and surplus of $1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries or dependencies of the United States for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the place or places where the banking operations proposed are to be carried on, and the amount of capital set aside for the conduct of its foreign business. The Federal Reserve Board shall have the power to approve or to reject such application if, in its judgment, the amount of capital proposed to be set aside for the conduct of foreign business is inadequate, or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority to establish foreign branches shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches at such time or times as it may deem best. Every national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each branch as a separate item.

Sec. 26. All provisions of law inconsistent with or superseded by any of the provisions of this Act are to the extent and to that extent only hereby repealed: Provided, Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March fourteenth, nineteen hundred, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

The provisions of the Act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: Provided, however, That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes.

Sec. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by the vote of the shareholders owning two thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

Sec. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

Sec. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Approved, December 23, 1913.

Federal Trade Commission (1915)

The Federal Trade Commission (FTC), established as an independent government agency in 1915, enforces antitrust laws and ensures that American businesses engage in fair competition. The five-member commission focuses on the prevention of interlocking directorates, monitors the acquisition of capital stock, and deals with issues such as false advertising. The FTC also enforces the Trust in Lending Act. The only industries that the commission does not have jurisdiction over are banks and common carriers.

Source: Public Statutes at Large, Vol. 38 Part I, pp. 717–724.

An Act To create a Federal Trade Commission, to define its powers and duties, and for other purposes.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, That a commission is hereby created and established, to be known as the Federal Trade Commission (hereinafter referred to as the commission), which shall be composed of five commissioners, who shall be appointed by the President, by and with the advice and consent of the Senate. Not more than three of the commissioners shall be members of the same political party. The first commissioners appointed shall continue in office for terms of three, four, five, six, and seven years, respectively, from the date of the taking effect of this Act, the term of each to be designated by the President, but their successors shall be appointed for terms of seven years, except that any person chosen to fill a vacancy shall be appointed only for the unexpired term of the commissioner whom he will succeed. The commissioner shall choose a chairman from its own membership. No commissioner shall engage in any other business, vocation, or employment. Any commissioner may be removed by the President for inefficiency, neglect of duty, or malfeasance in office. A vacancy in the commission shall not impair the right of the remaining commissioners to exercise all the powers of the commission. The commission shall have an official seal, which shall be judicially noticed.

Sec. 2. That each commissioner shall receive a salary of $10,000 a year, payable in the same manner as the salaries of the judges of the courts of the United States. The commission shall appoint a secretary, who shall receive a salary of $5,000 a year, payable in like manner, and it shall have the authority to employ and fix the compensation of such attorneys, special experts, examiners, clerks, and other employees as it may from time to time find necessary for the proper performance of its duties and as may be from time to time appropriated for by Congress.

With the exception of the secretary, a clerk to each commissioner, the attorneys, and such special experts and examiners as the commission may from time to time find necessary for the conduct of its work, all employees of the commission shall be part of the classified civil service, and shall enter the service under such rules and regulations as may be prescribed by the Civil Service Commission.

All of the expenses of the commission, including all necessary expenses for transportation incurred by the commissioners or by employees under their orders, in making any investigation, or upon official business in any other places than in the city of Washington, shall be allowed and paid on the presentation of itemized vouchers therefor approved by the commission.

Until otherwise provided by law, the commission may rent suitable offices for its use.

The Auditor for the State and other Departments shall receive and examine all accounts of expenditures of the commission.

Sec. 3. That upon the organization of the commission and election of its chairman, the Bureau of Corporations and the offices of Commissioner and Deputy Commissioner of Corporations shall cease to exist; and all pending investigations and proceedings of the Bureau of Corporations shall be continued by the commission.

All clerks and employees of the said bureau shall be transferred to and become clerks and employees of the commission at their present grades and salaries. All records, papers, and property of the said bureau shall become records, papers, and property of the commission, and all unexpected funds and appropriations for the use and maintenance of the said bureau, including any allotment already made to it by the

Secretary of the Commerce from the contingent appropriation for the Department of Commerce for the fiscal year nineteen hundred and fifteen, or from the departmental printing fund for the fiscal year nineteen hundred and fifteen, shall become funds and appropriations available to be extended by the commission in the exercise of the powers, authority, and duties conferred on it by this Act.

The principal office of the commission shall be in the city of Washington, but it may meet and exercise all its powers at any other place. The commission may, by one or more of its members, or by such examiners as it may designate, prosecute any inquiry necessary to its duties in any part of the United States.

Sec. 4. That the words defined in this section shall have the following meaning when found in this Act, to wit: "Commerce" means commerce among the several States or with foreign nations, or in any Territory of the United States or in the District of Columbia, or between any such Territory and another, or between any such Territory and any State or foreign nation, or between the District of Columbia and any State or Territory or foreign nation.

"Corporation" means any company or association incorporated or unincorporated, which is organized to carry on business for profit and has shares of capital or capital stock, and any company or association, incorporated or unincorporated, without shares of capital or capital stock, except partnerships, which is organized to carry on business for its own profit or that of its members.

"Documentary evidence" means all documents, papers, and correspondence in existence at and after the passage of this Act.

"Acts to regulate commerce" means the Act entitled "An Act to regulate commerce," approved February fourteenth, eighteen hundred and eighty-seven, and all Acts amendatory thereof and supplementary thereto.

"Antitrust acts" means the Act entitled "An Act to protect trade and commerce against unlawful restraints and monopolies," approved July second, eighteen hundred and ninety; also the sections seventy-three to seventy-seven, inclusive, of an Act entitled "An Act to reduce taxation, to provide revenue for the Government, and for other purposes," approved August twenty-seventh, eighteen hundred and ninety-four; and also the Act entitled "An Act to amend sections seventy-three and seventy-six of the Act of August twenty-seventh, eighteen hundred and ninety-four, entitled 'An Act to reduce taxation, to provide revenue for the Government, and for other purposes,'" approved February twelfth, nineteen hundred and thirteen.

Sec. 5. That unfair methods of competition in commerce are hereby declared unlawful. The commission is hereby empowered and directed to prevent persons, partnerships, or corporations, except banks, and common carriers subject to the Acts to regulate commerce, from using unfair methods of competition in commerce.

Whenever the commission shall have reason to believe that any such person, partnership, or corporation has been or is using any unfair method of competition in commerce, and if it shall appear to the commission that a proceeding by it in respect thereof would be to the best interest of the public, it shall issue and serve upon such person, partnership, or corporation a complaint stating its charges in that respect, and containing a notice of a hearing upon a day and a place therein fixed at least thirty days after the service of said complaint. The person, partnership, or corporation so complained of shall have the right to answer at the place and time so fixed and show cause why an order should not be entered by the commission requiring such person, partnership, or corporation to cease and desist from the violation of the law so charged in said complaint. Any person, partnership, or corporation may make application, and upon good cause shown may be allowed by the commission, to intervene and appear in said proceeding shall be reduced to writing and filed in the office of the commission. If upon such hearing the commission shall be of the opinion that the method of competition in question is prohibited by this Act, it shall make a report in writing in which it shall state its findings as to the facts, and shall issue and cause to be served on such person, partnership, or corporation an order requiring such person, partnership, or corporation to cease and desist from using such method of competition. Until a transcript of the record in such hearing shall have been filed in a circuit court of appeals of the United States, as hereinafter provided, the commission may at any time, upon such notice and in such manner as it shall deem proper, modify or set aside, in whole or in part, any report or any order made or issued by it under this section.

If such person, partnership, or corporation fails or neglects to obey such order of the commission while the same is in effect, the commission may apply to the circuit court of appeals of the United States, within any circuit where the method of competition in question was used or where such person, partnership, or corporation resides or carries on business, for the enforcement of its order, and shall certify and file with its application a transcript of the entire record in the proceeding, including all the testimony taken and the report and order of the commission. Upon such filing of the application and transcript the court shall cause notice thereof to be served upon such person, partnership, or corporation and thereupon shall have jurisdiction of the proceeding and of the question determined therein, and shall have the power to make and enter upon the pleadings, testimony, and proceedings set forth in such transcript a decree affirming, modifying, or setting aside the order of the commission. The findings of the commission as to the facts, if supported by testimony, shall be inclusive. If either party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material and that there is reasonable grounds for the failure to adduce such evidence in the proceeding before the commission, the court may order such additional evidence to be taken before the commission and to be adduced upon the hearing in such manner and upon such terms and conditions as the court may deem proper. The commission may modify its findings as to the facts, or make new findings, by reason of the additional evidence so taken, and it shall file such modified or new findings, which,

if supported by testimony, shall be conclusive, and its recommendation, if any, for the modification or setting aside of its original order, with the return of such additional evidence. The judgment and decree of the court shall be final, except that the same shall be subject to review by the Supreme Court upon certiorari as provided in section two hundred and forty of the Judicial Code.

Any party required by such order of the commission to cease and desist from using such method of competition may obtain a review of such order in said circuit court of appeals by filing in the court a written petition praying that the order of the commission be set aside. A copy of such petition shall be forthwith served upon the commission, and thereupon the commission forthwith shall certify and file in the court a transcript of the record as hereinbefore provided. Upon the filing of the transcript the court shall have the same jurisdiction to affirm, set aside, or modify the order of the commission as in the case of an application by the commission for the enforcement of its order, and the findings of the commission as to the facts, if supported by testimony, shall in like manner be conclusive.

The jurisdiction of the circuit court of appeals of the United States to enforce, set aside, or modify orders of the commission shall be exclusive.

Such proceedings in the circuit court of appeals shall be given precedence over other cases pending therein, and shall be in every way expedited. No order of the commission or judgment of the court to enforce the same shall in any wise relieve or absolve any person, partnership, or corporation from any liability under the antitrust acts.

Complaints, orders, and other processes of the commission under this section may be served by anyone duly authorized by the commission, either (a) by delivering a copy thereof to the person to be served, or to a member of the partnership to be served, or to the president, secretary, or other executive officer or a director of the corporation to be served; or (b) by leaving a copy thereof at the principal office or place of business of such person, partnership, or corporation; or (c) by registering and mailing a copy thereof addressed to such person, partnership, or corporation at his or its principal office or place of business. The verified return by the person so serving said complaint, order, or other process setting forth the manner of said service shall be proof of the same, and the return post-office receipt for said complaint, order, or other process registered and mailed as aforesaid shall be proof of the service of the same.

Sec. 6. That the commission shall also have the power—

(a) To gather and compile information concerning, and to investigate from time to time the organization, business, conduct, practices, and management of any corporation engaged in commerce, excepting banks and common carriers subject to the Act to regulate commerce, and its relation to other corporations and to individuals, associations, and partnerships.

(b) To require, by general or special orders, corporations engaged in commerce, excepting banks, and common carriers subject to the Act to regulate commerce, or any class of them, or any of them, respectively, to file with the commission in such form as the commission may prescribe annual or special, or both annual and special, reports or answers in writing to specific questions, furnishing to the commission such information as it may require as to the organization, business, conduct, practices, management, and relation to other corporations, partnerships, and individuals of the respective corporations filing such reports or answers in writing. Such reports and answers shall be made under oath, or otherwise, as the commission may prescribe, and shall be filed with the commission within such reasonable period as the commission may prescribe, unless additional time be granted in any case by the commission.

(c) Whenever a final decree has been entered against any defendant corporation in any suit brought by the United States to prevent and restrain any violation of the antitrust Acts, to make investigation, upon its own initiative, of the manner in which the decree has been or is being carried out, and upon the application of the Attorney General it shall be his duty to make such investigation. It shall transmit to the Attorney General a report embodying its findings and recommendations as result of any such investigation, and the report shall be made public in the discretion of the commission.

(d) Upon the direction of the President or either House of Congress to investigate and report the facts relating to any alleged violations of the antitrust Acts by any corporation.

(e) Upon the application of the Attorney General to investigate and make recommendations for the readjustment of the business of any corporation alleged to be violating the antitrust Acts in order that the corporation may thereafter maintain its organization, management, and conduct of business in accordance with law.

(f) To make public from time to time such portions of the information obtained by it hereunder, except trade secrets and names of customers, as it shall deem expedient in the public interest; and to make annual and special reports to the Congress and to submit therewith recommendations for additional legislation; and to provide for the publication of its reports and decisions in such form and manner as may be best adapted for public information and use.

(g) From time to time to classify corporations and to make rules and regulations for the purpose of carrying out the provisions of this Act.

(h) To investigate, from time to time, trade conditions in and with foreign countries where associations, combinations, or practices of manufacturers, merchants, or traders, or other conditions, may affect the foreign trade of the United States, and to report to Congress thereon, with such recommendations as it deems advisable.

Sec. 7. That in any suit in equity brought by or under the direction of the Attorney General as provided in the antitrust Acts, the court may, upon the conclusion of the testimony therein, if it shall be then of opinion that the complainant is entitled to relief, refer said suit to the commission, as a master in chancery, to ascertain and report an appropriate form of decree therein. The commission shall proceed upon such notice to the parties and under such rules of procedure as the court may prescribe, and upon the coming in of such report such exceptions may be filed and such proceedings had in relation thereto as upon the report

of a master in other equity causes, but the court may adopt or reject such report, in whole or in part, and enter such decree as the nature of the case may in its judgment require.

Sec. 8. That the several departments and bureaus of the Government when directed by the President shall furnish with the commission, upon its request, all records, papers, and information in their possession relating to any corporation subject to any of the provisions of this Act, and shall detail from time to time such officials and employees to the commission as he may direct.

Sec. 9. That for the purposes of this Act the commission, or its duly authorized agent or agents, shall at all reasonable times have access to, for the purpose of examination, and the right to copy any documentary evidence of any corporation being investigated or proceeded against; and the commission shall have the power to require by subpoena the attendance and testimony of witnesses and the production of all such documentary evidence relating to any matter under investigation. Any member of the commission may sign subpoenas, and members and examiners of the commission may administer oaths and affirmations, examine witnesses, and receive evidence.

Such attendance of witnesses, and the production of such documentary evidence, may be required from any place in the United States, at any designated place of hearing. And in case of disobedience to a subpoena the commission may invoke the aid of any court of the United States in requiring the attendance and testimony of witnesses and the production of documentary evidence.

Any of the district courts of the United States within the jurisdiction of which such inquiry is carried on may, in case of contumacy or refusal to obey a subpoena issued to any corporation or other person, issue an order requiring such corporation or other person to appear before the commission, or to produce the documentary evidence if so ordered, or to give evidence touching the matter in question; and any failure to obey such order of the court may be punished by such court as a contempt thereof.

Upon the application of the Attorney General of the United States, at the request of the commission, the district courts of the United States shall have the jurisdiction to issue writs of mandamus commanding any person or corporation to comply with the provisions of this Act or any order of the commission made in pursuance thereof.

The commission may order testimony to be taken by deposition in any proceeding or investigation pending under this Act at any stage of such proceeding or investigation. Such depositions may be taken before any person designated by the commission and having power to administer oaths. Such testimony shall be reduced to writing by the person taking the deposition, or under his direction, and shall then be subscribed by the deponent. Any person may be compelled to appear and depose and to produce documentary evidence in the same manner as witnesses may be compelled to appear and testify and produce documentary evidence before the commission as herein provided.

Witnesses summoned before the commission shall be paid the same fees and mileage that are paid witnesses in the courts of the United States, and witnesses whose depositions are taken and the persons taking the same shall severally be entitled to the same fees as are paid for like services in the courts of the United States.

No person shall be excused from attending and testifying or from producing documentary evidence before the commission or in obedience to the subpoena of the commission on the ground or for the reason that the testimony or evidence, documentary or otherwise, required of him may tend to criminate him or subject him to a penalty or forfeiture. But no natural person shall be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he may testify, or produce evidence, documentary or otherwise, before the commission in obedience to a subpoena issued by it: Provided, That no natural person so testifying shall be exempt from prosecution and punishment for perjury committed in so testifying.

Sec. 10. That any person who shall neglect or refuse to attend and testify, or to answer any lawful inquiry, or to produce documentary evidence, if in his power to do so, in obedience to the subpoena or lawful requirement of the commission, shall be guilty of an offense and upon conviction thereof by a court of competent jurisdiction shall be punished by a fine of not less than $1,000 nor more than $5,000, or by imprisonment for not more than one year, or by both such fine and imprisonment.

Any person who shall willfully make, or cause to be made, any false entry or statement of fact in any report required to be made under this Act, or who shall willfully make, or cause to be made, any false entry in any account, record, or memorandum kept by any corporation subject to this Act, or who shall willfully neglect or fail to make, or to cause to be made, full, true, and correct entries in such accounts, records, or memoranda of all facts and transactions appertaining to the business of such corporation, or who shall willfully remove out of the jurisdiction of the United States, or willfully mutilate, alter, or by other means falsify any documentary evidence of such corporation, or who shall willfully refuse to submit to the commission or to any of its authorized agents, for the purpose of inspection and taking copies, any documentary evidence of such corporation in his possession or within his control, shall be deemed guilty of an offense against the United States, and shall be subject, upon conviction in any court of the United States of competent jurisdiction, to a fine of not less than $1,000 nor more than $5,000, or to imprisonment for a term not more than three years, or to both such fine and imprisonment.

If any corporation required by this Act to file any annual or special report shall fail to do so within the time fixed by the commission for filing the same, and such failure shall continue for thirty days after notice of such default, the corporation shall forfeit to the United States the sum of $100 for each and every day of the continuance of such failure, which forfeiture shall be payable into the Treasury of the United States, and shall be recoverable in a civil suit in the name of the United States brought in the district where the corporation has its principal office or in any district in which it shall do

business. It shall be the duty of the various district attorneys, under the direction of the Attorney General of the United States, to prosecute for the recovery of forfeitures. The costs and expenses of such prosecution shall be paid out of the appropriation for the expenses of the courts of the United States.

Any officer or employee of the commission who shall make public any information obtained by the commission without its authority, unless directed by a court, shall be deemed guilty of a misdemeanor, and, upon conviction thereof, shall be punished by a fine not exceeding $5,000, or by imprisonment not exceeding one year, or by fine and imprisonment, in the discretion of the court.

Sec. 11. Nothing contained in this Act shall be construed to prevent or interfere with the enforcement of the provisions of the antitrust Acts or the Acts to regulate commerce, nor shall anything contained in this Act be construed to alter, modify, or repeal the said antitrust Act or the Acts to regulate commerce or any part or parts thereof.

Approved, September 26, 1914.

Clayton Anti-Trust Act (1914)

Passed by Congress in 1914, the Clayton Anti-Trust Act was designed to modify the Sherman Anti-Trust Act. Companies could no longer conclude exclusive sales agreements or have interlocking directorates. Labor unions and farmer's cooperatives did not fall under this act. This piece of legislation prevented the formation of new monopolies and allowed the courts to disassemble existing trusts.

Source: Public Statutes at Large, Vol. 38 Part I, pp. 730–740.

An Act To supplement existing laws against unlawful restraints and monopolies, and for other purposes.

Be it enacted by the Senate and the House of Representatives of the United States in Congress assembled, That "antitrust laws," as used herein, includes the Act entitled "An Act to protect trade and commerce against unlawful restraints and monopolies," approved July second, eighteen hundred and ninety; sections seventy-three to seventy-seven, inclusive, of an Act entitled "An Act to reduce taxation, to provide revenue for the Government, and for other purposes," of August twenty-seventh, eighteen hundred and ninety-four; an Act entitled "An Act to amend sections seventy-three and seventy-six of the Act of August twenty-seventh, eighteen hundred and ninety-four, entitled 'An Act to reduce taxation, to provided revenue for the Government, and for other purposes,'" approved February twelfth, nineteen hundred and thirteen; and also this Act. "Commerce," as used herein, means trade or commerce among the several States and with foreign nations, or between the District of Columbia or any Territory of the United States and any State, Territory, or foreign nation, or between any insular possessions or other places under the jurisdiction of the United States, or between any such possessions or place and any State or Territory of the United States or the District of Columbia or any foreign nation, or within the District of Columbia or any Territory or any insular possession or other place under the jurisdiction of the United States: Provided, That nothing in this Act contained shall apply to the Philippine Islands. The word "person" or "persons" whenever used in this Act shall be deemed to include corporations and associations existing under or authorized by the laws of either the United States, the laws of any of the Territories, the laws of any State, or the laws of any foreign country.

Sec. 2. That it shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or indirectly to discriminate in price between different purchasers of commodities, which commodities are sold for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, where the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly in any line of commerce: Provided, That nothing herein contained shall prevent discrimination in price between purchasers of commodities on account of differences in the grade, quality, or quantity of the commodity sold, or that makes only due allowance for difference in the cost of selling or transportation, or discrimination in price in the same or different communities made in good faith to meet competition: And provided further, That nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade.

Sec. 3. That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, or merchandise, machinery, supplies or other commodities, whether patented or unpatented, for use, consumption or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Sec. 4. That any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

Sec. 5. That a final judgment or decree hereafter rendered in any criminal prosecution or in any suit or proceeding in equity brought by or on behalf of the United States under the antitrust laws to the effect that a defendant has violated said laws shall be prima facie evidence against such defendant in any suit or proceeding brought by any other party against such defendant under said laws as to all matters respecting which said judgment or decree would be an estoppel as between the parties thereto: Provided, This section shall not apply to consent judgments or decrees entered before any testimony has been taken: Provided further, This section shall not apply to consent judgments or decrees rendered in criminal proceedings or suits in equity, now pending, in which the taking of testimony has been commenced but has not been concluded, provided such judgments or decrees are rendered before any further testimony is taken.

Whenever any suit or proceeding in equity or criminal prosecution is instituted by the United States to prevent, restrain or punish violations of any of the antitrust laws, the running of the statute of limitations in respect of each and every private right of action arising under said laws and based in whole or in part on any matter complained of in said suit or proceeding shall be suspended during the pendency thereof.

Sec. 6. That the labor of a human being is not a commodity or article of commerce. Nothing contained in the antitrust laws shall be construed to forbid the existence and operation of labor, agricultural, or horticultural organizations, instituted for the purposes of mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the antitrust laws.

Sec. 7. That no corporation engaged in commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital of another corporation engaged also in commerce, where the effect of such acquisition may be to substantially lessen competition between the corporation whose stock is so acquired and the corporation making the acquisition, or to restrain such commerce in any section or community, or tend to create a monopoly of any line of commerce. No corporation shall acquire, directly or indirectly, the whole or any part of the stock or other share capital of two or more corporations engaged in commerce where the effect of such acquisition, or the use of such stock by the voting or granting of proxies or otherwise, may be to substantially lessen competition between such corporations, or any of them, whose stock or other share capital is so acquired, or to restrain such commerce in any section or community, or tend to create a monopoly of any line of commerce.

This section shall not apply to corporations purchasing such stock solely for investment and not using the same by voting or otherwise to bring about, or in attempting to bring about, the substantial lessening of competition. Nor shall anything contained in this section prevent a corporation engaged in commerce from causing the formation of subsidiary corporations for the actual carrying on of their immediate lawful business, or the natural and legitimate branches or extensions thereof, or from owning and holding all or a part of the stock of such subsidiary corporations, when the effect of such formation is not to substantially lessen competition.

Nor shall anything herein contained be construed to prohibit any common carrier subject to the laws to regulate commerce from aiding in the construction of branches or short lines so located as to become feeders to the main line of the company so aiding in such construction or from acquiring or owning all or any part of the stock of such branch lines, nor to prevent any such common carrier from acquiring and owning all or any part of the stock of a branch or short line constructed by an independent company where there is no substantial competition between the company owning the main line acquiring the property or an interest therein, nor to prevent such common carrier from extending any of its lines through the medium of the acquisition of stock or otherwise of any other such common carrier where there is no substantial competition between the company extending its lines and the company whose stock, property, or an interest therein is so acquired.

Nothing contained in this section shall be held to affect or impair any right heretofore legally acquired: Provided, That nothing in this section shall be held or construed to authorize or make lawful anything heretofore prohibited or made illegal by the antitrust laws, nor to exempt any person from the penal provisions thereof or the civil remedies therein provided.

Sec. 8. That from and after two years from the date of the approval of this Act no person shall at the same time be a director or other officer or employee of more than one bank, banking association or trust company, organized or operating under the laws of the United States, either of which has deposits, capital, surplus, and undivided profits aggregating more than $5,000,000; and no private banker or person who is a director in any bank or trust company, organized and operating under the laws of a State, having deposits, capital, surplus, and undivided profits aggregating more than $5,000,000, shall be eligible to be a director in any bank or banking association organized or operating under the laws of the United States. The eligibility of a director, officer, or employee under the foregoing provisions shall be determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of this Act it shall be lawful for

him to continue as such for one year thereafter under said election or employment.

No bank, banking association or trust company, organized or operating under the laws of the United States, in any city incorporated town or village of more than two hundred thousand inhabitants, as shown by the last preceding decennial census of the United States, shall have as a director or other officer or employee any private banker or any director or other officer or employee of any other bank, banking association or trust company located in the same place: Provided, That nothing in this section shall apply to mutual savings banks not having a capital stock represented by shares: Provided further, That a director or other officer or employee of such bank, banking association, or trust company may be a director or other officer or employee of not more than one other bank or trust company organized under the laws of the United States or any State where the entire capital stock is owned by stockholders in the other: And provided further, That nothing contained in this section shall forbid a director of class A of a Federal reserve bank, as defined in the Federal Reserve Act, from being an officer or director or both an officer and director in one member bank.

That from and after two years from the date of the approval of this Act no person at the same time shall be a director in any two or more corporations, any one of which has capital, surplus, and undivided profits aggregating more than $1,000,000, engaged in whole or in part in commerce, other than banks, banking associations, trust companies and common carriers subject to the Act to regulate commerce, approved February fourth, eighteen hundred and eighty-seven, if such corporations are or shall have been theretofore, by virtue of their business and location of operation, competitors, so that the elimination of competition by agreement between them would constitute a violation of any of the provisions of any of the antitrust laws. The eligibility of a director under the foregoing provision shall be determined by the aggregate amount of the capital, surplus, and undivided profits, exclusive of dividends declared but not paid to stockholders, at the end of the fiscal year of said corporation next preceding the election of directors, and when a director has been elected in accordance with the provisions of this Act it shall be lawful for him to continue as such for one year thereafter.

When any person elected or chosen as a director or officer or selected as an employee of any bank or other corporation subject to the provisions of this Act is eligible at the time of his election or selection to act for such bank or other corporation in such capacity his eligibility to act in such capacity shall not be affected and he shall not become or be deemed amenable to any of the provisions hereof by reason of any change in the affairs of such bank or other corporation from whatsoever cause, whether specifically excepted by any of the provisions hereof or not, until the expiration of one year from the date of his election or employment.

Sec. 9. Every president, director, officer or manager of any firm, association or corporation engaged in commerce as a common carrier, who embezzles, steals, abstracts or willfully misapplies, or willfully permits to be misapplied, any of the moneys, funds, credits, securities, property or assets of such firm, association or corporation, arising or accruing from, or used in, such commerce, in whole or in part, or willfully converts the same to his own use or to the use of another, shall be deemed guilty of a felony and upon conviction shall be fined not less than $500 or confined in the penitentiary not less than one year nor more than ten years, or both, in the discretion of the court.

Prosecutions hereunder may be in the district court of the United States for the district wherein the offense may have been committed. That nothing in this section shall be held to take away or impair the jurisdiction of the courts of the several States under the laws thereof; and a judgment of conviction or acquittal on the merits under the laws of any State shall be a bar to any prosecution hereunder for the same act or acts.

Sec. 10. That after two years from the approval of this Act no common carrier engaged in commerce shall have any dealings in securities, supplies or other articles of commerce, or shall make or have any contracts for construction or maintenance of any kind, to the amount of more than $50,000, in the aggregate, in any one year, with another corporation, firm, partnership or association when the said common carrier shall have upon its board of directors or as its president, manager or as its purchasing or selling officer, or agent in the particular transaction, any person who is at the same time a director, manager, or purchasing or selling officer of, or who has any substantial interest in, such other corporation, firm, partnership or association, unless and except such purchases shall be made from, or such dealings shall be with, the bidder whose bid is the most favorable to such common carrier, to be ascertained by competitive bidding under regulations to be prescribed by rule or otherwise by the Interstate Commerce Commission. No bid shall be received unless the name and address of the bidder or the names and addresses of the officers, directors and general managers thereof, if the bidder be a corporation, or of the members, if it be a partnership or firm, be given with the bid.

Any person who shall, directly or indirectly, do or attempt to do anything to prevent anyone from bidding or shall do any act to prevent free and fair competition among the bidders or those desiring to bid shall be punished as prescribed in this section in the case of an officer or director. Every such common carrier having such transactions or making any such purchases shall within thirty days after making the same file with the Interstate Commerce Commission a full and detailed statement of the transaction showing the manner of the competitive bidding, and the names and addresses of the directors and officers of the corporations and the members of the firm or partnership bidding; and whenever the said commission shall, after investigation or hearing, have reason to believe that the law has been violated in and about the said purchases and documents and its own view or findings regarding the transaction to the Attorney General.

If any common carrier shall violate this section it shall be fined not exceeding $25,000; and every such director, agent, manager or officer thereof who shall have knowingly voted for or directed the act constituting such violation or who

shall have aided or abetted in such violation shall be deemed guilty of a misdemeanor and shall be fined not exceeding $5,000, or confined in jail not exceeding one year, or both, in the discretion of the court.

Sec. 11. That the authority to enforce compliance with sections two, three, seven and eight of this Act by the persons respectively subject to is hereby vested; in the Interstate Commerce Commission where applicable to common carriers, in the Federal Reserve Boards where applicable to banks, banking associations and trust companies, and in the Federal Trade Commission where applicable to all other character of commerce, to be exercised as follows:

Whenever the commission or board vested with jurisdiction thereof shall have reason to believe that any person is violating or has violated any of the provisions of sections, two, three, seven and eight of this Act, it shall issue and serve upon such a complaint stating its charges in that respect, and containing a notice of a hearing upon a day and place therein fixed at least thirty days after the service of said complaint. The person so complained of shall have the right to appear at the place and time so fixed and show cause why an order should not be entered by the commission or board requiring such person to cease and desist from the violation of the law so charged in said complaint. Any person may make application, and upon good cause shown may be allowed by the commission or board, to intervene and appear in said proceeding by counsel or in person. The testimony in any such proceeding shall be reduced to writing and filed in the office of the commission or board. If upon such hearing the commission or board, as the case may be, shall be of the opinion that any of the provisions of said sections have been or are being violated, it shall make a report in writing in which it shall state its findings as to the facts, and shall issue and cause to be served on such person an order requiring such person to cease and desist from such violations, and divest itself of the stock held or rid itself of the directors chosen contrary to the provisions of sections seven and eight of this Act, if any there be, in the manner and within the time fixed by said order. Until a transcript of the record in such hearing shall have been filed in a circuit court of appeals of the United States, as hereinafter provided, the commission or board may at any time, upon such notice and in any such manner as it shall deem proper, modify or set aside, in whole or in part, any report or any order made or issued by it under this section.

If such person fails or neglects to obey such order of the commission or board while the same is in effect, the commission or board may apply to the circuit court of appeals of the United States, within any circuit where the violation complained of was or is being committed or where such person resides or carries on business, for the enforcement of its order, and shall certify and file with its application a transcript of the entire record in the proceeding, including all the testimony taken and the report and order of the commission or board. Upon such filing of the application and transcript the court shall cause notice thereof to be served upon such person and thereupon shall have jurisdiction of the proceeding and of the question determined therein, and shall have power to make and enter upon the pleadings, testimony, and proceedings set forth in such transcript a decree affirming, modifying, or setting aside the order of the commission or board. The findings of the commission or board as to the facts, if supported by testimony, shall be conclusive. If either party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for the failure to adduce such evidence in the proceeding before the commission or board, the court may order such additional evidence to be taken before the commission or board and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The commission or board may modify its findings as to the facts, or make new findings, by reason of the additional evidence so taken, and it shall file such modified or new findings, which, if supported by testimony, shall be conclusive, and its recommendation, if any, for the modification or setting aside of its original order, with the return of such additional evidence. The judgment and decree of the court shall be final, except that the same shall be subject to review by the Supreme Court upon certiorari as provided in section two hundred and forty of the Judicial Code.

Any party required by such order of the commission or board to cease and desist from a violation charge may obtain a review of such order in said circuit court of appeals by filing in the court a written petition praying that the order of the commission or board be set aside. A copy of such petition shall be forthwith served upon the commission or board, and thereupon the commission or board forthwith shall certify and file in the court a transcript of the record as hereinbefore provided. Upon the filing of the transcript the court shall have the same jurisdiction to affirm, set aside, or modify the order of the commission or board as in the case of an application by the commission or board for the enforcement of its order, and the findings of the commission or board as to the facts, if supported by testimony, shall in like manner be conclusive.

The jurisdiction of the circuit court of appeals of the United States to enforce, set aside, or modify orders of the commission or board shall be exclusive. Such proceedings in the circuit court of appeals shall be given precedence over other cases pending therein, and shall be in every way expedited. No order of the commission or board or the judgment of the court to enforce the same shall in any wise relieve or absolve any person from any liability under the antitrust Acts.

Complaints, orders, and other processes of the commission or board under this section may be served by anyone duly authorized by the commission or board, either (a) by delivering a copy thereof to the person to be served, or to a member of the partnership to be served, or to the president, secretary, or other executive officer or a director of the corporation to be served; or (b) by leaving a copy thereof at the principal place of business of such person; or (c) by registering and mailing a copy thereof addressed to such person at his principal office or place of business. The verified return by the person so serving said complaint, order, or other process

setting forth the manner of said service shall be proof of the same, and the return post-office receipt for said complaint, order, or other process registered and mailed as aforesaid shall be proof of the service of the same.

Sec. 12. That any suit, action, or proceeding under the antitrust laws against a corporation may be brought not only in the judicial district whereof it is an inhabitant, but also on any district wherein it may be found or transacts business; and all process in such cases may be served in the district of which it is an inhabitant, or wherever it may be found.

Sec. 13. That in any suit, action, or proceeding brought by or on behalf of the United States subpoenas for witnesses who are required to attend a court of the United States in any judicial district in any case, civil or criminal, arising under the antitrust laws may run into any other district: Provided, That in civil cases no writ of subpoena shall issue for witnesses living out of the district in which the court is held at a greater distance than one hundred miles from the place of holding the same without the permission of the trial court being first had upon proper application and cause shown.

That whenever a corporation shall violate any of the penal provisions of the antitrust laws, such violation shall be deemed to be also that of the individual directors, officers, or agents of such corporation who shall have authorized, ordered, or done any of the acts constituting in whole or in part such violation, and such violation shall be deemed a misdemeanor, and upon conviction therefor of any such director, officer, or agent he shall be punished by a fine of not exceeding $5,000 or by imprisonment for not exceeding one year, or by both, in the discretion of the court.

Sec. 15. That the several district courts of the United States are hereby invested with jurisdiction to prevent and restrain violations of this Act, and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. Such proceedings may be by way of petition setting forth the case and praying that such violation shall be enjoined or otherwise prohibited. When the parties complained of shall have been duly notified of such petition, the court shall proceed, as soon as may be, to the hearing and determination of the case; and pending such petition, and before the final decree, the court may at any time make such restraining order or prohibition as shall be deemed just in the premises. Whenever it shall appear to the court before which any such proceeding may be pending that the ends of justice require that other parties should be brought before the court, the court may cause them to be summoned, whether they reside in the district in which the court is held or not, and subpoenas to that end may be served in any district by the marshal thereof.

Sec. 16. That any person, firm, corporation, or association shall be entitled to sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, against threatened loss or damage by a violation of the antitrust laws, including sections two, three, seven and eight of this Act, when and under the same conditions and principles as injunctive relief against threatened conduct that will cause loss or damage is granted by courts of equity, under the rules governing such proceedings, and upon the execution of proper bond against damages for an injunction improvidently granted and a showing that the danger of irreparable loss or damage is immediate, a preliminary injunction may issue: Provided, That nothing herein contained shall be construed to entitle any person, firm, corporation, or association, except the United States, to bring suit in equity for injunctive relief against any common carrier subject to the provisions of this Act to regulate commerce, approved February fourth, eighteen hundred and eighty-seven, in respect of any matter subject to the regulation, supervision, or other jurisdiction of the Interstate Commerce Commission.

Sec. 17. That no preliminary injunction shall be issued without notice to the opposite party. No temporary restraining order shall be granted without notice to the opposite party unless it shall be clearly appear from specific facts shown by affidavit or by the verified bill that immediate and irreparable injury, loss, or damage will result to the applicant before notice can be served and a hearing had therein. Every such temporary restraining order shall be indorsed with the date and hour of issuance, shall be forthwith filed in the clerk's office and entered of record, shall define the injury and state why it is irreparable and why the order was granted without notice, and shall by its terms expire within such time after entry, not to exceed ten days, as the court or judge may fix, unless within the time so fixed the order is extended for a like period for good cause shown, and the reasons for such extension shall be entered of record. In case a temporary restraining order shall be granted without notice in the contingency specified, the matter of the issuance of a preliminary injunction shall be set down for a hearing at the earliest possible time and shall take precedence of all matters except older matters of the same character; and when the same comes up for hearing the party obtaining the temporary restraining order shall proceed with the application for a preliminary injunction, and if he does not do so the court shall dissolve the temporary restraining order. Upon two days' notice to the party obtaining such temporary restraining order the opposite party may appear and move the dissolution or modification of the order, and in that event the court or judge shall proceed to hear and determine the motion as expeditiously as the ends of justice may require.

Section two hundred and sixty-three of an Act entitled "An Act to codify, revise, and amend the laws relating to the judiciary," approved March third, nineteen hundred and eleven, is hereby repealed. Nothing in this section contained shall be deemed to alter, repeal, or amend section two hundred and sixty-six of an Act entitled "An Act to codify, revise, and amend the laws relating to the judiciary," approved March third, nineteen hundred and eleven.

Sec. 18. That, except as otherwise provided in section 16 of this Act, no restraining order or interlocutory order of injunction shall issue, except upon the giving of security by the applicant in such sum as the court or judge may deem proper, conditioned upon the payment of such costs and damages as may be incurred or suffered by any party who may be found to have been wrongfully enjoined or restrained thereby.

Sec. 19. That every order of jurisdiction or restraining order shall set forth the reasons for the issuance of the same, shall be specific in terms, and shall describe in reasonable detail, and not by reference to the bill of complaint or other document, the act or acts sought to be restrained, and shall be binding only upon the parties to the suit, their officers, agents, servants, employees, and attorneys, or those in active concert or participating with them, and who shall, by personal service or otherwise, have received actual notice of the same.

Sec. 20. That no restraining order or injunction shall be granted by any court of the United States, or a judge or the judges thereof, in any case between an employer and employees, or between employers and employees, or between employees, or between persons employed and persons seeking employment, involving, or growing out of, a dispute concerning terms or conditions of employment, unless necessary to prevent irreparable injury to property, or to a property right, of the party making the application, for which injury there is no adequate remedy at law, and such property or property right must be described with particularity in the application, which must be in writing and sworn to by the applicant or by his agent or attorney.

And no such restraining order or conjunction shall prohibit any person or persons, whether singly or in concert, from terminating any relation of employment, or from ceasing to perform any work or labor, or from recommending, advising, or persuading others by peaceful means so to do; or from attending at any place where any such person or persons may lawfully be, for the purpose of peacefully obtaining or communicating information, or from peacefully persuading any person to work or to abstain from working; or from ceasing to patronize or to employ any party to such dispute, or from recommending, advising, or persuading others by peaceful and lawful means to do so; or from paying or giving to, or withholding from, any person engaged in such dispute, any strike benefits or other moneys or things of value; or from peaceably assembling in a lawful manner, and for lawful purposes; or for doing any act or thing which might lawfully be done in the absence of such dispute by any party thereto; nor shall any of the acts specified in this paragraph be considered or held to be violations of any law of the United States.

Sec. 21. That any person who shall willfully disobey any lawful writ, process, order, rule, decree, or command of any district court of the United States or any court of the District of Columbia by doing any act or thing therein, or thereby forbidden to be done by him, if the act or thing so done by him be of such character as to constitute a criminal offense under any statute of the United States, or under the laws of any State in which the act was committed, shall be proceeded against for his said contempt as hereinafter provided.

Sec. 22. That whenever it shall be made to appear to any district court or judge thereof, or to any judge therein sitting, by the return of a proper officer on lawful process, or upon the affidavit of some credible person, or by information filed by any district attorney, that there is reasonable ground to believe that any person has been guilty of such contempt, the court or judge thereof, or any judge therein sitting, may issue a rule requiring the said person so charged to show cause upon a day certain why he should not be punished therefor, which rule, together with a copy of the affidavit or information, shall be served upon the person charged, with sufficient promptness to enable him to prepare for and make return to the order at the time fixed therein. If upon or by such return, in the judgment of the court, the alleged contempt be not sufficiently purged, a trial shall be directed at a time and place fixed by the court: Provided, however, That if the accused, being a natural person, fail or refuse to make return to the rule to show cause, an attachment may issue against his person to compel an answer, and in case of his continued failure or refusal, or if for any reason it be impracticable to dispose of the matter on the return day, he may be required to give reasonable bail for his attendance at the trial and his submission to the final judgment of the court. Where the accused is a body corporate, an attachment for the sequestration of its property may be issued upon like refusal or failure to answer.

In all cases within the purview of this Act such trial may be by the court, or, upon demand of the accused, by a jury; in which latter event the court may impanel a jury from the jurors then in attendance, or the court or the judge thereof in chambers may cause a sufficient number of jurors to be selected and summoned, as provided by law, to attend at the time and place of trial, at which time a jury shall be selected and impaneled as upon a trial for misdemeanor; and such trial shall conform, as near as may be, to the practice in criminal cases prosecuted by indictment or upon information.

If the accused be found guilty, judgment shall be entered accordingly, prescribing the punishment, either by fine or imprisonment, or both, in the discretion of the court. Such fine shall be paid to the United States or to the complainant or other party injured by the act constituting the contempt, or may, where more than one is so damaged, be divided or apportioned among them as the court may direct, but in no case shall the fine to be paid to the United States exceed, in case the accused is a natural person, the sum of $1,000, nor shall such imprisonment exceed the term of six months: Provided, That in any case the court or a judge thereof may, for good cause shown, by affidavit or proof taken in open court or before such judge and filed with the papers in the case, dispense with the rule to show cause, and may issue an attachment for the arrest of the person charged with contempt; in which event such person, when arrested, shall be brought before such court or a judge thereof without unnecessary delay and shall be admitted to bail in a reasonable penalty for his appearance to answer to the charge or for trial for the contempt; and thereafter the proceedings shall be the same as provided herein in case the rule had issued in the first instance.

Sec. 23. That the evidence taken upon the trial of any persons so accused may be preserved by bill of exceptions, and any judgment of conviction may be reviewed upon writ of error in all respects as now provided by law in criminal cases, and may be affirmed, reversed, or modified as justice may require. Upon the granting of such writ of error, execution of judgment shall be stayed, and the accused, if thereby

sentenced to imprisonment, shall be admitted to bail in such reasonable sum as may be required by the court, or by any justice, or any judge of any district court of the United States or any court of the district of Columbia.

Sec. 24. That nothing herein contained shall be construed to relate to contempts committed in the presence of the court, or so near thereto as to obstruct the administration of justice, nor to contempts committed in disobedience of any lawful writ, process, order, rule, decree, or command entered in any suit or action brought or prosecuted in the name of, or on behalf of, the United States, but the same, and all other cases of contempt not specifically embraced within section twenty-one of this Act, may be punished in conformity to the usages at law and in equity now prevailing.

Sec. 25. That no proceeding for contempt shall be instituted against any person unless begun within one year from the date of the act complained of; nor shall any such proceeding be a bar to any criminal prosecution for the same act or acts; but nothing herein contained shall affect any proceedings in contempt pending at the time of the passage of this Act.

Sec. 26. If any clause, sentence, paragraph, or part of this Act shall, for any reason, be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder thereof, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which said judgment shall have been rendered.

Approved, October 15, 1914.

Franklin D. Roosevelt on Hawley-Smoot Tariff (1932)

During the election of 1932, in a speech in Sioux City, Iowa, Democratic presidential candidate Franklin D. Roosevelt blamed President Herbert Hoover for the Great Depression because he had signed the Hawley-Smoot Tariff into law. Roosevelt claimed that the tariff had caused the Great Depression, although Hoover argued that other events around the world had precipitated the crisis.

Source: Roosevelt, Franklin D. *The Public Papers and Addresses of Franklin D. Roosevelt, 1928–1932.* Vol. 1. New York: Random House, 1938.

Mr. Chairman, my friends in Sioux City, my friends in this great State, and, indeed, all of you through the country who are listening on the radio tonight, let me tell you first of all that I appreciate this remarkable welcome that you have given me, and I appreciate, too, the performance put on by the mounted patrol of my fellow Shriners.

Two weeks ago, when I was heading toward the Coast, I presented before an audience in the City of Topeka, what I conceived to be the problem of agriculture in these United States, with particular reference to the Middle West and West, and what the Government of the Nation can do to meet that problem of ours.

I have been highly gratified to receive from all parts of the country and particularly from farm leaders themselves, assurances of their hearty support and promises of cooperation, in the efforts that I proposed to improve the deplorable condition into which agriculture has fallen. The meeting of this farm problem of ours is going to be successful only if two factors are present.

The first is a sympathetic Administration in Washington, and the second is the hearty support and patient cooperation of agriculture itself and its leaders.

I cannot avoid a word concerning this plight of agriculture—what it means to all. It means that the product of your labor brings just half of what it brought before the war. It means that no matter how hard you work and how long and how carefully you save, and how much efficiency you apply to your business, you face a steadily diminishing return. As a farm leader said to me, you have been caught like a man in a deep pit, helpless in the grip of forces that are beyond your control. Still, my friends, it has meant that in spite of the maxims that we have learned when we were in school, that we ought to work and save, to be prudent and be temperate, in spite of all of the rest of the homely virtues, the return on these virtues has belied the hopes and the promises on which you and I were raised.

That is one of the tragic consequences of this depression. The things that we were taught have not come true. We were taught to work and we have been denied the opportunity to work. We were taught to increase the products of our labor and we have found that while the products increase the return has decreased. We were taught to bring forth the fruits of the earth, and we have found that the fruits of the earth have found no market.

The results of our labor, my friends, have been lost in the smash of an economic system that was unable to fulfill its purposes.

It is a moral as well as an economic question that we face—moral because we want to reestablish the standards that in times past were our goal. We want the opportunity to live in comfort, reasonable comfort, out of which we may build our spiritual values. The consequences of poverty bring a loss of spiritual and moral values. And even more important is the loss of the opportunity that we hope to give to the younger generation. We want our children to have a chance for an education, for the sound development of American standards to be applied in their daily lives at play and work. Those opportunities can come only if the condition of agriculture is made more prosperous.

Now, the farmer—and when I speak of the farmer I mean not only you who live in the corn belt, but also those in the East and the Northwest who are in the dairy business, those in the South who are raising cotton, and those on the plains who are raising cattle and sheep, and those in the many sections of the country who are raising cattle, all kinds of things, small fruits and big fruits—in other words, the farmer in the broad sense, has been attacked during this past decade simultaneously from two sides. On the one side the farmer's expenses, chiefly in the

form of increased taxes, have been going up rather steadily during the past generation, and on the other side, he has been attacked by a constantly depreciating farm dollar during the past twelve years, and it seems to be nothing less than old-fashioned horse sense to seek means to circumvent both of these attacks at the same time. That means, first, for us to seek relief for him from the burden of his expense account and, second, to try to restore the purchasing power of his dollar by getting for him higher prices for the products of the soil.

Now, those two great purposes are, quite frankly, the basis of my farm policy, and I have definitely connected both of them with the broadest aspects of a new national economy, something that I like to label in simpler words, "A New Deal," covering every part of the Nation, and covering industry and business as well as farming, because I recognize, first of all, that from the soil itself springs our ability to restore our trade with the other Nations of the world.

First of all, I want to discuss with you one of the angles of the mounting expenses of agriculture in practically every community and in every State—the problem of taxes which we have to pay.

Let us examine the proportion of our expenditures that goes to the various divisions of Government. Half of what you and I pay for the support of the Government—in other words, on the average in this country fifty cents out of every dollar—goes to local government, that is, cities, townships, counties and lots of other small units; and the other half, the other fifty cents, goes to the State and Nation.

This fifty cents that goes to local government, therefore, points to the necessity for attention to local government. As a broad proposition you and I know we are not using our present agencies of local government with real economy and efficiency. That means we must require our public servants to give a fuller measure of service for what they are paid. It means we must eliminate useless office holders. It means every public official, every employee of local government must determine that he owes it to the country to cooperate in the great purpose of saving the taxpayers' money.

But it means more than that, my friends. I am going to speak very frankly to you. There are offices in most States that are provided for in the Constitution and laws of some of the States, offices that have an honorable history but are no longer necessary for the conduct of Government. We have too many tax layers, and it seems to me relief can come only through resolute, courageous cutting.

Some of you will ask why I, a candidate for the office of president of the United States, am talking to you about changes in local government. Now, it is perfectly clear that the president has no legal or constitutional control over the local government under which you people live. The President has, nevertheless, my friends, the right and even the duty of taking a moral leadership in this national task because it is a national problem, because in its scope it covers every State, and any problem that is national in this broader sense creates a national moral responsibility in the President of the United States himself.

And I propose to use this position of high responsibility to discuss up and down the country, in all seasons and at all times, the duty of reducing taxes, or increasing the efficiency of Government, of cutting out the underbrush around out governmental structure, of getting the most public service for every dollar paid in taxation. That I pledge you, and nothing I have said in the campaign transcends in importance this covenant with the taxpayers of the United States.

Now, of the other half dollar of your taxes, it is true that part goes to the support of State Governments. I am not going to discuss that end. In this field also I believe that substantial reductions can be made. While the President rightly has no authority over State budgets, he has the same moral responsibility of national leadership for generally lowered expenses, and therefore for generally lowered taxes.

It is in the field of the Federal Government that the office of President can, of course, make itself most directly and definitely felt. Over 30 percent of your tax dollar goes to Washington, and in their field also, items such as the interest can be accomplished. There are, of course, items such as the interest on the public debt which must be paid each year, and which can be reduced only through a reduction of the debt itself, by the creation of a surplus in the place of the present deficit in the national treasury, and it is perhaps worth while that I should tell you that I spent nearly eight years in Washington during the Administration of Woodrow Wilson, and that during those eight years I had a fair understanding of the problem of the national expenses, and that I knew first hand many of the details of actual administration of the different departments. Later in this campaign, I proposed to analyze the enormous increase in the growth of what you and I call bureaucracy. We are not getting an adequate return for the money we are spending in Washington, or to put it another way, we are spending altogether too much money for Government services that are neither practical nor necessary. And then, in addition to that, we are attempting too many functions. We need to simplify what the Federal Government is giving to the people.

I accuse the present Administration of being the greatest spending Administration in peace times in all our history. It is an Administration that has piled bureau on bureau, commission on commission, and has failed to anticipate the dire needs and the reduced earning power of the people. Bureaus and bureaucrats, commissions and commissioners have been retained at the expense of the taxpayer.

Now, I read in the past few days in the newspapers that the President is at work on a plan to consolidate and simplify the Federal bureaucracy. My friends, four long years ago, in the campaign of 1928, he, as a candidate, proposed to do this same thing. And today, once more a candidate, he is still proposing, and I leave you to draw your own inferences.

And on my part I ask you very simply to assign to me the task of reducing the annual operating expenses of your national Government.

Now I come to the other half of the farmer's problem, the increase of the purchasing power of the farm dollar. I have already gone at length into the emergency proposals relating to our major crops, and now I want to discuss in more detail a very important factor, a thing known as the tariff, and our economic relationship to the rest of this big round world.

From the beginning of our Government, one of the most difficult questions in our economic life has been the tariff. But it is a fact that it is now so interwoven with our whole economic structure, and that structure is such an intricate and delicate pattern of causes and effects, that tariff revision must be undertaken, with scrupulous care and only on the basis of established facts.

I have to go back in history a little way. In the course of his 1928 campaign, the present Republican candidate for President with great boldness laid down the propositions that high tariffs interfere only slightly, if at all, with our export or our import trade, that they are necessary to the success of agriculture and afford essential farm relief; that they do not interfere with the payments of debts by other Nations to us, and that they are absolutely necessary to the economic formula which he proposed at that time as the road to the abolition of poverty. And I must pause here for a moment to observe that the experience of the past four years has unhappily demonstrated the error, the gross, fundamental, basic error of every single one of those propositions—but four years ago!—that every one of them has been one of the effective causes of the present depression; and finally that no substantial progress toward recovery from this depression, either here or abroad, can be had without a forthright recognition of those errors.

And so I am asking effective action to reverse the disastrous policies which were based on them. As I have elsewhere remarked, the 1928 Republican leadership prosperity promise was based on the assertion that although our agriculture was producing a surplus far in excess of our power to consume, and that, due to the mass and automatic machine production of today, our industrial production had also passed far beyond the point of domestic consumption, nevertheless, we should press forward to increase industrial production as the only means of maintaining prosperity and employment. And the candidate of that year insisted that, although we could not consume all those things at home, there was some kind of unlimited market for our rapidly increasing surplus in export trade, and he boldly asserted that on this theory we were on the verge of the greatest commercial expansion in history. I do not have to tell you the later history of that.

And then, in the spring of 1929, ostensibly for the purpose of enacting legislation for the relief of agriculture, a special session of Congress was called, and the disastrous fruit of that session was the notorious and indefensible Grundy-Smoot-Hawley tariff.

As to the much-heralded purpose of that special session for the relief of agriculture, the result, my friends, was a ghastly jest. The principal cash crops of our farms are produced much in excess of our domestic requirements. And we know that no tariff on a surplus crop, no matter how high the wall—1,000 percent, if you like—has the slightest effect on raising the domestic price of that crop. Why, the producers of all those crops are so effectively thrust outside the protection of our tariff walls as if there were no tariff at all. But we still know that the tariff does protect the price of industrial products and raises them above world prices, as the farmer with increasing bitterness has come to realize. He sells on a free trade basis; he buys in a protected market. The higher industrial tariffs go, my friends, the greater is the burden of the farmer.

Now, the first effect of the Grundy tariff was to increase or sustain the cost of all that agriculture buys, but the harm to our whole farm production did not stop there.

The destructive effect of the Grundy tariff on export markets has not been confined to agriculture. It has ruined our export trade in industrial products as well. Industry, with its foreign trade cut off, naturally began to look to the home market—a market supplied for the greater part by the purchasing power of farm families—but for reasons that you and I know, it found that the Grundy tariff had reduced the buying power of the farmer.

So what happened? Deprived of any American market, the other industrial Nations in order to support their own industries, and take care of their own employment problem, had to find new outlets. In that quest they took to trade agreements with other countries than ourselves and also to the preservation of their own domestic markets against importations by trade restrictions of all kinds. An almost frantic movement toward self-contained nationalism began among other Nations of the world, and of course the direct result was a series of retaliatory and defensive measures on their part, in the shape of tariffs and embargoes and import quotas and international arrangements. Almost immediately international commerce began to languish. The export markets for our industrial and agricultural surplus began to disappear altogether.

In the year 1929, a year before the enactment of the Grundy tariff, we exported 54.8 percent of all the cotton produced in the United States—more than one-half. That means, Mr. Cotton Grower, that in 1929 every other row of your cotton was sold abroad. And you, the growers of wheat, exported 17 percent of your wheat, but your great foreign market had been largely sacrificed; and so, with the grower of rye, who was able to disposed of 20 percent of his crop to foreign markets. The grower of leaf-tobacco had a stake of 41 percent of his income overseas, and one-third of the lard production, 33 percent, was exported in the year 1929. Where does that come in? Well, it concerns the corn grower because some of us, even from the East, know that corn is exported in the shape of lard.

How were your interests taken care of? Oh, they gave you a tariff on corn—chicken feed—literally and figuratively, but those figures show how vitally you are interested in the preservation, perhaps I had better say the return, of our export trade.

Now, the ink on the Hawley-Smoot-Grundy tariff bill was hardly dry before foreign Nations commenced their program of retaliation. Brick for brick they built their walls against us. They learned the lesson from us. The villainy we taught them they practiced on us.

And the Administration in Washington had reason to know that would happen. It was warned. While the bill was before Congress, our State Department received 160 protests from 33 other nations, many of whom after the passage of the bill erected their own tariff walls to the detriment or destruction of much of our export trade.

Well, what is the result? In two years, from 1930 to May, 1932, to escape the penalty on the introduction of American-made goods, American manufacturers have established in foreign countries 258 separate factories; 48 of them in Europe; 12 in Latin American; 28 in the Far East, and 71 across the border in Canada. The Prime Minister of Canada said in a recent speech that a factory is moving every day of the year from the United States into Canada, and he assured those at the recent conferences at Ottawa that the arrangements made there with Great Britain and other colonies would take $250,000,000 of Canadian trade that would otherwise go to the United States. So you see, my friends, what that tariff bill did there was to put more men on the street here, and to put more people to work outside our borders.

Now, there was a secondary and perhaps even more disastrous effect of Grundyism. Billions of dollars of debts are due to this country from abroad. If the debtor Nations cannot export goods, they must try to pay in gold. But we started such a drain on the gold reserves of the other Nations as to force practically all of them off the gold standard. What happened? The value of the money of each of these countries relative to the value of our dollar declined alarmingly and steadily. It took more Argentine pesos to buy an American plow. It took more English shillings to buy an American bushel of wheat, or an American bale of cotton.

Why, they just could not buy goods with their money. These goods then were thrown back upon our markets and prices fell still more.

And so, summing up, this Grundy tariff has largely extinguished the export markets for our industrial and our farm surplus; it has prevented the payment of public and private debts to us and the interest thereon, increasing taxation to meet the expense of our Government, and finally it has driven our factories abroad.

The process still goes on, my friends. Indeed, it may be only in its beginning. The Grundy tariff still retains its grip on the throat of international commerce.

There is no relief in sight, and certainly there can be no relief if the men in Washington responsible for this disaster continue in power. And I say to you, in all earnestness and sincerity, that unless and until this process is reversed throughout the world, there is no hope for full economic recovery, or for true prosperity in this beloved country of ours.

The essential trouble is that the Republican leaders thought they had a good patent on the doctrine of unscaleable tariff walls and that no other Nation could use the same idea. Well, either that patent has expired or else never was any good anyway; or else, one other alternative, all the other Nations have infringed on our patent and there is no court to which we can take our case. It was a stupid, blundering idea, and we know it today and we know it has brought disaster.

Do not expect our adroit Republican friends to admit this. They do not. On the contrary, they have adopted the boldest alibi in the history of politics. Having brought this trouble on the world, they now seek to avoid all responsibility by blaming the foreign victims for their own economic blundering. They say that all of our troubles come from abroad and that the Administration is not in the least to be held to answer. This excuse is a classic of impertinence. If ever a condition was more clearly traceable to two specific American-made causes, it is the depression of this country and the world. Those two causes are interrelated. The second one, in point of time, is the Grundy tariff. The first one is the fact that by improvident loans to "backward and crippled countries," the policy of which was specifically recommended by the President, we financed practically our entire export trade and the payment of interest and principal to us by our debtors, and even in part, the payment of German reparations.

When we began to diminish that financing in 1929 the economic structure of the world began to totter.

If it be fair to ask, What does the Democratic Party propose to do in the premises?

The platform declares in favor of a competitive tariff which means one which will put the American producers on a market equality with their foreign competitors, one that equalizes the difference in the cost of production, not a prohibitory tariff back of which domestic producers may combine to practice extortion of the American public.

I appreciate that the doctrine thus announced is not widely different from that preached by Republican statesmen and politicians, but I do know this, that the theory professed by them is that the tariff should equalize the difference in the cost of production as between this country and competitive countries, and I know that in practice that theory is utterly disregarded. The rates that are imposed are far in excess of any such difference, looking to total exclusion of imports—in other words, prohibitory rates.

Of course the outrageously excessive rates in that bill as it became law, must come down. But we should not lower them beyond a reasonable point, a point indicated by common sense and facts. Such revision of the tariff will injure no legitimate interest. Labor need have no apprehensions concerning such a course, for labor knows by long and bitter experience that the highly protected industries pay not one penny higher wages than the non-protected industries, such as the automobile industry, for example.

But, my friends, how is reduction to be accomplished? In view of present world conditions, international negotiation is the first, the most practical, the most common-sense, and the most desirable method. We must consent to the reduction to some extent of some of our duties in order to secure a lowering of foreign tariff walls over which a larger measure of our surplus may be sent.

I have not the fear that possesses some timorous minds that we should get the worst of it in such reciprocal arrangements. I ask if you have no faith in our Yankee tradition of good old-fashioned trading? Do you believe that our early instincts for successful barter have degenerated or atrophied? I do not think so. I have confidence that the spirit of the stalwart traders still permeates our people, that the red blood of the men who sailed our Yankee clipper ships around the Horn and Cape of Good Hope in the China trade still courses in our veins. I cannot picture Uncle Sam as a supine, white-livered, flabby-muscled old man, cooling his heels in the

shade of our tariff walls. We may not have the astuteness in some forms of international diplomacy that our more experienced European friends have, but when it comes to good old-fashioned barter and trade—whether it be goods or tariff—my money is on the American. My friends, there cannot and shall not be any foreign dictation of our tariff policies, but I am willing and ready to sit down around the table with them.

And next, my friends, the Democrats propose to accomplish the necessary reduction through the agency of the Tariff Commission.

I need not say to you that one of the most deplorable features of tariff legislation is the log-rolling process by which it has been effected in Republican and Democratic Congresses. Indefensible rates are introduced through an understanding, usually implied rather than expressed among members, each of whom is interested in one or more individual items. Yet, it is a case of you scratch my back and I will scratch yours. Now, to avoid that as well as other evils in tariff making, a Democratic Congress in 1916 passed, and a Democratic President approved, a bill creating a bipartisan Tariff Commission, charged with the duty of supplying the Congress with accurate and full information upon which to base tariff rates. That Commission functioned as a scientific body until 1922, when by the incorporation of the so-called flexible provisions of the Act it was transformed into a political body. Under those flexible provisions—reenacted in the Grundy tariff of 1930—the Commission reports not to a Congress but to the President, who is then empowered on its recommendation to raise or lower the tariff rates by as much as 50 percent. At the last session of Congress—this brings us down to date—by the practically unanimous action of the Democrats of both houses, aided by liberal-minded Republicans led by Senator Norris, of Nebraska, a bill was passed by the Congress, but vetoed by the President, which, for the purpose of preventing log-rolling provided that if a report were made by the Tariff Commission on a particular item, with a recommendation as to the rates of duty, a bill to make effective that rate would not be subject to amendment in the Congress so as to include any other items not directly affected by the change proposed in the bill. And in that way each particular tariff rate proposed would be judged on its merits alone. If that bill had been signed by the President of the United States, log-rolling would have come to an end.

I am confident in the belief that under such a system rates adopted would generally be so reasonable that there would be very little opportunity for criticism or even caviling as to them. I am sure that it is not that any duties are imposed that complaint is made, for despite the effort, repeated in every campaign, to stigmatize the Democratic Party as a free trade party, there never has been a tariff act passed since the Government came into existence, in which the duties were not levied with a view to giving the American producer an advantage over his foreign competitor. I think you will agree with me that the difference in our day between the two major parties in respect to their leadership on the subject of the tariff is that the Republican leaders, whatever may be their profession, would put the duties so high as to make them practically prohibitive—and on the other hand that the Democratic leaders would put them as low as the preservation of the prosperity of American industry and American agriculture will permit.

Another feature of the bill to which reference has been made, a feature designed to obviate tariff log-rolling, contemplated the appointment of a public counsel who should be heard on all applications for changes in rates whether for increases sought by producers, sometimes greedy producers, or for decreases asked by importers, equally often actuated by purely selfish motives. And I hope some such change may speedily be enacted. It will have my cordial approval because, my friends, it means that the average citizen would have some representation.

Now, just a few words in closing. I want to speak to you of one other factor which enters into the dangerous emergency in which you farmers find yourselves at this moment. For more than a year I have spoken in my State and in other States of the actual calamity that impends on account of farm mortgages. Ever since my nomination on the first day of July, I have advocated immediate attention and immediate action looking to the preservation of the American home to the American farmer. But I recognize that I am not at the head of the National Administration nor shall I be until the March 4th next. Today I read in the papers that for the first time, so far as I know, the Administration of President Hoover has discovered the fact that there is such a thing as a farm mortgage or a home mortgage.

I do not have to tell you that, with the knowledge of conditions in my State which ranks fifth or sixth among the agricultural States of the Union and with the knowledge I have gleaned on this trip from coast to coast, I realize to the full the seriousness of the farm mortgage situation. And at least we can take a crumb of hope from his proposal for just another conference, a conference of some kind at least to discuss the situation. Seriously, my friends, all that I can tell you is that with you I deplore, I regret the inexcusable, the reprehensible delay of Washington, not for months alone, but for years. I have already been specific on this subject, upon mortgages, in my Topeka speech. All that I can promise you between now and the fourth of March is that I will continue to preach the plight of the farmer who is losing his home. All I can do is to promise you that when the authority of administration and recommendation to Congress is placed in my hands I will do everything in my power to bring the relief that is so long overdue. I shall not wait until the end of a campaign, I shall not wait until I have spent four years in the White House.

Herbert Hoover's Response to Franklin D. Roosevelt on Hawley-Smoot Tariff (1932)

During the presidential campaign of 1932, President Herbert Hoover tried to counter Roosevelt's argument that the Hawley-Smoot Tariff had created the Great Depression. He pointed out that protectionist measures had been implemented by the newly formed countries of Europe years before the passage of Hawley-Smoot. He eloquently argued that the cause of the depression remained rooted in Europe. But voters did not listen to his message and Franklin D. Roosevelt was elected that year. With Roosevelt's election the United States shifted to a period of deficit spending that continues to this day.

Source: Hoover, Herbert, and Calvin Coolidge. *Campaign Speeches of 1932.* Garden City, NY: Doubleday, Herbert & Company, 1933, pp. 80–109.

I spoke at Des Moines about agriculture. My remarks this evening will be largely directed to employment and to the wage and salary earners. I propose to review what the Administration has done and the measures and policies it has in action together with the relation of these policies to those of our opponents. As President of the United States, I have the duty to speak to workers, but I also have a certain personal right to speak.

When I talk to you tonight about labor I speak not out of academic imaginings but from sharp personal experience. I have looked at these human problems, not only from the fireside of one who has returned from a day's work with his own hands but I know the problem that haunts the employer through the night, desperate to find the money with which to meet the week's pay roll. In public service during years I have had to look at these problems from the point of view of the national welfare as a whole.

The people of a free nation have a right to ask their government, "Why has our employment been interrupted? What measures have been taken in our protection? What has been done to remove the obstacles from the return of our work to us?" They not only have a right to ask these questions but to have an answer. I am here tonight to give that answer.

During the past three years our economic system has received the most terrific shock and dislocation which, had not strong action been taken by your government, would have imperiled the Republic and the whole hope of recovery. It has affected business, industry, employment, and agriculture alike. It is appropriate to report that while many of our measures are directed to the protection and assistance of particular groups, yet all are in the same boat and all must come to shore together. And how are they to get to shore? By listening to those who manifestly display a lack of knowledge of the character of the storm and of the primary problems of navigation? By boring holes in the bottom of the boat? By throwing overboard the measures designed to meet the storm and which are proving their effectiveness?

Our opponents have been going up and down the land repeating the statement that the sole or major origins of this disruption of this world-wide hurricane came from the United States through the wild floatation of securities and the stock market speculation in New York three years ago, together with the passage of the Smoot-Hawley tariff bill, which took place 9 months after the storm broke.

I proposed to discuss this assertion.

First. Because it can be proved absolutely untrue.

Second. Because the United States did not bring this calamity upon the world. The United States is not the oppressor of the world.

Third. Because it can be demonstrated to be founded upon a complete misunderstanding of what has happened in the world.

Fourth. Because any party which exhibits such a lack of economic understanding upon which to base national politics should not be trusted with the fate of 25,000,000 American families. They should not be trusted to command the battle against the most gigantic economic emergency with which our people have ever been confronted, and to bring that battle to victorious issue in the reestablishment of the functioning of our economic machine.

This thesis of the opposition as to the origin of our troubles is a wonderful explanation for political purposes. I would be glad, indeed, if all the enormous problems in the world could be simplified in such a fashion. If that were all that has been the matter with us, we could have recovered from this

depression two years ago instead of fighting ever since that time against the most destructive force which we have ever met in the whole history of the United States—and I am glad to say fighting victoriously.

Nowhere do I find the slightest reference in all the statements of the opposition party to the part played by the greatest war in history, the inheritances from it, the fears and panics and dreadful economic catastrophes which have developed from these causes in foreign countries, or the idea that they may have had the remotest thing to do with the calamity against which this administration is fighting day and night.

The leaders of the Democratic Party appear to be entirely in ignorance of the effect of the killing or incapacitating of 40,000,000 of the best youth of the earth, or of the stupendous cost of war—a sum of $300,000,000,000, or a sum nearly equal to the value of all the property in the United States, or the stupendous inheritance of debt, with its subsequent burden of taxes on scores of nations, with their stifling effect upon recuperation of industry and commerce or paralyzing effect upon world commerce by the continued instability of currencies and budgets.

Democratic leaders have apparently not yet learned of the political instability that arose all over Europe from the harsh treaties which ended the war from time to time paralyzed confidence. They have apparently never heard of the continuing economic dislocation from the transfer on every frontier of great masses of people from their former economic setting.

They apparently have not heard of the continuing dislocation of the stream of economic life which has been caused by the carving of 12 new nations from 3 old empires. These nations have a rightful aspiration to build their own separate economic systems; they naturally have surrounded themselves with tariffs and other national protections and have thereby diverted the long-established currents of trade. I presume, however, that if our Democrat leaders should hear of these nine new tariff walls introduced into the world some 14 years ago they would lay them at the door of the Smoot-Hawley bill passed 12 years later.

They apparently have not heard of the increase of standing armies of the world from two to five million men, with consequent burdens upon the taxpayer and the constant threat to the peace of the world.

Democratic leaders apparently ignore the effect upon us of the revolution among 300,000,000 people in China or the agitations amongst 160,000,000 people in Russia. They have ignored the effect of Russia's dumping into the world the commodities taken from its necessitous people in a desperate effort to secure money with which to carry on—shall I call it—a new deal.

The Democratic leaders apparently have never heard that there has been gigantic over-production of rubber in the Indies, of sugar in Cuba, of coffee in Brazil, of cocoa in Ecuador, of copper in the Congo, of lead in Burma, overproduction of zinc in Australia, overproduction of oil from new discoveries in the United States, Russia, Sumatra, and Venezuela; and likewise the effect of the introduction into the world of gigantic areas of new wheatlands in the Argentine and in Canada; new cotton lands in Egypt. In each and every case these enormous overproductions, far beyond consumption even in boom times, have crashed into the immutable law of supply and demand and brought collapse in prices and with it a train of bankruptcies and destruction of buying power for American goods.

They appear not to recognize that these forces finally generated economic strangulations, fears, and panic, the streams of which precipitated another long series of world-wide disasters.

The Democratic leaders apparently never heard that there followed revolutions in Spain and Portugal, Brazil, the Argentine, Chile, Peru, Ecuador, Siam, with attempts at revolution in a dozen other countries, resulting in their partial or practical repudiation of debt and the constant decrease in buying power for our goods.

They seem not to know that the further accumulation of all these causes and dislocations finally placed a strain upon the weakened economic systems of Europe until one by one they collapsed in failure of their gold standards and the partial or total repudiation of debts. They would hold the American people ignorant that every one of these nations in their financial crises imposed direct or indirect restrictions on the import of goods in order to reduce expenditures of their people. They call these "reprisals" against the Smoot-Hawley tariff bill.

They apparently have never heard of the succeeding jeopardy in which our Nation was put through these destructions of world commerce, or the persistent dumping of securities into the American market from these panic-stricken countries; the gigantic drains upon our gold and exchange; or the consequent fear that swept over our people, causing them to draw from our bank resources $1,500,000,000, all of which contracted credit, resulted in demand for payment of debts right and left, and thwarted our every effort for industrial recovery.

Yet in the face of all these tremendous facts, our Democratic friends leave the impression with the American people that the prime cause of this disaster was the boom in flotations and stock prices and a small increase in American tariffs.

Such an impression is unquestionably sought by the Democratic candidate when he says:

"That bubble burst first in the land of its origin—the United States. The major collapse abroad followed. It was not simultaneous with ours."

I do not underrate the distressing losses to millions of our people or the weakening of our strength from the mania of speculation and flotation of securities, but I may incidentally remark that the state governments have the primary responsibility to protect their citizens in these matters and that the vast majority of such transactions originated or took place in the State of New York.

But as to the accuracy of the statement I have quoted I may call your attention to a recent bulletin of the highly respected National Bureau of Economic Research, in which it is shown that this depression in the world began in 11 countries, having a population of 600,000,000 people, before it even appeared in our country, instead of the bubble having

"first burst in the United States." Their report shows that the depression in eight other countries, with a population of another 600,000,000 people, started at the same time with ours. In fact, the shocks from the continued economic earthquakes in these other countries carried our prices far below the values they would otherwise have sunk to, with all its train of greatly increased losses, perils, and unemployment.

Our opponents demand to know why the governmental leaders of business men over the world did not foresee the approach of these disintegrating forces. That answer is simple. The whole world was striving to overcome them, but finally they accumulated until certain countries could no longer stand the strain, and their people, suddenly overtaken by fear and panic, through hoarding and exporting their capital for safety, brought down their own houses and these disasters spread like a prairie fire through the world. No man can foresee the coming fear or panic, or the extent of this effect. I did not notice any Democratic Jeremiahs.

So much for the beginnings and forces moving in this calamity.

I now come to the amazing statements that the tariff bill of 1930 has borne a major influence in this debacle.

I quote from the Democratic candidate:

"The Hawley-Smoot tariff is one of the most important factors in the present world-wide depressions."

"The tariff has done so much to destroy foreign trade as to make foreign trade virtually impossible."

I shall analyze the accuracy of these statements not only because I should like to get before my countrymen a picture of the lack of understanding which the Democratic Party has of world trade, but also for the further reasons that it is of vital importance to labor that, as our opponents have this obsession, it means that if they are intrusted with control of our government they intend to break down the protective tariff which is the very first line of defense of the American standard of living against these new forces.

It requires a collection of dull facts to demonstrate the errors in these bald assertions by Democratic leaders.

At the beginning I may repeat that this tariff bill was not passed until nine months after the economic depression began in the United States and also not until 20 other countries had already gone into the depression.

The Democratic Party seldom mentions that 66 per cent of our imports are free of duty, but that is the fact. From half to two-thirds of the trade of the world is in nondutiable goods—that is, mostly raw materials; another part is in luxuries, upon which all nations collect tariffs for revenue; another part, and probably less than one-third of the whole, is in competitive goods so far as the importing nation is concerned and therefore subject to protective tariffs.

The trade of the world has distressingly diminished under the impact of these successive dislocations abroad. But the decrease is almost exactly the same in the free goods everywhere as in the dutiable goods. That is the case in the United States.

If the Smoot-Hawley tariff reduced our imports of dutiable goods, what was it that reduced the two-thirds of non-dutiable goods?

If we explore a little further, we would find from the Tariff Commission that the total duties collected in a comparable year represent 16 per cent of the total imports, this being an increase from 13.8 per cent of the previous tariffs. In other words, the effect of the new tariff shows an increase of 2.2 per cent. This is the margin with which they say we have pulled down foreign governments, created tyrannies, financial shocks, and revolutions.

I may mention that upon the same basis the McKinley duties were 23 per cent; the Dingley duties were 25.8 per cent; the Payne-Aldrich duties were 19.3 per cent of the whole of our imports—all compared with the 16 per cent of the present tariff—and yet they produced in foreign countries no revolutions, no financial crises, and did not destroy the whole world, nor destroy American foreign trade.

And I may explore the facts further. The 5-year average of the import trade of the United States before the depression was about 12 per cent of the whole world import trade. This they would say that 2.2 per cent increase applied to one-eighth of the world's imports has produced this catastrophe.

I can explore this in still another direction. I remind you that we levy tariffs upon only one-third of our imports. I also remind you that the actual increases made in the Smoot-Hawley Act covered one-quarter of the dutiable imports. I may also remind you that our import trade is only one-eighth of the import trade of the world. So they would have us believe this world catastrophe and this destruction of foreign trade happened because the United States increased tariffs on one-fourth of one-third of one-eighth of the world's imports. Thus we pulled down the world, so they tell us, by increased on less than 1 per cent of the goods being imported by the world.

And I may explore the responsibility of the tariffs still further. My opponent has said that it—

"Started such a drain on the gold reserves of the principal countries as to force practically all of them off the gold standard."

At Des Moines I defended the American people from this guilt. I pointed out that it happens there had been no drain of gold from Europe, which is the center of this disturbance, but on the contrary, that Europe's gold holdings have increased every year since the Smoot-Hawley tariff was passed.

My fellow citizens, I could continue for hours in an analysis of mistaken statements and misinformation from the opposition. But I assure you that this country is not to blame for the catastrophes that have come on the world. The American people did not originate the age-old controversies of Europe. We did not inaugurate the Great War or the panics in Europe.

No, my friends, the increase of duties collected by the United States by 2.2 per cent calculated on all the goods we import did not bring about the debacle in the world. If every country in the world were to increase the duty upon their imports by 2.2 per cent tomorrow, but if at the same time they would also adopt domestic policies which would bring about release of the energies and progress of their people—if they would support confidence in the world, then the world's, as well as our own, international commerce would thrive and boom beyond any dimensions that we ever dreamed of.

I dwell on this point, not only because I believe it is important to correct current misstatements of our opponents but because the policies of our opponents are founded upon misconceptions of the utmost gravity for the future of the United States. If it were not a matter of such utter gravity for the future of the United States, I should treat them not in a sense of seriousness but in a sense of humor. There is a vital determination before the American people as to whether there shall be placed in power over the destinies of 120,000,000 of people a party which so lacks a penetration into the forces active in the world and the dangers and responsibilities that arise from them....

I wish for a moment to return to the tariff. There is no measure in the whole economic gamut more vital to the American workingman and the farmer today than the maintenance of the protective tariff. I stand on that principle of protection. Our opponents are opposed to that principle. They propose "a competitive tariff for revenue." They propose to do this in the face of the fact that in the last year currencies of competing nations have depreciated by going off the gold standard and consequently wages have been lowered in 30 competing countries. This is a flat issue which every farmer and workman in the United States should consider from the point of view of his home and his living.

That it is the intention of the Democratic candidate to reduce the tariffs—on all commodities—must be clear from these typical expressions in respect to the present tariff used in this campaign—"Wicked and exorbitant tariff," "its outrageous rates," "almost prohibitive tariffs," "the notorious and indefensible Smoot-Hawley tariff," "the excessive rates of that bill must come down," "until the tariff is lowered," "our policy calls for lower tariffs."

Do you want to compete with laborers whose wages in his own money are only sufficient to buy from one-eighth to one-third of the amount of bread and butter which you can buy at the present rate of wages? That is the plain question. It does not require a great deal of ingenious argument to support its correct answer. It is true we have the most gigantic market in the world today, surrounded by nations clamoring to get in. But it has been my belief—and it is still my belief—that we should protect this market for our own labor; not surrender it to the labor of foreign countries as the Democratic party proposes to do.

Lyndon B. Johnson's Great Society Speech (1964)

The Civil Rights movement of the 1950s and early 1960s shed light on the economic plight of African Americans as well as that of other less prosperous sectors of the United States. The Johnson Administration proposed a series of programs designed to address the needs of the poor, especially in the areas of education, health care, and housing. President Lyndon B. Johnson outlined the new policy, known as the Great Society, in a speech at the University of Michigan on May 22, 1964.

Source: Johnson, Lyndon B. Public Papers of the President of the United States, Lyndon B. Johnson, 1963–1964 online. Book I, pp. 704–707. http://coursesa.matrix.msu.edu/~hst306/documents/great.htm.

President Lyndon B. Johnson's Remarks at the University of Michigan on May 22, 1964.

President Hatcher, Governor Romney, Senators McNamara and Hart, Congressmen Meader and Staebler, and other members of the fine Michigan delegation, members of the graduating class, my fellow Americans:

It is a great pleasure to be here today. This university has been coeducational since 1870, but I do not believe it was on the basis of your accomplishments that a Detroit high school girl said, "In choosing a college, you first have to decide whether you want a coeducational school or an educational school."

Well, we can find both here at Michigan, although perhaps at different hours.

I came out here today very anxious to meet the Michigan student whose father told a friend of mine that his son's education had been a real value. It stopped his mother from bragging about him.

I have come today from the turmoil of your Capital to the tranquility of your campus to speak about the future of your country.

The purpose of protecting the life of our Nation and preserving the liberty of our citizens is to pursue the happiness of our people. Our success in that pursuit is the test of our success as a Nation.

For a century we labored to settle and to subdue a continent. For half a century we called upon unbounded invention and untiring industry to create an order of plenty for all of our people.

The challenge of the next half century is whether we have the wisdom to use that wealth to enrich and elevate our national life, and to advance the quality of our American civilization.

Your imagination, your initiative, and your indignation will determine whether we build a society where progress is the servant of our needs, or a society where old values and new visions are buried under unbridled growth. For in your time we have the opportunity to move not only toward the rich society and the powerful society, but upward to the Great Society.

The Great Society rests on abundance and liberty for all. It demands an end to poverty and racial injustice, to which we are totally committed in our time. But that is just the beginning.

The Great Society is a place where every child can find knowledge to enrich his mind and to enlarge his talents. It is a place where leisure is a welcome chance to build and reflect, not a feared cause of boredom and restlessness. It is a place where the city of man serves not only the needs of the body and the demands of commerce but the desire for beauty and the hunger for community.

It is a place where man can renew contact with nature. It is a place which honors creation for its own sake and for what it adds to the understanding of the race. It is a place where men are more concerned with the quality of their goals than the quantity of their goods.

But most of all, the Great Society is not a safe harbor, a resting place, a final objective, a finished work. It is a challenge constantly renewed, beckoning us toward a destiny where the meaning of our lives matches the marvelous products of our labor.

So I want to talk to you today about three places where we begin to build the Great Society—in our cities, in our countryside, and in our classrooms.

Many of you will live to see the day, perhaps 50 years from now, when there will be 400 million Americans—four-fifths of them in urban areas. In the remainder of this century urban population will double, city land will double, and we will have to build homes, highways, and facilities equal to all those built since this country was first settled. So in the next 40 years we must rebuild the entire urban United States.

Aristotle said: "Men come together in cities in order to live, but they remain together in order to live the good life." It is harder and harder to live the good life in American cities today.

The catalog of ills is long: there is the decay of the centers and the despoiling of the suburbs. There is not enough housing for our people or transportation for our traffic. Open land is vanishing and old landmarks are violated.

Worst of all expansion is eroding the precious and time honored values of community with neighbors and communion with nature. The loss of these values breeds loneliness and boredom and indifference.

Our society will never be great until our cities are great. Today the frontier of imagination and innovation is inside those cities and not beyond their borders.

New experiments are already going on. It will be the task of your generation to make the American city a place where future generations will come, not only to live but to live the good life.

I understand that if I stayed here tonight I would see that Michigan students are really doing their best to live the good life.

This is the place where the Peace Corps was started. It is inspiring to see how all of you, while you are in this country, are trying so hard to live at the level of the people.

A second place where we begin to build the Great Society is in our countryside. We have always prided ourselves on being not only America the strong and America the free, but America the beautiful. Today that beauty is in danger. The water we drink, the food we eat, the very air that we breathe, are threatened with pollution. Our parks are overcrowded, our seashores overburdened. Green fields and dense forests are disappearing.

A few years ago we were greatly concerned about the "Ugly American." Today we must act to prevent an ugly America.

For once the battle is lost, once our natural splendor is destroyed, it can never be recaptured. And once man can no longer walk with beauty or wonder at nature his spirit will wither and his sustenance be wasted.

A third place to build the Great Society is in the classrooms of America. There your children's lives will be shaped. Our society will not be great until every young mind is set free to scan the farthest reaches of thought and imagination. We are still far from that goal.

Today, 8 million adult Americans, more than the entire population of Michigan, have not finished 5 years of school. Nearly 20 million have not finished 8 years of school. Nearly 54 million—more than one-quarter of all America—have not even finished high school.

Each year more than 100,000 high school graduates, with proved ability, do not enter college because they cannot afford it. And if we cannot educate today's youth, what will we do in 1970 when elementary school enrollment will be 5 million greater than 1960? And high school enrollment will rise by 5 million. College enrollment will increase by more than 3 million.

In many places, classrooms are overcrowded and curricula are outdated. Most of our qualified teachers are underpaid, and many of our paid teachers are unqualified. So we must give every child a place to sit and a teacher to learn from. Poverty must not be a bar to learning, and learning must offer an escape from poverty.

But more classrooms and more teachers are not enough. We must seek an educational system which grows in excellence as it grows in size. This means better training for our teachers. It means preparing youth to enjoy their hours of leisure as well as their hours of labor. It means exploring new techniques of teaching, to find new ways to stimulate the love of learning and the capacity for creation.

These are three of the central issues of the Great Society. While our Government has many programs directed at those issues, I do not pretend that we have the full answer to those problems.

But I do promise this: We are going to assemble the best thought and the broadest knowledge from all over the world to find those answers for America. I intend to establish working groups to prepare a series of White House conferences and meetings—on the cities, on natural beauty, on the quality of education, and on other emerging challenges. And from these meetings and from this inspiration and from these studies we will begin to set our course toward the Great Society.

The solution to these problems does not rest on a massive program in Washington, nor can it rely solely on the strained resources of local authority. They require us to create new concepts of cooperation, a creative federalism, between the National Capital and the leaders of local communities.

Woodrow Wilson once wrote: "Every man sent out from his university should be a man of his Nation as well as a man of his time."

Within your lifetime powerful forces, already loosed, will take us toward a way of life beyond the realm of our experience, almost beyond the bounds of our imagination.

For better or for worse, your generation has been appointed by history to deal with those problems and to lead America toward a new age. You have the chance never before afforded to any people in any age. You can help build a society where the demands of morality, and the needs of the spirit, can be realized in the life of the Nation.

So, will you join in the battle to give every citizen the full equality which God enjoins and the law requires, whatever his belief, or race, or the color of his skin?

Will you join in the battle to give every citizen an escape from the crushing weight of poverty?

Will you join in the battle to make it possible for all nations to live in enduring peace—as neighbors and not as mortal enemies?

Will you join in the battle to build the Great Society, to prove that our material progress is only the foundation on which we will build a richer life of mind and spirit?

There are those timid souls who say this battle cannot be won; that we are condemned to a soulless wealth. I do not agree. We have the power to shape the civilization that we want. But we need your will, your labor, your hearts, if we are to build that kind of society.

Those who came to this land sought to build more than just a new country. They sought a new world. So I have come here today to your campus to say that you can make their vision our reality. So let us from this moment begin our work so that in the future men will look back and say: It was then, after a long and weary way, that man turned the exploits of his genius to the full enrichment of his life.

Thank you. Goodby.

Panama Canal Treaty of 1977

After 13 years of negotiations, the U.S. government, under the administration of Jimmy Carter, concluded a treaty that gradually shifted control of the Panama Canal to the government of Panama. The United States, which had constructed the canal and collected the tolls for decades, turned over authority on December 31, 1999. The treaty signified the end of an era. The economic ramifications of this agreement included the loss of revenue and the end of yearly rent payments to Panama. Many Americans argued against the ratification of the treaty on the grounds that in time of war the United States could not be guaranteed the right of passage through the canal.

Source: http://www.state.gov/p/wha/rlnks/11936.htm.

The United States of America and the Republic of Panama, Acting in the spirit of the Joint Declaration of April 3, 1964, by the Representatives of the Governments of the United States of America and the Republic of Panama, and of the Joint Statement of Principles of February 7, 1974, initialed by the Secretary of State of the United States of America and the Foreign Minister of the Republic of Panama, and Acknowledging the Republic of Panama's sovereignty over its territory, Have decided to terminate the prior Treaties pertaining to the Panama Canal and to conclude a new Treaty to serve as the basis for a new relationship between them and, accordingly, have agreed upon the following:

Article I: Abrogation of Prior Treaties and Establishment of a New Relationship

1. Upon its entry into force, this Treaty terminates and supersedes:
   (a) The Isthmian Canal Convention between the United States of America and the Republic of Panama, signed at Washington, November 18, 1903;
   (b) The Treaty of Friendship and Cooperation signed at Washington, March 2, 1936, and the Treaty of Mutual Understanding and Cooperation and the related Memorandum of Understandings Reached, signed at Panama, January 25, 1955, between the United States of America and the Republic of Panama;
   (c) All other treaties, conventions, agreements, and exchanges of notes between the United States of America and the Republic of Panama concerning the Panama Canal, which were in force prior to the entry into force of this Treaty; and
   (d) Provisions concerning the Panama Canal, which appear in other treaties, conventions, agreements, and exchanges of notes between the United States of America and the Republic of Panama, which were in force prior to the entry into force of this Treaty.
2. In accordance with the terms of this Treaty and related agreements, the Republic of Panama, as territorial sovereign, grants to the United States of America, for the duration of this Treaty, the rights necessary to regulate the transit of ships through the Panama Canal, and to manage, operate, maintain, improve, protect and defend the Canal. The Republic of Panama guarantees to the United States of America the peaceful use of the land and water areas which it has been granted the rights to use for such purposes pursuant to this Treaty and related agreements.
3. The Republic of Panama shall participate increasingly in the management and protection and defense of the Canal, as provided in this Treaty.
4. In view of the special relationship established by this Treaty, the United States of America and the Republic of Panama shall cooperate to assure the uninterrupted and efficient operation of the Panama Canal.

Article II: Ratification, Entry into Force, and Termination

1. The Treaty shall be subject to ratification in accordance with the constitutional procedures of the two Parties. The instruments of ratification of this Treaty shall be exchanged at Panama at the same time as the instruments of ratification of the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, signed this date, are exchanged. This

Treaty shall enter into force, simultaneously with the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, six calendar months from the date of the exchange of the instruments of ratification.

2. This Treaty shall terminate at noon, Panama time, December 31, 1999.

Article III: Canal Operation and Management

1. The Republic of Panama, as territorial sovereign, grants to the United States of America the rights to manage, operate, and maintain the Panama Canal, its complementary works, installations, and equipment and to provide for the orderly transit of vessels through the Panama Canal. The United States of America accepts the grant of such rights and undertakes to exercise them in accordance with this Treaty and related agreements.
2. In carrying out the foregoing responsibilities, the United States of America may:
    (a) Use for the aforementioned purposes, without cost except as provided in this Treaty, the various installations and areas (including the Panama Canal) and waters, described in the Agreement in Implementation of this Article, signed this date, as well as such other areas and installations as are made available to the United States of America under this Treaty and related agreements, and take the measures necessary to ensure sanitation of such areas;
    (b) Make such improvements and alterations to the aforesaid installations and areas as it deems appropriate, consistent with the terms of this Treaty;
    (c) Make and enforce all rules pertaining the passage of vessels through the Canal and other rules with respect to navigation and maritime matters, in accordance with this Treaty and related agreements. The Republic of Panama will lend its cooperation, when necessary, in the enforcement of such rules;
    (d) Establish, modify, collect and retain tolls for the use of the Panama Canal, and other charges, and establish and modify methods of their assessment;
    (e) Regulate relations with employees of the United States Government;
    (f) Provide supporting services to facilitate the performance of its responsibilities under this Article;
    (g) Issue and enforce regulations for the exercise of the rights and responsibilities of the United States of America under this Treaty and related agreements. The Republic of Panama will lend its cooperation, when necessary, in the enforcement of such rules; and
    (h) Exercise any other right granted under this Treaty, or otherwise agreed upon between the two Parties.
3. Pursuant to the foregoing grant of rights, the United States of America shall, in accordance with the terms of this Treaty and the provisions of United States law, carry out its responsibilities by means of a United States Government agency called the Panama Canal Commission, which shall be constituted by and in conformity with the laws of the United States of America.
    (a) The Panama Canal Commission shall be supervised by a Board composed of nine members, five of whom shall be nationals of the United States of America, and four of whom shall be Panamanian nationals proposed by the Republic of Panama for appointment to such positions by the United States of America in a timely manner.
    (b) Should the Republic of Panama request the United States of America to remove a Panamanian national from membership on the Board, the United States of America shall agree to such request. In that event, the Republic of Panama shall propose another Panamanian national for appointment by the United States of America to such position in a timely manner. In case of removal of a Panamanian member of the Board on the initiative of the United States of America, both Parties will consult in advance in order to reach agreement concerning such removal, and the Republic of Panama shall propose another Panamanian national for appointment by the United States of America in his stead.
    (c) The United States of America shall employ a national of the United States of America as Administrator of the Panama Canal Commission, and a Panamanian national as Deputy Administrator, through December 31, 1989. Beginning January 1, 1990, a Panamanian national shall be employed as the Administrator and a national of the United States of America shall occupy the position of Deputy Administrator. Such Panamanian nationals shall be proposed to the United States of America by the Republic of Panama for appointment to such positions by the United States of America.
    (d) Should the United States of America remove the Panamanian national from his position as Deputy Administrator, or Administrator, the Republic of Panama shall propose another Panamanian national for appointment to such position by the United States of America.
4. An illustrative description of the activities the Panama Canal Commission will perform in carrying out the responsibilities and rights of the United States of America under this Article is set forth at the Annex. Also set forth in the Annex are procedures for the discontinuance or transfer of those activities performed prior to the entry into force of this Treaty by the Panama Canal Company or the Canal Zone Govern-

ment which are not to be carried out by the Panama Canal Commission.

5. The Panama Canal Commission shall reimburse the Republic of Panama for the costs incurred by the Republic of Panama in providing the following public services in the Canal operation areas and in housing areas set forth in the Agreement in Implementation of Article III of this Treaty and occupied by both United States and Panamanian citizen employees of the Panama Canal Commission: police, fire protection, street maintenance, street lighting, street cleaning, traffic management and garbage collection. The Panama Canal Commission shall pay the Republic of Panama the sum of ten million United States dollars (US$10,000,000) per annum for the foregoing services. It is agreed that every three years from the date that this Treaty enters into force, the costs involved in furnishing said services shall be reexamined to determine whether adjustment of the annual payment should be made because of inflation and other relevant factors affecting the cost of such services.
6. The Republic of Panama shall be responsible for providing, in all areas comprising the former Canal Zone, services of a general jurisdictional nature such as customs and immigration, postal services, courts and licensing, in accordance with this Treaty and related agreements.
7. The United States of America and the Republic of Panama shall establish a Panama Canal Consultative Committee, composed of an equal number of high-level representatives of the United States of America and the Republic of Panama, and which may appoint such subcommittees as it may deem appropriate. This Committee shall advise the United States of America and the Republic of Panama on matters of policy affecting the Canal's operation. In view of both Parties' special interest in the continuity and efficiency of the Canal operation in the future, the Committee shall advise on matters such as general tolls policy, employment and training policies to increase the participation of Panamanian nationals in the operation of the Canal, and international policies on matters concerning the Canal. The Committee's recommendations shall be transmitted to the two Governments, which shall give such recommendations full consideration in the formulation of such policy decisions.
8. In addition to the participation of Panamanian nationals at high management levels of the Panama Canal Commission, as provided for in paragraph 3 of this Article, there shall be growing participation of Panamanian nationals at all other levels and areas of employment in the aforesaid commission, with the objective of preparing, in an orderly and efficient fashion, for the assumption by the Republic of Panama of full responsibility for the management, operation and maintenance of the Canal upon the termination of this Treaty.
9. The use of the areas, waters and installations with respect to which the United States of America is granted rights pursuant to this Article, and the rights and legal status of United States Government agencies and employees operating in the Republic of Panama pursuant to this Article, shall be governed by Agreement in Implementation of this Article, signed this date.
10. Upon entry into force of this Treaty, the United States Government agencies known as the Panama Canal Company and the Canal Zone Government shall cease to operate within the territory of the Republic of Panama that formerly constituted the Canal Zone.

Article IV: Protection and Defense

1. The United States of America and the Republic of Panama commit themselves to protect and defend the Panama Canal. Each Party shall act, in accordance with its constitutional processes, to meet the danger resulting from an armed attack or other actions which threaten the security of the Panama Canal or of ships transiting it.
2. For the duration of this Treaty, the United States of America shall have primary responsibility to protect and defend the Canal. The rights of the United States of America to station, train, and move military forces within the Republic of Panama are described in the Agreement in Implementation of this Article, signed this date. The use of areas and installations and the legal status of the armed forces of the United States of America in the Republic of Panama shall be governed by the aforesaid Agreement.
3. In order to facilitate the participation and cooperation of the armed forces of both Parties in the protection and defense of the Canal, the United States of America and the Republic of Panama shall establish a Combined Board comprised of an equal number of senior military representatives of each Party. These representatives shall be charged by their respective governments with consulting and cooperating on all matters pertaining to the protection and defense of the Canal, and with planning for actions to be taken in concert for that purpose. Such combined protection and defense arrangements shall not inhibit the identity or lines of authority of the armed forces of the United States of America or the Republic of Panama. The Combined Board shall provide for coordination and cooperation concerning such matters as:
   (a) The preparation of contingency plans for the protection and defense of the Canal based upon the cooperative efforts of the armed forces of both Parties;
   (b) The planning and conduct of combined military exercises; and
   (c) The conduct of United States and Panamanian military operations with respect to the protection and defense of the Canal.

4. The Combined Board shall, at five-year intervals throughout the duration of this Treaty, review the resources being made available by the two Parties for the protection and defense of the Canal. Also, the Combined Board shall make appropriate recommendations to the two Governments respecting projected requirements, the efficient utilization of available resources of the two Parties, and other matters of mutual interest with respect to the protection and defense of the Canal.
5. To the extent possible consistent with its primary responsibility for the protection and defense of the Panama Canal, the United States of America will endeavor to maintain its armed forces in the Republic of Panama in normal times at a level not in excess of that of the armed forces of the United States of America in the territory of the former Canal Zone immediately prior to the entry into force of this Treaty.

Article V: Principle of Non-Intervention

Employees of the Panama Canal Commission, their dependents and designated contractors of the Panama Canal Commission, who are nationals of the United States of America, shall respect the laws of the Republic of Panama and shall abstain from any activity incompatible with the spirit of this Treaty. Accordingly, they shall abstain from any political activity in the Republic of Panama as well as from any intervention in the internal affairs of the Republic of Panama. The United States of America shall take all measures within its authority to ensure that the provisions of this Article are fulfilled.

Article VI: Protection of the Environment

1. The United States of America and the Republic of Panama commit themselves to implement this Treaty in a manner consistent with the protection of the natural environment of the Republic of Panama. To this end, they shall consult and cooperate with each other in all appropriate ways to ensure that they shall give due regard to the protection and conservation of the environment.
2. A Joint Commission on the Environment shall be established with equal representation from the United States and the Republic of Panama, which shall periodically review the implementation of this Treaty and shall recommend as appropriate to the two Governments ways to avoid or, should this not be possible, to mitigate the adverse environmental impacts which might result from their respective actions pursuant to the Treaty.
3. The United States of America and the Republic of Panama shall furnish the Joint Commission on the Environment complete information on any action taken in accordance with this Treaty which, in the judgment of both, might have a significant effect on the environment. Such information shall be made available to the Commission as far in advance of the contemplated action as possible to facilitate the study by the Commission of any potential environmental problems and to allow for consideration of the recommendation of the Commission before the contemplated action is carried out.

Article VII: Flags

1. The entire territory of the Republic of Panama, including the areas the use of which the Republic of Panama makes available to the United States of America pursuant to this Treaty and related agreements, shall be under the flag of the Republic of Panama, and consequently such flag always shall occupy the position of honor.
2. The flag of the United States of America may be displayed, together with the flag of the Republic of Panama, at the headquarters of the Panama Canal Commission, at the site of the Combined Board, and as provided in the Agreement in Implementation of Article IV of this Treaty.
3. The flag of the United States of America also may be displayed at other places and on some occasions, as agreed by both Parties.

Article VIII: Privileges and Immunities

1. The installations owned or used by the agencies or instrumentalities of the United States of America operating in the Republic of Panama pursuant to this Treaty and related agreements, and their official archives and documents, shall be inviolable. The two Parties shall agree on procedures to be followed in the conduct of any criminal investigation at such locations by the Republic of Panama.
2. Agencies and instrumentalities of the Government of the United States of America operating in the Republic of Panama pursuant to this Treaty and related agreements shall be immune from the jurisdiction of the Republic of Panama.
3. In addition to such other privileges and immunities as are afforded to employees of the United States Government and their dependents pursuant to this Treaty, the United States of America may designate up to twenty officials of the Panama Canal Commission who, along with their dependents, shall enjoy the privileges and immunities accorded to diplomatic agents and their dependents under international law and practice. The United States of America shall furnish to the Republic of Panama a list of the names of said officials and their dependents, identifying the positions they occupy in the Government of the United States of America, and shall keep such list current at all times.

Article IX: Applicable Laws and Law Enforcement

1. In accordance with the provisions of this Treaty and related agreements, the law of the Republic of Panama shall apply in the areas made available for the use of the United States of America pursuant to this Treaty.

The law of the Republic of Panama shall be applied to matters or events which occurred in the former Canal Zone prior to the entry into force of this Treaty only to the extent specifically provided in prior treaties and agreements.

2. Natural or juridical persons who, on the date of entry into force of this Treaty, are engaged in business or non-profit activities at locations in the former Canal Zone may continue such business or activities at those locations under the same terms and conditions prevailing prior to the entry into force of this Treaty for a thirty-month transition period from its entry into force. The Republic of Panama shall maintain the same operating conditions as those applicable to the aforementioned enterprises prior to the entry into force of this Treaty in order that they may receive licenses to do business in the Republic of Panama subject to their compliance with the requirements of its law. Thereafter, such persons shall receive the same treatment under the law of the Republic of Panama as similar enterprises already established in the rest of the territory of the Republic of Panama without discrimination.
3. The rights of ownership, as recognized by the United States of America, enjoyed by natural or juridical private persons in buildings and other improvements to real property located in the former Canal Zone shall be recognized by the Republic of Panama in conformity with its laws.
4. With respect to buildings and other improvements to real property located in the Canal operating areas, housing areas or other areas subject to the licensing procedure established in Article IV of the Agreement in Implementation of Article III of this Treaty, the owners shall be authorized to continue using the land upon which their property is located in accordance with the procedures established in that Article.
5. With respect to buildings and other improvements to real property located in areas of the former Canal Zone to which the aforesaid licensing procedure is not applicable, or may cease to be applicable during the lifetime or upon termination of this Treaty, the owners may continue to use the land upon which their property is located, subject to the payment of a reasonable charge to the Republic of Panama. Should the Republic of Panama decide to sell such land, the owners of the buildings or other improvements located thereon shall be offered a first option to purchase such land at a reasonable cost. In the case of non-profit enterprises, such as churches and fraternal organizations, the cost of purchase will be nominal in accordance with the prevailing practice in the rest of the territory of the Republic of Panama.
6. If any of the aforementioned persons are required by the Republic of Panama to discontinue their activities or vacate their property for public purposes, they shall be compensated at fair market value by the Republic of Panama.
7. The provisions of paragraphs 2–6 above shall apply to natural or juridical persons who have been engaged in business or non-profit activities at locations in the former Canal Zone for at least six months prior to the date of signature of this Treaty.
8. The Republic of Panama shall not issue, adopt or enforce any law, decree, regulation, or international agreement or take any other action which purports to regulate or would otherwise interfere with the exercise on the part of the United States of America of any right granted under this Treaty or related agreements.
9. Vessels transiting the Canal, and cargo, passengers and crews carried on such vessels shall be exempt from any taxes, fees, or other charges by the Republic of Panama. However, in the event such vessels call at a Panamanian port, they may be assessed charges thereto, such as charges for services provided to the vessel. The Republic of Panama may also require the passengers and crew disembarking from such vessels to pay such taxes, fees and charges as are established under Panamanian law for persons entering its territory. Such taxes, fees and charges shall be assessed on a nondiscriminatory basis.
10. The United States of America and the Republic of Panama will cooperate in taking such steps as may from time to time be necessary to guarantee the security of the Panama Canal Commission, its property, its employees and their dependents, and their property, the Forces of the United States of America and the members thereof, the civilian component of the United States Forces, the dependents of members of the Forces and civilian component, and their property, and the contractors of the Panama Canal Commission and of the United States Forces, their dependents, and their property. The Republic of Panama will seek from its Legislative Branch such legislation as may be needed to carry out the foregoing purposes and to punish any offenders.
11. The Parties shall conclude an agreement whereby nationals of either State, who are sentenced by the courts of the other State, and who are not domiciled therein, may elect to serve their sentences in their State of nationality.

Article X: Employment with the Panama Canal Commission

1. In exercising its rights and fulfilling its responsibilities as the employer, the United States of America shall establish employment and labor regulations which shall contain the terms, conditions and prerequisites for all categories of employees of the Panama Canal Commission. These regulations shall be provided to the Republic of Panama prior to their entry into force.
2. (a) The regulations shall establish a system of preference when hiring employees, for Panamanian applicants possessing the skills and qualifications required for employment by the Panama Canal Commission. The United States of America shall

endeavor to ensure that the number of Panamanian nationals employed by the Panama Canal Commission in relation to the total number of its employees will conform to the proportion established for foreign enterprises under the law of the Republic of Panama.

(b) The terms and conditions of employment to be established will in general be no less favorable to persons already employed by the Panama Canal Company or Canal Zone Government prior to the entry into force of this Treaty, than those in effect immediately prior to that date.

3. (a) The United States of America shall establish an employment policy for the Panama Canal Commission that shall generally limit the recruitment of personnel outside the Republic of Panama to persons possessing requisite skills and qualifications which are not available in the Republic of Panama.

(b) The United States of America will establish training programs for Panamanian employees and apprentices in order to increase the number of Panamanian nationals qualified to assume positions with the Panama Canal Commission, as positions become available.

(c) Within five years from the entry into force of this Treaty, the number of United States nationals employed by the Panama Canal Commission who were previously employed by the Panama Canal Company shall be at least twenty percent less than the total number of United States nationals working for the Panama Canal Company immediately prior to the entry into force of this Treaty.

(d) The United States of America shall periodically inform the Republic of Panama, through the Coordinating Committee, established pursuant to the Agreement in Implementation of Article III of this Treaty, of available positions within the Panama Canal Commission. The Republic of Panama shall similarly provide the United States of America any information it may have as to the availability of Panamanian nationals claiming to have skills and qualifications that might be required by the Panama Canal Commission, in order that the United States of America may take this information into account.

4. The United States of America will establish qualification standards for skills, training, and experience required by the Panama Canal Commission. In establishing such standards, to the extent they include a requirement for a professional license, the United States of America, without prejudice to its right to require additional professional skills and qualifications, shall recognize the professional licenses issued by the Republic of Panama.

5. The United States of America shall establish a policy for the periodic rotation, at a maximum of every five years, of United States citizen employees and other non-Panamanian employees, hired after the entry into force of this Treaty. It is recognized that certain exceptions to the said policy of rotation may be made for sound administrative reasons, such as in the case of employees holding positions requiring certain non-transferable or non-recruitable skills.

6. With regard to wages and fringe benefits, there shall be no discrimination on the basis of nationality, sex, or race. Payments by the Panama Canal Commission of additional remuneration, or the provision of other benefits, such as home leave benefits, to United States nationals employed prior to entry into force of this Treaty, or to persons of any nationality, including Panamanian nationals who are thereafter recruited outside of the Republic of Panama and who change their place of residence, shall not be considered to be discrimination for the purpose of this paragraph.

7. Persons employed by the Panama Canal Commission or Canal Zone Government prior to the entry into force of this Treaty, who are displaced from their employment as a result of the discontinuance by the United States of America of certain activities pursuant to this Treaty, will be placed by the United States of America, to the maximum extent feasible, in other appropriate jobs with the Government of the United States in accordance with United States Civil Service regulations. For such persons who are not United States nationals, placement efforts will be confined to United States Government activities located within the Republic of Panama. Likewise, persons previously employed in activities for which the Republic of Panama assumes responsibility as a result of this Treaty will be continued in their employment to the maximum extent feasible by the Republic of Panama. The Republic of Panama shall, to the maximum extent feasible, ensure that the terms and conditions of employment applicable to personnel employed in the activities for which it assumed responsibility are not less favorable than those in effect immediately prior to the entry into force of this Treaty. Non–United States nationals employed by the Panama Canal Company or Canal Zone Government prior to the entry into force of this Treaty who are involuntarily separated from their positions because of the discontinuance of an activity by reason of this Treaty, who are not entitled to an immediate annuity under the United States Civil Service Retirement System, and for whom continued employment in the Republic of Panama by the Government of the United States of America is not practicable, will be provided special job placement assistance by the Republic of Panama for employment in positions for which they may be qualified by experience and training.

8. The Parties agree to establish a system whereby the Panama Canal Commission may, if deemed mutually convenient or desirable by the two Parties, assign certain employees of the Panama Canal Commission, for

a limited period of time, to assist in the operation of activities transferred to the responsibility of the Republic of Panama as a result of this Treaty or related agreements. The salaries and other costs of employment of any such persons assigned to provide such assistance shall be reimbursed to the United States of America by the Republic of Panama.

9. (a) The right of employees to negotiate collective contracts with the Panama Canal Commission is recognized. Labor relations with employees of the Panama Canal Commission shall be conducted in accordance with forms of collective bargaining established by the United States of America after consultation with employee unions. (b) Employee unions shall have the right to affiliate with international labor organizations.
10. The United States of America will provide an appropriate early optional retirement program for all persons employed by the Panama Canal Company or Canal Zone Government immediately prior to the entry into force of this Treaty. In this regard, taking into account the unique circumstances created by the provisions of this Treaty, including its duration, and their effect upon such employees, the United States of America shall, with respect to them:
    (a) determine that conditions exist which invoke applicable United States law permitting early retirement annuities and apply such law for a substantial period of the duration of the treaty;
    (b) seek special legislation to provide more liberal entitlement to, and calculation of, retirement annuities than is currently provided for by law.

Article XI: Provisions for the Transition Period

1. The Republic of Panama shall reassume plenary jurisdiction over the former Canal Zone upon entry into force of this Treaty and in accordance with its terms. In order to provide for an orderly transition to the full application of the jurisdictional arrangements established by this Treaty and related agreements, the provisions of this Article shall become applicable upon the date this Treaty enters into force, and shall remain in effect for thirty calendar months. The authority granted in this Article to the United States of America for this transition period shall supplement, and is not intended to limit, the full application and effect of the rights and authority granted to the United States of America elsewhere in this Treaty and in related agreements.
2. During this transition period, the criminal and civil laws of the United States of America shall apply concurrently with those of the Republic of Panama in certain of the areas and installations made available for the use of the United States of America pursuant to this Treaty, in accordance with the following provisions:
    (a) The Republic Panama permits the authorities of the United States of America to have the primary right to exercise criminal jurisdiction over United States citizen employees of the Panama Canal Commission and their dependents, and members of the United States Forces and civilian component and their dependents, in the following cases:
        (i) for any offense committed during the transition period within such areas and installations, and
        (ii) for any offense committed prior to that period in the former Canal Zone.

        The Republic of Panama shall have the primary right to exercise jurisdiction over all other offenses committed by such persons, except as otherwise agreed.
    (b) Either Party may waive its primary right to exercise jurisdiction in a specific case or category of cases.
3. The United States of America shall retain the right to exercise jurisdiction in criminal cases relating to offenses committed prior to the entry into force of this Treaty in violation of the laws applicable in the former Canal Zone.
4. For the transition period, the United States of America shall retain police authority and maintain a police force in the aforementioned areas and installations. In such areas, the police authorities of the United States of America may take into custody any person not subject to their primary jurisdiction if such person is believed to have committed or to be committing an offense against applicable laws or regulations, and shall promptly transfer custody to the police authorities of the Republic of Panama. The United States of America and the Republic of Panama shall establish joint police patrols in agreed areas. Any arrests conducted by a joint patrol shall be the responsibility of the patrol member or members representing the Party having primary jurisdiction over the person or persons arrested.
5. The courts of the United States of America and related personnel, functioning in the former Canal Zone immediately prior to the entry into force of this Treaty, may continue to function during the transition period for the judicial enforcement of the jurisdiction to be exercised by the United States of America in accordance with this Article.
6. In civil cases, the civilian courts of the United States of America in the Republic of Panama shall have no jurisdiction over new cases of a private civil nature, but shall retain full jurisdiction during the transition period to dispose of any civil cases, including admiralty cases, already instituted and pending before the courts prior to the entry into force of this Treaty.
7. The laws, regulations, and administrative authority of the United States of America applicable in the former Canal Zone immediately prior to the entry into force of this Treaty shall, to the extent not inconsistent with this Treaty and related agreements, continue in force for the purpose of the exercise by the United States of

America of law enforcement and judicial jurisdiction only during the transition period. The United States of America may amend, repeal or otherwise change such laws, regulations and administrative authority. The two Parties shall consult concerning procedural and substantive matters relative to the implementation of this Article, including the disposition of cases pending at the end of the transition period and, in this respect, may enter into appropriate agreements by an exchange of notes or other instrument.

8. During this transition period, the United States of America may continue to incarcerate individuals in the areas and installations made available for the use of the United States of America by the Republic of Panama pursuant to this Treaty and related agreements, or to transfer them to penal facilities in the United States of America to serve their sentences.

Article XII: A Sea-Level Canal or a Third Lane of Locks

1. The United States of America and the Republic of Panama recognize that a sea-level canal may be important for international navigation in the future. Consequently, during the duration of this Treaty, both Parties commit themselves to study jointly the feasibility of a sea-level canal in the Republic of Panama, and in the event they determine that such a waterway is necessary, they shall negotiate terms, agreeable to both Parties, for its construction.
2. The United States of America and the Republic of Panama agree on the following:
   a) No new interoceanic canal shall be constructed in the territory of the Republic of Panama during the duration of this Treaty, except in accordance with the provisions of this Treaty, or as the two Parties may otherwise agree; and
   (b) During the duration of this Treaty, the United States of America shall not negotiate with third States for the right to construct an interoceanic canal on any other route in the Western Hemisphere, except as the two Parties may otherwise agree.
3. The Republic of Panama grants to the United States of America the right to add a third lane of locks to the existing Panama Canal. This right may be exercised at any time during the duration of this Treaty, provided that the United States of America has delivered to the Republic of Panama copies of the plans for such construction.
4. In the event the United States of America exercises the right granted in paragraph 3 above, it may use for that purpose, in addition to the areas otherwise made available to the United States of America pursuant to this Treaty, such other areas as the two Parties may agree upon. The terms and conditions applicable to Canal operating areas made available by the Republic of Panama for the use of the United States of America pursuant to Article III of this Treaty shall apply in a similar manner to such additional areas.
5. In the construction of the aforesaid works, the United States of America shall not use nuclear excavation techniques without the previous consent of the Republic of Panama.

Article XIII: Property Transfer and Economic Participation by the Republic of Panama

1. Upon termination of this Treaty, the Republic of Panama shall assume total responsibility for the management, operation, and maintenance of the Panama Canal, which shall be turned over in operating condition and free of liens and debts, except as the two Parties may otherwise agree.
2. The United States of America transfers, without charge, to the Republic of Panama all right, title and interest the United States of America may have with respect to all real property, including non-removable improvements thereon, as set forth below:
   (a) Upon the entry into force of this Treaty, the Panama Railroad and such property that was located in the former Canal Zone but that is not within the land and water areas the use of which is made available to the United States of America pursuant to this Treaty. However, it is agreed that the transfer on such date shall not include buildings and other facilities, except housing, the use of which is retained by the United States of America pursuant to this Treaty and related agreements, outside such areas;
   (b) Such property located in an area or a portion thereof at such time as the use by the United States of America of such area or portion thereof ceases pursuant to agreement between the two Parties.
   (c) Housing units made available for occupancy by members of the Armed Forces of the Republic of Panama in accordance with paragraph 5(b) of Annex B to the Agreement in Implementation of Article IV of this Treaty at such time as such units are made available to the Republic of Panama.
   (d) Upon termination of this Treaty, all real property and non-removable improvements that were used by the United States of America for the purposes of this Treaty and related agreements and equipment related to the management, operation and maintenance of the Canal remaining in the Republic of Panama.
3. The Republic of Panama agrees to hold the United States of America harmless with respect to any claims which may be made by third parties relating to rights, title and interest in such property.
4. The Republic of Panama shall receive, in addition, from the Panama Canal Commission a just and equitable return on the national resources which it has dedicated to the efficient management, operation, maintenance, protection and defense of the Panama Canal, in accordance with the following:
   (a) An annual amount to be paid out of Canal operating revenues computed at a rate of thirty hun-

dredths of a United States dollar (US$0.30) per Panama Canal net ton, or its equivalency, for each vessel transiting the Canal after the entry into force of this Treaty, for which tolls are charged. The rate of thirty hundredths of a United States dollar (US$0.30) per Panama Canal net ton, or its equivalency, will be adjusted to reflect changes in the United States wholesale price index for total manufactured goods during biennial periods. The first adjustment shall take place five years after entry into force of this Treaty, taking into account the changes that occurred in such price index during the preceding two years. Thereafter, successive adjustments shall take place at the end of each biennial period. If the United States of America should decide that another indexing method is preferable, such method shall be proposed to the Republic of Panama and applied if mutually agreed.

(b) A fixed annuity of ten million United States dollars (US$10,000,000) to be paid out of Canal operating revenues. This amount shall constitute a fixed expense of the Panama Canal Commission.

(c) An annual amount of up to ten million United States dollars (US$10,000,000) per year, to be paid out of Canal operating revenues to the extent that such revenues exceed expenditures of the Panama Canal Commission including amounts paid pursuant to this Treaty. In the event Canal operating revenues in any year do not produce a surplus sufficient to cover this payment, the unpaid balance shall be paid from operating surpluses in future years in a manner to be mutually agreed.

Article XIV: Settlement of Disputes

In the event that any question should arise between the Parties concerning the interpretation of this Treaty or related agreements, they shall make every effort to resolve the matter through consultation in the appropriate committees established pursuant to this Treaty and related agreements, or, if appropriate, through diplomatic channels. In the event the Parties are unable to resolve a particular matter through such means, they may, in appropriate cases, agree to submit the matter to conciliation, mediation, arbitration, or such other procedure for the peaceful settlement of the dispute as they may mutually deem appropriate. DONE at Washington, this 7th day of September, 1977 in duplicate, in the English and Spanish languages, both texts being equally authentic.

Annex: Procedures for the Cessation or Transfer of Activities Carried Out by the Panama Canal Company and the Canal Zone Government and Illustrative List of the Functions That May Be Performed by the Panama Canal Commission

1. The laws of the Republic of Panama shall regulate the exercise of private economic activities within the areas made available by the Republic of Panama for the use of the United States of America pursuant to this Treaty. Natural or juridical persons who, at least six months prior to the date of signature of this Treaty, were legally established and engaged in the exercise of economic activities in accordance with the provisions of paragraphs 2–7 of Article IX of this Treaty.
2. The Panama Canal Commission shall not perform governmental or commercial functions as stipulated in paragraph 4 of this Annex, provided, however, that this shall not be deemed to limit in any way the right of the United States of America to perform those functions that may be necessary for the efficient management, operation and maintenance of the Canal.
3. It is understood that the Panama Canal Commission, in the exercise of the rights of the United States of America with respect to the management, operation and maintenance of the Canal, may perform functions such as are set forth below by way of illustration:
   a. Management of the Canal enterprise.
   b. Aids to navigation in Canal waters and in proximity thereto.
   c. Control of vessel movement.
   d. Operation and maintenance of the locks.
   e. Tug service for the transit of vessels and dredging for the piers and docks of the Panama Canal Commission.
   f. Control of the water levels in Gatun, Alajuela (Madden), and Miraflores Lakes.
   g. Non-commercial transportation services in Canal waters.
   h. Meteorological and hydrographic services.
   i. Admeasurement.
   j. Non-commercial motor transport and maintenance.
   k. Industrial security through the use of watchmen.
   l. Procurement and warehousing.
   m. Telecommunications.
   n. Protection of the environment by preventing and controlling the spillage of oil and substances harmful to human or animal life and of the ecological equilibrium in areas used in operation of the Canal and the anchorages.
   o. Non-commercial vessel repair.
   p. Air conditioning services in Canal installations.
   q. Industrial sanitation and health services.
   r. Engineering design, construction and maintenance of Panama Canal Commission installations.
   s. Dredging of the Canal channel, terminal ports and adjacent waters.
   t. Control of the banks and stabilizing of the slopes of the Canal.
   u. Non-commercial handling of cargo on the piers and docks of the Panama Canal Commission.
   v. Maintenance of public areas of the Panama Canal Commission, such as parks and gardens.
   w. Generation of electric power.

x. Purification and supply of water.
y. Marine salvage in Canal waters.
z. Such other functions as may be necessary or appropriate to carry out, in conformity with this Treaty and related agreements, the rights and responsibilities of the United States of America with respect to the management, operation and maintenance of the Panama Canal.

4. The following activities and operations carried out by the Panama Canal Company and the Canal Zone Government shall not be carried out by the Panama Canal Commission, effective upon the dates indicated herein:
   (a) Upon the date of entry into force of this Treaty:
      (i) Wholesale and retail sales, including those through commissaries, food stores, department stores, optical shops and pastry shops;
      (ii) The production of food and drink, including milk products and bakery products;
      (iii) The operation of public restaurants and cafeterias and the sale of articles through vending machines;
      (iv) The operation of movie theaters, bowling alleys, pool rooms and other recreational and amusement facilities for the use of which a charge is payable;
      (v) The operation of laundry and dry cleaning plants other than those operated for official use;
      (vi) The repair and service of privately owned automobiles or the sale of petroleum or lubricants thereto, including the operation of gasoline stations, repair garages and tire repair and recapping facilities, and the repair and service of other privately owned property, including appliances, electronic devices, boats, motors, and furniture;
      (vii) The operation of cold storage and freezer plants other than those operated for official use;
      (viii) The operation of freight houses other than those operated for official use;
      (ix) The operation of commercial services to and supply of privately owned and operated vessels, including the constitution of vessels, the sale of petroleum and lubricants and the provision of water, tug services not related to the Canal or other United States Government operations, and repair of such vessels, except in situations where repairs may be necessary to remove disabled vessels from the Canal;
      (x) Printing services other than for official use;
      (xi) Maritime transportation for the use of the general public;
      (xii) Health and medical services provided to individuals, including hospitals, leprosariums, veterinary, mortuary and cemetery services;
      (xiii) Educational services not for professional training, including schools and libraries;
      (xiv) Postal services;
      (xv) Immigration, customs and quarantine controls, except those measures necessary to ensure the sanitation of the Canal;
      (xvi) Commercial pier and dock services, such as the handling of cargo and passengers; and
      (xvii) Any other commercial activity of a similar nature, not related to the management, operation or maintenance of the Canal.
   (b) Within thirty calendar months from the date of entry into force of this Treaty, governmental services such as:
      (i) Police;
      (ii) Courts; and
      (iii) Prison system.

5. (a) With respect to those activities or functions described in paragraph 4 above, or otherwise agreed upon by the two Parties, which are to be assumed by the Government of the Republic of Panama or by private persons subject to its authority, the two Parties shall consult prior to the discontinuance of such activities or functions by the Panama Canal Commission to develop appropriate arrangements for the orderly transfer and continued efficient operation or conduct thereof.
   (b) In the event that appropriate arrangements cannot be arrived at to ensure the continued performance of a particular activity or function described in paragraph 4 above which is necessary to the efficient management, operation or maintenance of the Canal, the Panama Canal Commission may, to the extent consistent with the other provisions of this Treaty and related agreements, continue to perform such activity or function until such arrangements can be made.

United States Senate Modifications (Incorporated Into the June 1978 Instruments of Ratification)

(a) RESERVATIONS:

(1) Pursuant to its adherence to the principle of nonintervention, any action taken by the United States of America in the exercise of its rights to assure that the Panama Canal shall remain open, neutral, secure, and accessible, pursuant to the provisions of the Panama Canal Treaty, the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, and the resolutions of ratification thereto, shall be only for the purpose of assuring that the Canal shall remain open, neutral, secure, and accessible, and shall not have as its purpose or be interpreted as a right of intervention in the internal affairs of the Republic of Panama or interference with its political independence or sovereign integrity.

(2) The instruments of ratification of the Panama Canal Treaty to be exchanged by the United States of America and the Republic of Panama shall each include provisions whereby each Party agrees to waive its rights and release the other Party from its obligations under paragraph 2 of Article XII of the Treaty.

(3) Notwithstanding any provision of the Treaty, no funds may be drawn from the Treasury of the United States of America for payments under paragraph 4 of Article XIII without statutory authorization.

(4) Any accumulated unpaid balance under paragraph 4(c) of Article XIII of the Treaty at the date of termination of the Treaty shall be payable only to the extent of any operating surplus in the last year of the duration of the Treaty, and nothing in such paragraph may be constructed as obligating the United States of America to pay, after the date of the termination of the Treaty, any such unpaid balance which shall have accrued before such date.

(5) Exchange of the instruments of ratification of the Panama Canal Treaty and of the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal shall not be effective earlier than March 31, 1979, and such Treaties shall not enter into force prior to October 1, 1979, unless legislation necessary to implement the provisions of the Panama Canal Treaty shall have been enacted by the Congress of the United States of America before March 31, 1979.

(6) After the date of entry into force of the Treaty, the Panama Canal Commission shall, unless otherwise provided by legislation enacted by the Congress of the United States of America, be obligated to reimburse the Treasury of the United States of America, as nearly as possible, for the interest cost of the funds or other assets directly invested in the Commission by the Government of the United States of America and for the interest cost of the funds or other assets directly invested in the predecessor Panama Canal Company by the Government of the United States of America and not reimbursed before the date of entry into force of the Treaty. Such reimbursement for such interest costs shall be made at a rate determined by the Secretary of the Treasury of the United States of America and at annual intervals to the extent earned, and if not earned, shall be made from subsequent earnings. For purposes of this reservation, the phrase "funds or other assets directly invested" shall have the same meaning as the phrase "net direct investment" has under section 62 of title 2 of the Canal Zone Code.

(b) UNDERSTANDINGS:

(1) Before the first day of the three-year period beginning on the date of entry into force of the Treaty and before each three-year period following thereafter, the two Parties shall agree upon the specific levels and quality of services, as are referred to in paragraph 5 of Article III of the Treaty, to be provided during the following three-year period and, except for the first three-year period, on the reimbursement to be made for the costs of such services, such services to be limited to such as are essential to the effective functioning of the Canal operating areas and the housing areas referred to in paragraph 5 of Article III. If payments made under paragraph 5 of Article III for the preceding three-year period, including the initial three-year period, exceed or are less than the actual costs to the Republic of Panama for supplying, during such period, the specific levels and quality of services agreed upon, then the Panama Canal Commission shall deduct from or add to the payment required to be made to the Republic of Panama for each of the following three years one-third of such excess or deficit, as the case may be. There shall be an independent and binding audit, conducted by an auditor mutually selected by both Parties, of any costs of services disputed by the two Parties pursuant to the reexamination of such costs provided for in this understanding.

(2) Nothing in paragraph 3, 4, or 5 of Article IV of the Treaty may be construed to limit either the provisions of the first paragraph of Article IV providing that each Party shall act, in accordance with its constitutional processes, to meet danger threatening the security of the Panama Canal, or the provisions of paragraph 2 of Article IV providing that the United States of America shall have primary responsibility to protect and defend the Canal for the duration of the Treaty.

(3) Nothing in paragraph 4(c) of Article XIII of the Treaty shall be construed to limit the authority of the United States of America, through the United States Government agency called the Panama Canal Commission, to make such financial decisions and incur such expenses as are reasonable and necessary for the management, operation, and maintenance of the Panama Canal. In addition, toll rates established pursuant to paragraph 2(d) of Article III need not be set at levels designed to produce revenues to cover the payment to the Republic of Panama described in paragraph 4(c) of Article XIII.

(4) Any agreement concluded pursuant to paragraph II of Article IX of the Treaty with respect to the transfer of prisoners shall be concluded in accordance with the constitutional processes of both Parties.

(5) Nothing in the Treaty, in the Annex or Agreed Minute relating to the Treaty, or in any other agreement relating to the Treaty obligates the United States of America to provide any economic assistance, military grant assistance, security supporting assistance, foreign military sales credits, or international military education and training to the Republic of Panama.

(6) The President shall include all reservations and understandings incorporated by the Senate in this resolution of ratification in the instrument of ratification to be exchanged with the Government of the Republic of Panama.

Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal

The United States of America and the Republic of Panama have agreed upon the following:

Article I

The Republic of Panama declares that the Canal, as an international transit waterway, shall be permanently neutral in accordance with the regime established in this Treaty. The same regime of neutrality shall apply to any other international waterway that may be built either partially or wholly in the territory of the Republic of Panama.

Article II

The Republic of Panama declares the neutrality of the Canal in order that both in time of peace and in time of war it shall remain secure and open to peaceful transit by the vessels of all nations on terms of entire equality, so that there will be no discrimination against any nation, or its citizens or subjects, concerning the conditions or charges of transit, or for any other reason, and so that the Canal, and therefore the Isthmus of Panama, shall not be the target of reprisals in any armed conflict between other nations of the world. The foregoing shall be subject to the following requirements:

(a) Payment of tolls and other charges for transit and ancillary services, provided they have been fixed in conformity with the provisions of Article III (c);
(b) Compliance with applicable rules and regulations, provided such rules and regulations are applied in conformity with the provisions of Article III;
(c) The requirement that transiting vessels commit no acts of hostility while in the Canal; and
(d) Such other conditions and restrictions as are established by this Treaty.

Article III

1. For purposes of the security, efficiency and proper maintenance of the Canal the following rules shall apply:
   (a) The Canal shall be operated efficiently in accordance with conditions of transit through the Canal, and rules and regulations that shall be just, equitable and reasonable, and limited to those necessary for safe navigation and efficient, sanitary operation of the Canal;
   (b) Ancillary services necessary for transit through the Canal shall be provided;
   (c) Tolls and other charges for transit and ancillary services shall be just, reasonable, equitable and consistent with the principles of international law;
   (d) As a pre-condition of transit, vessels may be required to establish clearly the financial responsibility and guarantees for payment of reasonable and adequate indemnification, consistent with international practice and standards, for damages resulting from acts or omissions of such vessels when passing through the Canal. In the case of vessels owned or operated by a State or for which it has acknowledged responsibility, a certification by that State that it shall observe its obligations under international law to pay for damages resulting from the act or omission of such vessels when passing through the Canal shall be deemed sufficient to establish such financial responsibility;
   (e) Vessels of war and auxiliary vessels of all nations shall at all times be entitled to transit the Canal, irrespective of their internal operation, means of propulsion, origin, destination or armament, without being subjected, as a condition of transit, to inspection, search or surveillance. However, such vessels may be required to certify that they have complied with all applicable health, sanitation and quarantine regulations. In addition, such vessels shall be entitled to refuse to disclose their internal operation, origin, armament, cargo or destination. However, auxiliary vessels may be required to present written assurances, certified by an official at a high level of the government of the State requesting the exemption, that they are owned or operated by that government and in this case are being used only on government non-commercial service.
2. For the purposes of this Treaty, the terms "Canal," "vessel of war," "auxiliary vessel," "internal operation," "armament" and "inspection" shall have the meanings assigned them in Annex A to this Treaty.

Article IV

The United States of America and the Republic of Panama agree to maintain the regime of neutrality established in this Treaty, which shall be maintained in order that the Canal shall remain permanently neutral, notwithstanding the termination of any other treaties entered into by the two Contracting Parties.

Article V

After the termination of the Panama Canal Treaty, only the Republic of Panama shall operate the Canal and maintain military forces, defense sites and military installations within its national territory.

Article VI

1. In recognition of the important contributions of the United States of America and of the Republic of Panama to the construction, operation, maintenance, and protection and defense of the Canal, vessels of war and auxiliary vessels of those nations shall, notwithstanding any other provisions of this Treaty, be entitled to transit the Canal irrespective of their internal operation, means of propulsion, origin, destination, armament or cargo carried. Such vessels of war and auxiliary vessels will be entitled to transit the Canal expeditiously.

2. The United States of America, so long as it has responsibility for the operation of the Canal, may continue to provide the Republic of Colombia toll-free transit through the Canal for its troops, vessels and materials of war. Thereafter, the Republic of Panama may provide the Republic of Colombia and the Republic of Costa Rica with the right of toll-free transit.

Article VII

1. The United States of America and the Republic of Panama shall jointly sponsor a resolution in the Organization of American States opening to accession by all nations of the world the Protocol to this Treaty whereby all the signatories will adhere to the objective of this Treaty, agreeing to respect the regime of neutrality set forth herein.
2. The Organization of American States shall act as the depositary for this Treaty and related instruments.

Article VIII

This Treaty shall be subject to ratification in accordance with the constitutional procedures of the two Parties. The instruments of ratification of this Treaty shall be exchanged at Panama at the same time as the instruments of ratification of the Panama Canal Treaty, signed this date, are exchanged. This Treaty shall enter into force, simultaneously with the Panama Canal Treaty, six calendar months from the date of the exchange of the instruments of ratification.

DONE at Washington, this 7th day of September, 1977, in the English and Spanish languages, both texts being equally authentic.

Annex A

1. "Canal" includes the existing Panama Canal, the entrances thereto and the territorial seas of the Republic of Panama adjacent thereto, as defined on the map annexed hereto (Annex B), and any other interoceanic waterway in which the United States of America is a participant or in which the United States of America has participated in connection with the construction or financing, that may be operated wholly or partially within the territory of the Republic of Panama, the entrances thereto and the territorial seas adjacent thereto.
2. "Vessel of war" means a ship belonging to the naval forces of a State, and bearing the external marks distinguishing warships of its nationality, under the command of an officer duly commissioned by the government and whose name appears in the Navy List, and manned by a crew which is under regular naval discipline.
3. "Auxiliary vessel" means any ship, not a vessel of war, that is owned or operated by a State and used, for the time being, exclusively on government non-commercial service.
4. "Internal operation" encompasses all machinery and propulsion systems, as well as the management and control of the vessel, including its crew. It does not include the measures necessary to transit vessels under the control of pilots while such vessels are in the Canal.
5. "Armament" means arms, ammunition, implements of war and other equipment of a vessel which possesses characteristics appropriate for use for warlike purposes.
6. "Inspection" includes on-board examination of vessel structure, cargo, armament and internal operation. It does not include those measures strictly necessary for admeasurement, nor those measures strictly necessary to assure safe, sanitary transit and navigation, including examination of deck and visual navigation equipment, nor in the case of live cargoes, such as cattle or other livestock, that may carry communicable diseases, those measures necessary to assure that health and sanitation requirements are satisfied. United States Senate Modifications (Incorporated Into the June 1978 Instruments of Ratification)

(a) AMENDMENTS

(1) At the end of Article IV, insert the following:

"A correct and authoritative statement of certain rights and duties of the Parties under the foregoing is contained in the Statement of Understanding issued by the Government of the United States of America on October 14, 1977, and by the Government of the Republic of Panama on October 18, 1977, which is hereby incorporated as an integral part of this Treaty, as follows:

"'Under the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal (the Neutrality Treaty), Panama and the United States have the responsibility to assure that the Panama Canal will remain open and secure to ships of all nations. The correct interpretation of this principle is that each of the two countries shall, in accordance with their respective constitutional processes, defend the Canal against any threat to the regime of neutrality, and consequently shall have the right to act against any aggression or threat directed against the Canal or against the peaceful transit of vessels through the Canal.

"'This does not mean, nor shall it be interpreted as, a right of intervention of the United States in the internal affairs of Panama. Any United States action will be directed at insuring that the Canal will remain open, secure, and accessible, and it shall never be directed against the territorial integrity or political independence of Panama.'"

(2) At the end of the first paragraph of Article VI, insert the following:

"In accordance with the Statement of Understanding mentioned in Article IV above: 'The Neutrality Treaty provides that the vessels of war and auxiliary vessels of the United States and Panama will be entitled to transit the Canal expeditiously. This is intended, and it

shall so be interpreted, to assure the transit of such vessels through the Canal as quickly as possible, without any impediment, with expedited treatment, and in case of need or emergency, to go to the head of the line of vessels in order to transit the Canal rapidly.'"

(b) CONDITIONS:

(1) Notwithstanding the provisions of Article V or any other provision of the Treaty, if the Canal is closed, or its operations are interfered with, the United States of America and the Republic of Panama shall each independently have the right to take such steps as each deems necessary, in accordance with its constitutional processes, including the use of military force in the Republic of Panama, to reopen the Canal or restore the operations of the Canal, as the case may be.

(2) The instruments of ratification of the Treaty shall be exchanged only upon the conclusion of a Protocol of Exchange, to be signed by authorized representatives of both Governments, which shall constitute an integral part of the Treaty documents and which shall include the following:

"Nothing in the Treaty shall preclude the Republic of Panama and the United States of America from making, in accordance with their respective constitutional processes, any agreement or arrangement between the two countries to facilitate performance at any time after December 31, 1999, of their responsibilities to maintain the regime of neutrality established in the Treaty, including agreements or arrangements for the stationing of any United States military forces or the maintenance of defense sites after that date in the Republic of Panama that the Republic of Panama and the United States of America may deem necessary or appropriate."

(c) RESERVATIONS:

1) Before the date of entry into force of the Treaty, the two Parties shall begin to negotiate for an agreement under which the American Battle Monuments Commission would, upon the date of entry into force of such agreement and thereafter, administer, free of all taxes and other charges and without compensation to the Republic of Panama and in accordance with the practices, privileges, and immunities associated with the administration of cemeteries outside the United States of America by the American Battle Monuments Commission, including the display of the flag of the United States of America, such part of Corozal Cemetery in the former Canal Zone as encompasses the remains of citizens of the United States of America.

(2) The flag of the United States of America may be displayed, pursuant to the provisions of paragraph 3 of Article VII of the Panama Canal Treaty, at such part of Corozal Cemetery in the former Canal Zone as encompasses the remains of citizens of the United States of America.

(3) The President—

(A) shall have announced, before the date of entry into force of the Treaty, his intention to transfer, consistent with an agreement with the Republic of Panama, and before the date of termination of the Panama Canal Treaty, to the American Battle Monuments Commission the administration of such part of Corozal Cemetery as encompasses the remains of citizens of the United States of America; and

(B) shall have announced, immediately after the date of exchange of instruments of ratification, plans, to be carried out at the expense of the Government of the United States of America, for

(i) removing, before the date of entry into force of the Treaty, the remains of citizens of the United States of America from Mount Hope Cemetery to such part of Corozal Cemetery as encompasses such remains, except that the remains of any citizen whose next of kin objects in writing to the Secretary of the Army not later than three months after the date of exchange of the instruments of ratification of the Treaty shall not be removed; and

(ii) transporting to the United States of America for reinterment, if the next of kin so requests, not later than thirty months after the date of entry into force of the Treaty, any such remains encompassed by Corozal Cemetery and, before the date of entry into force of the Treaty, any remains removed from Mount Hope Cemetery pursuant to subclause (i); and

(C) shall have fully advised, before the date of entry into force of the Treaty, the next of kin objecting under clause (B) (i) of all available options and their implications.

(4) To carry out the purposes of Article III of the Treaty of assuring the security, efficiency, and proper maintenance of the Panama Canal, the United States of America and the Republic of Panama, during their respective periods of responsibility for Canal operation and maintenance, shall, unless the amount of the operating revenues of the Canal exceeds the amount needed to carry out the purposes of such Article, use such revenues of the Canal only for purposes consistent with the purposes of Article III.

(d) UNDERSTANDING:

(1) Paragraph 1 (c) of Article III of the Treaty shall be construed as requiring, before any adjustment in tolls for use of the Canal, that the effects of any such toll adjustment on the trade patterns of the two Parties shall be given full consideration, including consideration of the following factors in a manner consistent with the regime of neutrality:

(A) the costs of operating and maintaining the Panama Canal;
(B) the competitive position of the use of the Canal in relation to other means of transportation;
(C) the interests of both Parties in maintaining their domestic fleets;
(D) the impact of such an adjustment on the various geographic areas of each of the two Parties; and
(E) the interests of both Parties in maximizing their international commerce. The United States of America and the Republic of Panama shall cooperate in exchanging information necessary for the consideration of such factors.

(2) The agreement "to maintain the regime of neutrality established in this Treaty" in Article IV of the Treaty means that either of the two Parties to the Treaty may, in accordance with its constitutional processes, take unilateral action to defend the Panama Canal against any threat, as determined by the Party taking such action.

(3) The determination of "need or emergency" for the purpose of any vessel of war or auxiliary vessel of the United States of America or the Republic of Panama going to the head of the line of vessels in order to transit the Panama Canal rapidly shall be made by the nation operating such vessel.

(4) Nothing in the Treaty, in Annex A or B thereto, in the Protocol relating to the Treaty, or in any other agreement relating to the Treaty, obligates the United States of America to provide any economic assistance, military grant assistance, security supporting assistance, foreign military sales credits, or international military education and training to the Republic of Panama.

(5) The President shall include all amendments, conditions, reservations, and understandings incorporated by the Senate in this resolution of ratification in the instrument of ratification to be exchanged with the Government of the Republic of Panama.

Ronald Reagan's Remarks and a Question and Answer Session with Reporters on the Air Traffic Controllers' Strike (1981)

During the Pullman Strike of 1894 the government forced American Railway Union members, who the U.S. attorney general claimed had violated the Sherman Anti-Trust Act, to return to work after the railway system had been shut down when all employees joined the strike. The importance of the transportation system caused the government to intercede. The same problem occurred in 1981 when members of the Air Traffic Controllers Union, in violation of their contract, called for a strike, a tactic that would have grounded all planes in the United States. President Ronald Reagan warned the union that he would fire all air traffic controllers who went out on strike and he did so when they ignored his warning; he explained his actions in a press conference on August 3, 1981.

Source: http://www.reagan/utexas.edu/resource/speeches/1981/8038/a.htm.

August 3, 1981

The President. This morning at 7 A.M. the union representing those who man America's air traffic control facilities called a strike. This was the culmination of 7 months of negotiations between the Federal Aviation Administration and the union. At one point in these negotiations agreement was reached and signed by both sides, granting a $40 million increase in salaries and benefits. This is twice what other government employees can expect. It was granted in recognition of the difficulties inherent in the work these people perform. Now, however, the union demands are 17 times what had been agreed to—$681 million. This would impose a tax burden on their fellow citizens which is unacceptable.

I would like to thank the supervisors and controllers who are on the job today, helping to get the nation's air system operating safely. In the New York area, for example, four supervisors were scheduled to report for work, and 17 additionally volunteered. At National Airport a traffic controller told a newsperson he had resigned from the union and reported to work because, "How can I ask my kids to obey the law if I don't?" This is a great tribute to America.

Let me make one thing plain. I respect the right of workers in the private sector to strike. Indeed, as president of my own union, I led the first strike ever called by that union. I guess I'm maybe the first one to ever hold this office who is a lifetime member of an AFL-CIO union. But we cannot compare labor-management relations in the private sector with government. Government cannot close down the assembly line. It has to provide without interruption the protective services which are government's reason for being.

It was in recognition of this that the Congress passed a law forbidding strikes by government employees against the public safety. Let me read the solemn oath taken by each of these employees, a sworn affidavit, when they accepted their jobs: "I am not participating in any strike against the Government of the United States or any agency thereof, and I will not so participate while an employee of the Government of the United States or any agency thereof."

It is for this reason that I must tell those who fail to report for duty this morning they are in violation of the law, and if they do not report for work within 48 hours, they have forfeited their jobs and will be terminated.

Q[uestion]. Mr. President, are you going to order any union members who violate the law to go to jail?

The President. Well, I have some people around here, and maybe I should refer that question to the Attorney General.

Q[uestion]. Do you think that they should go to jail, Mr. President, anybody who violates this law?

The President. I told you what I think should be done. They're terminated.

The Attorney General: Well, as the President has said, striking under these circumstances constitutes a violation of the law, and we intend to initiate in appropriate cases criminal proceedings against those who have violated the law.

Q[uestion]. How quickly will you initiate criminal proceedings, Mr. Attorney General?

The Attorney General: We will initiate those proceedings as soon as we can.

Q[uestion]. Today?

The Attorney General: The process will be underway probably by noon today.

Q[uestion]. Are you going to try and fine the union $1 million per day?

The Attorney General: Well, that's the prerogative of the court. In the event that any individuals are found guilty of contempt of a court order, the penalty for that, of course, is imposed by the court.

Q[uestion]. How much more is the government prepared to offer the union?

The Secretary of Transportation. We think we had a very satisfactory offer on the table. It's twice what other Government employees are going to get—11.4 percent. Their demands were so unreasonable there was no spot to negotiate, when you're talking to somebody 17 times away from where you presently are. We do not plan to increase our offer to the union.

Q[uestion]. Under no circumstances?

The Secretary of Transportation. As far as I'm concerned, under no circumstance.

Q[uestion]. Will you continue to meet with them?

The Secretary of Transportation. We will not meet with the union as long as they're on strike. When they're off of strike, and assuming that they are not decertified, we will meet with the union and try to negotiate a satisfactory contract.

Q[uestion]. Do you have any idea how it's going at the airports around the country?

The Secretary of Transportation. Relatively, it's going quite well. We're operating somewhat in excess of 50 percent capacity. We could increase that. We have determined, until we feel we're in total control of the system, that we will not increase that. Also, as you probably know, we have some rather severe weather in the Midwest, and our first priority is safety.

Q[uestion]. What can you tell us about possible decertification of the union and impoundment of its strike funds?

The Secretary of Transportation. There has been a court action to impound the strike fund of $3.5 million. We are going before the National Labor Relations Authority this morning and ask for decertification of the union.

Q[uestion]. When you say that you're not going to increase your offer, are you referring to the original offer or the last offer which you've made? Is that still valid?

The Secretary of Transportation. The last offer we made in present value was exactly the same as the first offer. Mr. Poli (Robert Poli, Professional Air Traffic Controllers Organization) asked me about 11 o'clock last evening if he could phase the increase in over a period of time. For that reason, we phased it in over a longer period of time. It would have given him a larger increase in terms of where he would be when the next negotiations started, but in present value it was the $40 million originally on the table.

Q[uestion]. Mr. Attorney General, in seeking criminal action against the union leaders, will you seek to put them in jail if they do not order these people back to work?

The Attorney General. Well, we will seek whatever penalty is appropriate under the circumstances in each individual case.

Q[uestion]. Do you think that is an appropriate circumstance?

The Attorney General. It is certainly one of the penalties that is provided for in the law, and in appropriate cases, we could very well seek that penalty.

Q[uestion]. What's appropriate?

The Attorney General. Well, that depends upon the fact of each case.

Q[uestion]. What makes the difference?

Q[uestion]. Can I go back to my "fine" question? How much would you like to see the union fined every day?

The Attorney General. Well, there's no way to answer that question. We would just have to wait until we get into court, see what the circumstances are, and determine what position we would take in the various cases under the facts as they develop.

Q[uestion]. But you won't go to court and ask the court for a specific amount?

The Attorney General. Well, I'm sure we will when we reach that point, but there's no way to pick a figure now.

Q[uestion]. Mr. President, will you delay your trip to California or cancel it if the strike is still on later this week?

The President. If any situation should arise that would require my presence here, naturally I will do that. So, that will be a decision that awaits what's going to happen. May I just—because I have to be back in there for another appointment—may I just say one thing on top of this? With all this talk of penalties and everything else, I hope that you'll emphasize, again, the possibility of termination, because I believe that there are a great many of those people—and they're fine people—who have been swept up in this and probably have not really considered the result—the fact that they had taken an oath, the fact that this is now in violation of the law, as that one supervisor referred to with regard to his children. And I am hoping that they will in a sense remove themselves from the lawbreaker situation by returning to their posts.

I have no way to know whether this had been conveyed to them by their union leaders, who had been informed that this would be the result of a strike.

Q[uestion]. Your deadline is 7 o'clock Wednesday morning for them to return to work?

The President. Forty-eight hours.

The Secretary of Transportation. It's 11 o'clock Wednesday morning.

Q[uestion]. Mr. President, why have you taken such strong action as your first action? Why not some lesser action at this point?

The President. What lesser action can there be? The law is very explicit. They are violating the law. And as I say, we called this to the attention of their leadership. Whether this was conveyed to the membership before they voted to strike, I don't know. But this is one of the reasons why there can be no further negotiation while this situation continues. You can't sit and negotiate with a union that's in violation of the law.

The Secretary of Transportation. And their oath.

The President. And their oath.

Q[uestion]. Are you more likely to proceed in the criminal direction toward the leadership than the rank and file, Mr. President?

The President. Well, that again is not for me to answer.

Q[uestion]. Mr. Secretary, what can you tell us about the possible use of military air controllers—how many, how quickly can they get on the job?

The Secretary of Transportation. In answer to the previous question, we will move both civil and criminal, probably more civil than criminal, and we now have papers in the U.S. attorneys offices, under the Attorney General, in about 20 locations around the country where would be involved two or three principal people.

As far as the military personnel are concerned, they are going to fundamentally be backup to the supervisory personnel. We had 150 on the job, supposedly, about a half-hour ago. We're going to increase that to somewhere between 700 and 850.

Q[uestion]. Mr. Secretary, are you ready to hire other people should these other people not return?

The Secretary of Transportation. Yes, we will, and we hope we do not reach that point. Again as the President said, we're hoping these people come back to work. They do a fine job. If that does not take place, we have a training school, as you know. We will be advertising. We have a number of applicants right now. There's a waiting list in terms of people that want to be controllers, and we'll start retraining and reorganize the entire FAA traffic controller group.

Q[uestion]. Just to clarify, is your deadline 7 A.M. Wednesday or 11 o'clock?

The Secretary of Transportation. It's 11 A.M. Wednesday. The President said 48 hours, and that would be 48 hours.

Q[uestion]. If you actually fire these people, won't it put your air traffic control system in a hole for years to come, since you can't just cook up a controller in—[inaudible]?

The Secretary of Transportation. That obviously depends on how many return to work. Right now we're able to operate the system. In some areas, we've been very gratified by the support we've received. In other areas, we've been disappointed. And until I see the numbers, there's no way I can answer that question.

Q[uestion]. Mr. Lewis, did you tell the union leadership when you were talking to them that their members would be fired if they went out on strike?

The Secretary of Transportation. I told Mr. Poli yesterday that the President gave me three instructions in terms of the firmness of the negotiations: one is there would be no amnesty; the second there would be no negotiations during the strike; and third is that if they went on strike, these people would no longer be government employees.

Q[uestion]. Mr. Secretary, you said no negotiations. What about informal meetings of any kind with Mr. Poli?

The Secretary of Transportation. We will have no meetings until the strike is terminated with the union.

Q[uestion]. Have you served Poli at this point? Has he been served by the Attorney General?

The Attorney General. In the civil action that was filed this morning, the service was made on the attorney for the union, and the court has determined that that was appropriate service on all of the officers of the union.

Q[uestion]. My previous question about whether you're going to take a harder line on the leadership than rank and file in terms of any criminal prosecution, can you give us an answer on that?

The Attorney General. No, I can't answer that except to say that each case will be investigated on its own merits, and action will be taken as appropriate in each of those cases.

Q[uestion]. Mr. Lewis, do you know how many applications for controller jobs you have on file now?

The Secretary of Transportation. I do not know. I'm going to check when I get back. I am aware there's a waiting list, and I do not have the figure. If you care to have that, you can call our office, and we'll tell you. Also, we'll be advertising and recruiting people for this job if necessary.

Q[uestion]. Mr. Secretary, how long are you prepared to hold out if there's a partial but not complete strike?

The Secretary of Transportation. I think the President made it very clear that as of 48 hours from now, if the people are not back on the job, they will not be government employees at any time in the future.

Q[uestion]. How long are you prepared to run the air controller system—[inaudible]?

The Secretary of Transportation. For years, if we have to.

Q[uestion]. How long does it take to train a new controller, from the waiting list?

The Secretary of Transportation. It varies; it depends on the type of center they're going to be in. For someone to start in the system and work through the more minor office types of control situations till they get to, let's say, a Chicago or a Washington National, it takes about 3 years. So in this case, what we'll have to do if some of the major metropolitan areas are shut down or a considerable portion is shut down, we'll be bringing people in from other areas that are qualified and then start bringing people through the training schools in the smaller cities and smaller airports.

Q[uestion]. Mr. Secretary, have you definitely made your final offer to the union?

The Secretary of Transportation. Yes, we have.

Q[uestion]. Thank you.

NOTE: The President read the statement to reporters at 10:55 A.M. in the Rose Garden at the White House.

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