ECONOMIC DEVELOPMENT OF COLONIES
COLONIAL ERA

Why did different labor systems develop in North America, and how did this impact workers' lives?

Spanish demand for labor on **plantations** led to **encomienda** (enslaving Natives) and **African slavery**. Caste system defined hierarchy based on race; intermixing among Natives, Spanish, and Africans. (Mexico, the Southwest)

Because the **planation/cash crop agriculture** expanded in the Southern colonies (tobacco, rice, indigo, sugar), demand for labor was high. This led to **indentured servitude** and **African slavery**. In New England and Middle Colonies, demand for labor was smaller as more families moved to those areas and plantation systems did not dominate. (English colonies, East Coast and Caribbean)

Impact - For **indentured servants**- allowed poor to migrate to America; when contract ended had opportunity to own land but were often ignored or underrepresented by colonial assemblies; For **slaves**… had opportunity for manumission early on then **slave codes** developed and led to **chattel slavery**, life was hard but culture preserved through music, Church, and familial ties. Indentured servitude declined in 18th century and African slavery increased. (English colonies, East Coast)

KEY TERMS: Colombian Exchange, Triangular Trade, Middle Passage, Chesapeake, North Carolina, Tobacco, Southern Colonies, West Indies, Plantation, Staple Crops, Indentured Servants, Enslaved Africans, Chattel Slavery

IMPACT OF TECHNOLOGY

Maritime Technology enabled increased travel, trade, and migration. Europeans learned from Chinese and Arab mariners and worked to improve technology from 15th century on.

Compass (magnetically tracking direction), **Caravel** (**sturdier ship** with **triangular sails** to allow for sailing against wind), **Astrolabe** (used to calculate latitude), **Cartography** (map-making), **Sextant** (used to determine both **latitude and longitude**)

MARKET REVOLUTION

Eli Whitney- Cotton Gin and interchangeable parts
Samuel Slater – smuggles factory plans into the U.S. Market Revolution begins 1815.

Transportation improvements in this era included the **steam engine** & **railroad expansion** (mainly in the north), **ferry boats** with steam engines which made navigation of rivers much easier (**canals** to rivers)… especially going upstream!
Communication improved with **telegraph**, telegraph wires, Morse Code
Innovations such as the **steel plow** and **mechanical reaper** helped agriculture, and the **factory system** led to new **textile mills** (in the north) and expansion of **free labor** (wage labor) that contrasted **slave labor of the South** and led to early **labor union** movements in factories as well as **mines**. The South was becoming home of **King Cotton** simultaneously due to increased demand for labor – **cotton gin**.

The **growth of manufacturing** drove a significant increase in prosperity and standards of living for some; this led to the emergence of a larger **middle class** and a small but wealthy **business elite** but also to a large and growing population of **laboring poor**.

PATTERNS OF EXCHANGE
COLONIAL ERA

How did patterns of exchange develop in the colonial era, and how did European nations respond to economic issues?

Columbian Exchange – exchange of animals, plants, disease, peoples altered lives in three continents, led to development of Atlantic System

Atlantic Economy, Triangular Trade-raw materials from colonies to Europe, products to Africa and colonies, slaves from Africa to colonies (Middle Passage)… developed through colonization and competition for economic power and opportunity. Key Terms: Atlantic World, Shared Labor Market, African Slave Trade, Atlantic System, Racial Theories/Gradiations/Categories

Mercantilism - economic theory and practice that promoted *governmental regulation of a nation's economy* for the purpose of becoming more powerful than rival powers. It was the economic counterpart of political absolutism. Mercantilism includes a national economic policy aimed at accumulating monetary reserves through a positive balance of trade, especially of finished goods. Historically, such policies frequently led to war and also motivated colonial expansion. *High tariffs*, especially on manufactured goods, are an almost universal feature of mercantilist policy. Other policies have included:

- *forbidding colonies to trade with other nations;*
- *monopolizing markets;*
- *banning the export of gold and silver, even for payments;*
- *forbidding trade to be carried in foreign ships;*

Competition over Resources- competition for land, fur trade, and natural resources led to war (European wars, Metacom's War & other Indian conflicts especially on the frontier, French and Indian War) eventually resulting in English domination of North America in the colonial era. New products increased violence among Indian groups (inter-tribal conflict) and increased spread of diseases.

INDUSTRIAL REVOLUTION & RISE OF BIG BUSINESS

Northern economy grew during the Civil War partially due to pro-growth policies such as subsidies and continued afterward with explosion of innovation, thousands of patents, growth of manufacturing, rise of big business, and increased labor movements. This era saw dawn of mega-rich, millionaire class and increase gap between rich and poor. Marketing, management, and trade also revolutionized. While things changing dramatically in the North, the South is still primarily agriculture and sharecropping and tenant farming replaced slavery.

Innovations included: telephone (Alexander Graham Bell, typewriter, sewing machine, cash register, stock ticker, electric streetcars, electric light bulbs (Thomas Edison), electric power, Bessemer Process (stronger steel), skyscrapers, elevators, improved agricultural tools including mechanical reaper (mechanization of agriculture gave rise to corporate farm and decrease in food prices)

Railroad consolidation – Cornelius Vanderbilt, buying up smaller railroads
Steel consolidation – Andrew Carnegie; vertical integration creates monopoly/trust
Oil consolidation – Rockefeller; horizontal integration creates monopoly/trust
Banking – J.P. Morgan; interlocking directorates; dominated banking
Holding Companies further concentrated wealth in the hands of a few.

Labor Unions protest working conditions, low wages, child labor etc. but laissez-faire government policy and plentiful labor force (huge wave of immigrants) limits success in reforming working conditions; this movement contributes to rise of the Populists (People's Party) and the Progressives.
Examples: American Federation of Labor, Knights of Labor

Impact of Strikes in Gilded Age: Pullman Strike (government intervenes on behalf of business because strike is interrupting the mail service), **Haymarket Riot** and other strikes ended in violence and negative view of labor; big businesses employed "**Pinkertons"** to disperse strikes and bring in **scab workers**

GOVERNMENT POLICIES REGARDING ECONOMICS

1787 – Constitutional Convention…
1789 – Constitution Ratified…

Federalists argued for strong central government and **Anti-Federalists** argued for strong state governments… **Northern interests (primarily Federalists)** wanted the government to be able to impose tariffs on goods in order to protect against foreign competition. However, the **Southern states (primarily Anti-Federalists)** feared that tariffs on their goods would hurt the trade upon which they heavily relied.

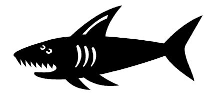
This led to **Commerce Compromise in Constitution…**

The compromise was for tariffs to be only allowed on imports from foreign countries and not exports from the US… and the new central government could regulate interstate trade but not trade/economics within a state.

GOVERNMENT POLICIES REGARDING ECONOMICS

HENRY CLAY & THE AMERICAN SYSTEM
Continuing Hamilton's Plan fueling industry…
→Internal improvements at government expense, Protective tariff, Second national bank

Henry Clay **BIT** into economic issues!



Bank of the United States (**2nd BUS** – 20 year charter, 1816-1836)
Internal improvements (canals, roads, railroads – *doesn't pass*… except for Cumberland Road)
Tariff (protective tariff of 1816)

During the Era of Good Feelings when nationalism was heightened after the War of 1812, opponents of the American System restricted the plan rather than completely objecting. Those in the west and south generally opposed it, because they would be punished by higher tariffs (higher prices). Southerners had a secure market in England for their cotton at the time, so they saw no need to government interference… and viewed it as showing favoritism to the North. Following the Era of GF, Clay and Whigs supported the plan… President Jackson and the democrats opposed it. The part of the plan dealing with internal improvements was never adequately funded.

GOVERNMENT POLICIES REGARDING ECONOMICS

ALEXANDER HAMILTON & THE FOUNDATION OF THE AMERICAN ECONOMIC SYSTEM, 1790S

Four Reports to Congress (SUCH AS REPORT ON MANUFACTURING)… **a Federalist Plan** …
HAMILTON'S FINANCIAL PLAN
Funding the national debt, Protective tariff, Whisky excise tax, National bank (Be Fat!)

BANK OF THE UNITED STATES
EXCISE TAXES ON WHISKEY
FUNDING AT PAR
ASSUMPTION OF STATE DEBTS
TARIFFS

Democratic-Republican Party (First Two Party system developed in part due to debate regarding this plan) feared an enlarged role for the federal government and instead preferred securing an agrarian economy. Although they rejected the plan, they had no alternative plan to propose. Thomas Jefferson repealed the whisky tax after becoming president in 1801. The bank expired in 1811 and the Federalist Party petered out by 1815. Democratic-Republicans came to realize (after the War of 1812) that the government needed the stable currency a national bank could ensure. Paired with the British dumping of goods post-war, they also saw the value of protective tariffs. Therefore, the opponents became supporters and the Era of Good Feelings began.

GOVERNMENT POLICIES REGARDING ECONOMICS

Abraham Lincoln

Economic Programs… continuation of Clay's ideals… building a national economy…

High tariff
Transcontinental railroad (Pacific Railway Act)
Harbor improvements
National banking legislation

Opponents continued to reject the idea of using government power to promote the interests of business (or the "economic elite" as they claimed). Lincoln, a former Whig, had included important business planks in his 1860 platform to broaden the base of his minority Republican Party. When the south seceded, many Democrats went with them… giving Lincoln and the Republicans the ability to implement their economic plans. This did not lead to a third national bank, but it did move the nation in that direction. Lincoln's policies on internal improvements (transcontinental railroad) ***changed the role of the government in the economy.***

TAXES…a review of a few key moments…

Taxes played a significant role in the Patriot rebellion against Great Britain from 1763-1776. **Stamp Act** – the first direct tax on colonists (Britain expected colonists to pay their fair share of war expenses); before French and Indian War taxes were indirect including tariffs; led to Stamp Act Congress and repeal of the act; "no taxation without representation" and "give me liberty or give me death" in response to new taxes illustrate impact of Enlightenment ideas and perceived corrupt policies of British government. After independence, U.S. government under AOC had no such power… but then under the Constitution taxes resume.

Excise Tax on Whiskey – direct tax as part of Hamilton's financial plan; repealed in 1801 by Thomas Jefferson

Graduated/Progress Income Tax – initially demanded by the Populists (People's Party) in the Gilded Age, established in the Progressive Era with the **16th Amendment**. (*the more you make the more you pay*; still our current system)

Reaganomics – Ronald Reagan's economic plan included a reduction in personal income taxes and some corporate income taxes based on supply side theory. Tax rates were reduced considerably in the early 80s with the top progressive tax rate lowered to 28%. (later increased to 32%)

TARIFFS… 1900-Present

Tariffs declined thanks to Woodrow Wilson and the **1913 Underwood Tariff** which supported Progressive view of income tax over tariff for government revenue and concept of free trade; This was part of Wilson's 14 Points, but nation overall did not agree with him…

1920s—Tariffs go back up in 1922 then WAY up in 1930 (Smoot-Hawley)… high tariffs are one cause of Depression… leads to retaliatory tariffs and overall decline in sales and trade… which leads to more unemployment.

FDR reduced tariffs with his **Reciprocal Trade Agreement.**

General Agreement on Tariffs and Trade (GATT) in 1947 minimized tariffs and supported the move to free trade.

1994 North American Free Trade Agreement (NAFTA) removed all trade barriers (including tariffs) among Canada, U.S., and Mexico.

Clinton also removed tariffs on China. NAFTA and China as favored trading nation led to rapid decline in manufacturing with those businesses and jobs moving overseas and U.S. economy growing in service and high-tech sectors.

TARIFFS… 1789-1900

A tariff is a tax on imports. The general purpose is to protect American business by making foreign goods more expensive. Tariffs were the primary source of revenue for the federal government until replaced with income taxes in the 20th century. Tariffs have been a topic of debate between political parties since the Early Republic.

Trade and Navigation Acts included tariffs as part of mercantilist policy to protect English economy. Patriot resentment against these acts increased after 1763 when salutary neglect ended. Under the Articles of Confederation, the new U.S. government didn't have such power… but under the Constitution it did.

Hamilton Plan – The First Protective Tariff… tax on imports, 1790s, opponents feared negative impact on farmers (everything costs more) in exchange for protecting those in New England (manufacturing began there)

Tariff of 1816 – Part of the American System… new protective tariff with unusual support from both North and South (Era of Good Feelings), helped economy recover and grow as Market Revolution began… however there was a terrible panic in 1819 due to over speculation.

Tariff of 1828 – The Tariff of Abominations… high tariff led to nullification crisis and South Carolina threatened to secede; ended with **Compromise Tariff of 1833.**

Lincoln's Plan included increased tariff; Morrill Tariff

McKinley Tariff of 1890 – high tariff f 50%
Wilson-Gorman Tariff of 1894 – lowered tariff to 42%
Dingley Tariff of 1897- back to 50%
1890s saw economic panic and depression.
Pro-business tariffs in an era where U.S. producing more goods than any other nation and needing markets was not wise, but most didn't make the connection yet.

BANKING REVIEW

1791–1811	**First Bank of the United States**
1811–1816	No central bank
1816–1836	**Second Bank of the United States**

Creation of First and Second Bank of the United Sates
First Bank of the United States chartered by Congress and signed into law by President **George Washington** on February 25, **1791** at the urging of **Alexander Hamilton**. This was done despite strong opposition from **Thomas Jefferson** and **James Madison**, among numerous others. The charter was for twenty years and expired in 1811 under President Madison, because Congress refused to renew it.

In **1816**, however, **Madison** revived it in the form of the **Second Bank of the United States**. Years later, early renewal of the bank's charter became the primary issue in the reelection of President **Andrew Jackson** who was opposed to the central bank. After his second term began, he pulled the government's funds out of the bank. **Nicholas Biddle**, President of the **Second Bank of the United States**, responded by contracting the money supply to pressure Jackson to renew the bank's charter forcing the country into a recession, which the bank blamed on Jackson's policies. Interestingly, Jackson is the only President to completely pay off the national debt. The bank's **charter was not renewed** in **1836**.

BANKING REVIEW

1837–1862 **Free Banking Era**
1846-1913 **Treasury System**

Free Banking Era
Without a central bank, American banking was dominated by private "**pet banks**" and **"wildcat" banks**. These were established with state charters and they issued their own currency. Without the regulation of the central bank, having many different currencies (most not backed by gold or silver) made commerce difficult. With westward expansion, banks extended too much currency to fuel speculation. The value of money was unstable. This led to **Andrew Jackson**'s **Specie Circular (Coinage Act) in 1836**… outlawing paper money purchases of land… which led to bank runs and the **panic of 1837** and a 6 year economic depression.

From 1837 to 1862, in the **Free Banking Era** there was no formal central bank. States issued charters. However, the **Van Buren** administration did create the **United States Treasury system** in **1846**. It moved public funds from private banks to Treasury branches in an effort to stabilize the economy.

National Banking Era & Expansion of Treasury System
In **1862-1864**, the **Abraham Lincoln** administration created the **Legal Tender Act and National Banking Acts** established federally-issued bank charters, which took banking out of the hands of state governments who were sometimes corrupt. This problem was resolved to some degree by free banking laws in some states but it was not until this Act was passed that free banking was established on a uniform, national level.

CURRENCY AND COIN – Early History

In 1690, the Massachusetts Bay Colony became the first in the United States to issue paper money, but soon others began printing their own money as well. The demand for currency in the colonies was due to the scarcity of coins, which had been the primary means of trade. Colonies' paper currencies were used to pay for their expenses, as well as a means to lend money to the colonies' citizens. Paper money quickly became the primary means of exchange within each colony, and it even began to be used in financial transactions with other colonies. However, **some of the currencies were not redeemable in gold or silver, which caused them to depreciate.**

The first attempt at a national currency was during the American Revolutionary war. In 1775 the Continental Congress began issuing its own paper currency, calling their bills "**Continentals**". The Continentals were **backed only by future tax revenue**, and were used to help finance the Revolutionary War. As a result, the value of a Continental diminished quickly. The experiences lead the United States to be skeptical of unbacked currencies, which were not issued again until the Civil War.

The first U.S. institution with central banking responsibilities including printing the new currency, dollars (gold, silver, and copper coins), was the First Bank of the United States.

The **U.S. Coinage Act of 1792**, consistent with the Constitution, provided for a **U.S. Mint**, which stamped silver and gold coins. One dollar was defined by statute as a specific weight of **gold**. The Act also invoked the death penalty for anyone found to be debasing money. **President George Washington** contributed his own silver for the initial coins minted. All silver was removed from coins and the death penalty ended by the **Coinage Act of 1965**.

BANKING REVIEW

1913–Present **Federal Reserve System**

Creation of Federal Reserve System
The main motivation for the third central banking system came from the Panic of 1907, which caused renewed demands for banking and currency reform. During the last quarter of the 19th century and the beginning of the 20th century the United States economy went through a series of financial panics. According to many economists, **the previous national banking system had two main weaknesses: an inelastic currency and a lack of liquidity.** In 1908, Congress enacted the **Aldrich-Vreeland Act**, which provided for an emergency currency and established the **National Monetary Commission** to study banking and currency reform. The National Monetary Commission returned with recommendations which later became the basis of the **Federal Reserve Act**, passed in **1913**. A new national currency, the **Federal Reserve Note** began.

CURRENCY AND COIN – 1800's

During the free banking era, there was no national currency. Money was erratic especially as wildcat banks issued paper currencies. **Lincoln's Legal Tender Act and National Banking Acts** issue a national **paper currency** (**Greenback**) to finance the Civil War without raising taxes. Bills were backed only by the national government's promise to redeem them and their value was dependent on public confidence in the government as well as the ability of the government to give out specie in exchange for the bills in the future The paper money depreciated in terms of gold and became the subject of controversy, particularly because debts contracted earlier could be paid in this cheaper currency. To further control the currency, the Act taxed notes issued by state and local banks, essentially pushing non-federally-issued paper out of circulation.

The **Coinage Act of 1873** ended bimetallism and put the country back on the **gold standard**. The gold standard came under bitter attack in the United States, first by the **National Greenback Party** in the 1870s and later by the Democrats under **William Jennings Bryan**, particularly in the **Election of 1896**.

We went on **Gold Standard** in 1900 following Klondike, Alaska Gold Rush. United States went off the gold standard in 1933, back on in 1948, and off again in 1973. Since the late 1970s no country in the world has been willing to redeem its currency in gold.

LABOR REVIEW

Indentured Servitude dominated in 17th century then declines in 18th century; purpose was to provide labor on plantations; enabled poor Englishmen and women to move to America. Indentured Servitude ended with independence.

African slavery began in 17th century also to provide labor on plantations and increased following Bacon's Rebellion in 1676 to become dominate labor source for Southern plantations. Slave Codes locked slaves in (chattel slavery defined by race). Slavery ended with the 13th Amendment in 1865.

Wage Labor (free labor) developed in Northern colonies/states while slavery dominated in South.

Labor Unions began in early 19th century during **Market Revolution** and increased during **Industrial Revolution** of the late 19th century. Government policies including **laissez-faire** during the Gilded Age and **massive immigration** creating large labor source limited effectiveness of unions.

In the 20th century, government began to back labor. Theodore Roosevelt forced arbitration in **anthracite coal strike of 1902**. The **1913 Clayton Anti-Trust Act** protected labor from anti-trust legislation, too. Progressives tried to end child labor *but* Supreme Court ruled **Keating – Own Act** unconstitutional.

Labor Unions declined dramatically in **1919** due to **Red Scare**.

Franklin Roosevelt's New Deal protected labor by **Wagner Act** (rights of labor to strike and collectively bargain) and **Fair Labor Standards Act** (44 hour week, unemployment benefit, minimum wage, overtime pay of time and a half, and end to child labor)

1947 Taft-Hartley Act outlaws "closed shop" (labor should be able to choose whether or not to join union) and made unions take noncommunist oath; slowed growth of labor

Labor Unions continue to decline in part due to decline in manufacturing in modern times.

AGRICULTURE REVIEW

Colonial Era… development of **cash crop agriculture** dominates Middle Colonies (cereal crops) and Chesapeake (tobacco) and Southern colonies (Indigo, Rice) and West Indies (sugar) – supported by **mercantile policies**.

Early Republic – Hamilton supports manufacturing and Jefferson supports agriculture. Hamilton supports tariffs and envisions manufacturing future for the U.S. while Jefferson envisions expansion of **agrarian virtue** and hopes **Louisiana Purchase** increases farmers and their influence…

Jackson Era – Jackson **supports the "common man" (farmers) against the Second BUS** and against high tariffs… while the Whigs organize and support Hamiltonian policies

Lincoln – supports both agriculture with **Homestead Act and Bureau of Agriculture…** and business with Morrill Tariff

Gilded Age – laissez faire and **mechanization of agriculture** (overproduction and rise of corporate farm) hurts "common man" and gives rise to **Populists** (People's Party) (plight of the farmer from the Grange to Farmer's Alliance to Populism)

Progressive Era & Roaring Twenties– Wilson supports aid to farmers including help to **store surplus**, agriculture benefits from WWI (**exporting** food) then starts to collapse in 1920's with little government concern or intervention (one cause of Depression); **Hoover tries to help but it's too little too late**

Great Depression – **New Deal** addresses farming with **loans and subsidies,** Agricultural Adjustment Act, Farm Securities Administration

Modern Times – **Omnibus Farm Bill** funds US farm and food production; **subsidizes agriculture**, funds innovation, insures crops, supports conservation efforts, and funds efforts to increase nutrition (started in the 1970s… renewed every 5 years through the present)

GOVERNMENT POLICY IN REGARDS TO BUSINESS

Tariffs are pro-business, so **Hamilton Plan** and **American System** both supported business growth.

Rise of Big Business – 1860s-1900 – Laissez Faire dominated, but government did get involved with:

Lincoln's Plan (subsidies for railroad, Morrill Tarriff)
Interstate Commerce Act – beginning of government regulation of railroad
Sherman Anti-Trust Act of 1890 – beginning of gov't challenging monopolies

Progressives… 1913 **Clayton Anti-Trust** Act and the **Trust-Busting of the Progressive Presidents (Theodore Roosevelt, Taft, and Wilson), Underwood Tariff** reduced tariffs

Roaring Twenties… more **pro-business policies (Harding, Coolidge, Hoover)** including **increased tariffs**

Great Depression… New Deal protects labor over business and begins **regulation of stock market (Franklin Roosevelt)**

Post World War II… free trade encouraged, removal of trade barriers hurt manufacturing but increased trade; **GATT (Truman), NAFTA (Clinton)**