THE UNITED STATES

A GRAPHIC HISTORY



BY

LOUIS M. HACKER

RUDOLF MODLEY

GEORGE R. TAYLOR

75¢

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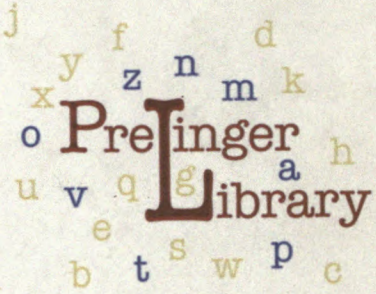

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THE UNITED STATES

A GRAPHIC HISTORY

TEXT BY LOUIS M. HACKER

PICTORIAL STATISTICS BY RUDOLF MODLEY

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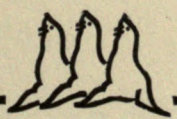

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FOREWORD

TO THE MODERN WORLD SERIES

It will be agreed that more significant advances have been made in adult education in the last decade or so than in the whole fifty years preceding. Not only has illiteracy been largely eliminated in the United States and in many countries of the Western World, but new technological achievements in the fields of communication and the transmission of intelligence have cut down the zones of ignorance and intellectual isolation. The radio and the news and educational films have been powerful contemporary forces. And so, also, have been many of the tabloid newspapers, the pocket-size magazines devoted to current affairs, and the spreading town-forum movement. Education has not ceased with the close of formal schooling. Indeed, it may be said for many adults that the processes of education are beginning only after formal schooling has long been over.

It is with an eye to reaching this new adult literate group in America that MODERN AGE BOOKS has launched the MODERN WORLD SERIES. It is not generally recognized how vast a group it really is. There are many millions of persons in the United States over twenty-one years of age who have had high-school educations or better and who constitute a potential reading public which should fire the imagination of any socially-minded publisher. In addition, this group has already learned to see, hear, and read with a fair degree of discrimination. To date, however, the processes of education through seeing, hearing, and reading have been employed sparingly and often without continuous application.

In other words, this vast, potential reading public has not been reading serious books, particularly of the non-fiction variety. Why is this? One may hazard a number of reasons. First, perhaps, is to be noted the fact that serious non-fiction books heretofore have been written as a rule for that highly-trained minority which has had a university education or its equivalent. Such books too often have employed the special vocabularies to which even the social sciences have succumbed. Also, more frequently than not, books have not been basic books; that is to say, they have assumed a familiarity with underlying assumptions and have taken up a tale which started some-

those who have not had university educations. Its text is brief — it is not more than 60,000 words in length. The visual aids it employs, pictorial statistics in this case, are an integral part of the book rather than simply illustrative material. Mechanically, the book is everything one might wish: its type-face is clear and easy to read; the book's bulk is not excessive; and its price is low.

It has been said that the pictorial statistics in *The United States: A Graphic History* are as much a part of the work as the text itself. Indeed, the reader may obtain a fairly good notion of the nature of the economic development of the United States, historically conceived, either by reading the text alone continuously or by consulting the charts without any reference to the text at all. But he is likely to get a fuller and more rounded presentation — one that ordinarily could have been achieved (through the printed word alone) only in a text four or five times the length of that employed here — by a reading of brief chapters and accompanying charts together. The text, in effect, plays a dual rôle: it is a continuous narrative and at the same time each chapter is explanatory of the chart associated with it.

The first two authors of *The United States: A Graphic History* — the writer of this foreword and Rudolf Modley — have worked in close collaboration on this idea for more than two years. They went over at least two hundred plans for charts before deciding on the seventy-six here included. It is their hope that the seventy-six short narratives and charts will tell the main essentials of the history of the United States, in economic terms. Although the whole project was conceived and handled as a unity, responsibility is not joint. The undersigned is responsible solely for the text; Mr. Modley is responsible solely for the imaginative execution of the charts. The presence of the third author in the collaboration, George R. Taylor, has assured the statistical accuracy of the whole work.

A word as to the previous activities of the authors is in order. The undersigned has had a varied experience as a university teacher and lecturer, a writer of formal works in American history and a contributor to many magazines. Mr. Modley, who brought the technic of pictorial statistics to the United States, has elaborated and extended the device, adding richly to its methods and uses. He has helped in the designing and illustrating of many of the new government publications. This is the first time, however, that pictorial statistics have been used in the United States to tell a continuous story. Professor Taylor is a college teacher on the staff of Amherst College and a research worker of wide experience in the field of economics.

In a number of senses, *The United States: A Graphic History* is presented as an experiment. It is the first work in that project in adult education to which the whole series will be devoted. It represents an effort to tell a complex story in as simple and non-technical terms as possible, but at a level mature enough not to insult the intelligence of a grown reading public. It is not a propagandistic piece of work, although the writer is quick enough to acknowledge that it is not "objective" in the worst sense of that abused term; in other words, it represents a clear-cut philosophical attitude toward historical development. But other points of view, as long as they are honestly represented, will find their place in the series. In fact, other works are already in preparation. If this experiment is well received by the American reading public, MODERN AGE BOOKS is prepared to publish at least one hundred new volumes annually. A large number of these will be printed in the MODERN WORLD SERIES.

— LOUIS M. HACKER

Part One

THE ESTABLISHMENT OF CAPITALISM



1. THE FEUDAL WORLD

FEUDALISM'S LONG REIGN

With the disintegration of the Roman Empire in the West, beginning with the fifth century after Christ, a kind of paralysis spread over the face of the European continent. Once a unity, as the result of the operations of a hundred and one different economic and political forces, the Western World was now being shattered into a thousand fragments. Localism began to replace Roman imperialism. In place of a far-flung commerce on the basis of which goods and services had been widely exchanged, a meager agricultural self-sufficiency began to appear. In place of the pomp and circumstance, at least of the upper classes, there began to emerge a universal misery and squalor. Insecurity, hunger and dreadful pestilences held the dwindling populations of Europe in their grip. Mankind's inability to reconcile the many contradictions of the classical civilization had led to its collapse.

For a long time — from five hundred to a thousand years — this local organization of chaos which we call feudalism held the stage on a great part of the European continent. For almost another five hundred years mankind was concerned with the dismantling of the feudal institutions. In England in the seventeenth century and in France in the eighteenth century revolutions were required to smash the power of feudal authority. Only within recent years has the Western World become fully free of the restraints and controls of feudalism. And it is a sign of our modern disorganization that Fascism in Italy and Germany has been seeking to reimprison men within the contracting walls of the feudal society and economy.

WHAT FEUDALISM WAS

What was this system that for so long held captive the minds and energies of men in the Western World? Because people were insecure, they bound themselves together on a local basis for mutual safety. The chiefs were the warriors and freebooters, or feudal lords, who, because they were able to assure a modicum of protection, lived parasitically on the labors of the rest. The characteristic form of organization was the manor. In the manor house, or castle, lived the lord, who spent his time hunting and brawling. In the mean village under the sheltering walls of the manor house were clustered the huts of his dependents, or serfs. They labored on the land, using the technics of a primitive agriculture, each serf claiming as his own a series of strips located

frequently in a widely separated group of arable fields. All the serfs together shared in common the use of the meadows, wood lots and pasture. In payment for protection, the serfs gave a portion of their labor time to the lord's strips and a part of the products of their own labor to their noble defenders and oppressors.

FEUDALISM BASED ON AUTHORITY

Feudalism was a society based upon status. The individual was not free to come and go as he pleased. Nor was he free to raise himself from a lower to a superior station. The serf was attached to the soil just as his kine were; and when the manor changed hands so did he. Feudalism, too, was a natural economy as opposed to the money economy of capitalism. Men produced agricultural goods for their own immediate use; town life languished; what exchange took place was not far from a crude form of barter.

Over the whole system hovered the authority of the Catholic Church. By preaching the doctrine of salvation through sacraments and good works it lulled the minds of men into an unhesitating acceptance of the *status quo*. The rewards for a blameless life (fealty to one's lord, devotion to the Church) were to come in the hereafter. In this vale of tears men were to bear the burdens of class oppression and misery and sudden death without complaint.

THE FEUDAL WORLD



2. MEDIEVAL TRADE ROUTES

FEUDALISM DESTROYED BY CAPITALISM

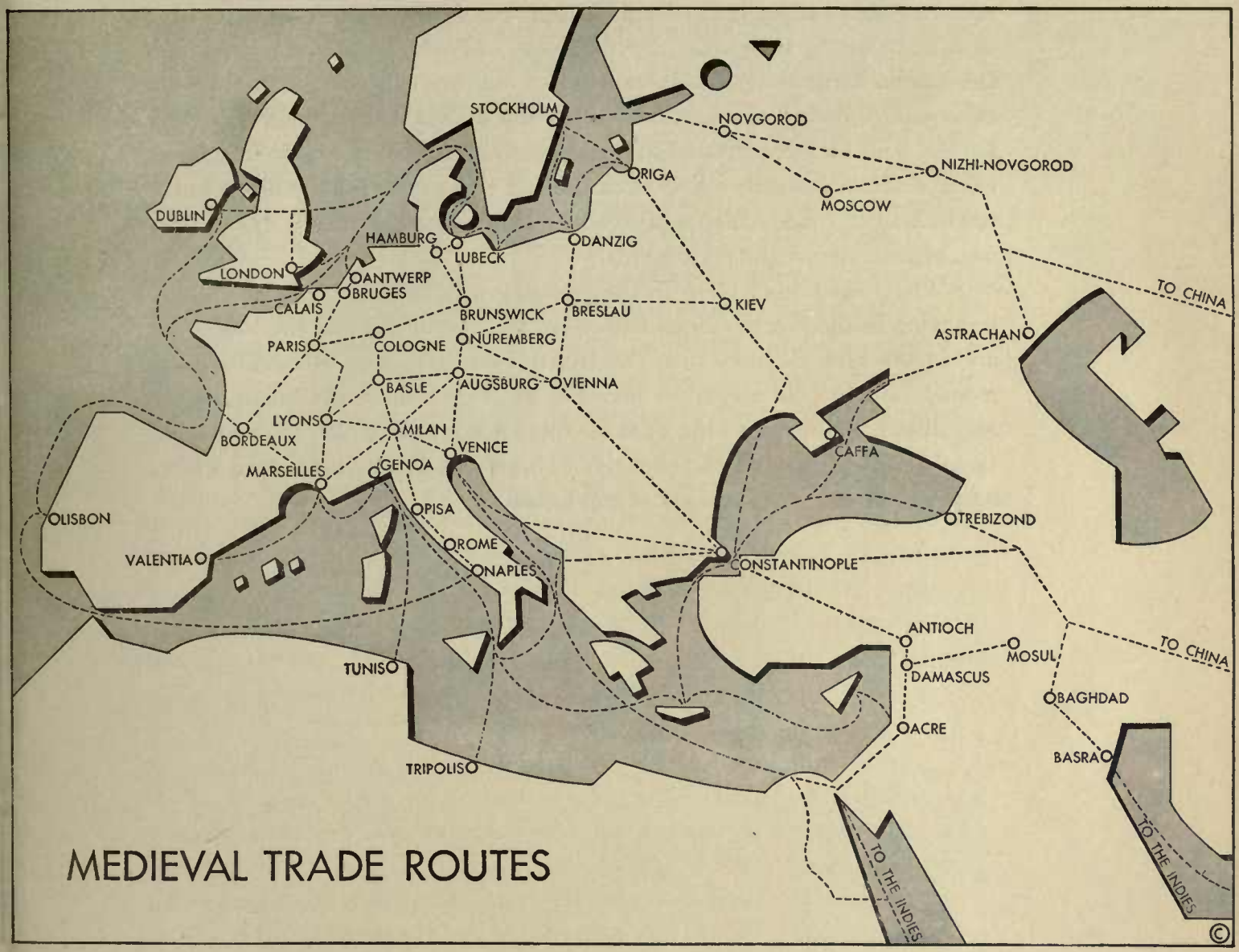
Feudalism, in time, was destroyed. It was, in a way, done to death by its own offspring. For within the body of feudalism there was slowly forming a new life that was to break asunder the walls of localism and self-sufficiency and make the whole world its dominion. This was capitalism.

What were the original sources of savings, or accumulation — that first great characteristic of capitalist organization — within the feudal system? Some feudal lords, particularly those connected with the Church, sold occasional agricultural goods in the few towns that managed to survive. Some began to convert the feudal services of their serfs into money payments, or rent. Some accumulated money capital from urban rents. Money lenders, by exacting interest for consumption loans to feudal barons, were able to put aside small surpluses. The most significant source was to be found in trade.

On the eastern edge of the Mediterranean Sea, the memories and habits of the Roman Empire of the West had not completely died out. A few towns continued to exist; and into these from time to time penetrated traders from the Byzantine Empire of Asia Minor and North Africa. Eastern traders brought the delicacies and finery of Egypt, Arabia, Persia, India, the Spice Islands and China into the Italian towns of Amalfi, Pisa, Genoa and Venice. Hesitatingly at first and with growing confidence from the eleventh century onward, Italians crossed the sea to appear in the teeming cities of the Eastern world with slaves, salt, wood and wine. The exchange of wares and the sale of eastern goods in the West began to make possible the accumulations of money capital.

THE COURSES OF EARLY TRADE

The Crusades — those great spiritual, marauding and commercial adventures of the twelfth and thirteenth centuries — made more and more men, as a result of their contacts with the East, want to escape from the meager conditions of living of the feudal economy. The financing of the Crusades increased the power and wealth of the Italian traders. From these growing wants of the West emerged the markets which these Italian traders, or merchant capitalists, were able to supply. In the fourteenth and fifteenth centuries Venetian and Genoese argosies and overland caravans, loaded with


STOCKHOLM
NOVGOROD
NIZHI-NOVGOROD
RIGA
MOSCOW
DUBLIN
HAMBURG
LUBECK
DANZIG
LONDON
ANTWERP
BRUGES
CALAIS
BRUNSWICK
BRESLAU
KIEV
TO CHINA
ASTRACHAN
PARIS
COLOGNE
NUREMBERG
BASLE
AUGSBURG
VIENNA
LYONS
MILAN
BORDEAUX
VENICE
CAFFA
MARSEILLES
GENOA
PISA
LISBON
TREBIZOND
ROME
VALENTIA
NAPLES
CONSTANTINOPLE
ANTIOCH
MOSUL
TO CHINA
TUNIS
DAMASCUS
BAGHDAD
ACRE
BASRA
TRIPOLIS
TO THE INDIES
TO THE INDIES
MEDIEVAL TRADE ROUTES
©

eastern goods picked up at Near Eastern and North African centers, were making their way to Spanish, French, English, Dutch and German ports and fair towns. Their intrepid owners fought winds and currents; crossed mountains and forded rivers; battled, bribed and attached to themselves robber barons. And they bought and sold and accumulated. Where these merchants came, craftsmen assembled to work in their own shops and to engage in the production of rude woolen and leather goods under the jealous eye of their own organizations, the craft guilds.

What was taking place in the Italian towns, in varying degree was also occurring in the North German towns of the North Sea and the Baltic Sea and in the Low Country towns of Holland and Belgium. Merchants made money, bought gold and silver mines in the Tyrol, the Carpathians, Spain; and shipped bullion into the East for more goods with which to make additional profits. Through the channels of trade, at first faintly, soon with a roar, was flowing the lifeblood of capitalism.

3. THE KNOWN WORLD

THE RISE OF THE ABSOLUTIST MONARCHIES

In the war against feudalism, merchant capitalism obtained two allies, the first political, the second spiritual. Within the heart of the feudal system there were springing up robber barons more ambitious than their mates. These dreamed of absolutist monarchies to which everyone was to pay homage, in place of the complex of mutual obligations and services which feudalism demanded. But conquest of rivals and wars of extermination of the stiff-necked required financing. The rising merchant capitalist class performed this important function. The union of this new bourgeoisie with the aspiring dynastic leaders resulted in the creation of the absolutist monarchical states of early modern times. Tudors and Stuarts came to sit on the thrones of England and Scotland; Valois and Bourbons on the thrones of France; Hapsburgs on the thrones of Austria and Spain. They served well the groups who had assisted them. For the creation of national states meant expanding opportunities for capitalist enterprise. National unity meant security for trade, a widening market, regularization of the coinage, the protection of the law. A merchant no longer had to humble himself before a rude soldier. Capitalism definitely was on the make.

THE APPEARANCE OF THE PROTESTANT ETHIC

These new bourgeois — these close-fisted, hard-bargain-driving, cautious and suspicious individuals — were not at home in the spiritual world, however. New times required new faiths, faiths that would smile on trading and money-making and that would put their stamps of approval no longer on the ascetics of the desert but on the robustious fellows of the market place. This new ethical system Protestantism, particularly the Protestantism of John Calvin, supplied. Salvation was to be achieved by faith: the individual was free of his ties to the authority of Rome. The successful business man could sit in his counting house thoroughly comforted by the fact that his thrifty habits and his present enjoyment of the fruits of his toil were in complete harmony with the dictates of his conscience. Protestantism released the individual and permitted his mind and energies to range at will in a world physically expanding before his very eyes.

Beginning with the mid-fifteenth century the world indeed began to grow. Merchant capitalists of Western Europe, now having arrived at man's estate and being supported by national monarchies, were tiring of their dependence upon the Italian traders. Why not establish direct routes of trade of their own with the Near and Far East? Then the profits of the Italian monopolists could be eliminated and costs of eastern wares could be lowered — the heavy costs of changing loads from camel-back to boat to lumbering wagon, of paying tolls and bribes and taxes, and of falling occasionally into the hands of pirates. The coming to maturity of Portuguese, Spanish, French, and English merchants led to the hunt for new and direct routes to the mysterious lands of Cathay (China) and Cipango (Japan). The capture of Constantinople by the Turks had very little to do with the early pioneering of the Portuguese sailors and with Columbus's voyage into the Atlantic. The springing up of rival merchant capitalist groups furnishes a more plausible reason.

With the aid of the Papacy, Portuguese and Spanish sought to divide the heathen regions of the world between them. But French, English, Dutch and Swedish navigators, traders, soldiers and priests were not frightened off. They crossed the ocean, penetrated wildernesses, suffered, starved and died — and staked out the white man's claims to the newly discovered regions. In the services of their God, their kings and their joint-stock companies, they established New Spains, New Englands and New Amsterdams. The processes of subjugation continued throughout the sixteenth and seventeenth centuries, when the whole of the Western Hemisphere was placed under the dominion of Europe; throughout the eighteenth century, when India was humbled; throughout the nineteenth century, when Africa and the rest of Asia were brought within Europe's orbit.

During the sixteenth and seventeenth centuries, the world grew as opportunities for capitalist enterprise were expanding. During the nineteenth century it began to contract as iron and steam and copper wires conquered space. It began to contract in another sense as well — for the opportunities for capitalist enterprising were not limitless.

THE KNOWN WORLD

1490



1550



1800



©

4. THE FLOW OF TREASURE TO SPAIN

THE EFFECTS OF THE FLOW OF TREASURE

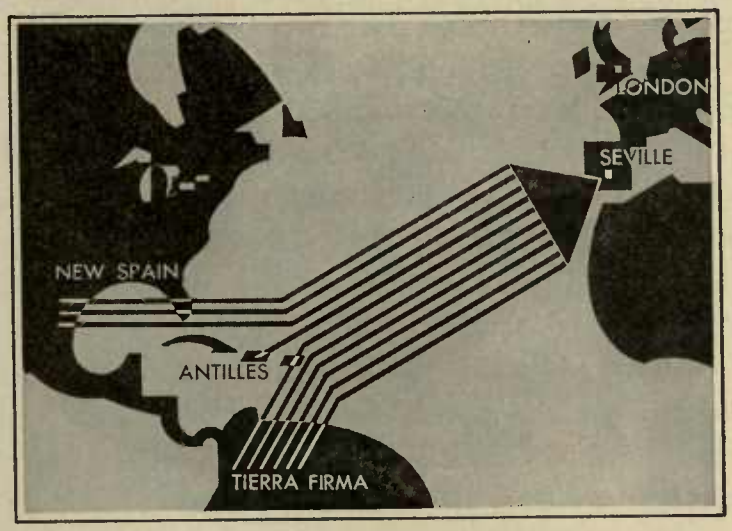
The sixteenth and seventeenth centuries were the heyday of merchant capitalism in Europe. The opening up of the Western Hemisphere had resulted in a remarkable piece of good fortune, at least temporarily, for the Spaniards: they found gold and silver in the Antilles (the Caribbean), Tierra Firma (Northern South America) and New Spain (Mexico). The precious stream that poured into Europe (for the Spaniards profited least of all, most of the treasure ending up in England, France and the Low Countries) had an amazing series of effects. It led to the introduction of black slavery in the New World, for slaves were needed to work the mines. It made possible the intensification of trade between West and East, for Europeans now were able to buy oriental goods in great quantities and pay for them in silver. It was responsible for an extraordinary rise in prices, and this gave spur to the development of new commercial and industrial undertakings. It drove old landlords off the land and replaced them by new, who had made fortunes in trade. It was at the basis of the enclosing and rack-renting movements in England.

HOW WAGES WERE KEPT DOWN

England was one of the leading sources of wool, so important to the production of woolen cloth, the greatest industry of early modern times. Greater demands and higher prices for wool encouraged landlords to seek to consolidate farm lands in order to lay them out into vast sheep walks. But the small independent peasantry, which had bought its freedom from serfdom by the end of the fourteenth century through the conversion of feudal dues into money rents, stood in the way. The sixteenth century saw the beginning of a process of wiping them out. Common lands were enclosed; rents were raised to prohibitive levels when small farms changed hands. Enclosing and rack-renting had the double effect of making more English lands available for sheep raising and of creating a dispossessed and landless agrarian population which could be driven into the fleets of the merchant capitalists and into the cottage industries which this class financed.

The revolution in prices therefore was accompanied by a slower movement upward in wages. Here was a point at which capitalism could accumulate. Another point was the gap between prices paid for oriental goods in the East and prices obtained for those goods in the West. (For Indians, Chinese

FLOW OF TREASURE TO SPAIN AND REAL WAGES IN ENGLAND



Each line represents one tenth of treasure shipped in the seventeenth century

SHIPMENTS

ANNUAL AVERAGE

1503-10 *Negligible*

1551-60

1601-10

REAL WAGES IN ENGLAND

Each basket represents 20 per cent of 1501-10 purchasing power

©

Each bar represents one million pesos of treasure

and Egyptians hoarded treasure so that the prices they asked did not move upward so spectacularly.) A capital fund was being raised that was to make possible the transformation of merchant capitalism, with its emphasis upon trade, into industrial capitalism, with its emphasis upon production.

THE CAPTURE OF THE ENGLISH STATE BY THE BOURGEOISIE

Another step had to be taken: this was the seizure of the state by the bourgeoisie. It is true that the absolutist monarchs had started out by being progressive forces and had given yeoman aid to merchant capitalism in its rise. But in the seventeenth century, the absolute monarchy of England had become repressive and capricious. It used the tax power arbitrarily; its law courts defended privilege; it interfered with property rights. The Puritan Revolution was a struggle between the bourgeoisie, which sought the establishment of a government of laws favorable to free commercial and industrial enterprise, and an arbitrary crown backed up by the great landlords. Charles's head fell. Cromwell ruled in the interests of merchants and commercial farmers. And, after James II's efforts to reëstablish a personal monarchy, the calling of William and Mary to the throne in 1688 meant the final triumph of the middle class. The constitutional government of England now stood for political and economic freedom for the capitalist enterpriser. Here were the reasons why the English became the first great colonizers of the New World.

5. AN EIGHTEENTH CENTURY VIRGINIA ESTATE

HOW THE WHITES CAME TO AMERICA

English capitalists obtained concessions to exploit the new English dominion across the seas. Some of these beneficiaries were trading companies; some were great landlords — favorites of the crown — who looked to the building up of fortunes from rents and the sale of land. Masses for settlement were available in those humble, English rural folk who had been driven off the land by enclosing and rack-renting. Wars, famine and oppression also turned the eager eyes of Germans, Swiss and Frenchmen Americaward. So great was the desire to escape from the prison walls of the Old World that literally hundreds of thousands of persons, who did not have the means, voluntarily sold themselves into temporary bondage in order to pay transportation costs. Others were forcibly deported — from jails, from war prisons, from poor houses; kidnapers also plied a nefarious traffic. In very considerable measure, throughout the seventeenth century, the planting colonies of Virginia, Maryland and the Carolinas were settled in this way; and so was Pennsylvania in the eighteenth century.

These people were called indented servants. Their contracts required the rendering of labor to their masters without pay for a period of from three to seven years. Upon their release, they received clothes, tools, seed and a little pocket money and sometimes — although very rarely — a small tract of land. Then they were ready to set themselves up as free white farmers, usually in the wild lands beyond the immediate zone of settlement.

HOW THE BLACKS CAME

Later, in the eighteenth century, these white indented servants were replaced by Negro slaves. A Negro was an unfree laborer for life; he was, in the beginning at any rate, more tractable; his women could be made to toil in the fields; his black skin prevented his escape. And, starting in the eighteenth century, English capitalism regularized the flow of blacks from Africa so that the supply was constant and prices steady.

THE PLANTATION SYSTEM

These unfree workers, white and black, became the basis of the plantation system. In the southern planting colonies, big farmers invested their capital in their labor supply and proceeded to grow the great cash crops of

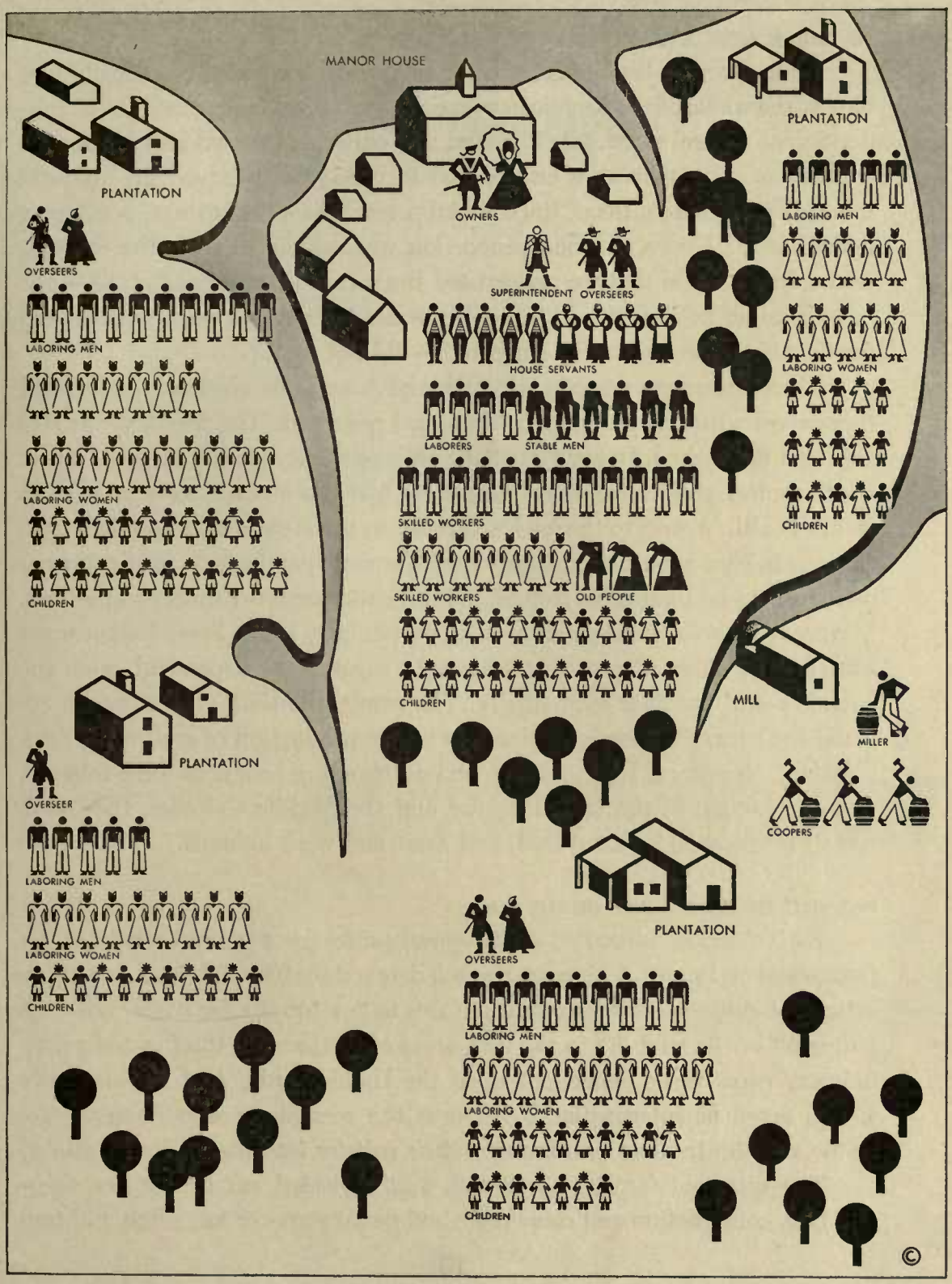
colonial America — tobacco, rice and indigo. The plantation system is a unique form of economic organization. Its labor force is unfree; because land is plentiful, no care is taken to restore the fertility of the soil; cultivation is crude and partakes more of the aspects of mining than of careful husbandry; single crops, easily sold in world markets, are grown.

Because the colonial planter's capital was largely invested in his laborers, he did not have the freedom of action of the modern industrial capitalist, whose capital is in a more fluid state. The planter, in short, was committed to planting. If the fertility of his soil began to give out, he was compelled to move his whole establishment to another region. The result was that of necessity the planter became a dealer in wild lands. He bought properties still undeveloped; he financed the hunters and trappers of wild animals; he traded with the Indians. Settled on their wide acres, leading leisurely although for the most part quite modest lives, keen sportsmen and good soldiers, and yet by no means an unlettered group — the southern colonial planters gave a peculiar and characteristic tone to early American society. Theirs was not the acquisitive and abstemious living of the northern commercial colonists. And because it was not, planters were constantly in debt and therefore under compulsion to extend their tobacco, rice and indigo plantings ceaselessly.

GEORGE WASHINGTON'S ESTATE

The chart is a stylized presentation of George Washington's estate at Mt. Vernon, as it looked in 1786. There were four plantations on the estate and each one of them required the services of a varied company of Negroes. The largest, the River Plantation, had the following group: one male overseer, his wife, ten male laborers, seventeen female laborers, twenty-three children. In addition, a grist mill on the estate demanded the attention of one miller and three coopers. The manor house had a large retinue of domestics, artisans and laborers. Here there were nine house servants, sixteen skilled artisans of both sexes, six stablemen and wagoners, seven laborers, three old people and twenty-six children.

AN 18th CENTURY VIRGINIA ESTATE



6. THE COLONIAL ECONOMY

COLONIAL AGRICULTURE

From the very beginnings of settlement until the eve of the Revolution, almost the whole of the American colonial population was engaged in the production of natural resources. The land was cultivated; forest industries were worked; wild animals were hunted and trapped; fish were caught and iron mined. Fully nine-tenths of the colonial Americans were farmers, planters or agricultural laborers. A small proportion was associated with the carrying trade. In the sense that we understand the term today, manufacture — the fabrication of finished goods through the employment of wage-workers and for the sale of such goods in a market — did not exist.

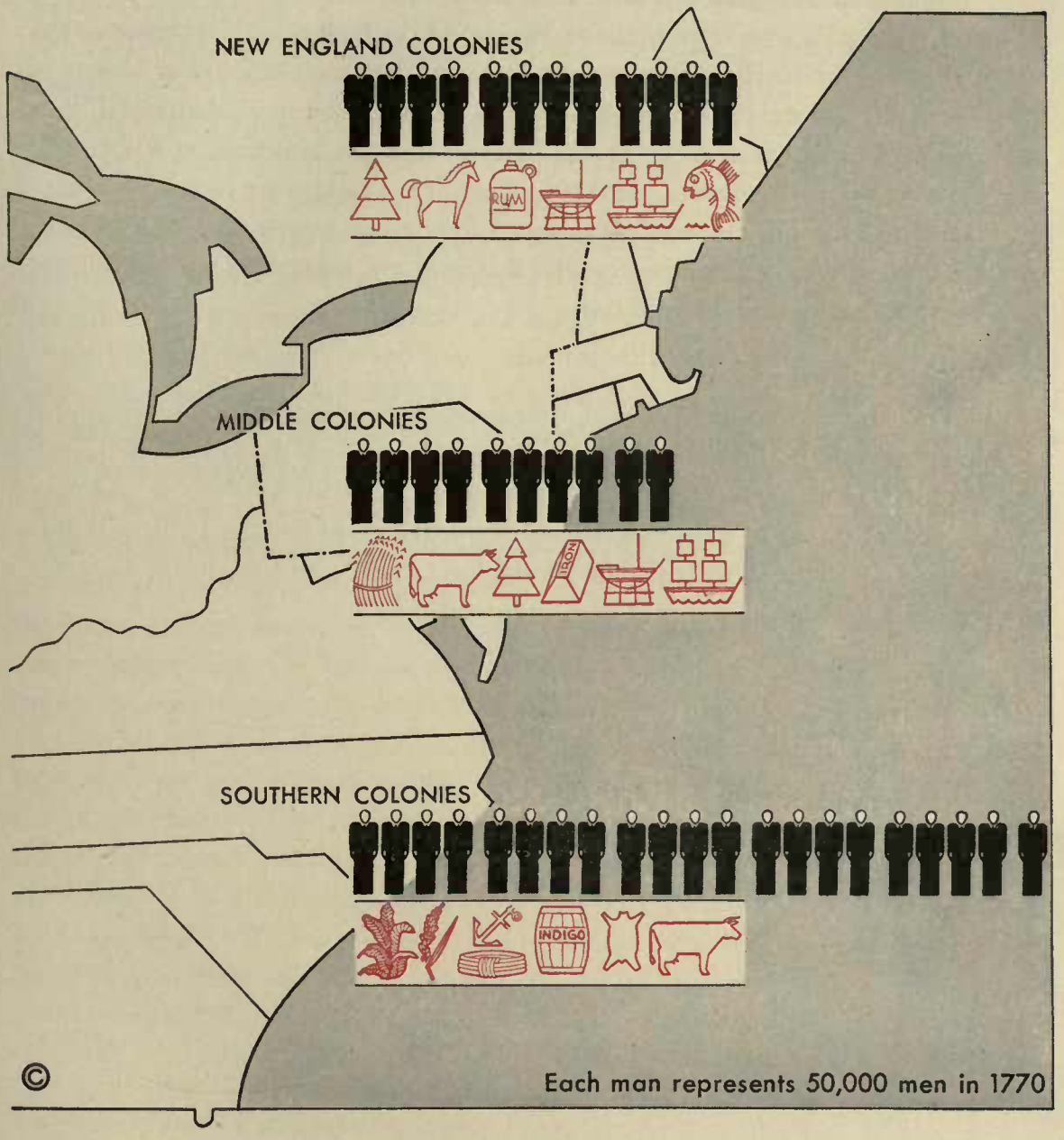
There are many reasons why colonial Americans obviously associated themselves with the production of natural resources. The country was still wild and untouched. In such a setting only relatively simple forms of labor, small capital and elementary methods of transportation were needed to create wealth. Access to the land was easier in the New World than had been the case in Europe; although many small farmers, particularly in the frontier regions, held no legal titles to their holdings and occupied them as squatters. Markets for agricultural goods existed, particularly in the West Indian sugar settlements, where planters, growing only sugar, were dependent upon the outside world for their food supply. The result was that everywhere in colonial America, commercial agriculture — the production of cash crops for a market — appeared. In the south, the outstanding products were tobacco, rice and indigo; in the New England and the Middle Colonies, they were cereals for food and animal feed, and meat and work animals.

PRODUCTS OF THE FOREST AND THE SEA

Early America presented many opportunities for work and wealth in the forests and on the sea. The great English demand for furs and skins, largely as articles of clothing, encouraged Americans to develop the fur trade. With the killing off of the wild life in the first areas of settlement, the fur and peltry industry came to be dependent upon the Indian trade. And in this many whites acted as intermediaries between the merchants who financed the traffic and the Indians who brought their peltries into the trading stations.

The primeval forests, north and south, yielded up timber for shipbuilding, construction and cooperage; and naval stores of tar, pitch and tur-

THE COLONIAL ECONOMY



pentine with which ships were made seaworthy. Shipyards sprang up. Colonial Americans, manning their own ships, first fished the inshore waters around New England; but soon their fleets were ranging farther and farther out to sea, and the Newfoundland banks and the Gulf of St. Lawrence on the north and the Caribbean waters on the south became the familiar haunts of American fishermen. The whale was also hunted for his valuable oil. The mining of iron ore and the production of the crude pigs and bars appeared early in colonial America, with the outstanding producing provinces Maryland and Virginia. The crude iron was converted into wrought iron by blacksmiths or at local naileries and mills; that is to say, iron goods were largely for home rather than industrial use.

COLONIAL POPULATION

With rich resources to work, it was small wonder that the American colonial population grew by leaps and bounds, particularly in the eighteenth century. In 1700, total population numbered 275,000; by 1770, it was over 2,200,000. Areas of urban settlement, however, were few. In 1770, only five places claimed more than 8,000 inhabitants each; and together, they accounted for but 3.8 per cent of the population.

7. VISIBLE EXPORTS IN 1770

THE MERCANTILE SYSTEM

There was no manufacturing, in the industrial sense, in colonial America. And this was so despite the existence of a growing domestic market and a convenient foreign one in the sugar islands; an available labor supply in the indented servants and the back-country squatters; and the growth of capital accumulations from trade. Manufacturing was not developed in colonial America because it was to the interests of the mother country, England, to maintain the North American settlements in a backward economic state. The function of the colonies in the imperial scheme was to produce those raw materials England required — the plantation crops, forest products, furs, pot ashes and pearl ashes, whale oil and iron; and to buy from the mother country her finished goods — textiles, clothing, house furnishings and iron ware.

The methods employed by England to limit the fields of production in colonial America were part of that Mercantile System which the triumphant English bourgeoisie had strengthened when they captured the state following the Puritan Revolution. English merchant capitalists were forbidden to send funds into the colonies to set up enterprises likely to compete with those of the mother country. American capitalists were prevented from using the profits obtained in trade for the same purpose. Thus, English administrative agencies vetoed the laws of colonial assemblies designed to encourage manufactures. They gave colonial producers of raw materials special privileges in the English market. From time to time they enlisted Parliament's aid to keep the area of colonial production narrowly circumscribed, as in the passage of the Woolen Act of 1699, the Hat Act of 1732 and the Iron Act of 1750. In addition, the English government denied to colonists the right to create credit agencies and their own money supply. Obviously, without credit and an elastic currency opportunities for movement into industrial production were checked.

THE DESTINATIONS OF COLONIAL EXPORTS

Colonial raw materials needed for the maintenance of English commerce and industry went to the British Isles exclusively; and this was achieved by the so-called enumeration of specific articles in the Acts of Trade and Navigation which were part of the Mercantile System. Thus, tobacco was put on the enumerated list in 1660; rice, naval stores and masts and yards for ships in

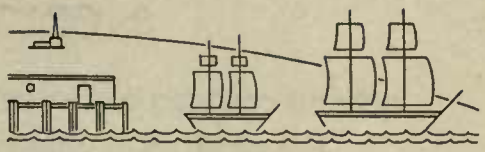
1706; furs in 1722; molasses in 1733; and whale fins, hides, iron, lumber, pot ashes and pearl ashes in 1764. Wheat and flour and fish, on the other hand, were virtually banned from the English market, lest they compete with the products of native agriculture and the fisheries. These were the great staples of the New England and the Middle Colonies; and for them other markets outside of the British Isles had to be found.

The character and the destination of colonial exports are thus explained. Tobacco, the leader, went to the British Isles, where it was processed and sold in England and Europe. Wheat, flour and bread went largely to the British West Indies. Most of the rice went to Southern Europe and the West Indies. Indigo went to England. Cattle and horses went to the West Indies. The good fish went to the Catholic countries of Southern Europe; the poor fish to the West Indies, where it was fed to the Negroes. The whale oil went entirely to England. Timber and wood, for construction and cooperage, went largely to the West Indies; naval stores almost entirely to England; pot ashes and pearl ashes altogether to England. The whole fur export went to the mother country; as did virtually all of the crude iron entering foreign trade.

VISIBLE EXPORTS EXPLAINED

It will be noted that the analysis has been of "visible" exports. The values cited in the chart, in short, are those of goods officially cleared through the British customs. The totals take no account of the goods moving through illegal channels of trade. For we must understand that under the Mercantile System colonists were not permitted to trade freely with the whole world. They could export only to those regions of which the mother country approved.

VISIBLE EXPORTS IN 1770



Exports from the British Continental Colonies, including the islands of Newfoundland, Bahama and Bermuda

AGRICULTURAL PRODUCTS
OTHER THAN TOBACCO

TOBACCO

MARITIME PRODUCTS

FOREST PRODUCTS

FURS

MINERALS

ALL OTHERS

Each symbol represents £100,000 worth of visible exports

©

8. COLONIAL TRADE ROUTES

HOW THE COMMERCIAL COLONIES TRIED TO PAY THEIR ENGLISH BALANCES

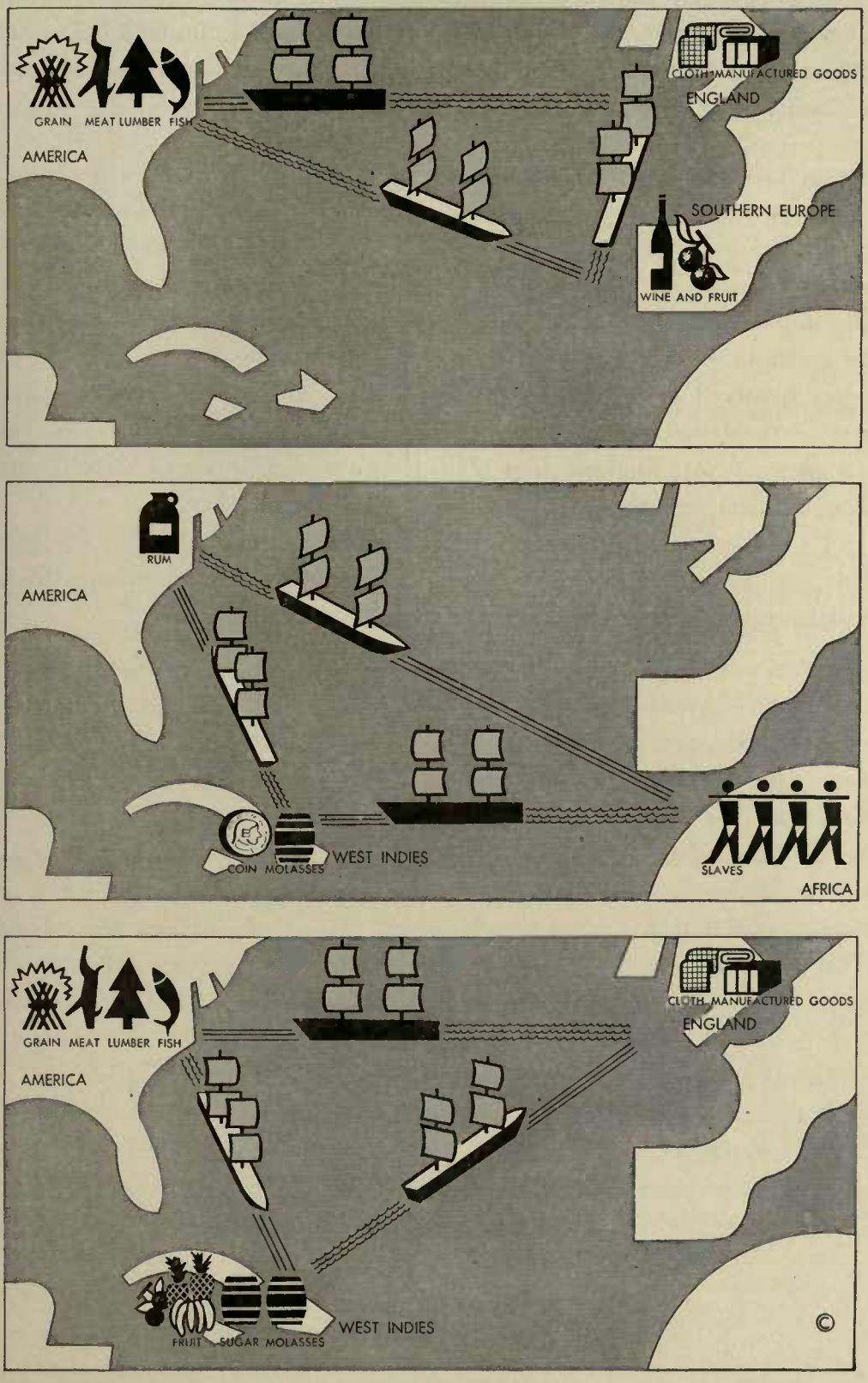
The northern, or commercial, colonies found themselves on the horns of a dilemma as a result of the Mercantile System. They were requiring more and more finished goods; but these they could get from England alone. To pay for them, they had to export more and more raw materials; but most of these England refused to take. In short, during the eighteenth century, the northern colonies were developing an unfavorable balance of trade with the mother country. How redress the balance? By shipping gold and silver? But the currency supply of the colonies was low. By capital borrowings? But English merchant capitalists were not permitted to lend. By building ships and earning freights in the direct trade? This they did; but it was not enough.

The only solution lay in the development of a triangular trade with areas outside of the empire. Here the northern colonies found themselves on the second horn of the dilemma. By the Acts of Trade and Navigation, colonists could not trade with foreigners unless their ships put into British ports first and paid duties on their cargoes. This was costly, especially when we understand that colonists were producing raw materials meeting with stiff competition in world markets. Illegality had to be resorted to in order to obtain returns, or credits, with which to pay the balances due English merchants. Financing pirates; carrying on an unlawful direct traffic with European countries; and conducting trade, in violation of the law passed in 1733, with the foreign West Indian sugar islands — these were the results. The last became the most common device employed by colonial merchant capitalists.

THE ILLEGAL TRADE WITH THE FOREIGN SUGAR ISLANDS

During the 1730's, 1740's and 1750's the trade with the foreign sugar islands expanded amazingly. Northern ships carried to the French, Dutch, Danish and Spanish settlements flour, fish, meats, lumber, staves and hoops and work animals. They received in exchange sugar and molasses; and these they brought north to be converted into rum in the distilleries of Rhode Island and Massachusetts. Rum was sold to the Indians and to the Newfoundland fishermen. Most important of all, rum became the basis of the unholy African slave traffic. New England merchantmen picked up barrels of rum and casks of iron bars; carried them to the slave stations of the Guinea

COLONIAL TRADE ROUTES



coast; took on in exchange a boatload of Negroes; and sailing across the infamous Middle Passage of the Atlantic discharged the survivors of their live cargo in the ports of the sugar islands. Then home again with holds filled with raw sugar or molasses and strong boxes stuffed with Spanish coins. In this fashion the English balances were paid.

WHY ENGLAND DID NOT STOP THE ILLEGAL TRADE

For more than thirty years this unlawful triangular traffic continued unmolested, to permit individual merchants to become rich and to allow the commercial colonies to escape from the prison walls of the Mercantile System. Why did not England enforce her own laws and put an end to a trade that was harming so seriously her own sugar islands? The mother country was deeply involved in foreign wars, largely with Spain and France. English rulers were too distracted; the navy was needed for war and could not be used as a coast patrol; England had little time to trouble herself over a venal colonial officialdom that winked openly at the illegal trade.

By 1760, England had the foreign situation in hand. France was humbled; her oversea dominion was crumbling. The overdue accounts with the recalcitrant commercial colonies were ready for settlement.

9. COLONIAL TRADE WITH ENGLAND

THE COMMERCIAL COLONIES THREATENED

In the French wars, England had piled up a great debt. It was only natural, therefore, that England should turn to the colonies for help in meeting it, as well as the costs of the army to be maintained for the defense of the new areas wrested from France. The Stamp Act of 1765 and the Townshend duties of 1767 were designed for this purpose: to raise a revenue. But this was only their partial intention. Actually the plan of the mother country was once more to force the colonies into their customary subordinate relationship in the imperial scheme.

Smuggling had to cease. Acts were passed and decrees were handed down: to compel absentee colonial officials to return to their posts; to order colonial courts to issue writs of assistance (general search warrants); to establish new admiralty courts sitting without juries; to pay judges' salaries out of customs revenues, thus freeing them from local pressure.

The Navigation Laws were tightened up. To cripple the trade with the foreign sugar islands, a high duty was placed on refined sugar; foreign rum might not be imported; and lumber was put on the enumerated list. To give English manufacturers a firmer grip on their raw materials, hides and skins, crude iron and pot ashes and pearl ashes also were enumerated. The entrance into the colonies of certain kinds of French and oriental dry goods was taxed for the first time; and the trade with the Spanish and Portuguese wine islands no longer could be a direct one. Also, in 1764, the Currency Act was passed, prohibiting all the colonies from issuing bills of credit to be used as legal tender, or lawful money. In short, the commercial colonies, confronted by an unfavorable trade balance with England and not permitted to engage in manufactures for a market, were to give up their profitable triangular trades and not seek to escape from their debts through the easy route of a paper inflation.

Ossa was piled on Pelion when the Tea Act of 1773 gave the East India Company virtually a monopoly of the carrying and local distribution of tea. If this was done in the case of tea, what was to prevent the mother country from acting similarly in the cases of silks, calicos and other oriental wares? Northern commerce, the basis of northern merchant capitalism, appeared doomed.

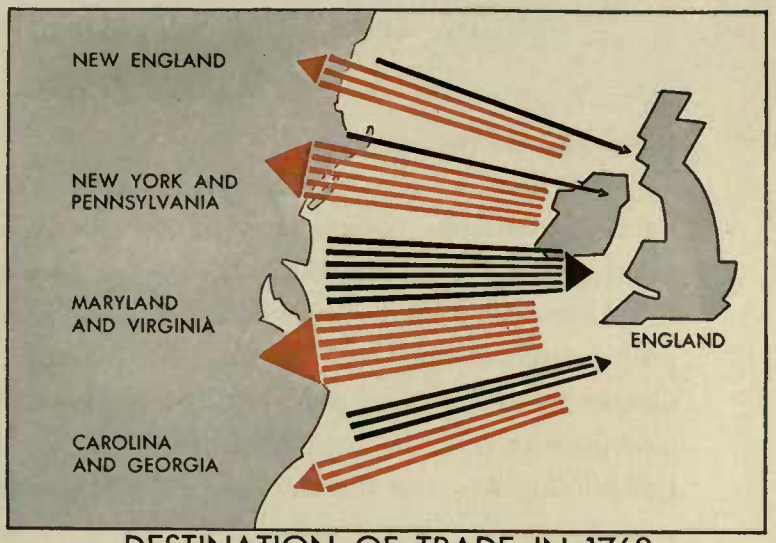
THE PLANTING COLONIES THREATENED

The planting colonies were also trapped. Tobacco was on the enumerated list and could be shipped only to England; here monopoly prices were fixed by English merchants. Confronted on the one hand by high fixed charges of operations at home and by managed prices of his crop abroad, the southern planter was slipping into insolvency. What saved him was the wild lands of the interior. Virtually every big planter became a fur dealer and a speculator in wild lands. But in 1763 England choked off the remaining avenue of southern economic advance when, by the Proclamation Line Order, it closed to exploitation and settlement all lands beyond the crest of the Alleghenies. Without the support of land speculation and deprived of cheap money by the Currency Act, the southern economy was threatened with extinction.

COLONIAL RESISTANCE: EMBARGO AND REVOLUTION

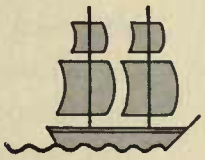
Colonial great landlords and rich merchants, therefore, sought to bring pressure to bear on the crown. In this, they were assisted by the more numerous petty bourgeoisie made up of underprivileged small farmers, small traders and artisans. The First Continental Congress ordered an embargo on British imports; in 1775, British imports almost completely disappeared. England retaliated with the Coercive and Restraining Acts, which struck directly at the economic life of the colonies. The American Revolution was a reply to English armed force. In its fullest historical meaning, it had as its function the release of American merchant and planting capitalism from the fetters of the English Mercantile System.

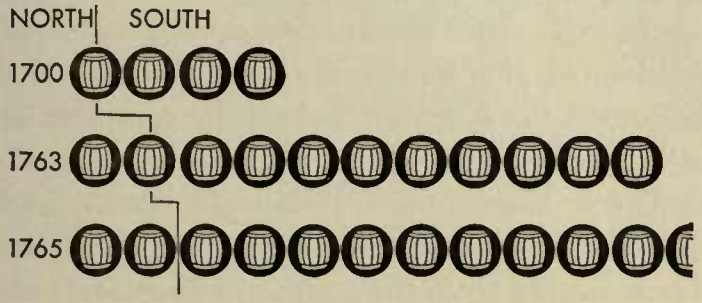
COLONIAL TRADE WITH ENGLAND



DESTINATION OF TRADE IN 1763

VALUE OF VISIBLE EXPORTS TO ENGLAND





VALUE OF VISIBLE IMPORTS FROM ENGLAND



Each symbol represents £100,000 worth of goods

10. THE VOTE ON THE ADOPTION OF THE CONSTITUTION

THE SUCCESS OF THE REVOLUTION

The work of the American Revolution was performed on the field of battle, by citizens' committees (the so-called Committees of Safety) and in new legislative halls meeting in the separate states. Americans pressed across the Allegheny mountains; seized crown lands and the estates of the great proprietors and the tories; began to manufacture; disestablished the Anglican Church; wiped laws of primogeniture and entail off statute books; created new lines of direct trade with Europe, the Caribbean and the Orient. The ties binding America to the Mercantile System were severed; mighty blows were directed against propertied privilege.

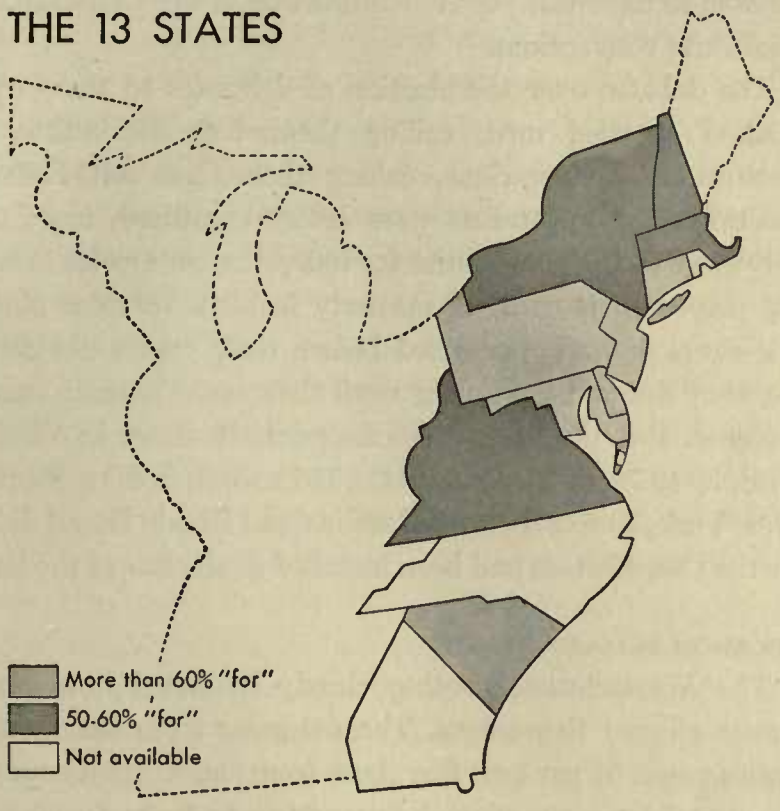
Leveling doctrines for a time were in the saddle. The states refused to surrender any part of their sovereign powers to a central government. Oppressed by debts and confronted by competitors at every turn, many states raised tariff walls, sought to inflate currencies and tried to escape from financial obligations. In some, small farmers gained control of legislatures and moved to enact laws staying foreclosures and writing down the revolutionary debt. Public credit was imperiled and private contracts were in jeopardy. When aroused agrarians took the law into their own hands — as they did in Shays' Rebellion in Massachusetts — men of property, fearful that the work of *their* Revolution would be undone, came to the decision that the salvation of the new country lay in the creation of a national union.

THE WRITING OF THE CONSTITUTION

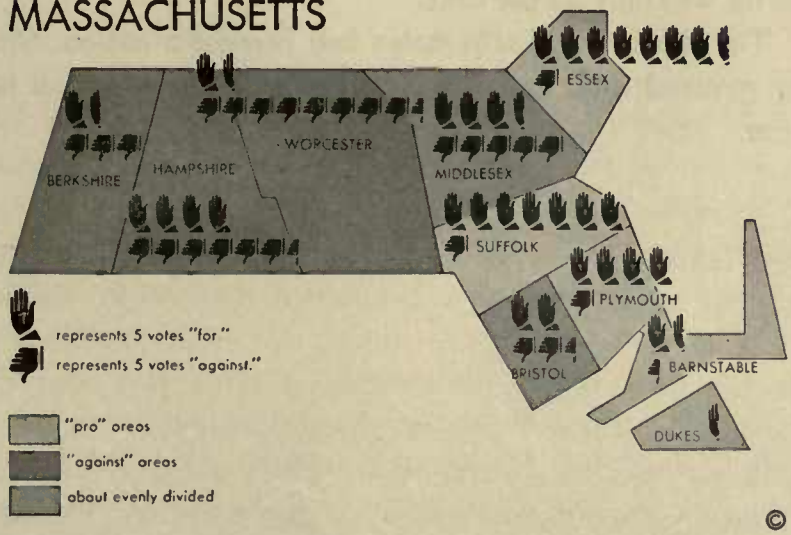
This was the task of the Constitutional Convention meeting at Philadelphia early in 1787. Its major problems were two: to create a central government capable of assuring the solvent position of America in the company of nations; and to protect property rights against the leveling assaults of a numerous agrarian democracy. Both were solved with consummate skill. The frame of government set up made the possibility of capture by the agrarian levelers remote. Only the lower house of Congress was to be elected by popular vote. The upper house was to be chosen by state legislatures; the President was to be named by a college of electors; the federal judiciary was to hold office for life. Amendment of the Constitution was ringed around with almost insuperable barriers. Thus, a series of vetoes stood between the

THE VOTE ON THE ADOPTION OF THE CONSTITUTION

IN THE 13 STATES



IN MASSACHUSETTS



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popularly elected lower house and the final acceptance of laws: the Senate's, the President's and the Supreme Court's. While the right of judicial review was not written into the Constitution, contemporaries understood that the court was to have this power. Ratification of the Constitution was to be by special state conventions.

The debates over the election of delegates to these conventions were heated. Propertied men, calling themselves Federalists, supported the Constitution; the agrarians, calling themselves anti-Federalists, were in opposition. The Federalists were better organized, more articulate, more keenly alert to the possibilities for individual enterprise in a national union. They played their cards in masterly fashion. In some states, they forced quick elections and triumphed before their opponents could organize; in some, they delayed the voting until they could bargain successfully behind the scenes. But the votes were dangerously close: in Virginia, ratification carried, 89 to 79; in Massachusetts, 187 to 168; in New Hampshire, 57 to 47; in New York, 30 to 27. North Carolina and Rhode Island did not ratify until after the Constitution had been installed as the law of the land.

RATIFICATION IN MASSACHUSETTS

The Massachusetts voting clearly indicated how clashing economic interests aligned themselves. The delegates from the mercantile seaboard counties voted 67 per cent for; those from the western country, where small farmers and large speculative interests were to be found jointly, voted 32 per cent for; in the middle counties — the scene of the Shays' uprising — the vote for was only 25 per cent.

The thirteen separate states had become a nation. On April 30, 1789, they received their first President with the inauguration of George Washington.

11. GROWTH OF THE CONTINENTAL U. S.

THE TRIUMPH OF EGALITARIANISM

The new republic did not become a cockpit in which were fought out the bitter claims to power of big propertied interests (Federalists) and the men of small means (anti-Federalists, or Jeffersonians). The opening up of the public domain to easy settlement softened the class antagonisms; indeed, Jeffersonianism very soon triumphed. For, by purchase, by conquest, by sharp dealing, the central government extended its sway farther and farther westward, until, when the Civil War opened, the United States lay across the whole continental domain. With farms available really at the cost of transportation only — the costs of the land and the erection of an improvement could be met as a rule out of the returns from the initial crops raised — the discontented and oppressed small farmers of the American East and the dispossessed peasants of Northern and Western Europe could throng into the American West. They did so. And the frontier democracy which became so profoundly an attribute of the American character flourished in the free environment of adequate family farms, good agricultural prices and political egalitarianism. Marginal farmers, for a number of generations, were able to avoid being driven into the industrial labor reserve to become a landless proletariat. They are becoming that today: not, simply, because the public domain has been almost entirely preempted; but because high fixed charges on operations and low prices for farm products, as a result of world surpluses, have shut the doors on agriculture as an escape from industrialism.

THE GENEROUS PUBLIC LAND POLICY

Jefferson had obtained the vast Louisiana territory for a song. Florida was purchased from the Spanish. Americans, settled in Texas, had freed themselves from Mexican rule and had been annexed. California and the New Mexican Territory were won as a result of the humbling of the Mexicans. The Oregon Territory was obtained by peaceful agreement with England. As whites moved into these regions, Indians were moved out — by treaty, violence and extermination.

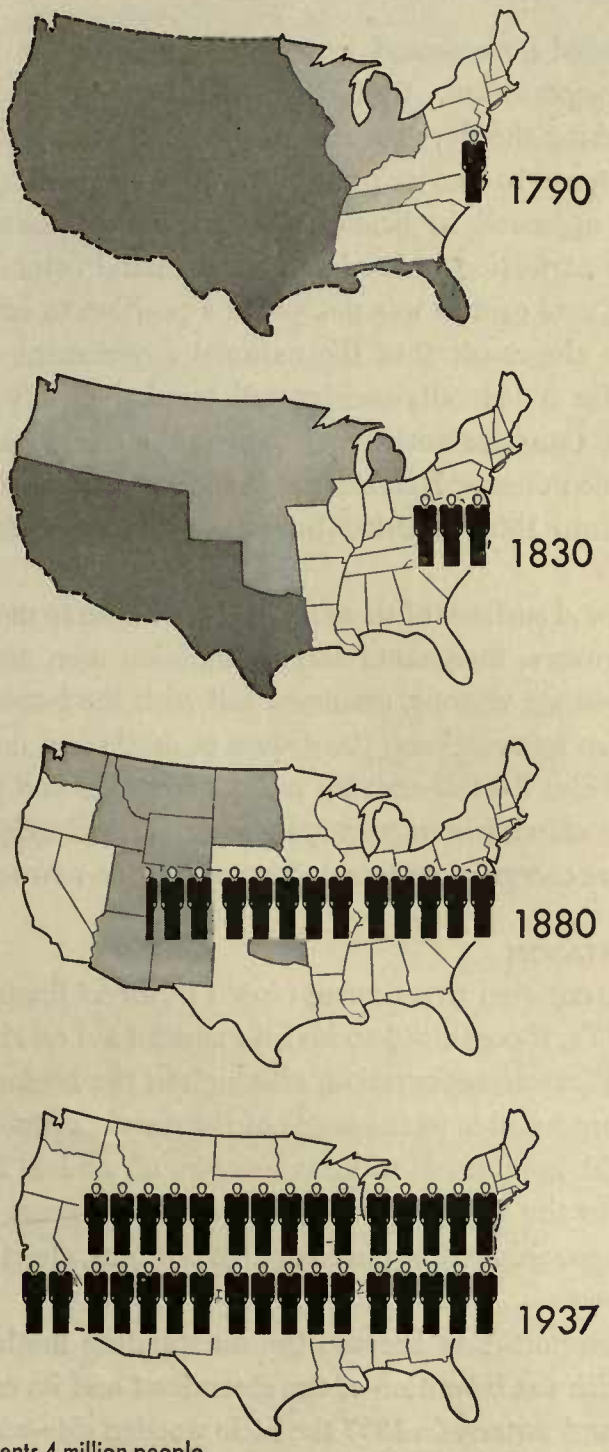
The public land policy was generous to land speculators and settlers alike. The public plan was the quick disposition of the national domain to obtain a revenue; speculators naturally bought up the choicest sites and made — and quickly lost — fortunes in land deals. But whether bought from

the government or from private land companies, farms were cheap and the tide of settlement pressed on. Nor could squatters be held back, until, in 1841, a general preemption law had to be passed legalizing their claims on the payment of a nominal price. In 1862, the Homestead Act was written to throw open a goodly portion of the public domain to free settlement. This put no end to speculation. In fact the generous grants of the most desirable lands to the states, railroads, timber and cattle companies made it necessary for the farmer to buy, if he hoped to be located favorably near transportation facilities. The point is that up to the 1890's, this was no real hardship; and the proof is to be found in the quick settlement of the West. Indeed, by 1890, the census reported that the American frontier was gone.

FORCES AIDING QUICK SETTLEMENT

Other forces aided settlement. The land was endowed with a magnificent natural transportation system: its great network of rivers. Hunger, political disturbances and the spread of enclosing and rack-renting on the European continent drove to our shores hundreds of thousands of expropriated small farmers and agricultural laborers. Industrialization in Europe made the grassy plains of the American West the granary of the world. The mechanization of agricultural production and the entrance of the railroads into the West after the Civil War intensified the whole process. The quest for wealth in the exploitation of the West's natural resources attracted still other settlers: the fur traders, the lumbermen, the lead and copper miners, the gold and silver miners. The kingdom of cotton was extended into the rich river bottoms and the alluvial gulf plain of the Southwest. The quick growth of the United States of America constituted one of the marvels of our modern age.

GROWTH OF THE CONTINENTAL U. S.



Each man represents 4 million people
Gray areas indicate territories

©

12. GROWTH OF MISSISSIPPI TRAFFIC

ROAD BUILDING

The national government was equally generous in providing internal routes of transportation. With the establishment of independence, the obstacles blocking the development of a domestic market disappeared; and the states hastened to charter private turnpike companies for the building of roads. These appeared in sizable numbers on the eastern seaboard and, thanks to the perfection of hard-surfacing, inland communications became easier. But private capital was not yet in a position to embark on grandiose schemes; with the result that the national government quickly yielded to the demand for a federally-constructed trunk highway running east and west. In 1806, Congress authorized the Cumberland Road; in 1818 its first stretch from the Potomac River to the Ohio River was opened; in the 1850's it had reached into Illinois. Other interstate highways also were built with federal funds.

On the broad surfaces of these roads there began to move a steady stream of settlers, drovers, merchants and commission men and travelers. There were the Conestoga wagons, crammed full with the household effects of the humble western homeseekers; the droves of cattle and flocks of sheep being taken to markets; the fast-moving passenger stages and phaetons, in which rode the more affluent immigrants, merchants and foreign visitors; and the stage freighters carrying express packages into the new settlements.

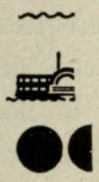
RIVER TRANSPORTATION

While the national government ceased its direct financing of road building in the 1830's, it continued to lavish financial aid on river and harbor improvements. River transportation, although in the beginning slower, was in every way more suitable to the needs of the growing country. There were no tolls to be paid, no animals to be taken care of, no bad inns to be suffered. And, thanks to the vast Ohio-Mississippi system, great distances could be spanned. The government began to dredge bottoms, chart channels and erect buoys.

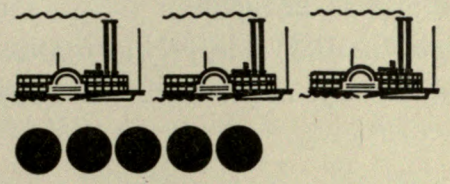
River transportation became the outstanding method of inland communication with the invention of the steamboat and its early appearance on America's inland waters. In 1807 the little wooden side-wheeler "Clermont," belching forth great clouds of black smoke, moved up the Hudson River to

GROWTH OF MISSISSIPPI TRAFFIC

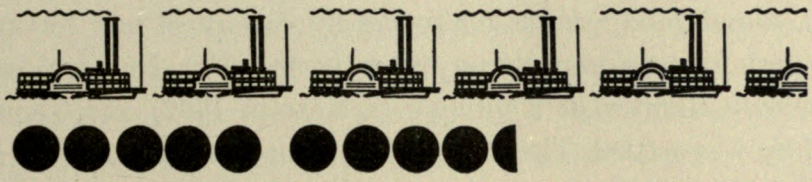
1818-19



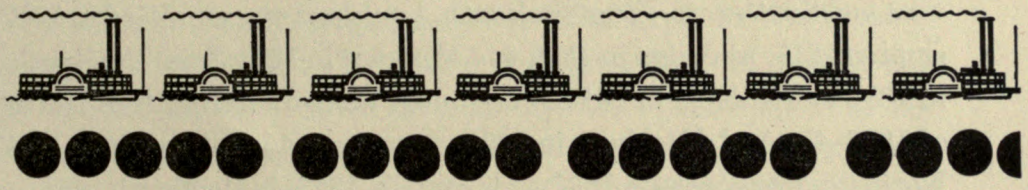
1839-40



1849-50



1859-60



Each steamboat represents 500 steamboat-arrivals
Each disc represents 10 million dollars worth of produce received at New Orleans

©

Albany and then back to New York. In the next few years shipyards were appearing at Pittsburgh, Wheeling and Cincinnati, and river boats — many flimsily built — were steaming up and down the Ohio and the Mississippi. They cut the travel time from Pittsburgh to New Orleans from one hundred to thirty days; and they cut costs as well. Consequently on the Mississippi alone in 1819 there were sixty steamboats in operation and by the close of the year ending September 30, 1819, these had made one hundred ninety-one arrivals at New Orleans; in 1860 there were a thousand and the number of arrivals for that year was 3,566. In the earlier year, 136,300 tons of produce from the interior, valued at $16,772,000, were deposited at New Orleans; in the later year, 2,187,600 tons valued at $185,211,000.

With the construction of canals in the 1830's, largely as feeders to river and lake systems, the net of inland waterways in pre-Civil War America was complete.

THE NEW STATES

The push westward took place in a series of waves, roughly coincidental with falls in the business cycle. Then, small farmers, oppressed by debts and low prices, found good excuses for trying the hazard of new fortunes. The first great push followed immediately after the end of the Revolution; and the trans-Allegheny country of Kentucky (a state in 1792) and Tennessee (a state in 1796) was settled. The second took place at the turn of the new century, with the Ohio Valley as the focus. Ohio was admitted into the Union in 1803. The third came with the hard times of the immediate post-Napoleonic years; Europeans now swelled the host of western migrants bound for Northwest and Southwest. From the South, Louisiana was admitted in 1812, Mississippi in 1817, Alabama in 1819 and Missouri in 1821; from the North, Indiana in 1816 and Illinois in 1818. The fourth was an aftermath of the depression of 1837–45. And Michigan in 1837, Iowa in 1846, Wisconsin in 1848, in the North; and Arkansas in 1837 and Texas in 1845, in the South, were admitted. There were business recessions in 1851–52 and in 1857–60; the westward movement was resumed and Minnesota was admitted in 1858.

By 1860, more than 12,000,000 persons were to be found in the West — 7,600,000 in the Northwest and 4,730,000 in the Southwest. In 1800, the former section had seated 50,000 and the latter 1,345,000.

13. WHERE STEAMBOATS FOR NEW ORLEANS CAME FROM

THE EXPANSION OF AGRICULTURE

The pre-Civil War settlers went into the American West chiefly to become farmers. Those who located in the northern tier of states became commercial growers of wheat and corn and hogs. In the southern tier farmers raised cotton, sugar, hemp and tobacco. Right up to and beyond the Civil War, the commercial agriculture of the free states was happily circumstanced: prices continued good; unit costs of production were cut as a result of the development of the mechanical thresher and reaper and the improved iron plow; competitive modes of transportation existed to keep freights low; the market for cereals and pork products was regularly expanding. Beginning with the 1840's, wheat was being planted on large prairie farms as far west as Iowa and Nebraska; corn — the great animal feed developed in America — crowded the fields of Ohio, Indiana and Illinois. Blooded herds, for dairy products and meats, appeared in barnyards. These were the Northwest's significant articles of commerce.

Up to the 1850's, southern agriculture's position was also good, although there were inner dislocations. Tobacco production made no advances, as a result of the greater attraction of cotton and the shutting off of foreign markets, from the turn of the century up to 1840; in the later year, following the introduction of more popular leaf varieties, tobacco took a new lease on life. In the old South, with the exhaustion of soils, cereal growing became relatively unimportant. Rice cultivation had to be confined to the coastal plains of South Carolina and Georgia; and after 1850, its production began to fall off. Sugar was restricted to Louisiana; and here it thrived magnificently throughout. But cotton — up to 1850, at any rate — made up for everything. After 1820 cotton was king in the South and it sat its throne with confidence: for costs of production synchronized with prices received for the crop. It was small wonder that planters in the deep South should put every acre in the plant and depend upon the outside world for virtually all their household and barnyard necessaries except corn.

AMERICA'S GREAT INNER MARKET

Here, in the planting South, was one of America's great inner markets. That — in the beginning — the economic life of the West and that of the South

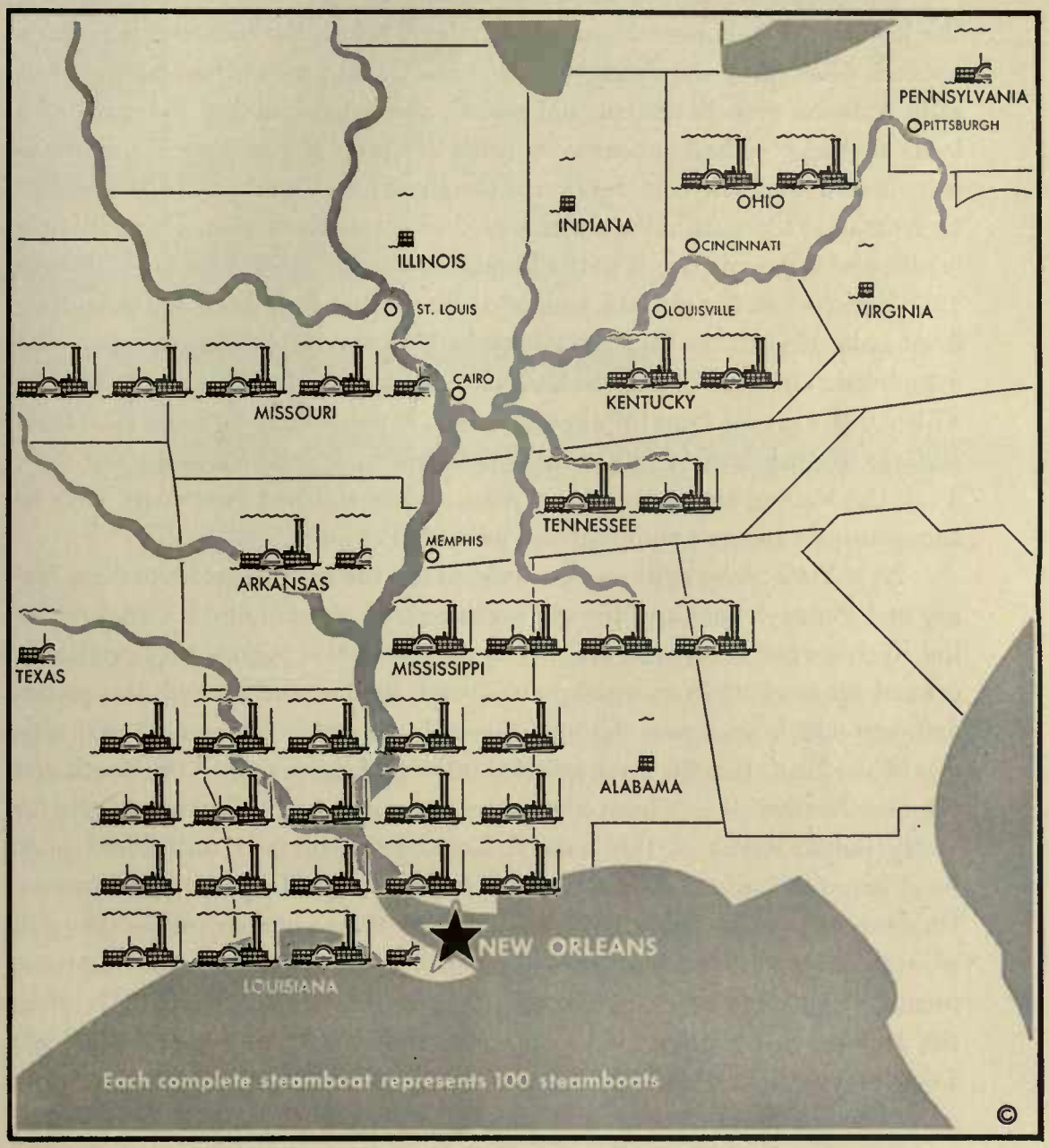
should be joined by so many close ties was inevitable. The West produced wheat and flour and hay and oats, distilled whiskey, raised mules and horses and cattle for the southern market. It slaughtered hogs and prepared bacon, lard and hams for southern tables. It sold dairy products. It felled trees and produced lumber for construction and staves. The old Southwest (Kentucky, Tennessee) grew hemp for cordage and bagging. Kentucky and Missouri grew tobacco. The old Northwest (western Pennsylvania, Ohio) was beginning to ship coal. As cotton expanded, the deep South increasingly took to depending upon Missouri and Kentucky for many of its slaves.

MOVING COMMODITIES DOWN THE MISSISSIPPI

These commodities were moved by river steamboats down the Ohio-Mississippi-Missouri system, bound as a rule for New Orleans, from which they were distributed into the southern interior and put on ocean-going ships. How the traffic expanded over the first half of the 19th century we may note from the following comparative figures, which give values for important western products arriving at New Orleans. Flour: 1811, $846,000; 1855, $5,533,000. Tobacco: 1811, $196,000; 1855, $7,215,000. Hemp and its products: 1811, $175,000; 1855, $2,216,000. Pork products: 1811, $250,000; 1855, $14,066,000. Whiskey: 1811, $150,000; 1855, $1,306,000.

But, by the 1850's — as we shall see — New Orleans was being supplanted by New York as the West's principal entrepôt for goods entering domestic and foreign trade. Canals and railroads were linking West and East together; and with economic bonds were going political sympathies. By 1860, therefore, the outstanding arrivals at New Orleans were no longer from the upper Mississippi Valley but from the lower. In 1811, the value of cotton appearing at New Orleans from the interior was $1,879,000; in 1855, $51,391,000. The value of sugar in 1811 was $413,000; in 1855, $18,025,000. The chart tells the same story in terms of the origin of steamboats putting in at New Orleans docks for the year ending August 31, 1860. Louisiana and Mississippi boats led. (Many of the Missouri boats carried Illinois as well as Missouri products.) Ohio was a bad fourth. Pennsylvania, Illinois and Indiana were far in the rear. New Orleans continued as a significant American transshipment point right up to the Civil War; but largely for the South's agricultural surpluses.

WHERE STEAMBOATS FOR NEW ORLEANS CAME FROM (YEAR ENDING AUGUST 31, 1860)



14. RAILROADS SURPASS THE CANALS IN NEW YORK

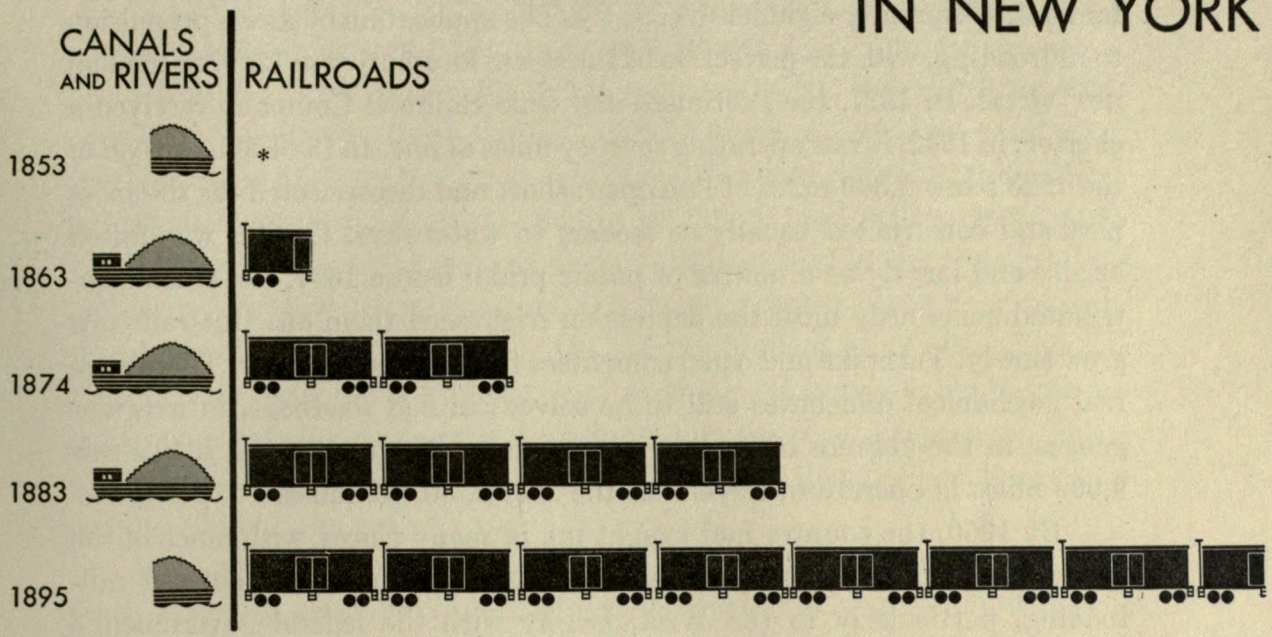
THE COMING OF THE CANALS

The canals of America furnished another significant method for tapping the interior. Canals were known to England before the nineteenth century opened, where they were used to move coal. Canal projects had been spoken of in America even in the colonial period, and canal building — largely of a local character — had appeared immediately after the gaining of independence. But it took the construction of the great Erie Canal as a public project to dramatize the possibilities of this means of transportation. Using its own credit, and selling its bonds in the English money market, New York State in 1817 launched on the gigantic task of digging a four-foot ditch 360 miles long from Lake Erie to the Hudson River; in 1825 the public improvement was completed. The Erie Canal was immediately successful. Its cost of more than $7,000,000 was met from tolls in nine years. It cut freight-carrying time from Buffalo to New York from twenty to six days. It made Buffalo and New York the leading entrepôts of the West and established New York City as the country's greatest shipping and mercantile center.

New York State built more canals; so did the eastern states of New Jersey and Pennsylvania and the old northwestern state of Ohio. Canal routes linked rivers and lakes: and where they tapped settled regions they profitably opened up markets from which moved coal, lumber and agricultural goods; and into which were sent the semi-finished and finished manufactured articles of the East. But the fever infected other regions as well — the South and the new Northwest — whose commerce was not yet in a position to pay for costly public works of this nature. Legislatures blithely authorized huge bond issues in Indiana, Illinois and Michigan and in Maryland and Virginia. Ohio ran up a public debt of $27,000,000, half of it to finance canals. The still pioneer state of Illinois borrowed $11,000,000, most of it for public improvements. English investors bought up the state bond issues; until 1837, when the depression, beginning that year, caught them with at least $200,000,000 worth of American securities. States defaulted on interest payments and some repudiated portions of their debt altogether. A sudden end was put to canal building. And English money gave the United States a wide berth until 1850.

The Erie Canal remained profitable for longer than a generation. But even it was compelled to yield in time before a superior force: this was the railroad. Railroads — using fixed rails over which cars with flanged wheels

RAILROADS SURPASS THE CANALS IN NEW YORK



Each symbol represents 1.5 billion ton miles.

*NEGLIGIBLE

©

were dragged — had been employed in the operation of English mines as far back as the early eighteenth century. The application of steam propulsion to railroading, with the perfection of the steam locomotive in 1829, opened up new vistas. In 1827, the Baltimore and Ohio Railroad Company received a charter; in 1832, it was operating seventy miles of line. In the East, the end of the 1830's saw 2,800 miles of line open: short and disconnected for the most part and constructed usually as feeders to waterways. Capital was raised locally and largely as a matter of public pride; before 1837, the states contributed generously until the depression frightened them off. But railroads grew slowly. Turnpike and canal companies fought them bitterly. There were real mechanical difficulties still to be solved: in bad roadbeds, in irregular gauges, in the absence of bridges over streams. The end of the 1840's saw 9,000 miles in operation; the end of the 1850's, 30,000 miles.

By 1860, the country had caught up, in many places, with much of the speculative building that had taken place. New capital had entered railroading, particularly in the West, largely with the federal government's adoption of a program of generous land grants for interstate construction. The consolidation of short lines into great systems made possible better financing, the unifying of gauges, superior engineering and the erection of terminal facilities. The decade witnessed the appearance of the great trunk lines, the New York and Erie, the New York Central, and the Pennsylvania.

THE CANALS GIVE WAY

Pushed by such competition, canal transport surrendered the palm to railroading. In New York State, in 1853, on its canals and rivers, moved 1,075,000,000 ton-miles of freight; on its railroads, only 171,000,000 ton-miles. In 1863, the figures were: 1,524,000,000 ton-miles on canals and rivers compared with 790,000,000 ton-miles on the railroads. By 1869, the railroads for the first time took the lead; by 1874, they were doing double the business. In 1895, New York's great waterway system — constantly being improved — was carrying less freight than it had in 1853 (890,000,000 ton-miles); while the railroads were carrying thirteen times as much (11,167,000,000 ton-miles).

15. VALUE OF DOMESTIC AND FOREIGN COMMERCE IN 1852

AMERICAN MERCHANT CAPITALISM'S VARYING FORTUNES

Up to the Civil War, as far as the economy of the free states was concerned, it was largely trade that was the lifeblood of American capitalism. In short, merchant capitalism dominated the American scene rather than industrial capitalism. Business men were buyers and sellers, merchants, commission men, warehouse men, factors, brokers and bankers rather than factory owners and mine operators. One made money getting up a cargo of wheat for Belgium or lumber for China; one brought in tea from the Far East or furs from the northwest coast or whale oil from the South Sea Islands; one dealt in foreign bills of exchange and bankers' acceptances. America was predominantly (not, of course, entirely, for that is never the case) a commercial nation; and this was a risky affair.

It is possible to argue plausibly that money capital, in the historical sense, is not accumulated from trading. Accumulation is at the point of production. The irregular course of American foreign trade during the period from 1780 to 1860 points the moral. The Revolution, like a sharp knife, had cut America free from its mercantilist entanglements. Immediately thereafter and until about 1806, our foreign commerce flourished: for direct trade was established with all Europe but England; with all the Caribbean but the British West Indies; and with the whole Far East. The outbreak of the Napoleonic Wars gave our merchant marine its grand opportunity and as neutrals we bought and sold freely in those markets which England previously had preëmpted.

England, of course, was aware of this; and its sea duel with Napoleon was as much directed against us as it was against the Corsican. The United States was dragged into a war. Our commerce suffered and its decline continued until about 1830. But by 1830 the face of Europe had changed. Increasingly it had become industrial and it was badly in need of raw materials for its factories and foodstuffs for its laboring populations. The Mercantile System everywhere was being abandoned and reciprocal treaties with foreign powers opened the ports of most of the European nations — including England's — once and for all to the direct trade of American ships. From 1830 to 1836, foreign commerce saw boom times and American traders made handsome profits.

THE CRISIS OF MERCHANT CAPITALISM

There was a decline once more during 1837–1845, for the depression of those years was world-wide in character. And then once more a recovery for the next ten years; but it was a revival in foreign trade with no real vitality. Gold discoveries in California and Australia; the ending of the English Corn Laws in 1846 which opened up English ports to American wheat; the English war with the Chinese; famine in Ireland; war in the Crimea — all these factors gave another, and temporary, impetus to American foreign trade. Warehouses were reopened, old ships refurbished, new ones — the splendid and fleet clipper ships of the China trade — were built. The American flag fluttered from yards on ships in every harbor of the world.

By the 1850's, the English iron steamship also was to be found riding at anchor in these harbors. This was the rival that was to drive America from the high seas. For the iron steamship was faster; it was cheaper; it had the generous support, by way of subsidies, of the English government. By the time the Civil War broke out, not much more than 66 per cent of the goods entering and leaving American ports was being carried in American bottoms.

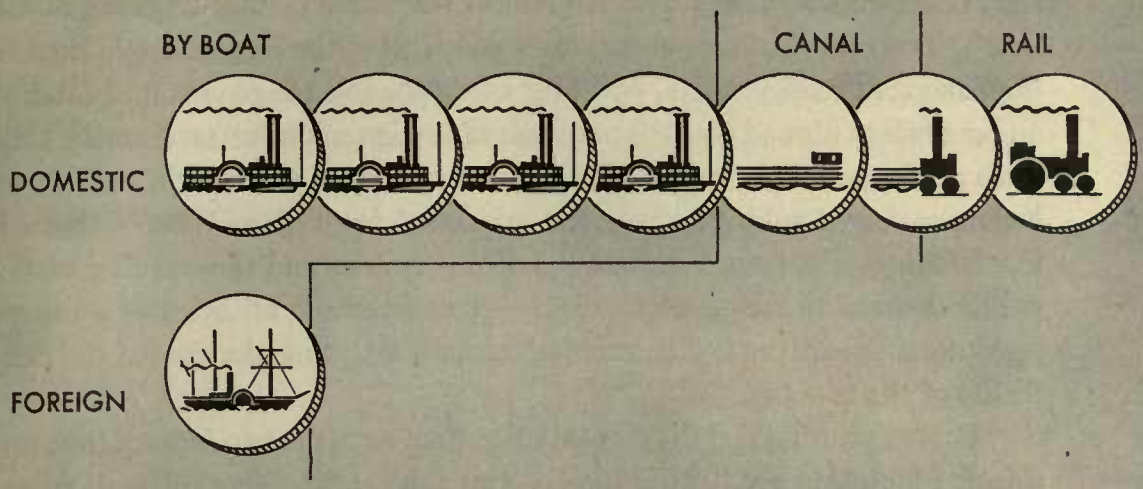
By the time the 1850's closed, too, American business men had learned that trade, particularly foreign trade, presented too many pitfalls to be continuously profitable. Real opportunities for money-making lay in the manufacture of goods: if only the domestic market could be protected by tariffs and widened by great railroad systems; if only there were an adequate financial system and credits were easily available; and if only a steady labor supply could be assured. These were some of the reasons why northern business men favored the war with the South.

FOREIGN AND DOMESTIC TRADE COMPARED

By the 1850's, as the chart shows, the value of foreign trade was only about one-seventh of the value of the total domestic trade. With high tariff walls to keep out foreign industrial goods and with a free immigration policy, it would be possible to expand the American market many-fold. Then there would dawn really golden days for the American capitalist, this time in the shape of opportunity for industrial enterprise.

From the chart it is also interesting to note that as late as 1852 domestic commerce in boats — used on rivers, lakes and in the coastal trade — exceeded the traffic carried on canals and on railroads. But all this, too, was soon to terminate.

VALUE OF DOMESTIC AND FOREIGN COMMERCE IN 1852



Each circle represents 400 million dollars worth of traffic

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16. SLAVERY MOVES SOUTH AND WEST

COTTON WAS KING

Cotton was king in the United States from 1820 to 1860; and for a variety of reasons. Cotton supported almost the whole planter economy of the South. The export of cotton surpluses constituted the largest single item in the American foreign trade, and thus made possible the payment of interest on borrowings abroad and the purchase of foreign manufactured goods. Cotton's needs guided American public policy. We were a low-tariff nation; we had no national banking system; the quick settlement of the West — through the building of a transcontinental railway system and the opening of the public domain to free homesteaders — was retarded: all because southern legislators, executives and federal judges for a long time dominated the public life of the country.

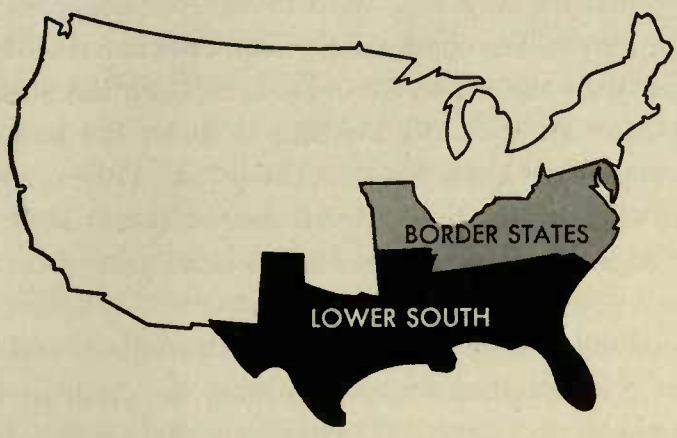
Cotton growing and the plantation system were the two faces of the same shield. Plantation production implies two things: extensive cultivation and the employment of an unfree laboring force. In the antebellum South, this unfree labor force was the Negro slave, inherited from tobacco when the invention of the cotton gin opened up its new vistas for the plantation economy. And cotton came to be grown more and more as cotton textiles supplanted woolen stuffs as the basic fabric for clothing in the Western World as well as in the Eastern.

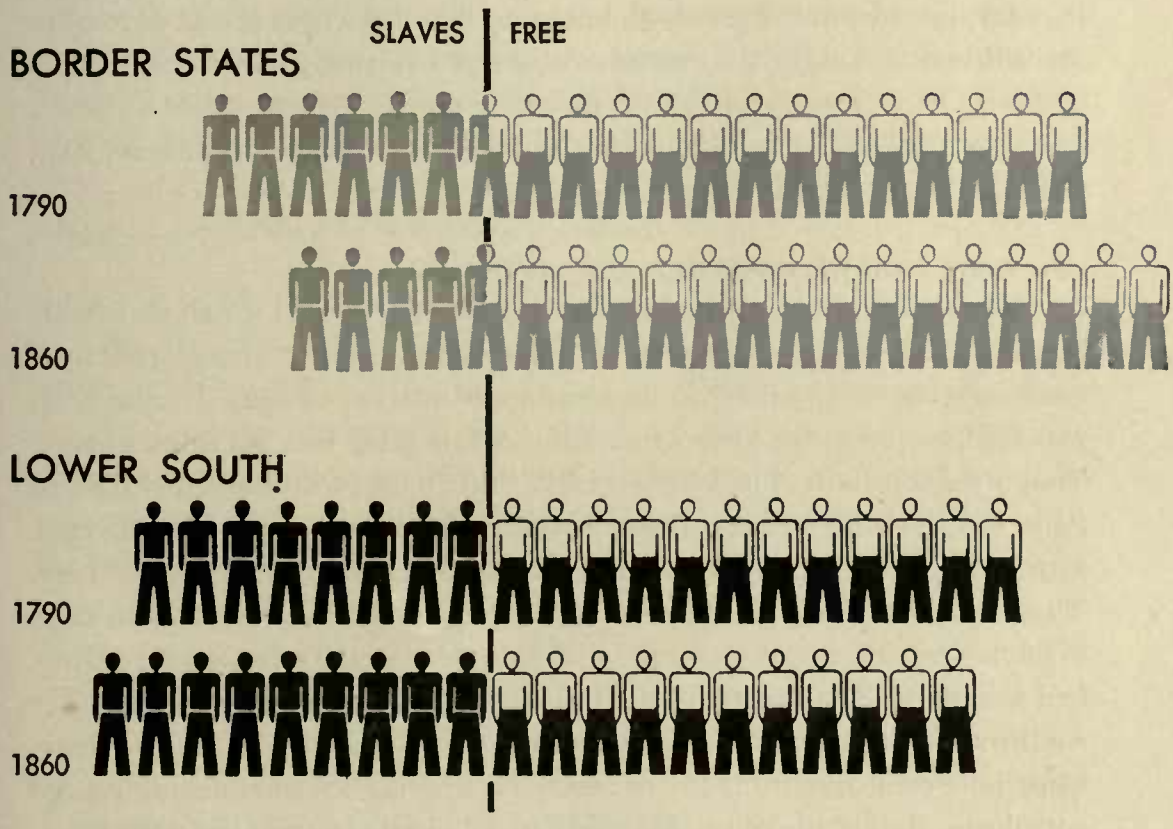
THE DISTINCTIVE CHARACTERISTICS OF THE SLAVE-PLANTATION SYSTEM

Why was cotton cultivation conducted on an extensive basis? In other words, why did planters constantly need fresh supplies of new land to which to shift operations? It was because their capital fund was largely invested in their slaves; because slave costs were high; and therefore because it was important that they derive as large a current money income as possible from their investment. It was cheaper to move than to restore the fertility of soils wasted by one-crop plantings.

These distinctive characteristics of the slave-plantation economy help to account for much that was so unusual in the history of the antebellum period. We are to note the shift in the regions of cotton cultivation as planters sought out new areas of production. In the 1820's, more than one-half of the country's crop was being grown in the old South of Virginia, North Carolina, South Carolina and Georgia; in the 1850's, the region's share had dwindled

SLAVERY MOVES SOUTH AND WEST





Each man represents 5 per cent of total population

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to one-fourth. Planters had moved into the wide alluvial plain stretching across the Gulf States and up the river valleys of Louisiana, Texas, Arkansas. And when they moved they took with them — or imported into this new region — Negro slaves. The chart clearly shows the movement of the South's slave population over the period 1790–1860. In 1790, the border states held 521,169 slaves, the lower South 136,358; in 1860, the border states held 1,527,044 slaves and the lower South 2,423,467. In 1790, slaves made up 32 per cent of the whole population of the border states; in 1860, 22.3 per cent. For the lower South the proportions for the same years were 41.4 and 44.8 per cent.

Cotton production kept on expanding with England and France and, a little later, the New England States absorbing the crop. In 1815, the crop totaled 150,000 bales; in 1859, 4,500,000 bales. Entering as it did into a world market, it was only natural that cotton's prices should be fixed by world demand. Prices therefore fluctuated, but up to the 1850's they appeared to be in line with costs. Taking the annual average for five-year periods, short-staple cotton at New Orleans sold at the following prices: 1816–20, 21.2¢ a pound; 1826–30, 9.2¢; 1831–35, 12.2¢; 1836–40, 10.3¢; 1841–45, 6.7¢; 1846–50, 9.0¢; 1851–55, 8.6¢; 1856–60, 11.4¢.

LOW SLAVE COSTS THE HEART OF PLANTER CAPITALISM

It was also to be expected that cotton planters should watch their costs closely. They were dependent upon the outside world for virtually all their goods and services. Selling in an open world market as they did, they demanded low prices for their necessaries. A low tariff was the solution here. They were constantly pinched for credit. State banks with unlimited right of issue was the solution here. Being debtors, they wanted light fixed charges. Low taxes and small governmental expenditures were the solutions here. They needed low freight costs. The opening up of the coastwise trade to ships of foreign registry and direct trade with Europe were the solutions here. They had to expand. The destiny of the United States, said some Southerners, lay southward up to the Isthmus of Panama and in the islands of the Caribbean. Most important of all was the necessity for keeping the outstanding capital cost down, that of the price of slaves. For only in these ways could the slave-plantation economy be conducted profitably.

17. CLASS ANALYSIS OF FREE SOUTHERN POPULATION IN 1860

THE SLAVE TRAFFIC

The plantation system demanded unfree workers. Up to 1808, the African slave trade remained open. From then on, planters were dependent upon illegal running — with Cuba as an outstanding station in the traffic — and domestic breeding. As the lands of many of the old cotton states declined in fertility their owners were compelled to sell off their laboring forces; but some former planters consciously turned to the production of Negroes for the slave markets of the lower South. The states from which slaves were moved into the lower South regularly enough to suggest a fixed commercial practice were Virginia, South Carolina, Kentucky and Missouri. Up to the opening of the 1850's, the supply apparently was adequate, for slave prices did not vary sharply from cotton prices. But during the 1850's the prices of prime field hands began climbing without any relation to cotton prices. At New Orleans, a young male slave sold for $1,300 in 1837; $600 in 1843; $900 in 1848; $1,250 in 1853; $1,500 in 1856; and $1,800 in 1860. The reopening of the African slave trade became the very core of the South's program. This it could achieve only through secession.

THE SLAVE LORDS

Dependent as its whole economy was upon the profitable cultivation of cotton, it was small wonder that southern society should be dominated by the slave owner, particularly the great plantation lord. And yet, only a minor proportion of the southern whites were directly linked with the slave system. Computations made by Kendrick and Arnett show that there were in 1860, 383,637 holders of slaves in the South; and if we allow five members to each family, 1,686,805 white persons were associated with the system. These represented but 24.2 per cent of all the southern white population in families. All the holders were not plantation lords; indeed, one-half of them had only one to four slaves each. This meant that one-half of the slave owners were small independent farmers, working their own fields, who used a few slaves to assist them in the arduous rounds of planting, chopping and picking cotton.

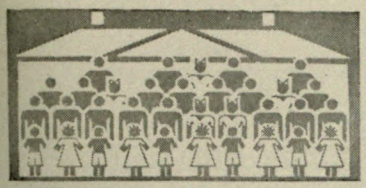
Concentration of slave holding, in fact, was steeply graded, as is the ownership of the means of production in all class societies. In 1860, 6.8 per

cent of the South's total white population of 8,000,000 belonged to families possessing ten slaves or more; and these 6.8 per cent owned 74.4 per cent of the Negroes in bondage. At the top of the pyramid stood 2,292 owners, with perhaps 11,460 persons in their families, each of whom possessed one hundred slaves and over. These represented 0.2 per cent of the white population; they owned 10.0 per cent of all the slaves. The concentration was greater in the lower South than in the border states. In the lower South, 19.4 per cent of the slaves of the region were to be found on holdings with one to nine slaves each; 14.2 per cent were to be found on holdings of one hundred slaves and over each. In the border states, 35.4 per cent were on holdings with one to nine slaves each; and 3.4 per cent were on holdings of one hundred slaves and over each. Similarly, in the lower South one-third of all the white families were directly associated with slavery as against one-fifth for the border states.

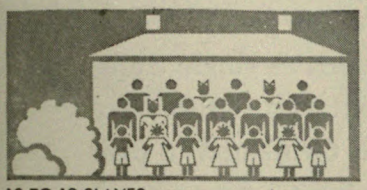
THE UNHAPPY FREE BLACKS

The unhappiest victims of the slave system were the free blacks, totalling 262,000 in 1860, who lived in a kind of no man's land economically and socially. They were a constant reminder to the white owners of the injustices of their own system; they were distrusted by their fellow Negroes; and they continued to live in the South because most of them were incapable of moving out.

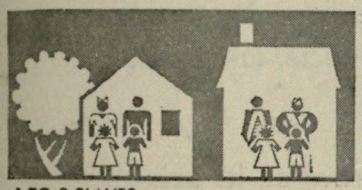
CLASS ANALYSIS OF FREE SOUTHERN POPULATION IN 1860



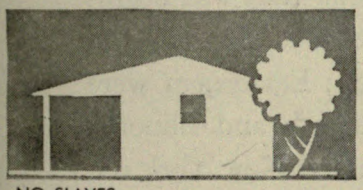
20 OR MORE SLAVES



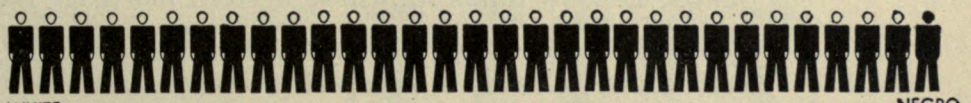
10 TO 19 SLAVES



1 TO 9 SLAVES



NO SLAVES



WHITE NEGRO

Each symbol represents 200,000 people

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18. WHEAT SHIPMENTS EAST AND SOUTH

THE NATURAL BONDS OF THE SOUTH AND WEST

It has frequently been said that the Civil War was a struggle between the South and the North for the control of the West. And yet, it can be argued plausibly that the West was already lost to the planter capitalism of the South when the 1850's closed. The South and West had many interests in common. Both were producing staple crops for sale in an unrestricted market. Their farm operators were, as a rule, debtors burdened by fixed charges. There existed a wide exchange of commodities between both sections. A single transportation system — the Mississippi River and its tributaries — formed a natural connection. South and West were hostile to high tariffs and to dear money. Down the Mississippi River system moved the West's flour, provisions, work animals, lumber and lead for distribution in the southern market and for transshipment at New Orleans to the East and Europe. Up the river went the South's sugar and molasses, hemp and its products, and tobacco.

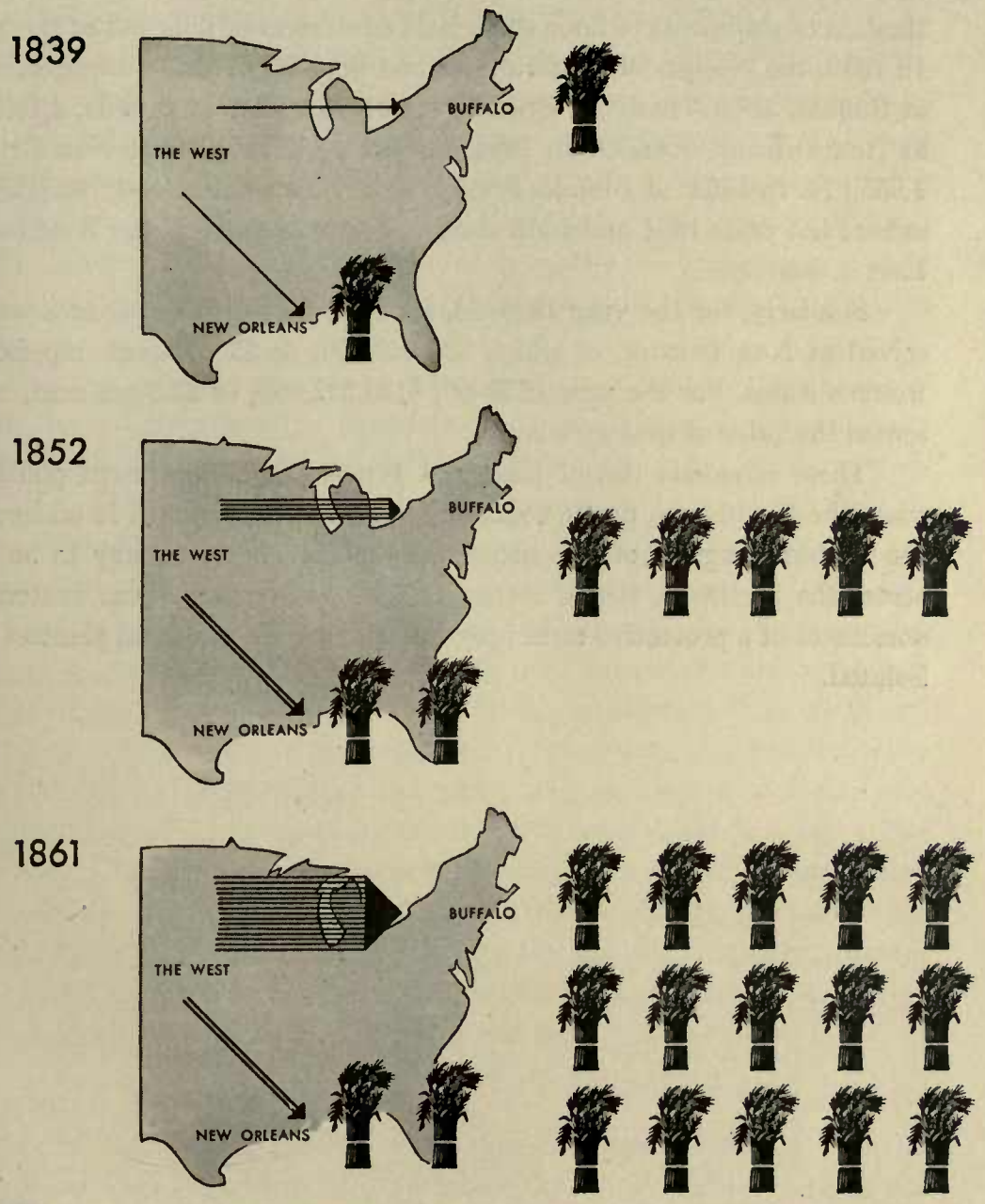
THE LOOSENING OF THE BONDS

But by the end of the 1840's the West had been turned on its axis and its orientation increasingly was eastward rather than southward. It was the financial assistance of Boston, New York and Philadelphia that was beginning to develop western resources: its great forests, its lead, copper and iron mines. Eastern funds furnished western mortgage money; Easterners were bringing in European capital to build Indiana's, Michigan's and Illinois's canals and railroads. A group of promoters from Boston and New York obtained the charter from the Illinois legislature for the building of the great Illinois Central Railroad in the 1850's. Yankee money — accumulated in the China trade and the New Bedford whaling industry — bought up the bankrupt Michigan Central Railroad and put it on its feet. When Westerners turned their attention to the possibilities of opening up real estate subdivisions in the boom towns springing up on lakes and at railroad junctions, they enlisted the aid of eastern bankers.

WHEAT SHIPMENTS

It is not hard to see why western products therefore should begin to move toward New York and Philadelphia and away from New Orleans. Western and eastern merchants had created a close community of interests.

WHEAT SHIPMENTS EAST AND SOUTH



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Each sheaf represents 500,000 barrels of flour (or flour equivalent)

Canals and railroads presented the physical means of diverting traffic from its previously natural channels. Nothing illustrates this better than the destination of shipments of flour and wheat equivalent of flour out of the West. In 1839, the receipts of western flour and flour equivalent in barrels were: at Buffalo, 517,577; at New Orleans, 451,043. In 1852: at Buffalo, 2,409,468; at New Orleans, 968,759. In 1861: at Buffalo, 7,580,634; at New Orleans, 1,055,074. In 1862: at Buffalo, 8,933,188; at New Orleans, 304,948. The records of the years 1861 and 1862 also show how adequately the West fed the East in wartime.

Similarly, for the year 1849–50, $96,898,000 worth of produce was received at New Orleans, of which $34,049,000, or 35 per cent, represented western wares. For the year 1859–60, $185,211,000, or 23.2 per cent, represented the value of western wares.

These economic ties of East and West were strengthened politically when the Republican party, founded in the West, appeared. It underwrote the western program of free homesteads and a Pacific railway to be built across the northwest tier of states; and the *quid pro quo* was western endorsement of a protective tariff program. In 1860 the southern planters were isolated.

19. MANUFACTURING—ALL INDUSTRIES IN 1860

MERCHANT-CAPITALIST ORGANIZATION OF PRODUCTION

It has usually been said that while the South's economy was agrarian capitalist in character, that of the North was industrial capitalist. And we have been led to believe that the factory system appeared in the North almost overnight and was fully installed at the time the Civil War opened. This is really not true. Indeed, it may be stated that one of the reasons why the North welcomed the war was that many of its leaders saw here an opportunity to convert their economy into an industrial one with the assistance of the state.

Although it is not possible to demonstrate it statistically, there is real reason for assuming that the predominant characteristic of northern ante-bellum capitalism was commercial. Capitalists were engaged largely in trading and banking: in the operations and the financing of the carrying trade; in the conduct of the fisheries and the whaling industry; in land speculation and the speculative building of western canals and railroads. Some, it is true, were active in the production of peltries, lumber and minerals. But the conversion of raw materials into the finished articles of commerce for the most part partook of the aspects of merchant-capitalist organization. That is to say, production was in cottages and mills, where the workers owned their own tools and often their workshops and where they supplemented their living from family farms. They were not a factory proletariat dependent exclusively upon wage labor for their subsistence. The capitalist played the customary part of the merchant capitalist. He furnished the raw materials to the cottage workers and moved the finished goods into the market. Certainly, this was the organization existing in the production of foods and boots and shoes and perhaps as well in woolens and iron pigs and bars.

THE DEGREE OF MANUFACTURING

Manufacturing had reached a fair degree of significance by 1860. In 1850, there were 123,000 establishments in the whole country turning out products valued at $1,019,017,000; in 1860, the establishments had increased to 140,000 and the value of products to $1,885,862,000. The chart clearly shows the growing significance of the West by 1860, as a factor in manufactures. But because the census does not distinguish between cottage production and factory production, it is impossible to say how much of the

activity was linked up directly with industrial-capitalist organization.

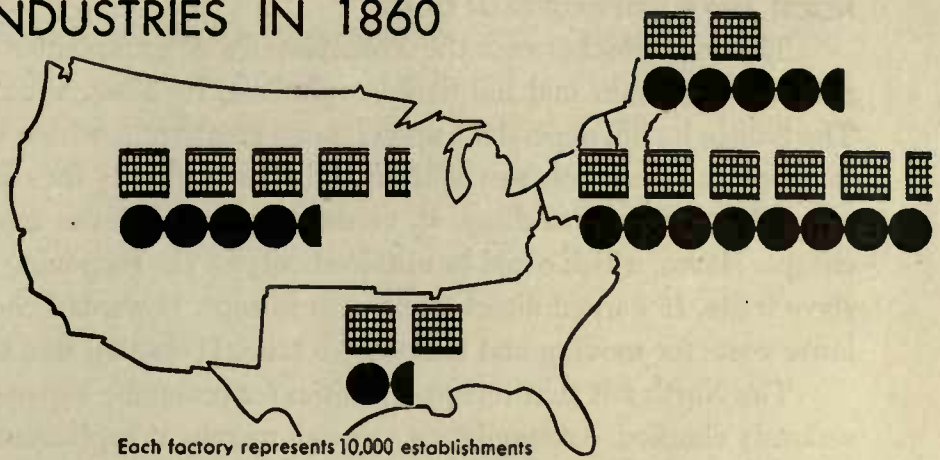
In the case of the manufacture of cotton textiles, there can be no question that industrial capitalism was in control, certainly by the 1850's. Here the factory system was in operation. The workers were wage-workers, living even in company towns; and they were completely separated from their farms. They labored under discipline — another prime characteristic of the factory system. Their jobs were based upon the division of labor, which was intensified by the general use of automatic machinery. They suffered from low wages and the speed-up. In the 1850's, a good deal of new capital — diverted from the failing shipping industry and the fisheries — entered cotton textiles; and the result was a great expansion of production. The chart indicates the advances made from 1840 to 1860.

THE RETARDED LABOR MOVEMENT

In terms of this analysis, it is possible to speculate a little over the reasons for the absence of permanent labor organizations among the workers of the antebellum period. Too many were still joined with the instruments of production — the land, their own workshops and equipment. Too many still worked at handicrafts, where their skills gave them real independence and mobility. Hence, the working-class programs of the period were in large degree petty bourgeois in character. Their parties and movements agitated for popular education, for free entrance into the public domain and for producers' coöperatives. It was not until the late 1850's that national trade unions, made up of printers, stonecutters, ironmolders and hat finishers, made their appearance. And their demands were straight working-class demands for shorter hours and better wages.

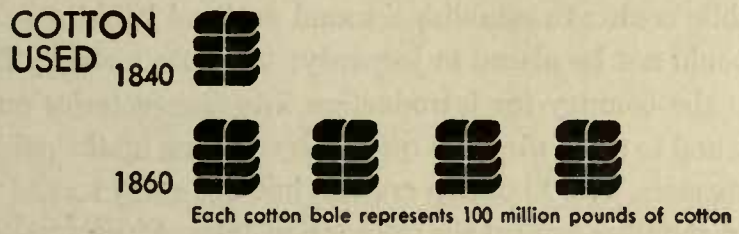
MANUFACTURING

ALL INDUSTRIES IN 1860

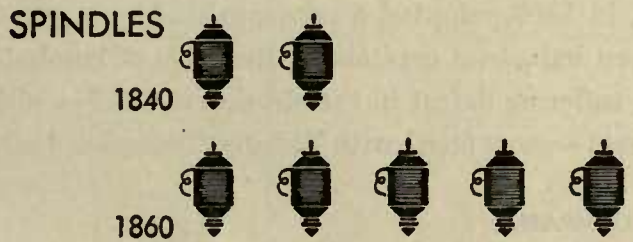


Each factory represents 10,000 establishments
Each disc represents 100 million dollars worth of production

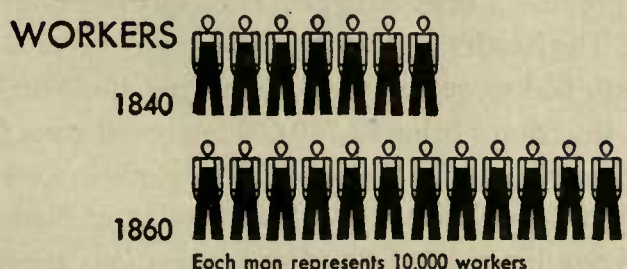
GROWTH OF COTTON MANUFACTURING



Each cotton bale represents 100 million pounds of cotton



Each spindle represents 1 million spindles



Each man represents 10,000 workers

©

20. THE YEAR 1860: A COMPARISON

NORTH AND SOUTH FACE EACH OTHER

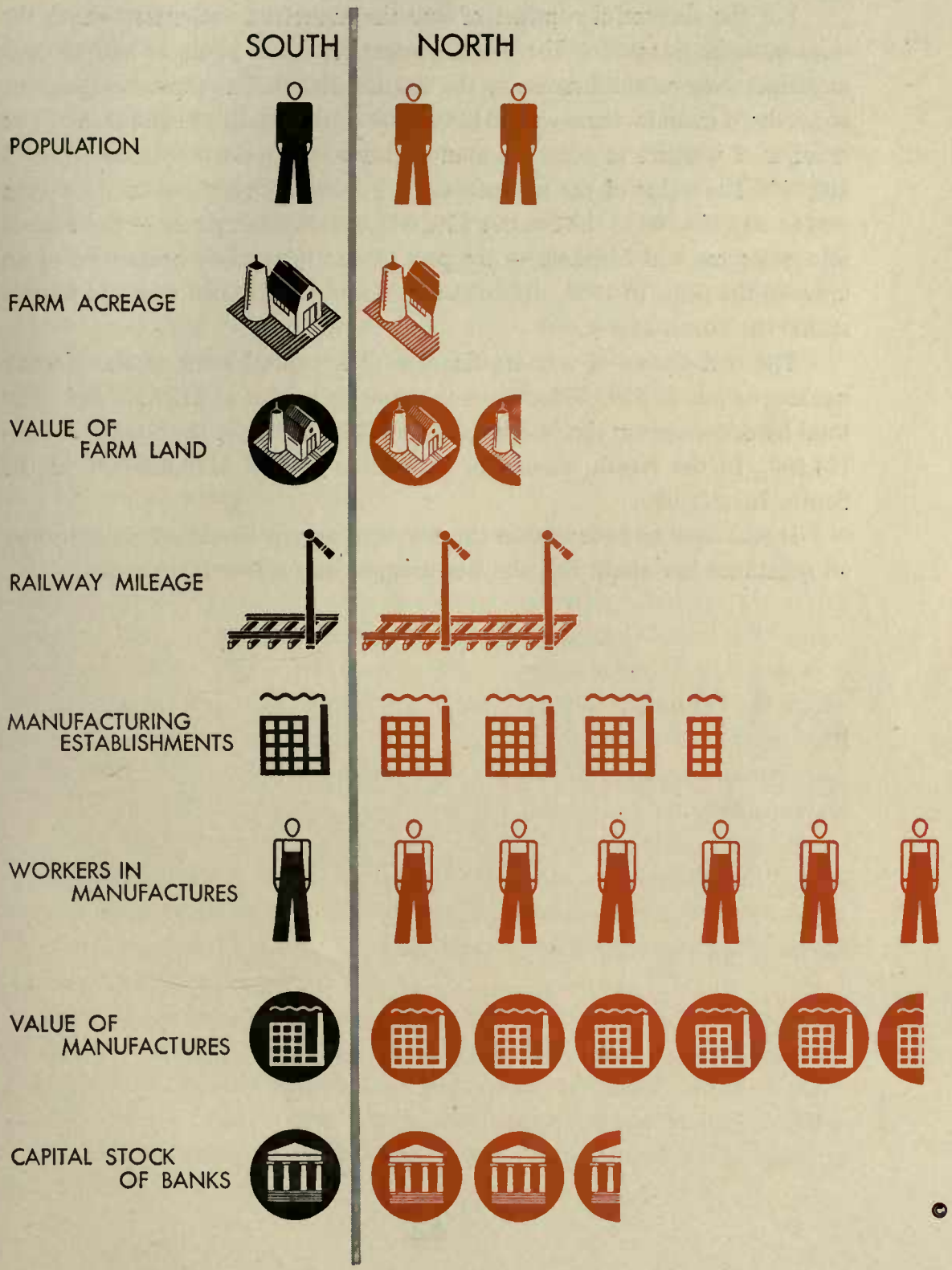
The hostilities between the economies of southern planter capitalism and northern merchant and industrial capitalism, by 1860, were irreconcilable. The South, its life dependent upon its one great crop, whose value was fixed in a free world market, was confronted by the necessity for reducing its costs of production and handling. It needed more land; even more, it required cheaper slaves, which could be obtained only by the reopening of the African slave trade. It wanted direct trade with Europe. It wanted cheap money and lower costs for moving and financing cotton. It wanted free trade.

The North felt that its opportunities for economic expansion were being seriously checked. Accumulation through merchant capitalism was an uncertain process. Accumulation could take place, really without let or hindrance, only through industrial production. But for this the state's support was imperative: to erect a high tariff wall and thus create a protected domestic market; to build great railroads across the whole continent with the assistance of public credit; to establish a sound national banking system so that contracts could not be placed in jeopardy; to create a steady flow of immigrants into the country for introduction into the factories on a contract-labor basis; and to settle the West quickly by opening up the public domain to free homesteaders. The Abolition crusade had definitely turned the northern and western churches against the resumption of the African traffic. When the Republican party, in 1860, adopted a program that was specifically in the interests of northern industrial capitalism, the gage of combat was thrown down. The South, suffering defeat in the election of 1860 — although it had not yet lost Congress — was faced with disaster. Secession took place.

NORTH AND SOUTH COMPARED

A comparison of the strength of the two antagonists, on the eve of hostilities, seemed to promise a brief struggle. The North's resources were immeasurably greater. The North's white population was 19,000,000; the South's, 8,000,000. The South had more acreage in farms but the North's improved acreage was larger, the figures being 88,730,600 improved acres for the North and 74,380,000 improved acres for the South. Foodstuffs in a war are crucial. In 1860, the North had produced $167,295,000 worth of flour and meal as compared with the South's $55,849,000. Communications are important for

THE YEAR 1860: A COMPARISON



the movement of troops and supplies. In 1860, the North had 19,770 miles of railway track; the South, 10,513.

For the successful conduct of war the industrial activities behind the lines must be adequate. The North's superiority was plain. It had 109,000 manufacturing establishments to the South's 31,300. The capital investment in northern manufactures was $842,000,000 to the South's $167,855,000. The number of workers in northern manufactures was 1,131,600 to the South's 189,500. The value of the manufactured products turned out in the North was $1,594,486,000 to the South's $291,375,000. Woolen goods — to be made into uniforms and blankets — are part of the immediate necessities of an army in the field. In 1860, the North produced $64,270,000 worth of woolen stuffs; the South $4,596,000.

The real sinews of war are finances. The capital stock of the North's banks was put at $292,594,000; of the South's banks, at $129,287,000. The total bank deposits in the North stood at $187,678,000; in the South, at $66,-124,000. In the North, money in circulation totaled $119,826,000; in the South, $87,276,000.

It was hard to believe that the northern armies would not sweep away all resistance like chaff. But the war dragged on for four bitter years.

21. COTTON AND WHEAT EXPORTS TO ENGLAND

WHY THE UNION COULD NOT STRIKE A DECISIVE BLOW AT ONCE

The reasons why the North was incapable of striking an immediate and decisive blow were many. The Union's military organization was lamentably poor. The best officers of the regular forces had thrown in their lot with the Confederacy. The Union's armies, on the other hand, were staffed by political generals many of whom came directly from civilian life by way of the state militias and volunteer regiments. There were ineptness and gross mismanagement in the furnishing and handling of supplies and materials of war; although, because of the industrial backwardness of the country, a productive apparatus did not exist immediately for the creation of the vast stores required to keep mobile armies in the field. Conscription was not resorted to until 1863; and even when it was, the use of substitutes was freely countenanced. The result was that desertions from the Union ranks numbered more than 200,000.

WHY THE UNION ULTIMATELY WON

The Union won in the long run, for its superior resources were bound to tell. Of direct consequence in determining the ultimate victory were also the following factors: European powers did not intervene, although the ruling classes of England and France were sympathetic to the Confederate cause. The English found themselves more and more bound to the Union because of the thriving business they were doing in the supply of munitions and implements of war. In exchange for these, the English took northern wheat so that, as the chart shows, northern shipments of wheat to England jumped spectacularly. In 1862, England was receiving 39.3 per cent of her wheat imports from the United States, as compared with 25.5 per cent in 1860. England was not wholly dependent upon American wheat stocks — Prussian and Russian supplies were available — but American importations kept the price down. The result was lower food costs and low wages: and these were vital factors in the English free-trade system.

Equally significant was the moral support given the Union armies by the organized workers of Europe, through the International Workingmen's Association. Convinced that chattel slavery had to be destroyed at all costs, English workers, in particular, at once showed their sympathy for the Union and by demonstrations and public addresses brought powerful pressure to bear on their government.

The Union's blockade of Confederate ports was amazingly successful. Incapable of shipping her tobacco and cotton abroad, the Confederacy could not obtain foreign credits for war materials. The chart shows plainly how cotton exports to England dwindled until they had become negligible in 1862. In that year England was getting only 2.6 per cent of her cotton imports from the United States, as compared with 80.2 per cent in 1860.

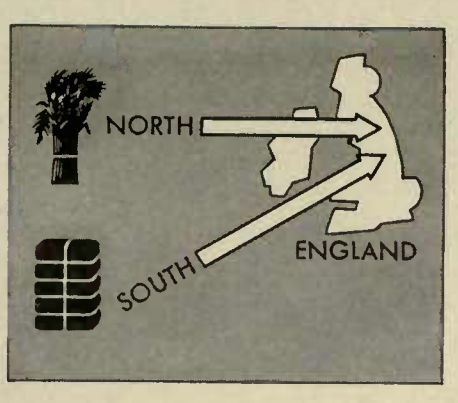
And what helped to weigh the balances, finally, on the side of the Union was the emancipation of the Negroes in those states in rebellion against the government. The Union in this fashion not only created disaffection among the blacks in the Confederacy; but it also was able to recruit and use in its own armies as well as behind the lines fully 500,000 Negroes as laborers and servants.

THE CIVIL WAR MATURED INDUSTRIAL CAPITALISM

The successful outcome of the war preserved the union and freed the Negroes. It had another outstanding effect: it built industrial capitalism to full stature in half a decade. The demands for equipment and war implements forced the quick maturing of a whole group of key industries — iron products, meat packing, woolens, clothing, boots and shoes. In this work, governmental financing supplied the capital resources required. And the more than three billions raised by the Union through war bonds, paper money and extraordinary taxation furnished the capital fund which the earlier American merchant capitalism had been unable to accumulate. Too, public policy strengthened the structure: a public policy that now could be created with southern opposition stilled. Protectionism, through high tariffs, was written into the law of the land. The Homestead Act was passed. Pacific railroads, with government credit at their disposal, were chartered. A national banking system was created. State bank notes were taxed out of existence. Immigrant contract labor was legalized.

The Union's triumph in the Civil War also meant the coming-of-age of American industrial capitalism. A new epoch in American history was opening.

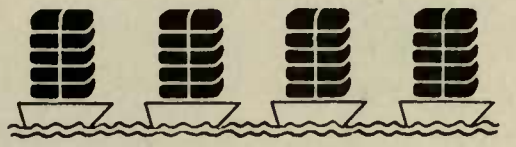
COTTON AND WHEAT EXPORTS TO ENGLAND

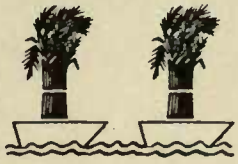


SOUTHERN
COTTON

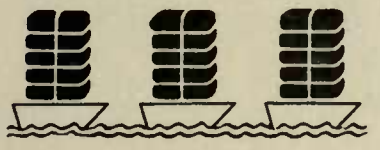
NORTHERN
WHEAT

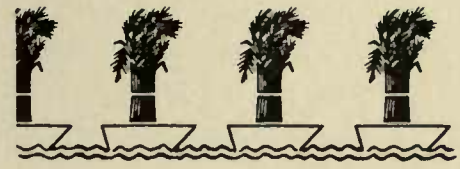
1860



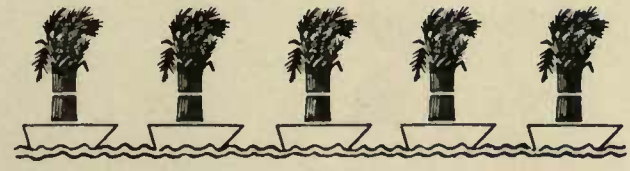


1861





1862 NEGLIGIBLE



Each cotton symbol represents 600,000 bales of cotton
Each wheat symbol represents 1 million quarters of wheat

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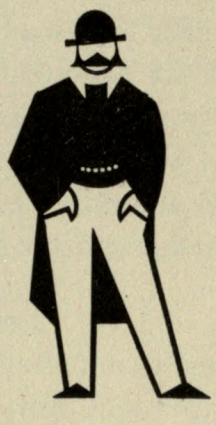
Part Two

THE TRIUMPHS OF CAPITALISM





22. GROWTH OF POPULATION

WHY THE COUNTRY EXPANDED

After the Civil War the United States became a great industrial nation; and as its processes were industrialized its population grew. The opening up of the West; the bridging of the continent by railroads; the emergence of job opportunities as industries sprang up behind high tariff walls; economic and political oppression in Europe; the easier facilities of transatlantic travel: these were some of the forces responsible for the country's extraordinary expansion. New farming areas filled out and new cities mushroomed at every strategic point. By the 1930's almost half of the American people were urbanized (living in places with population of 8,000 or more): where cultural and social opportunities were more satisfactory, where educational facilities were superior, where — most important of all — labor markets existed. For the typical American was compelled to move to his job instead of waiting, as he did under the dispensation of merchant capitalism, for his job to come to him.

CHANGES IN POPULATION STRUCTURE

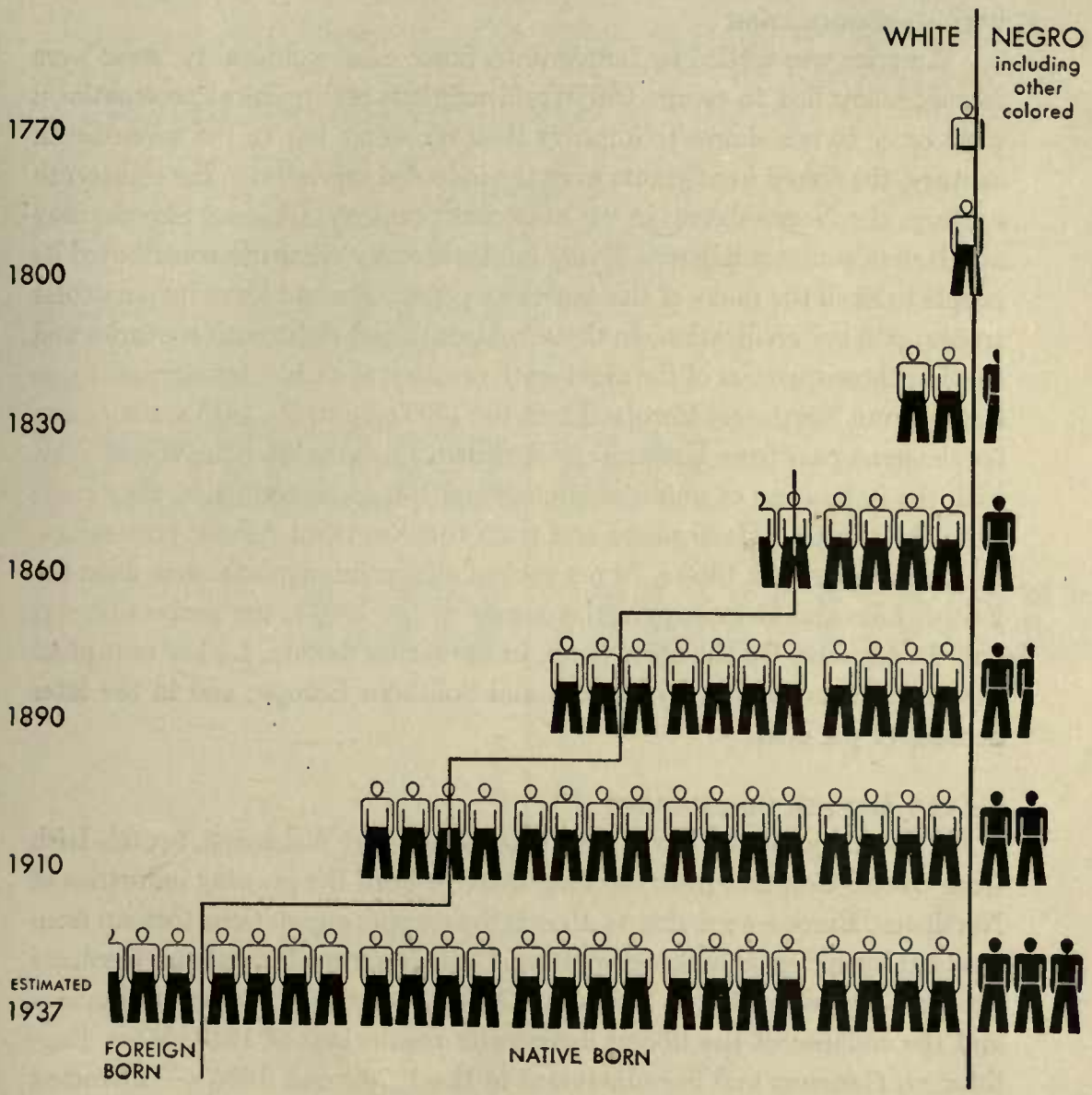
But the advances of population development were not in straight lines nor were they continuously upward. Interesting internal changes were taking place within the population's composition. For one, its growth was slowing down. From 1871 to 1900, our population had increased roughly 100 per cent; from 1901 to 1930, only 60 per cent. The reasons were as follows. We were preventing immigrants, who had higher birth rates, from coming to our shores freely. Also, people were moving from the countryside — where the birth rate was greater because more children could be provided for and where their labor was employed on the family farm — to the cities. And city dwellers were not multiplying as rapidly. They had less security in their jobs; husbands and wives quite frequently were compelled to work; the costs of having infants and providing for them in their childhood were significant. As a result, birth control was becoming increasingly an American practice.

Second, with the virtual stoppage of immigration in the 1920's, the numbers and proportion of foreign-born began to dwindle. In 1860, the foreign-born made up 13 per cent of the white population; in 1890, 14 per cent; and in 1930, 12 per cent. As the years progressed, all of us were becoming Americans in terms of a common tradition and education.

Third, urbanization was on the increase. In 1790, 3.3 per cent of the population lived in places of 8,000 and over; in 1860, 16.1 per cent; in 1900, 32.9 per cent; in 1930, 49.1 per cent. Despite the warnings of some that the depletion of the countryside meant the sapping of the energies of the nation, the push into the cities went on year after year. An outstanding characteristic of our nation became the great metropolis with its colleges, museums, and libraries on the one hand and its varied array of light and heavy industries on the other. New York, Chicago, Philadelphia, Detroit and Los Angeles were the leading urban centers of the 1930's.

Fourth, the Negroes in our population increased absolutely but declined relatively. In 1790, they made up 19.3 per cent of the total population; in 1860, 14.1 per cent; in 1900, 11.6 per cent; in 1930, 9.7 per cent. They, too, were moving into the cities: and as they did, their natural increase slowed down both because of birth control and the fact that urban living took a heavier toll of them than did rural living. In 1900, 2.1 per cent of the population of the Middle Atlantic States was Negro; in 1930, 4.0 per cent. On the other hand, in 1900, 35.7 per cent of the South Atlantic States' population was Negro; in 1930, 28.0 per cent.

GROWTH OF POPULATION



Each symbol represents 5 million persons

23. IMMIGRATION SINCE 1820

WHY IMMIGRANTS CAME

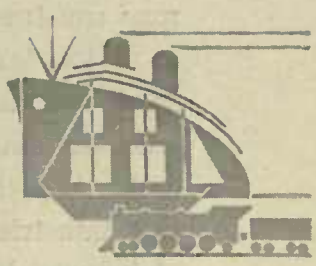
America was settled by immigrants. Some came voluntarily, some were forced; many fled to escape Old World religious and political persecutions; most came to our shores to improve their economic lot. In the seventeenth century, the forced immigrants were the indented servants; in the eighteenth century, the Negro slaves; in the nineteenth century, Chinese, Slovak, Slav and Italian contract laborers. Every land and every clime has contributed its people to swell the ranks of the American population and leave its particular traces upon our civilization. In the seventeenth and eighteenth centuries and the first three-quarters of the nineteenth century, the white immigrants came largely from Northwest Europe. From the 1890's up to the 1910's, they came for the most part from Eastern and Southern Europe. After the World War, with the imposition of quota restrictions on European countries, they came from the Western Hemisphere and from the American Asiatic possessions. In the decade of the 1860's, 79 per cent of all our immigrants came from the British Isles and Germany; in the decade of the 1900's, the proportion was only 14 per cent. On the other hand, in the earlier decade, 1.4 per cent of all the immigrants came from Eastern and Southern Europe; and in the later decade, 71 per cent.

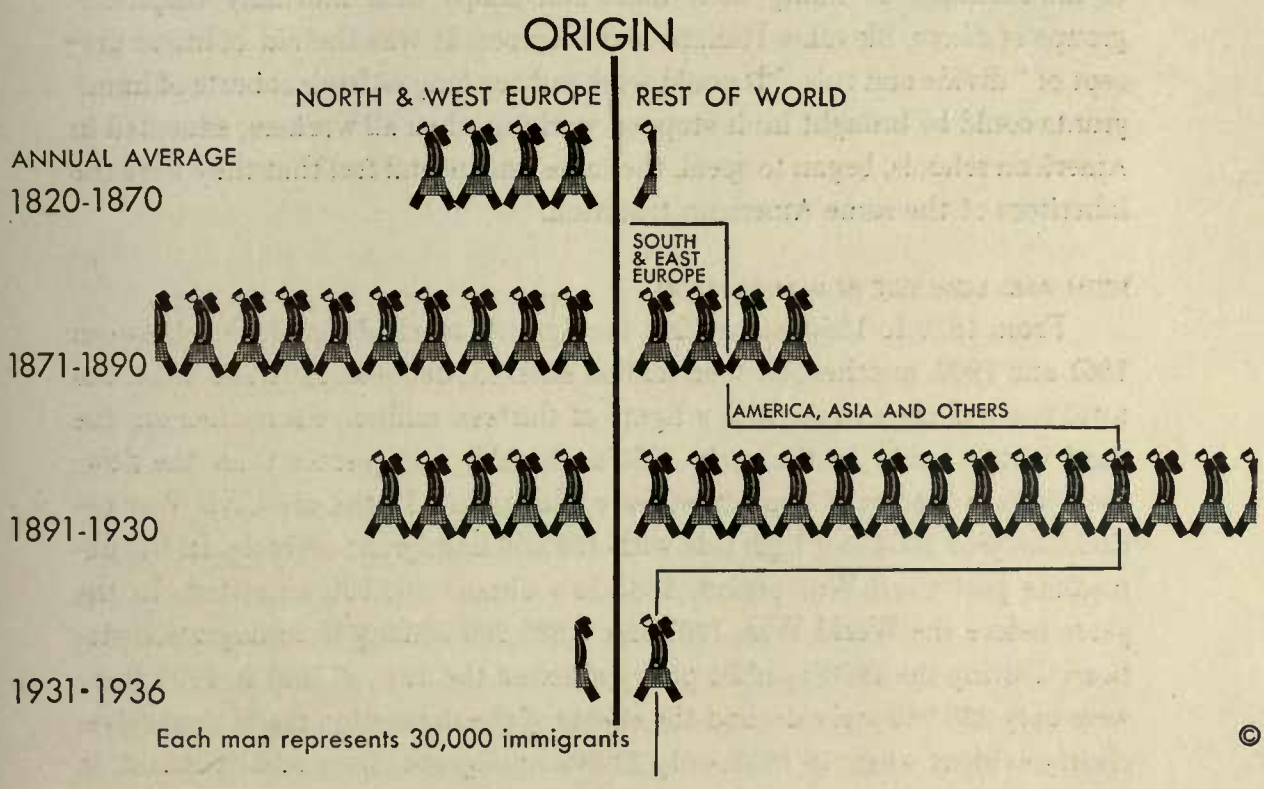
THE OLD AND NEW IMMIGRATIONS

Thus, they followed in waves. Englishmen and Welshmen, Scotch-Irish from Ulster, Germans from the Palatinate — until the growing industries of Northwest Europe were able to absorb the surplus populations torn up from the land by enclosing and rack-renting. Catholics from Ireland and Germans from the Rhineland in the 1840's and 1850's, because of the potato famines and the collapse of the liberal democratic revolutions of 1848. More Englishmen, Germans and Scandinavians in the 1870's and 1880's — attracted by free or cheap farms in the opening West and dazzled by the promises of railroad and steamship agents. Then, in the 1890's, 1900's and 1910's the Croats, Ruthenians, Italians, Poles, Russians, Jews, Greeks and Turks of the meager countrysides of Southern and Eastern Europe and the unbelievably wretched slums of the Russian Pale. And after the War, Porto Ricans, Cubans, Filipinos, Mexicans, French Canadians.

They became our farmers; the first day laborers on the canal and rail-

IMMIGRATION SINCE 1820





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road construction jobs; the first completely proletarianized factory workers in cotton textiles; the unskilled laborers in coal, steel, meat packing; the small peddlers; the sweated workers in the clothing and homework industries; the migratory hands in the lumber camps, harvesting fields and orchards of the Far West. One of the reasons why labor in the mass-production industries was unorganized for such a long time was the conscious policy of industrialists in filling their mills and shops with mutually suspicious groups of Slavs, Slovaks, Italians and Negroes. It was the old political precept of "divide and rule." It could work only as long as fresh cohorts of immigrants could be brought in; it stopped working when all workers, educated in American schools, began to speak the same tongue and feel that they were the inheritors of the same American tradition.

HIGH AND LOW TIDE IN IMMIGRATION

From 1820 to 1860, six million immigrants reached our shores; between 1861 and 1900, another fourteen million entered; between 1901 and 1914, the total reached the extraordinary figure of thirteen million. From then on, the flood waters sank. In the early 1930's, the ebb was greater than the flow: there was an excess of departures over admissions. In the pre-Civil War period, the year 1854 saw high tide with 428,000 immigrant arrivals. In the immediate post-Civil War period, 1882 saw almost 800,000 admitted. In the years before the World War, 1907 saw 1,285,000 coming to immigration stations. During the 1920's public policy checked the flow, so that in 1929 there were only 280,000 arrivals; and the effects of the depression made themselves clearly evident when, in 1933, only 23,000 immigrants were admitted and, in 1936, only 36,000.

Another great chapter in American history was closed.

24. IMMIGRATION AND EMIGRATION

DEMANDS FOR IMMIGRATION RESTRICTION

Up to the last quarter of the nineteenth century, government and industry welcomed the new foreign arrivals gladly. Immigrants were needed for construction work, lumber camps, mines, farms and the great heavy industries springing up all over the land. They brought capital with them. Indeed, official encouragement followed fast on ready tolerance when, in 1864, the Immigration Bureau was established and a contract labor law was enacted permitting the importation by hard-pressed industrialists of laborers from China and Europe.

But the Chinese could be used as strikebreakers; and Europeans brought Old World ideas in their heads. The growing power of organized workers in the Knights of Labor forced Congress in the 1880's to exclude Chinese immigrants altogether and to stop the entry of foreign laborers under contract. On the other hand, the mounting waves of strikes in the 1880's and 1890's and the appearance of socialist and anarchist agitation were responsible for demands for immigration restriction. Many industrialists, formerly the friends of the foreigner, were now becoming convinced that the strangers in our midst could not be assimilated. Indeed, our slums, child delinquency and crime, sociologists were proving, were foreign importations. This pressure bore fruit in 1882 when an initial list of undesirables was promulgated; and again, in 1891, when the list was augmented, a head tax on each immigrant was imposed and all the processes of immigration control for the first time were centralized in the hands of federal agencies. The clamor for a literacy test began to be heard more frequently, and in 1917 such a measure finally was passed over President Wilson's second veto.

THE IMMIGRATION QUOTA SYSTEM

In the 1920's, America's time-honored policy of virtually free entry was reversed by law and administrative decree. Indeed, foreigners began to be turned back at ports of embarkation. And, at the same time, immigration officials were making it a regular practice to deport aliens who had run foul of the law or who were becoming public charges. The upshot was that by the 1930's more people were leaving our country, voluntarily or involuntarily, than were entering it. Even foreign political refugees were encountering well nigh insuperable obstacles in obtaining asylum.

After experimenting during 1921–24 with quota laws, a final quota measure was written which, after 1927, fixed total annual immigration at 150,000 as a maximum and based the quotas on the national origins of the persons resident in the United States in 1920. Obviously, the intention was restriction of immigrants from Eastern and Southern Europe. But, to assure a flow of laborers when they were needed, the quota system was not made to apply to Canada, Mexico and the independent nations of Central and South America.

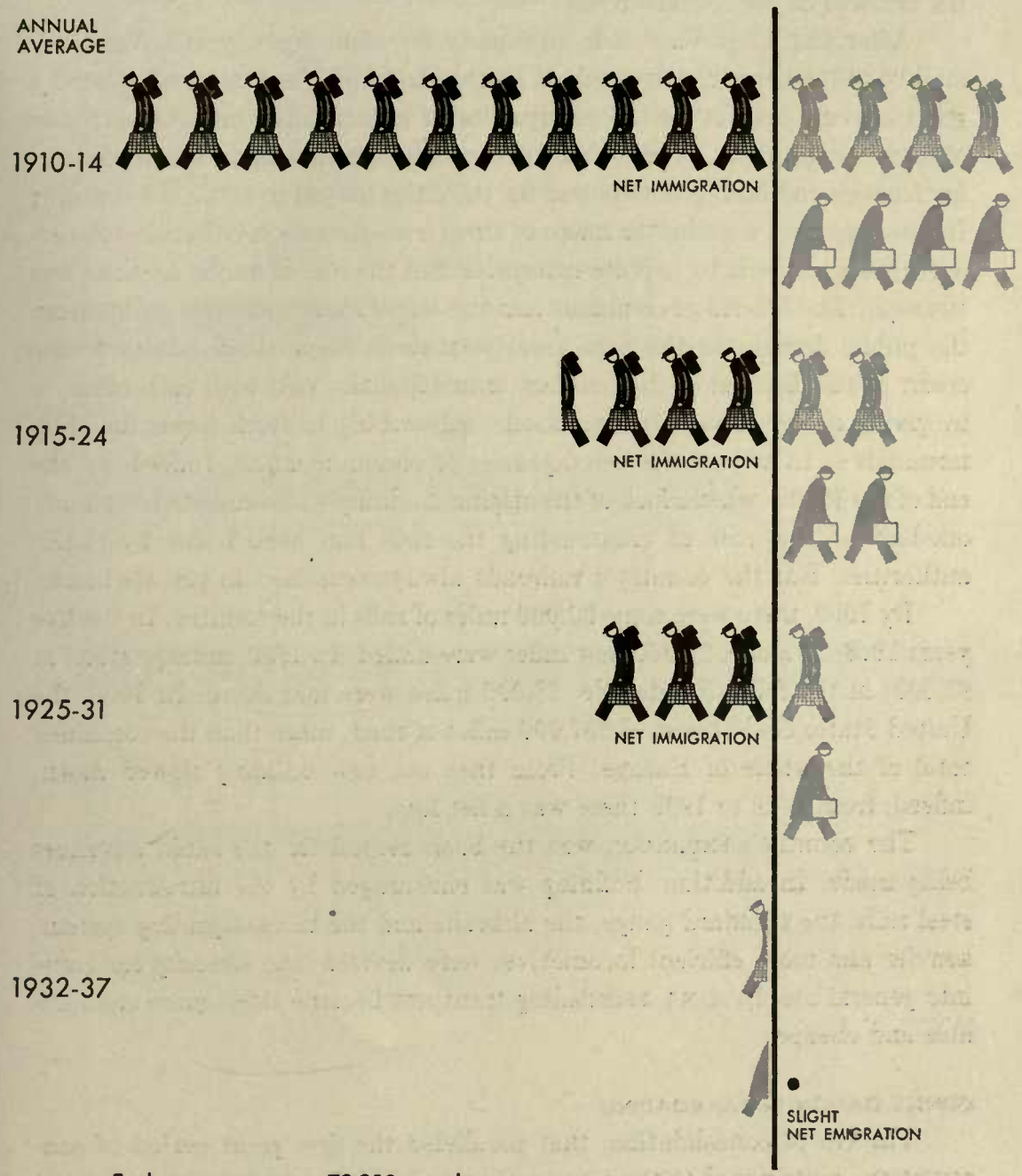
That the new immigration law put extraordinary powers in the hands of government officials may be noted from the fact that the depression years saw large numbers of quota immigrants denied visas by our agents in Europe, on the ground that they were likely to become public charges; and from the further fact that Mexicans were siphoned into the country when industry and agriculture demanded their services and kept out when our own labor reserve was already of threatening proportions. So, for the fiscal year 1927–28, 59,000 Mexicans were allowed entry; and for the fiscal year 1935–36, only 1,700 Mexicans.

NET IMMIGRATION BALANCED BY NET EMIGRATION

As a result of such activities and due to a sterner program of deportations, net immigration began to taper off following 1925. Indeed, for the first time in our history, the year 1932 saw an excess of departures over arrivals; and this tendency continued for three additional years. No longer, as a result of the policies of administrative officials, was America a haven of refuge for those suffering from religious and political oppression. The fact that so many persons were leaving our shores voluntarily for permanent residence abroad indicated also that in the minds of many America was no longer the golden land of opportunity. The following figures give numbers of immigrants and emigrants for the depression period.

Year ended June 30	*Immigrants admitted*	*Emigrants departed*	*Net gain or loss*
1930	241,700	50,661	+191,039
1931	97,139	61,882	+ 35,257
1932	35,576	103,295	− 67,719
1933	23,068	80,081	− 57,013
1934	29,470	39,771	− 10,301
1935	34,956	38,834	− 3,878
1936	36,329	35,817	+ 512

IMMIGRATION AND EMIGRATION



Each man represents 70,000 people
Latest data February 1937

©

25. RAILROADS

THE GROWTH OF THE RAILROAD NET

After the Civil War and continuing for some forty years, America's mighty rail net was constructed. It linked East and Far West and created a great internal market for the enterprising of industrialists and the activities of finance capitalists. It provided the through highways upon which pioneering farmers and immigrants bound for the cities moved to settle the country. It fused sections together to make of them a single nation culturally. America's rails were built by private enterprise; but the rôle of public agencies was strategic. The federal government and the states made generous grants from the public domain to the first great western systems; both placed public credit at the disposal of the builders; municipalities vied with each other — by giving rights of way, issuing bonds, subscribing to stock issues, building terminals — to attract the new agencies of communication. Indeed, by the end of the 1870's, when much of the original building was completed, certainly one-half of the cost of constructing the rails had been borne by public authorities. But the country's railroads always remained in private hands.

By 1860, there were some 30,000 miles of rails in the country. In the five years 1868–73 alone, 28,000 new miles were added. In 1880, mileage stood at 93,000; in the following decade, 73,000 miles were laid down. In 1900, the United States could boast of 207,000 miles of road, more than the combined total of the whole of Europe! From then on, new building slowed down; indeed, from 1929 to 1935 there was a net loss.

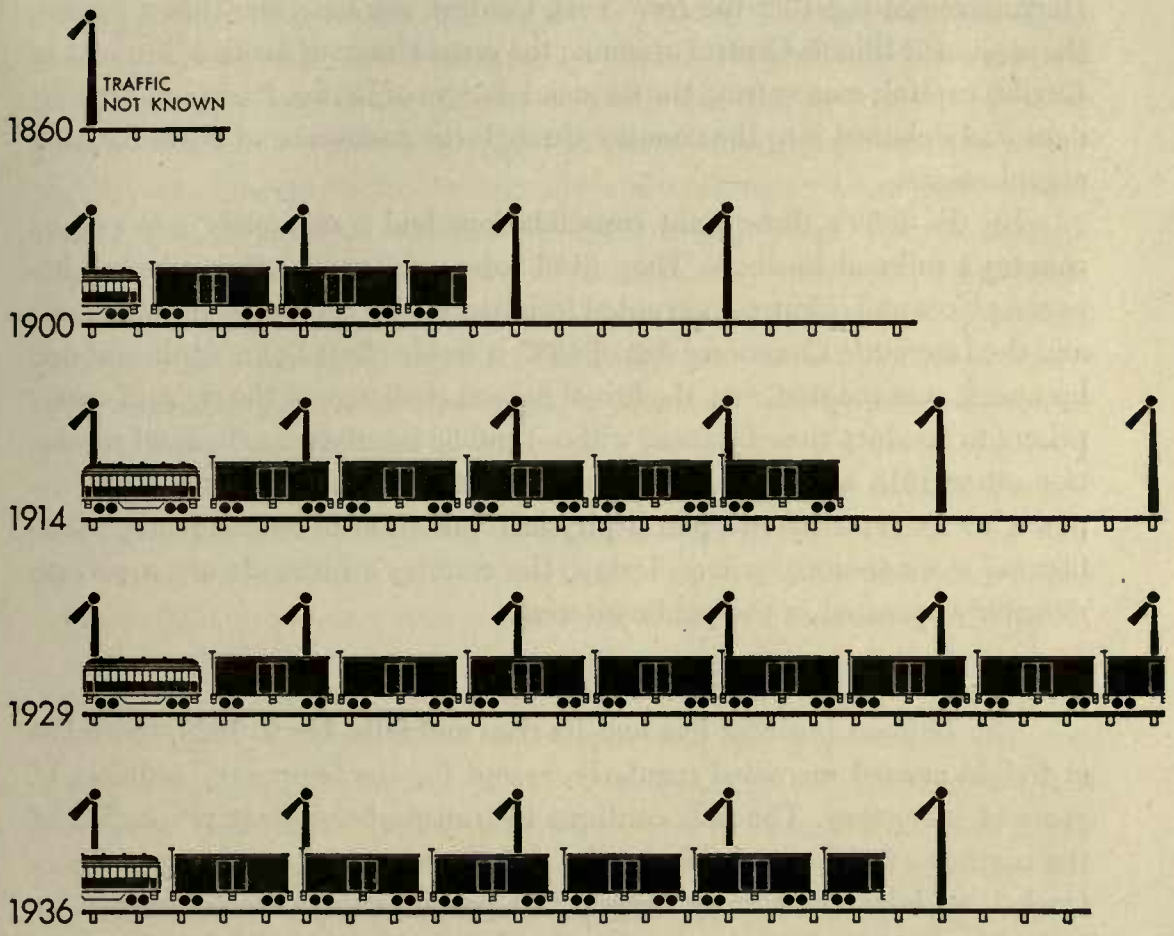
The country's expansion was the basic reason for the rapid advances being made. In addition, building was encouraged by the introduction of steel rails, the standard gauge, the airbrake and the block-signaling system; heavier and more efficient locomotives were devised; the sleeping car came into general use. In short, railroading transport became safer, more comfortable and cheaper.

CONSOLIDATION IN RAILROADING

The era of consolidation, that paralleled the first great period of construction, contributed to the same general process. Far-seeing and ambitious individuals — not necessarily railroad builders — were quick to realize that capitalism's first great opportunities were to be found in the railroading business. They joined short lines together to make unified systems; obtained

RAILROADS

LENGTH: PASSENGER AND FREIGHT TRAFFIC



Each complete passenger car represents 30 billion passenger-miles
Each complete freight car represents 60 billion ton-miles
Distance between signals represents 50,000 miles owned

terminals in important urban centers; entered into alliances with producers of basic raw materials (coal, petroleum); drove rivals out of business or absorbed them: and in this way were able to recapitalize their properties and amass magnificent fortunes for themselves. The Vanderbilts, Goulds and Harrimans put together the New York Central, the Erie, the Union Pacific, the expanded Illinois Central systems; the great House of Morgan brought in English capital; money from the financial centers of Berlin, Paris and Amsterdam was siphoned into the country through the assistance of lesser banking organizations.

By the 1880's these giant consolidations had a monopoly grip on the country's railroad business. They fixed rates arbitrarily, discriminated between places and shippers, corrupted legislators. The cry for regulation arose; and the Interstate Commerce Act of 1887, a feeble effort but a significant one because it was the first, was the initial federal challenge of the right of enterprisers to conduct their business without public interference. Federal regulation, after 1913 when the Interstate Commerce Commission was given the power to fix rates based upon a physical valuation of railroad properties, became more thoroughgoing. Today, the country's railroads are a private monopoly operated in the public interest.

DECLINE IN THE RAILROAD PASSENGER BUSINESS

The railroad business has had its rises and falls. Up to 1929, ton-miles of freight carried increased regularly, except for the temporary setbacks of years of stringency. The rails continue to transport the great proportion of the country's freight; and this despite the appearance of new competitors in trucks and inland waterway barges. But passenger-mile traffic reached its high point in 1920; from then on there has been a tapering off, with the traffic of 1929 lower than that of 1914. In this region, the competitive forces are here to stay. The growth of passenger-automobile and autobus travel will continue to account for a growing decline in the railroad passenger business.

26. HIGHWAYS AND VEHICLES

THE COMING OF THE AUTOMOBILE

The coming of the automobile revolutionized transportation in America; it also had profound economic and social effects. The motorization of the American — in the 1930's there was one automobile for every five persons in the population — gave him greater mobility. And this meant not only a significant increase in travel but an ability and a willingness to move in search of job opportunities. With mobility there also sprang up a new group of economic and social travel institutions: garages and filling stations; wayside stands and tourists' cabins; the trailer industry and public camping grounds. Americans were seeing their land and becoming more conscious of national (as opposed to local and regional) traditions and attitudes. Indeed, many were becoming footloose altogether as, in their trailers, they followed temperate weather around the continent.

The successful manufacture of the cheap automobile by mass production methods, after 1910, put America on wheels. Passenger cars grew from 458,000 in 1913 to 24,250,000 in 1936; the number of trucks increased from 10,000 to 4,000,000; and the number of horses, as a direct result, was cut in half.

PUBLIC-ROAD BUILDING

The public highway stood in the same relation to the automobile that the right-of-way and roadbed did to the railroad. It was only natural that the last three decades should see a great increase in the construction of public roads. In 1904 the total estimated mileage of all rural roads in the country was 2,000,000, of which 150,000 was surfaced; in 1936, the total mileage was estimated at 3,000,000 of which 700,000 was surfaced. That is to say, while the increase in roads had been 50 per cent, the increase in surfacing had been almost 400 per cent. Public agencies were being called upon to allocate greater and greater sums for the construction of highways and for their maintenance. With the development of high-speed cars in particular unique engineering problems were requiring attention: the straightening out of roads, the lengthening of curves, the increase of road visibility and the erection of guard rails, markers, signs and the like.

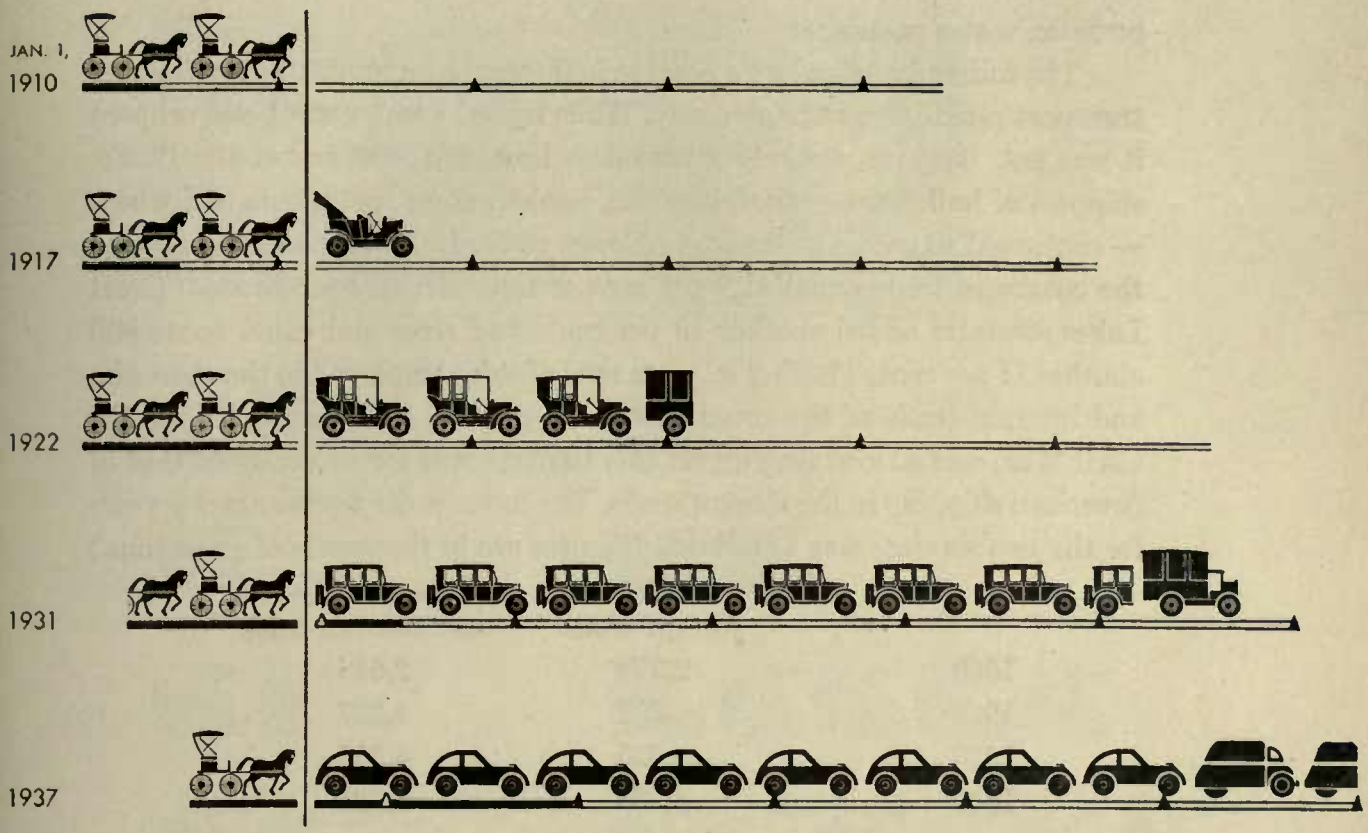
BUSES AND TRUCKS

It has been pointed out that the increasing use of the automobile was an

outstanding reason for the decline in railroad passenger travel. In 1930, the railroads provided 26 billion passenger miles of service; in the same year automobiles furnished an estimated total of 332 billion passenger miles! Of course, in the latter, a good deal of the travel was purely intra-urban; but that much of it was of an inter-urban character it would be useless to deny. About passenger automobile travel the railroads could do nothing. But they were meeting with growing success in their competition with auto buses, largely through the device of buying up these companies and making them auxiliaries rather than rivals of the rail systems.

Auto trucks were also making their appearance on rural roads, in more and more significant numbers, as interurban carriers. With this rival railroads were seeking to cope in another fashion. By making their urban facilities more flexible, through the door-to-door delivery device, they were offering a complete service to shippers and receivers of freight which at the same time was also faster and safer. By the 1930's as has been said, the railroads still dominated the carrying of the country's freight traffic. For 1929, the following transportation agencies carried the indicated ton-miles in billions: steam railroads, 450.2; Great Lakes steamers, 97.3; pipe lines (petroleum and products), 30.0; trucks, 26.0; inland waterways barges and boats, 8.6.

HIGHWAYS AND VEHICLES



Each horse-and-carriage represents 10 million horses
Each motor vehicle represents 3 million motor vehicles
Distance between milestones represents 500,000 miles of road—surfaced portion dark

©

27. COMPARISON OF TRAFFIC THROUGH THE SUEZ CANAL AND AT SAULT STE. MARIE

INTERNAL WATER TRANSPORT

The railroads opened up a new era in internal communications and water transport rapidly began to give way. While trade by water was being eclipsed it was not, however, entirely superseded. Indeed, at the end of the 1920's, shippers of bulk ware — coal, iron ore, lumber, stone, petroleum and wheat — continued to use ships because of lower costs. In 1930, tonnage carried in the coastwise trade equalled 9 per cent of that carried by railroads; Great Lakes steamers added another 10 per cent; and river and canal boats still another 11 per cent. The fact is, gross tons of ships employed in the coastwise and internal trade of the country steadily grew in the years following the Civil War; and at certain periods this tonnage was far in excess of that of American shipping in the foreign trade. The tonnage for representative years for the two services was as follows. (Figures are in thousands of gross tons.)

	Tonnage in foreign trade	*Tonnage in coast and internal trade*
1860	2,379	2,645
1900	817	4,287
1920	9,925	6,358
1930	6,296	9,723

THE SUEZ AND SAULT STE. MARIE CANALS COMPARED

How significant water transport continued to be in the American economy may be noted from the chart. The canals at Sault Ste. Marie, which make possible the uninterrupted movement of water traffic from Lake Superior into Lake Huron and which largely serve internal needs, accommodated a greater amount of shipping than did the world-important Suez Canal connecting Europe with the Far East. The Sault Ste. Marie canals were opened in 1855. From then on the net registered tonnage of ships passing through rose from 106,000 tons in 1855 to 68,240,000 tons in 1929. The depression cut the business of the canals sharply. In 1932, net tonnage passing through was only 17,250,000 tons and in 1934, 35,795,000 tons.

The Suez Canal opened for business in 1859 and in its first year passages were made by 436,000 net registered tons of shipping. In 1930, the figure reached was 31,669,000 tons. But the depression was not as keenly felt here;

COMPARISON OF TRAFFIC THROUGH THE SUEZ CANAL AND AT SAULT STE. MARIE





1890

1900

1910

1920

1930

1935

Each ship represents 10 million net registered tons

©

for in 1932, net tonnage passing through was 28,340,000 tons and in 1934, 31,751,000 tons.

THE PANAMA CANAL

For naval reasons and because of the clamor of Pacific Coast shippers for lower freight costs, the United States embarked on the costly venture of cutting a canal through the Isthmus of Panama. The canal cost the country a total of $275,000,000 to build plus an additional expenditure of $113,000,000 for military and naval defenses. The canal has not paid for itself; there is the constant problem of keeping it open because of rock slides; and American shipping use of it has been relatively slight. When the canal was ready for traffic in 1914 the first year saw the passage of about 4,000,000 net tons of commercial shipping of which less than 1,000,000 was American. In 1930, 30,000,000 net tons of commercial shipping passed through of which 14,-500,000 was American. In the 1920's, despite the fact that intercontinental freight costs via the canal were $10 a ton less than those by railroad, canal steamers carried only 4 per cent as much freight as did railroads moving across the whole continent.

28. TRAVEL TIME FROM PITTSBURGH TO PHILADELPHIA

THE MODERN CONQUEST OF SPACE

Progress in communications has contracted the boundaries of the world. Thanks to posts, telegraph, telephone and radio the conveying of intelligence has been breaking down first regional and then national barriers and differences. Thanks to the steamship and railroad and more recently the airplane, the transport of the person and of goods has made possible the linking of far-flung areas in a single connected economy. The world has become more sensitively adjusted and functionally, at any rate, we stand on the threshold of plenty for the whole population. Our ills are man-made and have little to do with natural deficiencies.

THE COMPARATIVE COMFORT AND SPEED OF EARLY AND MODERN TRAVEL

The conquest of space has been one of the great achievements of technology in the past one hundred years. The hardy traveler, setting out on the decidedly uncomfortable journey from Pittsburgh to Philadelphia in 1812, gave himself up to six days of travel by stagecoach over indifferent roads. He was compelled to suffer the sketchy accommodations and poorly-prepared fare of wayside inns; the boredom of idleness during the whole journey; and sometimes physical hazard. Barring accidents, the journey cost him $27 for fare alone.

In 1834, rails were stretching part way from eastern to western Pennsylvania; and canal boats took the traveler over areas between rivers. The journey could not yet be made by a single mode of conveyance and the wayfarer in a hurry was compelled to employ stage, canal and river boats and railroad carriages. In 1834 he could do the trip in three days and nineteen hours; his fare costs had been cut to $15. In 1854, the iron bands had triumphed. Through trains were running from Pittsburgh to Philadelphia on relatively good roadbeds and with the passenger's safety thoroughly assured. He could read, eat and sleep on the trains. Travel had almost become a real diversion. He reached Philadelphia on the wings of Mercury, it seemed, in fifteen hours; the fare cost was $10. By 1920, powerful locomotives were pulling cars between Pennsylvania's leading cities. One could lunch in Pittsburgh, be in Philadelphia for dinner and a concert and return to Pittsburgh for breakfast at home. The travel time by through express had been cut to five hours.

But it remained for the 1930's to see the two cities almost made two neighborhoods in one great metropolitan area. In the 1920's, scheduled air services, operated by regular air transport lines, made their appearance. In less than a decade the airplane became a customary mode of transport, particularly over longer distances. In 1926, air operation provided 3,715 miles of passenger route; in 1931, 45,704 miles; and in 1936, 60,451 miles. The Pennsylvanian, in a hurry or disliking some of the discomforts of what had become a long train trip, was able in 1937 to travel the distance from Pittsburgh to Philadelphia in less than two hours. The cost was under $20. By 1937, it was possible to fly from New York to Los Angeles in an overnight journey of fifteen hours with the giant 2,440 horse power planes making but three stops.

TRAVEL TIME

FROM PITTSBURGH

TO PHILADELPHIA



1812

1834

1854

1920

1937

Each clock represents 4 hours of travel

©

29. AGRICULTURE SURPASSED BY INDUSTRY

THE RISE AND DECLINE OF AGRICULTURE

From the close of the Civil War to the end of the World War the agricultural history of America was one of constant expansion. The number of persons associated with agriculture increased. So did the number of farms. The area under cultivation grew. Markets existed for the absorption of the growing quantities of products American farmers were sending into domestic and foreign trade. Clouds occasionally hung low over the scene, but they were temporary. During the 1880's and 1890's, when American farmers, oppressed by low prices, moved into political activity and made an effort to seize power first in the states under the banner of the Granges, and then in the national government under that of the Populists, they were not engaging in revolt. Owning farmers were trying to get cheap money and easier credit because low prices made it hard for them to carry their fixed charges; hence the demand for governmental credit agencies and free silver. With prices improving after 1896 the farmers of the country reverted to their former economic and political conservatism. But after 1920 all the components of the picture changed sharply. There were serious reasons for believing that American agriculture was in permanent decline.

WHY AGRICULTURE ADVANCED

The reasons for agricultural advance were many. The Homestead Act, the building of the western railroads and the sale of lands granted to states and railroads opened up a vast public domain to the homesteaders, ranchers and sheep herders. Free immigration, on the one hand, helped fill out the industrial centers of East and Middle West — enlarging the domestic market for foodstuffs — and gave the West, on the other hand, skilled agricultural workers and operators. Europe increasingly came to depend upon America for its cereals, meats and fibers: and this market grew right up to the opening of the 1920's. Mechanization made possible the cultivation of great prairie farms; chemistry kept lands fertile; biology and physiology were responsible for the introduction of improved plant and animal strains.

All this a generous government assisted. It helped in the establishment of land-grant colleges. It set up experimental stations. It created finally the Department of Agriculture to teach and guide farmers in the successful conduct of the farm business. It spent great sums on the reclamation and irriga-

AGRICULTURE SURPASSED BY INDUSTRY



PEOPLE GAINFULLY EMPLOYED

IN AGRICULTURE | IN OTHER OCCUPATIONS

1820

1840

1870

1890

1910

1920

1930

Each man represents 10 per cent all people gainfully employed

tion of hitherto waste areas. It placed a tariff on wool to protect domestic growers. It even — largely as a result of farmer pressure — passed the Interstate Commerce Act in 1887 to regulate the practices of railroads and keep rates down. Indeed, although fully two decades after the Populist agitation, it began to concern itself with the creation of fiscal agencies for the supply of agricultural long-term credits (the Federal Farm Loan Act of 1916).

THE INDUSTRIAL POPULATION BEGINS TO EXCEED THE AGRICULTURAL

While the number of farmers increased up to 1920, their proportions declined when compared with the numbers engaged in other gainful occupations. Rather than an evil this was something of a blessing: for it gave a small number of farmers an expanding domestic market and thus insured their prosperity. By 1870, the number of farmers had been surpassed by others gainfully employed (the ratio was 5,920,000 to 6,586,000); by 1910, there were 11,463,000 farmers as compared with 25,779,000 other gainful workers. And by 1930, the ratio was 10,472,000 farmers to 38,358,000 other workers.

The industrial population grew more rapidly than the agricultural for two reasons largely. More immigrants went to the cities than to the countryside; and part of the country's natural population increase was drained off by the cities. That is to say, right up to 1930 more people were leaving the farms for cities than the reverse. For example, the average annual net movement from farms to cities during the 1920's was 629,600.

30. FARMS AND FARM LAND

FARMS AND FARM PROPERTY

The physical signs of agriculture's great progress up to the 1920's were many. The total value of the country's farm property in 1850 was $3,967,000,000; by 1920, it was $77,924,000,000. (But in 1929 it was $57,604,000,000 and in 1934 it was $37,050,000,000.) In 1909 (first year available), gross income from farm production was $6,238,000,000; in 1920, $13,566,000,000; in 1929, $11,918,000,000; and in 1935, $8,508,000,000. In 1850 there were 1,449,000 farms; in 1935, 6,812,350. Farm acreage grew, as did also the absolute amount of improved acreage and its relative proportion. In improved land there are to be found the following types: all land regularly tilled or mowed; land in pasture cleared or tilled; land lying fallow; land in gardens, orchards, vineyards and nurseries; and land occupied by farm buildings. Thus, in 1850, there were 293,600,000 acres in American farms, of which 113,000,000 acres were improved, or 38 per cent. In 1930, there were 986,700,000 acres in farms, of which 522,400,000 were improved, or 53 per cent. In 1935, the total acreage was 1,054,515,000, and the improved acreage 513,914,000, or 48 per cent.

The herds and flocks on farms, other clear tokens of well being, also showed extraordinary advances. In 1865, American farms possessed 5,780,000 dairy cattle; in 1920, 21,455,000; in 1935, 25,100,000. In 1865, there were 6,895,000 beef cattle; in 1920, 48,870,000; in 1935, 35,567,000. In 1865, there were 13,617,000 hogs; in 1920, 60,159,000; in 1935, 37,007,000. In 1865, there were 32,696,000 sheep; in 1920, 40,643,000; in 1935, 49,766,000. In 1865 there were 3,989,000 work animals; in 1920, 25,748,000; in 1935, 16,622,000. The work animals decreased sharply after the 1920's for an obvious reason: they were being supplanted by mechanical power. Thus, in 1920 there were on farms 2,146,000 automobiles, which by 1930 had increased to 4,135,000; 139,000 trucks in 1920 and 900,000 trucks in 1930; and 246,000 tractors in 1920 as compared with 851,000 tractors in 1930. In 1936 the estimated number of tractors was 1,205,000.

There were other evidences that pointed to marked improvements in farm living. In 1920, 452,620 of the nation's farms had their dwellings lighted by electricity (7 per cent of all farms); in 1930, the number was 841,310 (13.4 per cent). In 1930, 1,371,000 farms reported the possession of radios

(20.8 per cent). In 1920, 644,000 farms had water piped into dwellings (10 per cent); in 1930, the number was 994,000 (15.8 per cent).

AGRICULTURE'S CASH CROPS

What were the country's great cash agricultural commodities? The most important undoubtedly was dairy products. The experiences of 1930 were illuminating. In that year, which is roughly typical, the gross income from farm production was $9,414,000,000. Of the total, grains were responsible for $779,000,000 (corn, $204,000,000; wheat, $411,000,000); fruits and nuts, $567,000,000; vegetables, $943,000,000; sugar crops, $94,000,000; cotton and cottonseed, $751,000,000; tobacco, $212,000,000; cattle and calves, $951,000,000; hogs, $1,350,000,000; sheep and lambs, $136,000,000; poultry and eggs, $1,050,000,000; dairy products, $2,031,000,000; wool, $68,000,000.

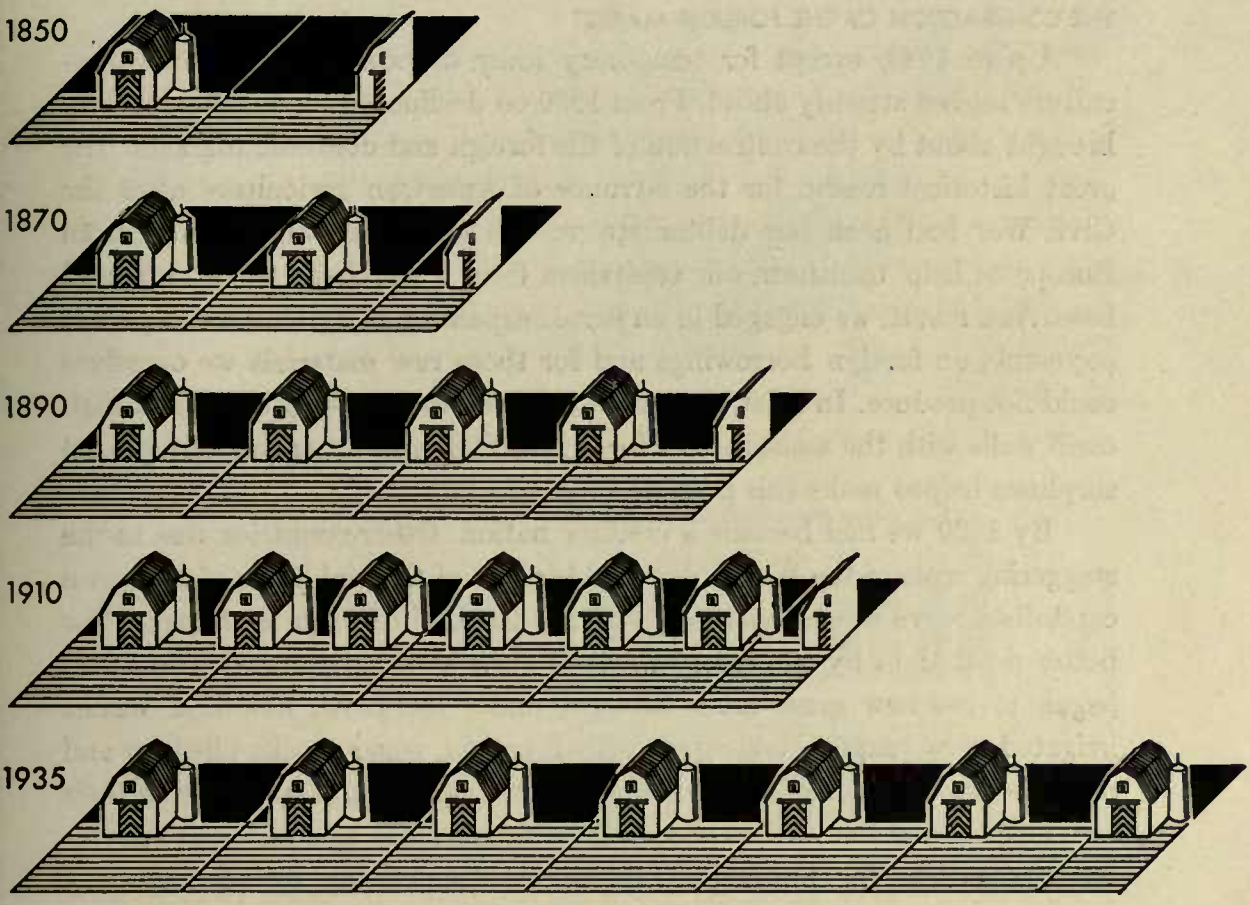
FOREIGN TRADE IN AGRICULTURAL GOODS

Which of the above entered significantly into foreign trade? There were great shifts over the last half-century, as wheat, pork products and cotton declined in relative importance; and as lard, milk products and fruits began to loom up. The following table shows the proportion of production of outstanding agricultural commodities being exported in representative years. The effects of the depression on agricultural staples are only too apparent. (The figures are in per cents.)

Commodity	*1890*	*1914*	*1929*	*1933*	*1935*
Wheat	28.8	19.7	17.9	5.5	4.3
Cotton	67.4	62.6	54.8	65.6	49.8
Tobacco	13.8	17.2	41.2	39.1	35.8
Pork	[1]	10.3	6.8	2.2	3.9
Lard	[1]	48.0	49.1	25.2	17.1
Milk products	[1]	2.6	4.5	2.2	1.9
Fresh apples	[2]	5.5	15.5	13.2	9.2
Canned fruits	[2]	22.3	22.8	28.2	20.8
Canned vegetables	[2]	1.7	2.9	2.0	1.3

[1] Not separately recorded. [2] Negligible.

FARMS AND FARM LAND



Each complete farm building represents 1 million farms
Each complete land division represents 160 million acres
(Solid areas—unimproved, shaded areas—improved)

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31. FARM TENANCY

THE CONTRACTION OF THE FOREIGN MARKET

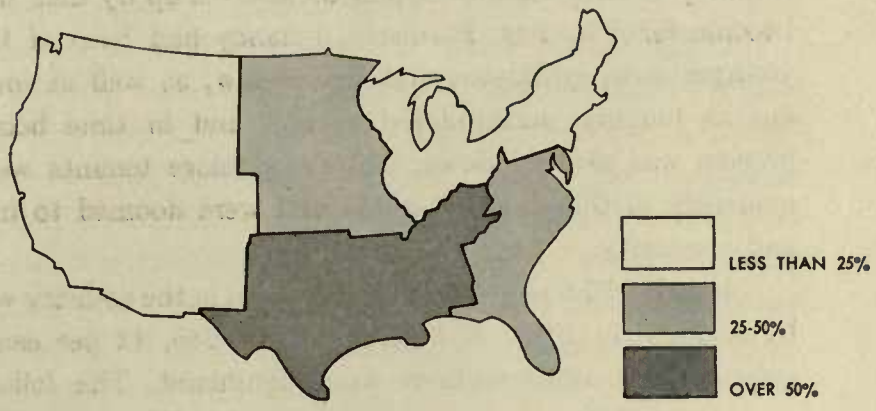
Up to 1920, except for temporary inner dislocations, America's agriculture moved steadily ahead. From 1920 on decline set in, a decline largely brought about by the contraction of the foreign and domestic markets. The great historical reason for the advance of American agriculture after the Civil War had been our debtor status. We were borrowing capital from Europe to help transform our capitalism from a merchant to an industrial base. As a result, we engaged in an heroic expansion of agriculture to permit payments on foreign borrowings and for those raw materials we ourselves could not produce. In brief, American industry was growing up behind high tariff walls with the assistance of foreign capital; and American agricultural surpluses helped make this possible.

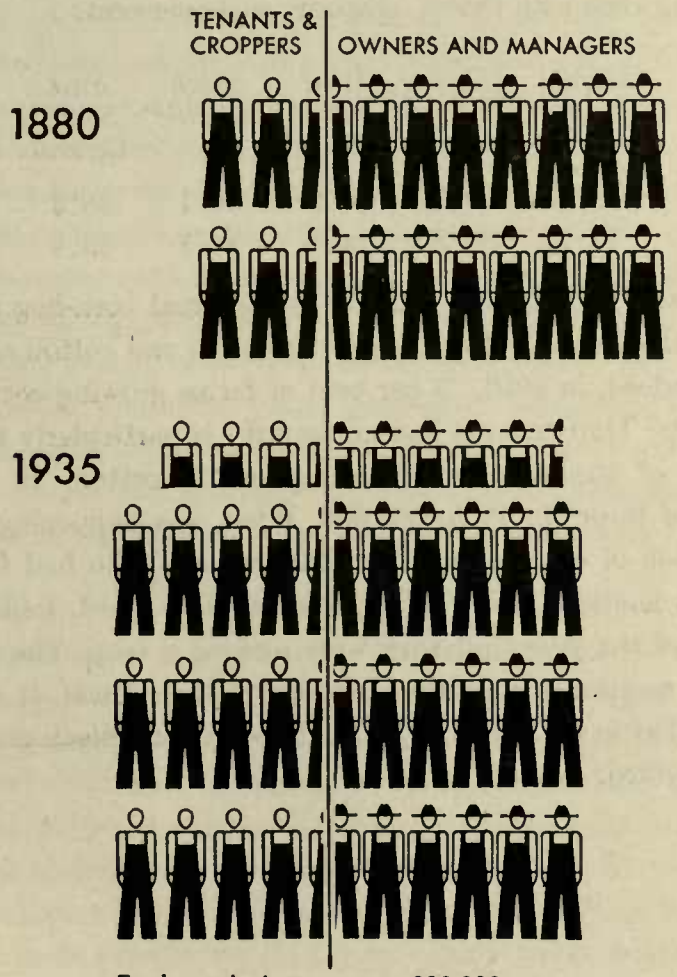
By 1920 we had become a creditor nation. Other countries, due to the staggering costs of the World War and because of the ambitions of their own capitalists, were now desperately striving to obtain foreign exchange. How better do it than by the enlargement of their own agriculture? The world began to see new grass lands brought under the plow, new arid wastes irrigated, new jungles conquered: wheat, cotton, sugar stocks piled up and prices began to tumble. The pressure of world agricultural surpluses on their own farmers and the need to encourage self-sufficiency as a protective device because outlets for finished goods were disappearing, forced European countries — formerly the world's great importers of foodstuffs — to raise high barriers against the admission of foreign grains, meats and fruits. Because of these factors, foreign markets began to dwindle for American farm goods.

THE INELASTICITY OF THE DOMESTIC MARKET

The domestic market did not increase proportionately. Our population was slowing down because of virtual immigration stoppage after 1921 and a declining birth rate. New habits of eating and clothing were striking mortal blows at extensive agricultural producers. Land given over to hay had to contract because gasoline tractors were replacing work animals. Dieting on the part of women meant the substitution of greens and fruits for cereals and pork products. Human bodies increasingly were being kept warm by external means: fewer calories of food therefore were being needed. Cotton was being replaced by rayons and other chemically-produced fabrics.

FARM TENANCY





Each symbol represents 200,000 men

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THE GROWTH OF TENANCY AS A PHASE OF DECLINE

Agriculture was in decline. Nothing proved this more certainly than the inability of farm tenants to pull themselves up by their own bootstraps and become farm owners. Formerly, tenancy had been of the ladder variety: younger sons, grandsons and sons-in-law, as well as immigrants, starting out as tenants, accumulated savings and in time became owners. This process was slowing down. More and more tenants were remaining permanently in that inferior status and were doomed to inadequate incomes and insecurity.

In 1880, 25.6 per cent of all the farms in the country were being operated by tenants; in 1930, 42.4 per cent; in 1935, 42 per cent. The differences among the various sections were significant. The following table shows percentage of farms operated by tenants for different sections of the country, comparing 1880 with 1930. (Figures are in per cents.)

Year	*Middle Atlantic*	*East North Central*	*West North Central*	*South Atlantic*	*East South Central*	*West South Central*	*Mountain*
1880	19.2	20.5	20.5	36.1	36.8	35.2	7.4
1930	14.7	27.3	39.9	48.1	55.9	62.3	24.4

Tenancy was on the increase in the great corn-hog and wheat raising areas of the North and in the great tobacco and cotton raising areas of the South. Indeed, in 1930, 73 per cent of farms growing cotton were operated by tenants. That tenants had no security is particularly exemplified by the situation of the southern sharecroppers in cotton. In 1930, there were 725,000 of these; in 1935, 660,000. What was happening, simply, was the substitution of day laborers for those tenants who had formerly been furnished by landlords with cabins, work animals, seed, tools and food during the part of the year that they were making a crop. The growth of a labor reserve was even driving the croppers off their lands. It should be pointed out also that in the South, in 1935, the white and black croppers were about evenly divided.

32. VALUE OF FARM LAND (PER ACRE)

MOUNTING FARM VALUES SUPPORTED AMERICAN AGRICULTURE

The key to the solvency of the American farmer, up to 1920, was to be found in the mounting value of his land. From time to time — notably during the 1880's and 1890's — the farmer became the victim of external forces. The things he bought were protected in a domestic market guarded by tariffs and rigged by monopolists. He paid high interest charges for mortgage money and intermediate and short-term credit needs. Railroads entered into collusion and fixed exorbitant rates. Grain elevators fell into the hands of the millers. The producers of staples organized politically, captured state legislatures to write Granger railroad laws and formed the Farmers' Alliances of the early 1890's to move on the national government. The Populist agitation of 1890–96 and the free-silver campaign of 1896 were the activities of owning farmers who sought relief from credit stringency. This was a petty bourgeois uprising; it disappeared when better prices lightened the burden of fixed charges.

The steady upward trend of land values permitted American farmers to convert short-term and intermediate-term loans, for out-of-pocket expenditures and for improvements in farm buildings and the purchase of livestock and machinery, into mortgage debts. When he was ready to retire from active operations — to the nearby village, later to California — the American farmer was in a position to seat his young relatives on his holding as tenants. Or he could sell out. An increase in mortgage debt and tenancy was not proof of stringency but the reverse. The higher prices of land easily absorbed the debt and left a sizable margin for the owner in the form of rent.

FARM VALUES COLLAPSE

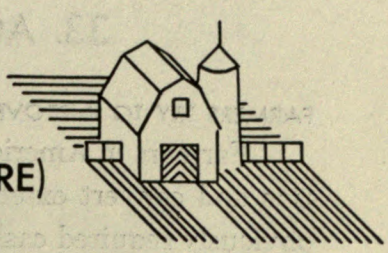
After 1920, farm values collapsed. They never have recovered. In fact, even after the inauguration of the New Deal program for agriculture, land values, despite higher gross farm income, have not moved up markedly. Indeed, while from 1932 to 1935 the gross income from farm production increased 62.3 per cent, the value of farm real estate, on the basis of the estimated value per acre, *declined* 11.2 per cent. In short, the present low position of land values reflects a fundamental want of confidence on the part of the farmer in both himself and the government. Here is the point at which American agriculture has been shaken to its foundations.

The chart shows the experiences of a group of Nebraska counties over a period of sixty years. Land values rose even in those years in which financial centers were encountering storms: the average selling price per acre was $28 in 1892 and $31 in 1893; $56 in 1906 and $63 in 1907; $106 in 1913 and $110 in 1914. The ceiling was reached in 1920; from then on the price dropped constantly until in 1933 it stood 24 per cent lower than the average annual price in 1910–14.

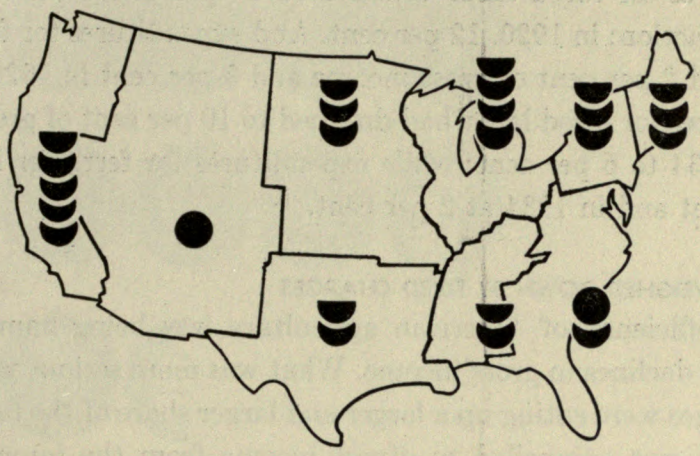
That this situation was not unique but was mirrored in the experiences of the whole country the following figures show. They are index numbers of estimated value per acre of farm real estate, with the annual average of 1912–14 as 100.

Geographic division	*1912*	*1914*	*1920*	*1929*	*1933*	*1936*
New England	99	100	140	126	105	105
Middle Atlantic	98	102	136	109	82	88
E. N. Central	97	103	161	100	62	72
W. N. Central	97	103	184	112	64	71
South Atlantic	98	103	198	132	80	97
E. S. Central	97	103	199	129	79	96
W. S. Central	96	104	177	136	82	94
Mountain	98	100	151	101	69	73
Pacific	94	106	156	142	96	105
United States	97	103	170	116	73	82

VALUE OF FARM LAND (PER ACRE)

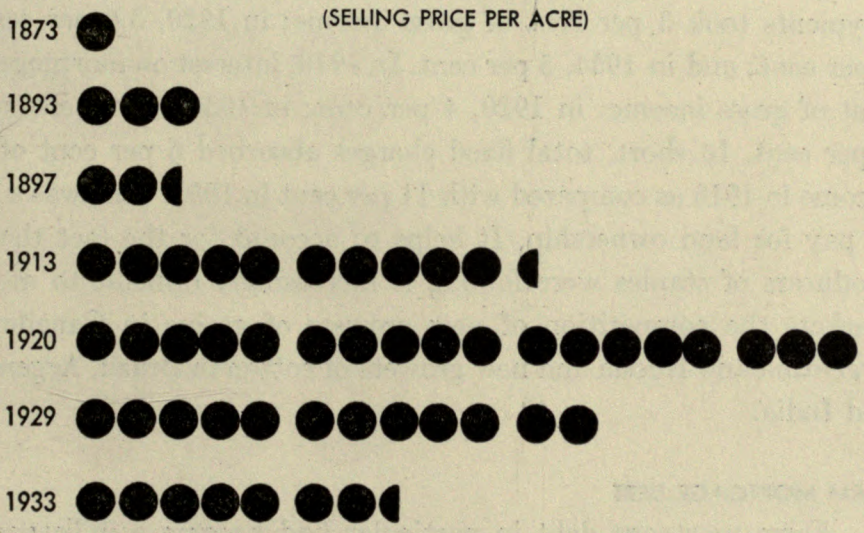


IN THE U. S. 1935 (BY REGIONS)



IN 7 S. E. COUNTIES IN NEBRASKA

(SELLING PRICE PER ACRE)



Each disc represents 10 dollars

©

33. AGRICULTURAL EXPENDITURES

FARMERS TRY TO IMPROVE THEIR TECHNICS

Farmers in America were making a bold effort to improve their production and convert extensive methods of cultivation into intensive ones. This obviously required cash income for the purchase of implements and fertilizer and the hiring of labor. From 1910 to 1920 expenditures for wages and fertilizer showed sizable increases absolutely and relatively. Thus, in 1910, expenditures for hired labor constituted 10 per cent of gross income from farm production; in 1920, 12 per cent. And expenditures for fertilizer in 1910 constituted 2 per cent of gross income and 3 per cent in 1920. But by 1930, expenditures for hired labor had dropped to 10 per cent of gross farm income and by 1934 to 6 per cent; while expenditures for fertilizer in 1930 were at 2.7 per cent and in 1934 at 2 per cent.

THEY ARE WEIGHED DOWN BY FIXED CHARGES

The efficiency of American agriculture was being hampered not only because of declines in gross income. What was more serious was the fact that fixed charges were eating up a larger and larger share of the farmer's earnings so that he was compelled to divert income from the improvement of his technics to the payment of taxes and interest on mortgages. In 1910, tax payments took 3 per cent of gross income; in 1920, 3.6 per cent; in 1930, 6 per cent; and in 1934, 5 per cent. In 1910, interest on mortgages took 3 per cent of gross income; in 1920, 4 per cent; in 1930, 6 per cent; and in 1934, 6 per cent. In short, total fixed charges absorbed 6 per cent of farm gross income in 1910 as compared with 11 per cent in 1934. This was a heavy price to pay for land ownership. It helps to account for the fact that American producers of staples were finding it increasingly difficult to meet in world markets the competition of new growers of grains in Canada, Australia, Argentina and Russia and new growers of cotton in Brazil, Argentina, Egypt and India.

FARM MORTGAGE DEBT

Farm mortgage debt in particular had become a millstone about the necks of American agricultural producers. In 1910, the mortgage debt on American farm land and buildings made up 27.3 per cent of the value of properties; in 1920, 29.1 per cent; and in 1930, 39.6 per cent. Inability to

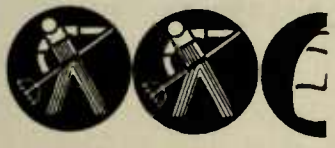
AGRICULTURAL EXPENDITURES

WAGES AND FERTILIZER

1920 

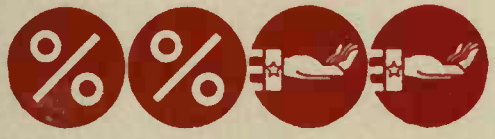
1925 

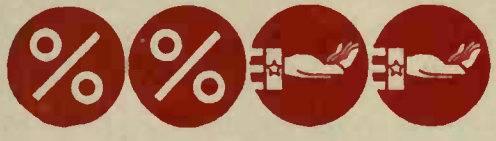
1930 

1934 

MORTGAGE INTEREST AND TAXES

1920 

1925 

1930 

1934 

Each symbol represents 250 million dollars

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meet mortgage payments and to pay taxes was converting many farm owners into tenants and croppers or forcing them off the land altogether to enter the industrial reserve army of America's urban population. Notably in the South, since 1920, the great increase in white sharecroppers was due to loss of family farms.

The following figures show the causes of changing ownership of farms in the United States since 1933. The reason for the decline of forced sales in 1935 and 1936 was to be found largely in the intervention of public authorities. The result was curious: private mortgagees were exchanging their farm mortgage paper for government bonds, leaving the federal government in the rôle of a large potential landlord. (The figures are number of farms changing hands per 1,000 of all farms.)

	1933	*1934*	*1935*	*1936*
Voluntary sales and trades.....	16.8	17.8	19.4	21.0
Forced sales as result of delinquent taxes	15.3	11.1	7.3	5.9
Forced sales as result of foreclosure of mortgages, bankruptcy, etc.....	38.8	28.0	21.0	20.3

34. CLASS COMPOSITION OF AMERICAN FARMERS

THE DILEMMA OF SURPLUS FARMERS

By the 1920's it was impossible to talk of the farm problem as a whole; one had to devote oneself to the perplexities confronting particular sectors in the agricultural population. Among American farmers there had emerged sharp cleavages; and what was one group's drink was another's poison. The country was confronted by an astounding number of marginal and sub-marginal agricultural producers. Proper provision for these, in terms of a land settlement program, would require great public expenditures; and, therefore, an increased tax burden and higher fixed charges for those commercial farmers who were trying to grow staples for sale in a competitive world market. On the other hand, abandoning the marginal and sub-marginal farmers to their fate, so that they had perforce to continue to grow crops for a market, meant uncontrolled production, unwieldy surpluses and catastrophic price fluctuations. Public policy in the 1930's chose a middle course: agricultural prices were to be controlled and *some* of the more inefficient farmers were to be taken out of production. Obviously, such a program was not coming to grips with the underlying difficulties.

THE RICH AND MIDDLE FARMERS

It was not generally being appreciated to what an extent class divisions among the farmers in the country had progressed. The chart illuminates the situation. In 1929, of the total of 6,000,000 farmers, less than 600,000 were raising farm products valued at $4,000 or better each. But for this group, making up fewer than 10 per cent of all the farmers, the value of all the products was almost $4,500,000,000, or about 40 per cent of all the agricultural goods grown. If there is considered only the value of the products raised for the market, this 10 per cent was responsible for 42 per cent. In a middle group there were to be found about 2,500,000 farmers, or 40 per cent, who were raising farm products valued at $1,000 to $3,900 each. For this group, the value of all the products was $5,200,000,000, or about 47 per cent of all the agricultural goods grown. If the value of the family living derived from the farm is subtracted, these middle farmers were also responsible for 47 per cent of all the goods entering the market.

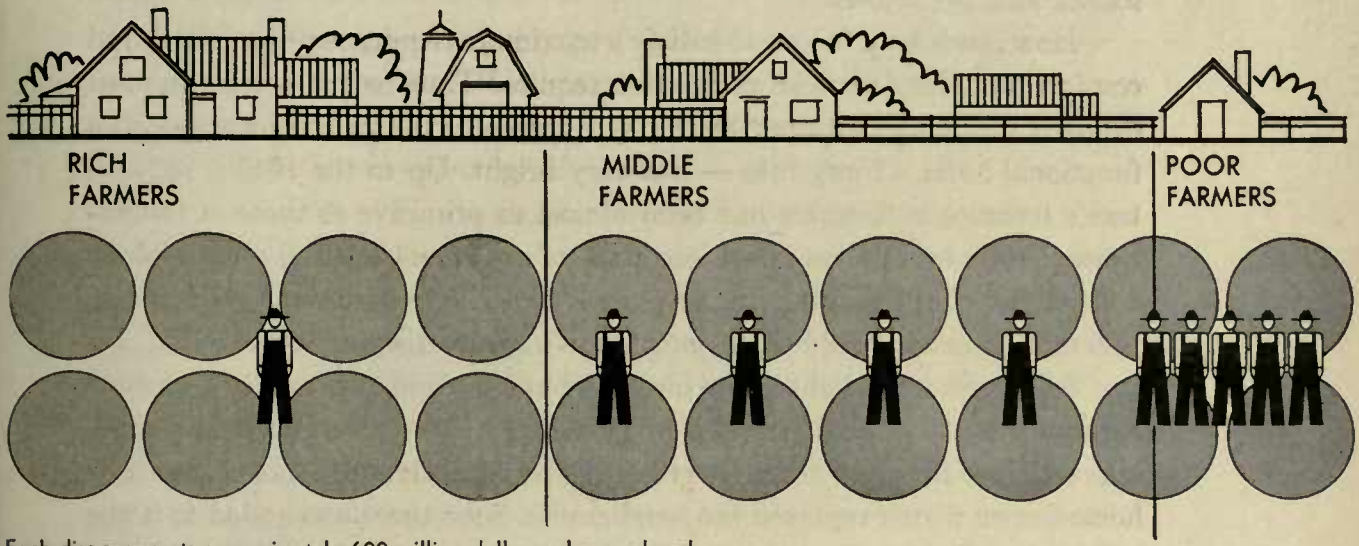
THE POOR FARMERS

At the base of the pyramid were to be found almost 3,000,000 poor

farmers, half of the total. Their incomes ran from under $250 to $999 each. Among them, the total value of products raised was $1,600,000,000, or about 14 per cent. But if the value of the products used in farm living is subtracted, these poor farmers were responsible for only 10 per cent of all the goods entering the market. Put baldly and bluntly, fully half of the farmers in the country, in the year 1929 when so many saw the problem of scarcity solved, could boast of an average annual money income not much in excess of $350. Such a meager sum for rent or taxes, mortgage payments, farm improvements, clothing, medical expenses, school books, the small amenities of living that make life endurable!

Among these 3,000,000 were the sub-marginal producers and the rural slum dwellers. They barely kept rude roofs over their heads; certainly, their inadequate money incomes could not permit them to be efficient: to drain their lands properly, to check erosion, to use mechanization in production. They presented the agricultural dilemma of our modern times. Help these sub-marginal producers — with governmental credits — to become more efficient and they would flood with agricultural goods an already overflowing, in terms of current purchasing power, agricultural market. Take them out of commercial production altogether, seat them, in short, on completely self-sufficing homesteads, and who was going to pay the bill for this gigantic resettlement project? For even allowing only $3,000 per family unit, the capital cost of resettlement alone would run close to $10,000,000,000. And once settled, how self-sufficing farming families would keep alive in a world already confronted by a great industrial labor reserve was a question that not even a wildly romantic imagination could answer.

CLASS COMPOSITION OF AMERICAN FARMERS



Each disc represents approximately 600 million dollars value produced
Each farmer represents 600,000 farmers
Data for 1929

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35. PRODUCTIVITY IN AGRICULTURE (PER MAN-HOUR)

SCIENCE AIDS THE FARMER

How much land in use, to satisfy a maximum requirement for health and comfort, did the American population require? Time had seen the conquest of many problems; with our known skills the outlook for the future — on a functional basis, at any rate — was very bright. Up to the 1840's, agriculture's technics in America had been almost as primitive as those of biblical times. Crude tools, a complete ignorance of soil chemistry and plant biology and only a dim understanding of animal physiology had made the cultivation of the land in many ways one of man's least satisfying labors.

Science came to lighten the farmer's burdens; and also to give him some assurance that his hard physical toil was not to be entirely in vain. In the harvesting of his crop, the first great mechanical advances took place. The horse-drawn reaper replaced the hand cradle. Soon there was added to it the self-binder. By the time the twentieth century was barely on its way, the modern farmer was using a great grain combine which, propelled by the gasoline tractor, was harvesting and threshing virtually simultaneously, so that the grain was ready for the mill before it was entirely off the field. The barnyard of the efficient farm of today possesses a full complement of mechanical aids: tractor plows, manure spreaders, hay loaders, corn pickers, shellers, grain drills, ensilage cutters, disk harrows.

Chemistry and biology also came to the assistance of the farmer. He learned how to drain swamp areas and water arid ones. He learned how to preserve the fertility of the soil through the use of natural and artificial fertilizers. He learned to plant hardier and more efficient grain strains. He learned how to overcome plant and insect pests. He learned the mysteries of efficient animal breeding. The advances currently being made in milk production, for example, are nothing less than amazing. In the five years preceding 1930, the number of dairy cows in the country increased by only 5 per cent over those in existence ten years previously; and yet, with an increase in feed consumption of only 15 per cent, 25 per cent more milk was produced.

HOW MANY FARMERS DO WE REALLY NEED?

O. W. Willcox, a competent agrobiologist, argues that on the basis of already *tested* technics, if a comparable level of efficiency existed in all agri-

PRODUCTIVITY IN AGRICULTURE (PER MAN-HOUR)



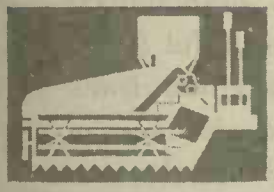
1830 (HAND METHODS)





1896 (EARLY MACHINES)





1930 (MODERN MACHINES)



Each symbol represents 40 lbs. of wheat produced

cultural production, it would be possible today to reduce land in use for our eight principle staples (corn, wheat, oats, barley, rye, potatoes, sugar beets and cotton) by 83 per cent. Says he: "If these forty million acres are thoroughly mechanized, and allowing one farmer to not more than twenty-five acres, we must conclude that what is now being done by six or eight million farmers could be done by 1.6 million." (*Reshaping Agriculture*, p. 72.)

But this is a counsel of perfection. Do we not really need more land cultivated and more farmers in operation if our whole population is to be fed well? Suppose every family in America had an income of $3,000 — which would be adequate to satisfy the highest medical requirements for a decent food budget — how much land would have to be cultivated? Surprisingly little more than was being worked in 1929. According to experts of the Department of Agriculture, the increase in land given over to food crops (and this means animal feeds as well) would have to be only from 294,000,000 acres to 335,000,000 acres. The point is, under a liberal diet, shifts in food consumed would take place from less healthful to more healthful foods: from cereals and beans, which produce calories, for example, to greens, fruits and dairy products, which not only produce calories but also vitamines in addition. The latter group is made up of products grown by intensive cultivation. Not more land but more capital is required for truck farms, orchards and dairy herds.

In short, given the utilization of only currently *employed* technics, it would be possible to provide our whole national food requirement, at a very generous level, without an appreciable increase in cultivated lands. At the same time we could eliminate a large number of essentially non-productive farmers. To be fed well we do not need more farms or farmers; we need more purchasing power.

36. THE TRIUMPH OF PRIVATE ENTERPRISE

WHY PRIVATE ENTERPRISE COULD BE SUCCESSFUL

Its victory in the Civil War released the energies of industrial capitalism in the United States. The stars were favorable in their courses; for every natural and human element existed to assure the triumph of the processes of industrialization. The United States, filling up with a youthful population, constituted a vast free market for the sale of goods. The country was dowered with natural resources equalled only by those of one other nation in the world, Russia. Thanks to bold and often unscrupulous leadership by railroad promoters who were assisted by foreign capital, a railroad net had been spun over the face of the continent which opened up every remote area to capitalist development. The generous public land policy of the government had seated a numerous agricultural people on the soil who were engaging in the production of staple crops and who therefore could buy producers' and consumers' goods.

THE RÔLE OF GOVERNMENT

The national government, by direct encouragement and by refusing to erect barriers to restrain individual enterprise, smiled on the desires of men to increase the wealth of the country, notably through the expansion of industrial production. There were high tariff walls to help in the building of the infant heavy industries. Valuable mineral and timber lands were given away for a song. Public agencies began to appear to aid the private processes of natural-resource exploitation, foreign trade and the development of the domestic market. The doctrines of the English Manchester School — at any rate, as far as the continental United States was concerned — became ruling public policy. The function of government was to preserve the peace and defend the sanctity of contracts; beyond this passive rôle the federal government would not go. If railroad rates were sometimes fixed by collusion; if monopoly began to rear its head; if workers were being crushed by low wages and long hours — the solution was not to be found in the intervention of public authority but in trust in the workings of the law of supply and demand. Americans were told that monopoly could not exist for long when competition was free; and that workers would not submit to oppression because better job opportunities were sprouting everywhere. *Laissez-faire* was enthroned.

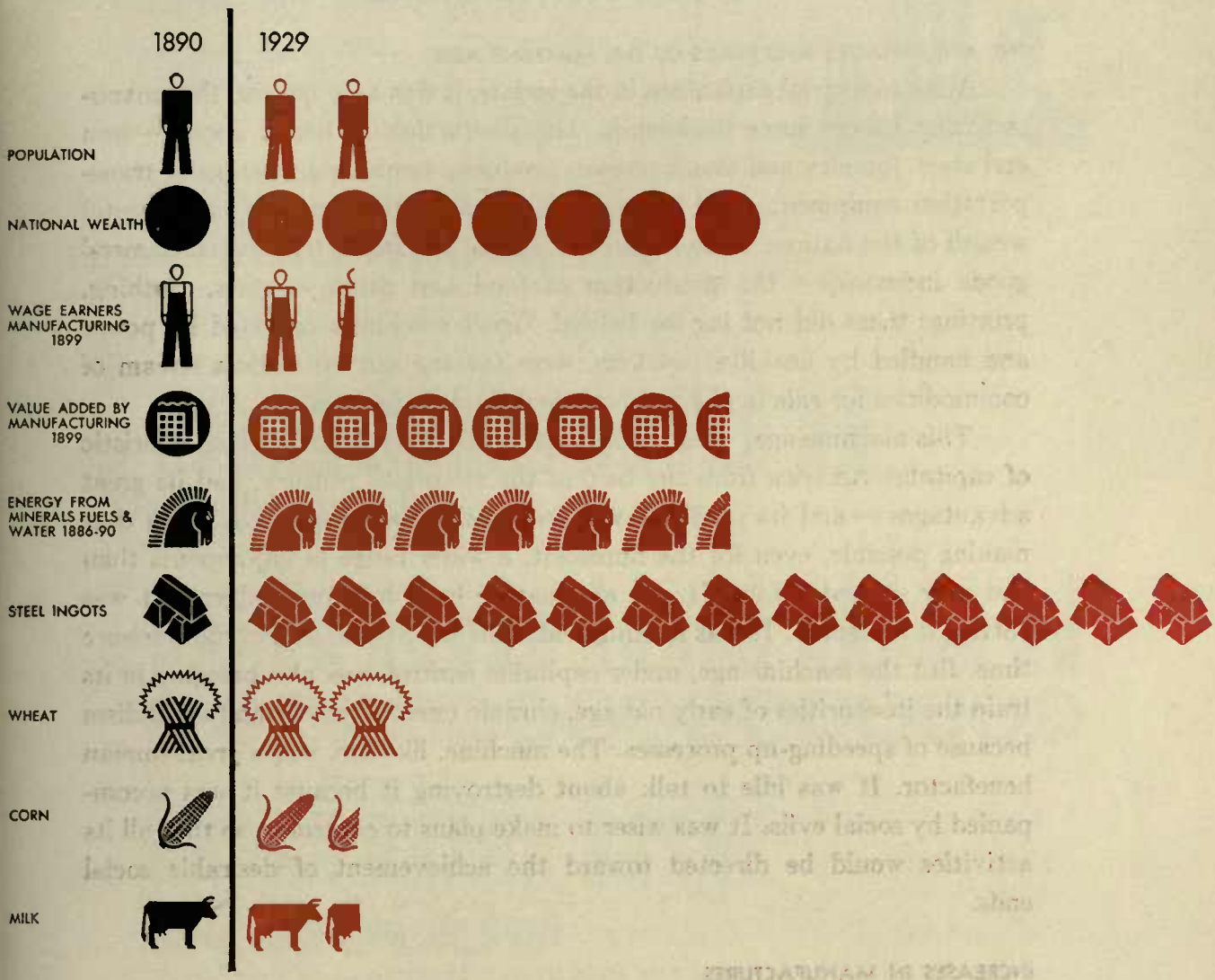
It was a young country and hopes ran high. There were no social castes,

no medieval hangovers and no inherited privilege. This tune was piped by every defender of a system who, looking about him, could see on all sides the fabulous examples of obscure youth rising to power and riches. All one required was confidence in oneself and in the destiny of America. Cornelius Vanderbilt, Andrew Carnegie, Henry C. Frick — there were hundreds of others — had become great captains of industry because they could take and give stalwart blows. Such was the texture of the American dream.

EVERY MAN AN ENTERPRISER

From the end of the Civil War to the conclusion of the 1920's, capitalism, only slightly held in rein by government, pursued its triumphant way. Its units of production and distribution grew greater and greater. Concentration, Americans were being told, meant greater efficiency, lower unit costs and prices and hence a wider distribution of goods. Before very long, the individual enterpriser was yielding supremacy first to the monopolist and then to the finance capitalist. The destinies of the system increasingly came to be determined by a small group of individuals who were less and less concerned with the making of goods and more and more with the making of money. But what matter? Was not capitalism conquering all the zones of scarcity? Statisticians could look about them with satisfaction. For while, from 1890 to the end of the 1920's, the population only doubled and the number of wage-earners in manufacturing less than doubled, the national wealth, the value added by manufacturing, steel production and energy created from mineral fuels and water increased many-fold. True, agriculture lagged behind. But in an era dominated by Steel, Power, Bigness, Mass Production, all disparities sooner or later were bound to be ironed out.

THE TRIUMPH OF PRIVATE ENTERPRISE



37. MANUFACTURING

THE ADVANTAGES AND PERILS OF THE MACHINE AGE

With industrial capitalism in the saddle, it was only natural that manufacturing should have leadership. The production of heavy goods — iron and steel, foundry and machine-shop products, lumbering, chemicals, transportation equipment — all those goods which further added to the capital wealth of the nation: these began to forge to the front. But the consumers' goods industries — the production of food and drink, textiles, clothing, printing: these did not lag far behind. Great machines, operated by power and handled by unskilled workers, were turning out an endless stream of commodities for sale in the domestic and foreign markets.

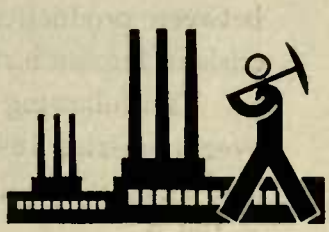
This machine age, which definitely had become the prime characteristic of capitalist America from the turn of the twentieth century, had its great advantages — and its perils. It was responsible for inexpensive goods thus making possible, even for the humblest, a wider range of enjoyments than had ever existed before. It was eliminating hard human drudgery. It was cutting down space. It was making realizable the attainment of more leisure time. But the machine age, under capitalist control, was also bringing in its train the insecurities of early old age, chronic unemployment and invalidism because of speeding-up processes. The machine, like fire, was a great human benefactor. It was idle to talk about destroying it because it was accompanied by social evils. It was wiser to make plans to control it, so that all its activities would be directed toward the achievement of desirable social ends.

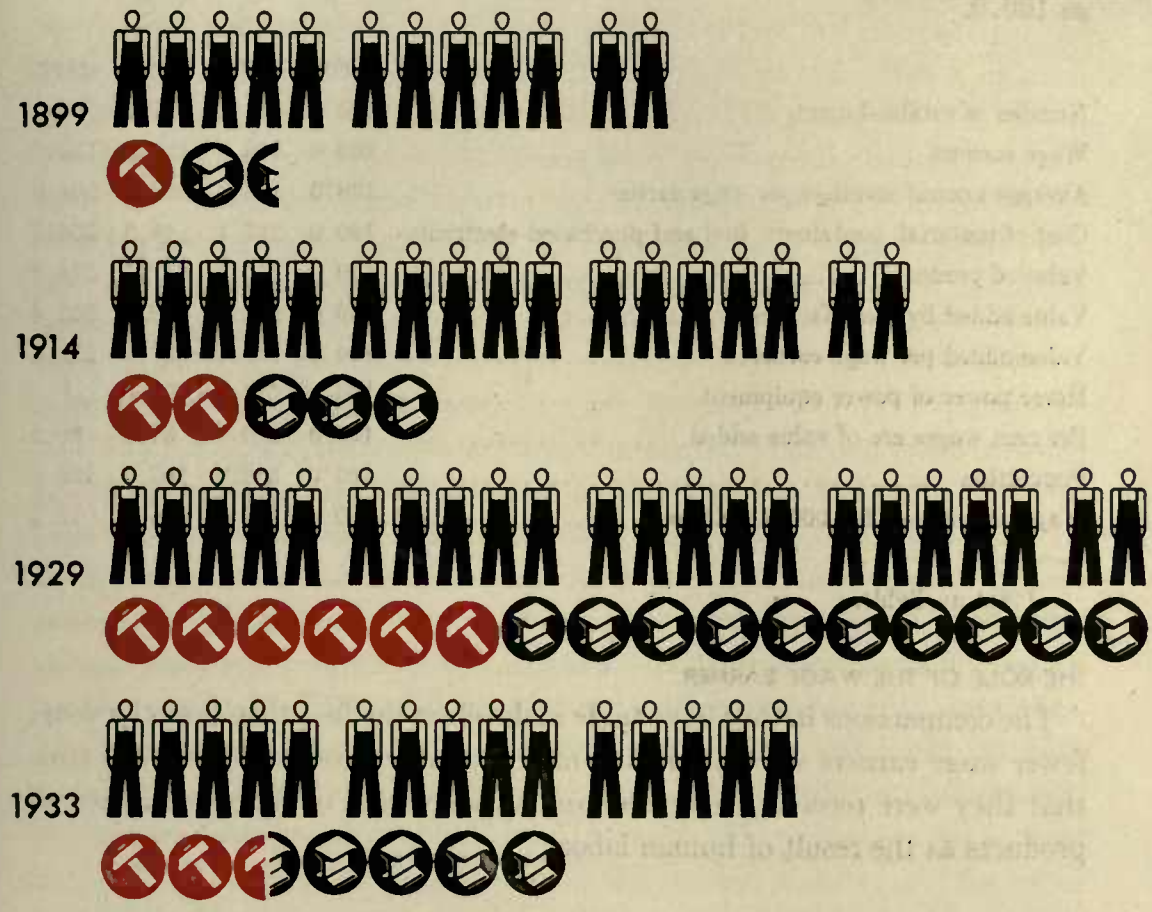
INCREASES IN MANUFACTURES

From 1899 to 1929 the magnitude of manufacturing activity increased amazingly. The depression of 1930 and after showed how profound collapse could be as a result of the fact that the means of production were privately owned. The vast mechanism Americans had created for the satisfaction of their wants began to slow down and at some points almost completely ceased functioning. Demand for goods had not suddenly dried up. Workers were not unwilling to labor on the land and in factories, mines and shops. But the investment of capital in producers' goods had created an equipment ready to turn out wares and services too great in quantity for the limited incomes of the American working population to absorb. The widening gap

MANUFACTURING:

WAGE EARNERS, WAGES AND OTHER VALUE ADDED





Each laborer represents 400,000 wage earners
Each red disc represents 2 billion dollars worth of wages
Each black disc represents 2 billion dollars worth of other value added

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between production and consumption brought on the severest economic crisis in human history.

The following figures show the great strides made by manufacturing over the period 1899–1929; and the depths of the abyss reached in 1933, the low point of the depression. The figures are in index numbers, with 1899 as 100.0.

	1899	*1914*	*1929*	*1933*
Number of establishments	100.0	85.3	101.7	68.3
Wage earners	100.0	146.3	187.5	128.5
Average annual earnings per wage earner	100.0	138.5	308.7	204.0
Cost of material, containers, fuel and purchased electricity	100.0	217.1	586.2	254.7
Value of products	100.0	210.3	617.5	274.9
Value added by manufacture	100.0	201.0	660.0	302.4
Value added per wage earner	100.0	137.4	351.9	235.4
Horse power of power equipment	100.0	223.8	431.0	[1]
Per cent wages are of value added	100.0	100.7	87.7	86.5
Population	100.0	130.9	162.5	168.0
Wage earners per 100,000 population	100.0	111.8	115.4	76.5

[1] Not available.

THE RÔLE OF THE WAGE EARNER

The comparisons in the above table make clear the fact that over the years fewer wage earners were producing more and more goods at the same time that they were receiving a smaller and smaller share of the value added to products as the result of human labor.

38. THE COTTON INDUSTRY MOVES SOUTH

SICK INDUSTRIES

Even while it was meeting with its greatest successes, capitalist production was not being spared its inner dislocations. In some regions, monopoly controls were appearing to fix monopoly prices and therefore hamper the normal development of demand. In others, unbridled competition reigned, to take a heavy toll economically and socially. The decade of the 1920's, which was viewing the greatest triumphs of production generally, at the same time witnessed virtual bankruptcy in a number of key fields. Notably, coal, lumbering and cotton textiles were sick industries, with frequent business failures, chronic unemployment and abandoned plants and distressed industrial areas.

OVEREXPANSION IN COTTON TEXTILES

The position of cotton textiles was illuminating. The first great industry to emerge on the American scene, it had appeared in the early 1830's in New England at the river fall line to utilize water power to run its automatic machinery. Profits had continued high for a long period of years and on these gains a sizable number of families had lived conspicuously. But in the 1920's threatening rivals had emerged, particularly in the form of new fabrics made possible as a result of the application of chemistry to hitherto waste materials. The obsolescent factories of the New England region — which had not been replaced from time to time with newer plants and more efficient processes of production because profits had been drained off by the owners — were incapable of meeting the competition of the rayons, acetates and the other new fabrics. On the ground that labor costs and taxes were too high, many New England cotton textile concerns shut down their operations entirely or moved south. New concerns also began to spring up in the South because child labor and long hours for women were not frowned upon by southern legislatures; because taxes were lighter and frequently water power sites were furnished for nothing; and because the hill populations of the South, drawn into the new factories, were not yet sufficiently working class conscious to be familiar with the tactics and benefits of trade-unions.

Here, then, was a matured industry — which was highly competitive because of its relatively small fixed capital needs — overburdened with a large obsolescent plant and incapable of expanding its market because of the

entrance of other fabrics into the consumer field. All the evils of such an uneven development were present: severe price competition; the speed-up and stretch-out to keep labor costs low; exploited child workers; and company towns and terrorism to prevent trade-union organization.

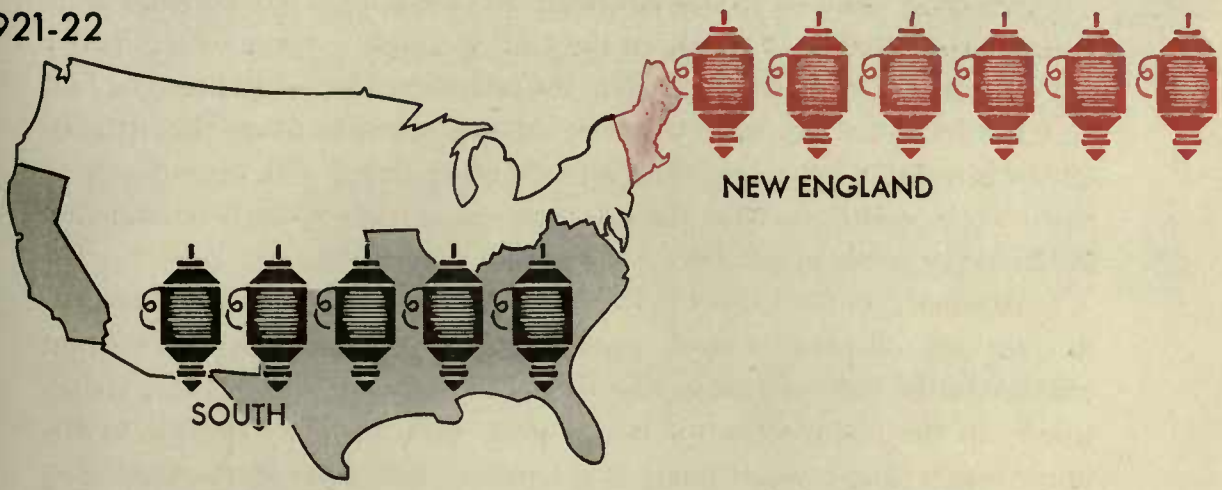
EFFECTS OF WASTEFUL COMPETITION

The movement of cotton textile production from north to south had other blighting effects. It left in its wake distressed industrial areas. In a hundred and one once busy communities workers were finding themselves permanently unemployed; local shops and professional people were deprived of customers and clients; and a heavily-burdened public authority was meeting with increasing difficulties the costs of the maintenance of schools, health services and relief agencies.

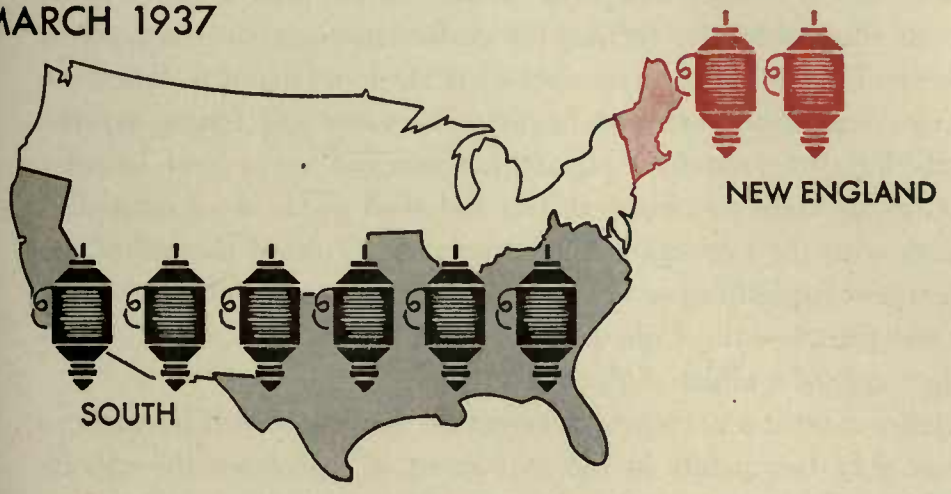
What was happening in New England in the case of cotton textiles was being duplicated in Pennsylvania, West Virginia and Kentucky in the case of coal; and in the Lake States region in the case of lumbering. The processes of private accumulation built up investable funds; private ownership permitted the flow of these savings into whatever regions enterprisers desired and without interference on the part of government. In those regions where monopoly was impossible, the result was a definite overexpansion of plant with all the social and economic wastes attending such a development.

THE COTTON INDUSTRY MOVES SOUTH

1921-22



MARCH 1937



Each spindle represents 3 million active spindles
(California is included among Southern States)

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39. THE 200 LARGEST NON-BANKING CORPORATIONS

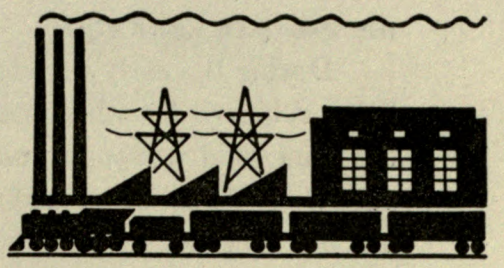
THE FIRST GREAT MONOPOLIES IN STEEL AND OIL

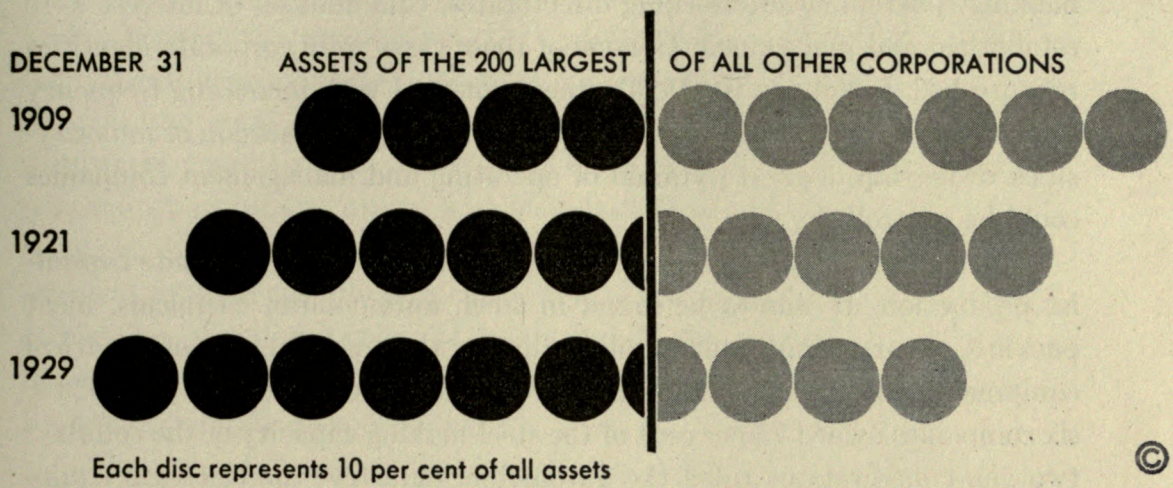
Monopoly is an inevitable development of capitalist production. Public authority — it has tried feebly in the United States — cannot curb it; nor can government adequately regulate its activities. Monopoly becomes first on the order of the day when the accumulation of profits forces the entrance of new investable funds into fields already being served with some degree of adequacy by existing capital plant. Its successes are particularly outstanding in the heavy goods industries.

Monopoly, in the United States, has used a variety of methods to effect its purposes of price control, production control and consumer-market control. In the 1880's monopoly began to rear its head in two leading industries — in the manufacture of heavy steel, with Andrew Carnegie as the prime mover; and in the refining of petroleum, with John D. Rockefeller as the outstanding monopolist. These monopolists were ingenious, shrewd and ruthless; they drove their competitors out of business by making alliances with railroad barons, or they bought them out. In the case of heavy steel, monopoly was effected by the vertical integration in one giant company of all the processes required in the manufacture of steel: ore deposits, limestone fields, coking ovens, transportation facilities, furnaces and forges. By the 1890's, all the industries requiring pig and bar iron and heavy steel, in order to manufacture wrought and finished iron and steel goods, were compelled to do business with the Carnegie Steel Corporation. Toward the end of the decade, when new capital began to press into the field, an even larger giant monopoly was reared — the United States Steel Corporation, with a capitalization in excess of a billion dollars.

Rockefeller created a horizontal integration. He established his monopoly power at only two points in the movement of petroleum through its various processes: the transportation of the crude oil from the fields; and its refining by the Standard Oil Companies which he controlled. Thus, he had at his mercy the producers of the raw material and the buyers of the finished products. Later on, the Standard Oil Companies went into marketing. The various Standard Oil Companies presumably were independent; but by the creation of a so-called trust the management of all of them was centralized in the hands of a few persons.

THE 200 LARGEST NON-BANKING CORPORATIONS





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THE SPREAD OF MONOPOLY

During the early decades of the twentieth century, monopoly was also being achieved by other means, some formal, some less so. Industrialists in the same field personally made it a practice to assemble regularly for the purposes of fixing prices and allocating production and markets on a pro rata basis. Sometimes they set up a trade association to do this work. Through banking control and interlocking directorates, communities of interest were established and maintained. In none of these cases were corporate identities relinquished. Finally, in the 1920's, there emerged with increasing frequency the holding company through which, by the strategic possession of minority-stock ownership, a great pyramid of operating and management companies could be controlled.

Monopoly, by such methods, more and more came to dominate capitalist production. It was to be found in steel, automobiles, chemicals, meat packing, sugar refining, oil, public utilities, the manufacture of electrical equipment, rubber tires, aluminum ware, tobacco. At the end of the 1920's, six companies owned 75 per cent of the steel-making capacity of the country; two giant integrations ruled the automobile industry; the electrical equipment industry was dominated by three great corporations; four companies were producing 70 per cent of the country's rubber tires; the various Standard Oil Companies had under their rule 73 per cent of the pipe lines for transporting petroleum and its products.

ASSETS OF THE 200 LARGEST

More and more, these vast industrial empires came to control the capital assets of the country. At the end of 1909, out of over 200,000 non-banking corporations in the country, the two hundred greatest possessed 41 per cent of all corporate assets. At the end of 1921, when non-banking corporations numbered 250,000, the two hundred greatest possessed 52 per cent of all corporate assets. At the end of 1929, when the non-banking corporations numbered 300,000, the two hundred greatest possessed 62 per cent of all corporate assets.

Here are a few of the billion-dollar giants of modern-day America with their gross assets as of January 1, 1932. (The figures are those of Anna Rochester in her *Rulers of America.*) American Telephone and Telegraph Co., $4,235,749,000. Pennsylvania Railroad Co., $2,781,800,000. United States Steel Corporation, $2,279,802,000. Standard Oil Co. of New Jersey, $1,827,010,000. General Motors Corporation, $1,313,920,000. Electric Bond and Share Company, $1,231,641,000. Cities Service Co., $1,194,450,000.

40. MORGAN AMONG THE 200 LARGEST NON-BANKING CORPORATIONS

FINANCE CAPITAL DOMINATES MONOPOLY

As corporations grew and ownership became diversified, the industrial capitalist faded out of the picture. He came to be supplanted by the banker. Today, monopoly organization is the form that capitalist production is taking; and finance capital guides its policies. Finance's rôle is strategic. It amasses the great funds necessary to build up integrations. It furnishes short-term capital requirements. It sits on and dominates the boards of transportation, public utility and manufacturing and commercial corporations, so that it can unite great empires into even vaster communities of interest. And because finance capitalism is not primarily interested in the fabrication and distribution of goods but in the reaping of profits from financial manipulation, the tone of modern capitalist society is being set not by production but by speculation.

The hand of finance capital first showed itself in railroad consolidations in the 1880's. With English funds, the New York banking firm of J. P. Morgan and Company furnished to the Vanderbilts and Hills the means by which they were able to bankrupt and absorb competitors. When the original railroad barons died, Morgan partners remained to control the destinies of the railroad consolidations. The first great financial triumph in the field of industry was the formation of the United States Steel Corporation, also a creation of the House of Morgan. In the first two decades of the twentieth century, the Morgan firm, now closely allied with a series of commercial banks and insurance companies — all of which had at their command vast stores of investable funds — created consolidations in the fields of agricultural implements, electrical equipment, municipal traction, electric power and light, shipping. What the House of Morgan was doing, so were the Rockefellers; for with the profits derived from oil they had transformed their rôles from industrial to finance capitalists. Lesser investment houses, financing and therefore dominating railroads, utilities and industrial corporations, also were operating.

By 1912, according to the findings of the Congressional Pujo committee (and cited by Lewis Corey in his *The Decline of American Capitalism*), 180 individuals representing eighteen investment banking houses, commercial

banks and trust companies held 746 interlocking directorships in 134 corporations with total capitalization or resources of $25,325,000,000. Between them, the Houses of Morgan and Rockefeller, operating through their banking allies, held 341 directorships in 112 corporations with total capitalization or resources of $22,245,000,000.

THE GREAT FINANCE-CAPITALIST GROUPS

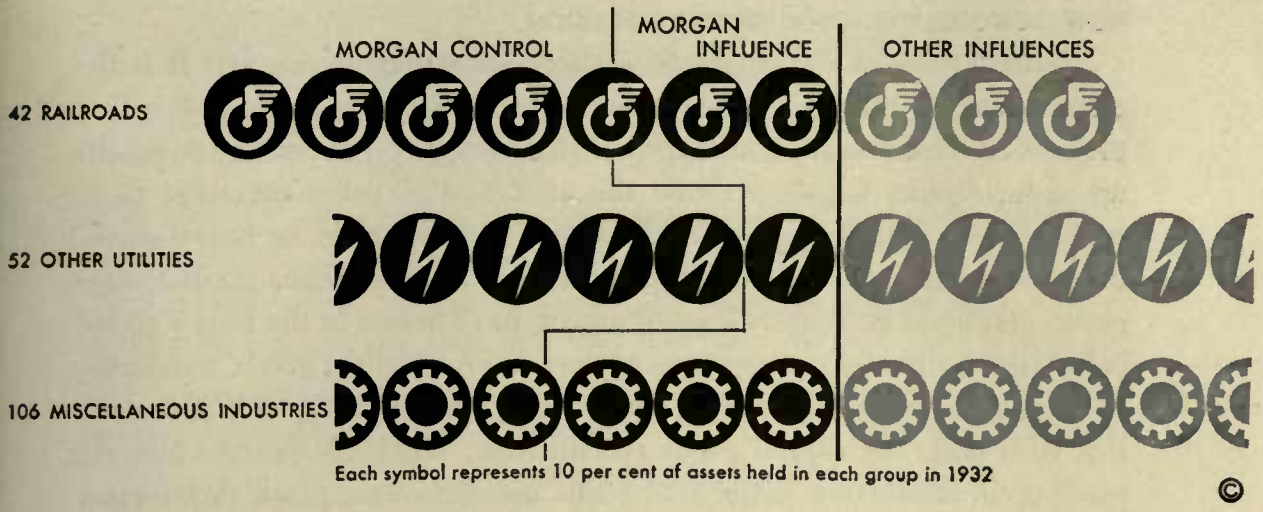
The processes of corporate consolidation and financial control were accelerated in the next decades as a result of great accumulations effected through war profits and the industrial progress of the 1920's. The upshot was the emergence in the contemporary period of four dominant finance-capitalist groups: The Morgans, the Rockefellers, the Du Ponts and the Mellons. In very considerable measure, the destiny of the country rested in the hands of these houses and their banking affiliates.

THE EMPIRE OF THE HOUSE OF MORGAN

The position of the House of Morgan is typical of the others, although, of course, the Morgans constitute the largest single group. According to Anna Rochester, on January 1, 1932, Morgan partners sat on the boards of thirty-five banks and insurance companies and sixty non-financial corporations; the total assets of these corporations were $30,000,000,000. If Morgan-dominated banks are included, as a sort of second ring of Morgan power, to this list must be added sixteen financial institutions and twenty-six miscellaneous corporations, with additional assets of $16,200,000,000. A third and outer ring may be included as falling under Morgan influence — where interlocking directorships put Morgan partners and men in close touch with corporate needs and policies. In this third group were to be found 145 banks and other companies with combined assets of about $15,000,000,000. Thus, some $77,600,000,000 of corporation assets, either directly or indirectly, were under the Morgan influence. And these made up more than one-fourth of American corporate wealth!

The chart shows how great is the control exercised by the House of Morgan and its direct banking allies over the destinies of the country's two hundred largest non-banking corporations. Only the first and second rings spoken of above are considered. The first on the chart is called "Morgan control"; the second, "Morgan influence."

MORGAN
AMONG THE 200 LARGEST NON-BANKING CORPORATIONS



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41. PRODUCTION CONTROL AND PRICES

HOW MONOPOLY CONTROL DEEPENS DEPRESSION

What is one of the outstanding effects of monopoly control? It is the maintenance of prices, even when the demand for goods drops so low that production almost entirely disappears. In a period of depression, the results are catastrophic, largely because this stickiness of prices occurs in those regions where monopoly is most effective — in the capital, or heavy goods' industries. Diminished production in these industries means smaller wage payments; lower consumer-demand among the workers in the heavy goods' industries accelerates the processes of the crisis in the light goods' industries. In turn, *their* prices drop sharply because they are less susceptible of control. But their costs for capital goods remain high. Wholesale failures and the speed-up of production in the light goods' industries take place, thus further increasing the numbers of unemployed.

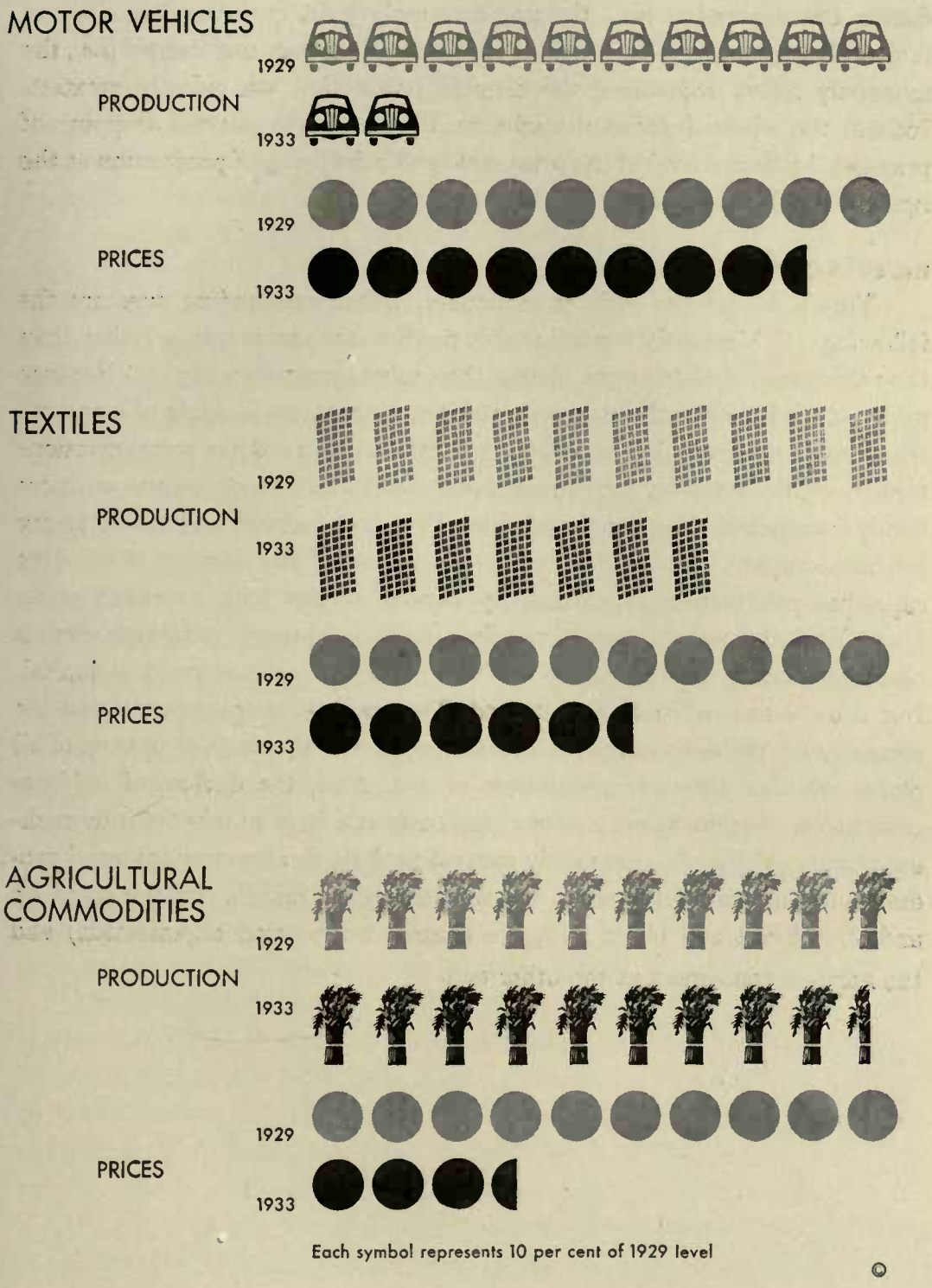
HEAVY AND LIGHT INDUSTRIES IN DEPRESSION

The establishment of monopoly is one of the characteristics of the present-day capitalist organization of production. And monopoly controls sharpen the nature of industrial crises and prolong and deepen periods of depression.

The following figures, compiled by Gardiner C. Means, point up the contrasts in the conduct of prices and production in the heavy and the light industries during the recent depression. The percentage figures show price and production declines from 1929 to the spring of 1933.

	Per cent drop in prices	*Per cent drop in production*
Heavy industries		
Agricultural implements	6	80
Motor vehicles	16	80
Cement	18	65
Iron and steel	18	65
Light industries		
Textile products	45	30
Food products	49	14
Leather	50	20
Agricultural commodities	63	6

PRODUCTION CONTROL AND PRICES



Mr. Means draws the following proper conclusions. "One may make the broad generalization . . . that for industries in which prices dropped most during the depression [*i.e.*, the non-monopoly light industries] production tended to drop least, while for those in which prices were maintained [*i.e.*, the monopoly heavy industries] the drop in production was usually greatest. Indeed, the whole depression might be described as a general dropping of prices at the flexible end of the price scale and a dropping of production at the rigid end with intermediate effects between."

THE EVILS OF MONOPOLY

This is one of the evils of monopoly. Other outstanding ones are the following. (1) Monopoly control makes possible the maintenance rather than the retirement of obsolescent plants, thus sabotaging efficiency. (2) Because monopoly is linked with finance capitalism, its progress is a tale of company wreckings with heavy losses suffered by little investors. After reorganizations take place, the small fry are squeezed out and the finance capitalists are more firmly entrenched in power than before. Frequent railroad and public utility holding-company bankruptcies spot the pages of the history of modern capitalist production. (3) Monopoly control means high overhead costs. Under capitalist production, monopoly cannot be complete, although there is constant striving in that direction. New plants are erected by new capital. But the old ones must be maintained. The result is overexpansion and the necessity for prices to cover the capitalization and the costs of upkeep of all plants whether they are productive or not. Also, the devices of holding-company management pile up overhead costs at a large number of intermediate points. (4) Finally, monopoly control exploits the free raw-material producers at one end of the scale, the workers in the middle (by the speed-up and stretch-out and bitter struggles against trade-union organization) and the helpless consumers at the other end.

42. RETAIL CHAIN AND INDEPENDENT STORES, 1935

FINANCE CAPITALISM IN RETAILING

Monopoly control has entered even into the field of retail distribution of consumers' goods. Today, moving picture theaters are dominated by a handful of giant producers and distributors. The mail-order business is monopolized by two great concerns. Department stores are bound together by holding companies. Gasoline filling stations are only the agencies for a few great petroleum companies. The chart indicates how chains in the variety-store, the grocery-store and the filling-station fields account for a much larger proportion of sales than their numbers of units represent. The same situation is also true in the fields of men's furnishing stores, women's ready-to-wear specialty shops, shoe stores, furniture stores, cigar stores and drug stores.

The result has been the entrance of finance capitalism into retailing and the creation of giant corporations. Gimbel Brothers, Inc. (department-store chain) in 1932 had gross assets of $89,054,000; R. H. Macy and Co. (another), $96,031,000; the Great Atlantic and Pacific Tea Co. of America (grocery-store chain), $183,013,000; Marshall Field and Co. (department-store chain), $111,727,000; Montgomery Ward and Co. (mail-order house), $152,-117,000; Sears Roebuck and Co. (another), $228,428,000; F. W. Woolworth Co. (variety-store chain), $175,865,000; S. S. Kresge Co. (another), $118,-262,000; Drug, Inc. (drug-store chain), $173,408,000.

The social results of this penetration of finance capitalism into retailing are enormous: the final citadel of petty bourgeois enterprise is being invaded. First production and now distribution have become the exclusive domains of the monopolists. Where is the little man, with his ingenuity, his pluck, his hard work and stinting, to turn?

MONOPOLY CAPITALISM SEEKS RELEASE IN IMPERIALISM

Monopoly capitalism raises its head everywhere. Yet it cannot be completely successful; in short, it cannot altogether stifle competition. But the competition that now takes place is on a higher level. Private ownership leads to accumulation; accumulation to the ploughing of new savings into new capital plant erection. Monopolist groups fight monopolist groups from time to time: it is a war among monsters. Then peace is established and a new sharing out of production and markets must take place. United States Steel at first thoroughly monopolized steel production. Bethlehem Steel entered

the picture and had to be taken into the monopolist ring. More recently Republic Steel and National Steel (with new capital support from the Mellons and the Du Ponts) have appeared to claim their quotas. Except at the rare high points of business upswing, the steel industry in the United States is confronted by chronic over-capacity of plant. The same situation generally prevails in other industrial regions where monopoly holds sway.

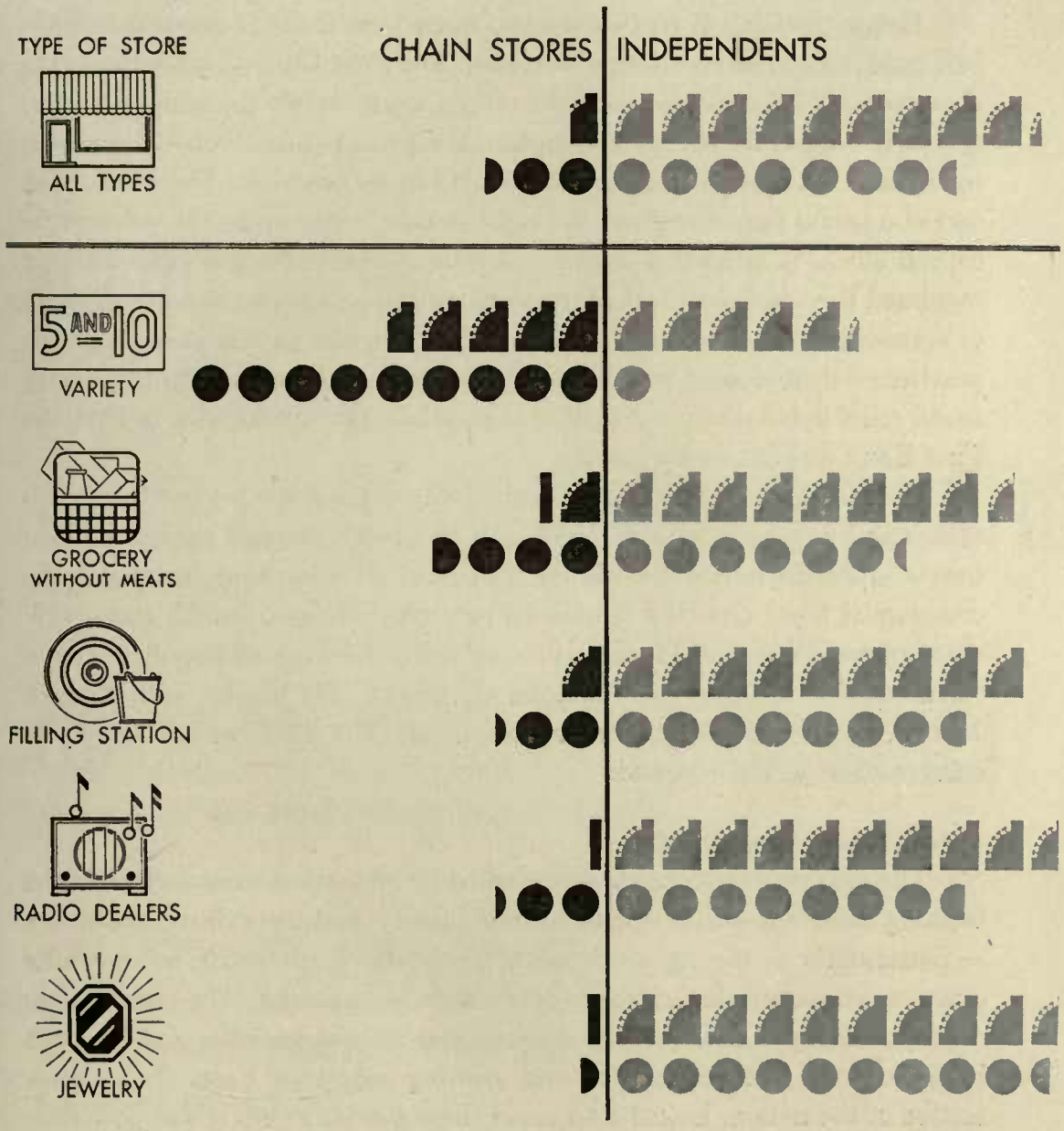
What is monopoly capitalism to do? It seeks release, for its capital accumulations and its surplus products, in imperialist adventure. The hunt for investment opportunities and markets outside the national boundaries of the United States thus becomes an inevitable concomitant of capitalist production at its monopoly stage. Our giant corporations try to channel their surpluses into foreign lands where they erect branch plants and buy up needed raw material resources. Our investment houses hunt everywhere for opportunities for profit and interest for American rentiers and promote the securities of foreign governments and foreign government-guaranteed enterprises.

IMPERIALIST ADVENTURE LEADS TO WAR

But other highly advanced nations have come to a similar pass. Their own national markets are incapable of absorbing all the new capital and all the capital goods that are the fruits of monopoly control. There are not enough backward areas of the world to be opened up by all the capitalist powers. American and English oil companies are rivals for the development of petroleum fields all over the world. Japanese capitalists, as a result of their government's creation of a protectorate over Manchukuo, are able to bar American capitalists from the exploitation of this market. German and French capitalist groups compete for the exploitation of the Balkan countries and the Near East.

These private struggles lead to irritation and mutual recriminations. Governments take up the cudgels in defense of their nationals. Wars result; in modern times they derive directly from imperialist rivalries.

RETAIL CHAIN AND INDEPENDENT STORES 1935



Each cash box represents 10 per cent of all stores
Each disc represents 10 per cent of the net sales in each group

43. NUMBER OF BANKS AND THEIR DEPOSITS

THE FIRST AND SECOND UNITED STATES BANKS

Before the Civil War, two serious efforts were made to create a centralized banking system; both were thwarted. The First United States Bank was chartered in 1791 and given a life of twenty years. While the bank was to be privately owned, the federal government itself was to buy stock in it and was to transact its business through the bank and its branches. The First Bank served a useful purpose: given the right to issue notes up to the value of its capital stock, it created a currency for the country. At the same time, it regulated the whole currency through its refusal to accept the notes of local, or state-chartered, banks which were not on a specie-paying basis. But this practice — it obviously was distasteful to debtor agrarians who frequently found relief in inflation — provoked opposition. The upshot was, in 1811 the First Bank was not rechartered.

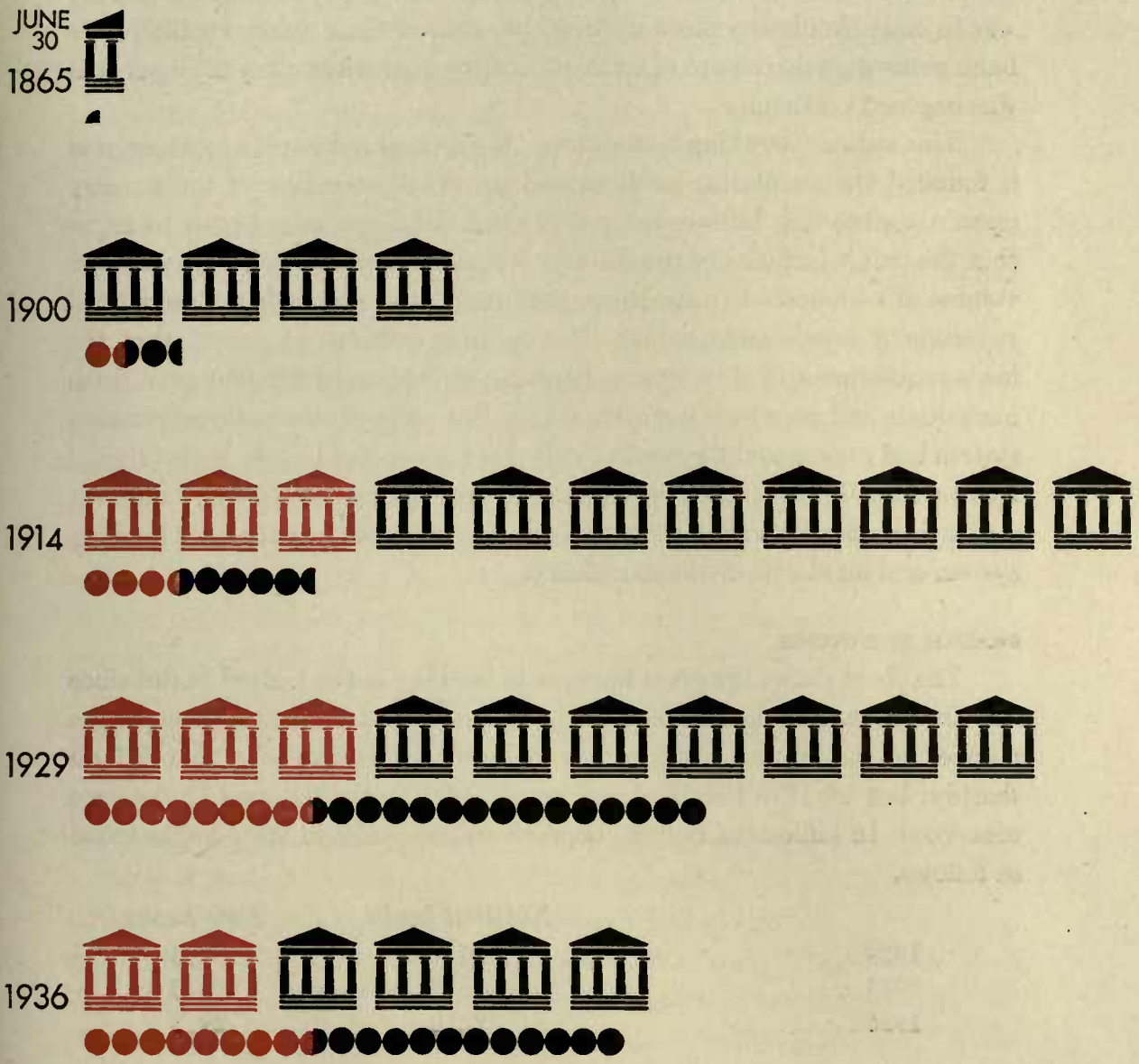
In 1816, however, the Second United States Bank was set up. Its organization and powers were very similar to its predecessor's. Farmers claimed that it siphoned money too slowly into rural sections; that it favored the commercial East; and that it used its power to refuse to handle state bank notes oppressively and in order to establish a banking monopoly. After a bitter political struggle, on which the election of 1832 hinged, with Andrew Jackson the Second Bank's implacable enemy, the Bank was defeated. Its charter also was not renewed.

A NATIONAL BANKING SYSTEM

The next quarter-century was marked by all sorts of irregularities in the banking field. The states chartered banks freely; and supervisory machinery — particularly in the agrarian South and West — was slight, so that adequate specie covers for currency often were not assured. The results were depreciated paper notes, many spurious and altered varieties and frequent bank failures. The commercial and growing industrial East, the creditor section of the nation, looked askance at these practices; but it was powerless to enlist federal aid as long as southern planter capitalism dominated the agencies of the central government.

The Republican party had entered the campaign of 1860 pledged to a national banking system. In 1863 and 1864 it redeemed its pledge with the enactment and amendment of the National Bank Act. The federal govern-

NUMBER OF BANKS AND THEIR DEPOSITS



Each red bank represents 2,500 national banks

Each black bank represents 2,500 state and other banks

Each red disc represents 2.5 billion dollars worth of deposits in national banks

Each black disc represents 2.5 billion dollars worth of deposits in state and other banks

©

ment was to charter banks and give them the right to issue notes only if they purchased government bonds up to at least one-third of their capital. These bonds were to be deposited with the Treasury; and against them the Treasury was to emit circulating notes up to 90 per cent of their value. In 1865 state bank notes were driven out of circulation altogether when a tax of 10 per cent was imposed on them.

This national banking system was not a centralized banking system; and it founded the circulating medium and the credit structure of the country upon a contracting base — the public debt. Business men began to argue that the credit facilities of the country should expand and contract with the volume of commercial transactions performed, and not with the amount of government bonds outstanding. The agrarian sections protested that the law's requirement of a minimum bank capitalization of $50,000 gave them inadequate and poor banking institutions. But, at least, the national banking system had regularized the currency. It was maintained largely in its original forms until 1913, when the Federal Reserve Act was passed. This new measure satisfied the demands of the critics of the old régime for a centralized banking system and an elastic credit machinery.

INCREASE IN BANKING

The chart shows the great increase in banking in the United States since the Civil War. The depression of 1930 and after had a marked effect on the number of banks and permanently reduced them. Deposits also fell off sharply; but by 1936 they had recovered as far as the national banks were concerned. In billions of dollars, deposits in national and state banks stood as follows.

	National banks	*State banks*
1929	21.6	36.3
1933	16.8	24.8
1936	22.0	29.3

44. BANK FAILURES

THE FEDERAL RESERVE SYSTEM

The Federal Reserve Act of 1913 really established centralized banking, although it did set up twelve districts in each of which was created a federal reserve bank. Dominating the whole system was a Federal Reserve Board appointed by the President. However, the boards of the federal reserve banks were controlled by the member banks of the system. These federal reserve banks were bankers' banks; and their functions were the rediscounting of commercial and agricultural paper, the buying and selling of bills of exchange and the granting of loans to member banks.

Every national bank had to become a member of the system; state banks were invited to join also. All member banks were required to subscribe to the stock of the federal reserve bank. How did the federal reserve banks do business and in what way did they assure credit elasticity? The rediscounting of commercial and agricultural paper was the chief device. When a member bank wanted to expand its deposit credits to its customers, it took part of its paper to the federal reserve bank to which it belonged and against these received federal reserve notes. A check on a too hasty expansion of the currency was the requirement that the federal reserve banks keep a reserve of 40 per cent in gold against the notes issued. Here, therefore, were elasticity and the mobilization of reserves in the federal reserve banks.

BANKING IN THE 1920'S AND THE DEPRESSION

Bank failures, however, were not halted. During the 1920's, largely because of distress in the agricultural regions, every year saw a heavy toll being taken in depositor losses. The annual average of bank failures was 627; the amount of deposits affected, on the average, $169,000,000. With the onset of the depression, general panic seized the American public and for the year ended June 30, 1932, the number of banks shutting down was 2,427; the deposits involved, $1,760,185,000.

President Hoover tried to sweep back the tide with the establishment in 1932 of the Reconstruction Finance Corporation — a government-financed corporation empowered to lend money to distressed institutions. This was unavailing; and in March, 1933, in order to save sound banks from a general débacle, a banking holiday of four days was declared by President Roosevelt.

BANKING REFORMS UNDER ROOSEVELT

The President inaugurated a series of banking reforms which, at least, had the merit of checking the drains on banks' liquid resources. The upshot was that in the year ended June 30, 1936, there were only three national bank suspensions with total deposits involved of $5,086,000; and only forty-three state bank suspensions with deposits involved of $6,023,000. The Roosevelt program included the following:

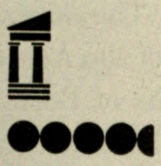
1. The creation of the Federal Deposit Insurance Corporation. All member banks of the Federal Reserve System were required to join for the purpose of insuring deposits 100 per cent up to $10,000, 75 per cent from $10,000 to $50,000 and 50 per cent for deposits over $50,000.

2. In an effort to break the link between the commercial and investment functions of banks — the hope being that this would loosen the hold of finance capitalism on commercial banks — member banks were required to divorce themselves of security affiliates.

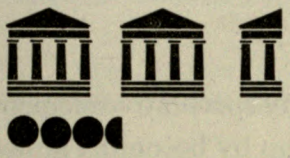
3. By a number of amendments to the Federal Reserve Act — notably through the Banking Act of 1935 — the government itself was given expanded powers over the member banks and the credit market as well. One significant change was the right to vary the minimum legal reserves required of members. Another was the centralization of power in the hands of the government-appointed Board of Governors of the Federal Reserve System, which now virtually was to choose the directors of the regional federal reserve banks. A third was the grant of control over the open-market operations of the whole system to an Open-Market Committee, on which the Board of Governors had the majority. When the Open-Market Committee bought government securities, member banks sold. In this fashion the member banks increased their reserves and had more funds available for loans to commercial customers. The whole process was designed to expand the flow of credit. The open-market sale of government securities, on the other hand, was meant quickly to contract the flow of credit. By this mechanism it was hoped that the government itself could regulate the velocity and flow of credit and in this way halt runaway speculative manias or revive flagging business activity.

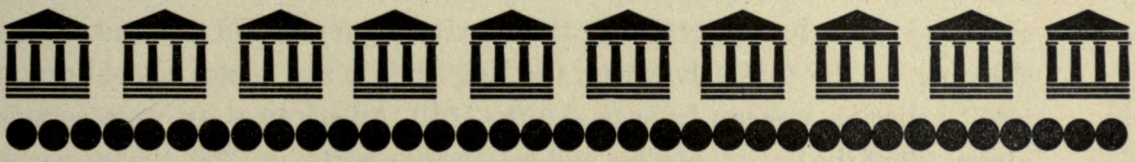
BANK FAILURES

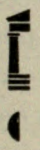
YEAR ENDING JUNE 30

1908 

1914 

1929 

1932 

1936 

Each bank represents 250 banks
Each disc represents 50 million dollars worth of deposits

©

45. GROWTH OF THE AMERICAN MERCHANT MARINE

THE RÔLE OF SHIPPING IN A MERCHANT-CAPITALIST ECONOMY

In an era characterized by the predominance of merchant capitalism, the ownership and use of shipping is a significant source of profits. The unbearable pressures exerted on our colonial traders with the revival of the Acts of Trade and Navigation in the 1760's forced the great merchants of Boston, Newport, New York and Philadelphia into the American Revolution. It was small wonder, therefore, that their interests should be a real concern of the new republic after independence had been won. Commercial treaties soon were being written with European and Latin American countries: by the 1830's, even England was yielding and dismantling its Mercantile System. And backed by consular representatives, bold seafarers were opening China and Japan to the wares of Yankee merchants. During the period up to the Civil War, the American sea fleet was never far behind that of England; in the years of the Napoleonic Wars, it was in the van.

DECLINE IN SHIPPING

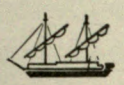
But engagement in the carrying trade had too many speculative elements in it. The China trade of the 1820's and 1830's ended up by becoming almost completely unprofitable. There was a revival in the late 1840's when Americans designed the clipper ship — the most beautiful vessel ever to sail the seas; and when, for a short time, the American government paid subsidies to shipping. In the 1850's, however, the English iron and steam vessel began to wrest supremacy away from us. Up to 1810, American ships were carrying almost all of the goods entering and leaving our ports; in 1860, the proportion was only 66.5 per cent.

How the base of our economy was shifting slowly from merchant-capitalist to industrial-capitalist organization may be noted from the part played by shipping in international transactions. During the years 1821–37, the earnings of freights made up 12 per cent of the value of all the goods and services we entered into foreign trade; during the years, 1838–49, the proportion was 13 per cent. But for the period 1850–73, it dropped to 6 per cent; for 1874–95, to 0.7 per cent; and for 1895–1914, to 0.2 per cent. For the years immediately preceding the World War, not more than 10 per cent of the goods leaving and arriving in our harbors went and came in American ships.

The reasons for the decline of our merchant marine were not far to seek.

GROWTH OF THE AMERICAN MERCHANT MARINE

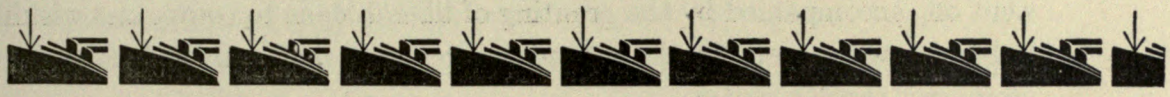
1789 

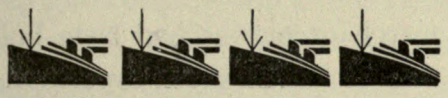
1810 

1830 

1860 

1910 

1922 

1936 

Each ship represents 1 million gross tons employed in foreign trade

©

The federal government refused to subsidize. Our iron and steel industry was not yet in a position to fabricate steamships as cheaply as the English could. Most important, American capital was flowing into areas, notably those manufacturing industries protected by high tariffs, where the return on investments was higher.

SUBSIDIZING SHIPPING

The outbreak of the World War compelled a change in national policy. Congress liberalized our registry laws to permit ships of foreign construction to fly the American flag. With our entrance into the conflict, the administration began to build ships in huge quantities so that, by 1920, our merchant fleet numbered 4,900 vessels with a gross tonnage of 17,800,000 tons. The end of the war saw the beginning of a drive to hand this government-constructed shipping over to private operators. During the 1920's and 1930's this process went on, accompanied by the granting of liberal loans to companies wishing to build new ships and by the payment of generous mail subventions to operators over regular routes.

At a huge public cost, the American merchant marine had been built up, until by 1930 it was carrying 34.7 per cent of all American exports and imports. But how unimportant freight earnings had become in our economy may be seen from the fact that in 1930 this item represented but 2 per cent of the value of the international transactions that were to our credit. Why this solicitude, then, on the part of our government in shipping? Almost all modern ships today are auxiliary naval craft: most can be used as transports; many can be converted easily into light cruisers. Merchant shipping is an arm of our naval establishment.

46. COMPONENTS OF FOREIGN TRADE

IN THE BEGINNING WE IMPORT MANUFACTURES

Nothing more adequately points up the fundamental characteristic of a nation's economy than the kinds of goods that enter into its foreign trade. Up to the Civil War, American capital was largely interested in the production of agricultural staples, the operating of the carrying trade and the conduct of speculative activities in land and in canal and railroad building. Tariff walls progressively were dropped lower. We borrowed foreign funds. And to pay for finished goods bought from the English and to furnish the interest on foreign borrowings, we developed our merchant marine and exported cotton. The history of the year 1821, a typical pre-Civil War year, shows that more than half of our imports were manufactured goods; and that, similarly, more than half of our exports were raw materials, consisting of cotton, furs, lumber, whaling products, and the like.

The Civil War established the firm leadership of industrial capitalism over the economic and public policy of the country. High tariffs became the order of the day — tariffs which, in time, became so high that by 1929 not much more than 20 per cent of our imports consisted of finished manufactures. To supply our population with tropical and semi-tropical foods (sugar, coffee, cocoa); to provide a large list of basic raw materials required by our growing industries (tin, copper, rubber, silk); and to make possible continued borrowings from the lending European countries, we were compelled greatly to expand our export list. From 1865 to 1914, exports consisted largely of crude materials and foodstuffs. Indeed, the great historic rôle of American agriculture during this period — a part made possible by its expansion into the West — was to furnish the returns with which we could pay for the capital borrowings and raw materials needed to convert us into an industrial nation.

WE BEGIN TO EXPORT MANUFACTURES

During the 1870's, 1880's and 1890's, exports of crude and manufactured foods (wheat, flour, beef products, hog products) made up fully 45 per cent of all the goods we entered into foreign trade. And then the axis of our economy began to turn. By the 1900's we were a mature industrial nation; and we were ready boldly to invade foreign markets and compete with the English, French and Germans even in their home territories. More and more we

began to ship finished manufactured goods with which to pay for needed raw materials and foods and with which to service foreign debts. The half-decade 1911–15 saw the export of crude and manufactured foods comprising but 33 per cent of the total as against the 31 per cent of finished manufactures and the 15 per cent of semi-manufactures. And the half-decade 1926–30 saw the export of crude and manufactured foods dropping to 16 per cent as compared with the 45 per cent of finished manufactures and the 14 per cent of semi-manufactures. For 1936 alone, the three proportions were: crude and manufactured foods, 8 per cent; finished manufactures, 48 per cent; semi-manufactures, 16 per cent.

OUR DILEMMA AS REGARDS AGRICULTURAL SURPLUSES

In our export trade, manufactures had completely supplanted agricultural commodities. Into the bargain, after the outbreak of the World War, we had become a creditor nation; that is to say, every year we were lending more money to foreigners and investing more capital abroad than foreigners were lending to us and investing in our enterprises. What was to be the rôle of our agricultural surpluses now? We did not need them in order to balance international payments. Indeed, so as to help foreigners settle their adverse balances with us, we were being compelled to permit every year the importation of agricultural commodities that competed with home-grown products — corn, flour, cattle, dairy products and meats.

In the process of becoming a great industrial nation we were being pushed by inexorable economic forces on to the horns of a dilemma: either the complete abandonment of agriculture (with its attendant social dislocations) or its subsidy (with high food and therefore labor costs).

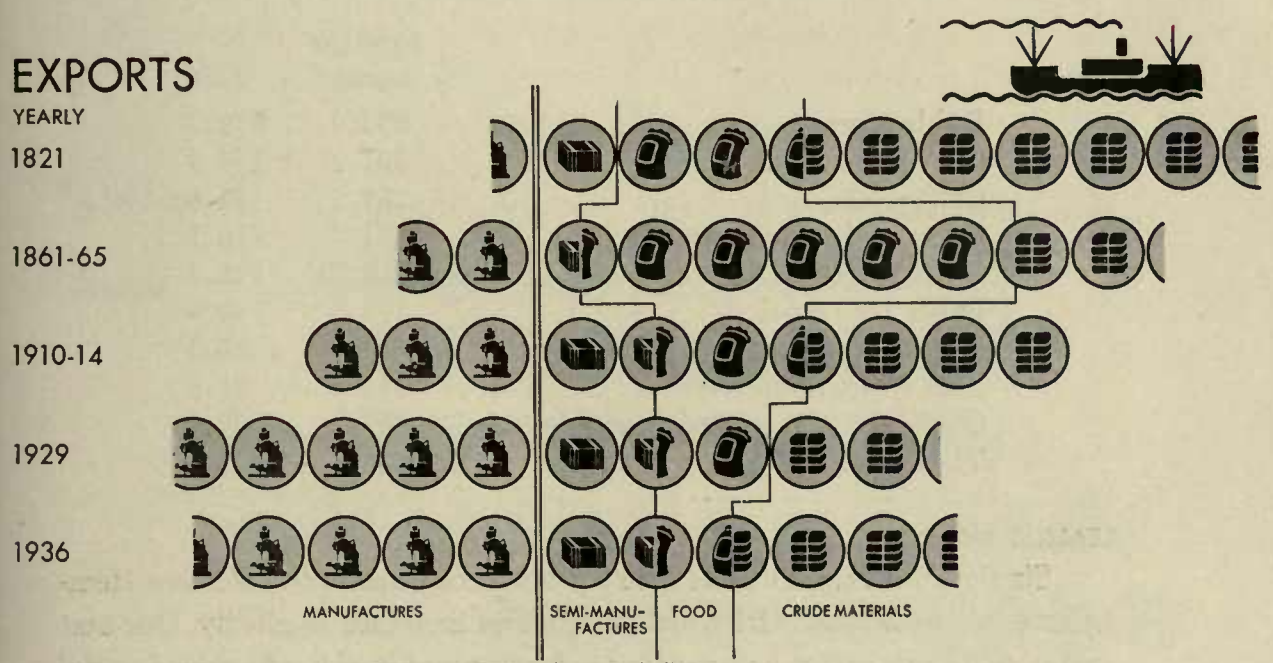
COMPONENTS OF FOREIGN TRADE

IMPORTS



Each symbol represents 10 per cent of volue of oll imports

EXPORTS



Each symbol represents 10 per cent of value of all exports

Note: Fiscal years ending September 30 in 1821, June 30 in 1861-65, 1910-14, and 1936. Calendar year in 1929.

47. DIRECTION OF FOREIGN TRADE

SHIFTS IN THE DIRECTIONS OF TRADE

The change in the directions of foreign trade tells the same story. Up to the Civil War, our imports came largely from Europe; for we bought abroad finished manufactured goods. And our exports similarly went largely to Europe; for we shipped to the Old World agricultural staples and raw materials in order to pay our balances. In the post-Civil War era this process was undergoing profound modifications. As our economy began to be founded on the maintenance of our industrial establishment, we required a vast array of raw materials: wood pulp and nickel from Canada; rubber from the Netherland East Indies and Ceylon; hides from Australia; silk from Japan; copper (for smelting and reëxport) from South Africa and Peru; petroleum (for refining and reëxport) from Mexico, Venezuela, Iraq. We began to buy more and more from the backward (economically speaking) regions of the world.

LEADING IMPORTS

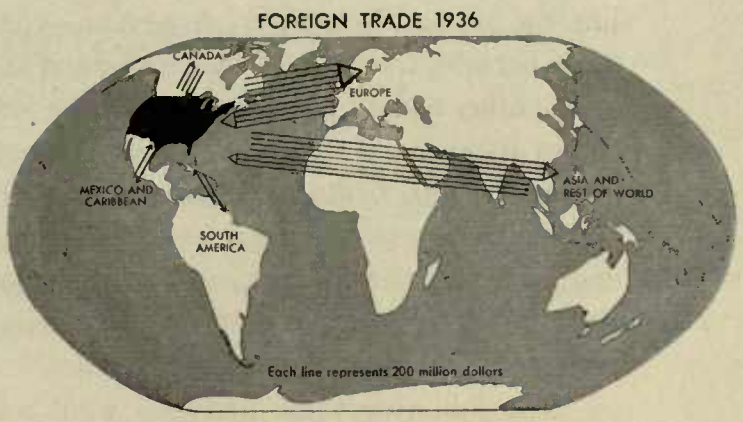
The following table indicates what were the ten leading American imports for consumption, on the basis of their 1936 ranking. The figures are those for value in millions and tenths of millions of dollars.

	1926–30 average	*1936*
Rubber, crude	294.4	158.7
Cane sugar	207.3	155.4
Coffee	281.7	134.0
Paper and manufactures	151.2	110.1
Silk, raw	368.2	102.4
Paper base stock	114.5	98.9
Vegetable oils	81.9	85.3
Furs and manufactures	114.8	81.6
Chemicals and related products	135.8	80.0
Tin	88.9	75.5

LEADING EXPORTS

Similarly, our export trade with the other countries of the Western Hemisphere and with Asia, Africa and Australasia increased markedly. Our best customer for raw cotton became Japan; for iron and steel products, industrial machinery and automobile parts and accessories, Canada; for agricultural

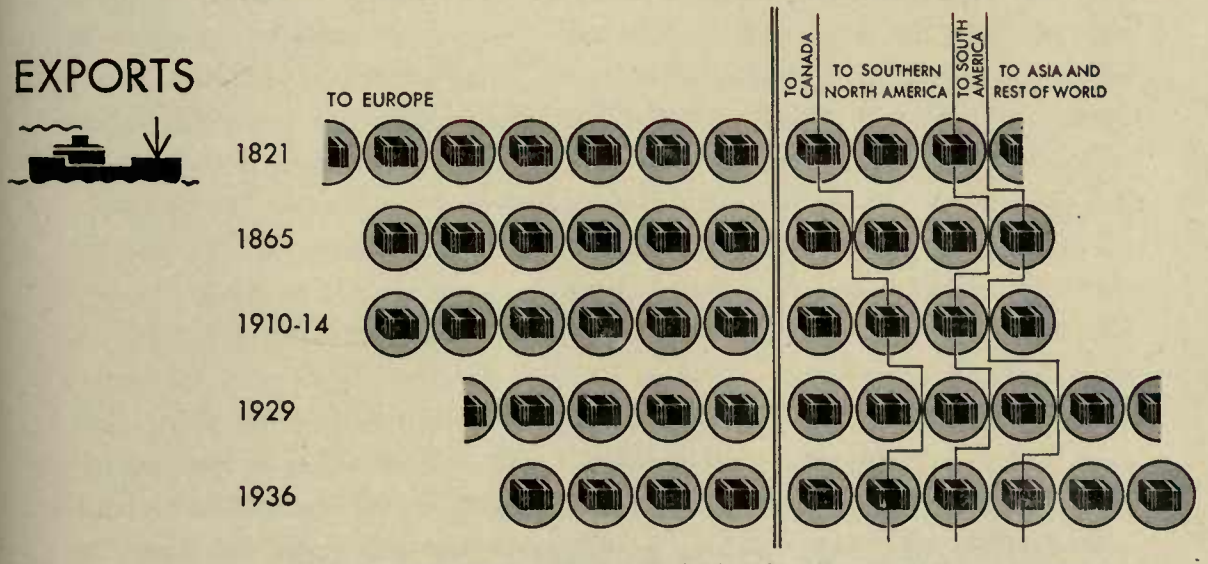
DIRECTION OF FOREIGN TRADE



IMPORTS



EXPORTS



Each symbol represents 10 per cent of value of imports or exports in year noted

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implements and machinery, Argentina. An instructive comparison may be made between the kinds of things England on the one hand and British India on the other bought from us. In 1929, the following were the six leading purchases in terms of value. By England: cotton; petroleum and products; tobacco; meats; fruits and nuts; copper. And by British India: passenger automobiles; petroleum and products; industrial machinery; motor trucks and buses; electrical machinery and appliances; iron and steel mill products. England was buying raw materials and foodstuffs; British India, the finished products of our manufacturing industries.

The following table indicates what were the ten leading exports of United States merchandise, on the basis of their 1936 ranking. The figures are those for value in millions and tenths of millions of dollars.

	1926–30 average	*1936*
Cotton, unmanufactured	765.7	361.0
Machinery (inc. office appliances)	488.0	334.9
Petroleum and products	524.4	260.8
Automobile parts and accessories	406.2	240.2
Tobacco, unmanufactured	144.5	137.3
Chemicals	137.4	116.9
Iron and steel products	170.7	111.9
Fruits and nuts	122.2	80.6
Coal and coke	121.8	56.6
Copper (incl. ore manufactures)	150.0	50.7

48. VALUE OF FOREIGN TRADE

INCREASE IN FOREIGN TRADE

Year by year, the volume of American foreign trade mounted. The following figures present the annual average values of American merchandise exported and merchandise imported for a number of typical periods. The experiences of 1915–20 reflect the extraordinary expansion of our economy as a result of war-time needs. The figures are presented in millions of dollars.

Yearly average	*U. S. merchandise exported*	*Merchandise imported*
1861–65	170.2	255.4
1896–00	1,136.0	741.5
1911–15	2,231.7	1,712.3
1915–20	6,416.5	3,358.4
1921–25	4,310.2	3,450.1
1926–30	4,687.8	4,033.5

REASONS FOR DECLINE IN FOREIGN TRADE

The depression of 1930 and after hit our foreign trade with particular severity. The world-wide paralysis brought on by economic nationalism, and accompanied by the raising of high tariff barriers, curbed the free flow of goods and services. Nations weighed down by debts and caught in the web of exchange perplexities found it impossible to buy. And with buying curtailed, selling of course suffered. More significant than any of these reasons in its effects on the collapse of foreign trade was the fact that capitalist accumulation and its investment in capital-goods enterprises made the economies of every modern state virtually the duplicate of every other. An international division of labor had been possible in the heyday of capitalism's upward climb in the second half of the nineteenth century; for then, the economically advanced nations produced and sold finished goods while the backward ones furnished and sold raw materials and foodstuffs. But at a time when the United States was exporting cotton and cotton textiles and copper and machine tools; while British India was producing cotton and cotton textiles and jute and iron and steel goods, the maintenance of a system of world free trade obviously was becoming more and more difficult. Accumulation was contracting the areas of enterprise.

The following figures present America's foreign-trade history for the depression years (in millions of dollars).

Year	*Exports of U. S. merchandise*	*Imports for consumption*
1930	3,781	3,114
1931	2,378	2,088
1932	1,576	1,325
1933	1,647	1,433
1934	2,100	1,636
1935	2,243	2,039
1936	2,416	2,421

In terms of value, the export record of 1936 just about equalled that of 1914; imports were somewhat higher. But prices were higher in 1936 than they were in 1914; so that probably the year 1936 saw the import and export of a considerably smaller quantity of goods. The following index figures show that recovery in foreign trade was still a slow process; definitely foreign trade was lagging behind industrial production. (Base of index figures, monthly average, 1923–25 = 100.)

	Value of total exports	*Value of total imports*	*Industrial production*
February, 1929	128	116	118
February, 1933	29	26	63
February, 1935	47	48	90
February, 1936	53	60	94
February, 1937	67	87	116

VALUE OF FOREIGN TRADE



IMPORTS

1865

1901-05

1910-14

1929

1936

EXPORTS

1865

1901-05

1910-14

1929

1936

Each symbol represents 500,000 dollars

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49. WHAT EXPORTS MEAN TO CERTAIN INDUSTRIES

RETURNS ON EXPORT OF CAPITAL

The movement of goods in foreign trade was not the only international transaction in which we engaged. Next in importance to the export and import of merchandise was the flow of capital. Foreigners had long-term private investments in our country; these earned dividends and interests. Similarly, our nationals possessed foreign properties abroad and they earned returns annually. As we became a creditor nation after the outbreak of the World War, the crediting and debiting of such moneys loomed larger and larger in our business relations with the outside world. The following table shows the significance of such items in our balance of international payments. Figures are in millions of dollars.

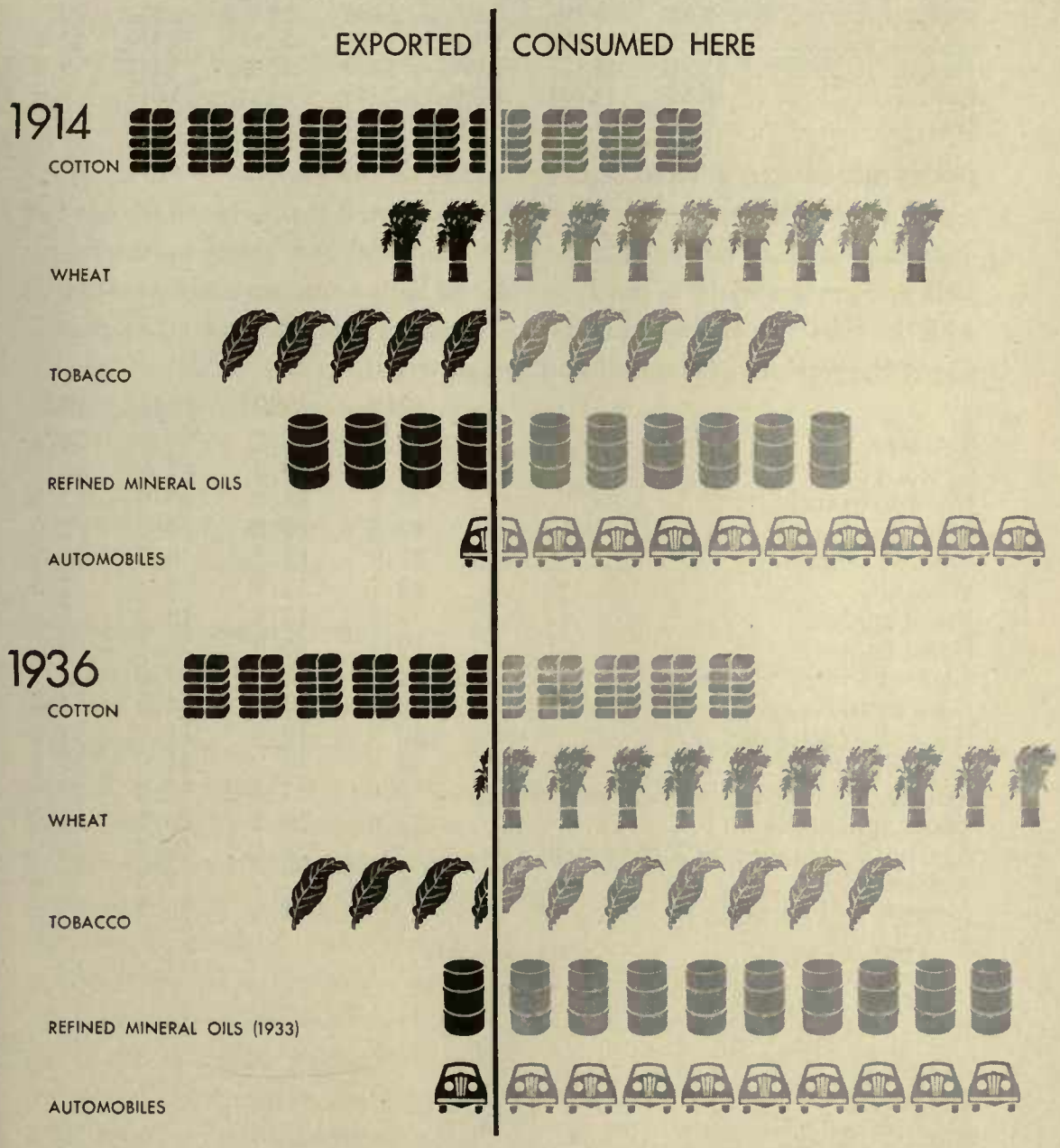
Annual average	*Interest and dividends paid by foreigners to U. S.*	*Interest and dividends paid by us to foreigners*	*Balance in our favor*
1921–25	381	138	243
1926–30	865	328	537
1931–35	525	114	411

During the depression years, the average annual balance in our favor on the earnings of capital invested abroad was $411,000,000. The annual average value of our whole foreign trade, exports and imports, was $3,693,000,000. If we allow a return of 10 per cent, the profit from foreign trade was $369,300,000. In short, foreign investments undoubtedly were bringing in a greater return than our whole ramified system of buying and selling goods in the world market. This was indeed a stage of capitalist development not envisaged by the early industrial capitalists.

PROPORTION OF MOVABLE GOODS EXPORTED

How important was foreign trade to our national economy? Could we, in other words, cut ourselves off completely from the rest of the world without seriously deranging the finely adjusted mechanisms of our capitalist system? At first blush, it almost seemed so. For, taking the crude figures, in the past twenty-five years rarely more than 10 per cent annually of our total production of movable goods has been exported. The following figures give the value of the production of movable goods and the proportion exported, for a number of years. Figures are in millions of dollars.

WHAT EXPORTS MEAN TO CERTAIN INDUSTRIES



Each symbol represents 10 per cent of total production

Year	*Agricultural goods*	*Manufactures*	*Mining*	*Freight receipts (R. R.'s)*	*Total*	*Exports, U. S. merchandise*	*Per cent of total*
1909	6,238	8,385	1,238	1,801	17,662	1,701	9.6
1914	7,928	9,710	1,450	2,082	20,270	2,071	10.2
1921	8,927	18,332	2,900	4,004	34,163	4,379	12.8
1929	11,941	31,885	4,100	4,899	52,825	5,157	9.8
1933	6,128	14,610	1,750	2,529	25,017	1,647	6.6
1935	8,010	21,700	2,600	2,831	35,141	2,243	6.4

EXPORT PROPORTIONS IN PARTICULAR INDUSTRIES

But when the crude figures are broken down, it is possible to perceive at once that some of our basic agricultural, mineral and heavy industries, as well as a great variety of newly developed light ones, are closely bound up with the existence of a world market. The following table shows the percentage of the product of certain industries exported.

	1914	*1929*	*1933*	*1936*
Tobacco, leaf	47.2	41.2	39.3	33.4
Cotton	62.6	54.8	65.6	56.1
Phosphate rock	70.5	41.0	45.0	52.8[1]
Meat products	10.5	10.2	6.6	2.0
Canned salmon	27.9	12.2	8.7	15.7[1]
Wheat	19.7	17.9	5.4	2.5
Fresh apples	5.5	15.5	13.0	9.9
Dried fruits	19.7	46.0	39.1	[2]
Canned fruits	22.3	22.8	20.8	[2]
Gum rosin	62.8	60.8	54.5	54.8
Refined mineral oils	37.9	19.6	11.9	9.9[1]
Copper, refined	54.8	36.2	41.0	32.1
Printing and book binding machinery	18.0	27.6	38.8	[2]
Office appliances	23.6	30.2	26.1	23.2[1]
Agricultural implements and machinery	[2]	25.1	29.8	10.6[1]
Automobiles	4.5	12.9	7.3	8.0
Aircraft and parts	[2]	11.6	30.2	29.2[1]

[1] Data for 1935. [2] Not recorded.

50. SOME VITAL IMPORTS OF THE U. S.

THE UNITED STATES NOT SELF-CONTAINED

As a nation we were not self-contained. The successful operation of our economy was closely linked with our ability to keep a vast quantity of goods moving regularly into the world market. Similarly, we were dependent upon the outside world for many of our necessaries. Indeed, the breakdown of international commercial relations might lead in some instances to real embarrassment to our industries and in others to complete collapse.

We prided ourselves upon the fact that we were a great agricultural nation. Yet we were compelled to import all the coffee, tea and cacao beans we used, as well as most of our sugar. Our automobile industry was the most powerful in its field in the world. Yet all the rubber we needed we were compelled to buy from distant Malaya and the Netherland East Indies — where, incidentally, we were at the mercy of British and Dutch monopolists. We required vast quantities of jute for bagging; that indispensable article came from British India.

SOME OUTSTANDING IMPORTS

As regards certain basic minerals, the same situation existed. In the manufacture of steel alone, we found it necessary to import some forty different commodities from more than fifty countries. For example, manganese came from Russia, Brazil, the Gold Coast and India; chrome ore from Russia; tungsten from China; vanadium ore from Peru. We were forced to get from outside sources all our nickel (from Canada); all our tin (from Malaya, the Netherland East Indies and Bolivia); much of our iron ore (from Cuba, Sweden, Spain and North Africa); and considerable parts of our antimony, pyrites, asbestos, ferrosilicon, asphalt, bauxite and graphite.

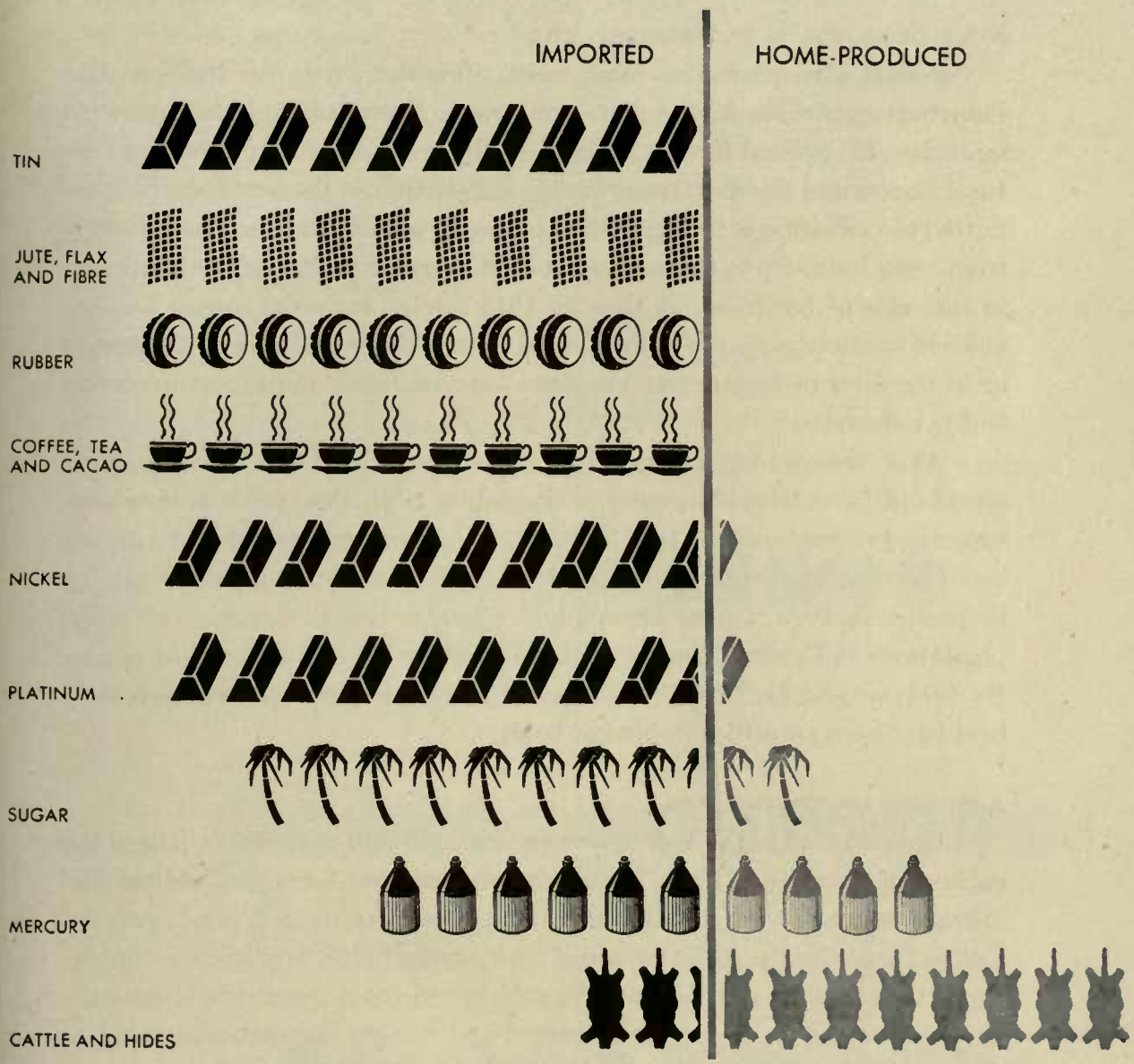
Many of our outstanding light industries were compelled to look beyond our borders for their raw materials. Silk was bought from Japan and China; foreign combing, clothing and carpet wools were needed to fill out inadequate local supplies and came from Argentina, New Zealand and Australia; long staple cotton had to be brought from Egypt and India; furs from Russia, Germany and Australia. Our newspapers would be in a bad way if the American-owned forests in Canada were not ready to furnish the huge quantities of newsprint and wood pulp being consumed daily.

VITAL IMPORTS OF MINERALS, METALS AND AGRICULTURAL WARES

The chart indicates the relations between imports and home production of some of these vital materials. A fuller list is as follows, the figure in each instance being the proportion of apparent consumption during 1925–29 that imports represented. In the field of minerals: asbestos, 100 per cent; graphite (amorphous), 71.8 per cent; graphite (crystalline), 80.6 per cent; iodine, 100 per cent; magnesite, 51.2 per cent; mica (sheet), 73.9 per cent; nitrates (Chilean), 100 per cent; potash, 86.5 per cent. In the field of metals: antimony, 100 per cent; bauxite, 40.2 per cent; chrome ore, 100 per cent; manganese, 92.1 per cent; nickel, 97.7 per cent; platinum, 95.1 per cent; tin, 100 per cent; tungsten, 76.1 per cent; vanadium, 63.1 per cent. In the field of agricultural wares, other than foods: camphor, 100 per cent; cattle hides, 23.1 per cent; coconuts, 100 per cent; flax fiber, 100 per cent; flax seed, 49.6 per cent; jute, 100 per cent; manila fiber, 100 per cent; rubber, 100 per cent; shellac, 100 per cent. In the field of foods: bananas, cacao beans, coffee, tea, each 100 per cent; sugar (cane and beet), 82.5 per cent.

We may get some notion of how large a part these vital imports played in the American economy by noting the values of the more important ones for the period 1926–30 (the figure given in each case is the annual average): coffee, $281,700,000; cane sugar, $207,300,000; crude rubber, $294,400,000; raw silk, $368,200,000; newsprint, $134,200,000; paper and manufactures, $151,200,000; paper base stocks, $114,500,000; tin, $88,900,000; furs and manufactures, $114,800,000; hides and skins, $118,000,000; burlaps, $72,300,000; wool and mohair, $78,800,000; cocoa, $45,500,000; flax, hemp and ramie manufactures, $44,300,000; tea, $27,000,000; nickel, $12,500,000.

SOME VITAL IMPORTS OF THE U. S.



Each symbol represents 10 per cent of apparent consumption 1925-1929

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51. FROM DEBTOR TO CREDITOR

A DEBTOR NATION UP TO THE WORLD WAR

Behind high protective tariff walls, after the Civil War had installed industrial capitalism in the places of power, American capitalism grew to maturity. It required foreign funds; and the great expansion of our agricultural staples and the movement of their surpluses into the world market permitted the servicing of foreign borrowings with whose assistance our railroads were being built. Up to the outbreak of the World War, indeed, we continued in this rôle of borrower; so that by 1914 foreign investors owned $4,500,000,000 worth of property in the United States, either in the form of factories or in the form of long-term securities in our railroads, mines and manufacturing industries.

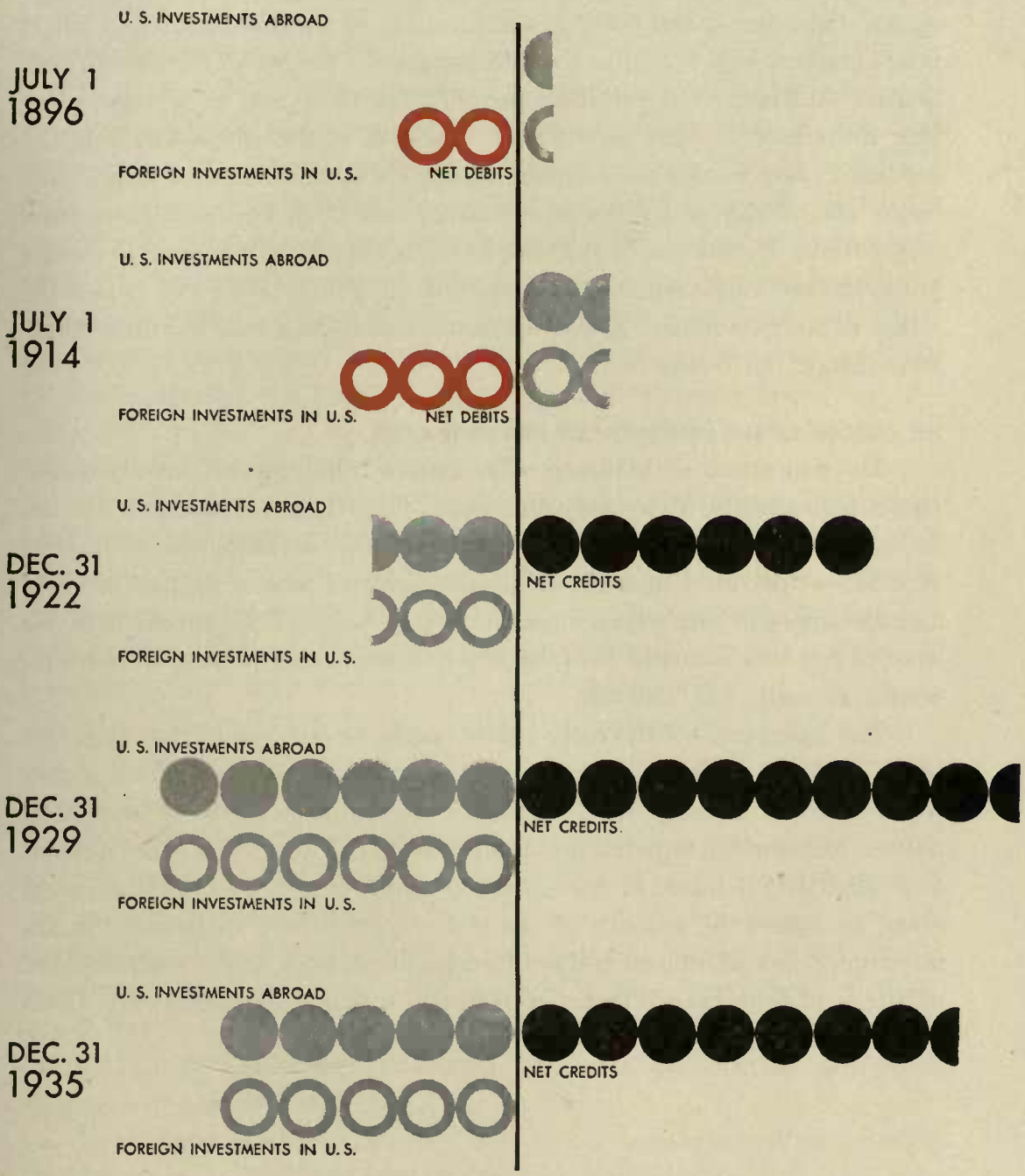
While this process was going on, American capital slowly was pushing outside of our national boundaries. Beginning with the 1880's, bold adventurers and promoters from the United States were appearing in Latin America and Canada. They built railroads in Canada and Peru; acquired mining properties in Peru, Cuba, Mexico and Canada; bought banana and sugar plantations in Central America and the West Indies and forests in Canada. By 1914, we had $1,500,000,000 invested in private properties and privately held long-term securities in foreign lands.

A CREDITOR NATION THEREAFTER

The outbreak of the World War and its continuance sharply changed the outlines of the picture. From being a debtor nation we became a creditor one. Foreign nations at war, notably the Allied powers, came to depend upon the United States for the maintenance of their armies in the field and the supplying of their civilian populations. We sold in enormous quantities munitions, implements of war, copper, iron, cotton and wheat. Our customers paid as they could: first by shipping gold; then by converting their properties and American securities into credits here; finally, by borrowing funds in our money markets. The House of Morgan became both the purchasing agent and the banker of Great Britain and France. Before we entered the war we found ourselves a creditor nation: we owned more properties and investments in foreign countries than foreigners possessed in the United States.

The decade of the 1920's saw the intensification of the whole round. To help in the rehabilitation of war-torn areas; to save Germany from complete

FROM DEBTOR TO CREDITOR



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Each circle represents 1 billion dollars American debits
Each disc represents 1 billion dollars American credit

collapse; to strengthen the hand of Mussolini in Italy; to extend our control over raw materials everywhere throughout the world — Americans freely opened their purses and aided in the financing of American-managed enterprises in every region and in the maintenance of foreign governments, particularly in Europe and South America. That is to say, on an average, every year from 1922 to 1929 saw the movement of $1,000,000,000 outside our borders to buy foreign mines, plantations and factories and to acquire the bonds and stocks of foreign governments and of government-guaranteed corporations. By the end of 1929, we had $15,400,000,000 invested in foreign properties and long-term securities; and this gigantic total did not include the claims of our government against foreign countries as a result of inter-Allied loans during the World War.

THE LESSONS OF THE DEPRESSION OF 1930 AND AFTER

The depression of 1930 and after affected our position only in detail. Direct investments, if anything, increased. There were repudiations and defaults for the most part only in the area of public investments. At the end of 1935, our private long-term investments abroad totaled $12,600,000,000; and foreigners in our country had property claims of $5,000,000,000. We were paying out annually $146,000,000 in interest and profits; we were receiving annually $521,000,000.

The experiences of the early 1930's taught us one lesson: that even in a period of sharp crisis foreign holdings were not seriously jeopardized if they were controlled directly. What, therefore, was going to be the characteristic pattern of American imperialism in the immediate future? It was not difficult to predict that it would be the extension of political control over backward areas, to assure the security of our stake overseas and to permit the uninterrupted flow of interest and profits from plantations, mines, railroads and utilities and from branch factories in South America, the Caribbean, Africa and the Far East.

52. GROWTH OF AMERICAN FOREIGN INVESTMENTS

DIRECT INVESTMENTS DEVELOP FIRST

In the beginning, as has been said, the extension of American financial power overseas was in the form of direct ownership in foreign raw materials and systems of communication. By 1900, our holdings abroad were just a little in excess of $500,000,000; and almost the entire amount was to be found in Canada, Mexico and the Caribbean. Only slowly were foreigners turning to the American money market for financing. The first flotation of a foreign security in New York was as late as 1899; and, even here, American bankers participated as a minority group in an international syndicate for the refinancing of a Mexican Government railroad bond issue.

APPEARANCE OF PORTFOLIO INVESTMENTS

During the 1900's, American finance capital was beginning to establish its sway over our economy. It was to be found dominating the destinies of large industrial capitalist units; also, it was beginning to participate in the financing of foreign governments. The Japanese Government raised funds in New York in 1904, 1905 and 1907; various Philippine issues were sold to American investors; so were the government and railroad bonds of Mexico, Canada and a number of European countries. In 1912, these American portfolio investments (bonds of foreign governments and government-guaranteed corporations and bonds and stocks of foreign-managed private corporations) totaled $207,500,000. But direct investments (bonds and stocks of American-managed corporations established in business abroad) were growing by leaps and bounds as well. In the space of little more than a decade they had increased to $1,695,000,000. In 1912, American corporations owned directly properties — land, railroads, utilities, shipping lines, real estate, oil fields, mines, banks, factories — worth $385,000,000 in Canada; $940,000,000 in Mexico and the Caribbean; $175,000,000 in South America; $180,000,000 in Europe; and $15,000,000 in Asia and the Pacific.

By the end of the 1920's, our portfolio investments had increased to the immense total of $8,238,700,000; and our direct investments to the total of $7,866,000,000. The following table shows the location of American private long-term investments abroad, by types and geographic areas, at the end of 1930 (in millions of dollars).

Area	*Direct*	*Portfolio*	*Total*
Canada	2,048.8	1,892.9	3,941.7
Mexico, Caribbean and Central America	2,002.9	562.0	2,564.9
South America	1,631.0	1,410.9	3,041.9
Europe	1,468.6	3,460.6	4,929.2
Asia and the Pacific	599.4	909.8	1,509.2
Africa	115.3	2.5	117.8
World Total	7,866.0	8,238.7	16,104.7

PORTFOLIO INVESTMENTS IN CANADA AND EUROPE

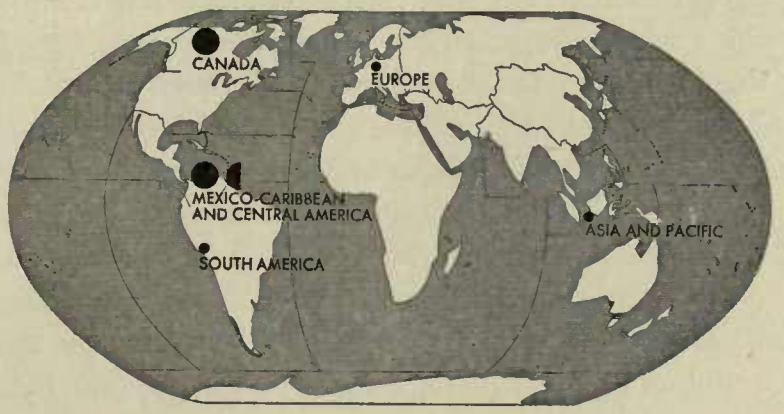
American individual investors, insurance companies, investment trusts and other financial institutions bought the bonds of the Canadian Dominion Government, the provincial governments, the municipalities and those of the government-guaranteed Canadian National Railways. In addition, they acquired the securities of Canadian-managed private corporations in the fields of manufactures, mining and smelting, paper and pulp and public utilities. By the end of 1930, portfolio investments totaled $1,892,900,000, of which $857,185,000 was in governments; $412,674,000 was in government-guaranteed corporations; and $623,047,000 in private enterprises managed by Canadians.

The comparison with our activities in European financing is instructive. By the end of 1930, Americans had a total of $3,460,600,000 in European portfolio investments. Of this, $1,396,110,000 was in national government bonds; $150,614,000 in provincial governments; $387,611,000 in municipal governments; $632,194,000 in government-guaranteed corporations; and $894,100,000 in private corporations. Germany led, with a total of $1,176,-988,000. France was second with $309,525,000. Italy was third with $279,-924,000.

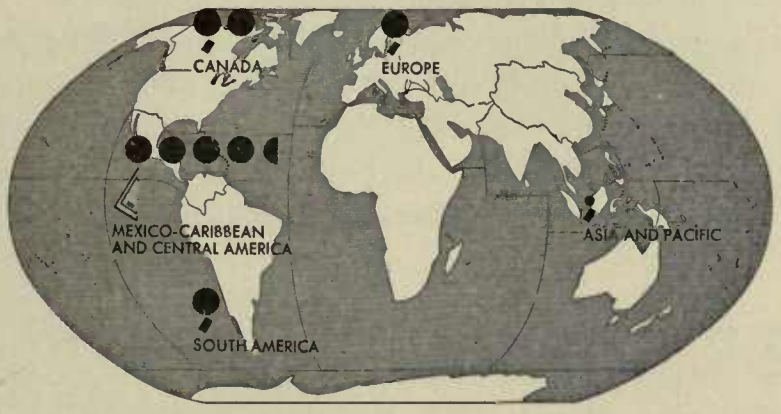
We were, in short, prepared to finance every foreign adventure and listen seriously to the extravagant promises of every foreign desperado. As a result, the depression took a heavy toll of the oversea portfolio investments. Whereas, at the end of 1930 their total stood at $8,238,700,000, by the end of 1935 they had shrunk to $4,800,000,000. There was every reason to believe that that lesson had been learned well.

GROWTH OF AMERICAN FOREIGN INVESTMENTS

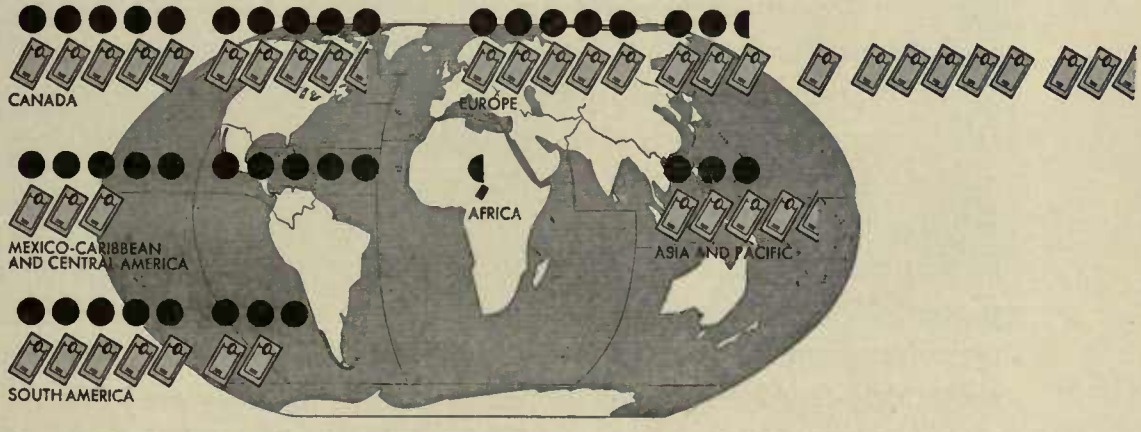
1900



1912



1930



● represents 200 million dollars direct investments

• represents less than 50 million dollars direct investments

▰ represents 200 million dollars portfolio investments

▬ represents less than 50 million dollars portfolio investments

53. AMERICAN DIRECT INVESTMENTS IN 1929

WHY CAPITAL WENT INTO DIRECT INVESTMENTS

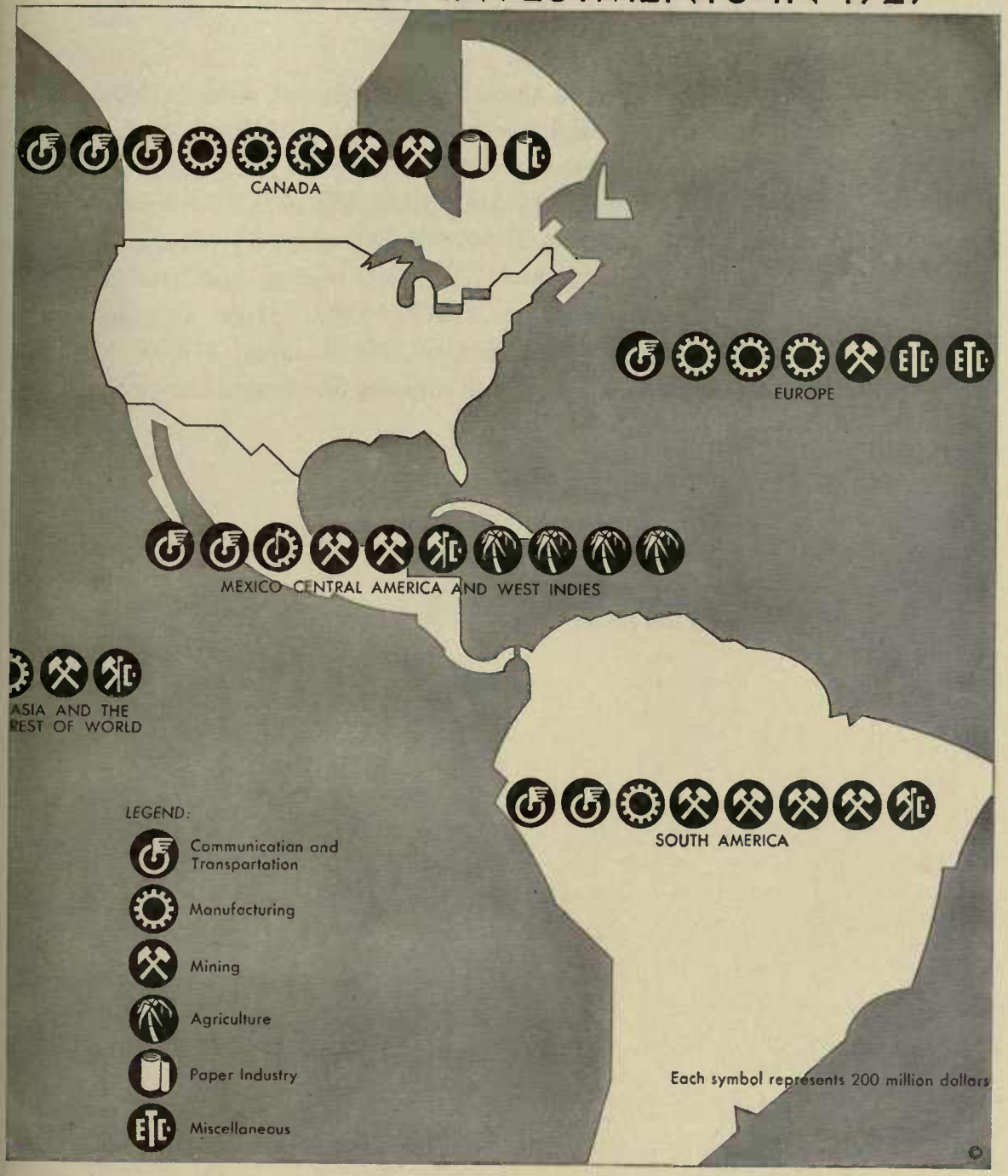
Americans poured capital abroad into foreign lands in direct investments for a variety of reasons. They were interested in assuring a constant flow of raw materials for basic American heavy industries. Hence, they bought and operated tin deposits in the Netherland East Indies and Bolivia; copper mines in Chile, Peru and South Africa; nickel and asbestos mines in Canada; iron mines in Cuba; petroleum fields in Mexico, Venezuela, Colombia, Iraq and Roumania; and nitrate deposits in Chile. Our newspapers required wood pulp and our construction industries lumber: American capital, therefore, moved into the Great North Woods of Canada. Americans possessed rubber plantations in Java, British Malaya, Brazil and Liberia; sugar fields in Cuba and the Dominican Republic; tea plantations in Ceylon; jute fields and mills in India; banana plantations in Central America; and great cotton farms and cattle ranches in Mexico, Brazil, and Argentina.

American capital built, owned and managed directly railroads in Mexico and the Caribbean, in Canada and South America. American capital erected public utility enterprises — gas and electric power and light, telephones, street railways, radio stations — in Cuba, in Spain, in far-away China. American-owned ships were to be found in the Indian Ocean and in the China Sea.

THE BUILDING OF BRANCH PLANTS

We erected branch plants abroad or bought controlling interests in foreign manufacturing enterprise. Why was this? The spread of economic nationalism throughout the world during the 1920's made it imperative that our capital tunnel underneath the high tariff walls put up everywhere. Other reasons were: nearness to basic raw materials and consumers' markets; cheaper labor costs; the utilization of special local skills; access to monopoly colonial markets. The result was that in 1932 American manufacturers of automotive vehicles had seventy-six foreign units; of drugs and chemicals, seventy-six foreign units; of radios and phonographs, thirty-one foreign units; of telephones, thirty-two foreign units; of cereal products, twenty foreign units; of agricultural implements, ten foreign units; of heating and ventilating equipment, forty-four foreign units; of petroleum refining, sixty-one foreign units; of rubber manufactures, forty-one foreign units. An incomplete count showed

AMERICAN DIRECT INVESTMENTS IN 1929



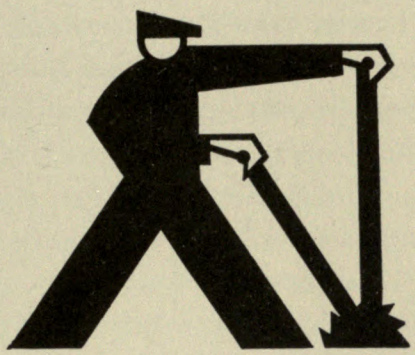
in the field of manufactures alone 1,520 such branch and subsidiary plants employing more than a quarter of a million foreign workers.

DIRECT INVESTMENTS BY GROUPS

In addition, Americans owned abroad selling agencies, office buildings, hotels, moving picture theaters and banks. At the end of 1929, all the direct investments and their values were distributed among the following groups: manufacturing, $1,534,351,000; sales organizations, $362,000,000; communication and transportation properties, $1,609,800,000; oil lands, refineries and petroleum distribution agencies, $1,117,900,000; mining and smelting, $1,185,200,000; agricultural operations, $874,500,000; paper and pulp, $278,900,000; general merchandising, $80,000,000; banking, $75,000,000; motion picture theaters, $42,000,000; ocean shipping and freight forwarding, $60,000,000; and real estate, $30,000,000.

Part Three

CAPITALISM IN CRISIS



54. THE CHANGING CLASS COMPOSITION

THE EARLY FLUID CLASS RELATIONS OF AMERICAN SOCIETY

By the 1930's the American world had changed markedly from its aspects in the years immediately following the end of the Civil War. In the earlier period it was characterized by real fluidity. Dazzling opportunities for enterprise were appearing at every hand: by the employment of ingenuity, shrewdness and thrift, little men were able to pull themselves up by their own bootstraps. They could become small manufacturers and sometimes big ones. They could become free farmers and sometimes landlords assured by rent income of a secure old age. They could become independent merchants; or skilled workers for whose services there always seemed to exist job opportunities. Of course, there never was absent an underprivileged lowest group made up of unskilled day laborers, Negro sharecroppers and the latest immigrant arrivals. But while the organization of production was dominated by industrial capitalism, while American agricultural surpluses provided the foodstuffs and fibers of an expanding world, while technological progress was still at a low level: then, movement from class to class in an upward scale was a reality. America, from 1865 to the outbreak of the World War, for many persons in the population, was the realization of the petty bourgeois paradise. Opportunity did exist.

THE FREEZING CLASS RELATIONS

The advance of monopoly capitalism and the decline of American agriculture, like the movement of a glacial field, had the effect of freezing class relations. It no longer helped the little man to work long hours and live an abstemious existence; with a single chilling touch monopoly could snuff out the laborious achievement of a lifetime. More and more petty enterprisers, whether in industrial production, trade or agriculture, were compelled to give up the unequal struggle and become small-salaried employees or tenant farmers. The wage-workers, in their turn, as a result of growing mechanization, were being reduced permanently to the status of the unskilled. Monopoly capitalism, operated in the interests of finance; an agriculture weighed down by heavy fixed costs and unable to compete in world markets with new lands and government-subsidized farming everywhere; a contracting foreign trade; a working class, compelled by speed-up and stretch-out and the presence of a constant pool of unemployables to assume an inferior status: such

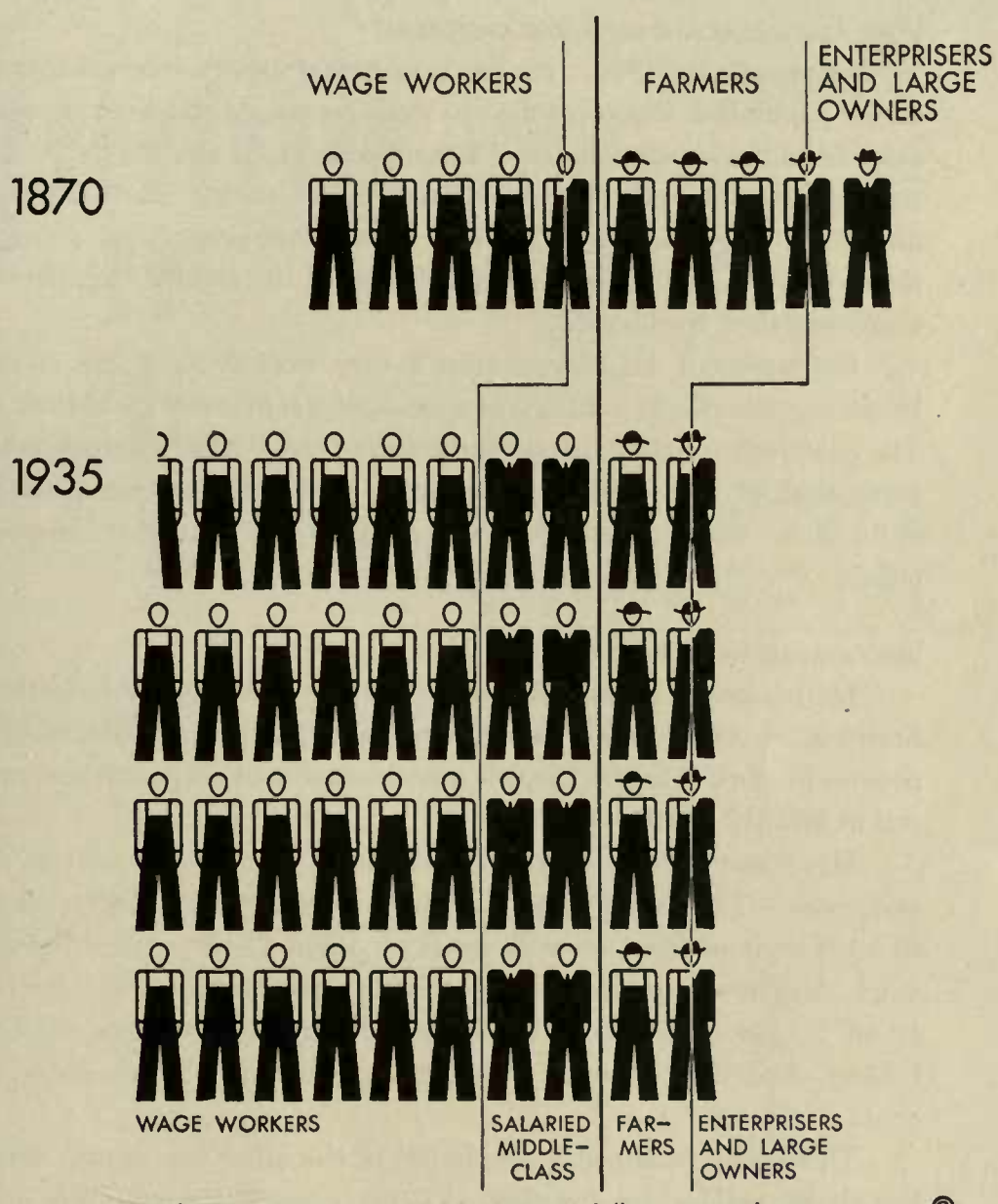
were the forces that were accountable for the creation of a class society whose outlines by the 1930's were constantly becoming sharper and sharper. The American world was dividing into two groups: the owners of the means of production and those who worked for them. There was no longer a broad middle plain that connected the two: there was an unbridgeable chasm. Opportunity no longer existed; in its place there stood insecurity.

CLASS DISTRIBUTIONS IN 1870 AND 1935

The chart shows these amazing changes. According to Lewis Corey's estimates, in 1870, 44.8 per cent of the American population gainfully employed consisted of industrial and other wage-workers; by 1935, this group had grown to 59.3 per cent. The farming group had shrunk from 36 per cent to 14.5 per cent. The so-called middle class had undergone a curious transformation. Whereas in 1870 it had consisted of 18.4 per cent of the population at work, with 4.8 per cent salaried-workers and 13.6 per cent independent enterprisers; in 1935 this middle class made up 25.5 per cent of the population at work, but now 20.2 per cent were salaried employees and only 5.3 per cent were individual enterprisers. The chart draws a broad line between those working for wages and salaries and the self-employed (putting all the farmers in the latter category). In 1870, the wage- and salaried-workers made up just about half of the working population; in 1935, about four-fifths.

The big enterprisers in 1870 made up only 0.8 per cent of the working population and in 1935 only 0.7 per cent.

THE CHANGING CLASS COMPOSITION



Each man represents 1,300,000 gainfully occupied men

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55. DISTRIBUTION OF CORPORATE OWNERSHIP IN 1928

WERE ALL AMERICANS BECOMING CAPITALISTS?

Americans, by 1930, were living in a class society. The great proportion of the population was compelled to work for wages and salaries; and movement from the insecure status of the employed to the relatively secure one of self-employment had virtually ceased. Even among these self-employed, many — a large number of farmers, small enterprisers and young professional people — existed in constant danger of the sudden elimination of the sources of their livelihood.

But were not Americans, even if they worked for wages and salaries, becoming partners in industry as a result of the investment of their savings? The confident assertion, particularly during the 1920's, was frequently being made that all Americans were becoming capitalists because of the growing diffusion of stock ownership in our corporations. The chart disproves the claim.

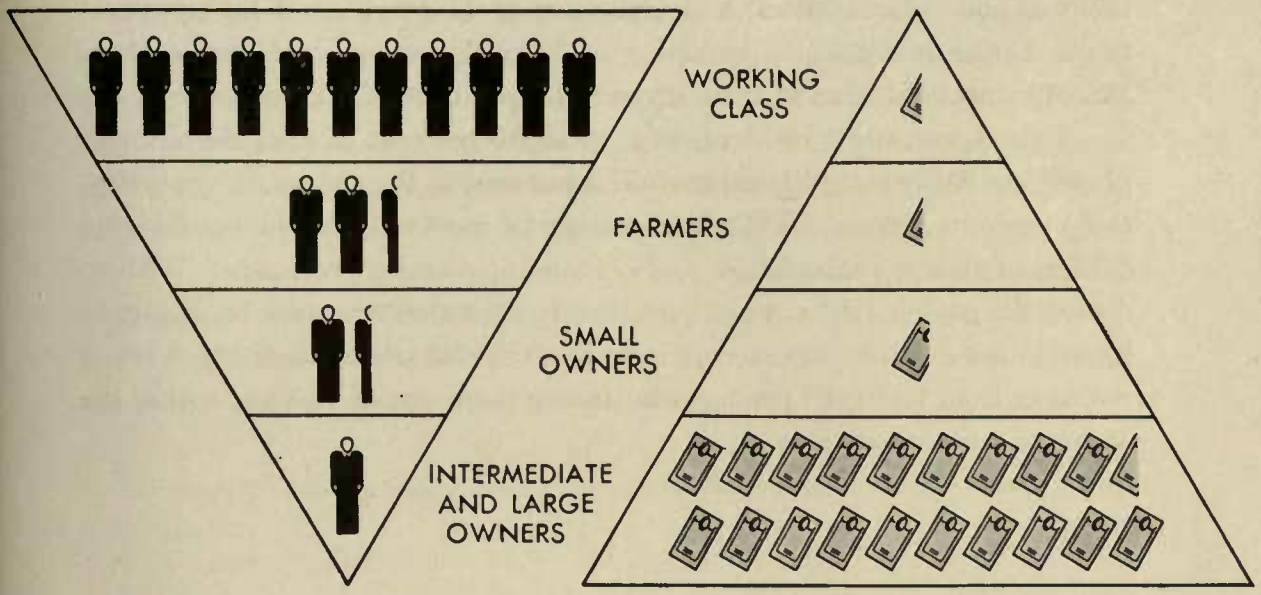
WHO OWNED THE CORPORATIONS?

Lewis Corey's estimates indicate that in 1928 there were in the United States 3,750,000 owners of stock shares among the whole total of 47,000,000 persons at work. These 3,750,000 Americans owned corporate properties valued at $62,512,000,000.

Mr. Corey calculated that in the most numerous group of gainfully employed — 32,500,000 persons — there were 1,000,000 stockholders. Thus, 68.5 per cent of those at work made up about 27 per cent of the owners of stock. And how large a share of corporate property could they lay claim to? In all, 1.2 per cent! Among the 7,400,000 farmers there were 600,000 shareholders. And their share of corporate capital ownership consisted of 1 per cent!

There thus remained in the hands of the other two groups depicted on the chart, making up together 15.9 per cent of the gainfully employed, ownership in corporate property consisting of 97.8 per cent of the total. These two groups Mr. Corey calls the "bourgeoisie," and he divides them into three divisions: "the lower bourgeoisie," whose incomes are below $3,000; "the intermediate bourgeoisie," whose incomes fall between $3,000 and $10,000; and the "upper bourgeoisie," whose incomes are in excess of $10,000. Mr. Corey has estimated that the stock-ownership of these three divisions in 1928

DISTRIBUTION OF CORPORATE OWNERSHIP IN 1928



Each man represents 3 million gainfully employed people
Each certificate represents 3 billion dollars worth of stock owned

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was as follows. Lower bourgeoisie, consisting of 4,300,000 persons, had among them 1,000,000 stockholders; and these owned 3.5 per cent of all corporate stock. Intermediate bourgeoisie, consisting of 2,880,000 persons, had among them 825,000 stockholders; and these owned 17 per cent of all corporate stock. Upper bourgeoisie, consisting of 382,000 persons, had among them 325,000 stockholders; and these owned 77.3 per cent of all corporate stock.

Indeed, according to Mr. Corey, these 0.8 per cent of the gainfully employed, probably owned more than 77.3 per cent of the shares; it was nearer to 80 per cent because of "underreporting [of incomes] and the tax-dodging devices of trusts, partnerships and personal investment companies." Thus, during the golden 1920's, when presumably all Americans were beginning to figure in the destinies of our corporate life, the real participants consisted of not more than 1,150,000 persons who among them owned 94.3 per cent of the worth of our corporations.

56. DISTRIBUTION OF INCOME

DISTRIBUTION OF INCOME BY CLASSES

It may be argued, however, that the way one makes a living and the amount of shares in corporate stock one possesses do not tell the whole story. The real test of one's class status is to be found in the size of family income. Studies of family incomes only further confirm the analysis presented here: that of a widening fault in the structure of our society with a small privileged group sharply separated from a large underprivileged one.

The following table from Lewis Corey's *The Decline of American Capitalism* (p. 312) presents one such study of the distribution of national income in 1928. It is based upon Mr. Corey's own class breakdown. The total income consists of money income plus business savings.

Class	*No. in class*	*Per cent*	*Money income (millions)*	*Per cent*	*Average income*	*Total income (millions)*	*Per cent*
Working class:							
Wage-workers..	27,750,000	58.5	$32,985	37.4	$1,189	$32,985	34.3
Clerical.....	4,750,000	10.0	6,412	7.3	1,350	6,412	6.7
Farmers.....	7,400,000	15.6	6,830	7.7	923	6,830	7.1
Bourgeoisie:							
Lower.....	4,300,000	9.0	11,075	12.6	2,575	12,675	13.2
Intermediate...	2,880,000	6.1	14,700	16.2	5,110	16,300	16.9
Upper.....	382,241	0.8	16,198	18.4	42,400	20,998	21.8
Total.....	47,462,241	100.0	$88,200	100.0	$1,858	$96,200	100.0

DISTRIBUTION OF INCOME BY FAMILY INCOME GROUPS

In 1934, the Brookings Institution presented its study of American incomes in 1929. The chart shows the distribution of this income by family groups and income groups. It should be said that in the "family groups" the Brookings Institution included both families of two or more persons and unattached individuals (including one-person families). For the purposes of proving our point, we may segregate the actual families from the total of all spending units and somewhat simplify the table of the report itself. We get the following result as an analysis of family incomes in 1929.

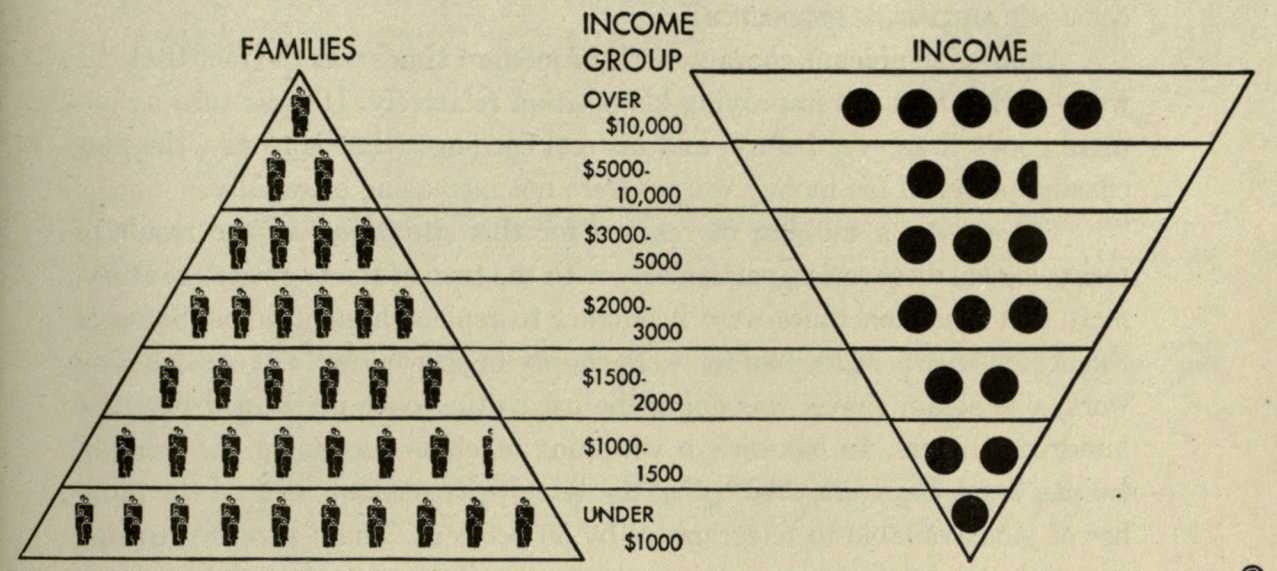
	FAMILIES		INCOME	
Income group	*In thousands*	*Per cent*	*In millions*	*Per cent*
Under $1,000	5,899	21.5	$2,900	3.8
$1,000 to $2,000	10,455	38.0	15,364	19.9
$2,000 to $3,000	5,192	18.9	12,586	16.3
$3,000 to $5,000	3,672	13.4	13,866	18.0
$5,000 to $10,000	1,625	5.9	10,820	14.0
Over $10,000	631	2.3	21,580	28.0
Total	27,474	100.0	$77,116	100.0

THE UNDERPRIVILEGED FAMILY GROUPS

From the above table it will be seen that the heaviest family concentration in 1929 was to be found in the $1,000 to $2,000 group. The most frequent income was in the neighborhood of $1,300 for a family of four; and this calculation agreed with Mr. Corey's for the average income of industrial and clerical wage-workers in 1928. At one end of the scale, over 42 per cent of the families in the United States received apiece less than $1,500; together, they got but 13 per cent of the total for the country's family population. At the other end of the scale were the 0.23 per cent of all the families receiving apiece $50,000 or more; and these, together, got 14.8 per cent of the total for the country's family population.

An official of the Department of Agriculture estimated that during this same decade of the 1920's an American family required $2,500 annually in order to live in decency, health and comfort. In 1929, 71.2 per cent of America's families were receiving an annual income less than this amount.

DISTRIBUTION OF INCOME



Each symbol represents 1 million families (including unattached individuals)

Each symbol represents 5 billion dollars

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57. OUTPUT AND EARNINGS IN MANUFACTURING INDUSTRIES

GROWING AUTOMATIC PRODUCTION

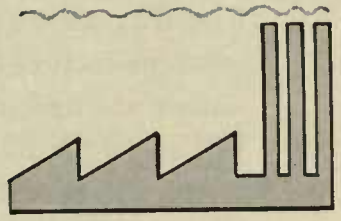
Another significant characteristic of modern times was the fact that the wage-worker was not improving his position relatively. He was turning out more goods than ever before; and his real earnings (that is to say, the purchasing power of his money wages) were not increasing as rapidly.

There were a number of reasons for this situation. As the result of technological discoveries, particularly with the turn of the twentieth century, more and more machines were beginning to replace human labor. Some of the achievements of technology were simply breath-taking. On construction work, one steam shovel was doing the excavating once performed by three hundred laborers. In bakeries, a wrapping machine was doing the work of twenty hand wrappers. The use of the teletypewriter had reduced the number of jobs available to telegraphers by 50 per cent. Thanks to the growing use of electric power, automatic machinery was becoming the rule in factory and non-factory production. In the silk industry, all processes were being performed mechanically; in the steel industry, coal was being stoked by machines and finished steel turned out without the assistance of human hands; the same was virtually true of automobile manufacture, bottle blowing, a hundred and one different industries and trades.

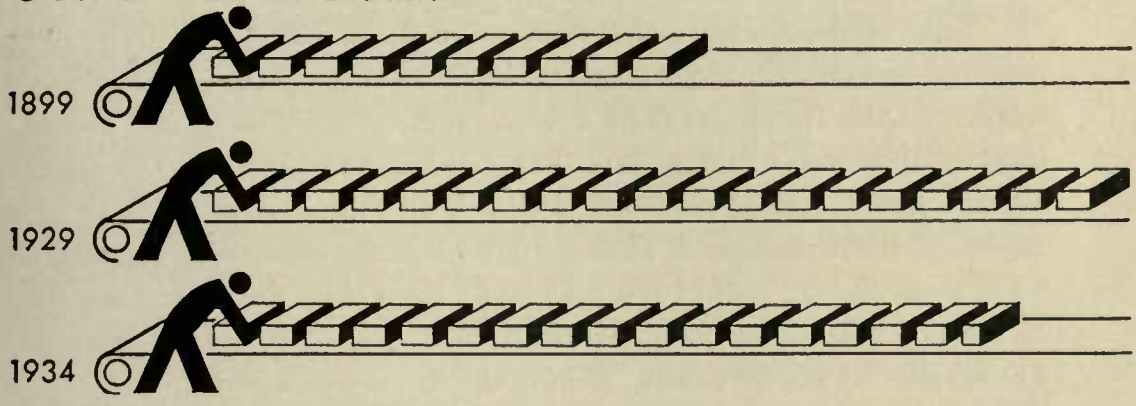
REASONS FOR GREATER PRODUCTIVITY PER WORKER

The use of machines meant greater productivity per worker. Productivity was further advanced through what has come to be called Taylorism, or scientific management. In factories, engineers made elaborate studies of the human body at work, of the movement of materials in various stages of fabrication, of the placing of machines. By eliminating needless steps; by re-designing plant layouts; by re-routing materials; by the careful planning of production; by employing material-handling devices (conveyor belts, assembly lines): these engineers were able to reduce waste motions at a number of points and in this way hasten the processes of production. This was laudable. What was not was the inhuman speeding-up of the machines and the employment of the stretch-out. That is, the number of spindles one worker was to tend in a cotton textile plant was increased; the number of furnaces in a steel works to be watched by one fireman was doubled, and the

OUTPUT AND EARNINGS
IN MANUFACTURING INDUSTRIES

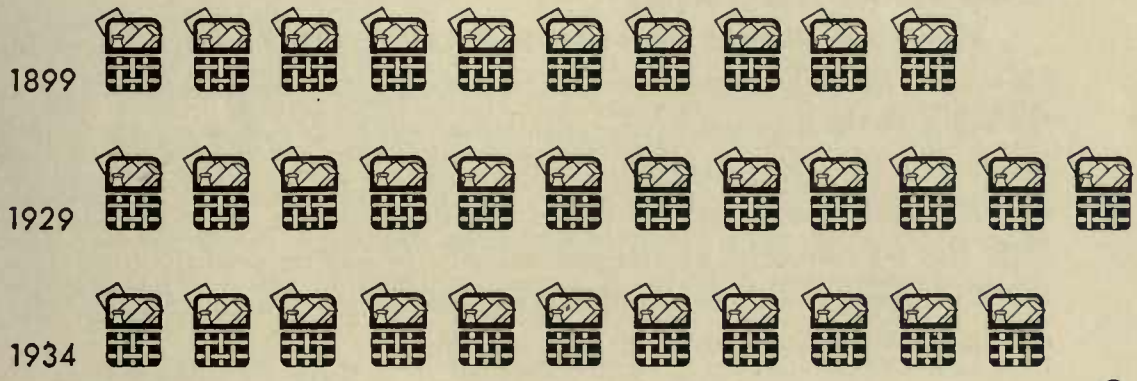


OUTPUT PER WORKER



Each crate represents 10% of 1899 volume of output

REAL EARNINGS PER WEEK WHEN FULLY EMPLOYED



Each basket represents 10% of 1899 earnings

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like. Why could employers do this? The percentage of unskilled workers in the mass-production industries was steadily increasing. Organization into trade unions was difficult and was resisted by terrorism and wholesale discharges. The speed-up and stretch-out became common characteristics of capitalist production in the monopoly stage; only young and hardy workers could bear up under the physical and mental strains; and modern industry was making workers old and unwanted at forty years of age.

These tendencies have been reflected in the greater productivity of the American worker. The chart shows that in 1929 each worker in manufactures was responsible for almost twice as many units of goods as he had produced in 1899. There was a falling off in 1934; but this was due to the fact that the average hours worked per week declined. In fact, one of the interesting aspects of the depression of 1930 and after was the advance in productivity when measured by output per man-hour. Thus, the output per man-hour (in terms of indexes) in 1929, was 100; in 1932, it was 118; in 1934, it was 125. The reasons are not far to seek. During the depression, speed-up and stretch-out were pushed even further; only the most efficient establishments could continue to operate; and what new capital plants were erected, in an effort to save on labor costs, were outfitted with the latest labor-saving devices.

SLOWER INCREASE IN REAL WAGES

Meanwhile, although the worker from 1899 to 1929 was almost doubling his output, his real earnings were not increasing more than one-fifth. During the midst of the depression, his output was still 67 per cent greater than it had been in 1899; his real earnings only 10 per cent greater. The wage-earner, at work, in the past thirty-five years, had improved his individual status a little. But because of his greater productivity, he had reduced the total number of job opportunities in manufacturing and the heavy industries generally, and had lowered the span of his own working life.

58. THE WORKER'S DAY

EARLY TRADE UNION FAILURES

Before the Civil War, production in the United States was still largely at the merchant capitalist stage of organization. It was small wonder, therefore, that the workers should fall under the sway of a petty bourgeois leadership and ideology that held out the promise of escape through the realization of the lower middle-class ideals of free lands and producers' coöperatives. The organization of workers was largely on a local basis; and such struggles as these unions engaged in, because of their inadequate structure and leadership, were unsuccessful. The chief immediate demand was the ten-hour day.

The workers came out of the Civil War with a new sense of power. Industrial capitalism had appeared on the stage, maturing virtually overnight. National labor unions began to arise; strikes and the boycott were used successfully. By 1873, as a result, there were some 500,000 trade unionists in the ranks of organized labor. But again the leadership dissipated its energies in reformism, this time entering into national politics. Too, the setting in of depression during the 1870's disheartened the rank and file. Their unions were incapable of weathering hard times, they lost strikes and the membership dwindled. Organized labor claimed only 50,000 unionists in 1878.

THE KNIGHTS OF LABOR

A new organization, the Knights of Labor, now emerged to cope with some of these difficulties. To escape the employers' black list, it employed secrecy; to prevent strikebreaking, it sought to band all workers together in general unions. Locals were formed in industrial communities to which, more and more, were admitted all workers without close attention to their crafts, sex and color. These locals — called assemblies — were joined together in a General Assembly in 1878 and secrecy was abandoned.

The Knights of Labor grew amazingly during the 1880's. But its structure embodied a fatal weakness. Its leadership was still petty bourgeois tactically and ideologically. It frowned on the strike and boycott; it advocated arbitration in industrial disputes; and it encouraged the development of producers' coöperatives. Eschewing politics, it sought to bring pressure to bear on the old-line parties in furtherance of its program of inflation, income taxes, abolition of the national banks and government-ownership of railroads and telegraphs, among other demands. The rank and file, however,

was militant. It wanted to fight for the eight-hour day and for better wages. The Knights of Labor, often therefore without proper preparation by its leaders, engaged in and won strikes, particularly in the 1880's.

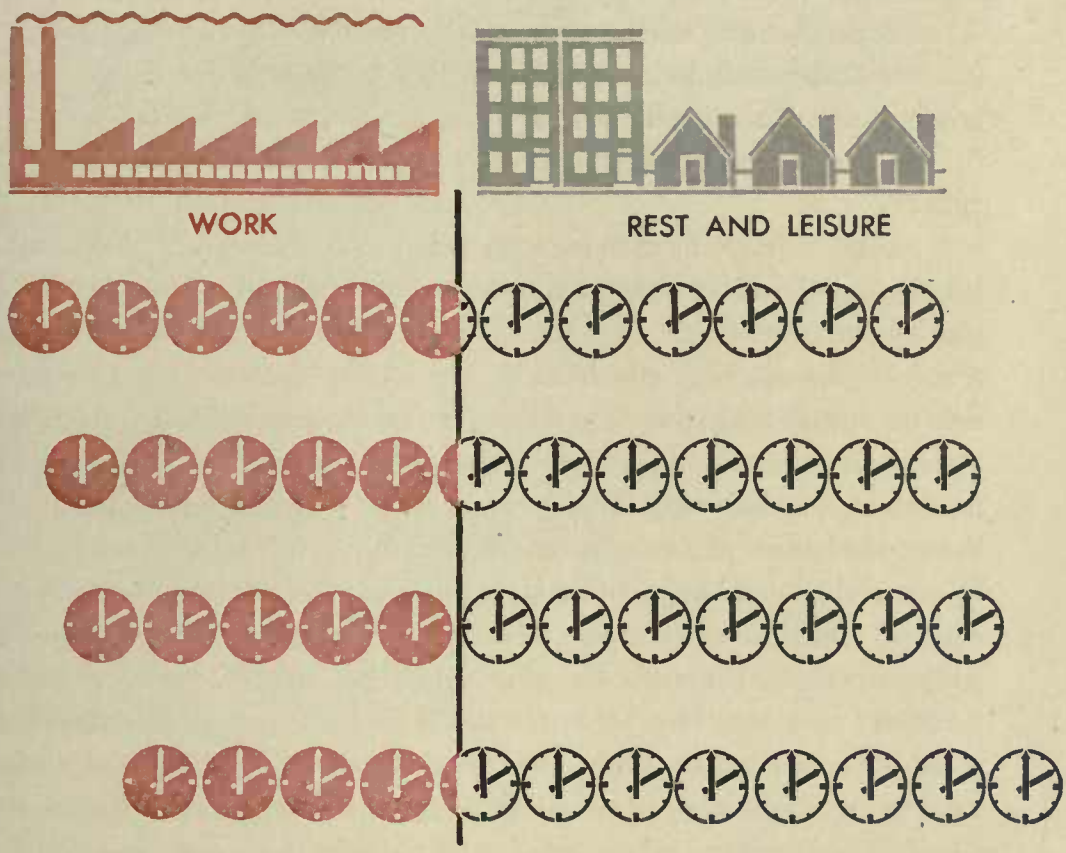
The result was that the membership shot up by leaps and bounds. In 1883, it stood at 52,000; in 1886, at 700,000. Now the rank and file of the Knights of Labor pushed to achieve an important immediate demand: the eight-hour day. On the first of May, 1886, general demonstrations took place throughout the country in which some 350,000 trade unionists participated. As a result of one of the strikes taking place at this time, in Chicago, a bomb was thrown on May 4 in Haymarket Square. Anarchists were blamed for the outrage; and while no case was proved against the eight defendants, four of them were hanged. The Knights of Labor, caught in the whipped-up popular hysteria, suffered. Already decaying internally, it now began to lose membership fast.

The reasons for the disintegration of the Knights were not far to seek. Its leadership had proved its incapacity for supporting the rank-and-file membership in labor struggles. It had continued to pursue its own reformist social and political program to the neglect of the forging of weapons to meet those of the employers — the lockouts, the black list, the iron-clad oath (comparable to the later-day yellow dog contract, under which workers pledged themselves not to join trade unions). Its producers' coöperatives began to fail. It could not hold the allegiance of the skilled workers, who felt they were dissipating their strength when they bore the brunt of the fighting in industrial disputes. The skilled crafts began to fall away and to join the Federation of Organized Trades and Labor Unions. The Knights of Labor became a shadow of its former self, and by the 1890's it was virtually finished.

THE WORKER'S DAY

Ineffectual trade-union organization and inability to capitalize initial successes were some of the reasons why workers were able to reduce the length of their working day only slowly. As the chart shows, in the manufacturing and mechanical industries, the average normal day stood at 11.5 hours in 1850 and at 10.5 hours in 1870. Gradually it was shortened, largely as a result of the successful struggles of the craft unions. In 1900, the average was 9.8 hours; in 1930, 8.3 hours.

THE WORKER'S DAY
IN MANUFACTURING AND MECHANICAL ESTABLISHMENTS



Each clock face represents 2 hours of the day

©

59. THE NEGRO MOVES NORTH

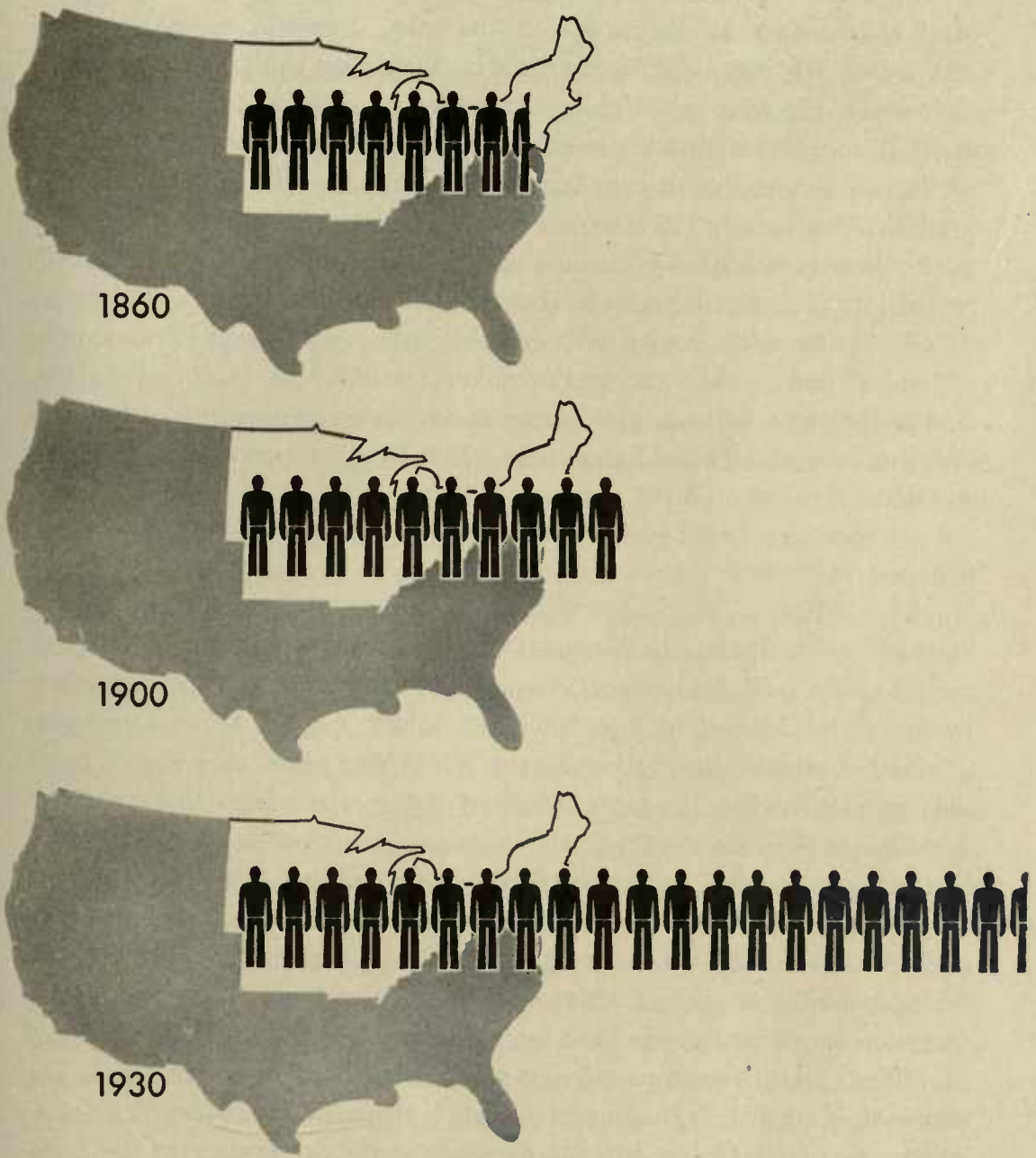
THE AMERICAN FEDERATION OF LABOR

To protect the craft workers and make it possible for them to win immediate demands in an era marking the upsurge of American capitalism, new structural forms and a new ideology were necessary. These were furnished by the Federation of Organized Trades and Labor Unions, appearing in 1881.

Skilled workers once more were urged to form locals in their crafts and then national bodies. These national unions were to be vested with full authority over their locals: they were to build up the union funds on the basis of a regular dues-paying membership; they were to create benefit-systems to tide the membership over the temporary emergencies of unemployment and illness and to provide for old-age care and burial; and they were to carry on formal negotiations with employers. A fresh working-class leadership — following the banner of Samuel Gompers and Adolph Strasser — now sprang up. It was realistic and opportunistic; it put aside the dream of petty-bourgeois equality and the easy panaceas of currency reform, free lands and producers' coöperatives. It preached the single doctrine of craft union solidarity; a solidarity that was to achieve for the skilled workers job monopolies with resulting better wages, lower hours and improved conditions of work. The workers' weapons were to be carefully-prepared and skilfully-fought strikes. Their objectives were to be collective bargaining, the recognition of the union as the representative of the workers, the writing of trade agreements with employers and the closed shop.

In 1886 twelve national trade unions, having a membership of 140,000, banded together and changed the name of the Federation of Organized Trades and Labor Unions to that of the American Federation of Labor. From that year until he died in 1924, the A. F. of L. was lead by Samuel Gompers. And up to the 1930's, the supremacy of the A. F. of L. was never really challenged from without nor were its purposes ever seriously questioned from within. While it claimed to be only a federation of autonomous national unions, the A. F. of L., through its top bureaucracy, was able to keep a tight rein on the constituent membership. It did the organizing in new fields; it revoked the charters of recalcitrant national unions; in political campaigns it occasionally threw its strength to the side of its "friends." It thus became a real power.

THE NEGRO MOVES NORTH



Each Negro represents 1 per cent of all Negroes in U. S.

©

THE SUCCESSES OF THE A. F. OF L.

Operating on the basis of this principle of "pure and simple trade unionism," the A. F. of L. and its constituent unions met with signal successes. They went only into the crafts to organize the skilled workers; they planned their strikes carefully and winning them they converted the craft unions into monopolist organizations. Initiation fees were made high, long apprenticeship periods for new members were imposed, annual dues were raised: all for the purpose of preventing the existence within the crafts of labor reserves which might threaten the hard-won trade agreements. These unions were slow in organizing women and Negroes. They left the unskilled trades untouched.

The policy of job opportunism could continue to bear fruit as long as technology had not fully matured to convert all skilled into unskilled workers. And as long as American capitalism was advancing so rapidly that in many industries there really could exist more jobs than there were workers available to fill them.

NEGRO MIGRATIONS

The A. F. of L.'s refusal to organize the Negroes or admit them into the craft unions resulted in the Negroes paying back white unionists in their own coin. The years since emancipation saw first a slow and then a quick urbanization of the blacks. In the 1880's and 1890's Negroes began to migrate gradually to the southern cities. In the World War years, they moved north in large numbers into the great industrial centers where labor shortages were developing. Negroes went into the mass-production industries as common laborers: automobiles, rubber, steel, coal, meat packing. After the war, they stayed on in the North, forming a labor reserve from which strikebreakers could be drawn and which could constantly be tapped to beat down the demands of the organized white workers. In the 1930's, there were large communities of Negroes in New York, Chicago, Philadelphia, Detroit and Cleveland, for the most part living on the ragged edge of starvation. The unorganized, unskilled Negro was a symbol; the blindness of the A. F. of L. bureaucracy to its import helps to account for the appearance of the Committee for Industrial Organization in 1935.

60. TRADE UNION MEMBERSHIP

GROWTH OF THE A. F. OF L.

From the 1890's to the end of the World War period, American trade unionism grew in numbers and significance. At the turn of the twentieth century, American unions claimed 868,500 members; in 1914, 2,716,000; in 1920, 5,110,800. Then a slow decay began to manifest itself. By 1922, the trade unions had lost a million members; by 1929, they had a total of only four million out of almost twelve times as many gainfully employed persons in the United States. In 1932, the membership stood at less than three million.

The chief strength of American trade unionism lay in the crafts. The only important groups of organized workers outside of the A. F. of L. were those engaged in railroading. For the most part these, too, were organized on craft lines. In 1932, there were seventeen craft unions in this field with 600,000 members. In the A. F. of L. itself, in the early 1930's, when trade unionism was at its lowest in recent years, there were to be found some one hundred and ten national unions, of which more than ninety were built upon craft lines; only fifteen were industrial unions. The A. F. of L. had met with its greatest successes in the building trades: in these it had about 800,000 members who were scattered among thirteen craft unions. In the clothing industries there were some 200,000 unionists. In this field industrial unionism was farthest advanced. The International Ladies' Garment Workers' Union (an A. F. of L. affiliate) had 40,000 members. The Amalgamated Clothing Workers of America (an independent union covering the men's clothing industry) had 120,000 members. Other areas where the A. F. of L.'s organizational activities had met with a fair degree of success were printing and publishing, 150,000 members in eight craft unions; coal mining, 150,000 members in one industrial union; street railway transportation, 80,000 members in one craft union; teamsters, 80,000 members in one craft union; longshoremen, 27,000 members in one craft union; musicians, 70,000 members in one craft union; theatrical stage employees and moving-picture-machine operators, 24,000 members in one craft union; barbers, 40,000 in one craft union; railway and steamship clerks, 60,000 in one craft union.

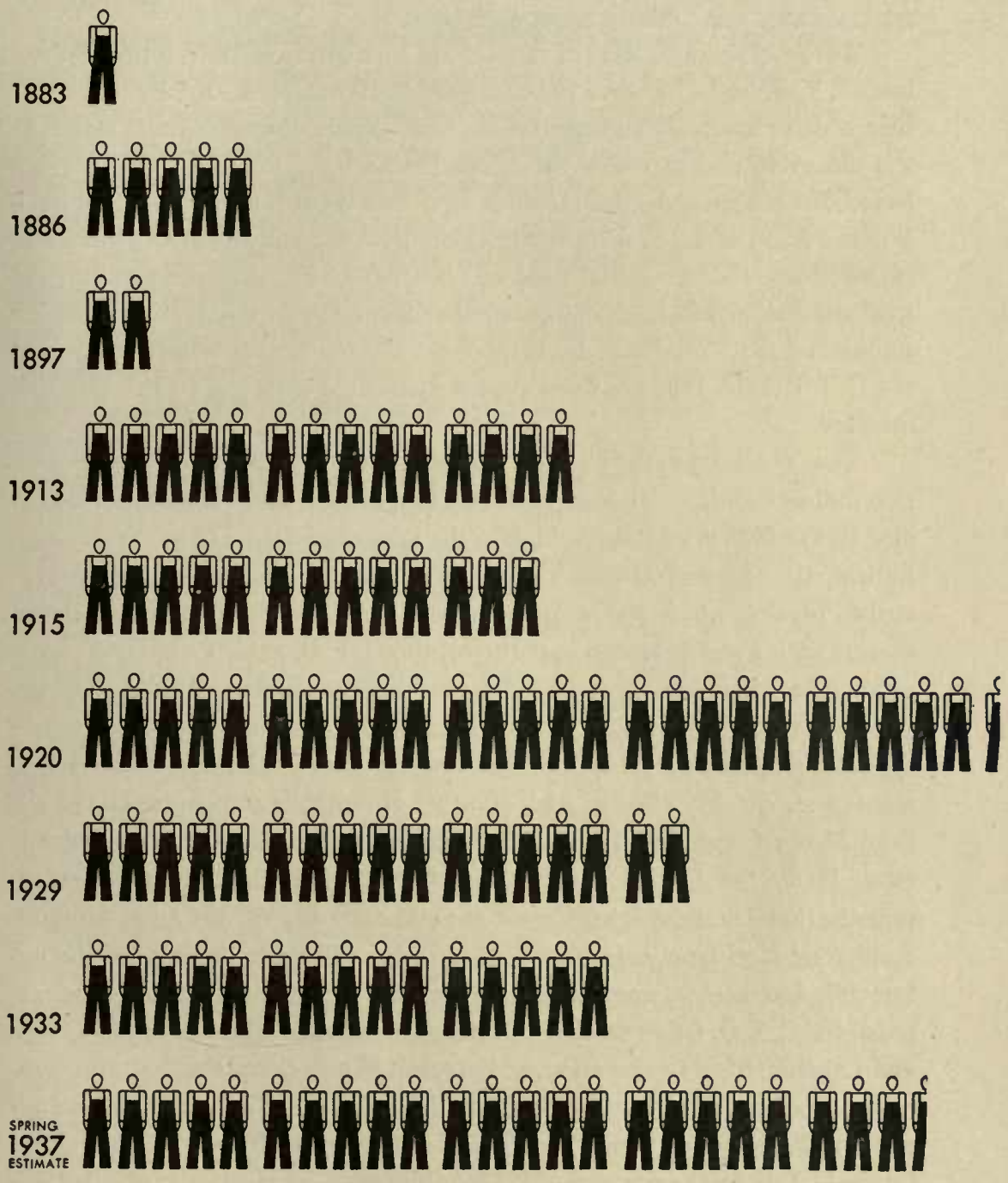
THE FAILURE OF THE A. F. OF L.

The A. F. of L. bureaucracy had been presented with two unexampled opportunities to further its work. The first was during the 1920's, when Ameri-

can capitalism was advancing to its greatest heights and job opportunities existed. Then, a militant program of better wages and shorter hours would have led hundreds of thousands of unorganized into the trade unions. But the A. F. of L. bureaucracy accepted the slogans of industrialists and bankers: that every humble individual could rise to fame and fortune in time; that more and more crumbs from the tables of the rich were bound to fall to the underprivileged. Patience was needed. The A. F. of L. officialdom therefore engaged in a policy of collaboration with capital: it frowned on strikes; it sought itself to become capitalist by entering the labor-banking field; it drove the most militant workers out of its own ranks; it opposed social insurance. Hampered by its own craft structural forms, it found itself incapable of going into the mass-production industries where mechanization and monopoly capitalism were reducing workers to unskilled laborers superannuated by the time they had reached forty years. Also, industrialists took the offensive: they formed company unions and with the weapons of intimidation, spying and quite often physical violence prevented any independent organizational activity from appearing.

The second golden opportunity for organized labor came in the first years of President Roosevelt's New Deal. The National Industrial Recovery Act, passed in 1933, contained the famous section 7(a) which legalized trade unions and recognized the representatives of unions as the collective-bargaining agencies for the workers. Again, there might have been a mass movement into the ranks had the A. F. of L. officialdom been prepared to forget about craft jurisdictions and go into steel, cement, automobiles, rubber, radio, cotton textiles, petroleum, chemicals. But the A. F. of L. in effect waited for the government to do its organizing. The opportunity passed when the Supreme Court declared the NIRA unconstitutional in May, 1935. Then revolt broke out in the ranks of organized labor. New leaders came to see that mechanization and the growing labor reserve imperiled the positions of the few already organized workers. The only solution was the organization of all the workers in the country on industrial lines.

TRADE UNION MEMBERSHIP



Each man represents 200,000 members
1937 figures for A. F. of L. and C. I. O. only

©

61. INDUSTRIAL CONFLICTS

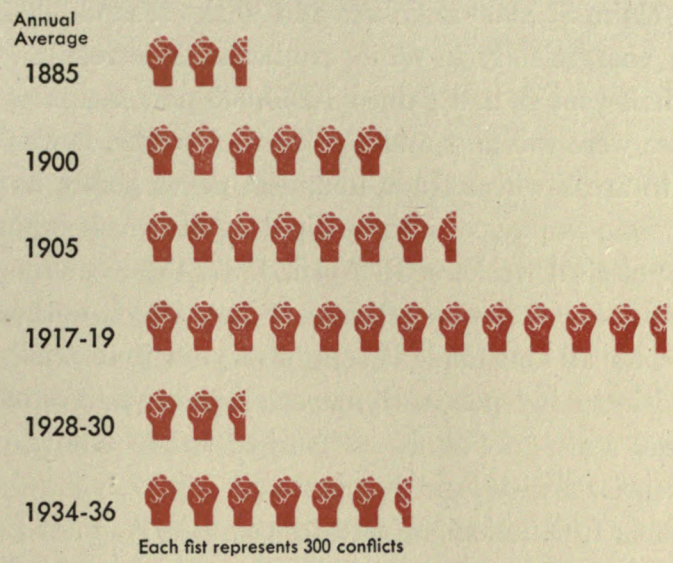
THE COMMITTEE FOR INDUSTRIAL ORGANIZATION

At the 1935 convention of the A. F. of L., a group of trade union leaders, headed by John L. Lewis of the United Mine Workers of America, proposed that a drive be made to organize the mass-production industries and that the old craft unions waive their jurisdictional rights. When this was rejected, the progressive group took matters into its own hands. Without quitting the A. F. of L., it formed the Committee for Industrial Organization, gathered together an initial fund of $500,000 and sent organizers into the steel and automobile fields. The executive committee of the A. F. of L., in the summer of 1936, retaliated by suspending the ten unions which had joined the C. I. O.; the 1936 convention gave its formal approval to this punitive measure.

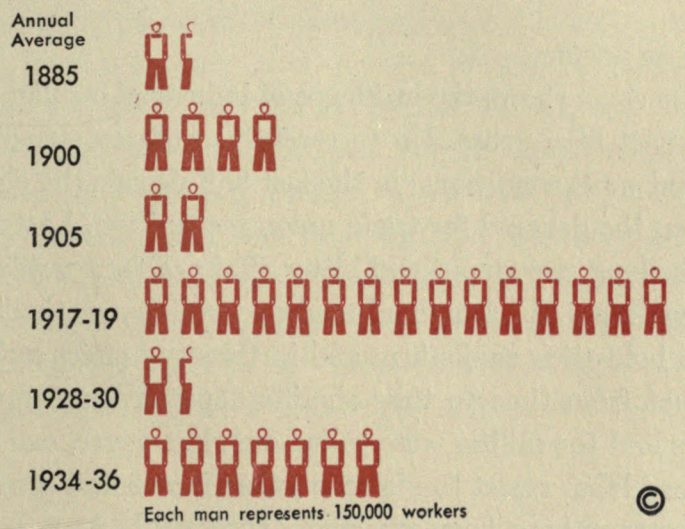
Thus challenged, the C. I. O. went aggressively into those mass-production industries where labor organization had always met with failure. Beginning late in 1936 it took the fight into the mightiest citadel of monopoly capitalism, the General Motors Corporation; and, in a series of "sit-down" strikes (during which the workers refused to leave the plants and defied sheriffs with court orders to oust them), the C. I. O. gained employer recognition for trade unionism. General Motors signed an agreement accepting the United Automobile Workers of America (a C. I. O. affiliate) as the collective-bargaining agency for its members in General Motors plants. Similiar agreements were quickly effected with all other automobile companies except the Ford Motor Company. A second area into which the fight was carried was steel. Here, the United States Steel Corporation plants were invaded; organizational activity openly went on; and early in 1937 the great Morgan-dominated steel trust capitulated. A contract, following the lines of the automobile agreements, was signed with the Steel Workers Organizing Committee of the C. I. O. Other steel companies soon followed suit. In fact, the Jones and Laughlin Steel Corporation, as the result of a workers' election, was compelled to accept a contract recognizing the S. W. O. C. as the exclusive bargaining agency for all its workers. This was the first such agreement achieved by the C. I. O. In the summer of 1937, a third mass-production area drive was organized: that in textiles and under the direction of the Textile Workers Organizing Committee, another C. I. O. affiliate.

INDUSTRIAL CONFLICTS

STRIKES AND LOCKOUTS



WORKERS INVOLVED



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THE SUCCESSES OF THE C. I. O.

The successes of the C. I. O. were unexampled. It had almost completely organized steel and automobiles, in the first of which, by the spring of 1937, it could claim 500,000 members and in the second 300,000 members. It was working energetically in radio, rubber and petroleum. In the space of less than a half-year it had gained 1,250,000 new members for trade unionism; and these were militant and confident. Further, it was extending its operations into areas where trade unionism never before had seriously raised its head: among employees in municipal rapid transit; aluminum workers; shoe workers; clerical workers. In April, 1937, the Supreme Court validated the National Labor Relations (Wagner) Act, which outlawed company unions once and for all and made it compulsory for industrialists to bargain collectively with the independently-chosen representatives of their workers. With their legal status definitely established, trade unions now could meet employer reprisals with legal weapons.

The C. I. O. unions refused to leave the A. F. of L. They wanted unity in the ranks of labor; but at their price, which was industrial unionism and aggressive tactics.

INDUSTRIAL DISPUTES

The chart shows the incidence of industrial conflict in the United States in the past fifty years. Up to recently, workers struck largely to improve hour and wage conditions; in the last half-decade the chief reason for strikes has been the demand for trade union recognition. Latterly, strikes have not been the long, drawn out and bitter affairs of former years. By the use of the sit-down, mass picketing and modern publicity methods, strikers have been able to hold their ranks firm and in this way effect quick settlements. It is true that from time to time sheriffs deputized and armed large groups of citizens and the militia were called out; but never, can it justly be said, did organized labor resort to violence unless it was first provoked. The tactics of mass pressure have been amazingly successful.

62. CHILD LABOR

THE EXPLOITATION OF CHILDREN

There were four general classes of underprivileged workers which trade union organization had passed by as industrial capitalism matured. The first were the immigrants, often consciously introduced by employers into factories and mines in order to keep labor standards at a depressed level. But as these workers grew more familiar with the American scene or as they were replaced by their sons, they joined the ranks of organized labor. The second were the Negroes; their plight has already been touched on. The third and fourth were children and women. In many respects, these have continued to be the most exploited groups in the American working population.

Early American industry was built upon the toil of young children. Indeed, it was not until the labor unions themselves raised their voices in a demand for public education that a reluctant public authority began to limit the hours of child labor. As time passed, more and more laws appeared on statute books: requiring compulsory school attendance; fixing maximum hours and forbidding night work; preventing children from working in dangerous trades; requiring the payment of minimum wages. Despite such good intentions, progress in the country was uneven. How recent this whole development has been may be noted from the fact that it was not until 1903 that Illinois, the first state, passed an eight-hour law for children. Child labor was virtually outlawed in a growing number of northern states, when the compulsory school attendance age was fixed through fourteen and fifteen years. It continued to flourish, however, in the southern states, where children were employed in cotton textiles, canneries and lumber camps; and in the western states, where they worked in beet fields and as harvest "bums" in vegetables and fruits. In no sections of the country were laws passed to limit the street trades.

THE FAILURE TO END CHILD LABOR

The year 1910 saw fully 2,000,000 children aged ten to fifteen gainfully employed; these made up 18.4 per cent of all the children in these ages. The next two decades were those of greatest progress; and in 1930 there were 667,000 children at work, or 4.7 per cent of all children in the ages of ten to fifteen. These were the years of agitation for federal legislation. Two efforts were made to enact measures outlawing the labor of children. But they were

invalidated by the Supreme Court, the first in 1918 and the second in 1922. This method failing, recourse was had to an amendment to the Constitution, which Congress sent to the states for their ratification in 1924. Under it, Congress was to be given the right "to limit, regulate and prohibit" the labor of persons under eighteen. But ratification was tardy; by the end of 1932 only some fifteen states had given their approval.

For a short time, from 1933 to 1935, when the NIRA stood on the statute books, the labor of children under sixteen virtually was banned. With the rejection of the NIRA by the Supreme Court and the commencement once more of the industrial exploitation of helpless boys and girls, friends of children were compelled to renew the fight for the passage of the Child Labor Amendment. They met with a stubborn resistance from a large variety of groups: states' rights theorists, who declared they were fearful of the development of an overweening central authority; cotton textile manufacturers; newspaper publishers; homework contractors; canners. In 1937, the Catholic Church openly appeared as an opponent of the Amendment. At the end of the legislative season of 1937, twenty-eight states had ratified; however, eight more were still required.

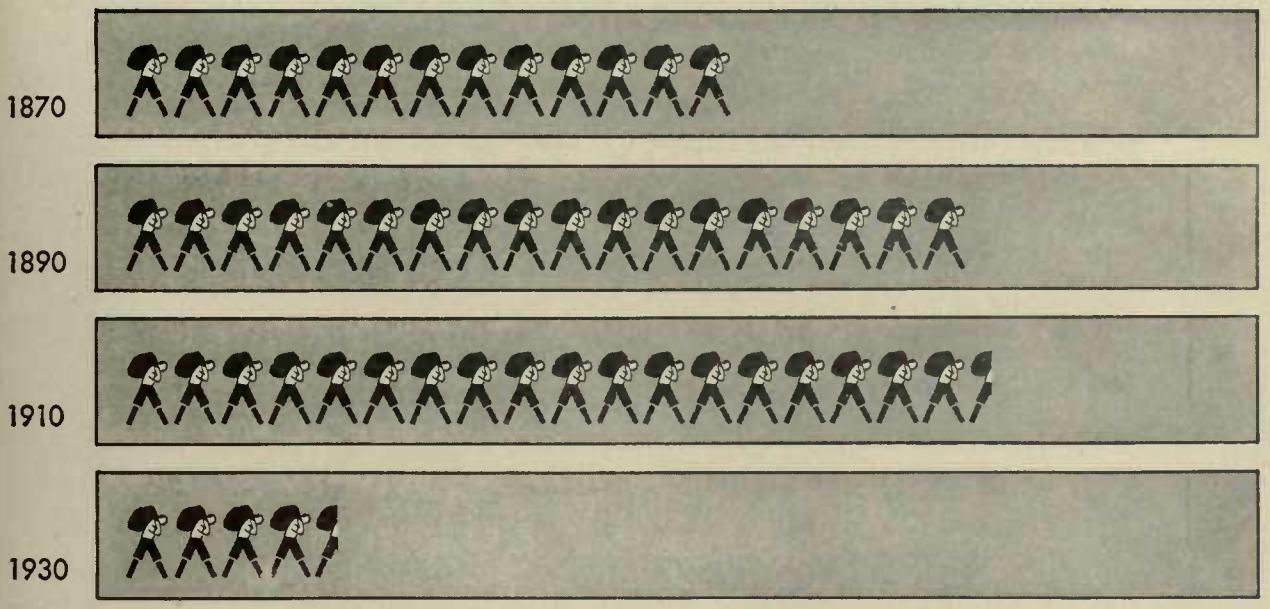
CHILD LABOR BEFORE, DURING AND AFTER THE NRA

How serious the problem continued to be may be noted from these facts. In ten representative cities of 10,000 or more population, the Children's Bureau of the U. S. Department of Labor found that the following employment certificates (permitting fourteen- and fifteen-year olds to leave school for full-time employment) had been issued.

Year	*Number*	*Rate per 100,000 children of these ages*
1932	22,436	530
1933	14,649	349
1934	4,959	118

The NIRA continued into the first five months of 1935. In this period — in ten states, the District of Columbia, and ninety-eight cities in other states — 3,350 employment certificates were issued to fourteen- and fifteen-year olds. With the invalidation of the law and the abrupt termination of the codes, the employment of children was resumed; for, in the same region and during the first five months of 1936, the number of certificates issued was 8,400. This was an increase of 150 per cent.

CHILD LABOR



Each child represents 1 per cent of all children 10 to 15 years old

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63. WOMEN IN OCCUPATIONS

THE SWEATING OF WOMEN

The labor of women in industries and trades also showed a notable increase from 1870 to 1910. In 1870, there were 1,836,000 girls and women aged ten years and over gainfully employed; these constituted 13.1 per cent of the female population over ten years. In 1910, their numbers were 8,076,000, and their proportion in the whole group 23.4 per cent. In 1930, the total gainfully employed stood at 10,752,000; but the proportion has declined somewhat to 22 per cent.

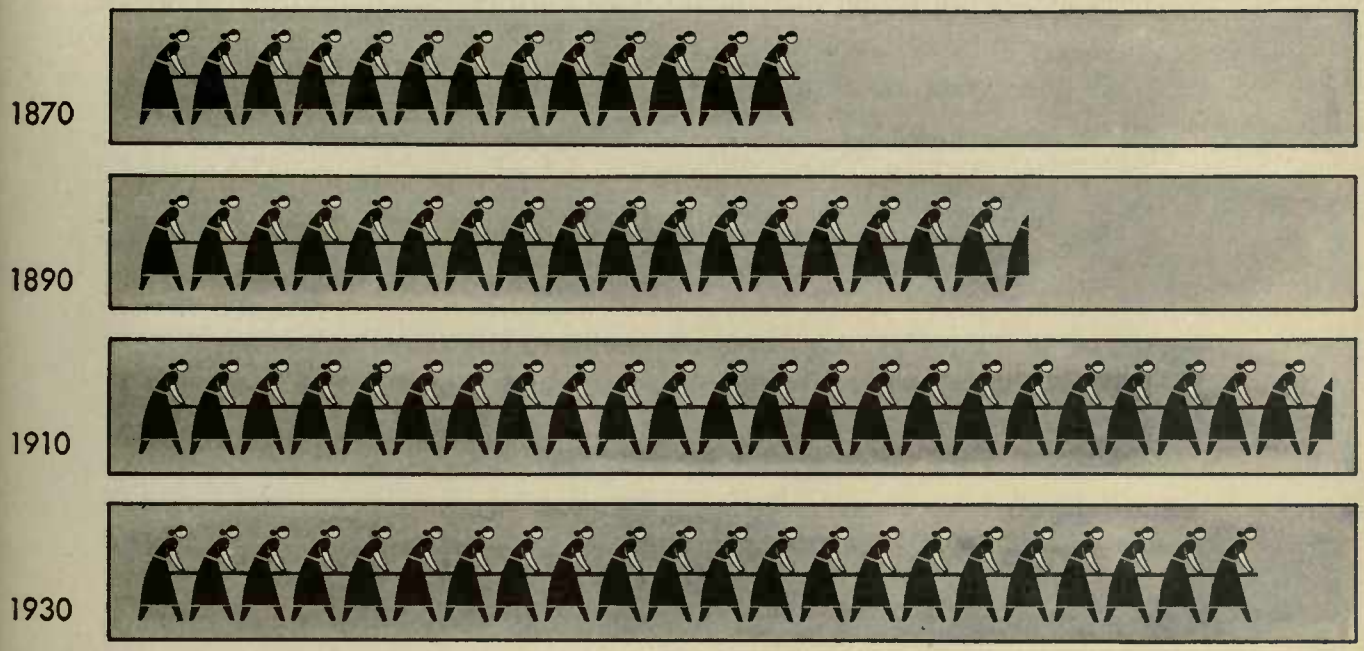
Women were peculiarly the victims of the sweated trades. Their employment as a rule was less regular than that of men; and driven to work when husbands and sons were without jobs or dead, they were not capable of resisting exploitation. Trade unionism did not gain many converts among them; as a result, the wages of women were not only far lower than those of men in the same industries, but they rarely were adequate to admit the maintenance of a health-and-decency standard of living. Women at work were to be found in large numbers in the homework industries, laundries, hotels, cotton textiles and the clerical occupations. As mechanization progressed in industry, they were appearing more and more in all pursuits.

MINIMUM WAGE LEGISLATION

As in the case of children, public authority in time came to throw certain crude protective barriers about women at work. Night work was banned; maximum hours were fixed by statute; dangerous trades were closed to them. On the matter of minimum wages, nothing was done until 1912 when Massachusetts passed a voluntary minimum-wage law. A number of states followed suit, many of them, however, making the use of minimums compulsory. In 1923 this movement was suddenly halted when the Supreme Court declared the District of Columbia statute unconstitutional on the ground that it represented an unwarranted interference with the individual right of freedom of contract.

By allowing the industrial codes written under this law to fix maximum hours and minimum wages, the NIRA for the first time seemed to solve the problem. The law, however, was invalidated in 1935, as we have seen; thus leaving a no-man's land, which, according to the Supreme Court, neither federal nor state legislation could invade. The states were enacting minimum-

WOMEN IN OCCUPATIONS



Eoch woman represents 1 per cent of all women 10 years or over

wage measures; indeed, by 1937, seventeen commonwealths had such laws on their statute books. Justification of the legislation had been based on the necessity of protecting women and minors "from conditions of labor which have a pernicious effect on their health or morals." In short, falling back on their police powers, state legislatures insisted upon regarding inadequate wages as detrimental to health and morals. But in 1936 the Supreme Court had found the law of New York null and void. What to do? The Supreme Court, in March, 1937, cut through the meshes of legality which it itself had spun, when it reversed its various decisions, particularly that of 1923, and declared the State of Washington statute constitutional. In a handful of states, at any rate, hard-pressed women at work now might obtain legislative relief by bringing mass pressure to bear on law-makers for the raising of standards.

64. THE ONSET OF DEPRESSION

BUSINESS CRISES IN AMERICAN HISTORY

There had been economic crises before 1930 in American history. The fact is, business activity under capitalist production has been characterized by a series of cyclical fluctuations each made up of the phases of revival, expansion, recession and contraction. Before the Civil War, two major crises had taken place: those of 1837–45 and 1857–60. In each case, over-expansion of speculative activity by merchant capitalists — who had become too deeply involved in western lands, canal building and speculative railroad promotion — precipitated panics whose effects were prolonged. The outbreak of the Civil War, accompanied by great governmental expenditures, brought a period of war-time expansion. The American economy emerged from the conflict transformed. It was dominated now by the industrial capitalist.

Periodic overexpansion of industrial capitalism, in the post-Civil War era, produced another series of contractions. Construction, railroad building and heavy-goods development were pushed too far; and the result was the two major crises of 1873–79 and 1893–1897. Business recovered: thanks to the flooding of Europe with American agricultural goods; the discovery of gold in South Africa and Alaska; and the dawn of the age of concentration and combination, taking the form of the monopoly formation. In 1914, the danger signals once more appeared: production was slowing down, money was tight, unemployment daily increased. Again a war saved the day — this time the outbreak of the World War. The United States supplied the Allied powers with basic raw materials and munitions, at first on the basis of payments made by our purchasers; later, through credits extended to them. Our industry was keyed to new heights; our prosperity dependent upon our ability to keep the war-time machinery going. We, ourselves, entered the World War for a variety of reasons; the most significant ones, undoubtedly, were to prevent another major industrial disaster and to cover our great stake in an Allied victory.

THE BOOM OF THE 1920'S

The war-time prosperity, except for a short recession during 1921–22, continued through the 1920's. American production, output of capital goods, foreign trade, and new capital flotations reached new highs. But there were elements of real artificiality in the situation. Agriculture was in a state of

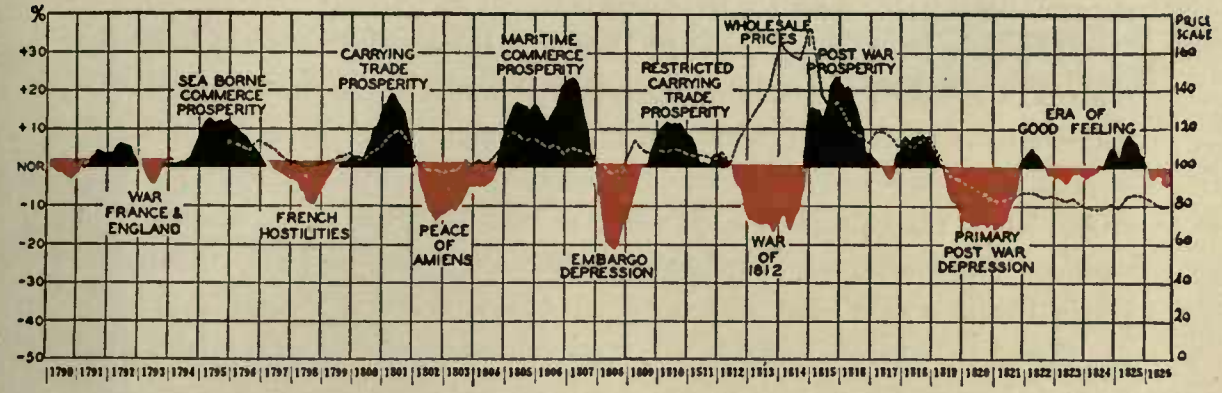
crisis — it had been so since 1920. Foreign trade was being financed by American loans. The feverish activity of the stock market was symptomatic of the fact that accumulations increasingly were entering into speculation rather than further extension of capital plant. The feverish pace of prosperity was being maintained for a considerable length of time through installment selling and other credit devices.

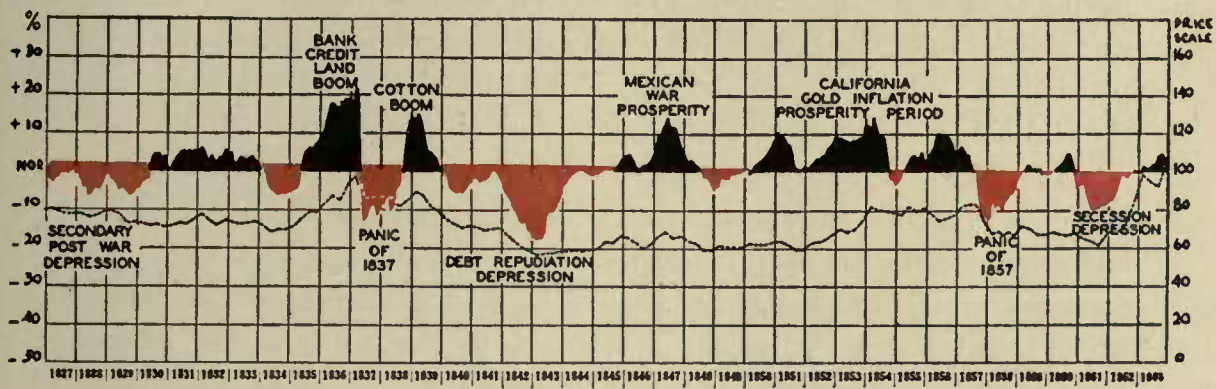
THE DEPRESSION OF 1930 AND AFTER

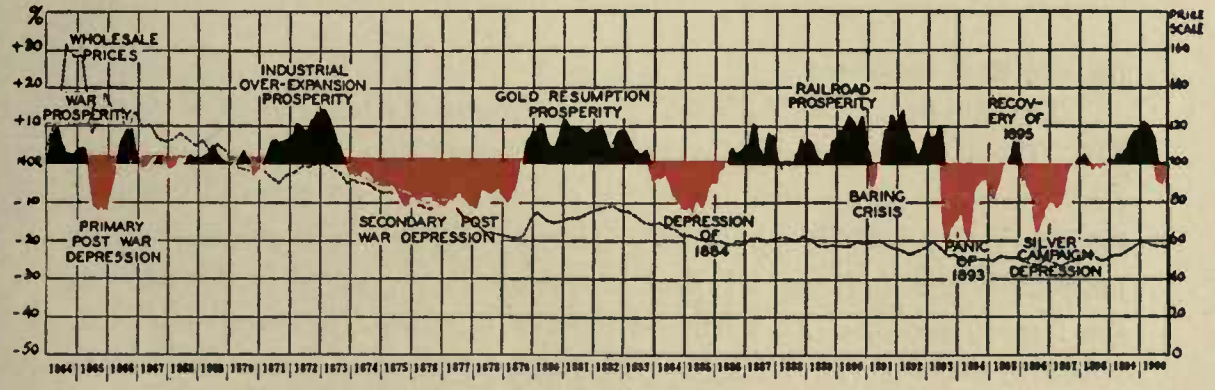
In October, 1929, stock prices wavered and broke. The recession that set in, in early 1930, was prolonged into a deepening crisis which, in the spring of 1933, touched the lowest point experienced in recent capitalist history. Between 1929 and 1932, the total physical output of goods was reduced 37 per cent; total labor income, 40 per cent; total property income, 31 per cent. In March, 1933 (with the monthly average of 1923–25 as 100) the index of industrial production stood at 60; that of construction at 14; that of factory employment at 61; that of factory pay rolls at 38; that of wholesale prices (1926 as 100) at 60. The farmer's dollar, in terms of his purchasing power, was worth 50 cents. There were at least 15,000,000 unemployed persons. With the collapse in prices, the burden of debt had become intolerable.

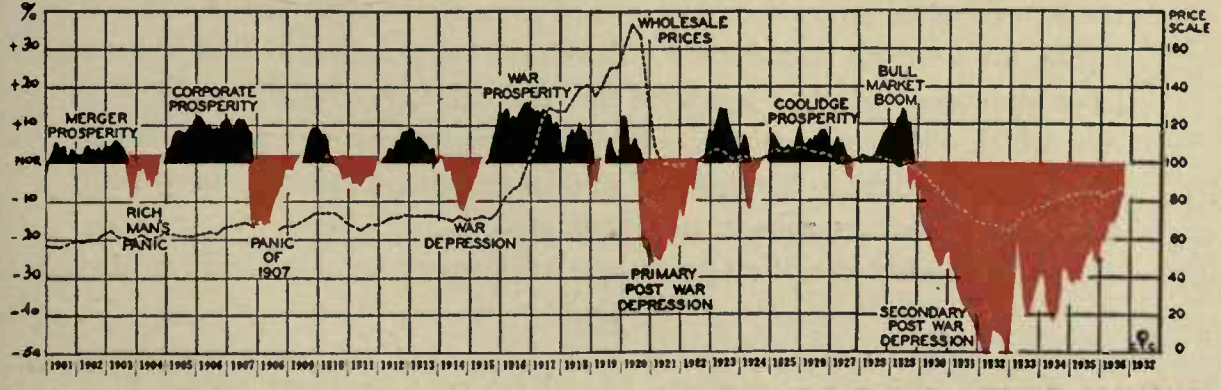
The depression that began in 1930, while superficially presenting the characteristic aspects of another phase of cyclical fluctuation, really was proving that capitalist production had outlived its years of progressive expansion. Opportunities for capitalist enterprise, in new and pioneering fields, were contracting. Oversea markets were narrowing. Control had shifted definitely from industrial capitalism to finance capitalism; and the latter was concerned with the making of profits not as the result of the production of goods but through stock promotion and manipulation and the exploitation of investors. The gap between capacity to produce and ability to consume — a situation inherent in the process of accumulation, and therefore capitalism's fundamental contradiction — was widening. Imperialism was proving its inability to absorb all the surpluses of capitalist accumulation. The world market for American agricultural goods was disappearing; and a decline in farm land values — sure sign of permanent agricultural crisis — had set in. Job opportunities were dwindling because of extraordinary technological progress.

THE ONSET OF DEPRESSION









THE CLEVELAND TRUST COMPANY

65. NATIONAL DEBT OF THE UNITED STATES

THE NEW DEAL SEEKS TO REVITALIZE CAPITALISM

The New Deal, inaugurated by President Roosevelt in March, 1933, did not read the significance of the depression in terms of the fundamental contradictions of capitalist production. It saw, simply, that many of the forces of production were out of balance. Farmers were not getting enough for their crops; hence their purchasing power was low. The real wages of industrial workers were inadequate; small wonder that they could not buy consumers' goods. Business men were engaging in cut-throat practices; marginal producers, therefore, set the standards which prevented legitimate enterprisers from paying their debts and obtaining fair returns on their capital. The solution was simple: raise the general price level for farmers; eliminate unfair competition for industrial producers and thus stimulate production; increase the real income of wage-workers. Appropriate laws were to be passed.

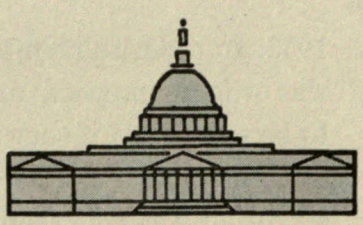
In addition, the government was to help speed up the processes by lending funds to private enterprise; by spending great sums itself on public works and relief; and by adopting a cheap-money policy through the Federal Reserve System. Through this last, it was hoped that the credit base of our whole banking structure would be widened, so that funds at low interest rates would once more flow into private activity.

THE NEW DEAL PROGRAM

To aid industry, the National Industrial Recovery Act was passed in June, 1933. Through the writing of codes of fair competition, business men themselves were to purge their industries of undesirable practices. In reality, business men seized the opportunity thus given them to fix prices, pro rate production and limit capital plant expansion. Incorporated in this act was the famous section 7(a), labor's charter of liberties. The Supreme Court, however, declared the NIRA unconstitutional in May, 1935. But out of the wreckage, as far as industry was concerned, emerged the Guffey Act, setting up a control machinery for the chaotic coal industry. And as far as labor was concerned, there appeared the National Labor Relations (Wagner) Act, which outlawed company unions and created a government board to protect labor's right to the choice of its own agencies in collective bargaining. Both these laws were subsequently validated.

To aid agriculture, the Agricultural Adjustment Act was passed in May,

NATIONAL DEBT OF U. S.
PER PERSON



1800



CIVIL WAR

1865

1916



WORLD WAR

1919

1930



DEPRESSION

1937

©

Each disc represents 15 dollars

1933. In order to help the restoration of agricultural prices, a processing tax was ordered imposed; and this was to create a fund out of which farmers were to be subsidized if they consented to limit production. In January, 1936, the Supreme Court declared the processing tax unconstitutional. A Soil Conservation Act was then carried, which, under the guise of encouraging the restoration of soil fertility, substantially embodied the same program; but subsidies now were to come from direct governmental grants. Also, to relieve agriculture, centralization of farm credit agencies, in the Farm Credit Administration, was provided; a corporation was created to refinance farm mortgages; and the Farmers' Bankruptcy Act, permitting the insolvent farmer to stay on his land and pay off his creditor in installments, was enacted.

Another recovery measure was the devaluation of the dollar, first by the prohibition of gold exports; finally, in January, 1934, by fixing its value at about fifty-nine cents of its previous gold parity. The intention here — and it was only partially achieved — was the raising of prices. Still another, to help foreign trade revival, was the writing of reciprocal trading agreements with foreign nations for the purpose of lowering tariff barriers throughout the world. Reform measures included the passage of the Social Security Act, new banking legislation, the creation of the Securities and Exchange Commission and the establishment of the Tennessee Valley Authority.

RECOVERY BY LENDING AND SPENDING

Most important was the government lending and spending program. Through a variety of new agencies — the Reconstruction Finance Corporation, the Home Owners Loan Corporation, the Federal Farm Mortgage Corporation, the Farm Credit Administration, the Public Works Administration — on the one hand the New Deal sought by loans to salvage distressed banks, railroads, insurance companies, corporations, farmers and home owners; and on the other, to stimulate private activity by spending vast sums itself. The upshot was, whereas the gross debt stood at $22,539,000,000 on June 30, 1933 (net, $19,477,000,000), in March, 1937, the gross debt stood at $34,728,000,000. But to offset this latter amount the government had assets of various kinds of $8,400,000,000; leaving a net debt of some $26,-300,000,000. The difference between the positions of the net debts in 1933 and 1937 represented the major part of permanent government spending in order to hasten recovery — approximately $7,000,000,000.

66. DIVISION OF NATIONAL INCOME

NATIONAL INCOME PRODUCED AND PAID OUT

The national income's catastrophic fall during the depression was another clear sign of the sickness of capitalist production. As the chart indicates, the national income had been steadily climbing up to 1929. From 1930 on, it dropped sharply for four years, and its recovery was but slight in the two years following — 1934 and 1935. What was more significant, during the depression years labor's share of the national income fell off.

National income may be analyzed in two ways: in terms of "national income produced" and in terms of "national income paid out." "National income produced" is the net value of goods and services turned out in any one year, and represents the value of all commodities produced and services rendered, less the value of the raw materials and capital equipment consumed in the processes of production. The payments made to individuals in the form of wages, salaries, interest, dividends, entrepreneurial withdrawals and net rents and royalties for their services and the use of their capital, represent "national income paid out." If, in any given year, the income produced exceeds the income paid out, then business enterprises have retained a portion of the net product in the form of "business savings." The experiences of 1929–35, in terms of these concepts, are worth considering in some detail. The figures are in millions of dollars.

	1929	*1930*	*1931*	*1932*	*1933*	*1934*	*1935*
Income produced..	81,034	67,917	53,584	39,545	41,742	48,397	52,959
Total savings.....	2,402	−5,015	−8,120	−8,817	−3,198	−1,776	−628
Income paid out...	78,632	72,932	61,704	48,362	44,940	50,174	53,587

What had happened? At the low point of the depression, in 1932, income produced was but 48.8 per cent of the total in 1929; and in 1935, but 65.4 per cent of 1929's total. Income paid out in 1932 stood at 61.5 per cent of 1929's total; and in 1935, at 68.1 per cent. In brief, there was a sharp contraction in the goods and services turned out. Income paid out, too, exceeded income produced. This meant that corporations and individual enterprisers had to go deep into reserves and personal savings to pay wages and salaries and returns on capital.

NATIONAL INCOME PAID OUT BY TYPES OF PAYMENT

The next interesting question to be answered is: What were the respective shares of the national income received by capital and labor during the

years of the depression? This cannot be answered exactly in view of the fact that government agencies making the analysis group "salaries and wages" together. Salaries, of course, are made up of the compensation of humble clerical workers as well as of great executives. But certain rough trends can be indicated. The following table presents the percentage distribution of national income by types of payment. (In the chart, net rents and royalties are grouped with dividends and interest.)

	1929	*1930*	*1931*	*1932*	*1933*	*1934*	*1935*
Total income paid out	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total compensation of employees	65.5	64.7	64.5	64.0	65.4	66.8	67.3
Total salaries and wages	64.3	63.4	62.7	61.7	61.9	62.2	62.9
Work relief income	....	....	....	....	1.4	2.8	2.5
Other labor income	1.2	1.3	1.8	2.3	2.1	1.8	1.9
Total dividends and interest	14.3	15.5	15.8	16.5	15.5	14.4	13.6
Dividends	7.6	7.9	7.0	5.7	4.9	5.1	5.3
Interest	6.5	7.3	8.4	10.3	10.2	9.1	8.3
Entrepreneurial withdrawals	15.9	16.0	16.3	16.5	16.3	16.0	16.2
Net rents and royalties	4.3	3.8	3.4	3.0	2.8	2.8	2.9

From these percentages we see that "total salaries and wages" relatively received a smaller share of national income during the years of the depression; that "entrepreneurial withdrawals" improved its relative position a little; and that "income from interest" improved its relative position very markedly.

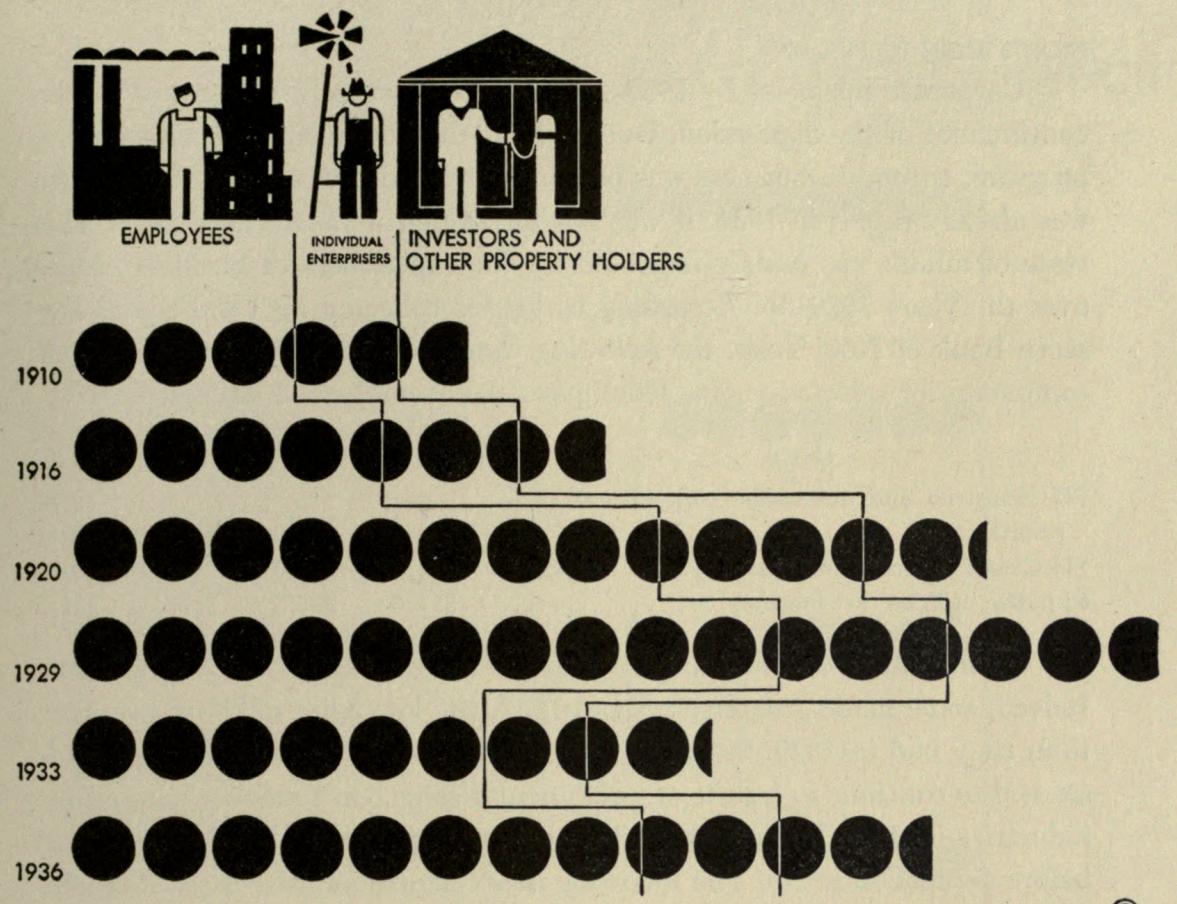
INCOME PAID OUT, CONTRASTING 1929 WITH 1932 AND 1935

The changes are pointed up more sharply when we examine income paid out in terms of the 1929 performance. The figures of the following selected items are in percentages of 1929.

	1929	*1932*	*1935*
Total income paid out	100.0	61.5	68.1
Wages (selected industries)	100.0	40.8	59.0
Interest	100.0	97.5	86.6
Entrepreneurial withdrawals	100.0	63.9	69.6

The moral here is plain. When national income paid out fell off, during the years of the depression, the group in the population which suffered most severely was made up of the working class. The group which definitely profited was made up of persons obtaining income from interest.

DIVISION OF NATIONAL INCOME



Each disc represents 5 billion dollars

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67. BUSINESS PROFITS AND DEFICITS

PROFITS BEGIN TO PICK UP

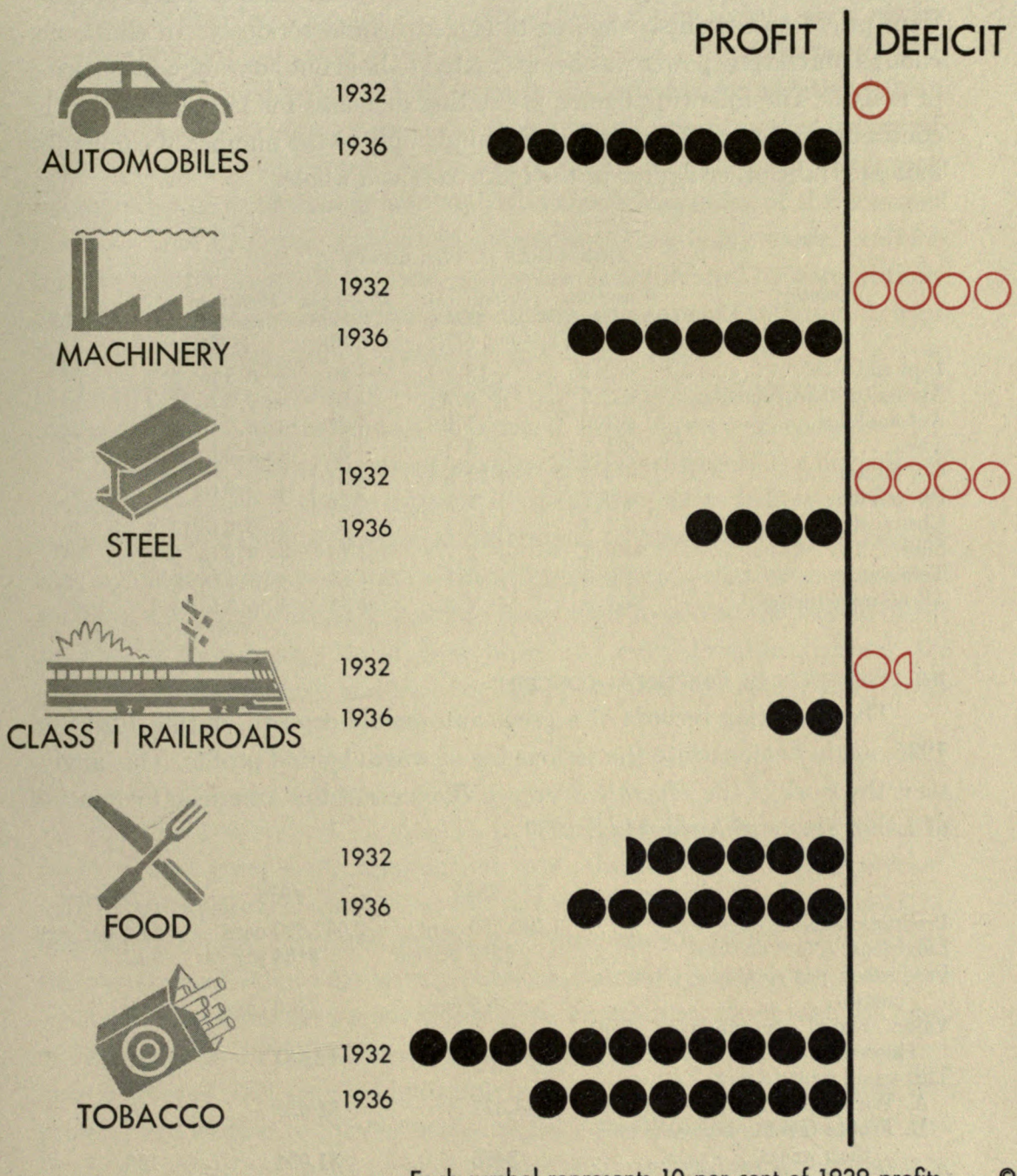
Corporate business, by 1932, was suffering severely as a result of the continuance of the depression. But by 1933, due to the New Deal's spending program, corporate business was beginning to recover. In 1935, its advance was already rapid; in 1936, it was not far behind its position of 1929. This state of affairs was clearly indicated by the experiences of business profits over the years 1929–36. According to figures collected by the Federal Reserve Bank of New York, the following were the profits of a group of great companies for selected years. The figures are in millions of dollars.

Group	*1929*	*1932*	*1935*	*1936*
727 industrial and mercantile corporations (net profits)	2,680.8	− 48.0	1,311.2	1,970.1
144 Class I railroads (net income)	896.8	−150.6	−1.4	169.9
62 public utilities (net income)	317.8	237.3	202.4	221.5

All industries did not feel the effects of the depression with equal force. Indeed, some made greater profits in 1932, the low point of the depression, than they had in 1929. Similarly, all did not recover as quickly. Railroads seemed to continue in a state of permanent decline. On the other hand, some industries by 1936 had advanced to greater heights than they had achieved before depression set in. The following index figures indicate depression and recovery experiences of American industries by groups, in terms of their annual net profits or deficits as proportions of 1929.

	1932	*1936*
All industries	− 2	74
Automobiles and parts	−12	88
Building equipment	−17	65
Machinery and tools	−38	69
Electrical equipment	−13	59
Metals and mining	−11	90
Steel	−39	38
Class I railroads	−17	19
Rubber and tires	−71	117
Chemical and drug	35	100
Food and food products	53	70
Oil	8	67
Stores	10	106
Tobacco	108	81
Containers — metal and glass	51	100
Utilities, except telephone companies	75	70

BUSINESS PROFITS AND DEFICITS



Each symbol represents 10 per cent of 1929 profits ©

PROFITS RECOVER FASTER THAN WAGES

What was the relation of the wage costs of industrial corporations to their profits? As recovery continued on its way, with sizable rises in production, prices and profits, wage costs lagged behind seriously. In short, not enough purchasing power was being created to hold out hope for a long period of revival. The following figures presenting increases for 1934–36, make the contrasts apparent. The profit figures apply only to the number of companies indicated; the other figures to the industries as a whole.

INCREASES IN PER CENTS

Industry	*Wage Costs (from Jan. 1935 to Jan. 1937)*	*Prices (from Jan. 1935 to Jan. 1937)*	*Production (1934 to 1936)*	*Profits (on net worth, 1934 to 1936)*	*Companies*
Iron and steel	+2.1	+12.2	+86	− 0.5 to 4.7	58
Agricultural implements	+2.9	+ 0.3	+88	+ 0.5 to 12.2	10
Automobiles	+1.0	− 1.2	+62	+ 6.7 to 24.6	21
Tires	+1.7	+ 9.1	+23	+ 2.8 to 9.8	22
Oil, mining	−0.3	+18.5	+21	+ 2.0 to 8.5	57
Oil, refining	+0.7	+ 9.1	+20		
Chemicals	+1.3	+14.1	....	+ 9.5 to 15.2	29
Shoes	+0.1	+ 2.7	+16	+ 8.0 to 9.1	20
Tobacco	+0.5	+ 0.1	+18	+10.4 to 12.8	29
All manufacturing	+1.8	+ 7.2	+35	+ 4.3 to 10.1	1600

THE EXPERIENCES OF ONE GREAT CONCERN

The operating records of a great automobile concern, during 1934 and 1936, again demonstrate the serious lag of wages behind profits. This analysis is the work of the *Monthly Survey of Business* of the American Federation of Labor (issue of April–May, 1937).

	1934	*1936*	*Increase*
Production (Note increase)	1,240,500 cars	2,037,690 cars	64 per cent
Labor cost (Note decline)	$212 per car	$184 per car	−17 " "
Production per employee (Note increase)	6.5 cars	8.8 cars	35 " "
Value created per employee (Note increase)	$1,873	$2,661	42 " "
This value went to pay:			
A. Wages (Average per employee)	$1,377	$1,626	18 " "
B. Profits (Profits increased more than wages)	$496	$1,034	108 " "
Out of profits dividends were paid (Dividends increased more than wages)	$385	$876	127 " "
Profit on net worth	10%	24%	

68. NEW CAPITAL ISSUES

WHERE SAVINGS ARE INVESTED

One of the clear signs of the health of a capitalist society is its ability to absorb fresh capital for the further expansion of productive plant. Savings are effected both by corporations and individuals; and these funds remain either in corporate reserves or flow into the money market for investment in capital issues. Some capital issues are for refunding purposes; some for the purpose of obtaining new capital. An excellent index of the course of business activity is the amount of money currently being made available for new capital issues. If the new capital issues are floated by corporations, as a rule it may be assumed that their intention is to make addition to capital plant. The same cannot always be said of new public issues. Often — as in the case of the experiences of the New Deal — public authorities enter the money market to obtain funds with which to meet current expenses.

During the 1920's, American savings were used largely for purposes of investment in new domestic corporate issues. Also, as a creditor nation, we made funds available to foreign borrowers and to American corporations extending their direct investments abroad through foreign-chartered companies. In these ways, therefore, savings were being used to add to the wealth of the nation: by the opening up of new mines and new agricultural areas, the erection of new factories and the creation of new transportation and public-utility facilities.

DECLINE OF NEW PRIVATE CAPITAL ISSUES

When depression set in, in 1930, new foreign and new private domestic issues almost completely disappeared from the American money market. Private enterprises, in short, were not seeking funds with which to make extensions to capital plant and therefore to the nation's wealth. What securities were being floated were largely public issues; that is to say, the New Deal was trying to charm back recovery by great borrowings. Even with the onset of recovery, in 1936, the same tendency generally prevailed. Production once more was reaching the high levels of the 1920's; interest rates were low; profits were leading to further accumulation. And yet the demands for new funds with which to make possible additions to capital plant were never so slow in reappearing.

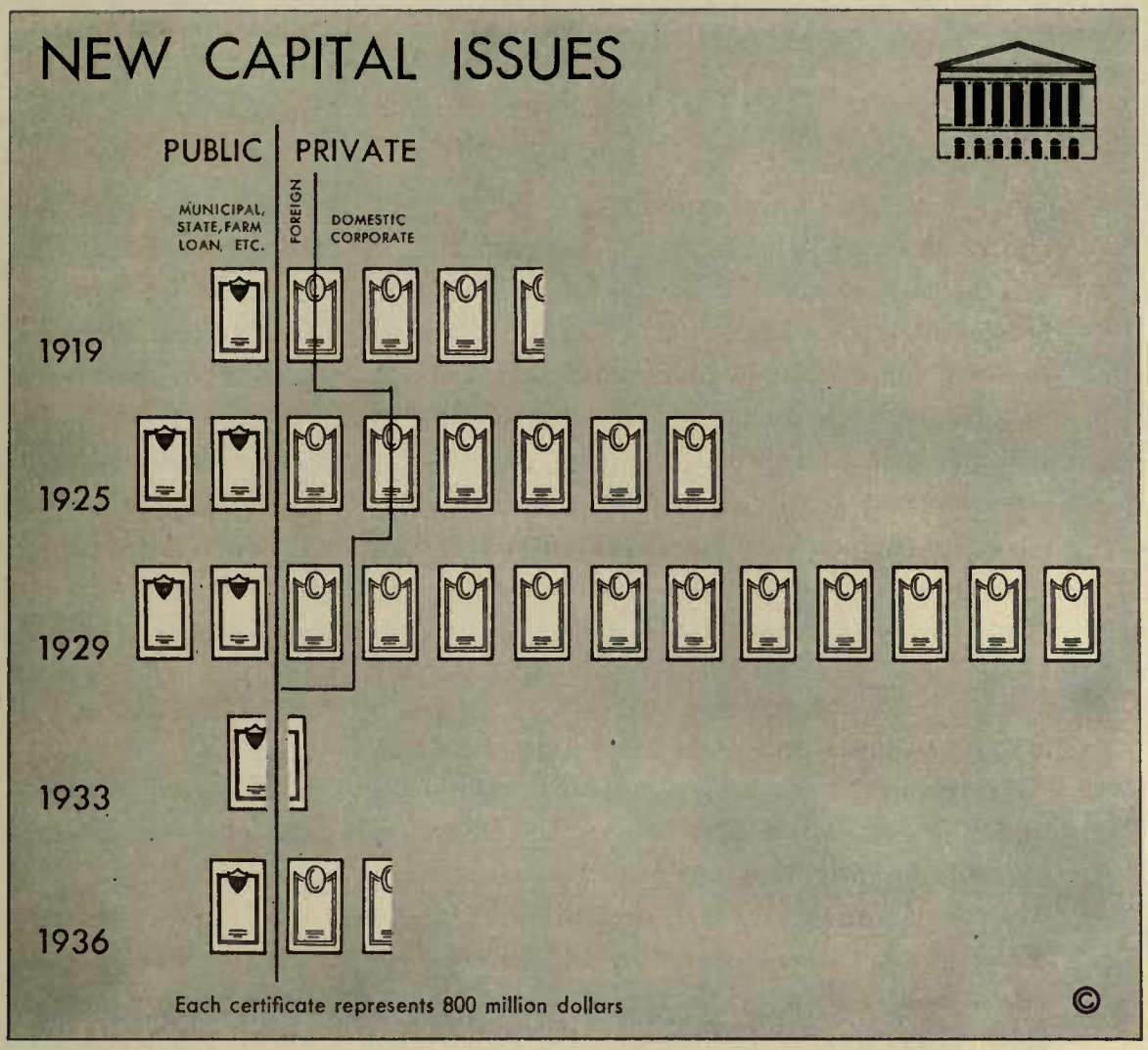
This was a situation which markedly differentiated the present revival

from all earlier ones in American experience. It also pointed up the fact that as long as there continued to exist a great gap between productive capacity and effective consumer demand, it was idle to employ savings to add to capital plant. Under the capitalist organization of production, accumulation was taking place. But these accumulated funds, even in a period of revival, of necessity had to be placed at the disposal of governments in order to finance relief among the unemployed and the underprivileged agricultural populations. In the light of such a state of affairs, there was real reason for assuming that capitalism's epoch of progressive advance was at an end.

NEW CAPITAL FLOTATIONS DURING THE DEPRESSION

The following figures indicate the purposes for which new capital issues were being floated in our money markets, for a number of selected years. Figures are in millions of dollars. From the "public issues" are excluded the direct obligations of the United States government.

Year	*Total new capital issues*	*Total domestic capital issues*	*Total domestic corporate issues*	*Total domestic public issues*	*Total foreign issues*
1920.....	3,634.8	3,332.4	2,644.8	687.6	302.4
1925.....	6,219.6	5,133.6	3,604.8	1,528.8	1,086.0
1929.....	10,183.2	9,428.4	8,001.6	1,423.2	758.4
1932.....	1,192.8	1,166.4	335.2	840.0	25.0
1933.....	709.2	709.2	160.8	548.4	....
1934.....	1,404.0	1,404.0	175.2	1,262.4	....
1935.....	1,441.2	1,441.2	403.2	1,039.2	....
1936.....	1,983.8	1,960.8	1,192.0	768.8	23.0


NEW CAPITAL ISSUES
PUBLIC
PRIVATE
MUNICIPAL, STATE, FARM LOAN, ETC.
FOREIGN
DOMESTIC CORPORATE
1919
1925
1929
1933
1936
Each certificate represents 800 million dollars
©

69. LOANS, INVESTMENTS AND DEPOSITS OF ALL MEMBER BANKS

HOW THE BANKS WERE TO SPEED REVIVAL

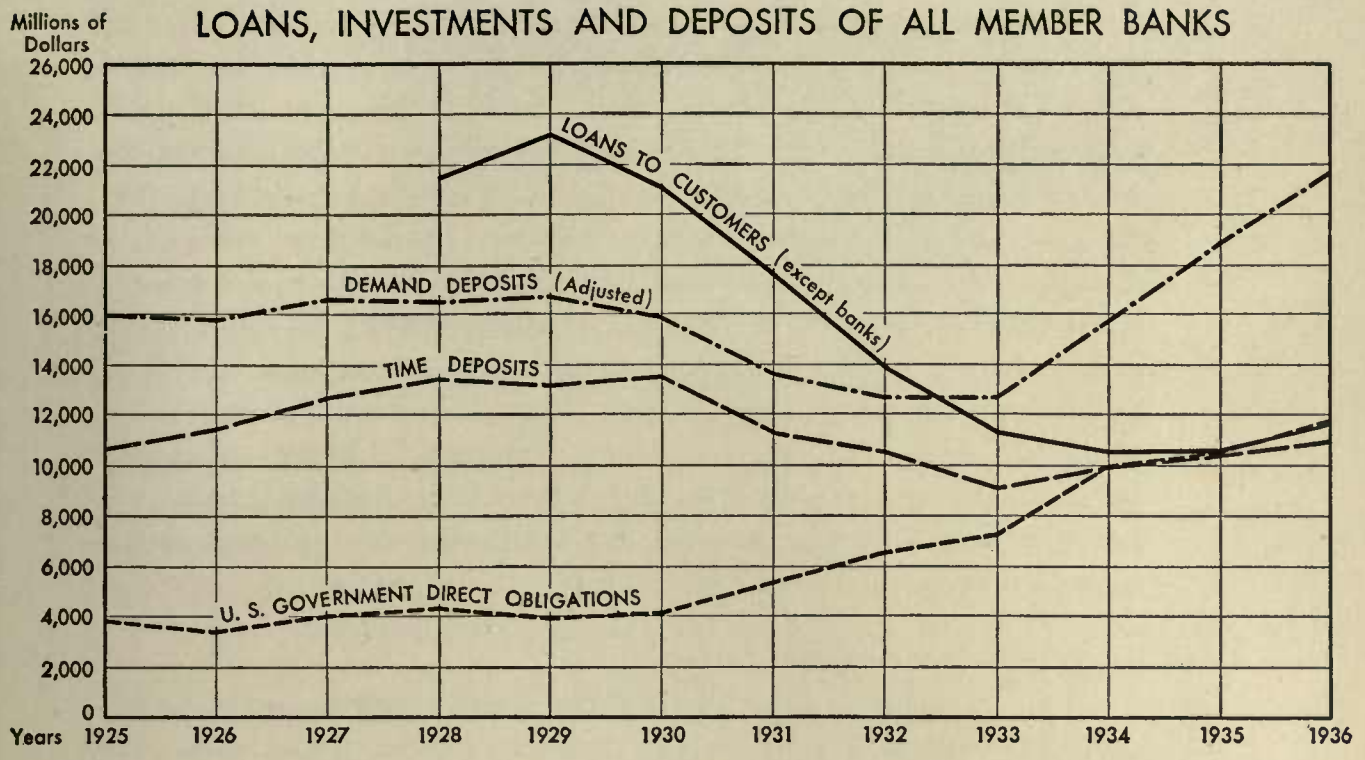
More particularly, in the realm of commercial banking, the causes for optimism were not too many. As has been said, the federal government was spending large sums of money. The receipts for these sums, the government bonds, entered the banks. The Federal Reserve Board then pursued a cheap-money policy. It bought government bonds, and this action led to an increase in member bank reserves. Too, member bank reserves grew through the inflow of gold from abroad. By these processes the base of the credit pyramid was expanded. It was assumed that there would take place a comparable increase in commercial loans and in long-term capital investments in industry and trade. This is to say, increased reserves were to lead to increased bank deposits (through commercial loans) and increased bank deposits were to lead to increased spending. But the movement was not comparable on all fronts.

RESERVES MOUNT FASTER THAN OTHER BANK OPERATIONS

Member bank reserves mounted from $2,286,000,000 on July 1, 1933 to $6,877,000,000 on April 24, 1937. The increase, therefore, was 200 per cent. On the other hand, deposits (demand and time) increased from $15,-931,000,000 on July 1, 1933 to $20,476,000,000 on April 24, 1937. This increase was but 28 per cent. Spending, or check payments (bank debits outside of New York City), increased from $3,562,000,000 for the week ending July 1, 1933 to $4,826,000,000 for the week ending April 24, 1937. This was an increase of 35 per cent.

The same situation can be shown in another way. The following figures show increases from July 1, 1933 to April 24, 1937, in millions of dollars.

Deposits, total	+4,548
Demand	+4,203
Time	+ 345
Reserves	+4,591
Investments total	+4,311
In government securities	+4,124
In all other securities	+ 187
Loans, total	+ 457
Loans on securities	− 615
All other loans	+1,072


LOANS, INVESTMENTS AND DEPOSITS OF ALL MEMBER BANKS
Millions of Dollars
26,000
24,000
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
LOANS TO CUSTOMERS (except banks)
DEMAND DEPOSITS (Adjusted)
TIME DEPOSITS
U. S. GOVERNMENT DIRECT OBLIGATIONS
Years
1925
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936

It will be noted that while deposits increased substantially, there was but a slight increase in loans to industry and trade. In short, as the London *Economist* commented (issue of October 3, 1936): "The increase in deposits, in so far as it is not the direct reflection of the increased reserves themselves, is almost entirely due to the increased holdings of government securities." And the London *Economist* drew the following conclusion: "Without the constant flow of new issues to finance the [government] deficit, it is doubtful whether the banks could have purchased nearly as many securities as they in fact did buy. In the event, as is notorious, the financing of the deficit has been largely arranged to meet the convenience of the banks, as regards both the timing of the issues and the nature of the securities issued, we are justified in concluding that without the deficit there would have been no substantial increase in the banks' investment portfolio and, consequently, no considerable increase in the total of deposits."

THE POSITION OF COMMERCIAL LOANS

Therefore, just as the years 1933–36, despite revival, showed no substantial increase in the raising of new capital for plant additions; so the same period, despite a great increase in bank deposits, saw no real expansion of commercial, or short-term, bank credit. The key to the revival currently taking place emerges at this point. It was not due to new capital borrowings; nor was it due to any real expansion in bank credit. The public spending program of the New Deal was largely at the basis of the renewal of business activity. In fact, the New Deal's program for reform was a relatively minor factor. Indeed, as far as long-time considerations went, it was completely unimportant.

70. ESTIMATED UNEMPLOYMENT

THE TOLL OF UNEMPLOYMENT

Unemployment is not a depression phenomenon. Even during the era of capitalism's progressive advance, unemployment has dogged the footsteps of our economy. There has been the unemployment of seasonal workers; the unemployment of the superannuated; the unemployment of the technologically displaced; and the chronic unemployment of the unskilled who have been compelled to wander from industrial region to industrial region ever on the hunt for small jobs. Indeed, it has always been to the interests of private enterprise to maintain a reserve army of the unemployed which could be used to keep labor standards at a low level and to break strikes. Originally, this reserve army was made up of country boys, who were tempted into early industry as apprentices and then let out to be replaced by fresh drafts. Next, European immigrants were brought over as contract laborers. These were followed by Negroes from the South. Today, Filipinos, Mexicans, Porto Ricans and the hill dwellers from the Appalachians and the Ozarks constantly are being added to the labor reserve. The chart shows that during the whole of the 1920's there were men and women regularly out of work. In fact, February, 1929 saw 3,000,000 jobless vainly hunting employment.

The depression of 1930 and after took a terrible human toll. At its lowest point, in March, 1933, there were 15,000,000 unemployed. In 1934, the figure still stood at 12,364,000. In February, 1937, despite heroic spending measures by the government and the revival of industrial production the number of unemployed was 9,722,000. Unemployment had its physical and psychological victims, undoubtedly by the millions. Men, women and children were suffering from malnutrition; were going for years inadequately housed and fed; had long lost confidence in themselves. A whole school generation of youth had grown to maturity without ever having engaged in productive activity. The loss of national wealth — in factories that were not built, mines not worked, goods not created — was simply incalculable.

A PERMANENT POOL OF UNEMPLOYED

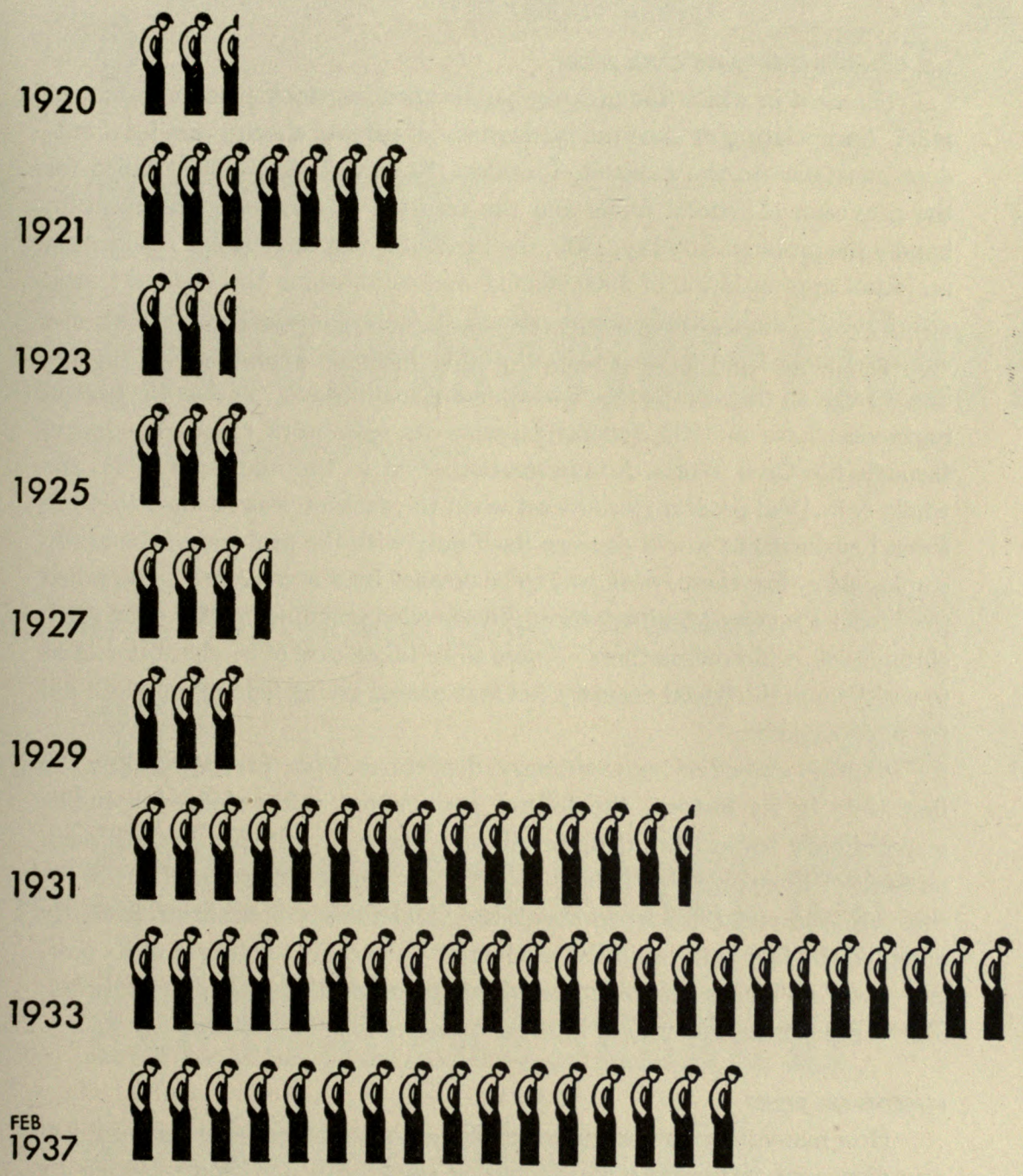
There were real evidences that permanent unemployment had become a characteristic of our present stage of capitalist production. Our foreign trade was contracting. No new areas of industrial enterprise were presenting themselves. The country had been settled, spanned by transportation facilities,

most of its natural resources opened up. Worst of all, technology — through its introduction of labor-saving devices — and scientific management — through the speed-up and stretch-out — were cutting down job opportunities and making human beings obsolescent by the time they reached forty years of age. During the 1920's, this so-called technological unemployment was already present in manufacturing; but then, new service industries were arising to absorb a portion of the unemployed. In the 1930's, technology made even greater strides in an effort to help industry reduce costs. In fact, during the years of the depression alone the productivity of workers in manufacturing increased more than 25 per cent. And driven by the same goad, enterprisers were applying the technics of technology and scientific management to clerical work and mercantile pursuits. Because production was being conditioned by technology and management, in this fashion, a government agency estimated that "in order for unemployment to drop to the 1929 level by 1937 [*i.e.*, 2,000,000], goods and services produced would have to reach a point 20 per cent higher than that in 1929."

THE GOVERNMENT'S PROGRAM

The New Deal fed the unemployed and gave a small number of them jobs in WPA projects. It made no effort to tackle seriously this frightening problem of the permanently displaced. It did not, for example, launch a great program of public works' construction; in fact, as we shall see, it virtually closed down the activities of the Public Works Administration late in 1935. Acting on the assumption that unemployment was purely a temporary and short-time problem — an assumption incidentally, which no one really believed — the New Deal wrote into its Social Security Act of 1935 a requirement that the separate states set up unemployment insurance funds. By the spring of 1937, more than forty states had done so. What these schemes meant, simply, was that in most jurisdictions reserves were to be built up on the basis of employer contributions; the unemployed were to receive minimum benefits of about $15 a week; and these payments were to run for about one week of benefits to from four to six weeks of previous employment. As a rule, agricultural and domestic workers and those in non-profit making, educational, religious and charitable organizations were excluded. This was insurance against occasional unemployment. It had nothing to do with the pressing concern of how to handle the question of the great group of permanently unemployed.

ESTIMATED UNEMPLOYMENT



Each figure represents 600,000 unemployed

©

71. GENERAL RELIEF CASES AND WORKS PROGRAM EMPLOYMENT

THE GOVERNMENT TAKES OVER RELIEF

The area in which the greatest public spending took place was that of relief. Appreciating at once the inadequacy of private charity and local outdoor assistance to the indigent, President Roosevelt's New Deal called for the provision of federal funds and the creation of a federal machinery to handle the problem. In May, 1933, the Federal Emergency Relief Act, voting an initial appropriation of $500,000,000 and establishing the Federal Emergency Relief Administration, was passed. In the beginning the program was simple. Funds were to be paid out to the states and these were to give direct relief to the needy and provide such "made work" jobs as they could improvise. Late in 1933, federal experiments with work relief were begun through the Civil Works Administration. And in the middle of 1935, the whole New Deal program was recast when the decision was reached that the federal government would concern itself only with the problem of the needy employables. For these, work was to be created by a new agency to be called the Works Progress Administration. All so-called unemployables — the aged, chronic sick, widowed mothers — were to be taken care of by the states. And to assist them the Social Security Act was passed giving federal grants-in-aid for such purposes.

All this embodied extraordinary departures from precedent. For the first time in its history, the federal government acknowledged a public responsibility toward the underprivileged, who were without work through no fault of their own. In the second place, by the continuance of the WPA through 1936 and 1937, when business revival already had begun, it tacitly accepted the fact that capitalist production — even at the height of its powers — was no longer capable of providing jobs for all those willing to work. The WPA seemed imperative to shore up a weakened structure.

PERSONS ON RELIEF

How many persons were on relief? No exact count was ever taken. Relief was dispensed to family units, including single men and women living by themselves. In the first quarter of 1933, the total number of family units receiving direct relief was 2,736,000; and the total number of units receiving

GENERAL RELIEF CASES

(120 URBAN AREAS)



MONTHLY AVERAGE

1929 

1932 

1935 

Each symbol represents 100,000 cases

WORKS PROGRAM EMPLOYMENT

WPA

JULY 1935 

DEC. 1935 

JULY 1936 

DEC. 1936 

Each man represents 200,000 peaple employed

©

work relief was 1,824,000. The grand total was 4,560,000. Averaging four persons to a family unit, the approximate population on relief was therefore 18,240,000. In the last quarter of 1935, the family units receiving direct relief numbered 2,789,000; and the family units receiving work relief numbered 3,254,000. The total was 6,043,000; thus the approximate relief population was 24,172,000. That is to say, at the end of 1935, certainly one-fifth of America's population had sunk so low that one form or another of public succor was needed to help them keep body and soul together. For direct relief the average allotment per family unit rose from $15.15 a month in May, 1933, to $30.45 a month in January, 1935. For work relief, under the WPA, the average monthly wage was $50, although the range ran from $19 to $94.

As has been said, revival saw no real improvement. At the peak of its activity in March, 1936, the WPA was furnishing jobs in some 120,000 projects — for unskilled laborers as well as for trained technicians and white-collar workers — to 3,840,000 persons. And in May, 1937, despite strenuous efforts to curtail federal activities, there were still 2,060,000 men and women on WPA projects.

THE COST OF RELIEF

How much did all this cost? It came to a gigantic sum. The FERA and the CWA spent $3,659,000,000. The WPA up to the end of 1936 spent $3,529,000,000. The states and local governments spent $2,940,000,000. The grand total disbursed by federal and state and municipal agencies, from 1933 through 1936, was therefore more than $10,128,000,000. That the end was not in sight was indicated when Congress voted $1,500,000,000 to continue federal relief work for the fiscal year 1937–38.

72. EQUIPMENT OF APARTMENTS AND HOMES

PUBLIC WORKS

Large sums were also spent on public works. In May, 1933, the Public Works Administration was set up; and using this agency and the regular federal departments, the New Deal sought to stay the calamitous drop in construction — an area where the depression was taking its heaviest toll. The PWA operated on the basis of loans and grants to states and localities; but it also approved plans and supervised activities. From the beginning of the New Deal to the middle of 1936 (when the PWA was virtually supplanted by the WPA and new long-term construction projects were therefore terminated), the federal government approved the expenditure of upwards of $4,000,000,000 on public works. This amount was divided among the following types of projects: 23.8 per cent for public buildings; 15.9 per cent for roads; 9.9 per cent for dams; 8.6 per cent for sewage systems; 7.8 per cent for bridges; 3.4 per cent for housing. The balance was distributed among ships, aids to navigation, railroads, water works, power stations and aviation.

How significant was the PWA's contribution in the hastening of revival may be noted from the fact that in its three years of operation it was responsible for the construction of 4,000 educational buildings, 1,500 water-supply projects, 900 sewage systems, 40,000 hospital beds, 166 bridges, and the like. Indeed, through governmental efforts, the average expenditure on public construction was restored to 60 per cent of the pre-depression level.

HOUSING

Only in the provision of housing did government fail. The chart indicates how inadequate housing facilities have continued to be in a group of outstanding American cities. Great numbers of urban families live in dwellings that still do not conform to minimum standards of safety, health and decency. Their homes are without indoor toilets, bathing facilities, gas or electric cooking, refrigeration, adequate sunlight and ventilation, reasonable fire protection, privacy. Wretched slums abound in all our cities and in our countryside as well. In New York City, for example, about one-fourth of the entire population (1,800,000 persons) lives in filthy and unsafe tenements, many more than thirty years old; these tenements have 200,000 dark rooms into which the daylight never penetrates. It has been agreed by many

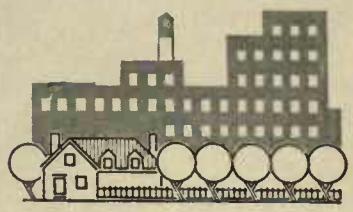
authorities that the country needs more than eight million new urban housing units to replace sub-standard dwellings; and more than three million new rural units. In short, a modest estimate would be that fully one-third of our population is inadequately housed. It would cost one hundred billions to erect these new dwellings. Private building has proved its incapacity for the task; and this is so simply because a vast proportion of the American people cannot pay the $8 to $10 per room a month for new housing that present construction methods demand. Nor can they afford to pay the $7 per room a month in the PWA houses. Our government, as yet, has refused to face that stubborn fact.

THE FAILURE OF PUBLIC AND PRIVATE HOUSING

During the period 1920–30, private residential construction erected annually in urban and non-farm areas 700,000 family units. During 1933 and 1934, the average annual building was 60,000 units, which was less than the estimated requirements for replacement. During 1935 and 1936, the average annual building was in the neighborhood of 200,000 units. Of this depression building, little as it was, the PWA was responsible for but 25,000 family units. Today, no serious efforts are being made to house the poor. The slums — one of industrial capitalism's leading contributions to American civilization — still exist in all our cities as breeding places of infant deaths, disease, vice and juvenile delinquency.

With other housing problems the New Deal was more successful. It came to the relief of distressed small home owners through the agency of the Home Owners Loan Corporation. To prevent wholesale foreclosures, the HOLC exchanged its bonds for the instruments of mortgagees and issued new mortgages to home owners. These carried lower interest rates and provisions for the payment of principal over a long period of years. When the operations of the HOLC ceased, in June, 1936, it had lent out three billions on one million new mortgages. The New Deal also expanded the Home Loan Bank System, under which building and loan societies were given loans and advances to permit them to finance new construction. And in July, 1934, the Federal Housing Administration was established in order to help with the renovation of old homes and the purchase of new ones. The most important function of this new agency was the insurance and sale of mortgages through a Mutual Mortgage Insurance Fund.

EQUIPMENT OF APARTMENTS AND HOMES (IN 64 CITIES)



Each symbol represents 10 per cent

©

73. OUR AGEING POPULATION

THE SLOWING UP OF POPULATION GROWTH

The American people were becoming older; and this phenomenon was likely to have profound economic and social effects. The nineteenth century, throughout the world, saw an extraordinary increase in population growth, thanks to the creation of more goods and the conquest of disease. The life span was being lengthened a little. But, more significantly, the survival of greater numbers of female children during the critical years up to age five made possible their continuance into the child-bearing years. Because the United States opened up such vast possibilities for expansion, it attracted young immigrants from abroad and it seated a great population upon the land. Both these factors, too, accounted for large birth rates and the continued growth of the younger age groups.

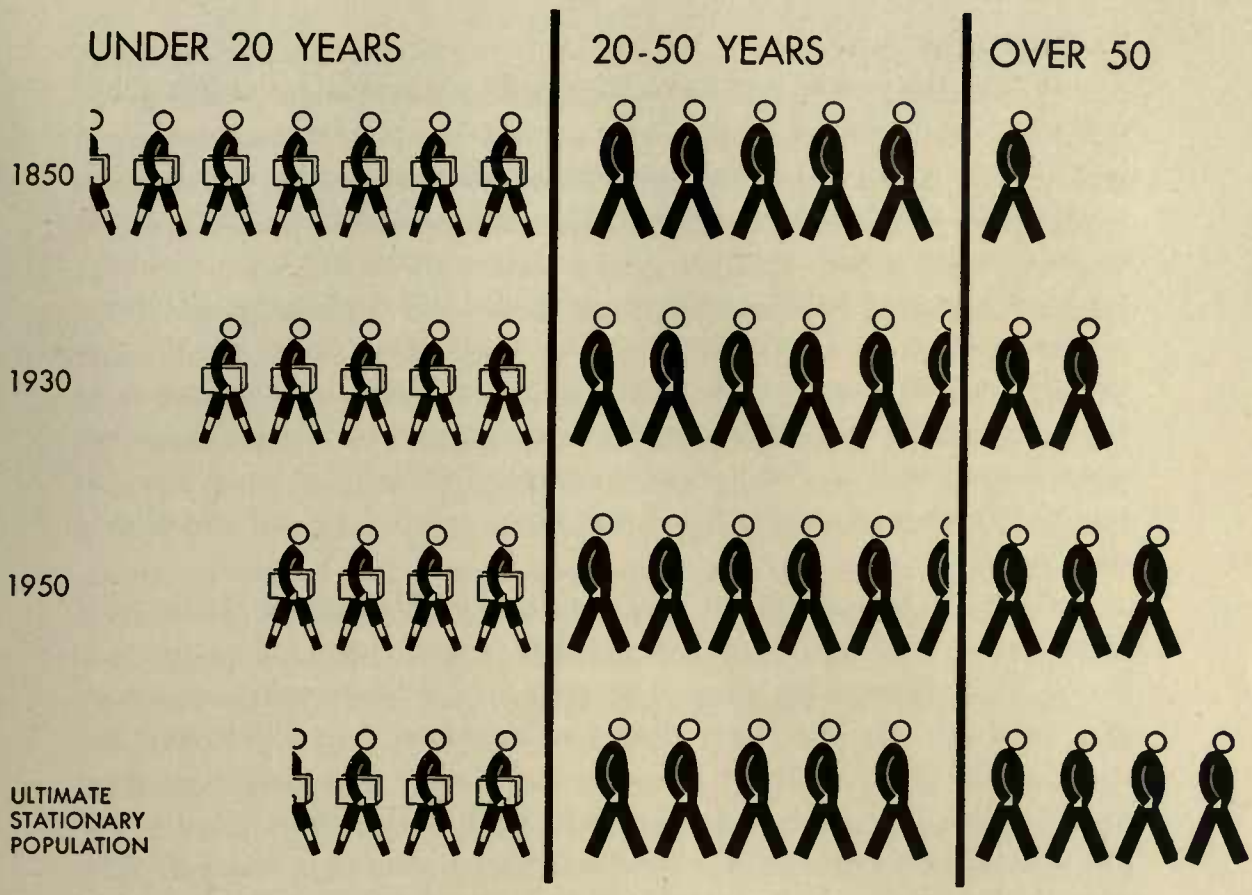
Beginning with the 1920's, the age group below five years no longer was being fully replaced. This meant a slowing up of births and eventually a stationary and perhaps ultimately a declining American population. It was being estimated that in 1950, the population would stand at either 140,500,000 or 148,500,000; and that in 1980, it would stand at either 145,000,000 or 150,000,000. Whatever the basis of calculation, certainly by the end of the century the population would be advancing imperceptibly.

CHANGES IN AGE DISTRIBUTION

The distribution of the population in significant age groups was bound to change as well. The median age of the population in 1820 was 16.7 years; in 1930, 26.4 years. As a result of fewer children the shift was going to continue toward the older age groups. Thus, in 1930, 22.8 per cent of the population was forty-five years and over; in 1950, this group's proportion was probably going to be 30 per cent. In 1930, 5.4 per cent of the population was sixty-five years and over; in 1950, this age group was probably going to make up 8 per cent of the whole.

Some of the results of this ageing process undoubtedly would be far-reaching. Fewer children sooner or later would mean a complete overhauling of our educational programs. More elders, who already were falling behind in their ability to keep up with advances in technology and the speed-up on the assembly line, would mean the growing emphasis of public education on

OUR AGEING POPULATION



Each symbol represents 8 per cent of the population

the retraining of the old for productive living and the creation of plans for leisure-time activity.

PROBLEMS OF THE AGED

In fact, the problems of the aged already were pressing current public concerns. The diseases of elders are degenerative and require longer periods of hospitalization and convalescent care. More and more, public authority was being called upon to provide appropriate institutions. The unemployment of elders demands public programs of vocational rehabilitation and old-age pensions. European nations had been compelled to come to grips with these needs as early as the 1880's. Because of the youth of our people and the continued industrial progress we were making, we could afford to disregard them for a long time. True, old-age pensions were introduced in a few American states as early as 1915. But it was not until the 1930's that it began to be felt that the question of aged care was one which only the federal government could handle.

The Social Security Act of 1935 was a step in this direction. It provided for the payment of federal grants-in-aid of 50 per cent, up to $15 monthly per person, to all states giving pensions to needy men and women sixty-five years of age and over. By 1937, forty states had liberalized their laws to meet the requirements of the Social Security Act and already were receiving federal contributions. The average pension paid out for the whole country was $18.78 in December, 1936. The total number of pensioners was 1,107,000. Also, the law made provision for the creation of an "old-age reserve account" in the federal Treasury, which was to be built up by taxes imposed on employers and workers. After having attained sixty-five years, a qualified individual — one who had been employed in a group of selected industries for some five different calendar years after December 31, 1936 — was to receive an annuity. Thus a man reaching the age of sixty-five, ten years subsequent to 1936, during which time he had been receiving a monthly salary of $75, would receive old-age benefits of $20 each month.

The establishment of security in a capitalist society — as protection against the perils of illness, invalidism, old-age dependency, industrial accidents, widowhood, orphanage and unemployment — called for greater and greater public participation with an increasing diversion of national income into such activities. We, as a people, were growing old; and so was our economy.

74. COURSE OF RECOVERY

FORCES STIMULATING REVIVAL

By 1936, business revival was rapidly moving toward the levels of 1929. There could be no question that the leading factor in the situation was the spending program of the New Deal administration. Vast sums were poured out by the government on public works, as subsidies to farmers, for relief and to increase armaments. These were stimulating heavy goods' and consumers' goods industries alike. Other forces exerting significant influences were the following: first, the administration's devaluation of the dollar had encouraged prices to rise, thus relieving considerably the burden of debt charges and encouraging the processes of revival; second, industry found it imperative to replace portions of obsolescent plants and machinery, so that the capital goods' industries began to resume operations naturally; third, more efficient industries were hastening to introduce labor-saving devices in order to reduce their wage costs; fourth, European countries preparing for war were laying up stocks of basic materials, thus temporarily creating markets for American cereals, cotton, metals, heavy steel and munitions.

UNFAVORABLE FACTORS

While the general level of production in 1937 was reaching the position of 1929, it must not be assumed that relatively our economy had recovered all the losses suffered in the depression. For one, the population of the country had increased. Again, the rate of productivity in industry was greater. Finally, in the spring of 1937, there were still 9,700,000 unemployed. Indeed, the Department of Labor estimated it was imperative for production and services to rise 20 per cent above the 1929 record before we could feel encouraged that our economy was resuming where it had left off when the depression began.

Again, while the general situation appeared encouraging, there were many particular regions in which the unfavorable aspects still were very marked. Wages lagged behind industrial production. Freight-car loadings were slow in recovering their former position. Cash farm income was far behind its previous level. Exports still continued at a low point. The construction industry was still in depression. Bank debits outside of New York City, representing check payments, or spendings, continued sluggish. The chart

clearly shows the spotty nature of recovery, comparing the experiences of 1933 with 1937. The following index figures present the record in greater detail. The figures are based on the monthly average for 1923–25 as 100, except where otherwise indicated.

	FIRST-QUARTER AVERAGE			
Series	*1929*	*1933*	*1936*	*1937*
Industrial production	121	63	96	117
Factory employment	102.5	62.6	87.2	98.8
Factory pay rolls	107.8	39.7	75.0	95.9
Freight-car loadings	97	50	63	73
Retail sales, dept. stores, value	96	49	69	79
Exports, value	116	28	60	62
Imports, value	125	29	50	85
Bank debits, outside N. Y. City	136.3	[1]	86.4	95.9
Construction contracts, all types, value	107	16	47	54
Cash farm income (monthly average, 1924–29=100)	92.7	34.8	59.2	68.5
Wholesale price index, 784 commodities (monthly average 1926=100)	95.8	60.3	80.3	86.7
Cost of living (monthly average, 1923=100)	99.6	72.6	83.5	87.3
Retail prices, food (monthly average 1923–25=100)	102.1	60.8	80.6	84.8

[1] Not available.

EMPLOYMENT AND PAY ROLLS

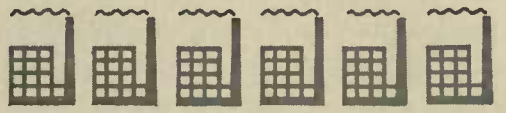
It has been indicated that factory employment and pay rolls were moving toward the 1929 levels. But in a number of outstanding non-manufacturing pursuits, the achievements were not nearly so sizable. The following figures show this state of affairs. They indicate, at any rate as far as two important service industries were concerned, that the factory unemployed were not being absorbed by trade and communications. The figures are based on the monthly average of 1929 as 100.

	ANTHRACITE MINING		BITUMINOUS MINING		TELEPHONE AND TELEGRAPH		RETAIL TRADE	
First-quarter average	*Employment*	*Pay rolls*	*Employment*	*Pay rolls*	*Employment*	*Pay rolls*	*Employment*	*Pay rolls*
1929	103.2	104.5	107.0	110.4	95.4	95.4	96.7	96.1
1933	55.3	49.6	68.9	34.7	73.9	71.7	70.5	51.8
1936	57.6	57.9	80.1	73.1	70.1	76.1	80.7	62.4
1937	51.9	40.5	85.0	83.6	74.8	84.4	86.5	68.8

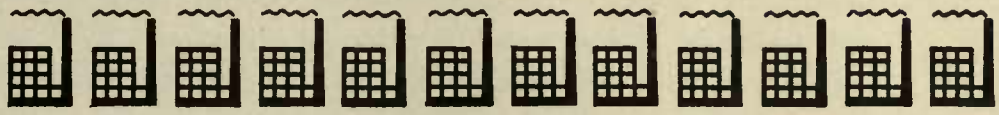
COURSE OF RECOVERY

INDUSTRIAL PRODUCTION

MARCH 1933



MARCH 1937



CONSTRUCTION CONTRACTS

MARCH 1933



MARCH 1937



FACTORY PAYROLLS (UNADJUSTED)

MARCH 1933



MARCH 1937



EXPORT VALUE

MARCH 1933



MARCH 1937



FREIGHT-CAR LOADING

MARCH 1933



MARCH 1937



Each symbol represents 10% of 1923-25 monthly average

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75. OUR PRODUCTIVE CAPACITY

BROOKINGS INSTITUTION STUDY OF UNUSED CAPACITY

It has been said that America possessed a physical plant capable of supplying all the elementary needs of its population with an adequacy of food, clothing and shelter. These had not been furnished. We were living in poverty and insecurity in the midst of potential abundance. Why was this? The answer was plain. The mechanism had broken down. Under capitalist production, as was increasingly evident, it had become impossible to provide the great mass of the American people with a comfortable standard of life.

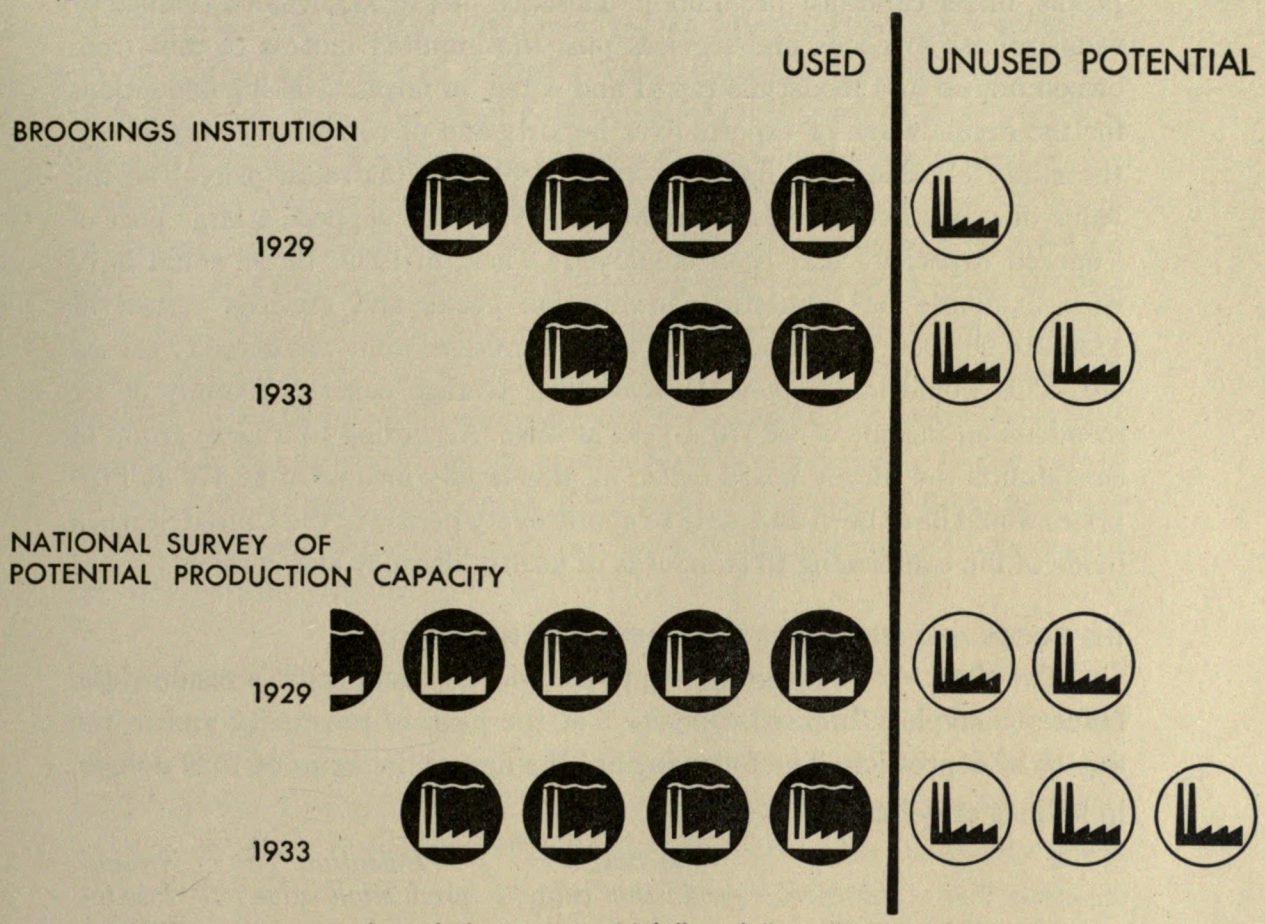
What was America's capacity to produce goods and services in terms of its existing equipment and currently-known technics? Two studies of this problem were made during the depression years. The first, by the Brookings Institution, found that in 1929, at the peak of prosperity, the American economy was not employing its productive capacity fully. In fact, 19 per cent more of goods and services could have been created. Put in terms of money, if capacity had been completely used, we could have added $15,570,000,000 to the national income in 1929. This would have meant raising the incomes of the 16,400,000 families who received less than $2,000 yearly up to that level.

But the Brookings study imposed upon itself a series of significant reservations which made its estimates too low. The Brookings experts looked upon "unused capacity" entirely from the point of view of the current market's ability to absorb goods and services. Therefore, they gave consideration to the current nature of "the labor force, transportation facilities and the supply of money and credit," as limiting factors. They also refused to envisage use of capacity beyond, as a rule, one-shift operation of equipment and seasonality of production.

STUDY OF THE NATIONAL SURVEY OF POTENTIAL PRODUCT CAPACITY

The second study, by the National Survey of Potential Product Capacity, started from the point of serviceability rather than vendibility. It was interested in ascertaining how many goods and services America's current plant could create if production were directed toward the satisfaction of the needs and reasonable wants of its population. In short, the only limiting considerations — and properly so — that these experts accepted were those

OUR PRODUCTIVE CAPACITY



Each symbol represents 20 billion dollars of 1929 value

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of physical factors and the present state of our knowledge; that is to say, our resources, man-power and known technical skills.

This study found that in 1929 the national income of the American people, under capitalist production, consisted of $96,553,000,000 (valued at retail prices) in goods and services plus the imputed income of rent from owned houses and foodstuffs raised and eaten on farms. Making deductions for the excess value of exports over imports and of carried-over inventory, the study obtained the figure of $93,918,000,000 (at retail prices) as the value of goods and services consumed in 1929. But suppose a large part of "unused capacity" had been employed? Then, in 1929, there would have been available for domestic consumption goods and services valued at $135,516,000,000; or an increase of 44 per cent over what was actually turned out. This would have given the statistical average American family of 4.1 members an income of $4,370 a year at once. According to a large group of consultants the survey board called in, this family income of $4,370 at 1929 prices would have been adequate to assure every person in the United States a mode of life conforming to standards of health, decency and comfort.

THE GOODS AND SERVICES WE HAD AND MIGHT HAVE HAD

The chart shows the great loss to American consumers as a result of the failure to employ "unused capacity" at the peak of prosperity and in the depths of depression. The following are the figures, in terms of 1929 dollars, in billions of dollars.

		Actual production value	*Potential production value*	*Annual loss to consumer value*
Brookings				
Institution	1929	81.9	97.5	15.6
	1933	59	97.5	38.5
N.S.P.P.C.	1929	93	135	42
	1933	76	141	65

76. THE UNITED STATES AND THE WORLD

OUR GREAT NATURAL ADVANTAGES

Such was our balance sheet in the middle of 1937. The American people had conquered and settled a vast continent in a little more than three hundred years. They had bent the forces of nature to their purposes. They had subdued a wilderness, brought a virgin land under the plow, extracted from the bowels of the earth great riches of minerals. They had erected mighty cities in which were gathered millions of persons for the production and distribution of every conceivable kind of goods. A great physical plant existed capable of supplying their every normal need. No other nation in our modern world was so fortunately dowered. Seated on less than one-tenth of the earth's surface, and possessing only a small fraction of the earth's population, the American people nevertheless were producing 13 per cent of all the world's wheat, 41 per cent of its steel, 37 per cent of its coal, 42 per cent of its cotton, 59 per cent of its oil. They owned more than 40 per cent of the whole world's wealth.

THE SHORT-TIME OUTLOOK FOR THE FUTURE

And yet, these vast resources, this great plant, all this wealth were incapable of keeping more than a small fraction of the population on a decent level of living. Unemployment had always been chronic; it had now become permanent. The requirements of capitalist production demanded that goods be destroyed or, indeed, never be produced: and this in the face of wholesale insecurity and want. From time to time the whole mechanism of production broke down so that periodic crises saw real suffering sweeping over the whole land. The American people were just emerging from the latest — and the worst — of such crises: with physical plant in bad disrepair, a heavy burden of public debt, a large part of the population dispirited, a great reserve army of permanent unemployables.

The outlook for the immediate future was scarcely bright. Our agriculture was in a state of lasting crisis. Only public subsidy could maintain it; and this at a terrific cost to the wage-earner in higher food and clothing bills. Our housing was at a deplorably low standard; fully one-third of the population lived wretchedly. And our private construction industry could not supply decent housing at a price commensurate with the ability to pay of

the great mass of the American population. Our foreign trade was stagnant. Too many other nations throughout the world were, like ourselves, seeking to produce industrial goods. A program of economic nationalism everywhere was guiding public policy. We were saving and accumulating: yet opportunities for the fruitful investment of surpluses both at home and abroad were becoming fewer and fewer. Outside our own borders, the economically backward areas of the world had been shared out. Continued imperialist expansion — which today, simply meant outlets for capital accumulations — could be carried on only by challenging the monopoly rights of other world powers. And that meant war. Indeed, the prospect of war had to figure in every calculation for the immediate future.

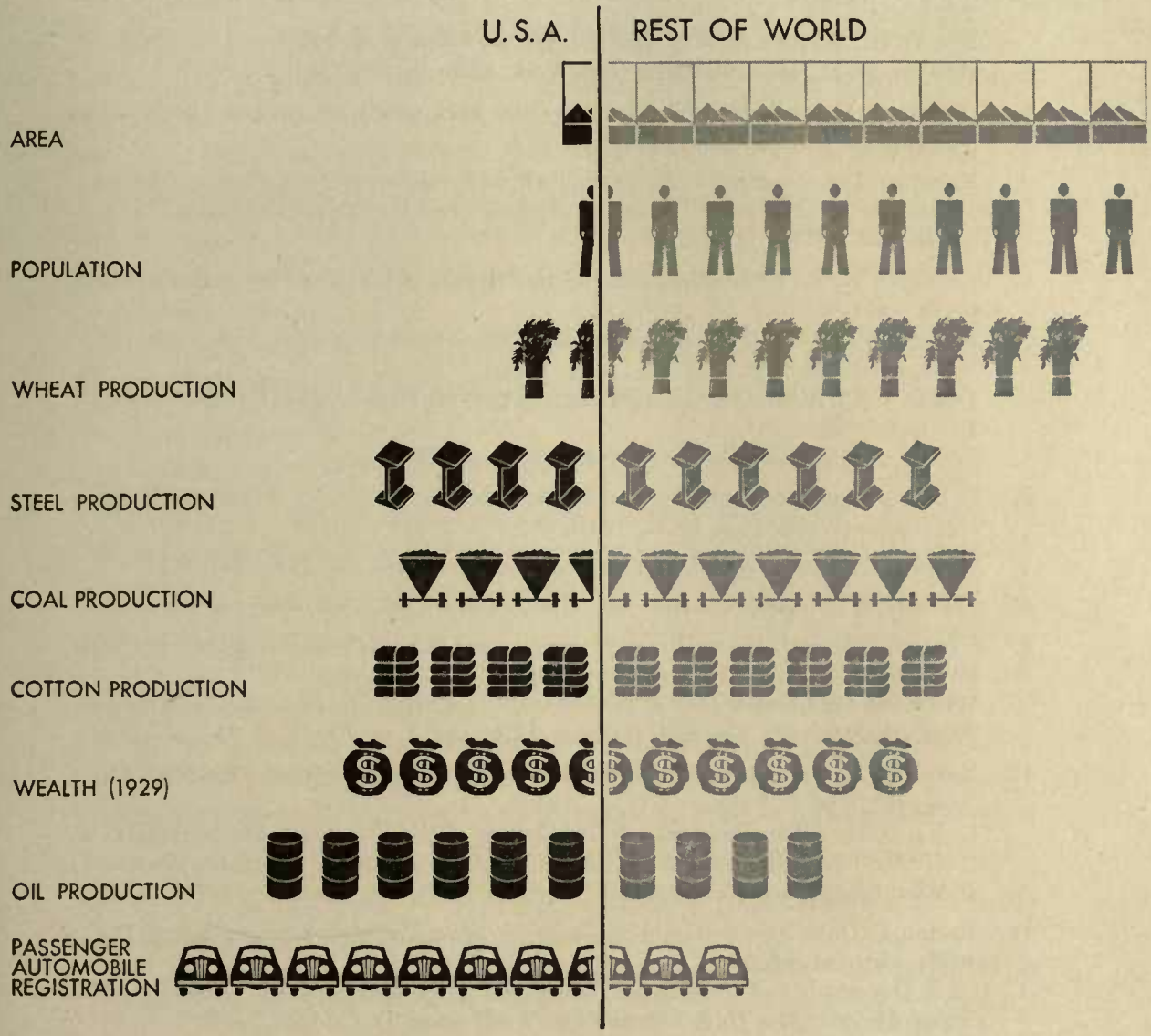
The political outlook also was disquieting. To save capitalist production from complete breakdown during the depression of 1930 and after, it had been necessary to use the financial power of the state and to centralize authority increasingly in the hands of a single agency, the Presidency. State capitalism — for that was the political and economic epoch in which we were living — had its very real dangers. It meant more and more the penetration by the state not into our economic lives alone; it held out the threat of a similar penetration into our private lives. The building up gradually of an overweening executive authority at the expense of the legislative branch of government might very easily dull our democratic habits of resistance; and end in the destruction of our civil liberties if power were achieved by an unscrupulous individual and party.

THE LONG-TIME OUTLOOK FOR THE FUTURE

Nevertheless, the outlook for the real future *was* bright. Mankind has continued to progress. It has climbed higher and higher when it has had the will to do so; when it has been ready and willing to challenge the forces of privilege and reaction. A knowledge of our physical capacities was spreading. At the same time, more and more, American workers of hand and brain were uniting to defend their liberties. It was inevitable that they should use this mass power to free themselves from a system of production — the profit system — which was every day proving that it had outlived its usefulness.

THE UNITED STATES AND THE WORLD





Each symbol represents 10 per cent of the world total in last available year

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