

AMERICAN ECONOMIC SYSTEM

Agriculture, mass production, the labor movement, and the economic system

From Agriculture ...

- Agriculture in the United States has changed dramatically over the last 200 years. At the time of the American Revolution (1775-83), 95 percent of the population was engaged in farming. Today that figure is less than 2 percent. Farming and its related industries have become big business - "agribusiness." Yet for all the changes, agriculture is constant in American life, and the food produced is safe, abundant, and affordable.
- As settlement advanced from east to west, U.S. agriculture attained a richness and variety unmatched in most other parts of the world. This is true still today, in large part owing to the quantity of land and the generosity of nature. Only in a relatively small portion of the western United States is rainfall so limited that deserts exist. Elsewhere, rainfall ranges from modest to abundant, and rivers and underground water allow for irrigation where needed; providing ideal conditions for large-scale agriculture.
- In most sections of the United States, land was too abundant and labor too scarce for the English system - in which a landed gentry owned vast estates and most farmers were tenants - to take hold. North American agriculture came to be based on a multitude of family farms. Moreover, these farms tended to be scattered and isolated, rather than clustered around villages, thus enhancing the farmer's individualism and self-reliance.
- Readiness to embrace new technology has been characteristic of American farmers, and throughout the 19th century one new tool or invention followed another in rapid succession. Machines were taking over the work of haying, threshing, mowing, cultivating, and planting - and, in doing so, spurring big increases in productivity.
- Another factor in the rise of agricultural output was the rapid flow of settlers across the Mississippi River in the late 19th century. The federal government promoted the internal migration in several ways.
- For a time inventions and pro-farming policies were almost too successful. Overproduction became a serious problem after the Civil War. With demand unable to keep pace with supply, the prices farmers received for their products fell. The years from the 1870s until about 1900 were especially hard for the American farmer.
- Beginning with the creation of the Department of Agriculture in 1862, the federal government took a direct role in agricultural affairs, going so far as to teach farmers how to make their land more productive.
- Today a maze of legislation embodies U.S. farm policies. On the theory that overproduction is a chief cause of low farm prices, in some circumstances the government pays farmers to plant fewer crops. Certain commodities can be used as collateral to secure federal loans, or "price supports." Deficiency payments reimburse farmers for the difference between the "target price" set by Congress for a given crop and the actual price paid when the crop is sold. And a federal system of dams and irrigation canals delivers water at subsidized prices to farmers in western states.

- Overall, American agriculture has been a notable success story. American consumers pay less for their food than those in many other industrial countries, and one-third of the cropland in the United States produces crops destined for export. In 1995 agricultural exports exceeded imports by nearly two to one.
- But agricultural success has had its price. Conservationists assert that American farmers have damaged the environment by excessive use of artificial fertilizers and chemicals to kill weeds and pests. Toxic farm chemicals have at times found their way into the nation's water, food, and air, although government officials at the state and federal levels are vigilant in their efforts to protect these resources.
- In the meantime, scientists at research centers across the United States search for long-term solutions. Employing such innovative techniques as gene-splicing, they hope to develop crops that grow rapidly and resist pests without the use of toxic chemicals.

... To An Industrial Nation

- The census of 1890 was the first in which the output of America's factories exceeded the output of its farms. Afterwards U.S. industry went through a period of rapid expansion. By 1913, more than one-third of the world's industrial production came from the United States.
- In that same year, automaker Henry Ford introduced the moving assembly line, a method in which conveyor belts brought car parts to workers. By improving efficiency, this innovation made possible large savings in labor costs. It also inspired industrial managers to study factory operations in order to design even more efficient and less costly ways of organizing tasks.
- When U.S. automaker Henry Ford published his autobiography, *My Life and Work*, in 1922, he used his unit headings to frame a series of questions: "How Cheaply Can Things Be Made?" "Money - Master or Servant?" "Why Be Poor?"
- These are the very questions that have fascinated generations of American business and industrial leaders. In their drive to find answers, business people have sought to make and distribute more goods for less money and at greater profit. To a remarkable extent, they have done so.
- Lower costs made possible both higher wages for workers and lower prices for consumers. More and more Americans became able to afford products made in their own country. During the first half of the 20th century, mass production of consumer goods such as cars, refrigerators, and kitchen stoves helped to revolutionize the American way of life.
- Thanks to several waves of immigration, America gained population rapidly throughout the 19th and early 20th centuries, when business and industry were expanding. Population grew fast enough to provide a steady stream of workers, but not so fast as to overwhelm the economy.
- Industrial expansion was also powered by something in the American character: a strong dose of the entrepreneurial spirit. Some have traced this impulse to religious sources: the Puritan or Protestant ethic that considers hard work pleasing to God. But others have



1924 Dodge by Henry Ford

questioned whether the ruthlessness of some American businessmen, especially in the era of the "robber barons" in the late 19th and early 20th centuries, is consistent with deep religious feeling.

- In the late 18th century, American manufacturers adopted the factory system, which gathered many workers together in one place. To this was added something new, the "American system" of mass production, which originated in the firearms industry about 1800. The new system used precision engineering to transform manufacturing into the assembly of interchangeable parts. This, in turn, allowed the final product to be made in stages, with each worker specializing in a discrete task.
- The moving assembly line was criticized, however, for its numbing effect on workers, and it was satirized in Charlie Chaplin's movie *Modern Times* (1936). The assembly line has been modified in many U.S. factories, including automobile-manufacturing plants, where "quality circles" put together an entire car from start to finish, with workers sometimes performing different tasks.
- The construction of railroads, beginning in the 1830s, marked the start of a new era for the United States. The pace of building accelerated after 1862, when Congress set aside public land for the first transcontinental railroad. The railroads linked far-flung sections of the country into the world's first transcontinental market and facilitated the spread of settlements. Railroad construction also generated a demand for coal, iron, and steel - heavy industries that expanded rapidly after the Civil War.

... And A Postindustrial Economy

- It was America's good fortune to be spared the devastation suffered by other nations during the 20th century's two world wars. By the end of World War II in 1945, the United States had the greatest productive capacity of any country in the world, and the words "Made in the U.S.A." were a seal of high quality.
- The 20th century has seen the rise and decline of several industries in the United States. The auto industry, long the mainstay of the American economy, has struggled to meet the challenge of foreign competition. The garment industry has declined in the face of competition from countries where labor is cheaper. But other manufacturing industries have appeared and flourished, including airplanes and cellular telephones, microchips and space satellites, microwave ovens and high-speed computers.
- Many of the currently rising industries tend to be highly automated and thus need fewer workers than traditional industries. As high-tech industries have grown and older industries have declined, the proportion of American workers employed in manufacturing has dropped. Service industries now dominate the economy, leading some observers to call America a "postindustrial" society. Selling a service rather than making a product, these industries include entertainment and recreation, hotels and restaurants, communications and education, office administration, and banking and finance.
- By injecting new capital into other economies, American investors can set in motion forces impossible to predict. Some Americans are concerned that by investing abroad, American business is nurturing future competitors. They note that U.S. government policies fostered Japan's economic resurgence after World War II and that American corporations shared technology and sent experts to teach the Japanese such practices as quality control - practices that the Japanese have since carried to new and highly profitable heights. The ratification of

the North American Free Trade Agreement in 1993, however, confirmed the continuing American commitment to robust international trade.

Labor Unions

- The factory system that developed around 1800 changed working conditions markedly. The employer no longer worked side-by-side with his employees. He became an executive, and, as machines took over manufacturing tasks, skilled workmen saw themselves relegated to the status of common laborers. In bad times they could be replaced by newcomers at lower wages.
- As the factory system grew, workers began to form labor unions to protect their interests. The first union to hold regular meetings and collect dues was organized by Philadelphia shoemakers in 1792. Union members would agree on the wages they thought were fair, pledge to stop working for employers who paid less, and pressure employers to hire union members only.
- Employers fought back in the courts, which commonly ruled that concerted action by workers was an illegal conspiracy against their employer and the community. But in 1842 the Massachusetts Supreme Court held that it was not illegal for workers to engage peacefully in union activity. This ruling was widely accepted, and for many years afterwards unions did not have to worry about conspiracy charges. Unions extended their efforts beyond wages to campaign for a 10-hour workday and against child labor. Several state legislatures responded favorably.
- In recent decades there has been a decrease in the percentage of workers who join a union. Among the reasons are the decline of heavy industries, which were union strongholds, and the steady replacement of "blue-collar" workers by automation. Even so, organized labor remains a strong force in the U.S. economy and politics, and working conditions have steadily improved.
- Meanwhile, the work force includes more women than ever before. And although the American work week typically amounts to between 35 and 40 hours, there are many departures from the norm: people working part-time or on "flexi-time" (for example, for four days they may work 10 hours a day instead of 7 or 8 and take the fifth day off) or "telecommuting" from their homes with the assistance of phone, computer, and facsimile (fax) machine.

The American Economic System

- The United States declared its independence in the same year, 1776, that Scottish economist Adam Smith wrote *The Wealth of Nations*, a book that has had an enormous influence on American economic development.
- Like many other thinkers, Smith believed that in a capitalist system people are naturally selfish and are moved to engage in manufacturing and trade in order to gain wealth and power. Smith's originality was to argue that such activity is beneficial because it leads to increased production and sharpens competition.
- As a result, goods circulate more widely and at lower prices, jobs are created, and wealth is spread. Smith argued, "an invisible hand" guides them to enrich and improve all of society.

Most Americans believe that the rise of their nation as a great economic power could not have occurred under any system except capitalism, also known as free enterprise after a corollary to Smith's thinking: that government should interfere in commerce as little as possible.

The Stock Market

- Very early in America's history, people saw that they could make money by lending it to those who wanted to start or expand a business. To this day, small American entrepreneurs usually borrow the money they need from friends, relatives, or banks. Larger businesses, however, are more likely to acquire cash by selling stocks or bonds to unrelated parties. These transactions usually take place through a stock exchange, or stock market.



Wall Street

- Europeans established the first stock exchange in Antwerp, Belgium, in 1531. Brought to the United States in 1792, the institution of the stock market flourished, especially at the New York Stock Exchange, located in the Wall Street area of New York City, the nation's financial hub.
- Except for weekends and holidays, the stock exchanges are very busy every day. In general, prices for shares of stock are rather low, and even Americans of modest means buy and sell shares in hopes of making profits in the form of periodic stock dividends. They also hope that the price of the stock will go up over time, so that in selling their shares they will make an additional profit. There is no guarantee, of course, that the business behind the stock will perform well. If it does not, dividends may be low or nonexistent, and the stock's price may go down.

Questions and Discussions

1. Cloze (one word is needed in each blank)

Most Americans believe that the rise of their nation as a great power could not have occurred under any system except capitalism and that government should in commerce as little as possible.

"The business of America," President Calvin Coolidge said in 1925, "is" This formulation is actually cannier than it may appear. Substitute "preoccupation" for the first "business," and you have a capsule summary of the entrepreneurial spirit behind America's The lesson examines, the first American industry; the American style of mass production; the labor; and the nation's economic system.

2. What are the factors that make the American agriculture so developed? What roles does the Government play in this development? What is it meant by "... *agricultural success has had its price.*"?

3. How much do you understand the American character in doing business: "a strong dose of the entrepreneurial spirit? What is the American style of mass production?
4. Briefly outline the movement of Labor Unions in the U.S.
5. What has greatly influenced the rise of this nation's economic system?