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Responsibility, Ethics and American Economic Thought, 1776-1900

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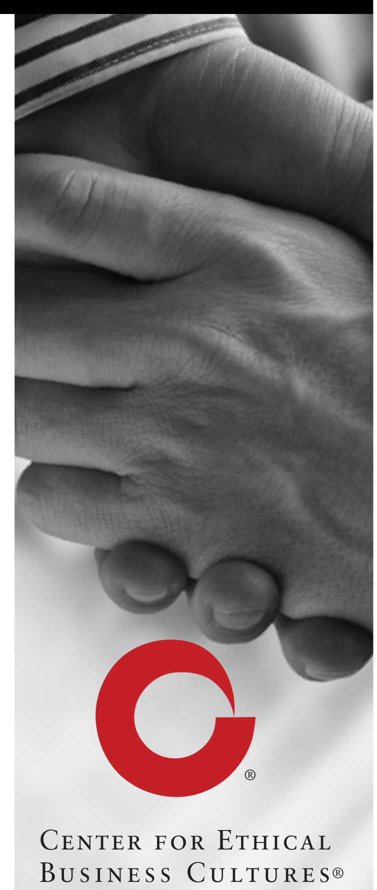
HISTORY OF CORPORATE RESPONSIBILITY PROJECT

Working Paper No. 7



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CENTER FOR ETHICAL BUSINESS CULTURES®

The CEBC History of Corporate Responsibility Project

In mid-2008, the Center for Ethical Business Cultures (CEBC) launched a multi-year project to research and write U.S. and global histories of corporate responsibility. Funding for the project flows from a major gift by Philadelphia entrepreneur Harry R. Halloran, Jr. to the University of St. Thomas. This grant followed earlier gifts by Mr. Halloran to CEBC to conduct preliminary research and feasibility studies beginning in 2004 and convene a national consultation among scholars and practitioner in November 2007.

OUR APPROACH

The idea of corporate responsibility is not new; antecedents lie in the 18th and 19th centuries. The 20th century, and particularly the last 60 years have witnessed dramatic social, economic, environmental and regulatory challenges to business. Two volumes are envisioned: an initial volume focused on the U.S. experience; a subsequent volume focused on the emergence of corporate responsibility in countries and regions around the globe. Pursuing a "double helix" approach, the project explores the interweaving of the history of thinking about business responsibilities and the history of business practices. The interplay of societal change and the emergence of the modern business corporation provide the stage for exploring questions of purpose and responsibilities of business.

To tackle the U.S. history, CEBC engaged a team of distinguished scholars and supports their work with a series of working papers and interviews with experienced business practitioners.

THE HALLORAN PHILANTHROPIES

The Halloran Philanthropies, founded by Philadelphia entrepreneur Harry R. Halloran, Jr., is guided by Halloran's belief that business is one of the most powerful drivers for positive social change. Halloran is the Chairman and CEO of American Refining Group, Inc., and founder and CEO of Energy Unlimited, Inc., both headquartered in Pennsylvania.

THE CENTER FOR ETHICAL BUSINESS CULTURES (CEBC)

The Center for Ethical Business Cultures (CEBC) at the University of St. Thomas is a 501(c)3 nonprofit organization situated in the university's Opus College of Business. Working at the intersection of the business and academic communities, CEBC assists business leaders in creating ethical and profitable business cultures at the enterprise, community and global levels. The center was founded by Minnesota business leaders in 1978. Please visit www.cebcglobal.org for more information.

About the Author

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Christopher W. Calvo is a Ph.D. candidate in the History Department at Florida International University (FIU). His dissertation, "An American Political Economy: Industry, Trade, and Finance in the Antebellum Mind" examines American economic thought in the pre-Civil War era. He teaches history at a preparatory school in Miami, Florida. Mr. Calvo wishes to thank Dr. Kenneth J. Lipartito at FIU for his careful readings, advice and suggestions in the course of preparing this working paper.

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Overview

Nineteenth-century American economic thought offered reflective criticisms and insightful suggestions pertaining to the obligations of corporate enterprise. Although the notion of corporate social responsibility was not featured in the discourse, for-profit entities were held accountable to implicit, and sometimes explicit, codes of social behavior. Attitudes toward corporations/businesses are woven throughout the period's treatises on political economy. Americans couched their discussion in an intellectual milieu particular to the era. They borrowed from an Anglo-American tradition imbued with republican values, a patriotic fervor that swept the nation following the wars with Britain, and the cosmopolitanism of free-trade liberalism. Protectionists, liberals, republicans, pro-slavery Southerners, and an embryonic breed of anti-market thinkers deliberated over the social obligations of corporations, the dialectic between financial institutions and republican values, the tensions between markets and government, the propriety of slave and free labor, and the consequences of business activities on the moral, political and social fabric of the new nation.

Responsibility, Ethics and American Economic Thought, 1776-1900

Introduction

The notion of corporate social responsibility did not receive systematic treatment in American nineteenth-century economic thought (1776-1877). Still, American thinkers of various sorts expressed their views on the relationship between moral and economic matters in academic tracts, popular pamphlets, and political registers. Their writings indicate that both individual and corporate entities were held to a degree of social, moral and political accountability. These expectations reflected long-standing traditions in American economic discourse and set in a language and style of thought distinct to nineteenth century intellectual and social currents.

Nineteenth-century Americans drew on a 17th and 18th century colonial heritage based on a Christian ethic. Colonial society placed clear strictures on economic behavior. Colonists were expected to temper their pecuniary ambitions and follow an economic behavioral code to serve the general good. During the revolutionary and early national periods this moral code was relaxed, but supplemented by notions of republicanism and nationalism that bound the economic activities of individuals and corporations to the national interest. The Jacksonian era (roughly 1820-1848) witnessed a "market revolution" that evoked a comprehensive reexamination of the American economy. Domestic corporations increased significantly in number in this period and the nature of these corporations—defined by size, purpose, legal justification—distinguished the mid nineteenth century corporation from corporate entities of earlier periods. Americans in this period engaged in a dynamic discussion over the role of corporate entities in society, a debate that was tied to new perceptions of the market, industrialization and the spread of financial institutions as well.

The end of the Jacksonian era saw the start of an intense debate over the virtues of free labor, and the vices of slave labor. Indeed, the energy with which northerners and southerners disputed the slave question led to a more expansive dialogue concerning the best sort of economy to serve the social, political and moral fabric of the republic. After the Civil War, during the Era of Reconstruction (1865-1877), Americans began to explore the implication of a new economic order based on large scale industry and corporations of considerable size and influence. The expansion of the central government during the Civil War and Reconstruction periods led to a new debate about the role of the state as well. Together, the debate over the corporation and the state constituted a new understanding of the relationship between private property and public interests. Adherents to the ideology of laissez-faire championed private corporations and strong property rights as the most effective way to promote economic growth and serve the national interest. A diverse collection of opponents sought to soften the harsh logic of an unfettered market, either by protecting the worker through republican notions of free labor or by activating a stronger state to regulate corporate entities.

The Colonial Era

The economy of 17th and 18th century America remained highly localized for most people (except an elite of merchants engaged in Atlantic trade). The localized nature of the economy contributed to intimate economic relations, whereby local authorities maintained an orderly and hierarchal social state and held colonists to a demanding set of social responsibilities based onChristian ethics. Economic thought in this period was still largely tied to a medieval scholasticism that stressed the importance of social equity, communalism, and economic justice.[1]Men of the cloth and laymen alike aimed to construct a 'moral economy' by demanding colonists be "fair-dealers" in commerce, urging adherence to the golden rule in economic exchanges, and banning the charging of interest on money a sacrilege.[2] Broadsides filled with anti-merchant rhetoric critical of the corruptive and anti-social tendencies of commercialism were common in this period.[3] John Winthrop, one of the founders of the Massachusetts Bay Colony and later Governor of the colony, interpreted scripture to defend public over private economy, state surveillance and control of the distribution of wealth, and the heresy of buying cheap to sell dear.[4] Pennsylvania's Quakers also believed religious doctrine essential when determining economic relations. Sumptuary laws were not uncommon, and many expected Church authorities to take the lead role in guarding against inflation.[5] Labor was valued more for its social purpose, and order, stability and social justice were paramount to profits.

Economic conditions, and hence economic values and attitudes, were somewhat different in the southern colonies. The introduction of rice in South Carolina during the 1690s, and later Georgia and North Carolina altered the social and economic organization of the lower colonies. The economies of the lower South were more comparable to the Caribbean colonies rather than to the Northern colonies. In the South, small, diversified farms were supplanted by larger, specialized plantations that relied first on whiteindentured servants and then on African slaves. In South Carolina, for instance, slaves outnumbered whites 2 to 1 by 1730.[6] In early settlements along the Chesapeake, historians estimate indentured servants made up almost 90% of the population, but by the start of the eighteenth century, slaves in Virginian and Maryland accounted for approximately 25% of the population.[7]

Even as the American Revolution drew closer, the coexistence of slavery and liberty did not strike most colonialists as especially contradictory; indeed, the two were in part contingent upon each other. As one historian writes, "the rights of Englishmen were preserved by destroying the rights of Africans."[8]The ubiquity of African slaves in the southern colonies made the lower, property-less station of poor whites seem more agreeable, and the racial differences encouraged white fidelity toward the Southern gentry. Increases in slave importation also helped curtail immigration of white servants. Smaller numbers of whites competed for settlements in an expanding hinterland, providing opportunities for the acquisition of property and thus political rights even among the less well-off of the white population. Slavery also softened the economic and legal pressures previously imposed on whites. Colonial labor laws became more severe for slaves and more tolerant for whites. Southern whites developed a better understanding of absolute values of liberty, removing the ambiguous notions of liberty attached to their condition as indentured servants. Slavery also afforded the Southern colonies economic prosperity.

Having secured material comfort, Southern colonists grew familiar with the trans-Atlantic liberal discourse, began questioning their political relationship with the Crown. They grew increasingly fearful that England plotted to metaphorically enslave the colonies.As the contemporary historian David Ramsay wrote, "In the Southern colonies, slavery nurtured a spirit of liberty among the free inhabitants. All masters of slaves who enjoy personal liberty will be both proud and jealous of their freedom."[9]

By the mid-eighteenth century the increasingly commercialized nature of the colonial economy transformed American economic thought. Eighteenth-centurypolitical economy helped rationalize market-oriented behavior, reconciling individual desires for improving material conditions on the one hand, with the goal of promoting a harmonious commonwealth and the need to ensure personal salvation through ascetic discipline on the other. Even among New England Puritans these goals were not necessarily antithetical. As Max Weber pointed out, Protestants, even those believing in predestination, could seek worldly success as a way to assuage their ever-present anxiety over the state of their souls. Weber's notion of the Protestant Ethic illustrates how colonists could have grown rich but remain pious—a "moral and marketplace discipline" encouraged a kind of Christian-capitalism.[10]

In a similar manner, emphasis on the common good still left plenty of room for promotion of private interests, so long as the latter were seen as serving the former. Although the colonial economy was heavily regulated by the state, notably the mercantilist policies of England, American colonies also made substantial use of private corporations. When corporations were granted charters by the imperial or colonial governments they were almost always with the explicit intention of advancing the interest of the common good. Most corporation charters were given to establish municipal, ecclesiastical, educational or charitable organizations.[11] But even when private ventures were incorporated, the intent was to harness private interest and capital to public purpose—bridges, roads, canals. Still, by 1800 Americans had issued corporate charters for over 300 purely private ventures as well, far more than in other economically advanced nations at the time.[12] As we shall see, this tradition of incorporating both nonprofit and for profit ventures because they were seen as serving a broader public interest continued into the nineteenth century.

By the early decades of the eighteenth century Church influence over economic behavior began to wane.[13] This allowed for the emergence of a more commercially minded economic *mentalité.*According to one historian, a market economy developed in the colonies around 1750.[14]The state did not lose its authority to manage economic activity, but intervention was increasingly geared toward fostering economic growth rather than legislating a 'moral economy.' Economic growth, the accumulation of wealth as an end in itself, and liberal individualism was by 1776 the order of the day.[15]

The American Revolution coincided with Adam Smith's publication of *Wealth of Nations.*By then manifestations of an acquisitive spirit were not subject to moral condemnation, rather they were thought natural to those engaged in commercial intercourse. Smith, and the Americans who read him, conformed to a wider liberal convention found in eighteenth-century economic literature that emphasized the ability of the market to engender economic and social benefice. Smith crystallized this understanding with the 'invisible hand.' Unfettered self-interests created not only a more virtuous, efficient, and affluent society, but operated in accordance to a universal natural order. Smith imbued his political economy with an enlightened cosmopolitanism that described the mutually beneficial aspects of trade. By treating market phenomena as a network of social processes existing autonomously from imperial levers and divine interference, Smith inquired more thoroughly into an individual's economic behavior, thus providing further rationalization of economic activities driven by self-interest. The latter was said to aid in the construction of an orderly, harmonious society. In short, self-interest served the national interest and promoted the interest of humanity.[16]

The moral imperative that underlies Smith's work is indicative of the historical relationship between moral philosophy and political economy. Smith was of course a moral philosopher before he became a political economist. The philosophical aspect of Smith's thought was most readily taken up in America. Academic instruction of political economy, particularly in the Northeast, was almost always delivered from the perspective of a moral philosopher. Because America's prestigious schools were tied to ecclesiastical institutions their professors were first and foremost clergymen.[17] Political economy was made to conform to moral conventions and expose the workings of divine grace in the natural world. Clergy academics harbored a suspicion of Enlightenment philosophers, were generally hesitant to teach the materialism of Smith, and were dedicated to defending a conservative social order. Moreover, the 'science of trade' was not a subject for respectable gentlemen to pursue.[18] In consequence, during the colonial, revolutionary and early national periods political economy was not as popularly studied as it was England.

In America political economy was taught to college seniors in what was considered the capstone of a college education—a course in moral philosophy. It was not until the later antebellum period that political economy was incorporated into the college curriculum as a distinct field of study; and even still the discipline remained wed to a moral/theological tradition. Economic thought in American institutions of higher learning, particularly in the northeast, was also slow to adapt to liberal currents. When free-market liberalism was espoused it communicated methods for advancing Christian piety and a fraternal universalism. Professors Henry Vethake, Francis Wayland, and John McVickar argued free trade was sanctioned by Providence, was responsible for promoting benevolence through mutually beneficial exchange, and was encouraging of individual morality.[19] Self-help was a path toward salvation, poverty a cause for remorse and thus spiritual regeneration, and Poor Laws an endorsement of vice.

Economic thought in the South followed a more secular course. While the South was a Protestant, evangelical community, its economics were decided by the marketplace. Planters exhausted soils, shunned agricultural reformers who advocated diversification, and after EliWhitney's invention of the cotton gin, grew and sold cotton at prodigious rates. Southern political economists grew familiar with the more technical study of the discipline and emphasized far less the moral considerations highlighted by their Northeastern counterparts. Moreover, Southern institutions of higher learning were not as closely attached to the Church.[20]

In the years after the Revolution, the South hosted an impressive set of Enlightenment thinkers tuned in to liberal currents then circulating in the trans-Atlantic discourse. Much of this changed, however, with the rise of abolitionism. By 1830 Southern economic thinkers abandoned what little concerns they had with a 'moral economy' and marched almost in lock step toward a defense of slavery. A conservative, reactionary atmosphere developed, stifling of Enlightenment speculation and suspect of theorists. The Southern mind grew more pessimistic in its economic reasoning, cultivated an affinity for Malthusianism, and like Ricardo predicted social unrest in industrial societies.[21] Reverence for tradition, social respectability, and slavery provided the South with the instruments of social control and authority that Northerners had found in religion.

The Revolutionary and Early National Periods

Although the clergy academics of the Northeast were an important section of American economic thinkers, they were the most extreme in their desire to link self-interest and the market to a moral and religious framework. The revolutionary and early national periods were marked by what one historian refers to as "a scrambling business society dominated by the pecuniary interests of ordinary working people."[22] Conservative leaders who dreamed of a citizenry acting on an enlightened self-interest turned pessimistic when the Revolution unleashed a crass competitiveness that threatened to undermine social and religious values.[23] It was during the late colonial and early national periods that a new source of opposition to the unchecked free market emerged — republicanism.[24]

Republicans of the revolutionary era borrowed their ideas from the commonwealth tradition of Augustan England.[25] The fragility and fluctuations inherent to republics, it was argued, required that the various social, political and economicfactions of society strike a delicate balance between public and selfish interests. Civilization, commerce and luxury, and the forces of progress ushered in by modernity threatened republics by raising the acquisitive spirit over public or civic concerns. The commercial economy especially, and the opportunities to obtain wealth and power through non-traditional forms of property (finance)undermined the organic harmony imperative to the survival of republics and distracted citizens from protecting their personal liberty from combination of corrupt political and monied institutions. Overly ambitious competing interests, whether political or economic, were, in this way of thinking, incompatible with republics.

The republican tradition in American thought revised commonwealth ideology with James Madison's doctrine of competing interests. The principle of competing interests applied to the organization of the national government, but it could also help explain America's political economy. Competition was natural in Madison's view, and the various competing interests produced harmony. Madison's republican ideal approaches the political version of Smith's economic invisible hand. America, Gordon Wood writes, "without attempting to pervert, suppress, or ignore the evil propensities of all men.... would remain free not because of any quality in its Spartan self-sacrifice to some nebulous public good, but in the last analysis because of the concern each individual would have in his own self-interest and personal freedom."[26]

Republicans (not to be confused with the modern political party) remained leery of avarice and greed, and protective against government encroachments and concentrations of economic and power. But they also developed affinities for the free-market economy. Southerners such as Thomas Jefferson, John Taylor and John Randolph idealized an inexpensive, negative state. Suspicious of government in general, they took issue with just about every federal initiative. They were staunch defenders of private property and avid proponents of *laissez-faire,* though they were sickened by the acquisitive capitalist spirit, particularly as manifested in finance.

They harbored a special abhorrence for financial institutions. Finance was thought the greatest threat to maintaining that delicate balance between a strong and healthy republican form of government and economic freedom. Finance encouraged speculation, raised a paper nobility, undercut the value of labor, and made men slaves to their creditors. Credit was thought to precipitate a social consciousness riddled by speculative fantasy, wide-spread economic uncertainty, and the abandonment of honest labor. Put simply, republicans believed there was something inherently corrupt about financial institutions.

Much of the republican opposition was concentrated in the South, but as a social movement republicanism incorporated various sectional and class interests. Mechanics were especially drawn to the republican banner.Active during the revolutionary era, masters and journeymen believed they were partially responsible for the creation of the republic and thus should be granted a voice in American politics. Small producers exhibited qualities that were essential to the sustenance of the republic. The new nation ought to be governed by men who took pride in their labor, were dedicated to the common good, embraced an independent, self-reliant character, and were of middle-class origins. Dedicated to the principles of self-improvement, mechanics patiently acquired the skills and tools of a trade, applied their knowledge in a consistent, sober and respectable manner, and were prudent in their personal economy. The latter provided for social mobility. Mechanics and artisans of the early national period did not necessarily see conflict between labor and capital, indeed the cooperative spirit of the workshop served as a model for the American polity.[27] Northern artisans and mechanics played an instrumental role in Jefferson's presidential victory in 1800, and labor republicanism would grow even stronger in the 1830s and 40s, following the market revolution and growth of industry.

Jefferson vs. Hamilton

A heavy portion of republican values infused American politics following the election of Thomas Jefferson to the presidency. In the Revolution of 1800, Jefferson pushed back the rising tide of finance and industry, represented by his arch nemesis Alexander Hamilton. As president, Jefferson worked to advance the interests of the independent yeomen. Jefferson's declaration that "Those who labor the earth are the chosen people of God" served as the intellectual centerpiece for a political economy dedicated to preserving the nation's agrarian biases.[28] Jefferson's hostility toward industry did not preclude the Virginian from wanting to immerse America into free-market capitalism. Republicans were forever fearful of government tyranny, political as well as economic. They opposed in principle government oversight of the economy. Plus, Jefferson recognized America held a comparative advantage in agriculture. The best way to assure economic development was to engage the American farmer with international trade, exchanging American staples for European manufactures.

Jefferson's republican brand of economics served a political ideology as well. The success of the young republic hinged on Americans being able to own land. Ownership of land guaranteed the personal sovereignty that made self-government possible and a general dissemination of wealth that secured republican polities. Agrarian endeavors bred an honest, industrious, democratic, and self-sufficient character, void of corruption, liberated from the fluctuations of international markets and free from the whims of consumer demands. "Let our work-shops remain in Europe," Jefferson declared, and keep European-style class structures attendant to manufacturing societies out of America's bucolic, republican paradise. Only a nation of farmers could perpetuate America's exceptional classless society. Industry, raised only on the shoulders of a protective tariff, ushered in moral and social blight, satanic mills, overpopulation, and transformed the honest mechanic into a depraved operative dependent on another for a living wage and subservient to the political ambitions of capitalists. No man who received a wage from another was truly independent. A republic filled with wage-earners would be short-lived. Minus their desire for free markets, republicans of the early national period seemed to oppose all that would engender what modern historians think of as capitalism.

Jefferson's principal target was the elitist entrepreneurialism of Alexander Hamilton's program. Hamilton had desired to remake the American economy in the image of Britain. Hamilton's National Bank, chartered in 1791, laid the foundations for a financial revolution. That same year Hamilton issued his *Report on Manufactures*, delineating a program for industrial growth. Hamilton's course did not, however, include wanton capitalist development. Like the Jeffersonians, Hamilton intended to safeguard the republic. Economic development was imperative for the survival of the young nation. Hamilton's political economy was cast in mercantilist frame. It was the responsibility of the central government to foster institutions capable of setting the nation's economy on a modern course. Hamilton figured that an agrarian economy based on archaic financial institutions, infant manufactures, and an impotent state provided little defense from European aggressors. Hamilton aimed instead at tying the interests of American financiers, merchants, and manufacturers to the success of the union. "The vices of the wealthy are more favorable for the prosperity of the state than the vices of the poor," Hamilton wrote.[29] He courted the economic elite with cheap credit, protective tariffs, a military suited for a Hobbesian world, and a conservative political regime that preserved private property against democracy. The debate between Hamilton and Jefferson would shape the contours of nineteenth-century American political economy.

Despite the strong ideological opposition to capitalist culture organized under the republican banner, by Jefferson's inauguration an entrepreneurial population and developmentalist state governments had laid the foundations for a market revolution. Although the Jeffersonian economic ideology discriminated against industry and finance, it was grounded in a Smithian tradition that celebrated a benign concept of market competition and the individual pursuit of private interests. Jefferson's economic vision included a robust commercial farming market where ordinary Americans exploited European demand for foodstuffs. Light taxation, small government, and limited restrictions on trade stimulated economic growth and encouraged individual Americans to wrest from traditional sources of aristocratic authority the power to control their economic destiny. Jefferson was optimistic about American economic prospects, so long as agriculture served as the foundation for growth. Like most early American political economists who wrote in the free-trade tradition, he did not equate an aversion for industrialization with anti-growth. Rather commercial farming was seen as the surest way to promote the growth of the American market and simultaneously preserve the republic.[30]

Corporations Before the Civil War

Corporations played a central role in the economic transformation of the nineteenth-century economy. As Pauline Maier states, Americans rescued corporations from Old World prejudices.[31] Almost immediately following independence, American states began chartering corporations in record numbers. Far from seeing them as dangerous concentrations of capital, proponents of this policy considered corporations the harbingers of a republican ideal and reflective of America's affinity for constitutional forms. Americans, as Tocqueville noted, "in lieu of those powerful private individuals whom the equality of conditions has swept away," took a liking for associations of all types.[32] Corporations were thus seen as socially valuable associations that promoted a sense of solidarity within the economic community. They afforded men of otherwise little means the chance to pool resources, compete with wealthy capitalists, and exercise their natural right to maximize economic opportunity. Entities organized by honest entrepreneurs, corporations were based on voluntarily forged contractual relations with other interested parties. Revolutionary era concerns of consolidated power limited the influence of large shareholders in corporate voting rights, thus in many of the corporations of the antebellum era, charters limited the voting rights of shareholders, preventing those who own the most shares from exercising control in the interest of protecting the rights of minority shareholders.[33] These alternate models of corporate control included one vote per *shareholder*, rather than one vote per share. And although business corporations were designed to advance the interests of shareholders, in theory corporations fulfilled a public utility, thus serving the long-term interests of the commonwealth.

Most corporate charters originated in state legislatures. Federal charters were rare, but state governments issued special legislative charter grants with regularity. These were intended to promote the economic interests of individual states and were often defended in the name of 'improvement.' State involvement was neither incidental nor unimportant. Inter-state competition for regional markets, and sometimes intra-state rivalries, brought together or divided legislatures that vied for and promoted local economic interests.[34] Transportation, banking, insurance, mining and manufacturing corporations were favored. Promoters argued that corporate charters were a legitimate and necessary function of republican state government.

The chartering of corporations was one of several examples (including tariffs and public funding of infrastructure) that indicated how nineteenth-century Americans both embraced private enterprise and the use of the state to promote economic development. A positive state in a representative democracy was not something to be feared, but rather expected to respond to the economic interests of its constituents by investing in local enterprises. Internal improvements in particular were thought of as the responsibility of the state, thus sate sponsorship of infrastructure both fit the republican ideal of the publicly oriented economy while also providing a practical means for developing the hinterland. Mixed-enterprises also provided state governments with revenue streams and control over the pace of economic development. Canals and railroads determined which markets would have access to lines of transportation, as well as which ports would control coastal and Atlantic trade. Banks facilitated tax collections through the circulation of notes, and local governments increased revenue through turnpike and bridge tolls.[35]

Tariffs, Protectionism and Industrialization

Jefferson's political successors relaxed their commitment to an agrarian model of capitalist development. This was in part due to a band of Nationalist Republicans led by John Calhoun and Henry Clay. The Nationalist Republicans were largely responsible for chartering the Second National Bank of the United States, promulgating a series of ambitious internal improvement projects, and legislating the first restrictive tariff in 1816. These measures came largely in response to the War of 1812 and the panic that followed (1819).[36] Ironically, Jefferson himself had started the nation down a more industrial path though his Embargo Act of 1807 and a series of measures aimed at curtailing American trade with Britain and France. The importation of foreign manufactures was sharply reduced as a result of these policies, as well as the war with Britain that soon followed. In response, America embarked on its first serious episode of industrial development. The textile industry that employed 87,000 spindles in 1810 grew impressively to 135,000 within five years and its labor force reached 100,000 with an estimated $40 million in capital invested by 1815.[37]

The rise of domestic industry, following the War of 1812, transformed American economic thought. The conflict precipitated an American school of political economy that assembled an economic ideology centered on industrialization and protection of the domestic market from foreign competition. Protectionists argued that the War exposed America's inability to effectively shield the republic from British hostilities. The embattled republic needed a robust manufacturing sector. By the 1820s protectionists had popularized an economic ideology determined to nurture domestic industry with protective tariffs. For the remainder of the century this thinking would dominate discussions on American industrialization.[38]

Driven by a romantic nationalism, protectionists argued that the federal government was responsible for nurturing American economic interests. Although this included individual opportunity, it embraced as well the role of economic development to protect American sovereignty and advance the common good. Protectionists reversed classical liberal doctrine by reasoning that national wealth was not the aggregate of individual wealth. There was a marked difference, according to protectionists, between private and public interests. Private interests were at times in opposition to national interests. It was the obligation of legislators to think only of the latter when devising a national political economy. Protectionists were not fixated on increasing individual wealth through the exploitation of cheap markets; rather they were committed to preserving a republican ideal of social equity and protect America from the British menace. Protectionists expected ordinary Americans to sacrifice their personal pecuniary ambitions by purchasing domestic manufactures, even if at higher prices. American citizens, protectionists urged, should favor domestic wares if only to serve a patriotic ideal. Consumer and political loyalty, in short, was owed to domestic industry. Protectionism reflected a collectivist mentality. It was as much a prescription for social progress as it was a program for industrial growth.[39]

By the 1830s the 'tariff for labor' argument was a central component to the protectionist platform.[40] In protectionist literature labor was elevated to a position of moral and social authority. The abundance of cheap land, the high demand for workers, and the existence of free political institutions made labor's experience in the United States uniquely positive in the annals of history. In contrast to Europe, labor in America existed as a sovereign agent, not as an instrument for capitalists' exploitation. Indeed, in the United States, according to protectionists, labor held authority over capital by commanding high wages. Protectionists also rebuked Physiocratic and Smithian claims that certain forms of labor were more productive than others. In American thought, all forms of labor were productive since they contributed to national prosperity. This celebration of labor in general was significant, for it diminished the sense of class conflict that had arisen in England between the workers and owners. Even an owner and manager could be seen as engaging in productive "labor." This was particularly the case in manufacturing. Manufactures optimized productivity by intensifying the division labor, augmenting the amount of capital and skill in labor's application, and providing greater potential for harnessing machine power.

In short, to Protectionists, the economic labor theory of value became a theory of society and politics as well. Labor instilled virtuous qualities in all people who worked, nurtured a responsible character, and, when fairly rewarded, imparted a sense of equity. In this way, free labor assured the survival of the republic by making men free, equal and independent.[41] The exceptional economic and social circumstances that promoted a free labor society, however, could only be ensured by protective tariffs. By restricting foreign wares from domestic markets America could buck European trends and industrialize without the attendant negative social conditions of urban poverty, inequality, and class conflict. Only the tariff could sustain full employment and prevent wages from falling to subsistence levels, in the gloomy manner predicted by Thomas Malthus in England. Raising the price of domestic manufactures guaranteed a just wage, ensured full employment, elevated standards of living, and served as a check against the gross inequality that bred aristocratic institutions.

This protectionist vision of American labor was part of widely accepted free-labor ideology that ran throughout nineteenth-century American history.[42] Throughout the colonial and antebellum period, literature on America advertised a working man's paradise, filled with opportunities for social mobility and the independence that came with owning one's labor. America was a producer's republic where the industrious and prudent saved their earnings and were rewarded with independent proprietorships, giving people real control over their economic destinies.

This free labor ideology gave rise to a widespread belief in American exceptionalism. In contrast to the old world, industrial capitalism would uplift rather than degrade labor. Industry in America would not be mentally debilitating. Indeed, industrialization promoted a factory discipline and moral elevation that benefitted workers. The mechanization of labor that distinguished modern industry did not threaten to usurp worker's control of the shop either. Machines had the potential to usher in a technological utopia, whereby labor was emancipated from drudge work and afforded the time for cultural and intellectual pursuits outside the factory. The proximity of the frontier also meant that America could industrialize unaffected by Malthusian perils. America's western lands provided a 'safety-valve' for workers otherwise forced to market their labor in urban conglomerates. Plus, America did not suffer from traditional class antagonisms as imagined by David Ricardo. In America, the interests of capital and labor were in perfect harmony. No American spent their entire life as a wage-earner. All workers eventually became capitalists. Therefore, capitalists had no reason to fear working mobs.

Abraham Lincoln's free-labor ideology crystallized this style of thought. "There is no permanent class of hired laborers amongst us," Lincoln declared just before the Civil War. "Twenty five years ago, I was a hired laborer. The hired laborer of yesterday, labors on hisown account today; and will hire others to labor for him tomorrow."[43] Through the post-Civil War era Republicans continued to tout the virtues of free labor (and the dangers of monopolistic labor unions—assumed to be unnecessary in a free labor economy), the patriotic qualities of protectionism, and the benefits that workers received from high tariffs. When Lincoln ascended to the White House most Southern Democrats had already left Washington for the Confederacy. This opened Congress to a Republican Party agenda of protective tariffs. By the war's end the average ad valorem rate on dutiable goods stood at 47%. Tariff schedules were kept high for the remainder of the century, peaking in 1899 at 54%.[44]

Although a powerful vision, the free labor ideology did not, it should be noted, actually describe reality in antebellum America. Industrial town and cities such as the textile center of Lowell, Massachusetts, were employing poor Irish immigrants at low wages in their mills. By Lincoln's presidency 40% of the labor force was hired as wage earners and the emergence of large scale manufactures were drawing comparisons with Manchester. Mechanization undermined traditional craft-based control of domestic manufactures. The 'secrets of craft' that instilled labor with a sense of honor, individualism, entrepreneurialism, and an ethic of self-improvement was by the end of Reconstruction (1877) either gone or on its way out. It was replaced with a wage-labor system that dispossessed the craftsman of his knowledge of the trade by introducing mass production, mechanization, scientific management, and an intensification of the division of labor that turned manufacturing processes into simple, physical tasks. Industrial rationalization and social order demanded labor work longer and harder hours in the name of progress.[45] In the process Americans transformed their understanding of labor's position in the economy. The traditional disdain for permanent wage-earner status was abandoned. Economic independence in the post-Civil War period sprung not from the ownership of productive property, but in the self-ownership and freedom to contract one's labor as he saw fit.[46] Free labor, after the Civil War, would come to mean the freedom to sell one's labor in the marketplace. This sort of "market freedom" dispensed with the social and political implications of equality and self-possession that had traditionally defined free labor as represented in the world of the master craftsman or Jefferson's yeoman farmer.

Free Trade and Southern Economic Thought

The emergence of the antebellum protectionist movement prompted sharp criticisms from the South, criticism that attacked the tariff specifically and the industrial order more generally. In the antebellum discourse protectionism and the industrial agenda it promoted was considered a blatantly sectional instrument that threatened to weaken the economic and political strength of the South. By 1830 Southern academics and public intellectuals organized a movement against tariffs. The South developed an intense affinity with free trade.Thomas Cooper, George Tucker, and Jacob Cardozo led an impressive set of Southern thinkers who championed free-trade policy not for the moral enrichment emphasized by clergy academics in the Northeast, but for its pecuniary benefits.[47] Free trade served the South's economic interests.

Between the War of 1812 and the Civil War cotton accounted for more than one half of domestic exports. In exchange, Americans were able to finance their seemingly insatiable demand for foreign, particularly British manufactures. Southern cotton represented 70% of Britain's cotton imports.[48] The relationship between Southern cotton and British industry was one that slaveholdersaimed to preserve. Tariffs jeopardized Anglo-American trade by inciting restrictions on British imports of Southern cotton. In the mind of the South, restrictions on trade promised to undercut the Southern monopoly on international cotton and force Southern consumers to purchase Northern manufactures. In addition, tariffs, if effective, would transform the North into an industrial and economic power able to check the South's political influence.

The South's commitment to free trade was connected to the region's political ideology. When the so-called Tariff of Abominations of 1828 was signed into law, John C. Calhoun organized a nullification movement. From this point free trade became synonymous with the political movement ofstates' rights. For Calhoun tariffs represented an act of tyranny of the majority and a dangerous enhancement of the authority of the federal government. Both threatened the autonomy of local government. Southern political economists also reasoned that federal intervention in national trade policyseta precedent for interference in the South's social and political institutions, mainly slavery. Forever paranoid of abolitionist threats, *laissez-faire* in economics and politics became the Southern mantra.

As the nation drew closer to the Civil War Southerners incorporated into their defense of slavery an attack on the nature of the Northern economy. Free-trade political economy was often filled with anti-industrial rhetoric. Industry threatened, Southern free-traders argued, to undermine the republic and pull America away from its agrarian heritage. Only free trade could maintain the nation on its natural course of agricultural expansion. In the domestic economic discourse, the enlightened economic liberalism of Smith was tied to a conservative slaveholding and agrarian agenda that did not wish to see American develop an industrial base.

Slavery and Southern Economic Thought

Although many southerners followed the free-trade tradition of John C. Calhoun, by the 1850s a new economic ideology was circulating in the South. This ideology defended slavery not merely as a right of property, but as a positive good in comparison to the heavily negative consequences of large scale industrialization.[49] "Pro slavery" defenders rejected free trade in favor of a Tory-like attack of the unfettered market and industrial capitalism. Southerners such as George Fitzhugh and George Frederick Holmes challenged the intellectual hegemony of classical political economy, and denied, as many apologists had offered, that slavery was a dying institution (though one that should not be hastened into the grave by meddling northerners). They reasoned that slavery was a positive and enduring institution because most of the human race was incapable of self-care and would perish in the brutal competition of a truly free market.[50] Slavery was thus transformed into a responsibility that the wealthy master class owed to the vulnerable. Masters fulfilled this obligation by being both socially and morally responsible for the care of their slave. From cradle to grave masters offered slaves a personal safety-net. Basic self-interest made certain that masters treated their property with a calculated rationality that effected just and human treatment.

Fitzhugh and Holmes's included in their defense of slavery moral disparagements of the free market. Capitalism was perceived as harboring elements that undermined social morality. Free markets saturated society with an incessant greed, left the weak open to the abuse of the powerful and cunning, and substituted for Christian piety a Spencerian survival of the fittest. Free labor, Southern pro-slavery thinkers argued, was only adopted because it was discovered to be a more proficient method to exploit labor — a line of thinking that put pro slavery southerners into agreement with Karl Marx! Capital fought a war of attrition against labor, and the working poor were forced to grind against each other, outbidding competitors for the pittance offered as wages. Wage-slavery degraded free labor to a levelmore wretched than the chattel slave. But capitalists in the North were released of any moral or social obligation toward labor. Indeed, capital was not interested and had no legal responsibility for the social or economic well-being of labor. Capitalists were, in short, masters without obligations, and workers slaves without the paternal protections afforded bySouthern slaveholders.

To what extent pro-slavery agitators were genuine in their concern for the laboring masses is unclear. They ignored abolitionist claims that slavery degraded labor, or robbed people of their fundamental rights to the possession of the fruits of their labors. But the pro-slavery literature hit the social consequences of industrialism hard, certain that if industry continued to grow the North was headed for class war. Slavery, by contrast, maintained a perfect republican balance between labor and capital and saved Southern whites from the ceaseless drudgery of the industrial regime. Pro-slavery thinkers like Fitzhugh and Holmes rested their social philosophy on a feudal, aristocratic, and anti-capitalist value system, indicating that some Americans, at least, had difficulty swallowing the social consequences of capitalism.

This is not to say an entrepreneurial ethos was absent from the South, for most slaveholders did not go to the extremes of Fitzhugh or Holmes in their economics. In his widely circulated writings, southern journalist and editor J.D.B. De Bow touted the region's commercial sagacity, agronomic expertise, and shrewd investment calculations. Trade in the South was celebrated in a parlance akin to Adam Smith, and labor, social mobility and an industrious character were praised in language that could have been confused for the words of Abraham Lincoln.[51] Slavery was, after all, a commercial-oriented venture, and it was remarkably profitable. The South's peculiar institution helped make the Southern economy the fourth most prosperous in the world by 1860.[52] Gavin Wright has elaborated on the commercial ethic of the South, showing how planters were not only driven by a capitalist *mentalité*, but that the economics of slavery were calculated largely by market imperatives aimed at economic development. Plantations operated on a different levelfrom small-scale southern farms. They resembled early models of large managerial enterprises that conditioned their operations according to the international cotton market.[53] A dynamic, flexible, and highly commercialized agricultural economy existed in the South. And though Southern industry lagged behind Northern standards, it ranked second on a per capita basis in railroad construction and was in the top-ten in both textile and pig-iron production.[54] The Southern economy was thoroughly enmeshed in the development of American capitalism and to some degree the success of the Northern economy was dependent on the South's "white gold." So if southerners condemned industrial capitalism or praised slavery, it was not because they were anti-market, anti-trade, or in most cases anti-progress. They simply had a different conception of the good economy and the good society to be promoted.

Slavery, Free Labor and Northern Economic Thought

In the North, attitudes toward slavery and the South came in two forms. An ardent but small group of abolitionists railed against slavery and worked to end or at least severely limit it. But many northerners, harboring their own racists sentiments, were either indifferent or, in the case of northern Democrats, supportive of slavery. Northern businessmen engaged in the 'Southern trade often expressed ambivalence toward the plight of slaves and could sometimes be found railing against abolitionists. The industrialization of the Northeast relied heavily on cheap cotton. Northern manufacturers also had a material interest in provisioning plantations with a variety of wares. Slavery advocates publicized the moral hypocrisy of Northerner manufacturers who profited from provisioning plantations, or the duplicity of decrying slavery while at the same time spinning King Cotton into textiles. In the 1850s abolitionist societies organized boycotts against goods derived from Southern plantations. 'Free produce' rid the abolitionist of the ethical remorse attached to purchasing articles handled by a slave's hands. But the relationship between Northern business and Southern slavery was so enmeshed that many realized their complicity in the slave system was inevitable. This was especially the case when it came to collecting debts. Indebted planters unable to repay Northern manufacturers on occasion reimbursed creditors by selling their most liquid asset—slaves. This brought Northern business directly into the slave market.[55]

The proliferation of merchant capital was also facilitated by Southern slavery. Yankee merchants were responsible for the transportation of Southern staples. They were also the driving force behind the importation of new slaves from Africa until the United States banned that trade in 1808. When Jefferson signed the bill abolishing external slave traffic he in part reflected the economic interests of the slaveholders. By 1798 every slave state had some legislation banning foreign slave importation. Slaveholders calculated the further importation of slaves would cause a drop in a slave's domestic market value. Northern merchants continued to trade slaves to other countries in the Caribbean and South America.

As the Civil War drew closer abolitionists grew suspicious of a coalition between the "Lords of the Lash" and the "Lords of the Loom." Northern business interests often disguised their opposition to abolitionism in arguments that emphasized the racial inferiority of blacks as well as the constitutional legitimacy of slavery. "Cotton Whigs," as they were called in the 1840s, were disquieted by abolitionists' use of moral imperatives in the debate over slavery. Conservative Northern businessmen typically were fearful of the disruptions of commerce and industry should slavery become the central political issue. Some conservatives in the North were also fearful that abolitionist claims against Southern property might be extended to include a more general redistribution of national wealth. Although the northern working class was typically not sympathetic to abolitionism, conservatives feared a workers-abolitionists alliance.

In fact, northern workers were deeply affected by the growth of urban and industrial society in the United States, despite the rhetoric by Republican Protectionists that worker and capitalist had common cause. The postponement of an American edition of Marx's *Communist Manifesto* until 1871 did not stop the circulation of socialist ideas among workers in the North.In the aftermath of the European unrests of 1848 a flood of labor-minded reformers migrated to the United States, discovering in the industrial North a conscious working-class movement.[56]

Socialist programs in antebellum America occasionally took the form of agrarian reforms reminiscent of a Jeffersonian ideal more than European communism. Only through the modification of the distribution of land, these reformers argued, could American workers achieve independence. American agrarians were generally committed to the free-market program and saw proprietorship as the means for ordinary Americans to develop economic opportunities and achieve social mobility. Their principal accomplishment, the Homestead Act of 1862, fellwithin the liberal paradigm and was advocated as a fulfillment of the principles of 1776.[57]

A separate vein in agrarian/labor thought, emanating mostly from Northeastern industrial quarters, developed during the Age of Jackson. One of its chief disseminators was Langton Byllesby.[58] Like the classical economist David Ricardo, Byllesby believed labor alone to be the source of wealth. Yet, Byllesby argued, American civilization harbored a parasitic sect who commanded riches without having toiled a single day. An idle few lived beyond the reach of history's imperative that all ought to labor to acquire subsistence. Byllesby griped that workers engaged in productive labor and were responsible for the creation of national wealth yet were rewarded with meager wages. A commercial order driven by a constant desire for riches and a political system designed to create concentrations of wealth led inevitably to class inequalities. Labor, increasingly supplanted by machinery and forced by its great number to accept a diminished wage, did not participate in the advantages of augmented production rates.

To soften labor's plight, Byllesby advocated the organization of industrial communities in the form of joint-stock corporations. It was not unusual for labor activists to base industrial/agrarian communities on the corporate form, rather than on a more obviously socialist model of communal ownership. Byllesby aimed at a pluralistic association dedicated to advancing the individual well-being of workers. Such a system would harness the productive powers of society. There was no reason for the existence of poverty if the productive forces of society were channeled to appropriate ends. Labor should, Byllesby figured, find little more than four to five hours a day sufficient for the production of subsistencewhen aided by the energies of machinery. Under the new regime trade would be based on the principle of reciprocity; the various products of labor justly and exactly compensated for.[59]

The socialist impulses behind Byllesby's ideas were further developed by labor advocates of the 1820s and 1830s. Foremost among this group was Thomas Skidmore.[60] There ought to be no property rights, Skidmore declared. Private property arising out of the existing unjust economic system were damaging to the social fabric, in opposition to the Providential order, and leading to an ever-increasing concentration of wealth that violated the most basic human rights and destroyed the republican character of America. Property rights were entirely conventional. They varied between societies depending on historical circumstances, legal traditions, government policies and public opinion. No individual had just claim to the resources of the earth on which human life depended without first seeking the community's approval. Moreover, no mortal man could determine how God's creation was to be divided. "The soil," Skidmore announced, "belongs…equally…to all who are found upon it."[61] Skidmore'splan included the immediate abolition of inheritance rights. Every member of society, upon reaching adulthood, was entitled to the property of the deceased, thus placing each on an equal footing at the entrance of mature life.

Byllesby and Skidmore were in part responding to antebellum America's increasingly unequal distribution of income. The inauguration of Andrew Jackson is popularly thought to have ushered in the era of the common man in America. However, historians now dispute this claim. As one notes, "far from being an age of equality, the antebellum decades featured an inequality that appears to surpass anything experienced by the United States in the twentieth century."[62] By 1860 the upper 10% owned 75% of the nation's wealth.[63] There was a long tradition of linking democratic governance to equality and opportunity in America, but the antebellum era saw if anything a move away from greater equality and opportunity for those at the bottom of society.

Feeling the pressures of inequality and industrial concentration, members of the working class began to organize politically. In Philadelphia in 1827 a Mechanics Trade Union was established, the following year a Workingmen's Party was founded. During the 1830s workers advocated universal education, a 10-hour work day, protested against imprisonment for debt, demanded restrictions on convict labor, reform of militia requirements and lien laws, as well as an expansion of the suffrage. In New York City labor organized under the political banner of 'equal rights.' The Locofoco Party, or 'Equal Rights Party,' enjoyed nominal success and eventually was folded into the Democratic Party. Locofocos were particularly incensed over the monopolistic powers that state legislatures bestowed on corporate entities through charters. Their response, though, was not what one might expect — not the government solution that would become the main response to concentrations of capital in the twentieth century. In fact, the Locofocos demanded the absolute exclusion of government from the economy and the abolition of monopolies and other 'artificial restrictions' created by legislatures. Mixing government and business inevitably led to the granting of special legislation that limited equal access to opportunity which in turn hastened economic and political inequalities. There were strong elements in the Locofoco anxious to share in America's expanding markets. The Jacksonian motto 'The world is governed too much' was often heard at their gatherings. What the Locofoco desired was a free market regulated by the laws of nature, something akin to Smith's vision of natural liberty.

Traditions and laws that regulated and restricted entry into professions such as law and medicine were removed in the Jacksonian era (they would return in the twentieth century). Abraham Lincoln became a lawyer by "reading law" in the office of an experienced senior member of the bar. Likewise, state legislatures in the 1830s and 40s passed general incorporation statutes — anyone could start a corporation, it did not require a special act of the legislature. Nor did incorporation have to carry special rights and obligations, as under the older "public service" doctrine, whereby corporate charters were granted to encourage private investment in some needed public project like a canal. Corporations, particularly the small, closely held corporations of this time, were seen as voluntary vehicles for small entrepreneurs to pool capital and compete in the market in any activity they desired. Legal doctrine of the time disregarded the corporate veil and looked directly to the shareholders, whose rights of free association the courts protected, even when they took corporate form. So long as corporations were small in size, composed of a small number of owners and did not continue for long periods of time (common attributes of antebellum businesses) then there was no need to worry about the corporation as distinct from any other form of business or voluntary association of free citizens.[64]

Liberating the market was not seen as a conservative move, but rather a way to sever the potentially corrupting connection between business and government. The small entrepreneur supported removal of restrictions on corporations, professions and banks, not because they did not care about power or monopoly or concentrations of capital. Just the opposite — they still held to the Smithian faith that a well-functioning market could be both fair and provide equal opportunity for all. This faith, which would carry over into the post-Civil War era, would be severely tested by the rise of giant corporations. It was also tested by the growing power of banks in the antebellum economy.

Banks, Finance and Andrew Jackson

Banks occupied the central position in the antebellum discussion of corporate responsibility. As critics grew more familiar with the corporate structure of banks they discovered elements they believed were wrought with social and moral improprieties. The movement against monopolies culminated in the Jacksonian era's attack on banks.[65] The anti-bank forces drew on a Jeffersonian republican heritage. Although some anti-bank writers infused their rhetoric with a more radically anti-capitalist tone, others thought it perfectly reasonable to rail against banks yet champion free markets. Financial institutions were treated as aberrations in free-market societies, like the corporations that had enjoyed special charter privileges from state legislatures. Bank charters were granted according to the peculiar demands of individual state legislatures. Thus the procedural implementation of banking varied from state to state. This left critics with the impression that the nature of the chartering system was corrupt. The latter was said to have made legislatures tools of a paper moneyed aristocracy whose legal privileges came in the form bank charters that stunk of class favoritism. As with the corporation, the Jacksonian answer was not to regulate or control the market, but to free it by removing the special privileges that allowed banks to grow large and wealthy. Many states at this time passed "free banking" laws that reduced or eliminated regulatory requirements for entering banking.

In 1837 Michigan passed the first free-banking law, ending the need to seek legislative approval to open a bank. Incorporation became an administrative task rather than a legislative act. New York and Alabama followed suit in 1838, and by the Civil War almost twenty states had instituted a free-banking system. Jackson's 1832 veto of the Bank of the United States destroyed America's largest banking monopoly. Jackson's successor, Martin Van Buren divorced private banks from handling the federal government's monies by creating the Independent Treasury.

The Jacksonian era war on banks had unintended consequences, however. In 1829 there were 300 banks. But Jackson's destruction of the Bank of the United States undercut the nation's only central financial regulator and thus precipitated an era of 'wild-cat' banking. The number of private banks swelled to 1,500 by the Civil War.[66] A perpetual call for credit was heard throughout the entire antebellum period. *Laissez-faire* became the guiding principle for antebellum finance. According to one historian, attempts at regulation were too "displeasing to an enterprising democracy determined to exploit its matchless opportunities....and unwilling to let borrowing be made difficult by ideals of sound currency and conservative growth."[67] Credit serviced a rapidly expanding national market that by 1830 had already approximately 10,000 business corporations. A variety of financial institutions sprung up during the antebellum period. Exchanges emerged in New York and Philadelphia where investment banks specializing in securities traded stocks, debt, and commercial notes on margin and received analyses of potential clients from credit reporting agencies.[68]

As a growing, developing nation, the United States depended heavily on foreign capital and on webs of credit to compensate for the shortage of hard currency. Debt was a source of humiliation and dishonor in the nineteenth century, but at the same time it was absolutely vital to the functioning of the economy. Debt forced men into positions of dependence, subjected a debtor's property and life to the whims of creditors, fostered a culture of doubt and suspicion, and cemented society in a knotty network of credit relations. As a form of social mutuality, credit contributed to the development of tight associations in the commercial community and solidified economic bonds of trust. But credit also made otherwise honest and industrious Americans vulnerable to the ebbs and flows of an interdependent and sometimes arbitrary economic order where mutuality must have felt more like enslavement.

Public attitudes toward debt and insolvency began to change, according to one study, during the early 1800's. The traditional understanding that economic failures were the result of personal indiscretions and moral culpability was replaced by a more modern awareness that insolvency could just as likely stem from market pressures and structural economic faults outside an individual's reach.[69] Historians estimate that one-third of antebellum merchant ventures ended in bankruptcy. Bankruptcy laws in America were more forgiving than in Europe. The Bankruptcy Act of 1841, passed by Whigs in the aftermath of the Panics of 1837 and 1839, prompted approximately 41,000, or 1 out of 100 white males, to file.[70] For some credit interdependence cemented commercial ties and opened new doors for entrepreneurial gains; for others it precipitated the view that modern finance imposed a set of social and economic relations that made the economic misfortunes of one the burden of another.

Moral and ethical debates about debt were common in the antebellum era. Those who saw over-indebtedness as a sign or moral corruption were wary of lenient bankruptcy laws. One source of their anxiety was the growing use of limited liability. In 1808 a Massachusetts court first restricted the liability of shareholders for corporate debts. Critics argued that confidence and responsibility were essential to a credit economy, both of which were undermined when legislatures failed to hold banks or corporations accountable for their debts. Limited liability, one Jacksonian argued, "assumes the right of individuals to release themselves, and the possibility of their being released by others, from the bond of moral obligation."[71] Releasing corporate bodies from discharging their debts, or in the case of banks, absolving them from legal recourse should they suspend payments, was an affront to commercial and social integrity. Critics demanded that financial entities be held to the same level of legal accountability as ordinary citizens. Indeed, financiers were called upon to cultivate a higher set of ethical standards. Corporate charters did not pardon men for acts of indiscretion. "To destroy all moral sense of justice and rectitude by absolving each individual from personal liability…as if a legislative act could absolve men from the discharge of their moral duties, of which the payment of debts, where there is ability, is one."[72] If there was perfect freedom to acquire debts there must also be perfect responsibility. Full liability was a "natural obligation," one Jacksonian moralized. "It arises from the operation of moral law. It is binding upon the one party, from the mere force of moral considerations…It results from the very nature of man as a moral agent."[73]

Jacksonian era critics envisioned greater balance of public and private interests in the commercial sphere and aimed to tie personal obligations and responsibilities to an ethical code. They were not necessarily dedicated to the abolition of finance. Many simply desired that financial institutions operate on a more personal level. Creditors and debtors alike were implored to take into stronger account the reliability and character of their commercial associates. Having intimate knowledge of another's personal economy would restore traditional lending practices, sustain confidence in commercial relations, and reinstate a sense of decency in financial exchanges.

Other Jacksonian era opponents of finance offered tangible measures to ensure that banks followed more candid practices. George Opdyke advocated the abolition of laws for the collection of debt. Opdyke argued that credit extensions ought to be made in accordance to a borrower's capacity for repayment and rest on the decency and moral constitution of men rather than legal recourse. Lysander Spooner argued that at the maturation of a debt the borrower be made liable only for what he could pay at that moment, for a debt "has no legal obligation, and generally no moral one, beyond the means of the debtor to pay at the time the debt becomes due." No man carried the foresight to know what might become of an enterprise, therefore all contracts and obligations made without provisioning for "all the contingencies and accidents that may occur to defeat his purposes" were "void from the beginning."[74] According to Spooner debt was the equivalent of a value purchased by the creditor and exposed to market conditions that occasioned the potential for variation. In short, a lender assumed as much risk and responsibility for a debt as the borrower. Spooner's understanding of debt responsibility was unique in the antebellum discourse. Spooner indicates that it was not unusual to find individuals dedicated to free markets to also reject the existing practices of financial institutions. Other Jacksonians built cases against usury on moral grounds, particularly as it affected labor. Since labor was ultimately responsible for the creation of all wealth, banks should loan money—money that after all was at some point expropriated from the working class—to producers at nominal interest rates.

Transitions from the Civil War and Reconstruction Era

During the Civil War the Union established broad control of the monetary system. This was part of a wider effort by Republicans to regulate the war economy. Price ceilings were instituted, rail traffic controlled, property confiscated, and an internal revenue service was established. Besides plantations, institutions of finance were the most radically transformed. When it became clear that the Civil War would be costlier than expected, Congress directed the Treasury to issue incontrovertible legal tender notes known as greenbacks. By 1865 there were $450 million in circulation. Notes issued by private banks were taxed into extinction. Republicans also established a national banking system that by 1865 had almost 700 branches. These measures were in part aimed at shoring up support for the Union war effort from financiers. Republicans courted the financial elites of the Northeast. In the words of one historian, "when the Civil War ended the interests of finance capitalists and the American state were probably more closely linked than at any other point in the nineteenth century."[75]

Finance would remain a seminal issue through the Reconstruction period. Hard-money men demanded a return to specie convertible currency. In the post-Civil War era the currency debate was filled with moral language. Hard money was associated in some quarters with virtue, or in possession of an intrinsic value. Specie convertibility was also an issue of social honesty and responsibility. In the process, hard-money men raised a defense of specie that bordered on, according to one historian, "a very unchristian fetishism that gave the precious metal almost supernal powers."[76]

The Civil War and Reconstruction periods not only revolutionized institutions of finance. The entire nature of the American economy had been transformed.[77] The emergence of a national market ushered in by the expansion of railroads, a movement away from agriculture, and the mechanization of production precipitated a value system favorable to business innovation and suspicious of the positive state. Post-war economic change was sanctified by American economic thought. Building on the *laissez-faire* traditions of Jefferson, the Southern free traders, and the British classical economists, liberal political economists incorporated Herbert Spencer's social Darwinism into their defense against the positive state. An American edition of Spencer's *Social Statistics* was published in 1865 and was by the mid-1870s something of a holy grail for free-marketers. Andrew Carnegie and other industrial titans praised the work. At Yale, America's most popular academic economist, William Graham Sumner taught that the progress of civilization hinged on a possessive individualism and natural laws that turned competition into an evolutionary realism. *Laissez-faire* was the natural order; planned reform impossible in the face of Darwinian survival of the fittest. Thrift, industry, sacrifice and economic virtue were rewarded with wealth. Millionaires, even corporate trusts, were evidence of the process of natural selection. By the 1890s American clergy preached a similar capitalist apology. Social Darwinism illustrated a divine order. The "law of conduct and consequence" allowed nature to take its course, imposing penalties for ignorance and indolence. An inept state blocked nature's will at its own risk.[78] *Laissez-faire* dominated economic culture during the second half of the nineteenth century and provided the intellectual justification for America's "paradise of freebooting capitalists, untrammeled and untaxed."[79]

Although free trade became gospel in most public and private institutions, in 1885 there emerged a 'new political economy' that challenged the absolutism of the *laissez-faire* regime. Professors Richard Ely, Alfred Clark, and Edward Seligman helped organize the American Economic Association to expose a methodological division then surfacing among professional economists. The principal issue involved the

English economist Stanley Jevons' theory of marginal utility. Jevons, and later Clark, contested most of classical political economy by challenging Ricardo's distribution and value theories. Value, according to Jevons, was not based on labor, but rather a series of subjective calculations, both individual and social. Jevons also challenged classical assumptions that the industrial and financial behemoths operating in the late-nineteenth-century allowed for perfect competition, and he questioned the existence of 'economic man.'[80]

Jevons initiated a rift among the economic *intelligencia*. The American Economic Association filled its ranks with academics trained in the German school of historicism that incorporated an appreciation for historical change into political economy. Theory was not absolute. The Association also challenged the classical assumption of the negative state. The organization's founding constitution declared, among other things, "the state as an agency whose positive assistance is one of the indispensable conditions of human progress."[81] The democratic state should be used to promote the general welfare. Christian moralism was included in the new political economy. The Social Gospel, an economic form of social Christianity that served as a practical balance between socialism and *laissez-faire,* denounced competition as unsocial and insensitive to the interests of the masses. To solve the urban and industrial crises, and reconcile the co-existence of poverty and prosperity, lay and clergy economic thinkers favored Christian sociology. By 1900 the Association was eclipsed by neoclassicism, but the Progressive movement and Roosevelt's New Deal agenda illustrate the paradigm shift in domestic thought.

Conclusion

Corporations played a central role in coordinating the economic development of America. The expansion of markets, the demand for sophisticated financial instruments, and the increasingly industrial nature of the American economy had by the Civil War era precipitated the corporate form in the American economic experience. Affinity for the corporate model, however, did not preclude nineteenth-century Americans from holding businesses responsible for promoting the social interest. Corporate and individual for-profit ventures were accountable to political institutions, social groups, communities, and citizens. Embedded in economic and social networks, corporations were expected to temper their pecuniary ambitions and broadly serve the general interest.

American economic thought encouraged the application of ethical principles to business practices. During the colonial and early national periods these principles stemmed from an individual concern with Christian altruism as well as a desire to advance a patriotic republicanism. The latter helped mitigate the sometimes insensitivity of market externalities that accompanied the rapid economic growth of the antebellum era. Republicanism also helped transform the nature of the relationship between government and corporations. Government became more concerned with defensive regulation against corporations rather than using corporations as engines for economic development. Toward the end of the century expectations for ethical self-reflection, internal corporate scrutiny, and public coercion began to wane. These gave way to formal institutions that wielded the power of state authority. Americans, for better or worse, grew dependent on state agencies to direct corporations toward the common good.[82] At each stage the discussion of individual and corporate responsibility evoked controversy. Throughout American history, business legitimacy has hinged on not only its capacity to promote economic growth, but also its ability to respond to ideas and attitudes circulating in the public sphere.

ENDNOTES

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