

# Americans' initiatives and business spirit boosted economic growth

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Word Count 1,353

Level 860L



Image 1. A \$1,000 note issued by the Bank of the United States in 1840. This was a bond issued by the Pennsylvania-chartered Bank of the U.S. to raise money for the government. Image courtesy of the National Numismatic Collection, National Museum of American History

In 1801, Thomas Jefferson became president of the United States. Jefferson represented a new economic vision for the country. His way of thinking was very different from that of the Federalists who had been in power before him.

The Federalists were in favor of a strong central government that guided and shaped the economy. Anti-Federalists like Jefferson wanted a weaker central government and lower taxes. After becoming president, Jefferson swiftly reduced taxes. He halved the size of the civil service that Alexander Hamilton had built up to help direct the economy. Hamilton had served as secretary of the Treasury during George Washington's presidency.

By 1801, Federalist governance had already laid the groundwork for a healthy and expanding economy. Roads had been built and postal services had been extended. Customs had been established to control the flow of goods in and out of the country.

If Federalists had remained in power after 1801, the country's economic development would have been guided by government officials. The Bank of the United States would have controlled the flow of credit. The Federalists did not believe ordinary people knew how to use their money wisely. Thus, they would have concentrated capital in the hands of the privileged.

Instead, a new political movement triumphed. That movement was strongly opposed to government control. Jefferson distrusted big banks and wanted to give ordinary white men a greater chance to take part in the economy. Thousands seized the opportunity. Under Jefferson and the like-minded presidents who followed him, the U.S. economy really took off. However, that quick growth would not have been possible if the Federalists hadn't laid the groundwork.

Business-minded Americans didn't want a stable and carefully controlled economy. They wanted to be able to easily borrow money to fund their ideas. They wanted the freedom to take chances. If that meant the economy would occasionally crash, they accepted that as the price of free enterprise.

Once lenders were able to loan to ordinary people, thousands of would-be businessmen acted on their plans. Small, startup companies began new manufacturing businesses with borrowed money and hard work. They took pride in making it on their own.

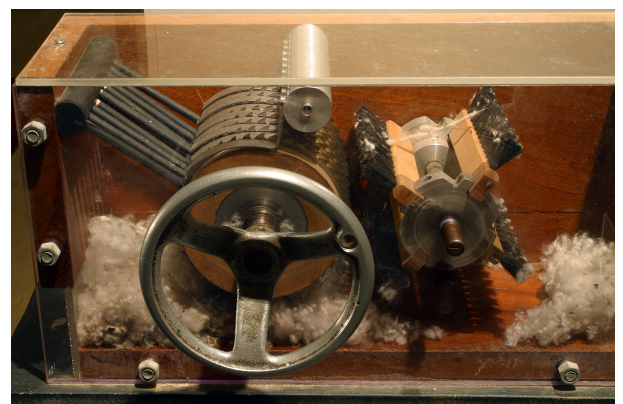
### **Uniting The Country**

Fortunately for them, their businesses were aided by governmental efforts to further bind the country together. New roads and canals were constructed. Postal service was further expanded. Later, telegraph networks and railroads were built.

Many Americans who didn't own land were eager for farms of their own. A never-ending stream of them pushed westward. Land was bought, traded for, or simply taken from tribes that had lived on it for centuries. Settlers felt they had a right to the land, and the Native Americans who fought back were considered savages. Soon, frontier communities were sprouting up everywhere. The result was constant fighting between settlers and Native Americans.

Foreign visitors were astounded by American society. To them, it seemed ever-changing. People were on the move, land was being quickly cleared, and new buildings were rising up everywhere. Ordinary men had never before had such a chance to create their own wealth.

Yet, the biggest source of profit for the country was cotton. That cotton was produced by African-American slaves. It was grown and harvested on plantations owned by rich white southern planters. Their use of slaves only increased as cotton became a much more profitable crop, thanks to Eli Whitney's cotton gin.



This slave-based wealth was fueled by the industrial revolution. Industrialization had begun in England. Thanks to steam engines in particular, it had completely changed old ways of mining, shipping, and making everything from tools to pottery. But the industrial revolution's greatest effect was on the manufacturing of cloth. Textile mills were now able to produce far more than



ever before. Mills in England, and later in the United States, couldn't get enough cotton. That endless demand made Southern cotton-producers rich.

The South focused almost entirely on cotton and some other types of agriculture. That made planters rely on the North for all sorts of manufactured goods. Indirectly, the North also profited greatly from cotton and slavery.

### **Middle Class Boon**

Yet, if cotton was king, all sorts of other businesses were started by a new breed of businessmen. Who were these people? Most came from a growing middle class. They borrowed from friends and family and worked hard. They took chances and had bold ideas. Many ordinary Americans came up with their own inventions.

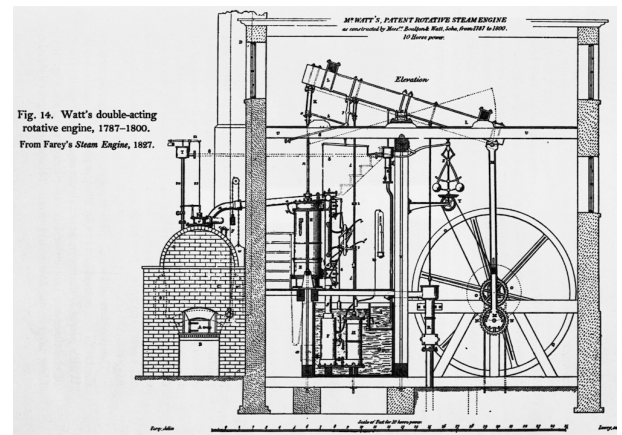


Fig. 14. Watt's double-acting rotative engine, 1787-1800. From Vane's Steam Engine, 1887.

The national market grew even more connected after the telegraph machine was invented in the 1830s. For the first time, long-distance communication became possible. Telegraph machines also became important for running the new railway system.

Railways themselves helped to greatly expand the economy. They allowed goods to be shipped far and wide. They made it easier for people to move about in search of new opportunities. In fact, railroads were so important they made the men that owned them enormously rich.

American industry soon caught up with that of Great Britain. By mid-century, it was pulling ahead. For the United States, the push to advance economically became a key part of its national character. Americans celebrated their drive and business spirit as a way to distinguish themselves from the Old World ways of Europe. As President Calvin Coolidge later said, "The business of America is business."

The economy received another big push in the 1850s after James Marshall discovered gold at a California sawmill he was building. Just nine days after that discovery, the U.S. signed the treaty that ended the Mexican-American War and gave California to the United States. Fortune hunters quickly sped to California. Within four years, a quarter of a million people had arrived. Native Americans died in great numbers at the hands of lawless and racist newcomers.

### **Striking Gold In California**

More gold was dug up in California in the 1850s than in all places put together in the previous 150 years. Vast new fortunes were created. As a result of all this new wealth, the volume of world trade almost tripled.

America's steady growth was interrupted by the Civil War (1861-1865). However, even this bloody conflict helped certain regions of the country grow economically. The high costs of fighting the war led Congress to create a string of federally chartered banks. These banks all had to place a portion of their money in New York City. As a result, New York City became the country's financial center.

After the war, the economy continued to expand, until it hit a major roadblock. In 1873, the economy plunged into a severe depression. In some areas of the country, the economic downturn lasted for another 26 years.

During the 1870s the United States and other countries switched to the gold standard. Now the dollar, the pound and many other currencies had a fixed exchange rate with gold.

The gold standard caused some unexpected problems. However, it increased global trade, because it made people more confident that their money would be fairly exchanged in other countries. People around the world started investing abroad. Many chose to place their money in the United States, which had become the world's largest economy.

The United States was now in a position to lead the world's economy for the next 150 years. Its federal government had reunited the country after the Civil War. Its Atlantic and Pacific coasts were joined together by railroads. Its industry was about to pull in 20 million immigrants, mainly from Central and Eastern Europe. Grains from the rich farmland of California and the Midwest fed a quickly growing population. By the end of the 1800s, that population had reached 76 million. America had truly become a great world power.

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