

*A Short History of American Capitalism*

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*Chapter 5*

RISE OF THE CAPITALIST CLASS, 1790-1865

During the colonial economy, a capitalist class had yet to come into existence. Here and there, workers were employed by individuals not numerous enough to form even an interest group, let alone a class. During the three-quarters of a century covered by this chapter, scattered businesses began to associate into more basic social formations. By 1865, fully one-third of the national income flowed from capitalist enterprises, mostly manufacturing but also mining, transportation, banking, and other fields. Production by enslaved workers grew just as rapidly and the southern economy became ever more intertwined with that of the increasingly capitalist North.

Capitalism advanced by inducing institutional changes in the American society and economy. In the process, enormous costs were borne by large sectors of the American people. The changes ranged from new ways of financing industry to deep governmental involvement in economic affairs. Their sum total was well stated by Hughes: "In matters of rights of property of all sorts ... it would be difficult to imagine an entrepreneurial class more solicitously protected than that in the United States on the verge of the great nineteenth-century economic and geographic expansion."<sup>1</sup>

*Capital Investment*

In general, the market for corporate securities was small before the Civil War. Stocks and bonds of highly successful textile manufacturing corporations were closely held by a very small circle of investors.<sup>2</sup> Best known of these was the Boston Associates which organized the modern textile industry in Lowell, Massachusetts. Outside of such groupings, manufacturers generally met with a cool reception in banks where they were informed that their field was too risky in comparison with mercantile pursuits. This is not to say, however, that there was a shortage of sharp operators with visionary conceptions of future success. John Adams, the country's second President, called them "an Aristocracy of ... Stock jobbers ...

irremediably entailed upon Us, to endless generations.”<sup>3</sup> The existence of such competition for investors’ funds, however, did not interfere with the funding efforts of large textile firms in New England which enjoyed preferential rates in the capital market.<sup>4</sup>

Unless they were insiders, well-to-do investor-merchants, for the most part, tended not to rush into speculative enterprises. As J.S. Davis observes: “the greater the certainty of success, the more heavily the large capitalists ventured . . . . Unless the larger fish could be attracted by the bait, the interest of the smaller fry was unavailing.”<sup>5</sup> In New York, the first bonds in the Erie Canal were bought by small investors in the state. When, however, a section of the canal was opened successfully, “the securities became attractive to larger investors in New York City and then in London.”<sup>6</sup> Similarly, industrial ventures in outlying towns sometimes prospered so well that large-city investors absorbed the projects after a number of years. This, for example, was the case in Springfield and Boston, Massachusetts over the 1820s and 1840s.<sup>7</sup> The New York Stock Exchange handled almost no manufacturing stocks before the Civil War; indeed, until about 1890, hardly any other than railroad securities were traded.

Until the second quarter of the 19th century, state charters of incorporation were passed singly by the legislature. After a time, a movement began to enact a general incorporation statute which required only an administrative application and payment of a modest fee. In places such as Pennsylvania, however, few manufacturing firms applied under the general statute, preferring to seek a special legislative charter or to forego incorporation altogether. In Pennsylvania, most manufacturing firms seeking incorporation chose the special legislative route. Perhaps this was because the legislature was able to add whatever additional privileges influential incorporators could bargain for. Thus, five years after passage of the 1849 general act, fewer than twelve firms had incorporated under it.<sup>8</sup> Even as late as 1880, in Philadelphia’s textile industry, consisting of 849 firms and thus the country’s largest grouping in the industry, not a single firm was a corporation.<sup>9</sup> In 1812, the New York legislature chartered the New York Manufacturing Company not only to produce cotton and woolen cloth but also awarded the firm the right to conduct banking because of “the difficulty of inducing persons to invest money in untried enterprises however important to the general welfare.”<sup>10</sup>

Banks were crucial for the development of American capitalism, especially concerning manufacturing. During the entirety of colonial history, not a single commercial bank was created. In 1814, ex-

President John Adams warned against the growth of “monopolies and incorporations”. He asked:

Is not every bank a monopoly? Are there not more banks in the United States than ever before existed in any nation under heaven? Are not these banks established by law upon a more aristocratical principle than any others under the sun? Are there not more legal corporations ... than are to be found in any known country of the world?<sup>11</sup>

It was common knowledge that chartered bodies possessed special privileges from state legislatures and were highly prized for such reasons. The banks that came into existence after independence were organized ordinarily by networks of wealthy merchants linked by kinship or marriage, who lent most of their money to insiders such as shareholders, officers, and directors of the banks. As Lamoreaux indicates: “insider lending resulted in discrimination in the credit markets. ...”<sup>12</sup> For example, in the early 1840s the Rhodes brothers of Pawtuxet, Rhode Island received nearly half a bank’s loans even though they owned less than one-eighth of the bank’s shares.<sup>13</sup> In Philadelphia’s Bank of North America “shareholders and their intimates got 53 percent of the loans [made in the private sector] and a munificent 63 percent of the dollars.”<sup>14</sup>

This was well known. In 1850, the leading business magazine of the country wrote of bank organizers: “It is not that they have money to lend that they want to take stock in a new bank, but because they want to raise money for their own business on the credit of the new institution.”<sup>15</sup> Manufacturers seeking loans from these banks stood only the slightest chance if they were outside the organizers’ circle. After all, Adam Smith had advised in *The Wealth of Nations* (1776) that banks should not lend for investment in fixed capital and machines.<sup>16</sup> On the other hand, an insider who sought capital for his enterprise could easily supersede Smith’s authority. Boston banks within the ambit of the Boston Associates fairly shoveled out capital funds to the textile manufacturers. In the western Massachusetts town of Northampton manufacturers formed part of an interlocking directorate that shifted funds from one industry to another: “While manufacturing gave them profit from production, banks and insurance companies allowed these men to benefit from the expansion of the cash economy and the increasing use borrowers and lenders made of financial institutions for credit.”<sup>17</sup> In leading manufacturing centers such as Rhode Island, prominent manufacturers played a

leading role in bank organizing.<sup>18</sup>

Banking was itself a growth industry during the American industrial revolution. Banks in New England grew in number as follows:

1784	1
1810	52
1830	172
1837	320+
1860	505 <sup>19</sup>

Gilje has written that this expansion amounted to a democratization of banking.<sup>20</sup> Referring to new banks in Philadelphia, New York City, and Boston soon after Independence, however, Matson declares that “few middling and lower-class Americans shared the benefits of these new institutions.”<sup>21</sup> The poorest 60 percent of the American people — those who owned no wealth at all — were situated at the farthest margins of this burgeoning financial economy. The next fifth of the people possessed only five percent of the nation’s wealth and gained only limited entries to the concentrated wealth of the country’s banks. America’s financial institutions before the Civil War served the wealthiest fifth of the people. Not least among the latter were prominent politicians.<sup>22</sup>

Throughout the pre-Civil War years, the economic interests of the growing capitalist class were well-served by governmental agencies. Central to this achievement was creation of the Federal Constitution, “a gigantic step toward stabilizing the prospects for long-run returns on investments.”<sup>23</sup> The first Federal government of 1789 was clearly devoted to the protection of property and ready to shield its beneficiaries from “the force of sheer majorities.”<sup>24</sup>

An early test of federal bounty to the well-heeled was the assumption of state debts in 1790 as well as the issuance of federal bonds. Speculators had long held most of the state debts which languished at extremely low values. These speculators constituted an extremely small group with large expectations. Fewer than 50 northerners owned 40 percent of the public debts of Virginia, North Carolina, and South Carolina.<sup>25</sup> The “speculator’s windfall”<sup>26</sup> of 1790 bore both individual and class advantages:

The market value of federal and assumed state securities advanced by perhaps \$38,000,000 from 1786 to 1792, and the consequent redistribution of national wealth generated capital for business. ... Within seven months after August 1791 seventeen corporations were started, and by 1793 ... twelve banks ... were added to the four in existence, raising total bank capital from \$2,500,000 to \$18,000,000. These and other financial institutions created a mass of liquid securities that facilitated capital investment. ... A stock market sprang up.<sup>27</sup>

The 1790 measure “enhance[d] the importance of those whose investments were in the form of securities; it made their wealth more readily marketable, provided them with a satisfactory collateral for bank loans, and, as the public credit improved, partly in consequence of the measure, it increased the sum of their wealth.”<sup>28</sup>

Until 1861, all levels of government contributed up to a third or so of total investment in the construction of railroads.<sup>29</sup> During the years 1815-1860, of the total of \$175 million spent on canals, government funds accounted for seventy percent.<sup>30</sup> Goodrich observes that for all these governmental expenditures, it was likely that “their receipts from net earnings, interest, and dividends would represent much less than a commercial return on the sums expended, and the balance on capital account would be heavily negative.”<sup>31</sup> Government investment funds were more available during the first period of railroad construction, during the 1830s and 1840s, than in the next 20 years, when private funds were more plentiful.<sup>32</sup> Only as risks were shown to be manageable did private investors replace the government. Still, until the eve of the Civil War, “no canal or railroad of any great length had been built entirely without government funds.”<sup>33</sup> From 1840 to 1860, for example, “the state government became the leading investor in Virginia railroads, purchasing more than 60 percent of the total capital stock.”<sup>34</sup>

Capital investment also grew through interregional private sources. Eastern merchants, manufacturers, and bankers invested heavily in western land and in building of canals and railroads.<sup>35</sup> In addition, credit was extended to western merchants. Erastus Corning, for example, brought funds from the eastern seaboard that led him into land speculation, manufacturing, banking, railroad building, as well as politics, an indispensable key to business profits. Exceedingly rich mineral lands were purchased for \$1.37 an acre and sold for many times that price. Thirty-eight thousand acres of iron land brought half a million dollars in 1864.<sup>36</sup> Gates reports that “in the flush years of the

thirties and again in the fifties capitalists from the East and old South took great quantities of money with them to the western land offices, employing it there to make loans to desperate squatters.”<sup>37</sup> Gates refers to “loan sharks” whose operations left in their wake numerous heavily mortgaged farms.

In the Southern Appalachians of the early 19th century, “nearly one-half of the town lots of each ... zone were owned by non-residents.”<sup>38</sup> Ninety percent of the absentee acreage was held by “distant merchants, planters, and investors in large holdings.”<sup>39</sup> When a land office was opened at Huntsville, Alabama, “in addition to activity by national syndicates, numerous small combines of public officials, southern planters, and eastern bankers engrossed the public domain.”<sup>40</sup> Coal and other valuable minerals came under absentee control early on. Appalachian elites frequently facilitated such transactions. In western Virginia, northern capital entered coal mining to join with local and other capitalists.<sup>41</sup> Copper mines in eastern Tennessee were operated by capitalists and businessmen from New York, Charleston, Savannah, and New Orleans, as well as England.<sup>42</sup>

Northern capitalists sought investment outlets throughout the South. Machines for the earliest southern textile mills were supplied on long credit terms by northern machine manufacturers.<sup>43</sup> But cotton constituted the most profitable component of the North-South connection. Between the plantation and capital-rich northern banks stood the cotton factor, an agent in charge of merchandising the cotton crop and financing its cultivation. Factors had banking affiliations throughout the North and, indeed, the capitalist world. Without these connections, the plantation system was doomed.<sup>44</sup> This was not lost upon northern and foreign capitalists who fed upon the stream of slave-created cotton.

Besides trade credit, the largest British investments before 1860 were directed at financing railroads in the United States. Between 1849 and 1860, for example, foreign capital, much of it British, amounting to some \$190-million poured into the United States for railroads.<sup>45</sup> During the earliest phase of railroad building, however, foreign capital was very selective about such investments. In the years 1828-1832, Baring Brothers and Company, the ranking banking firm in Anglo-American affairs, refused altogether to buy any U.S. railroad bonds or shares.<sup>46</sup> This reluctance receded in time but foreign doubts about U.S. corporate securities remained. By 1853, public and private stocks and bonds amounted to nearly \$1.8-billion, of which foreigners held \$184-million. Foreign investors owned one-third of all

government securities but only one-twelfth of all private U.S. securities issued. They favored the railroad industry over all available forms of investment, and favored bonds over stock by a ratio of five to one. Altogether, this would not suggest a very daring policy by foreign investors.<sup>47</sup> In general, they also stayed away from riskier investments such as manufacturing and investments in the South.<sup>48</sup> (This latter did not apply to cotton production and sale.)

### *Profits*

How profitable were investments in increasingly capitalist America?

In northern agriculture, organized principally in family farms, Clarence Danhof finds most were "financially successful."<sup>49</sup> Atack and Bateman estimate the return on farm investment in the region as a whole ran around 12 percent.<sup>50</sup> This was only half the profit rate in manufacturing or transportation. On the Kansas and Minnesota frontier, the rate of return was less than 10 percent and more or less equal to interest on bonds at that time. In a number of states, by far most of farm profit was not derived from the sale of farm products as much as from an increase in land values. In one group of states (Illinois, Indiana, Iowa, Kansas, Minnesota, Ohio, and Wisconsin) capital gains from increasing land values constituted 61.5 percent of the profit.<sup>51</sup>

Northern manufacture yielded profit rates double those of agriculture. In Lowell, Massachusetts, the giant Merrimack Manufacturing Company began operations in 1823 and during the years 1825-1845 reported an average annual profit of 24 percent.<sup>52</sup> Elsewhere, even in the same state, the record was much more modest. Thus, during the early 1830s, in Uxbridge, Massachusetts, manufacturing brought six percent profit while agriculture recorded only half that rate.<sup>53</sup> In neighboring New Hampshire, however, a U.S. Treasury agent complained that manufacturers of his state were prosperous enough to pay workers more than any other business while farmers could not cover their expenses. He advocated enactment of a law that would "effect a reduction in the profits of manufacturing establishments, by which you will compel the owners of these corporations to curtail their expenses, and reduce the price of labor at least 33 percent."<sup>54</sup> In Western Pennsylvania, another Treasury agent pointed to workers who, during the War of 1812, had lost their manufacturing businesses through bankruptcy and "are to this day

[i.e., 1832] employed through the country to earn a pittance by the sweat of their brows.”<sup>55</sup> West of Pittsburgh, there were few factories. The agent insisted that no capitalist would risk his funds in Ohio without an expectation of at least a 15 percent return. On the other hand, in older urban areas such as Cincinnati “a great prosperity attends every factory”.<sup>56</sup>

Manufacture in the South produced high profits, greater even than in cotton farming.<sup>57</sup> In 1850 and 1860, such profits yielded 21 and 26 percent, respectively. Only six percent of cotton planters owned factories.<sup>58</sup> Yet, as a group they held 23 percent of the capital stock in southern manufacturing. Industry by industry, rates of return ranged from 19 to 40 percent.<sup>59</sup> Many slaveholding southern businessmen joined their northern brother-industrialists to advocate a tariff on textiles.<sup>60</sup> On the eve of the Civil War they sought to slow the movement for secession.<sup>61</sup>

Table 3. DISTRIBUTION OF WEALTH,  
MASSACHUSETTS AND OHIO, 1820-1860

YR	Share of wealth held by:						% with zero		Gini	
	Top 1%		Top 5%		Top 20%		wealth		MA	OHIO
	MA	OHIO	MA	OHIO	MA	OHIO	MA	OHIO	MA	OHIO
1820	20.0	N.A.	41.4	N.A.	74.1	N.A.	39.4	N.A.	0.734	N.A.
1830	28.3	23.6	49.6	52.8	79.3	83.6	39.3	35.4	0.784	0.786
1840	23.2	27.7	48.7	52.5	81.6	84.0	43.0	41.2	0.794	0.821
1850	34.3	16.8	57.9	43.3	87.8	83.0	54.4	40.0	0.848	0.864
1860	26.1	22.7	56.6	50.0	89.5	87.6	57.8	50.4	0.851	0.813

*Source:* Richard H. Steckel, “Census Manuscript Schedules Matched with Property Tax Lists. A Source of Information on Long-Term Trends in Wealth Inequality,” *Historical Methods*, 27 (Spring 1994), p. 85. Based on federal census manuscript schedules and tax records of real and personal property. Rural and urban portions of the schedules were weighted in proportion to the rural and urban populations of both states.

Profits from speculation in land were very great. Judging from Robert Swierenga's studies of speculation in nine Iowa counties between 1845 and 1889, speculators received an average net rate of return of 53.4 percent. During the frenzied 1850s, even higher rates were recorded.<sup>62</sup> Speculation in land had long become — in Thorstein Veblen's phrase — The Great American Adventure. It cut across all propertied classes.

Profits of the slave trade and slave labor permeated the world capitalist economy, including the American economy. Examples follow:

Early New England manufacturing capital came from merchants who not long before had engaged in the slave trade or in commerce related to the slave trade.<sup>63</sup>

Northern businessmen were largely the middlemen, the shippers, the bankers, the insurers, that took a lion's share of the profits of Southern agriculture.<sup>64</sup>

The great success ... of the family was James deWolf, later a United States senator and cotton manufacturer, who made a fortune between 1780 and 1808 in carrying and selling slaves. ...<sup>65</sup>

Over half of the Cuban capital invested abroad in the mid-nineteenth century was placed in England. This included some fortunes of slave traders, such as that of the brothers-in-law Gabriel Lombillo and José Antonio Suárez Argudín, who began to invest in textiles in Manchester [England] and coal mines in Wales after 1830. ... In Spain the investments of these Cuban entrepreneurs were so substantial that the banking system of the country was really their creation.<sup>66</sup>

There are serious conceptual and related difficulties with arriving at a profit figure in the use of slave labor. And, of course, adequate accounting records do not exist nor have they ever. Fortunately, however, a starting point is available. In 1990, a number of economists and economic historians were asked to arrive at a figure which would express the present value of the wages which were not paid to slaves before emancipation in 1865. Estimates ranged from \$1.4 to \$4.7 trillion. Few people are able to form a meaningful conception of a trillion of anything. It may, therefore, be helpful if we translate a figure of \$4 trillion into contemporary economic actualities. Following is a listing of all United States non-residential fixed private capital, expressed in 1983 dollars. In the main, plant, equipment, and machinery are included.

*Fixed Private Capital - 1983 (in \$billions)*

Transportation and public utilities	\$ 1,007.3
Manufacturing	764.7
Finance, insurance, and real estate	574.0
Services	276.9
Mining	238.8
Retail trade	206.2
Agriculture, forestry, and fisheries	201.2
Wholesale trade	122.6
Construction	58.8
TOTAL	\$ 3,450.5

Adding the net stock of federal government-owned fixed capital of \$583.3 billion in equipment and structures, the total becomes \$4,033.8 billion or some four trillion dollars.<sup>67</sup> As W.E.B. Du Bois wrote in 1904: “The present industrial development of America is built on the blood and brawn of unpaid Negro toil in the 17th, 18th, and nineteenth centuries.”<sup>68</sup>

*Productivity*

Before the advent of capitalism in America, sharp increases in production output per worker were achieved, by indentured servants in tobacco fields and enslaved workers in cotton cultivation. These increases, highly profitable to planters, were accomplished by employing violence or the threat of it. In industry, indentured servants were rarely employed and only few enslaved workers labored outside the South. A new compulsion was installed in factories—i.e., machinery—which in time became far more profitable than the earlier techniques. A preliminary step involved the displacement of labor with machines. As Louis Hunter notes:

Most of the early applications of machinery were in such simple but laborious operations as grinding, pounding, hoisting, pumping, rolling, and the like. The economies there were so large and so obvious in terms of manpower replaced that questions of engine efficiency and fuel economy were of minor importance.<sup>69</sup>

The hand and eye of skilled mechanics remained critical in the finishing of steam engines and other machinery. Nevertheless, the profit advantage of machines was considerable. “A mechanical horsepower, equivalent to the power potential of six to eight men, as delivered by a small high-pressure [steam] engine of quite low efficiency, rarely cost more than ten or twelve cents per horsepower

hour, or about the hourly wage in this period of a single worker.”<sup>70</sup>

A great employer-gain from mechanization came from progressively increasing the work load of machine workers. As indicated earlier, this took the form of speed-up and stretch-out. Both techniques were used by factories almost from the beginning and were the heart of high productivity. But it was not high productivity that was the goal of capitalist production so much as high *profitivity*. Profitivity is the share of increased output that is appropriated by the employer. The remainder, labor’s share, is expressed by increases in real wages, i.e., money wages deflated by the cost of living. It will be recalled that between 1840 and 1854, a period largely of high prosperity, wages remained essentially unchanged while the output of spinners and weavers more than doubled in the Hamilton Company mills in Lowell. The upward trend of profitivity in antebellum times was a principal factor in increasing the concentration of income and wealth in the United States.<sup>71</sup>

The textile mills of New England were more extensively and closely managed than was customary in other industries. Each was headed by an agent who operated under the direction of the corporate treasurer. In every working room, an overseer or overlooker supervised and trained workers. In the earliest mills, children made up most of the work force. In fact, women and children were most of the workers in big factories. The fact that women were so closely supervised might have had more to do with their prominence in strikes rather than their alleged docility. Class lines within the textile factories were rarely breached and “no worker in Lowell is known ever to have risen to corporate management.”<sup>72</sup>

Writing of late 18th-century Pennsylvania, Rappaport states that “the coercive power of wealth was limited.”<sup>73</sup> Where ties of dependence and command between classes were minimal, few relations of exploitation could arise. Similarly, before 1810 in central Massachusetts towns and for like reasons, “there was no way ... wealth was translated into domineering economic power.”<sup>74</sup> The rise of an industrial capitalist class, however, changed all this. By the mid-19th century, in both places, a structure had arisen in which wealth became capital and capital led to domination. Fed by investment, profits, and productivity, the new capitalist society took shape. That society was increasingly split into two separate spheres: the economic and the political. Within the former, capital was free (and became

freer) to construct a perpetual-profit machine following a system of private governance of its own construction. Workers had no rights of representation nor of participation in the making of rules in the economic sphere. Actually, as we have seen, operators of this private system were heavily dependent on the public sphere—in the area of public investment, for example—but did not yield any of their authority upon receiving public bounties. Indeed, many capitalists or their agents played prominent parts in the public sphere.

Who were the early capitalists? In most cases they were former craftsmen who played a secondary part in partnerships with wealthy merchants who viewed manufactures as a supply of goods they could sell in a market. The most prominent merchants, however, were content with their present pursuits which were profitable enough. Besides, manufacturing was speculative. Syndicates of investing capitalists were rare except in the instance of the Boston Associates. In general, few workers became capitalists, although this varied with the industry. Many or most of the operators of paper mills in the Berkshires of New York and the textile mills of Philadelphia were former skilled workers.<sup>75</sup> In the shoe industry, on the other hand, most “bosses” were sons of manufacturers or of the most highly skilled workers. This was more typical than the paper industry. Altogether, very few factory workers were skilled artisans. In the skilled trades, journeymen who could not rise to master craftsmen became wage-hands in artisan shops. They rarely entered the factories.

While the credit provided manufacturers by merchants was critical, it also gave the merchant-partners a major say in problems of pricing. Thus, during the Panic of 1857, when consumer demand for iron boiler plate declined, ironmasters sought to close operations temporarily in order to avoid cutting prices. Their source of credit—the merchants—were able to convince them instead to reduce prices and remain open.<sup>76</sup> After all, merchants without goods to sell faced ruin. But so did iron-makers without credit. During the Civil War, the need for manufactured goods of all kinds provided manufacturers with a more autonomous existence. Factories that were built early in the 19th century were frequently small, local monopolies which did not attract much competition because of the general backwardness of transportation.<sup>77</sup> Markets had little potential for growth in the absence of infrastructure. By mid-century this lack was largely remedied. Competition had grown so that of two leading industries—iron-making and meat-packing—it was doubtful whether either one

overall could be said to be profitable.<sup>78</sup> (Indeed, the former was said to be operating at a net loss.)

In 1850, 350,000 proprietors managed the country's non-agricultural sector of the economy. The Census of that year enumerated 121,855 separate establishments under the heading "manufactures, mining, and the mechanic arts". In addition, 100,752 persons reported their occupation as "merchant", thus suggesting the possibility that there were that many more separate mercantile establishments. The great mass of American proprietors were, at any rate, the owner-managers of very small firms. On the average, each proprietor hired seven workers. The great deviations from this average were in the textile industry and, very occasionally, in the iron industry. In mining and transportation the situation did not differ greatly from the average, other than in the railroad industry.<sup>79</sup> Out of every 100 persons working outside agriculture, 87 were hired workers and 13 were proprietors.

How many truly capitalist enterprises and proprietors existed at mid-century? How many of the 100,000 "merchants" were no more than owners of tiny retail stores with no hired employees? Let us examine the subject through the prism of Table 4.

1. *Private ownership.* Individual and partnership forms predominated until the Civil War. Railroads were the first industry organized principally by corporations.

2. *Labor and capital.* In many industries, firms hired relatively few workers; textile plants were among the largest. Artisan shops remained small. Manufactories were midway between the two.

3. *Production for profit.* Profit was the underlying motive for capitalist firms, large or small, while its importance for little firms ranged from incidental to vital, subject to change over time.

4. *Production of commodities.* This was fundamental for both types.

5. *Capital investment.* Early capitalist firms needed relatively little investment capital for structures and equipment as both were rudimentary. Working capital was more important (especially funds to pay wages). Little firms, particularly artisan shops, depended on tools owned by artisans.

TABLE 4.  
CHARACTERISTICS OF CAPITALIST FIRMS AND LITTLE  
BUSINESSES, 1790-1860\*

<i>Characteristics</i>	<i>Capitalist Firms</i>	<i>Little Firms</i>
1. Private Ownership	Self-ownership of structures and equipment, plus inventory and raw materials	Self-ownership of inventory of goods for sale and raw materials
2. Labor and Capital	Employment of relatively many workers	Employment of virtually no workers
3. Production for Profit	Central objective	Secondary to family subsistence
4. Production of Commodities (goods and services)	Yes	Yes
5. Capital Investment and Expansion	Central objective	Inelevant
6. Division of Labor	High degree and increasingly so	Practically none
7. Productivity	Central objective (profitivity)	Inelevant
8. Banking and Other Financial Institutional Connections	Yes	No
9. Specialization of Management and Supervision	Large consideration and increasingly so	Inelevant
10. Legal Resources	Large consideration and increasingly so	Inelevant
11. Innovative Orientation	Yes, as competitive pressure	Traditional, conservative
12. Participation of Own(s) in Work Process	To some degree, although decreasingly so	Unlimited
* See Chapter 1, p. 28, above, and Joseph D. Phillips, <i>Little Business in the American Economy</i> (University of Illinois Press, 1958). Most little businesses were found in retail trade (groceries) or in personal service (such as artisan shops and the like). Over a century later, a new category—small business—was created; it was defined as any firm employing fewer than 500 employees (Small Business Administration).		

6. *Division of labor.* A principal motivation for organizing larger business units was to accommodate a greater division of labor and thus growing productivity and profitability. Only in occasional cases were large artisan shops organized, especially toward the Civil War. Ordinarily, artisan shops were limited to traditional modes of production.

7. *Productivity.* While productivity made greater strides in the large capitalist firms, even the early manufactories – operated mainly by hand – recorded productivity increases. Productivity increases by machine labor were extraordinarily large in contrast to earlier accomplishments in agriculture or industry.

8. *Banking.* Access to bank credit was almost exclusively available to capitalist firms, especially those whose principal owners were well-connected in the community. Small shops of all kinds, capitalist and artisan alike, were severely limited by lack of such contacts.

9. *Specialization of management.* In factories, a premium was laid on persons who were experienced managers in English, Welsh, and Scotch textile factories. Often, one or more principal owners headed day-to-day affairs in the plant.

10. *Legal resources.* New capitalist firms frequently ran across unprecedented legal problems related to rights of workers, right to use water resources, right to build on someone else's property, and right to issue new types of securities. Legal counsel and access to law-making bodies became more important than ever. Some little firms might also confront such problems but not be able to solve them.

11. *Innovative orientation.* As the national market took shape, competition from new areas grew and put downward pressure on local prices. Producers were pressed to lower costs of production through labor-saving mechanisms of many sorts.

12. *Participation of owner(s) in production.* To a small degree in factories and over time hardly at all.

Exceedingly few "little" firms ever grew much larger. Capitalist firms which developed from tiny, individually-operated units, were

multiplied in the telling but rare in reality. During the antebellum years, retail trade—the stronghold of individual and family proprietorship—remained underdeveloped. Family farms in the same years seldom became capitalist farms, i.e., operated almost wholly by hired labor.

### *Law and American Capitalism*

Between the end of the 18th century and the close of the Civil War, the number of printed volumes of reported legal cases grew by a dozen times to over 3,000.<sup>80</sup> (These included materials on England, Ireland, and the English colonies, as well as the United States.) In another 35 years, all the U.S. reported cases comprised some 6,000 volumes. These decades were long before any consumer revolution that allegedly choked the courts. It was, in fact, capitalists, not consumers, who accounted for the overwhelming bulk of litigation and legislation. Chief among the litigation were cases dealing with the basic rules of corporate organization. New forms of property arose as stolen Indian lands were made available to settlers and businessmen. Where advantageous to the latter—as in the case of mining—deliberate silence became governmental policy. As the economy became increasingly commercialized and capitalized, business demanded and received legal protection from unwanted government intervention. Locally and nationally, laws structured traditional practices into profitable forms of racism. Slavery and bondage extended beyond the bounds of race.

In Massachusetts, with the largest capitalist industry in antebellum America, the legislature heavily invested its time in corporate affairs: “Out of a total of 178 laws passed during the legislative session of 1844 no less than 116 were special acts relating to particular corporations.”<sup>81</sup> The rest of the decade witnessed a similar dedication to corporate matters in Massachusetts. Insider political connections helped move matters through the legislature. Thus, after the Western Railroad was chartered in 1833 for \$2-million in capital, it soon became clear that the public would not buy a needed additional million:

Under these circumstances the 1830 proposals for state aid were revived with the approval of Governor Edward Everett, who as a [railroad] subscriber, had a personal interest in the matter. On April 4, 1836, the legislature amended the charter so as to provide for an increase in the capital to \$3,000,000, the additional million to be subscribed by the Commonwealth.<sup>82</sup>

Charles Warren well summarizes the vital contribution of courts to the development of corporations: "Probably no economic institution was more affected in its growth, and no branch of law received greater impetus, between the years 1830 and 1860, through judicial decisions, than that of corporations; and the great increase in number and influence of corporations was largely affected by the doctrines laid down by the courts."<sup>83</sup>

Political and financial connections continued to supplement one another. In 1811, the state legislature issued a charter for a bank requiring that loans be made to manufacturers as well as farmers.<sup>84</sup> This was at a time when manufacturing was still regarded as highly speculative. At about the same time it became standard for the state to choose later on to purchase shares of stock in banks. By about 1820, however, banking had become such a profitable enterprise that "private capitalists would have regarded state participation in shareownership as an unwelcome intrusion."<sup>85</sup> Similarly, states commonly reserved the future right to become full owners of railroads for which they had earlier bought shares. In New Jersey, however, the state never exercised its option, undoubtedly because private owners discouraged the step.<sup>86</sup> Massachusetts also had reserved the right to purchase railroads outright but never exercised the right.<sup>87</sup> Indeed, state subscriptions were designed more for the financial relief of laggard public subscription than for any significant income to the state. Dodd observes that Massachusetts' "railroad enterprises contributed very little to the public revenue."<sup>88</sup>

When Wisconsin became a state, it received 10,400,000 acres of public land from the federal government. Much of that land contained timber. By 1890, virtually all of the timberland was privately owned.<sup>89</sup> Even before transferral of the public land, theft of timber from these lands was epidemic. As Hurst points out: "Timber theft from public lands ceased to be a large problem only in proportion as government transferred its timberland to private owners."<sup>90</sup> In other words, it ceased being a problem, since there was little public land from which timber could be stolen. Federal authorities were extremely lax in this matter. A law of 1831 was interpreted by the U.S. Supreme Court in 1849 so as to straightforwardly outlaw timber theft on the public domain. The law gave the government the right to act against the timber thieves, but in fact, nothing was done. Collusion among buyers further frustrated federal management of the public domain. In addition, the lumber industry was well represented in the relevant governmental bodies.

Wisconsin lumbermen sat in the state legislature and manned committees which dealt with bills affecting the industry; substantial mill owners controlled local government in their operating areas as a routine aspect of business. Wisconsin lumbermen represented the state in Washington. ... Whenever the industry faced defined occasions for exerting its influence on public decisions, its weight was always cast for spending public wealth to speed up and subsidize present forest production.<sup>91</sup>

Hurst estimates that “probably two-thirds of the timber cut was wasted.”<sup>92</sup>

Lumbermen domination of both state and society well illustrated the dictum of Eugen Ehrlich: “The same classes, orders, and interests that control society prevail in the state; and if the state makes war on any one of these, we know that the state has passed under the control of one of the others.”<sup>93</sup> By its very nature, timber was a local resource; within the ambit of that resource comprehensive control by capitalists was the rule. Boundaries between the separate social, economic, and political arenas were permeable. The localistic bias of the legal system was especially vital during antebellum times. As Friedman writes:

In the late 18th century, and in the first half of the 19th, the federal courts clearly played second fiddle to the state courts. Where they were supreme, they were supreme; but the realm was a narrow one.<sup>94</sup>

Neither level, however, had any significant representation from working class and dirt-farmer backgrounds.

In matters of commercial law, “business provided norms; and courts tended to ratify what business did.”<sup>95</sup> Many judges were intimately acquainted with business practices. In Illinois territory, before statehood which occurred in 1818:

A small group of amateur lawyers, merchants, and political adventurers ran the government. Litigation on land claims and grants was the staple business of the courts. The judges were speculators themselves, and judged their own claims.<sup>96</sup>

More broadly, when basic class issues arose, judges’ “constitutional antennae were much more sensitive when they picked up vibrations of class struggle or proletarian revolt, things which they barely understood and desperately feared.”<sup>97</sup> Nash’s study of the Philadelphia bar in 1800-1805 and 1860-1861 found that in the earlier period, “lawyers came predominantly from families of wealth, status, and importance.”<sup>98</sup> In the earlier period, only two percent of

the lawyers' fathers were workers; in the latter, six percent.<sup>99</sup> Hall's study of 849 federal judges during 1789-1899 produced parallel findings. "Sons of the modest—of the common man—were distinctly under-represented; slightly more than one-tenth (13.2%) were from such origins. ... The distribution of social origins remained almost constant throughout the political generations of the nineteenth century."<sup>100</sup> Kinship was about as powerful as among the capitalist and merchant classes: nearly half of the federal judges were related to judges in local, state, or other federal courts.<sup>101</sup> This tendency dropped off after 1829. Increasingly, they represented an educational elite. "The judges ... tended to be upwardly mobile sons of a prosperous middle class, who were committed to the party of the President in power when they were appointed and benefitted from personal ties with mediators of the selection process."<sup>102</sup>

A large overlap existed between the sources of the lawyer-judge and the capitalist classes. In both groups, workers or their children were comparatively rare while owners of business capital were represented in large numbers.

Other than small company towns organized around one or more industrial firms, few places in antebellum America were dominated by cohesive capitalist classes. Even in New York City, the nation's greatest industrial center, "fewer than 5 percent of the city's wealthiest men and women were 'manufacturers.' ..."<sup>103</sup> Nor was the boundary between financier and capitalist very distinct. On the eve of the Civil War, industrial capitalist George Pullman lent money to Colorado miners at interest rates of 25 to 50 percent *a month*.<sup>104</sup> Both in eastern cities and new western towns wealth was highly concentrated. In 1860, for example, a tiny group constituted the wealthiest persons in Milwaukee: "9 were in real estate, 10 were lawyers, 6 were bankers, and 10 were merchants; only 1 indicated that he was a manufacturer."<sup>105</sup> In the country as a whole, reports Soltow, "titles for the rich in 1870 do include the term *manufacturer* more often than did those for 1860."<sup>106</sup>

Generalizing from his span of studies, Soltow adds: "The amounts of total wealth held by the poor and the rich are strong indicators of the power of different groups in economic, social, and political spheres."<sup>107</sup> Pessen's research underscores this finding as does that of Wilentz. The latter found that in the late 1820s, four percent of New York's population owned half the noncorporate wealth. With reference to the city's merchants and financiers: "Clustered in their

residential enclaves ... they dined in each other's homes and married into each other's families; they also directed the city's network of charitable and cultural associations and dominated city government." <sup>108</sup> In the 1830s, about a dozen employer associations in the city were involved in opposing unions. By 1850, when organized tailors struck, city police harassed strikers; in August, two tailors were shot and killed by police. Wilentz comments: "For the first time, urban American workers had been slain by the forces of law and order in a trade dispute." <sup>109</sup> Within several years, police violence against unions had become a pattern in the city.

Nationally,

During the second quarter of the nineteenth century the rich were inordinately represented in city councils, even if by a declining margin, and seldom not in control of the mayor's office. More importantly, the policies followed by city government appear to have usually been in accord with the wishes and interests of the greatest property owners. <sup>110</sup>

Pessen, writing specifically about New York City, contends that "the city's tax assessors looked the other way at flagrant underassessments perpetrated above all by the great wealthholders." <sup>111</sup> The key to this plutocratic dominance lay in continuities established between generations. As Jaher puts it, the richest New Yorkers

were ... overseas traders with a smattering of manufacturers, who attained great wealth in the second quarter of the nineteenth century, and scions of pre-Revolutionary manorial-mercantile families. During the nineteenth century these traders and industrialists intermarried with remnants of the colonial elites ... to form the patriciates sometimes called Brahmin Boston and Knickerbocker New York. <sup>112</sup>

Story notes that "increasingly, a chief function of such clannishness was the mingling and preservation of entrepreneurial fortunes." <sup>113</sup> In the future textile town of Manchester, New Hampshire, "if the community's leaders in the 1830s were not the exact same men who comprised the local elite of the late 1700s, then they were the earlier group's sons or grandsons." <sup>114</sup> In New York,

Rochester's entrepreneurial community was no capitalist free-for-all. It was a federation of wealthy families and their friends. <sup>115</sup>

In Pittsburgh and Allegheny County the dominance of founding

family members “in the professional, commercial, and manufacturing fields was complemented by similar positions in the government and the military.”<sup>116</sup>

By 1860, capitalism in the United States was well on its way toward institutionalization through financial and legal measures. Political dominance extended primarily over local and regional scales. The social cohesion of the capitalist class was patterned after age-old practices in English and American colonial ruling classes.

## SUMMARY

Markets for corporate securities were small before the Civil War. Manufacturing was regarded as too risky for bank loans. Capitalists (and merchants) in need of capital frequently organized their own banks. Federal and state governments supplied large amounts of capital to transportation corporations and others. Western lands containing valuable minerals were bought for very low prices; similar land in the Southern Appalachians was purchased by capitalists elsewhere in the country. Profits from speculation land were very great.

The slave trade and slave labor permeated the world economy, including the American economy. American industry was, in fact, financed by the profits from slavery. The present value of the wages not paid to enslaved workers in all of American history may equal the total of all of the country's non-residential plant and buildings—or exceed it.

The widespread use of steam-driven machinery facilitated sharp increases in production output per worker hour. This was a paramount source of profits (profitivity). From 1840 to 1854, wages remained essentially unchanged while the output of spinners and weavers more than doubled in large Lowell mills of one company. Most of the earliest capitalists were former craftsmen. Few workers became capitalists, although this varied by industry. On the average, each proprietor employed seven workers. In one state after another, judges and lawyers were almost wholly representative of larger owners of capital. Extremely few came from workers' families. At a time when the economy was largely a local affair, business control of local governments was taken for granted. This extended to city police forces commonly being summoned against striking workers.

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