

6—American Economic Development & Industrialization

Issues:

1. America's economic performance is the result of an unusual set of characteristics not often found in all countries throughout the world. These characteristics include a vast amount of natural resources, strong work ethic, rule of law, private property rights, economic incentives and individual freedom.
2. America's economic performance is directly related to the economic performance of its individuals and businesses. At that micro level there are tensions between self-interest/self-improvement vs. selfishness/greed.
3. Does America's preeminent economic position in the world mean it should have a preeminent position in world:
1) political affairs; 2) social/cultural affairs; 3) moral affairs; or 4) environmental affairs?

Student Outcomes:

1. Students will be able to explain why the power, breadth, scope and richness of the American economy are without precedence in the world, and that certain political, ethical and economic structures are necessary to produce such performance.
2. Students will distinguish the difference between rational self-interest and unbridled greed.
3. Students will understand that there are major differences between the American economic system and other systems that limit the ability of these systems to reach their economic potential.
4. Students will understand how and why America's economic strength affects its role in the world.

Note: First day's readings: pages 1–7; second day's readings: pages 8–12.

Students should come to class prepared to teach the other students in the class what they have learned through preparing for the class and be able to provide evidence to support their ideas.

The Basics of the Economy

The patriot philosophers tried to carefully construct a political system that provided balance between order and freedom and thus created true liberty. A study of the American political system alone, however, does not tell the entire story of the liberty that Americans enjoy. The American economic system, often called a **Market System**, also allows for a significant amount of freedom as to what is produced and what is consumed. It has also provided for general economic prosperity. The goal in this section of the course is to understand how the market system operates, why Americans adopted it, what are its strengths and weaknesses, what alternative systems exist, and finally a brief history of the market system in America.

In general, the study of economics is the study of the choices people make, the actions people take, and the policy decisions they engage as they seek to meet their wants and needs. Many of these choices are made individually; others are made collectively as a result of the economic philosophies or policies adopted by the people as a whole. These collective policies form the basis of the economic systems that exist in the world today.

Most serious economic dialogues begin with a discussion of **scarcity**. Obviously if the goods and services people wanted and needed were as readily available as dirt or air, there would be little need for people to make choices about what to produce and what to consume and therefore, no need to study economics.

Under current distribution methods, however, there simply are not enough resources, food, and services to meet all the needs and wants of people and nations. Scarcity is defined in several different ways. In some cases scarcity means not enough of the basic levels of food, clothing, and shelter necessary to sustain life, in others, the inability to immediately satisfy all the wants and needs of the people.

An important phenomenon that exists in modern societies like America is that the more access to goods and services people enjoy, the more they desire. In other words, scarcity is to some extent determined by one's current economic condition coupled with the human desire to have more. Human nature seems to dictate that there will always be something else, something better, to be sought after. This insatiable desire to realize wants and needs is nothing more or less than an expression of economic self-interest.

Despite the fact that scarcity exists, the Doctrine and Covenants tells us that the "earth is full and there is enough." This does not mean that the earth's resources can be wasted but it does stand firm against the argument that if we do not reduce the world's population, humanity is doomed to extinction.

1. What is the Definition of Scarcity? Why is an understanding of scarcity important when discussing economic matters?

In order to deal with the problem of scarcity, people are required to participate in the on-going process of making economic choices. It is important that goods and services are produced to satisfy peoples' wants and needs. Therefore, institutions must be organized to produce the goods and services people desire. It is also important to distribute goods and services to the people. Therefore, institutions must also be developed to assure that goods and services are distributed to society.

Historically, three types of strategies (institutions) have been employed to solve the problems associated with scarcity and to ensure correct levels of production and distribution. These three strategies are generally referred to as the traditional, command, and market strategies.

The basic characteristics of a traditional economy usually developed around family and social relationships. Sons were generally expected or assigned to produce the same goods and services as their fathers in a traditional economy. Daughters were generally expected or assigned to produce the same goods and services as their mothers. Goods and services were distributed on the basis of family or social relationships. It was these kinds of traditional institutions that were most evident in hunting and gathering societies or in feudal societies based on heredity. Native American communities, prior to the arrival of European traders, were good examples of a traditional economy at work. Traditional economic systems served a purpose and were often successful but they tended to work most effectively when conditions remained static or constant. Traditional systems found it difficult to adjust in times of social and economic upheaval or change. This is one explanation as to why Native American societies were so deeply affected by the arrival of the Europeans.

The basic characteristics of a command economy included some form of "economic authority" to determine what was produced and how it was to be distributed. Joseph in Egypt, collecting, storing, and distributing grain during alternate periods of good years and bad, provides a good example of this type of command economy. A

command economy often proved effective in requisitioning the finances and labor necessary for projects beyond the scope of the individual; such as the building of roads, bridges, and irrigations systems. A command economy also allowed for, and at times directed, economic change; such as the industrialization of the Soviet Union under Stalin or China's Great Leap Forward under Mao. Command economies could be efficient in dealing with changing social and economic conditions and in marshalling resources to meet an economic need, but they often restricted freedom in the market place. It was not the market that distributed grain from Joseph's granaries in Egypt, it was Joseph.

A market economy relies on the free exchange of goods and services and the laws of supply and demand to determine what is produced and how it is to be distributed. A market economic system allows for a tremendous amount of freedom for individual producers and consumers to determine what is produced and how it is distributed. People are free to choose what they will produce and what they will consume and the market system responds to reward or punish those decisions. This kind of system allows a great amount of individual freedom of choice, provides an incentive to make the "right" economic choices, and deals well with changing social and economic conditions. It also allows people to engage in what may be considered by many to be greedy or corrupt practices in an effort to achieve economic success.

Economic societies based on tradition are for the most part societies of the ancient world, and although some vestiges of traditional economic societies may still be found in rural America, where some children still seem to be born with the "farming" gene, in the modern world, where changing economic situations and conditions are part of everyday life, some form or combination of command and market strategies are most prevalent.

**2. What are people required to do because of the problem of scarcity?
What are the three major strategies employed to solve the problems of scarcity?
What are the comparative strengths and weaknesses of each of these strategies?**

During colonial times, most European nations, and the colonies they created, practiced what was called a **mercantilist** economic system. The development and practice of mercantilism was a moving away from older "traditional" economic strategies in an effort to deal with changing economic conditions and to funnel wealth back into the national treasury. These mercantilist economies were highly regulated.

In today's world the two most prominent economic systems are Socialism and Capitalism (although virtually no society practices a purely socialist or capitalist system). Although both Socialism and Capitalism contain some residual elements of a tradition based economic system, they are for the most part based on some combination of command and market economic strategies. Another economic system, the United Order, has often been described as the Lord's economic system. Although the United Order is unique in its operation, it too incorporates elements of command and market economies.

In 1776, an Enlightenment philosopher by the name of **Adam Smith**, who, along with Karl Marx and John Maynard Keynes, has been celebrated as one of the most prominent figures in economic history, outlined the process by which the market system operates in a book entitled *The Wealth of Nations*. Smith did not invent the market system, but he did try to explain how it operated.²

According to Smith, it is a "self-love" or "**self-interest**"—a desire to make a profit—that drives the market system. This idea of economic self-interest may be referred to simply as "incentive," but this incentive is a powerful motivator in encouraging people in a market system to work and create. As Smith said, it is "not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner," but rather the butcher, baker, and brewer do what they do in an effort to satisfy their own self-interest. If they satisfy our needs at the same time, well, that is the miracle of a system based upon free exchange. As many people make decisions and choices about what to produce and what to consume, and in the exchange process seek to fulfill their own self-interest, everyone in the exchange benefits and the general standard of living rises.

In modern, industrial societies, this tendency toward self-love encourages manufacturers to increase productivity in an effort to maximize profits. This increased productivity is possible, according to Smith because of an accumulation of **capital investment**, which requires savings on the part of society and investing a share of the profits on the part of business, and through an ever finer "**division of labor**," where the production process is divided into its separate parts and each part is performed by a practiced laborer. This tendency toward the division of

¹ Robert L. Heilbroner and William Milberg, *The Making of Economic Society* (Upper Saddle River, New Jersey: Prentice Hall, 2002), 52-57.

labor, and the efficiency and profit it encouraged, eventually led producers like Henry Ford to develop “assembly line” production.

Smith also explained how the market system provided an orderly solution to the problems of production and distribution. First, the motive of self-interest created the necessary engine to put the system of production to work. Second, the changing desires of society guided what and how much was produced. Smith called this guiding mechanism the “invisible hand,” but it is now most often referred to as the laws of Supply and Demand. And, third, competition in the market place prevented producers from charging more than the market price for goods and services. If the price of a good became too high, others would join in production thus lowering prices and profits.

3. Who was Adam Smith? According to Adam Smith, what drives the market system?

What keeps producers from charging too much and therefore taking advantage of the consumers?

It is out of Smith’s description of the “invisible hand” that our views on the laws of supply and demand developed. The **law of demand** states that as prices rise, the quantity consumers demand goes down. The **law of supply** states that as prices rise, the quantity suppliers are willing to produce goes up. These two laws, interacting with each other in a perfectly free market system, determine what goods are produced and how much those goods will cost.

The economy is greatly influenced by the interaction between the laws of supply and demand. Increases or decreases in demand or supply affect prices. Greater demand will push prices up and encourage more production (Cabbage Patch dolls). Yet less demand will drive prices down and discourage production. Also, when supply exceeds demand, it will generally drive prices down (rebates on cars at the end of a model year). However, when supply cannot keep up with demand, it will generally drive prices up (oil). Surpluses and shortages will happen, but they will be temporary. Demand and supply will adjust to eliminate surpluses and shortages and will push toward equilibrium (the price at which the same quantity is being demanded as is being supplied). One might wonder how the shortages in the oil supply will ever be eliminated, but in theory if the shortage of oil continues to drive up prices, oil companies will find new reserves of oil to take advantage of higher prices, or, people will develop and put into use another source of energy.

In this interaction between the laws of supply and demand, the consumer ultimately determines what is produced. If there is no demand, suppliers will stop producing (my favorite example is the 1957 Ford Edsel). If demand increases, producers will increase production to meet demands. This principle is known as “**Consumer sovereignty**” because the consumer becomes the all powerful director of the market.

Other results of the interaction of the laws of supply and demand are that there is general efficiency in how resources are used. Abundant resources cost less and are used more while scarce resources cost more and are used less. Higher prices and higher profits encourage more competition and the competition will normally reduce prices and profits (computers). Another less positive result is that because of the profit motive, there is always the temptation to circumvent the laws of supply and demand and eliminate the competition. Profits can best be maintained when there is no competition; as a result creating a market controlled by one supplier is always a temptation. In the late 1800s this desire for profits led to the development of **monopolies** and trusts (Standard Oil, U.S. Steel). These corporations created great profits for stock holders, but because those monopolies prevented the laws of supply and demand from working as they should and create competition, they also resulted in increased costs and hardships to workers and consumers.

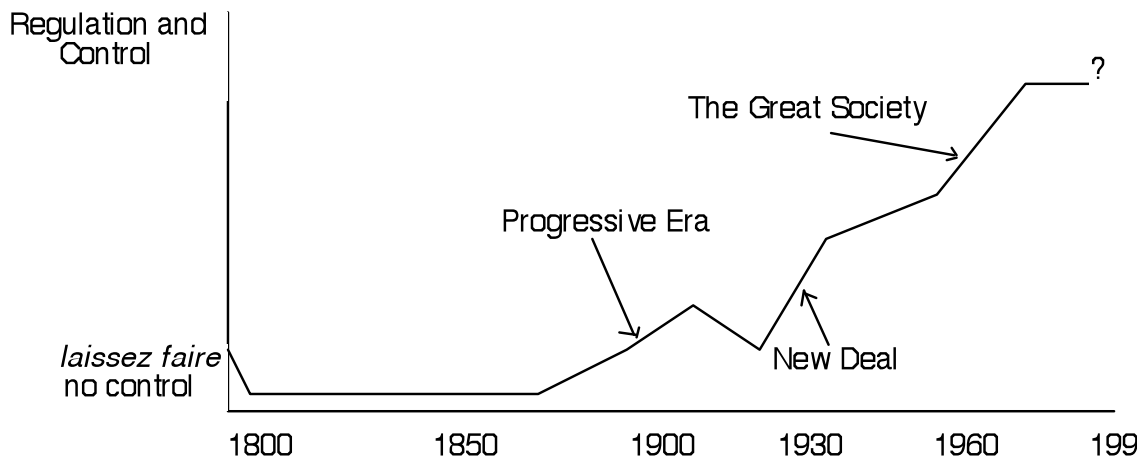
4. What are the laws of supply and demand? What examples can you give from your own life’s experience to illustrate the laws of supply and demand in operation? Are there products for which the laws of supply and demand fail to perform? (hint: what can people not do without regardless of the price)? Why can the creation of monopolies be seen as a problem in the economy? Are there monopolies that are “allowed” in modern market systems? Why?

Capitalism as an economic system is often credited with several strengths. (Just to avoid confusion, capitalism is often referred to as “free enterprise” or the “free market system” as well.) First, capitalism operates within an **atmosphere of freedom**, both in what labor is performed and what is consumed, thus offering participants a great amount of personal satisfaction. It also provides a tremendous **incentive** to work and to create. Second, it takes advantage of the “**miracle of exchange**,” or the idea that when the system is allowed to operate freely, every exchange results in a higher standard of living (again tied to incentive). Third, it works in **harmony with basic human nature** as the search for the fulfillment of individual wants and needs (self-interest) becomes a natural

incentive to work and create. Finally, capitalism **operates in a natural way to control prices and profits** through the natural laws of supply and demand, spoken of earlier.

5. What are generally seen as the strengths of the Capitalism?

In a purely capitalist economy, there is little if any government regulation. This is usually described as “**laissez faire**” capitalism, a phrase which literally means “leave it alone.” Few if any nations practice pure capitalism and the United States certainly does not. The American economy is sometimes referred to as a regulated capitalism. Even though government regulations can have a profound influence on economic growth, the growth and complexities of the economy can also have a profound effect on the need for government regulation. As the economy has become larger, more complex, and more national and international in its scope, the temptations to exploit economic opportunities in a negative way have also increased. Not all government regulation and involvement in the economy has come as a result of this declining economic virtue, but declining virtue has been a contributing factor. More will be said about government regulation in the economy later, but the following chart demonstrates the historical trends of government regulation of the American economy.



6. What has been the history of the government's attitude towards regulation of American economic activity (*laissez faire* vs. regulation)?

Despite the strengths of the market system, it has its weaknesses and there are those who claim that capitalism is actually a dismal failure. The most famous critic of capitalism was a man by the name of **Karl Marx** (1818-1883). Marx objected to capitalism because he felt that capitalism distributed wealth unequally, gave political and social power to only a few, rewarded the workers much less than the “owners,” and frequently created wasteful surpluses and shortages of goods and services. In response to the inherent weaknesses he saw in capitalism, he suggested an alternative plan that has come to be known as “**Marxism**” or “**socialism**.” In a socialist economy, property is owned publicly by the people or the state. This is sometimes referred to as collective ownership. The basic economic questions under socialism are answered not by the laws of supply and demand but through a command economy where economic decisions are made by government bureaucracies. Socialistic societies (like the Soviet Union under Stalin or China under Mao) are famous for the five-year plans where goals were set and resources were allocated. The primary motivations or goals in a socialist economy are to create economic equality; to provide security for jobs, health care, and finances; and to transform static, tradition based, agricultural economies into modern industrial economies. It should be noted that there are similarities between Marxist socialism and the “Command” strategy spoken of earlier. A major difference is that Marx’s plan was developed specifically as a response to capitalism.

Socialism has its strengths. Socialism facilitates a collective response to collective problems. It provides an efficient mechanism to bring a nation’s total economic capacity to bear against economic shortages. It offers

solutions to the most glaring weaknesses of Capitalism. And, lastly, its goals are to bring about the economic equality and security that many people desire.

7. Who was Karl Marx? What is socialism? What could be considered the strengths of Socialism?

Although socialism as a philosophy does offer advantages when compared to the weaknesses of the market system, and many democratic countries have chosen socialism in an attempt to curb those weaknesses, it also has its weaknesses. With few direct personal economic rewards in a socialist system, there is little incentive to work and produce. The people who live under a socialist system have limited or no choices in terms of what to produce and what to consume. Also, since the system has seldom achieved the stated ideal of equality and security and since total political and economic controls are often required to impose and maintain a socialist society, the governments that manage socialist systems can be repressive in nature.

In today's world several terms are often used loosely as synonyms for socialism. For example the term communism really refers to a socialist economic system combined with a totalitarian (dictatorship) political system, and is often misused when describing socialism as a strictly economic system. Under Communism, the command system is highly developed and often repressive. Another term, communalism, is defined as a small, localized economy based on community interests and desires. This term is most well known for the hippie communes of the 1960s and there was very little "command" involved in that type of communalism. Lastly the term Utopian, as in utopian community, which literally means "no place," and describes the inability of socialism to reach its ideal of economic security and equality.

8. What are the most significant weaknesses of socialism?

Because members of the LDS church believe that agency is one of the greatest gifts of God to man, the LDS Church has strongly supported democracy and republican principles. For the same reason, members and leaders have generally supported the principles and practices of the market system.

The Lord has outlined in the scriptures an economic plan that is a better economic system than either Capitalism or Socialism. We often refer to this economic system as the **United Order**. The principles upon which the United Order are based are found in the scriptures, particularly in descriptions of the Law of Consecration. It is important to remember that the Law of Consecration is much larger than the United Order. The United Order is the economic part of the Law of Consecration.

The control of property within the United Order is based on the principles of consecration and stewardship. The means of production are privately owned and property remains privately owned as well. When entering the "order" all a person owns is consecrated to the church through the bishop, a "stewardship" is then returned to the individual. The stewardship and the proceeds from the stewardship then becomes the property of the steward. The steward makes individual choices about what to produce and what to consume based upon both wants and needs and the laws of supply and demand regulate surpluses and shortages, prices and profits in much the same way as in capitalism. On a regular basis, the excess proceeds above the needs and wants of the steward are voluntarily returned to the church each year as common property. This excess property is redistributed based upon community and individual needs. The three general motivations for participating in the United Order are love of neighbor, love of God, and the desire to be obedient. It is significant that love, not financial wealth, is the ruling motivation for the United Order. Love and service to others is a key principle in the United Order, but there is also an underlying attempt to fulfill self-love, both in allowing for personal choice and in creating a system where participating faithfully in the system brings to the participant the eternal blessings of God. (See D&C 42:30-42, 55, 60; D&C 121:34-35) This is a significantly different kind of "self-love" than that described by Adam Smith.

9. How might the principle of stewardship be administered and practiced?

The United Order creates sense of ownership, incentive, and responsibility, but also creates a certain equality of earthly things. Needs and wants are met and freedom of choice is maintained, but full economic freedom is restrained by a higher standard of self-interest (love of neighbor, love of God, desire to be obedient). The United Order also promotes virtue as the ruling economic principle, not the accumulation of wealth.

10. How does United Order draw upon the strengths of a Capitalist economy while solving its most glaring weakness?

When comparing economic systems, it is useful to develop a comparison guide. There are three questions that provide this guide and facilitate comparisons between various economic systems: Who controls or owns the property? Who decides what is produced, how is it produced, and for whom is it produced? What basic motivations direct people to accept the system?

Capitalism:

Who owns or controls the property?

- Corporations
- Businesses
- Individuals

How are the basic questions answered?

- Through the free exchange of goods and services
- Directed by the laws of supply and demand

What motivations draw people to accept the system?

- Desire for wealth and profit
- Desire for economic freedom
- Desire to work and create

Socialism:

Who owns or controls the property?

- The “state”
- The “people”
- The collective ownership of property

How are the basic questions answered?

- Through government agencies and bureaucracies
- State planning
- Five-year plans

What motivations draw people to accept the system?

- Desire for economic equality
- Desire for economic security

United Order:

Who owns or controls the property?

- Corporations
- Businesses
- Individuals

How are the basic questions answered?

- Through the free exchange of goods and services
- Directed by the laws of supply and demand
- With priesthood direction for community projects

What motivations draw people to accept the system?

- A love of God
- A desire to be obedient
- A love of neighbor
- A desire to work and create

[End of first day’s readings.]

American Economic Development:

The Market System has affected the economic development of the United States and yet at the same time changing economic conditions and situations have led to modifications in the American Market System. In many cases, these modifications have been the result of American attempts to avoid the weaknesses of the Market System described above.

The reasons for why the American economy developed as it did are many. First, the basic commitment to private property ownership came with the colonists. Because of the restrictive economic conditions they left in Europe, they saw emigration as an opportunity to own property and to improve their economic and social position. Second, the abundant resources the colonists found when they arrived created a natural tendency to trade goods and services between themselves and others. The participation in local and world markets was natural and inviting. Third, the colonists' rejection of mercantilism as it was practiced by England in the 18th century. The colonists chafed under the regulations and restrictions imposed under the navigation acts and monopolies that enforced mercantilism. Fourth, the "healthy" attitude the colonists had toward seeking self-interest. This concept is related to the Calvinist (Puritan) idea that success in this life is a potential indication of salvation in the next. Individual initiative and the desire to work and produce were seen as positive character traits that naturally led to the accumulation of wealth. Therefore, the accumulation of wealth is a sign of good character.

11. What reasons can be given for the development of the Market System in the United States?

Under the Constitution there is no real requirement that America practice a capitalistic economic system. But there are certain Constitutional components that reinforce capitalistic attitudes. Amendment V states "Nor shall any person be...deprived of life, liberty, or property without due process of law..." Therefore, the Constitution protects private property ownership, a ruling principle in capitalism. And in Article I, Sec. 8 the Constitution promotes "the Progress of Science and useful Arts" through copyrights and patents. Therefore, the Constitution guarantees the rights of artists and inventors to not only "own" their intellectual creations but to enjoy the economic benefits derived from those creations.

12. Does the Constitution mandate the Market System as the American economic system? Why would it be difficult to practice a socialist economic system under the American Constitution? What check does the American Constitution provide against socialism? What forms could a challenge to that check take in America?

From 1789 through the end of the Civil War the American economy grew, but the nature of the economy remained virtually the same. Most Americans were farmers and those who were not farmers engaged in small business enterprises that produced goods for local markets—neighbors trading with neighbors. Most businesses employed one to five employees so there was direct communication between the owners and the workers. And most businesses represented very little capital investment, this they could be started and stopped in response to market demands with very little adverse affect to the business. Given these conditions, laissez faire capitalism seemed natural and acceptable. There were few if any large scale abuses of a free market and, therefore, government involvement in the economy seemed unnecessary.

The major economic questions that engaged the government during this period involved the overall operation of the economy rather than how individual businesses participated in the economy. A first theme revolved around the government's role in regulating money and banking. Federally chartered banks were constitutionality questioned, and the use of paper money as compared to specie (gold and silver) was debated. Therefore, in the first one-hundred years of American economic development though nationally chartered banks were created twice, they were also killed twice, and although paper money was used at times, like during the Revolutionary and Civil Wars, paper money was seen as immoral and gold and silver coins were the standard mediums of exchange because of their intrinsic wealth.

A second theme dealt with the role of the national government in promoting and financing transportation projects. National roads, canals, harbors, railroads were all being built to promote economic development. These projects often were often beneficial to one section of the country over another. A debate followed over whether the states or the national government had constitutional responsibility to fund these projects since they were often too expensive, and offered little financial return, to the private entrepreneur? In this period the determination was made that the national government was responsible to encourage state or private development of canals, roads, and

railroads but should not itself engage in owning or building transportation systems unless like harbor and some river improvements they were projects seen as connected to national defense.

A third theme centered on the role of the national government in encouraging and/or regulating business. Tariffs encouraged business and therefore were seen as positive, but they often created sectional jealousies which were also seen as a negative. Bounties encouraged farmers to grow for the market and encouraged higher farm prices, but resulted in higher food prices to consumers. Labor conflicts were seen as an attempt on the part of workers to interfere with private property (business) and thus should be restricted by government. Even Adam Smith concluded “that while there were no laws against combinations by merchants or employers to assert their collective strength [in the market system], there was no such tolerance of combinations by the workers.”⁴ Businesses themselves, however, were private property and therefore beyond the scope of government regulation.

13. What were the major themes of American economic development between 1787 and the end of the Civil War?

After the Civil War the American economic system changed dramatically. John K. Galbraith, one of President Kennedy’s closest economic advisors, described the scope of that change. “In the last one hundred years [1860-1960] the great corporate enterprise, the trade union, depression and war, increasing and increasingly dispersed affluence, the changing nature of money and the new enhanced role of the central bank, the declining role of agriculture with the counterpart urbanization and growth of urban poverty, the rise of the welfare state, the newly assumed responsibility of the government for overall economic performance, the emergence of socialist states, have all dramatically altered, even revolutionized, economic life.”⁶

During this one-hundred-plus year period American businesses evolved from small, local enterprises, employing one to five people, with little capital investment, into large national enterprises, employing hundreds or thousands of people, with enormous capital investments. In 1870, the average investment in an iron and steel plant was only \$150,000, but by 1905 the average investment in the industry had risen to \$1.5 million.⁷

There are several conditions that led to this growth in industrial America; first, the development of mass markets because of urbanization and the creation of department stores such as Sears and Roebuck, Montgomery Ward and Macy’s; second, the introduction of new products such as indoor plumbing, refrigerators, telephones, chewing gum, deodorant, corn flakes, tooth paste and tooth brushes, cosmetics and safety razors; third, the increasing prevalence of advertising to create product loyalty through such advertising icons as the Jell-O Girl and Quaker Oats Man; fourth, the innovation of new technologies including transportation, machinery, and sources of power (muscle to steam to electricity); and fifth, the use of entrepreneurial interest and expertise championed through men such as Carnegie, Rockefeller, Gould, Morgan and Swift. These men may have been seen either seen as Captains of Industry or Robber Barons by the people of the United States but their ideas and actions certainly changed the course of the American economy.

14. How did the nature of business change beginning in the fourth quarter of the 19th century? What are some of the advantages and disadvantages of the changes?

Several strategies were developed or used in the process of developing these growing industries. The establishment of economies of scale, the more of one item you produce the cheaper it becomes, played a large part in fostering big business. The formation of the assembly line production represented the ultimate expression of Adam Smith’s division of labor. Frederick W Taylor played a role in the creation of the assembly line production through his time and motion studies, ultimately allowing assembly line managers to “speed up” production. Horizontal combinations combined businesses that produced the same or similar products. Vertical combinations combined all the business activities of a single product form the acquisition or raw materials through sales. And out

⁴John Kenneth Galbraith, *Economics in Perspective: A Critical History* (Boston: Houghton Mifflin, 1987), 115.

⁶John Kenneth Galbraith, *Economics in Perspective: A Critical History* (Boston: Houghton Mifflin, 1987), 2.

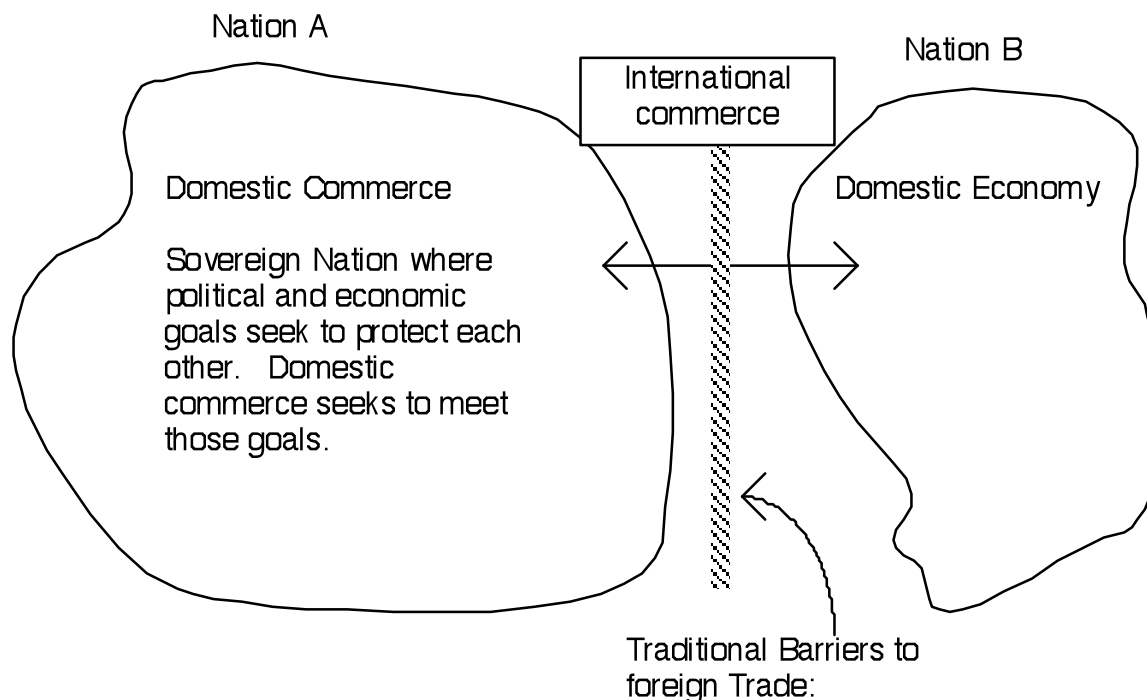
⁷Gilbert Fite and James Reese, *An Economic History of the United States* (Boston: Houghton Mifflin, 1965), 372.

of these combinations came monopolies, trusts, and holding companies developed specifically to eliminate competition in the market place and thus maximize profits.

15. What strategies or tactics were used by big businesses in the United States to maximize profits? What are some of the advantages and disadvantages of these strategies?

International Trade:

A discussion of the strengths of the Market System leads to a natural conclusion: If the “free” Market System creates prosperity when operating within one nation, why wouldn’t it create similar prosperity if operating worldwide? Traditionally, trade between nations has been more restricted than free but in recent years there has been an increasing debate over the issue of “free trade” and the idea of “free trade zones.” The reasons to encourage free trade are closely associated with the strengths of the Free Market economy—incentive, choice, opportunity but there are reason why nations would want to restrict this free trade.



16. What is the difference between domestic commerce and international commerce?

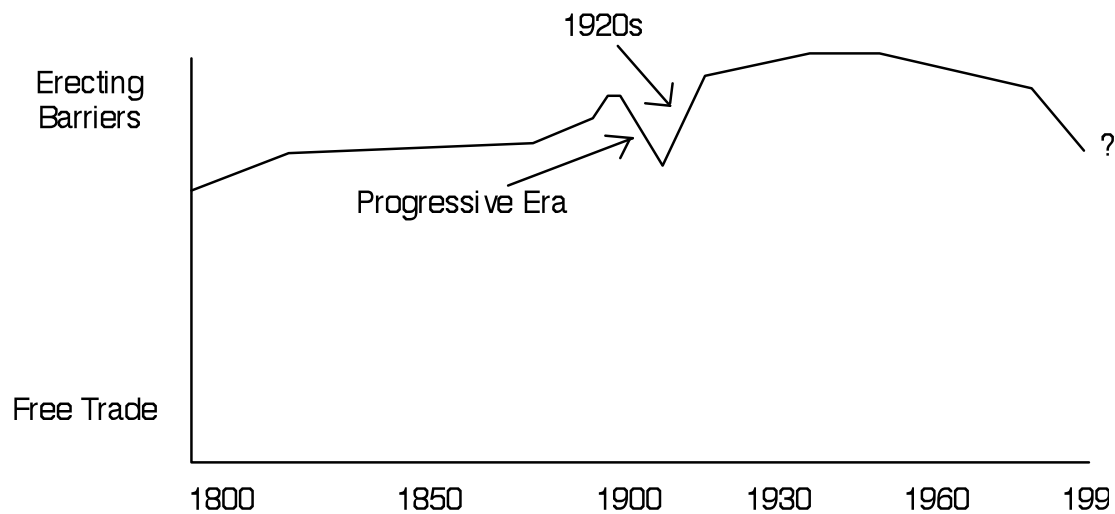
International free trade has not been the tradition in world history nor in American history. Normally nations have erected barriers to prevent “free” trade. These barriers include, but are not limited to, tariffs (taxes on imports designed to raise revenue and to make foreign products more expensive in the domestic market), embargoes (designed to completely prohibit the importation of certain goods either for economic or political reasons), and quotas (allowing a certain amount of importation but adjusted based on needs and prices).

One of the main reasons why nations erect these barriers is simply to raise revenue. It is a form of tax paid by non-citizen taxpayers. For many years America raised enough revenue through these tariffs to finance the government. A second reason is to protect domestic business and labor. An American company, struggling to compete with foreign producers, benefits when tariffs make those foreign goods more expensive to the consumer or if quotas and embargoes prevent their importation in the first place. As American business prospers that allows for more jobs for workers. A classic example of this would be the tariffs placed on Japanese cars in the 1980s to protect American automobile companies and car makers.

With these benefits international free trade may be seen by some as a dead issue. Others, however, argue that the benefits derived from domestic free trade can also accumulate internationally from international free trade. The

most immediate benefits would probably come to countries with weaker economies thus disadvantaging the United States; but ideally, if the market system is good for the country, why not for the world? Another suggested benefit has been that if all nations of the world had equal access to the world's goods and services there would be less reason for international competition and war.

The chart below illustrates America's record with regard to international free trade. Note that there have always been significant barriers to international free trade with America. Notice also that during the progressive era, 1900-1920, there was a significant move toward free trade. This move was reversed itself during the 1920s but since the 1980s the trend has been toward more free trade internationally.



17. What has been the history of the American government's attitude towards "free trade"? What are the positives and negatives of international "free" trade? How do American efforts to trade internationally affect people in other countries?

18. What is America's economic "role" in the world? Do our economic decisions affect the world outside our borders? How are we perceived by people in other countries because of our economic involvement in the world?

Case Study:

Measurement of U.S. Economic Freedom

1. Go to <http://www.heritage.org/index/>
2. Describe how the Heritage Foundation and the Wall Street Journal define "Economic Freedom." *Hint: check out the FAQ's.*
3. What is the "Index of Economic Freedom" and describe in general how it is calculated. *Hint: check out the FAQ's.*
4. According to this index, what are the five most economically free countries in the world? *Hint: check out Ranking.*
5. According to this index, what are the five least economically free countries in the world?
6. At the top of the page, click on the link "Downloads." Then scroll down and open the PDF version of the "Executive Summary".
7. Find and read the page entitled, "THE 10 ECONOMIC FREEDOMS: A GLOBAL GUIDE," and then summarize the functions of the 10 economic freedoms.

8. Find “Chart 5 Economic Freedom vs. Per Capita GDP.” After carefully reviewing the chart, fully interpret and describe what it means. What is this chart showing?

9. Hit the “Back” button and return to the “Downloads” page. At the top of the page, click on the link “Explore”. In the box containing the list of countries, hold down the CTRL key and highlight the following:

- United States
- United Kingdom
- Germany
- France
- Japan
- Russia, and
- China

Under “Policy Factors” choose “All 10 Economic Freedoms”. Choose the most recent year, and hit “Submit”. Fully describe and summarize the performance of the United States in relationship to all of the other countries shown in your results table. In completing this summary, think about the following:

- Is the U.S. the highest scoring country in all categories?
- What are the strengths and weaknesses in the U.S. performance?
- Should Americans always expect the U.S. to be best in all categories?
- *Hint: Click on the “United States” in your results table and find the bar graph comparing the U.S. economic freedom indexes with the world averages.*

[NB: Some of the material herein may be the work of Gary Marshall and Eric Walz. Marshall’s content may appear in a forthcoming publication.]