

## **TECHNOLOGY, ECONOMIC GROWTH, AND THE STATE: AMERICAN POLITICAL CULTURE AND ECONOMY, 1870-2000**

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### **Introduction**

The guiding force of American national consciousness and socio-economic growth resides, as Alexis de Tocqueville noted long ago, in a deeply grounded, complex proclamation of the rights of the individual. Well before the American Revolution proved successful in 1781, the public culture of the American colonies found expression in the language, symbols, and imperatives of the Protestant Reformation, with its stark focus on the individual's responsibility to seek and serve his God. In the nineteenth century, religious revivals and other church-related activities were, second only to the political debates they influenced, the nation's most common public gatherings. Politically, this emphasis on individualism was embedded in America's foundational documents: "We hold these truths to be self-evident, that all men are created equal, and endowed by their Creator with certain inalienable rights, among them the right to life, liberty, and the pursuit of happiness," the Declaration of Independence announced in 1776. A decade later, the United States Constitution, in its protection of the rights of individual states against the central government and in its defense of individual freedoms as enumerated in the Bill of Rights, shielded white male Americans from both an oppressive majority and the government itself.<sup>2</sup>

Individualism also infused colonial America's economic thinking, as the resistance to the British mercantilist system indicates. The financial loss to colonial merchants and entrepreneurs was minimal, as smuggling and other forms of avoidance of British regulations were rampant until the years immediately preceding the outbreak of war. Yet the formal restrictions played a critical role in revolutionary agitation because they were perceived as efforts to limit individual economic initiative and autonomy. Understanding capitalism as a cultural system, even if a contested one, as Joyce Appleby suggests, helps us understand more clearly how Americans could embrace the ideas of both Adam Smith and Thomas Paine in 1775 and 1776 and thereafter. The prism through which they received both authors was a complex, evolving commitment to a political philosophy centered on individual rights.<sup>3</sup>

It is worthwhile considering this concept of individualism in the American experience for, in different ways, that popular, public belief-turned-ideology profoundly affected American economic and political history and policy over the following two centuries. Without grasping the changing use of that core idea, much of the American socio-political response to profound economic transformation remains a mystery, a mystery that lends itself all too easily to conspiratorial theories of elite imposition on a suffering people. Better, I think, to follow the lead of Max Weber, in his *Protestant Ethic and the Spirit of Capitalism*, and ask instead how

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<sup>2</sup> The literature on pre- and early national political culture in America is vast. For an introduction to two major, differing approaches, see Lance Banning, *The Jeffersonian Persuasion: Evolution of a Party Ideology* (Ithaca, New York, 1978) and Joyce Appleby, *Capitalism and the New Social Order: The Republican Vision of the 1790s* (New York, 1984). The literature on Protestantism's influence on that culture is also vast, but a useful starting point is Nathan O. Hatch, *The Democratization of American Christianity* (New Haven, 1989).

<sup>3</sup> See Joyce Appleby, "The Vexed Story of Capitalism As Told by American Historians," in Appleby, *A Restless Past: History and the American Public* (Lanham, Maryland, 2005), 163-182.

did entrepreneurial capitalism, a system so destructive of traditional society and its mores, penetrate as deeply as it did the consciousness of individual men and women grounded in that traditional world? Such an approach has the additional benefit of making more intelligible the historical development of economic life that ensued.

In the essay that follows, I will examine three periods in American economic life, with a focus on the interplay of technological innovations, economic transformation, and the responses to them. The first period, focused on the decades between 1870 and 1920, experienced the emergence of the corporation as the major form of production and, not surprisingly, the development of oppositional political movements to it. The second period, from 1933 to the 1960s, marked an era of reform efforts to balance the relationship between management and labor, efforts that, ironically, accepted as their premise the structure and rationale of the corporation itself. The third period, from the 1970s to the present, examines on the impact the multinational corporation, operating in a globalized marketplace, on American economic and political life.

## I.

In their important 1984 book, *The Second Industrial Divide*, Michael Piore and Charles Sabel argue that during the nineteenth-century in America, two forms of industrial production—craft production and mass production—“were in collision.” While they reject a view of this process as inevitable and determined, as both Adam Smith and Karl Marx suggested in their quite different ways, Piore and Sabel nonetheless acknowledge that by 1920, “industry after industry came under the domination of giant firms using specialized equipment to turn out previously unimagined numbers of standard goods....” While Piore and Sabel argue that this corporate model did not eliminate all small producers, it is nonetheless quite true that the manner in which America produced its goods in 1920 was dramatically different from a century earlier.<sup>4</sup>

Technological innovation drove the dramatic changes in production in the half century between 1870 and 1920. While there were numerous factors involved in how goods were produced, perhaps none was more important than the creation of a cheap, efficient, and reliable way to produce steel that replaced the more brittle iron. The Bessemer process, a discovery of the English inventor, Edward Bessemer, and incorporated by Andrew Carnegie into his massive steel works in the mid-1870s, did just that. A decade earlier, steel production involved a lengthy process that produced only small batches at a time—literally the size of a small flower vase. In 1875, Carnegie’s Edgar Thompson mill turned out three-to-five tons of steel in only ten to twenty minutes. And this was but the beginning. In 1870, America’s iron and steel mills produced 3.2 millions tons, mainly iron; thirty years later, a smaller number of firms with many more employees produced almost 30 million tons, most of it steel. Equally important, the new process encouraged a vast expansion of business growth. As Robert Heilbroner once suggested, “the master key of technology opened vast new market demands” as the price of a ton of steel dropped from \$100 in 1873 to \$12 in the late 1890s. Steel railroad tracks allowed for larger and more powerful railroad engines capable of carrying more and more passengers and freight; steel girders made the modern skyscraper a common sight, and in the process transformed urban life. Steel also spurred the development of massive

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<sup>4</sup> Michael J. Piore and Charles F. Sabel, *The Second Industrial Divide: Possibilities for Prosperity* (New York, 1984), 19-20. There is much of value in this book but I find their fundamental argument contingent on historical options *not* taken and thus their analysis lacks a grounding in American political culture. There is, for example, no reference to individualism in the text. For a later effort to address this issue, see Piore, *Beyond Individualism* (Cambridge, MA, 1995).

steamships; the wire for the new telephone system; improved medical instruments, the sewing machine, and, of course, the automobile—to note but a few of the consequences of this innovation.<sup>5</sup>

Nor was the market for these products solely domestic. Between 1879 and 1929, American iron and steel exports rose from a small 5.5 percent of all manufacturing exports to an impressive 37.5 percent. When the exports of petroleum products are included (an industry dependent upon steel for its production and for building the cars that used its product), the 1929 figure is a commanding 51.4 percent of all American exports. During this same era, moreover, the United States share of the world's industrial output rose from about 5 percent to almost 40 percent, surpassing every other nation. As dominant a position as this was, it did not therefore mean that the American economy had fully entered into a global economy. While the raw figures for American capital investment abroad between 1869 and 1929 suggest a dramatic rise from 75 million to over 20 billion dollars, the percentage that dollar increase represented of total American investment remained miniscule: One percent in 1869, it was but six percent sixty years later. That “master key of technology” drove the transformation of the economy, but its primary focus, and its profoundest social and economic impact, remained domestic in this era.<sup>6</sup>

For the American economy to evolve, in little more than a century, from a reliance on hand production into a technologically sophisticated world giant required innumerable changes in the economic and social structures of American life. Among these, the re-imagining of the idea of the corporation was critical. The new structure that emerged created a new model for American business organization and profoundly, and largely permanently, transformed the nature of daily work. This generated sharp reactions and, interestingly, advocates of both the transformation and the resistance to it sought to legitimize their positions within the contours of the foundational beliefs of America's political culture.

During the first half of the nineteenth century, the corporation in America was regulated by individual state law. Incorporation required the approval of a given state's legislature—the federal government had almost no role at the time—and such approval imposed regulations and guidelines. It was also an expensive process, and this elitist aspect spurred intense criticism by middle- and lower-middle class prospective entrepreneurs, and by the growing numbers of urban working people experiencing the first sustained tensions of industrial growth. These reform efforts were successful and “democratized” the process of incorporation, eliminating most of its cost and the need for political influence. Ironically, this process simultaneously removed most governmental regulation of the corporation as well.<sup>7</sup>

In the decades following the close of the Civil War in 1865, two important changes occurred in the organizational and legal structure of American business that had a profound impact on economic growth and patterns of work for both blue- and white-collar employees. The first, the emergence of the modern corporate structure, evolved as entrepreneurial capitalists

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<sup>5</sup> See Robert Heilbroner and Aaron Singer, *The Economic Transformation of America: 1600 to the Present* (New York, 3<sup>rd</sup> ed., 1994, chapter 9 (the quote is on 179); David Nasaw, *Andrew Carnegie* (New York, 2006).

<sup>6</sup> Gavin Wright, “The Origins of American Industrial Success, 1879-1940.” *The American Economic Review*, 80, 4 (September 1990), 652-653, 661-662; Stanley Lebergott, *The Americans: An Economic Record* (New York, 1984), 405-406. For slightly different figures, see Heilbroner and Singer, *The Economic Transformation of America*, 185-187.

<sup>7</sup> For a discussion of this process see Lawrence M. Friedman, *A History of American Law* (New York, 2<sup>nd</sup> ed., 1985), 177-201; Morton J. Horwitz, *The Transformation of American Law, 1780-1860* (Cambridge, MA, 1977), 46-47, 109-139. For a discussion of nineteenth-century anti-monopoly ideology and activism, see Michael Kazin, *The Populist Persuasion: An American History* (New York, 1995), 9-46.

recognized the limitations of partnerships and family-held enterprises as they reached for national command of their market. By 1870, the Pennsylvania Railroad organized the first national corporation, owning and operating the entire track its trains used between New York and San Francisco. An intricate bureaucratic organization guided the corporation's operation, with responsibilities divided and sub-divided into ever more miniscule jurisdictions. Economies of scale, vertical and horizontal integration, a premium on technological innovation, detailed, system-wide regulations for employees, and a primary responsibility to stockholders as opposed to the public interest all marked the dimensions of this transformation. What the Pennsylvania Railroad accomplished was quickly followed by similar developments in businesses both national and regional.<sup>8</sup>

The second major change followed from the first. Despite the profitability of the corporation and its impact on economic growth, a serious legal obstacle remained. Although corporations encountered little significant regulation from either the individual states or the federal government at this time, investors and directors of the corporation were nonetheless liable to be sued for damages as individuals. With the exception of the fierce competitive tactics of their competitors, this vulnerability remained one of the few that corporate leaders faced. To correct it, corporate lawyers sought legal protection in the Fourteenth Amendment to the Constitution, which promised all "persons" equal protection and due process under the law. After some difficulty (the Amendment had originally applied to African Americans recently emancipated from slavery), they achieved much of their goal. The 1886 United States Supreme Court decision, *Santa Clara v. Southern Pacific Railroad*, held that, for the purposes of the law, corporations were to be treated as individual persons under the Constitution because real people with real property interests were the corporation. A second decision, in 1906 (*Hale v. Henkel*), amid a renewed effort to regulate the corporations, ruled that the corporation in itself was a person under the law, and thus entitled to even more expanded constitutional protections.<sup>9</sup>

In terms of America's political culture at the turn of the twentieth century, these Supreme Court decisions could not have been more helpful in integrating the corporation, with its revolutionary impact on the economy and the nature of work, into the reigning belief in individualism. If the corporation was indeed a person, and not the revolutionary agent of change that undermined the individual's opportunity, then it was consistent with, and even encouraging of, the most fundamental beliefs in the culture. Certainly the novels of Horatio Alger, the sermons of ministers such as Russell Conwell, and the promulgation of a Social Darwinist, "survival of the fittest" ideology framed much of the public culture in that fashion: The riches created by this new corporate order were available to any with a little effort, Conwell's most famous sermon stated; and lack of success in achieving that goal mark an individual, personal failing, William Graham Sumner, a leading Social Darwinist, judged. To critique these attitudes, to assert in one's protest that the corporation was not a person in any meaningful sense, was increasing to risk being considered un-American.<sup>10</sup>

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<sup>8</sup> See Alfred D. Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA, 1977).

<sup>9</sup> Morton J. Horwitz, *The Transformation of American Law, 1870-1960: The Crisis of Legal Orthodoxy* (New York, 1992), 65-107. For the constitutional and political context of the passage of the 14<sup>th</sup> Amendment in 1868, see Eric Foner, *Reconstruction: America's Unfinished Revolution, 1863-1877* (New York, 1988).

<sup>10</sup> For an example of these attitudes in the earlier career of a future critic of corporate power, see Nick Salvatore, *Eugene V. Debs: Citizen and Socialist* (Urbana, 1982), chs. 1-4. Andrew Carnegie expressed the core idea bluntly: Before Herbert Spencer wrote of social Darwinism, "all for me had been darkness, after him, all had

The growth of a corporate economy also had a pronounced effect on daily work patterns and relationships. Technological innovation allowed manufacturers to institute a thorough division of labor in their mass-production industries; to restructure and diminish the status, the work schedules, and the numbers of skilled workers and their foreman alike; and to dramatically increase the numbers of unskilled men and women in their employ. While cost-saving was a factor in these considerations, a more centralized control of the workplace, consistent with the efforts at vertical and horizontal integration within the corporate structure, was also a primary goal. For working people, the routinization of work, inherent in the minute division of labor, became a symbol for their diminished status. When workers entered the industrial factory, one union organizer told a committee of the United States Senate in 1883, "...they were numbered by checks. A man lost his identity as a man and took a number like a prisoner in a penitentiary." It was precisely this consequence of dividing, and sub-dividing, work that had worried Alexis de Tocqueville fifty years earlier. To be "exclusively engaged in the fabrication of one thing" progressively undermines the worker, he wrote, for "in proportion as the workman improves, the man is degraded." In the broadening social distinctions this process created, what Tocqueville called the potential for a "manufacturing aristocracy," lay a threat to the democratic experiment.<sup>11</sup>

But the resistance to this development never attracted a majority of Americans. In spite of dramatic labor strikes, the founding of the modern trade union movement in 1886, occasional electoral successes by third party candidates, and the emergence of Populist and Socialist movements, a successful challenge to the corporate restructuring of American society simply never occurred. Among the many reasons for this, two stand out as particularly important. First, those Americans most involved in this resistance were themselves a disparate group with sharply different perspectives. Populists, for example, were largely in agriculture, and shared a common nineteenth-century rural suspicion of urban life, where the majority of industrial working people lived. Then too, some in that movement owned land, and others worked for land owners; and white Populists had little desire to join with the significant African American agricultural work force in the American South. The industrial work force, the hoped-for foundation of both the labor and the Socialist movements, was also sharply segmented. The native-born American worker who experienced a decline in his or her work conditions had a very different reaction to economic change than did the recent European immigrant for whom America was a promised land *in contrast to* the conditions they had left behind. Neither native-born nor immigrant, moreover, felt a commonality with other ethnic groups, and especially with the increasing number of African American migrants into the industrial cities of the North after 1915. As Selig Perlman perceptively noted in 1928, the

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become light—and right," quoted in Sven Beckert, *The Monied Metropolis: New York City and the Consolidation of the American Bourgeoisie, 1850-1896* (New York, 2001), 212. On the broader cultural issues see Irwin G. Wyllie, *The Self-Made Man in America* (New Brunswick, N.J., 1954); John G. Sproat, "The Best Men:" *Liberal Reformers in the Gilded Age* (New York, 1968); Frederic Copler Jaher (ed.), *The Rich, The Well Born and the Powerful: Elites and Upper Classes in History* (Urbana, 1973); Richard Hofstadter, *Social Darwinism in American Thought* (Philadelphia, 1945).

<sup>11</sup> On the transformation of work and its cultural meaning, see Daniel T. Rodgers, *The Work Ethic in Industrial America, 1850-1920* (Chicago, 1978); Fredrick W. Taylor, *The principles of Scientific Management* (New York, 1967/1911); Daniel Nelson, *Fredrick W. Taylor and the Rise of Scientific Management* (Madison, WI, 1980); Sanford M. Jacoby, *Employing Bureaucracy: Managers, Unions, and the Transformation of Work in American Industry, 1900-1945* (New York, 1985). The organizer was Robert Layton of the Knights of Labor; see United States. 48<sup>th</sup> Cong., 2<sup>nd</sup> Sess., Senate Report 1262. *Report on the Committee of the Senate upon the Relations between Labor and Capital, and Testimony Taken by the Committee*. 5 vols. Washington, D.C. 1885, I; 9; Alexis de Tocqueville, *Democracy in America* (abridged by Thomas Bender, New York, 1981), Vol. II, Book Two, ch. XX, 450. Karl Marx, of course, interpreted a similar process quite differently in his well-known discussion of alienation.

militancy of American working people, divided as they were by ethnicity, race, and religion, addressed specific job-related concerns, and the broader sense of solidarity some longed for revealed “a quickly diminishing potency as one passes” from the specific work group in a mass production factory “...to the widening concentric circles of the related crafts, the industry, the American Federation of Labor, and the world labor movement.”<sup>12</sup>

The second reason that helps us understand these American developments occurred at the intersection of America’s democratic promise with its concrete economic reality. As both Friedrich Sorge, Marx’s representative in America in the 1860s, and the German scholar, Werner Sombart, noted, most American working people possessed an identity as citizens well before they considered their economic or class position in society. This clearly affected their individual and group consciousness, and framed the thinking of many toward a patriotic nationalism that accepted basic structures even as they criticized perceived excesses. Intricately intertwined with this idea were the actions of employers. Although the image of oppressive managerial practices is not without substance, the majority of American businesses, and particularly the larger corporate entities, in fact took care to nurture relations with their work force. A variety of approaches, combining aspects of profit-sharing, employee representation councils, social activities, in-firm training and advancement, to name a few, impressed significant numbers of working people throughout this period.<sup>13</sup>

Finally, of course, was the reality of economic growth itself. Mark Twain, the American satirist, dubbed the era immediately following the American Civil War as the “Gilded Age,” an era when enormous wealth and the political power it commanded coalesced in the hands of a few with almost no governmental regulation. Corporate earnings, and those of the major stockholders, were astronomical: Standard Oil, controlled by John D. Rockefeller, accumulated 13.2 million dollars in net profit between 1882 and 1891, and a then almost inconceivable 65.1 million dollars between 1900 and 1906. Income distribution remained highly uneven (in 1919, the income of the top 5 percent constituted almost 25 percent of all income), yet throughout the five decades before World War I enough of these vast profits generated by this industrial economy reached down into the working population to encourage feelings that they too were prospering—at least relative to where they began their working career. In the last third of the nineteenth century, real wages for non-agricultural workers doubled, and real yearly income rose by more than 40 percent. In the first third of the next

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<sup>12</sup> For the labor movement in this era see Stuart B. Kaufman, *Samuel Gompers and the Origins of the American Federation of Labor, 1848-1896* (Westport, CT, 1973); Nick Salvatore (ed. with introduction), *Seventy Years of Life and Labor* by Samuel Gompers (Ithaca, NY, 1984). On populism see Kazin, *The Populist Persuasion*; Robert C. McMath, *American Populism : A Social History, 1877-1898* (New York, 1993). On socialism see Salvatore, *Eugene V. Debs*; Irving Howe, *Socialism and America* (New York, 1985). Discussions of African American northern migration and European immigration into northern industrial cities can be found in Olivier Zunz, *The Changing Face of Inequality: Urbanization, Industrial Development, and Immigrants in Detroit, 1880-1920* (Chicago, 1982); Kenneth L. Kusmer, *A Ghetto Takes Shape: Black Cleveland, 1870-1930* (Urbana, 1973); James R. Grossman, *Land of Hope: Chicago, Black Southerners, and the Great Migration* (Chicago, 1989). Selig Perlman is quoted from Perlman, *A Theory of the Labor Movement* (New York, 1928), 252.

<sup>13</sup> Friedrich Sorge’s letters to Karl Marx are reprinted in John R. Commons, et al. (eds.), *A Documentary History of American Industrial Society* (Cleveland, Ohio, 10 vols., 1910), IX, 360-366; Werner Sombart, *Why Is There No Socialism in the United States?* (White Plains, NY, 1976/1906); David Brody, *Workers in Industrial America* (New York, 1993/1980), 3-81; Sanford M. Jacoby, *Modern Manors: Welfare Capitalism Since the New Deal* (Princeton, 1998). This in part also explains why, with the brief exception of the World War I era, the percentage of non-agricultural workers who joined trade unions did not rise above 14 percent between 1880 and 1940. The war period was unusual due to the sustained government support of trade unions to ensure continuous production in the war industries. See Lebergott, *The Americans*, 386.

century, real yearly earnings for the same group rose 63 percent, and a significant narrowing of the overall wage structure occurred as well. This was not evenly distributed, and poverty remained a serious issue for many. But the “promise” of America, understood less as the dramatic jump from “rags to riches” as the popular novels by Horatio Alger suggested than as a steady increase in living conditions and a limited but valued social mobility within class or into the group just above, did occur with a regularity that committed a majority to the social and political vision of the promise of individual success.<sup>14</sup>

## II.

For the purposes of this essay, the era between 1933 and 1972 requires less attention. This is not because it was unimportant; in fact just the opposite is the case. Rather, the structural changes introduced during the transition to industrial capitalism remained essentially intact, even during the Great Depression of the 1930s. Technological innovation, continued re-investment, and further integration of resources did make improvements on the basic model already in place. But these decades are important for a different reason: In the broader context of American history they constitute an exceptional moment in the nation’s experience political and economic thinking, particularly the view of the state’s role in those areas. The election of Franklin D. Roosevelt in 1932, the inauguration of a far-reaching yet pragmatic set of reforms known as the New Deal, and their continued influence through World War II and the decades of the 1960s marks this period as exceptional.

The catalyst that created this moment was the Depression, which was more than three years old when Roosevelt became president in March 1933. So deep was the human pain, so extensive was the shock to the nation’s economic institutions, and so weakened was American confidence in government’s ability or desire to address the crisis that many feared a further unraveling of the nation’s cohesion. Roosevelt’s approach, in contrast to that of the Republican, Herbert Hoover, whom he succeeded, was complex and multi-faceted, but three areas are of interest for this essay. The first concerns to changed role of the state. The Roosevelt administration moved immediately to intervene in economic life, declaring a bank holiday, stabilizing the financial markets, and developing programs to increase productivity and employment. Federal programs also addressed areas never before considered by American presidents, including direct job creation, a system of social security for those in need, and creation of a federally-mandated minimum wage for most working people. Perhaps the most dramatic federal presence occurred when the administration backed congressional legislation which affirmed the right of working people to join unions and made illegal many of the practices employers had used to prevent just that. Trade union membership rose from 12 percent of the non-agricultural work force in 1930 to 29.1 percent in 1940, and to 35.1

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<sup>14</sup> Heilbroner and Singer, *The Economic Transformation of America*, 290; Bruce Laurie, *Artisans into Workers: Labor in Nineteenth-Century America* (New York, 1989), 127; Lebergott, *The Americans*, 333, 378-381; Steven Thernstrom, *The Other Bostonians: Poverty and Progress in the American metropolis, 1880-1970* (Cambridge, MA, 1973); Claudia Golden and Lawrence F. Katz, “Decreasing (and then Increasing) Inequality in America: A Tale of Two Half-Centuries, unpublished paper, 1999, available at <http://post.economics.harvard.edu/faculty/katz/papers/txconf.pdf> as of October 11, 2007. For an analysis of the perseverance of these ideas, particularly concerning nationalism, well into the post-1945 era, see David Halle, *America’s Working Man: Work, Home, and Politics Among Blue Collar Property Owners* (New York, 1984).

percent in 1955. The fragmented nature of these workers remained, divided more now by race and religion than by ethnicity, but it was nonetheless a startling change.<sup>15</sup>

A second major orientation of the New Deal concerned its new approach to the corporations and the business community. The creation of the Securities and Exchange Commission in 1934 sought to strengthen investments by a firmer oversight of fraudulent practices, and the administration created additional new agencies to perform similar tasks in other sectors of the economy, including agriculture. While many in the business community attacked Roosevelt for his “radical,” even “socialistic” programs, in fact the major impact of these regulatory efforts strengthened the corporate structure that had been put in place in the late nineteenth century. No longer, for example, did the liberals in the Roosevelt administration even consider the Populist rhetoric of anti-monopoly. Although those earlier ideas continued to have their adherents in the broader liberal community, the bedrock legislation of the early New Deal marked a turn away from anti-monopoly to an acceptance of the state’s role to oversee the modern corporation. By 1937, liberal political commentators and Democratic party leaders alike confined their policy aims to a single set of liberal principles intended to regulate capitalism toward increased consumption. As Alan Brinkley expressed it, this new “set of liberal ideas essentially reconciled to the existing structure of the economy and committed to using the state to compensate for capitalism’s inevitable flaws—a philosophy that signaled, implicitly at least, a resolution of some of the most divisive political controversies of the industrial era.” After 1937, the liberals’ job was to manage the system toward the Keynesian dream of full employment and broad-based consumption. As Brinkley concludes, it was “a world in which large-scale bureaucracies were becoming ever more dominant and in which it was becoming increasingly difficult to imagine an alternative to them;” it was a system “more coherent, less diverse, and on the whole less challenging to the existing structure of corporate capitalism than some of the ideas it supplanted.” For all of the press coverage of FDR’s 1936 campaign condemnation of the nation’s “economic royalists” who sought, he claimed, to impose an “industrial dictatorship”—a truly exceptional rhetorical stance in American presidential oratory—a far more accurate guide to the legacy of both FDR and New Deal liberalism remained his 1932 campaign call for an “enlightened administration” of the corporate economy orchestrated by the state in concert with the business community.<sup>16</sup>

The third area of interest concerns the changing pattern in the distribution of income during the Roosevelt years (1933-1945). Many then and now applauded Roosevelt and his policies for creating a more equitable distribution of the nation’s wealth and income. *The* major reallocation of the American division of wealth, however, was in fact not in the New Deal but during World War II. Economists Thomas Pidetty and Emmanuel Saez have shown that “the twentieth century decline in inequality took place in a very specific and brief time interval”

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<sup>15</sup> For an overall view of the Roosevelt era, see David M. Kennedy, *Freedom from Fear: The American People in Depression and War, 1929-1945* (New York, 1999). For trade union figures, see Lebergott, *The Americans*, 386.

<sup>16</sup> Alan Brinkley, *End of Reform: New Deal Liberalism in Recession and War* (New York, 1995), 4-7; For Roosevelt’s 1936 speech see *The Public Papers and Addresses of Franklin D. Roosevelt, with a Special Introduction and Explanatory Note By President Roosevelt* (New York [Samuel I. Rosenman, compiler], 13 vols., 1938), V: 230-236; for a discussion of the ambiguities of the 1932 speech, see James MacGregor Burns, *Roosevelt: The Lion and the Fox* (New York, 1956), 142, 180. As evident in the 1932 Commonwealth speech, FDR delivered two messages, one stressing efficient administration and the other an “economic constitutional order.” But the bottom line, as David M. Kennedy notes, was ultimately to provide security for the vulnerable, but also for working people, investors, and the corporations. See Kennedy, *Freedom from Fear*, 364-365.



fostered by the large tax increases necessary to fund the war. Prior to 1940 American wealth had been consistently concentrated in the top percentiles until what other economists have called the “Great Compression” in the American wage structure that occurred during the war. The “surprising fact,” Claudia Golden and Robert Margo argue, is that “top wage shares did not recover after the war.” Why the wealthiest were not able to recoup their historic percentage of the pie in the immediate postwar era can be attributed to the New Deal policies that, in *maintaining* the pattern of redistribution that had been created during the wartime emergency, shared more widely the benefits of a booming economy. These maintenance policies (which are often mistakenly considered “redistributive”) were the real foundation of the postwar promise of a “golden age.” This period of rough equity allowed the bottom sixty percent of households to more than double their pre-tax income between 1949 and 1979. The pattern began to reverse course in the 1970s and, within a decade, the nation’s wealthiest citizens returned to their accustomed, commanding positions of power, unencumbered by significant countervailing forces in either political or economic realms.<sup>17</sup>

1972 was the most egalitarian year in recorded American history, the moment when society’s largess was shared most equitably: unemployment was at historic lows and earnings for males wage earners at an all time high, having climbed an astonishing 42 percent since 1960.<sup>18</sup> But it also marked a turning point. America had emerged from the Depression and war years the dominant industrial power in the world, the only one unharmed by the carnage of war, and, in 1953, responsible for 45 percent of the world’s industrial output.<sup>19</sup> Yet forces both within and beyond American influence were already evident and the ensuing decades would reflect just how exceptional that era since the 1930s had been.

### III.

As in the transition to industrial society in the late nineteenth century, the major catalysts in the late twentieth-century transformation of that economic order were technological and organizational innovations in the industrialized nations. The results have again had a profound impact on the nature of work, wealth and income, and social status in America, and in different ways throughout the world. While that international context is largely beyond the scope of this essay, attention to American conditions does reflect some of the major themes experienced elsewhere as well.

The development of high technology—symbolized in popular culture by the ubiquitous computer—was the driving force. As early as 1948, large, cumbersome computers were beginning to replace many employees in the accounting departments of some of the larger national corporations. In a telling exchange in 1952, an eager Ford Motor Company executive boasted to Walter Reuther, the president of the United Auto Workers Union, while they

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<sup>17</sup> Thomas Piketty and Emmanuel Saez, “Income Inequality in the United States, 1913-1998,” *The Quarterly Journal of Economics*, 118 (2003): 1-39; Claudia Goldin and Robert Margo, “The Great Compression: The Wage Structure in the United States at Mid-Century,” *The Quarterly Journal of Economics*, 107 (1992), 1-34; Robert H. Frank, *Falling Behind: How Rising Inequality Harms the Middle Class* (Berkeley, 2007), 6-14.

<sup>18</sup> Frank, *Falling Behind*, *Ibid*; Daniel H. Weinberg, “A Brief Look at Postwar U.S. Income Inequality,” *Current Population Reports* June 1996, Bureau of the Census (P60-191); Daniel H. Weinberg; Charles T. Nelson, Edward J. Welniak Jr., “Economic Well-Being in the United States: How Much Improvement--Fifty years of U.S. Income Data from the Current Population Survey: Alternatives, Trends, and Quality,” *American Economic Review* (May 1999): 18-22;

<sup>19</sup>Wright, “The Origins of American Industrial Success,” 652.

toured a new automotive plant, that the high tech machinery they had just observed paid no “union dues.” Reuther’s response, “And not one of them buys new Ford cars, either,” made perfect sense in a political economy built around mass production industries under sympathetic governmental oversight, and guided by a Keynesian search for full employment and widespread consumption. But it was precisely that economic order that was changing. Continued innovation, the development of the personal computer, and the application of these technologies to both the manufacturing and service sectors of the economy dramatically transformed the nature of work and re-orientated social relations into the new century.<sup>20</sup>

The other impetus of this transformation was the emergence of what the historian Peter Sterns called the “true multinational” corporation. The concept was itself not new: American corporations had established subsidiaries in other parts of the world quite early in the twentieth century. But what was new, and indeed even revolutionary, was the establishment of specialized manufacturing processes in low wage, underdeveloped societies that produced the component parts of, for example, a car which would then be shipped back to America for assembly. Driven by a search for lower costs to stay abreast of domestic and international competitors, this movement to outsource jobs by the “true multinationals” restructured the daily experience of work even as it encouraged the emerging framework of a new global economy. The introduction of industrial work habits and new technology in less developed societies spurred, in many, their own transformations. “What had begun as a series of important effects radiating from the industrialized centers,” Sterns noted, “turned into a global experience.”<sup>21</sup>

As a century earlier, this intricate intermingling of technological change and organizational adjustment had profound consequences on Americans of different income levels and positions. Like its impact abroad, however, the results were anything but uniform. For the American corporation successful in navigating the transition, there was little reason to complain. As the amount of American foreign investment grew from \$7.2 billion dollars in 1946 to \$133 billion thirty years later, the structure of corporate earnings also changed. By the 1980s, foreign investments represented more than 25 percent of these firms’ total, and in

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<sup>20</sup> See Peter N. Sterns, *The Industrial Revolution in World History* (Boulder, Colorado, 3<sup>rd</sup> ed., 2007), 251-267; Reuther is quoted in Nelson Lichtenstein, *The Most Dangerous Man in Detroit: Walter Reuther and the Fate of American Labor* (New York, 1995), 291. On Reuther’s attitude toward technological progress, which he endorsed provided safeguards for workers were in place, see Amy Sue Bix, *Inventing Ourselves Out of Jobs?: America’s Debate Over Technological Unemployment, 1929-1981* (Baltimore, 2000), 242-250. On the transformation of work, see Jeremy Rifkin, *The End of Work: The Decline of the Global Labor Force and the Dawn of the Post-Market Era* (New York, 1996); Shoshana Zuboff, *In the Age of the Smart Machines: The Future of Work and Power* (New York, 1988); Harry Katz and Owen Darbishire, *Converging Divergences: Worldwide Changes in Employment Systems* (Ithaca, 2000). For historical perspectives see David Noble, *Forces of Production: A Social History of Industrial Automation* (New York, 1984); Joseph Corn (ed.), *Imagining Tomorrow: History, Technology, and the American Future* (Cambridge, MA, 1986); and Piore and Sabel, *The Second Industrial Divide*.

<sup>21</sup> Sterns, *The Industrial Revolution in World History*, 214-215. As I write this, New York Times columnist, Thomas L. Friedman’s, op-ed piece, datelined Ethakota, India, described how an electrocardiogram administered in this rural village was read by a heart specialist in Bangalore, hundreds of miles distant. He also noted that the village itself has two shifts of locally-based computer specialists performing service work outsourced from British and Indian companies. See Friedman, “If I.T. Merged With E.T.,” *New York Times*, October 31, 2007, A28.

certain industries (oil, computers, and commercial banks) they accounted for over 50, and even 60 percent of a firm's profits. The impact on America's work force was severe.<sup>22</sup>

"[T]his is not a saga about rampant unemployment, like the Great Depression," two New York *Times* reporters commented on the ensuing crisis in 1996, "but one about an emerging redefinition of employment." At first, amid an excited debate about "deindustrialization," many blue collar workers found their work had disappeared, lost to computerized automation, foreign competitors, or both. Between 1981-1983, the first three years of Ronald Reagan's administration, factory workers in steel, auto, rubber, and chemicals, as well as miners, faced sustained, permanent layoffs as those industries restructured their operations. While the economy created more jobs than were lost during this period, the majority of the new positions were in the service sector and at a much lower rate of pay than the unionized, industrial jobs that had been lost to technological innovation and/or transferred abroad<sup>23</sup> But white collar workers, in management positions and in service work, did not therefore remain untouched by these developments. Between 1991-1993, they experienced dramatic numbers of layoffs, and many a former middle-level manager found him- or herself working in low-level service positions.<sup>24</sup>

The specific reasons for this are varied. Corporate mergers eliminated many jobs—in 1985 alone, mergers accounted for the loss of some 600,000 middle manager positions.<sup>25</sup> The application of new technology also eliminated positions. The General Motors Corporation, for example, reduced its workforce by almost 40 percent by the 1990s and still produced as many cars as it has twenty years earlier. The service sector itself was subject to a cost-cutting rational, as computer technology and expertise introduced in Ireland, Bermuda, India, and elsewhere outside the fully industrial nations reduced costs and removed jobs from American soil. The consequences were harsh for many in the American work force.<sup>26</sup>

As the economist Robert H. Frank has recently written, the distribution of income and the concentration of wealth in America has changed dramatically over the last six decades. Between 1949 and 1979, the before-tax income of the lowest 20 percent of American households rose by an impressive 116 percent; between 1979 and 2003, it rose by just 3.5 percent. For those in the top 20 percent, their incomes rose in the earlier period 99 percent, and by just over 45 percent more recently. But if one uses *after-tax income* data, which reveals the impact of federal tax policy, the gap in household income between 1979 and 2000 is even more pronounced. The lowest 20 percent grew by 9 percent; the middle and upper-middle ranks by 15 and 24 percent; and the top 20 percent of income earners rose by 68

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<sup>22</sup> Sterns, *The Industrial Revolution in World History*, 280-281.

<sup>23</sup> By 1985, almost 75 percent of all employment was concentrated in the service sector, in contrast to 40 percent in 1959; see Katherine S. Newman, *Falling From Grace: The Experience of Downward Mobility in the American Middle Class* (New York, 1988), 30-31.

<sup>24</sup> New York *Times*, *The Downsizing of America* (New York, 1996), 5-36 (the quote is on p.5). For a useful discussion of managers and corporate restructuring, see Charles Heckscher, *White-Collar Blues: Management Loyalties in an Age of Restructuring* (New York, 1995). The classic contemporary statement opposing this transformation is Barry Bluestone and Bennett Harrison, *The Deindustrialization of America: Plant Closings, Community Abandonment, and the Dismantling of Basic Industry* (New York, 1982).

<sup>25</sup> Newman, *Falling From Grace*, 34.

<sup>26</sup> New York *Times*, *The Downsizing of America*, 16-18. See also Simon Head, *The Ruthless Economy: Work and Power in the Digital Age* (New York, 2003).

percent. Of that latter group, the top 1 percent experienced a 201 percent increase in their after-tax income. It was a stunning transformation from the more equitable economic order of the immediate post-1945 era. As Andrew Hacker has recently written, "...we are approaching a new Gilded Age."<sup>27</sup>

If one switches the focus from income to wealth, the picture is even more startling. Despite the image of Americans as members of a "stockholding democracy," the overwhelming majority of stockholders (80 percent) own less than 4 percent of all stock investments, while the top 1 percent controlled approximately 50 percent. Overall, in 1998, 1 percent of Americans owned over 47 percent of net financial assets, a figure, ironically, not so different from the concentration of wealth in the country in 1860. How, then, did this change in income and wealth occur?<sup>28</sup>

In a certain way it was not a change at all. The conservative political movement that brought Ronald Reagan to the American presidency in 1981, elected both George H. W. Bush and his son, George W., and profoundly influenced the political direction of Democratic president Bill Clinton was less a revolution than a revitalization of policies and values many held had been distorted by the politics of the New Deal and its legacy. In an important fashion, the era between 1933 and 1972 was the "liberal" interlude in which movements toward racial, sexual, and economic freedom and equality made significant progress, yet never supplanted that older, deeper commitment to individual rights and limited government in American political culture. Indeed, fierce debate over the meaning of those very values during this era created fissures between sometime allies and profoundly weakened liberalism itself.<sup>29</sup>

The 1980 election of Ronald Reagan startled American liberals but, as it unfolded across the 1980s, Reagan's politics revealed the depth of modern conservatism's roots in American history and culture. The commitment to limited government as a foundation of American liberty; the widespread belief that the very promise of America is the experience of upward social mobility; and the vision, embraced by many over the course of that nation's life, that public, political values should be guided by religious faith—these and other political judgments were major elements in the thinking of Americans in the two centuries preceding Reagan's election. The core principle of individualism, that failure is less a result of structural obstacles than of an individual's initiative and effort in taking advantage of the possibilities of a free market economy, remains widely held even in this era of "true multinational" dominance. Similarly, the call to reduce taxes—the first step any advocate of limited government proposes and which generally favors the wealthy—found avid support even among those who lost valued government services when social programs were eliminated. From this perspective, then, it is not surprising that, at the height of liberalism's influence, only 35 percent of working people joined unions; nor is it surprising that, in the fourth decade of the conservative restoration, less than 8 percent of workers not in government employment are currently unionized. Employer resistance and the conservative dismantling of federal and state agencies with oversight of labor relations played an important role, as did the sustained

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<sup>27</sup> Frank, *Falling Behind*, 8-10. Robert Kutner, *The Squandering of America: How the Failure of Our Politics Undermines Our Prosperity* (New York, 2007), 16-22; Andrew Hacker, "They'd Much Rather Be Rich," *New York Review of Books*, October 11, 2007, 32.

<sup>28</sup> Godfrey Hodgson, *More Equal Than Others: America from Nixon to the New Century* (Princeton, 2004), 90-93. The figures for 1860, when 1 percent of free adult males owned 53 percent of the nation's wealth, can be found in Heilbroner and Singer, *The Economic Transformation of America*, 127.

<sup>29</sup> A more complete development of this analysis will be found in Jefferson Cowie and Nick Salvatore, "The Long Exception: Rethinking the Place of the New Deal in American History" (in progress).

loss of union jobs after 1970. But the strong support conservative presidential candidates and other officeholders received from working class voters in general, and unionized voters in specific, spoke to the continued appeal of those core principles. Ronald Reagan was, it must be remembered, reelected in 1984 with 46 percent of the votes of trade union families. When conservatives used these basic principles to legitimize “value” issues such as opposition to abortion and gay rights, and in support of prayer in public schools, the result was a potent movement of evangelical conservatism that appealed across economic, religious, and social categories.<sup>30</sup>

While liberals and progressives in America remain confused about the majority of their fellow citizens,<sup>31</sup> the long term consequence of this conservative re-appropriation of power has less to do with the specifics of any given election than with the overall direction of American political practice. Democrats more liberal than Ronald Reagan or George W. Bush will undoubtedly be elected again, but there will be no simple return to the politics of an earlier era. The American electorate has changed significant ways, as has that vehicle of liberalism, the Democratic party, and, barring a major trauma on the scale of the Great Depression of 1929, it will be difficult to alter.

In much of the discussion of contemporary American politics, there are suggestions (most famously by the economist and New York *Times* columnist, Paul Krugman<sup>32</sup>) that America has entered a second “Gilded Age,” marked by the enormous inequalities of wealth, power, and influence that structured the last decades of the nineteenth century. Those inequalities are quite real, as I have suggested, and conservatives in both the late nineteenth- and twentieth centuries enthusiastically defended the results with paeans to protecting liberty through a defense of the free market and limited government policies. Conservative leaders, and numerous Democrats as well,<sup>33</sup> assert these principles even as they presided over a government that grew in power as it encouraged corporate development.

But the two eras are not identical. During the first Gilded Age, America was beginning a rapid climb to international dominance. It controlled a seemingly unlimited amount of domestic resources, and possessed the technological skill and the politics of a free market economy to encourage rapid growth without sustained concern as to its human cost. By the 1920s the United States was the world’s reigning industrial power. When needed during this period, moreover, to protect or secure new resources, or to flex its influence, the United States engaged in a series of military excursions—first with Native Americans, and then in Cuba, Puerto Rico, the Philippines, Nicaragua, Costa Rica, Haiti, and elsewhere—that both raised patriotic fervor at home and confirmed its international position. But that was then. Ironically,

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<sup>30</sup> See Nick Salvatore, “America Reborn? Conservatives, Liberals, and American Political Culture Since 1945,” *transatlantica: revue d’etudes americanines . american studies journal*, 2006 [at <http://transatlantica.revues.org>], for an overview of this process and for suggested readings. Lebergott, *The Americans*, 386 has trade union figures to 1980; see Kutner, *The Squandering of America*, 45-73 for a discussion of the conservative assault on the New Deal legacy. (Contemporary unionized percentages are reported in *ibid.*, 55.) On trade union voters’ support of Reagan in 1984, see *New York Times*, November 10, 1996, 16.

<sup>31</sup> See, for example, Thomas Frank, *What’s the Matter With Kansas?: How Conservatives Won the Heart of America* (New York, 2004).

<sup>32</sup> See Paul Krugman, *The Conscience of a Liberal* (New York, 2007).

<sup>33</sup> The only two Democratic presidents since 1968 are in this mold: Jimmy Carter (1977-1981) and Bill Clinton (1993-2001), as was Grover Cleveland (1885-1889, 1893-1897) a century earlier. It is useful to remember that, with the exception of the New Deal decades I have termed exceptional, eighteen presidents were elected between 1868 and 2004, and only four were Democrats: the three noted above and Woodrow Wilson (1913-1921).

1972-1973, the same years that witnessed the turn away from income equality, also marked other significant changes. The 1973 oil embargo by the OPEC nations revealed to the world America's fundamental dependency on imported oil. Two years later, the long travail of the Vietnam War ended, a war many understood as one America lost, despite the official pronouncements. Four years later, the Iranian Revolution led to a hostage crisis in Teheran that significantly aided in the election of Ronald Reagan. While the end of the Cold War and the transformation of the former Soviet Union were welcome by most, the current wars in Afghanistan and Iraq do little to enhance the image of an all-powerful nation. America, in short, is far more constrained now in the effective exercise of power than it was in 1900.

More than 75 years ago, the American philosopher, John Dewey, examined the cultural and political tensions that troubled the nation in the aftermath of its industrial transformation. The core problem, he argued, was industrial capitalism's revolutionary aspect. It separated people from their traditional "loyalties, which once...gave them support, direction, and unity of outlook on life..." Sounding not unlike Max Weber, Dewey saw in corporate capitalism's dismantling of the old order citizens "confused and bewildered," yet drawn by the allure of this "pecuniary society." There men and women, Dewey thought, were unable in the main to understand their social and political place in the new society except through the prism of that "old individualism" which emphasized opportunity, effort, and individual initiative. He called for a "new individualism," one that grasped the corporate nature of society, and channeled the power of the state, through democratic means, to greater control and more equal distribution of the nation's natural and technological resources. In this way, he argued, Americans might find an answer to "the deepest problem of our times" by utilizing "the realities" of that dramatic transformation "to validate and embody the distinctive moral element in the American version of individualism," namely equality and freedom expressed politically and "through personal participation in the development of a shared culture." Astute and, by turns, naïve in its assessment of the allure of this "pecuniary society," Dewey's argument stands today as a stark reminder of the profound issues yet to be resolved in American political culture even as a second Gilded Age has ushered in a far more complex and concentrated economic order.<sup>34</sup>

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