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THE BUSINESS OF AMERICA

Agriculture, mass production, the labor movement, and the economic system

"The business of America," President Calvin Coolidge said in 1925, "is business." This formulation is actually cannier than it may appear. Substitute "preoccupation" for the first "business," and you have a capsule summary of the entrepreneurial spirit behind America's prosperity.

This chapter examines agriculture, the first American industry; the American style of mass production; the labor movement; and the nation's economic system.

A NATION OF FARMERS

Agriculture in the United States has changed dramatically over the last 200 years. At the time of the American Revolution (1775-83), 95 percent of the population was engaged in farming. Today that figure is less than 2 percent. Although individuals or families own 85 percent of all farms in the United States, they own only 64 percent of the farmland. The remainder is owned by corporations, large and small, and farming and its related industries have become big business -- "agribusiness." Yet for all the changes, agriculture is a constant in American life, and the food produced is safe, abundant, and affordable.

Early in American history, farmers set the tone for the rest of the nation. Farmers have never been as self-sufficient as myth would have it, dependent as they are on the uncertainties of weather and the marketplace. Nonetheless, they have exhibited an individualism and an egalitarianism admired and emulated by the rest of society.

As settlement advanced from east to west, U.S. agriculture attained a richness and variety unmatched in most other parts of the world. This is true still today, in large part owing to the quantity of land and the generosity of nature. Only in a relatively small portion of the western United States is rainfall so limited that deserts exist. Elsewhere, rainfall ranges from modest to abundant, and rivers and underground water allow for irrigation where needed. Large stretches of level or gently rolling land, especially in the Midwest, provide ideal conditions for large-scale agriculture.

In most sections of the United States, land was too abundant and labor too scarce for the English system -- in which a landed gentry owned vast estates and most farmers were tenants -- to take hold. North American agriculture came to be based on a multitude of family farms. Moreover, these farms tended to be scattered and isolated, rather than clustered around villages, thus enhancing the farmer's individualism and self-reliance.

Readiness to embrace new technology has been characteristic of American farmers, and throughout the 19th century one new tool or invention followed another in rapid succession. For example, the scythe and cradle replaced the sickle for harvesting grain, then gave way to Cyrus McCormick's mechanical reaper in the 1830s. By the time of the American Civil War (1861-65), machines were taking over the work of haying, threshing, mowing, cultivating, and planting -- and, in doing so, spurring big increases in productivity.

Another factor in the rise of agricultural output was the rapid flow of settlers across the Mississippi River in the late 19th century. The federal government promoted the internal migration in several ways, including the Homestead Act. Enacted in 1862, the act perpetuated the existing pattern of small family farms by offering a "homestead" of 65 hectares to each family of settlers for a nominal fee.

For a time inventions and pro-farming policies were almost too successful. Overproduction became a serious problem after the Civil War. With demand unable to keep pace with supply, the prices farmers received for their products fell. The years from the 1870s until about 1900 were especially hard for the American farmer.

GOVERNMENT'S ROLE

Beginning with the creation of the Department of Agriculture in 1862, the federal government took a direct role in agricultural affairs, going so far as to teach farmers how to make their land more productive. After a period of prosperity in the early 20th century, farm prices declined in the 1920s. The Great Depression of the 1930s drove prices still lower, and by 1932 farm prices had dropped, on average, to less than one-third of their 1920 levels. Farmers went bankrupt by the tens of thousands. Many present-day farm policies have their roots in the desperate decade of the 1930s and the rescue effort contained in the New Deal.

Today a maze of legislation embodies U.S. farm policies. On the theory that overproduction is a chief cause of low farm prices, in some circumstances the government pays farmers to plant fewer crops. Certain commodities can be used as collateral to secure federal loans, or "price supports." Deficiency payments reimburse farmers for the difference between the "target price" set by Congress for a given crop and the actual price paid when the crop is sold. And a federal system of dams and irrigation canals delivers water at subsidized prices to farmers in western states.

Price supports and deficiency payments apply only to such basic commodities as grains, dairy products, and cotton; many other crops are not federally subsidized. Farm subsidy programs have been criticized on the grounds that they benefit large farms most and accelerate the trend toward larger -- and fewer -- farms. In one recent year, for example, farms with more than \$250,000 in sales -- only 5 percent of the total number of farms -- received 24 percent of government farm payments. There is a growing movement to cut back the government's role in agriculture and to reduce subsidies paid to farmers. Important economic interests defend current farm policy, however, and proposals for change have stirred vigorous debate in Congress.

THE LONG VIEW

Overall, American agriculture has been a notable success story. American consumers pay less for their food than those in many other industrial countries, and one-third of the cropland in the United States produces crops destined for export. In 2001 agricultural exports exceeded imports by more than \$14 thousand million.

But agricultural success has had its price. Conservationists assert that American farmers have damaged the environment by excessive use of artificial fertilizers and chemicals to kill weeds and pests. Toxic farm chemicals have at times found their way into the nation's water, food, and air, although government officials at the state and federal levels are vigilant in their efforts to protect these resources.

In the meantime, scientists at research centers across the United States search for long-term solutions. Employing such innovative techniques as gene-splicing, they hope to develop crops that grow rapidly and resist pests without the use of toxic chemicals.

THE AMERICAN STYLE OF MASS PRODUCTION

When U.S. automaker Henry Ford published his autobiography, *My Life and Work*, in 1922, he used his chapter headings to frame a series of questions: "How Cheaply Can Things Be Made?" "Money -- Master or Servant?" "Why Be Poor?"

These are the very questions that have fascinated generations of American business and industrial leaders. In their drive to find answers, business people have sought to make and distribute more goods for less money and at greater profit. To a remarkable extent, they have done so.

Thanks to several waves of immigration, America gained population rapidly throughout the 19th and early 20th centuries, when business and industry were expanding. Population grew fast enough to provide a steady stream of workers, but not so fast as to overwhelm the economy.

Industrial expansion was also powered by something in the American character: a strong dose of the entrepreneurial spirit. Some have traced this impulse to religious sources: the Puritan or Protestant ethic that considers hard work pleasing to God. But others have questioned whether the ruthlessness of some American businessmen, especially in the era of the "robber barons" in the late 19th and early 20th centuries, is consistent with deep religious feeling.

In the late 18th century, American manufacturers adopted the factory system, which gathered many workers together in one place. To this was added something new, the "American system" of mass production, which originated in the firearms industry about 1800. The new system used precision engineering to transform manufacturing into the assembly of interchangeable parts. This, in turn, allowed the final product to be made in stages, with each worker specializing in a discrete task.

The construction of railroads, beginning in the 1830s, marked the start of a new era for the United States. The pace of building accelerated after 1862, when Congress set aside public land for the first transcontinental railroad. The railroads linked far-flung sections of the country into the world's first transcontinental market and facilitated the spread of settlements. Railroad construction also generated a demand for coal, iron, and steel -- heavy industries that expanded rapidly after the Civil War.

AN INDUSTRIAL NATION

The census of 1890 was the first in which the output of America's factories exceeded the output of its farms. Afterwards U.S. industry went through a period of rapid expansion. By 1913, more than one-third of the world's industrial production came from the United States.

In that same year, automaker Henry Ford introduced the moving assembly line, a method in which conveyor belts brought car parts to workers. By improving efficiency, this innovation made possible large savings in labor costs. It also inspired industrial managers to study factory operations in order to design even more efficient and less costly ways of organizing tasks.

Lower costs made possible both higher wages for workers and lower prices for consumers. More and more Americans became able to afford products made in their own country. During the first half of the 20th century, mass production of consumer goods such as cars, refrigerators, and kitchen stoves helped to revolutionize the American way of life.

The moving assembly line was criticized, however, for its numbing effect on workers, and it was satirized in Charlie Chaplin's movie *Modern Times* (1936). In more recent years, factory managers have rediscovered that the quality of the product made is as important as the speed and efficiency with which it is made and that bored, depressed workers tend to do inferior work. The assembly line has been modified in many U.S. factories, including automobile-manufacturing plants, where "quality circles" put together an entire car from start to finish, with workers sometimes performing different tasks.

A POSTINDUSTRIAL ECONOMY

It was America's good fortune to be spared the devastation suffered by other nations during the 20th century's two world wars. By the end of World War II in 1945, the United States had the greatest productive capacity of any country in the world, and the words "Made in the U.S.A." were a seal of high quality.

The 20th century saw the rise and decline of several industries in the United States. The auto industry, long the mainstay of the American economy, struggled to meet the challenge of foreign competition. The garment industry declined in the face of competition from countries where labor is cheaper. But other manufacturing industries appeared and flourished, including airplanes and cellular telephones, microchips and space satellites, microwave ovens and high-speed computers.

Many of the currently rising industries tend to be highly automated and thus need fewer workers than traditional industries. As high-tech industries have grown and older industries have declined, the proportion of American workers employed in manufacturing has dropped. Service industries now dominate the economy, leading some observers to call America a "postindustrial" society. Selling a service rather than making a product, these industries include entertainment and recreation, hotels and restaurants, communications and education, office administration, and banking and finance.

Although there have been times in its history when the United States pursued an isolationist foreign policy, in business affairs it has generally been strongly internationalist. The presence of American business has drawn a mixed response in the rest of the world. People in some countries resent the Americanization of their cultures; others accuse American firms of pressuring foreign governments to serve U.S. political and economic interests rather than local interests. On the other hand, many foreigners welcome American products and investment as a means of raising their own standards of living.

By injecting new capital into other economies, American investors can set in motion forces impossible to predict. Some Americans are concerned that by investing abroad, American business is nurturing future competitors. They note that U.S. government policies fostered Japan's economic resurgence after World War II and that American corporations shared technology and sent experts to teach the Japanese such practices as quality control -- practices that the Japanese have since carried to new and highly profitable heights. The ratification of the North American Free Trade Agreement in 1993, however, confirmed the continuing American commitment to robust international trade.

LABOR UNIONS

The factory system that developed around 1800 changed working conditions markedly. The employer no longer worked side-by-side with his employees. He became an executive, and, as machines took over manufacturing tasks, skilled workmen saw themselves relegated to the status of common laborers. In bad times they could be replaced by newcomers at lower wages.

As the factory system grew, workers began to form labor unions to protect their interests. The first union to hold regular meetings and collect dues was organized by Philadelphia shoemakers in 1792. Soon after, carpenters and leather workers in Boston and printers in New York organized too. Union members would agree on the wages they thought were fair, pledge to stop working for employers who paid less, and pressure employers to hire union members only.

Employers fought back in the courts, which commonly ruled that concerted action by workers was an illegal conspiracy against their employer and the community. But in 1842 the Massachusetts Supreme Court held that it was not illegal for workers to engage peacefully in union activity. This ruling was widely accepted, and for many years afterwards unions did not have to worry about conspiracy charges. Unions extended their efforts beyond wages to campaign for a 10-hour workday and against child labor. Several state legislatures responded favorably.

STRUGGLES AND SUCCESSES

During the great surge of industrial growth between 1865 and 1900, the work force expanded enormously, especially in the heavy industries. But the new workers suffered in times of economic depression. Strikes, sometimes accompanied by violence, became commonplace. Legislatures in many states passed new conspiracy laws aimed at suppressing labor.

In response, workers formed organizations with national scope. The Knights of Labor grew to a membership of 150,000 in the 1880s, then collapsed quickly when newspapers portrayed the Knights as dangerous radicals. More enduring was the American Federation of Labor (AFL), founded in 1886 by Samuel Gompers, a leader of the Cigarmakers Union. Comprising craft unions and their members, the AFL had swollen to 1.75 million members by 1904, making it the nation's dominant labor organization.

At a time when many workers in Europe were joining revolutionary unions that called for the abolition of capitalism, most American workers followed the lead of Gompers, who sought to give workers a greater share in the wealth they helped produce. A radical alternative was offered by the Industrial Workers of the World (IWW), a union started in 1905 by representatives of 43 groups that opposed the AFL's policies. The IWW demanded the overthrow of capitalism through strikes, boycotts, and sabotage. It opposed U.S. participation in World War I and sought to

tie up U.S. copper production during the war. After reaching a peak of 100,000 members in 1912, the IWW had almost disappeared by 1925, because of federal prosecutions of its leaders and a national sentiment against radicalism during and after World War I.

In the early 1900s, an alliance formed between the AFL and representatives of the American Progressive Movement (see chapter 3). Together they campaigned for state and federal laws to aid labor. Their efforts resulted in the passage of state laws prohibiting child labor, limiting the number of hours women could work, and establishing workers' compensation programs for people who were injured on the job. At the federal level, Congress passed laws to protect children, railroad workers, and seamen, and established the Department of Labor in the president's cabinet. During World War I labor unions made great strides, and by January of 1919, the AFL had more than 3 million members.

RED SCARES AND DEPRESSION

At the start of the 1920s, organized labor seemed stronger than ever. But a Communist revolution in Russia triggered a "Red Scare," a fear that revolution might also break out in the United States. Meanwhile, workers in many parts of the country were striking for higher wages. Some Americans assumed that these strikes were led by Communists and anarchists. During the Progressive Era, Americans had tended to sympathize with labor; now they were hostile to it. Once again, the courts restricted union activity.

The pendulum swung back toward unions during the Great Depression. As part of his New Deal, President Franklin Roosevelt vowed to help "the forgotten man," the farmer who had lost his land or the worker who had lost his job. Congress guaranteed workers the right to join unions and bargain collectively, and established the National Labor Relations Board to settle disputes between unions and employers.

Not long after, tensions within the AFL between skilled craftspersons and industrial workers led to the founding of a new labor organization, the Congress of Industrial Organizations (CIO). The new organization grew rapidly; by the late 1930s it had more members than the AFL.

The Depression's effect on employment did not end until after the United States entered World War II in 1941. Factories needed more workers to produce the airplanes, ships, weapons, and other supplies for the war effort. By 1943, with 15 million American men serving in the armed forces, the United States had a labor shortage, which women (in a reversal of societal attitudes) were encouraged to fill. Before long, one out of four workers in defense plants was a woman.

THE WORK FORCE TODAY

After the war a wave of strikes for higher wages swept the nation. Employers charged that unions had too much power, and Congress agreed. It passed laws outlawing the "closed shop" agreement, by which employers were required to hire only union members, and permitted states to enact "right-to-work" laws, which ban agreements requiring workers to join a union after being hired. In 1955 the AFL and CIO merged as a new organization, the AFL-CIO.

In recent decades there has been a decrease in the percentage of workers who join a union. Among the reasons are the decline of heavy industries, which were union strongholds, and the steady replacement of "blue-collar" workers by automation. Even so, organized labor remains a strong force in the U.S. economy and politics, and working conditions have steadily improved.

Meanwhile, the work force includes more women than ever before. And although the American work week typically amounts to between 35 and 40 hours, there are many departures from the norm: people working part-time or on "flexi-time" (for example, for four days they may work 10 hours a day instead of 7 or 8 and take the fifth day off) or "telecommuting" from their homes with the assistance of phone, computer, and facsimile (fax) machine.

THE AMERICAN ECONOMIC SYSTEM

The United States declared its independence in the same year, 1776, that Scottish economist Adam Smith wrote *The Wealth of Nations*, a book that has had an enormous influence on American economic development. Like many other thinkers, Smith believed that in a capitalist system people are naturally selfish and are moved to engage in manufacturing and trade in order to gain wealth and power. Smith's originality was to argue that such activity is beneficial because it leads to increased production and sharpens competition. As a result, goods circulate more widely and at lower prices, jobs are created, and wealth is spread. Though people may act from the narrow desire to enrich themselves, Smith argued, "an invisible hand" guides them to enrich and improve all of society.

Most Americans believe that the rise of their nation as a great economic power could not have occurred under any system except capitalism, also known as free enterprise after a corollary to Smith's thinking: that government should interfere in commerce as little as possible.

THE STOCK MARKET

Very early in America's history, people saw that they could make money by lending it to those who wanted to start or expand a business. To this day, small American entrepreneurs usually borrow the money they need from friends, relatives, or banks. Larger businesses, however, are more likely to acquire cash by selling stocks or bonds to unrelated parties. These transactions usually take place through a stock exchange, or stock market.

Europeans established the first stock exchange in Antwerp, Belgium, in 1531. Brought to the United States in 1792, the institution of the stock market flourished, especially at the New York Stock Exchange, located in the Wall Street area of New York City, the nation's financial hub.

Except for weekends and holidays, the stock exchanges are very busy every day. In general, prices for shares of stock are rather low, and even Americans of modest means buy and sell shares in hopes of making profits in the form of periodic stock dividends. They also hope that the price of the stock will go up over time, so that in selling their shares they will make an additional profit. There is no guarantee, of course, that the business behind the stock will perform well. If it does not, dividends may be low or nonexistent, and the stock's price may go down.

THE SYSTEM MODIFIED

Adam Smith would easily recognize the foregoing aspects of American business, but other aspects he would not. As we have seen, American industrial development in the 19th century took a toll on working men and women. Factory owners often required them to put in long hours for low wages, provided them with unsafe and unhealthy workplaces, and hired the children of poor families. There was discrimination in hiring: Black Americans and members of some immigrant groups were rejected or forced to work under highly unfavorable conditions. Entrepreneurs took full advantage of the lack of government oversight to enrich themselves by forming monopolies, eliminating competition, setting high prices for products, and selling shoddy goods.

In response to these evils and at the insistence of labor unions and the Progressive Movement, in the late 19th century Americans began to modify their faith in unfettered capitalism. In 1890, the Sherman Antitrust Act took the first steps toward breaking up monopolies. In 1906, Congress enacted laws requiring accurate labeling of food and drugs and the inspection of meat. During the Great Depression, President Roosevelt and Congress enacted laws designed to ease the economic crisis. Among these were laws regulating the sale of stock, setting rules for wages and hours in various industries, and putting stricter controls on the manufacture and sale of food, drugs, and cosmetics.

In recent decades, concerned Americans have argued that Adam Smith's philosophy did not take into account the cumulative effect of individual business decisions on the natural environment. New federal agencies, such as the Environmental Protection Agency, have come into being. And new laws and regulations have been designed to ensure that businesses do not pollute air and water and that they leave an ample supply of green space for people to enjoy.

The sum total of these laws and regulations has changed American capitalism, in the words of one writer, from a "freely running horse to one that is bridled and saddled." There is scarcely anything a person can buy in the United States today that is not affected by government regulation of some kind.

Political conservatives believe there is too much government regulation of business. They argue that some of the rules that firms must follow are unnecessary and costly. In response to such complaints, the government has tried to reduce the paperwork required of businesses and to set overall goals or standards for businesses to reach, as opposed to dictating detailed rules of operation.

If sometimes cumbersome, the rules and regulations governing business conduct today do not seem to prevent ambitious Americans from realizing their dreams -- and occasionally of surpassing them. One such entrepreneur is Bill Gates. Gates started a computer software company called Microsoft in 1975, when he was 20 years old. Just two decades later, Microsoft was the world's largest software company, with 20,000 employees worldwide and annual net income of more than \$2 thousand million a year.

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