

CHAPTER 1

A Brief Economic History of the United States

A. After studying this chapter the student should be able to

1. Summarize America's economic development in the 19th century.
2. Describe the effect of the Great Depression on our economy and evaluate the New Deal measures to bring about recovery.
3. Discuss the impact of World War II on our economy.
4. List and discuss the major recessions we had since World War II.
5. Summarize the economic highlights of each decade since the 1950s.
6. Differentiate the "new economy" from the "old economy."
7. Assess America's place in history.

B. Ideas for use in class

Getting started

1. This first chapter sets Slavin's *Economics* apart from most other textbooks. It begins with economic history so that students see how economic institutions and economic policies have changed over time. Explain the approach to students, emphasizing:
 - Students come to the course with varying backgrounds in U.S. history. This chapter provides everyone with a common level of knowledge necessary for the remainder of the course.
 - In order to understand today's economic issues, we need to know: Why do we have our current economic institutions? What policies have been tried in the past? What worked? What didn't?
2. Gauge how much your students already know about economic history. Starting off with a quiz likely will frighten students—and perhaps the results will distress you, the instructor. Instead, use a creative approach to find out what students have learned in previous courses and what they still need to learn.

Ask students what questions have puzzled them about the U.S. economy. Prompt them to use higher level critical thinking questions such as: How did...?, and Why would...?, rather than What is...? And When did...?. If all the questions are about the current economy, prompt students to think historically by asking why the current situation arose.

Active learning strategies

1. Students may feel overwhelmed by the names, dates, and events described in the chapter. Construct a time line in which the *links* between events are highlighted. For example, the national railroad network, constructed between 1850 and 1890, enabled mass production and mass consumption; the Great Depression ended only with U.S. entry in World War II; oil price increases preceded stagflation of the 1970s; the bursting of the dot-com bubble and the new bubble in real estate (housing) prices. There are many more event-pairs described in the chapter.

Draw a large timeline on the board. Make sure students understand that the scale underneath needs to be consistent; for example, a 10-year time span always needs to be the same distance apart. Some students with weak quantitative reasoning skills will not know this.

In teams of two, students receive two pieces of paper each with one of the two connected events. Ask students to decide which event came first and its approximate time frame. Students tape the two pieces of paper on the timeline for other students to see and, if necessary, correct. Some of the U.S. presidents and their impact on the economy are described in the chapter. Have students add relevant presidential administrations to the timeline.

2. Break down the chapter's historical presentation into time periods (for example, pre-Civil War, reconstruction, and so on). Assign one time period to a group of four students. Within that group each student has one of the following tasks: What new terms are presented in the section (define them)?; What was the main idea in this section?; What questions remain unanswered?; and provide a visual representation of the ideas in the section (such as a timeline or concept map).

Because this is a short chapter, work completed in small groups need not be reported to the entire class; that would be tedious and time-consuming.

C. Homework questions and projects

1. For updated summaries and wry commentary on research on economic history see Brad DeLong's course and blog <http://delong.typepad.com/>.

Extensive further research is possible for this chapter. For overviews see:

"Symposium: Looking Backward at Economics and the Economy," *Journal of Economic Perspectives*, 14(1) Winter 2000.

Alfred D. Chandler, Jr., *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*.

Robert L. Heilbroner and Aaron Singer, *The Economic Transformation of America: 1600 to the Present*.

2. U.S. economic history can be compared with that of other nations. On the Internet, country by country economic analyses are available at the CIA factbook at:

www.cia.gov/library/publications/the-world-factbook/fields/2092.html.

For a provocative historical approach see David Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor*

For a long-term anthropological approach see Jared Diamond, *Guns, Germs and Steel*.

3. The chapter presents the U.S. economy as successful in some ways, yet facing problems in other ways. For an introduction to the debate about the current U.S. economy—is it half-full or half empty?—see two contrasting views: For an optimistic view of U.S. economic equality, see Michael Cox, *Myths of Rich and Poor: Why We're Better Off than We Think*. For a view critical of U.S. economic equality, see Lawrence Mishel, *The State of Working America*.
4. For research on economic growth by Paul Romer, see <http://ideas.repec.org/e/pro45.html>.
5. Add some levity to the start of the course by using “Jokes about economists and economics” at <http://netec.wustl.edu/JokEc.html>. Be forewarned: these are uncensored.

Answers to Multiple-Choice Questions

- | | |
|-------|-------|
| 1. d | 15. a |
| 2. c | 16. c |
| 3. b | 17. c |
| 4. a | 18. b |
| 5. d | 19. e |
| 6. d | 20. b |
| 7. e | 21. b |
| 8. d | 22. a |
| 9. c | 23. c |
| 10. c | 24. d |
| 11. b | 25. c |
| 12. a | 26. c |
| 13. b | 27. f |
| 14. c | 28. d |

- | | | | |
|-----|---|-----|---|
| 29. | a | 37. | c |
| 30. | a | 38. | c |
| 31. | c | 39. | d |
| 32. | e | 40. | a |
| 33. | b | 41. | c |
| 34. | b | 42. | b |
| 35. | d | | |
| 36. | b | | |

Answers to Fill-In Questions

1. 1933
2. 9
3. December, 2007
4. the United States
5. 25
6. Lyndon Johnson
7. 500
8. 3
9. a plenitude of land in comparison with amount of labor (or, a scarcity of labor).
10. government spending on World War II (the New Deal did not do the job)
11. 12
12. 1875 (give or take a couple of years)
13. G.I. bill of rights
14. 20th

Answers to Questions for Further Thought and Discussion

1. *Describe, in as much detail as possible, the impact of the Great Depression on the lives of those who lived through it. If you know anyone who remembers the 1930s, ask them to describe those times.*

Some of the things that typify those times were the breadlines, soup kitchens, hobo jungles, Hoovervilles, widespread unemployment and poverty. Also prominent were the New Deal, the collapse of the banking system, the foreclosed mortgages, and, perhaps most significant, the loss of hope by millions of Americans of ever making a decent living.

2. *What were the main agricultural developments over the last two centuries?*

1834: Cyrus McCormick's mechanical reaper, which quadrupled output of farm workers by 1860.

late 1840s: John Deere began manufacturing steel plows.

Other 19th century innovations: Appleby twine binder, the Marsh brothers' harvesting machine, the Pitts thresher, and Eli Whitney's cotton gin.

Early 20th century: Gasoline-powered tractor

Two other (nontechnological) developments were the federal government's willingness to give away 160-acre plots to anyone who would farm that land and, beginning in the 1930s, the federal government paid farmers hundreds of billions of dollars in price-support payments.

3. *How have wars affected our economy? Use specific examples.*

The Civil War ended slavery, upon which much of Southern agriculture had been based. It also ensured that Northern industry would continue to be protected from European competition by high protective tariffs. In addition, General Sherman's army laid waste to a wide swath of the South.

World War I and World War II were followed by long economic booms set off mainly by pent-up consumer demand for housing and cars. These wars, in addition to the Korean War and the Vietnam War, set off periods of inflation. Wars also sped up our rate of economic growth and reduced unemployment.

4. *Inflation has been a persistent problem for most of the 20th century. What were some of its consequences?*

High rates of inflation led to credit tightening by the Federal Reserve, causing recessions in 1980 and 1981, as well as in other years. Inflation in the early 1970s—especially the quadrupling of oil prices—pushed us into a recession in 1973. During World War II, the Korean War, and again in the early 1970s, the federal government instituted price controls to fight inflation. Some critics thought the cure was worse than the sickness.

5. *In what ways were the 1990s like the 1920s, and in what ways were the two decades different?*

In both decades there were economic booms, very low unemployment and inflation, and a rapidly rising stock market. The 1920s ushered in the era of mass consumption, the automobile became commonplace, and most homes were wired for electricity and telephones. In the 1990s, perhaps the only major new household appliance was the PC. The 1920s was a decade of mass production; the 1990s was a decade of customized production. Perhaps the greatest difference between the decades was that the 1929 stock market crash led to the Great Depression of the 1930s, while the New Economy that began to take off in the 1990s has continued to soar well into the new millennium.

6. *When our country was being settled, there was an acute shortage of agricultural labor. Over the last hundred years, millions of Americans have left the farms. How have we managed to feed our growing population with fewer and fewer farmers?*

The main reason our farmers rapidly became more productive was the major technological innovations of the second half of the 19th century (outlined in the answer to question 2). The vast expansion of the railroads during this period opened huge markets for agricultural products.

7. *Today America has the world's largest economy as well as a very high standard of living. What factors in our economic history helped make this possible?*

We can start with our vast land area, which provided enough acreage for virtually anyone who wanted to own a farm. Our fledgling industries were protected from foreign competition by a high protective tariff as well as a wide ocean. The railroads, rivers, as well as a system of canals, made a national market possible, and, in addition, connected our farmers and manufacturers to world markets. American manufacturers were helped by foreign investors, enabling us to expand our industrial output much faster. Most significant, the United States was a single national market using a single currency, with no internal barriers like protective tariffs to inhibit the movement of goods and services between states. The federal government, which initially intervened in our economy mainly to provide tariff protection to manufacturers, did not interfere with the industrialization process. Later, beginning with the New Deal during the Great Depression, the government did intervene to stimulate the economy, to fight inflation, and to provide a social safety net to most Americans.

8. *List the main ways the "new economy" (since the early 1990s) differs from the "old economy."*

The new economy differs from the old economy in four basic ways: faster rates of technological change and productivity growth, and lower inflation and unemployment. It is marked by deregulation, lower tax rates, and a growing federal government budget surplus (as opposed to huge deficits). It is a time of economic boom and rapidly rising stock prices. It is an expansion that set an all-time record of 107 consecutive months in February, 2000. The 1990s was the decade of computerization in both households and businesses, and the beginning of the age of the Internet.

9. *To what degree has the U.S. economy recovered from the Great Recession?*

Answers should include references to the unemployment rate, total employment (and/or employment by sector), the rate of economic growth, and the current state of the economy, e.g. consumer and business optimism.