

- # 12 ALTHOUGH THE ECONOMIC GROWTH OF THE UNITED STATES BETWEEN 1860 AND 1900 HAS BEEN ATTRIBUTED TO A GOVERNMENT POLICY OF "LAISSEZ-FAIRE", IT WAS IN FACT ENCOURAGED AND SUSTAINED BY DIRECT GOVERNMENT INTERVENTION.

ASSESS THE VALIDITY OF THIS STATEMENT

What is Laissez-Faire?

In 1776, British economist Adam Smith wrote the book; Wealth of Nations His thesis was the principles of the capitalist system. He argued that gov'ts Should follow a policy of Laissez-Faire. He argued that;

- Gov'ts should leave business alone.
- Free competition would lower prices, increase variety, improve quality, and further the best interests of society.
- Gov't should neither help nor hinder business activity.

American industry after the Civil War ignored part of Smith's arguments, especially those regarding Tariffs and Subsidies. In actuality, key actions on the part of the Fed. Gov't. helped to establish and sustain economic growth and big business. The U.S. gov't therefore set a policy of fostering growth but not regulating it.

- Civil War Spending:
Industrial centers in the northeast received an enormous boost through required war production. Millions of dollars spent on munitions, rifles, uniforms etc. all of which gave rise to more factories, jobs and economic strength.
- Conquering western lands/Native Americans;
Vast mineral deposits were made available to fuel the rapid industrialization once the Native American population was neutralized. The presence of the army in the West provided stability for growth, companies evolved to handle lumber, oil, iron ore, copper and gold which helped America become a world leader in these materials. The Dawes Act 1887 effectively helped to provide corporate America with land that contained mineral deposits.
- Steamship Lines
The Federal Gov't directly subsidized the "Clipper Lines", these fast steam powered ships handled mail and commerce between the USA and Europe. Cornelius Vanderbilt was one of the key magnates involved. This fast freight and passenger system moved America to the forefront of ocean transportation/commerce.

- Land grants to railroad companies:
Once the West was stabilized and settlement begun, the gov't encouraged railroad construction to increase expansion of the economy and bring new found resources to industrial centers. This emphasis on railroad construction increased markets for natural resources thereby sustaining the economic boom started by the Civil War and paved the way to the Pacific Ocean and its markets.

- The Supreme Court
The high court continued to be a buffer against attempts by the gov't to place Restrictions, regulations or obstacles in the path of business activity.
(example) Sherman Anti-Trust Act 1890 used to curb labor unions not business. Interstate Commerce Act 1887, used to strike down attempts by the States to set limits on RRR rates between states. (Munn vs Illinois)

The Federal Government played a major role in fostering the economic growth in the mid to late 19th century.

Thoughts to ponder: Can you think of any other actions taken by the Fed. Gov't?