

### A. Introduction

This lecture is about the economic environment of the contemporary world. The course goal is **to evaluate the strengths and weaknesses of democracy** according to a criterion of the chronology, personalities, places, and degrees of certitude warranted.

### B. Education

The substitution of knowledge for manual effort is the greatest change in the history of work.<sup>i</sup> In 1900, ninety per cent of U. S. citizenry earned a livelihood through manual labor. By 1965, this percentage was down to twenty-five. Education was the central economic resource of technological society, not only in the narrow sense of enabling people to run machines, but also in the broader sense of enabling people to set the priorities of their own lives and the lives of their various communities.

U. S. history revolves around the idea of turning to education to bind up the damages of war, economic chaos, and political turmoil. The Congressional legislation that facilitated this activity included the 1789 Northwest Ordinance, the 1862 Homestead and Morrill Acts, and the 1944 G.I. Bill. The first set aside one sixty-fourth of the land for education. The second set up the large state universities. The last financed the cost of veterans attending college.<sup>ii</sup>

In the beginning of the Twentieth Century, the momentum of technical progress was carried by the self-made mechanic without specific technical or scientific education. Neither Henry Ford (1883-1947) nor the Wright brothers (Wilbur, 1867-1912; Orville, 1871-1948) went to college. Edwin H. Land (1909- ), of Polaroid fame, quit college to develop polarizing glass.

Between the World Wars, leadership gradually shifted to college-educated men and women. Today the Western college-trained engineer or chemist has an education, which gives him a social status relative, on a comparative basis, to the craftsman of 1800. This fact is not a put-down for the engineer or chemist, but an uplift for workers in general. The quality of the labor force has greatly improved. The political act of determining who gets educated also determines, in large part, who receives the better things society has to offer. In this way, community colleges are the last gateway of opportunity for many.

Modern technology does not always involve the application of science to products and processes. The application and the science, both, tend to be one and the same in such areas as polymer (plastics) chemistry, pharmaceuticals, atomic energy, space exploration, and computers. But technology is quite different from science in other areas such as the design of mechanical equipment--machine tools, textile machinery, printing presses and the like. The 'know-what' of science is only the starting point for the 'know-how' of technological efforts. In this manner, Thomas A. Edison (1847-1931) systematically tested 1600 different materials to find the filament which could be used as the incandescent element for the light bulb.

Innovation makes yet another distinction. Innovation is the purposeful and deliberate attempt to bring about, through technological means, a distinct change in the way people live in their environment. Mass production was the first major innovation of the Twentieth Century. Between 1905 and 1910, Henry Ford developed a technical solution, mass production, to the economic problem of how to produce the largest number of finished products with the greatest reliability at the lowest possible cost. That technical solution, or innovation, included no important technological invention.

### C. Life Quality

What has industrialization and technology done for the quality of life? Some historians have considered this in the case of women.<sup>iii</sup> In the Nineteenth Century, the stove freed males for school or work, but simply resulted in more work for women. Men no longer had to gather, split, and haul wood fuel; but women, with their fancier stoves, could no longer get by with a one-pot meal. The stove enabled women to boil, simmer, and bake, all from the same fire and women were expected to do just that.

For the first forty years of the Twentieth Century, birth rates declined while participation in the labor force increased but minimally. From 1940 to 1960 United States women joined the workforce as never before.

During this time, women had productive roles both at home and in the workplace. From 1960 to 1986, fertility rates plummeted while labor participation soared as marriage rates dropped, age at marriage rose, and women chose to have fewer, if any, children . . .<sup>iv</sup> Dr. Jirran wonders how labor participation relates with education as an indicator of birth rates.

Technology generally exchanged drudgery for a greater variety of work, but not leisure. With the onset of the automobile, households became producers of transportation, rather than consumers. The Twentieth Century suburban mother chauffeur made this possible. Historians need to understand better why women so often exchanged the housekeeping gains made through technology for, simply, more elaborate housekeeping.

But women, who in the early Nineteenth Century, in Petersburg, Virginia, at least, had a virtual monopoly upon charitable work, softened the crass materialism of contemporary society. Women were kinder to their slaves in their wills and more likely to free their slaves. Such kindness can be misleading. What Black women were doing would generally be taken for granted for White women, but the truth of that matter has yet to be tested.

Most free Black women lived in abject poverty, although in 1860, half of all Black property holders were women. Though the women owned some property, they still lived in poverty. The efforts women made at improving their lot were constantly thwarted as, in all areas, the gains women made lagged behind those of men in their group. Democracy does not always work for everybody.

While women did seem to soften the crass materialism of burgeoning industrialization, women themselves severely suffered from the same materialism. Beginning in the Nineteenth Century, middle-class tastes increasingly enamored the masses.<sup>v</sup> One way to satisfy such newly acquired capitalist tastes was the reduction of families to middle class size.<sup>vi</sup>

#### D. Conclusion

By studying the Introduction, Education, and Life Quality, the student is better able to evaluate the relationship between political and economic structures.

### Supplement

#### E. Capitalism

No country was as committed to capitalism as the U. S. In the U. S. capital and society grew apace. Elsewhere, capitalism seemed to exploit the masses. What happened?

Between 1870 and 1896 a huge depression enveloped the U. S. economy. Capital and labor were at a standoff. Skilled labor opposed mechanization. Capital opposed labor-intense businesses. The solution was to preempt high skilled labor-intense businesses with highly mechanized businesses. In the final analysis, this preemption was a social, rather than an economic decision. Only there was the capital-labor impasse broken. The point is that economics serves society, not the other way around, as Marxists would have it.<sup>vii</sup>

#### F. Labor

Scholars used to think that in any conflict between capital and labor, capital was the inevitable winner. No longer does capital seem that powerful. Capital only gained its clout in the last decade of the Nineteenth Century.<sup>viii</sup>

A methodological problem separated the quantitative statistics suitable for describing capital and the non-quantified dimensions of labor cohesiveness. The theoretical solution for the problem was developed from 1954 to 1970 in economic debates focused at Harvard. Capital changed from a quantifiable number to a complex, still not fully understood, relationship between capital and labor, on a continuum of ownership.

In this sense, Marx was right to link social constructs with economic reality. The corporation rose as a solution to maldistribution of that continuum of ownership, i.e., capital, rather than from managerial or technological needs alone. This happened during what Europeans consider the Great Depression, 1870-1900. In the United States 1929-1939 is considered the Great Depression.

Entrepreneurs cared less about the uses of their goods and services than about the margin of profit with which those goods and services cleared the market. The issue was how that margin was split between capital and labor. The European Great Depression was caused by labor receiving too much of the profit.

First, labor produced more than enough. Second, this increased supply reduced demand, causing deflation, i.e. falling prices. Third, real wages for the employed, by not falling with falling prices, rose.

Since civilization itself was equated with capital formation, the European Great Depression undermined civilization itself. The solution was to increase labor productivity by mechanizing the tasks of skilled labor and increasing markets through imperialist activity. Labor unions had to be broken, so that productivity could be increased.

Politicians, especially the United States Progressives, protected the unions from the capitalists. From 1894 to 1919, however, labor was homogenized, large corporations arose, and mechanization took place. The first move was to control production through the elimination of competition by increasing to full-mechanized corporation size. This alternative was better than the class war which otherwise might have resulted from the continuing stalemate between labor and capital.

Corporate innovations succeeded where the entrepreneurs had failed because corporate innovators destroyed the social basis of overproduction, namely, a surplus of entrepreneurs. In the process, the populists lost their clout.

According to classical political economy, commodities received their value from the labor that went into them. That Early Nineteenth Century theory gave way to the marginalist theory. The late Nineteenth Century economic problem was productivity which mass production solved. At this time, British and Austrian economists changed value from labor input to utility or to opportunity cost or to marginal value, i.e. price was a function of relative value. This is called marginalist theory from the margin of utility of one economic good over another. The new problem was distribution.

The professorial approach to economic theory has focused on the differences between laissez-faire or classical theory and mercantilist or socialist theory. In the above scenario, the production school of thought is laissez-faire; distribution, mercantilism. Both have already been presented, implicitly, as aspects of social theory.

The knack was to define capital so as to place capital on as socially acceptable a basis as labor and land. So it was that capital come to be understood as a legitimate form of wage withholding. Capital performed an active service and progressive function in society. For the economy to work, society had to accept the economic ground rules, postulated by sound economic theory.

Marginalists maintained that groups should be treated equitably and that individuals should not expect to be treated equally. Marginal analysis looked to opportunity cost rather than the cost of substituting capital for labor.

Large corporations were needed to eliminate wasteful competition and to provide the conditions for economic growth and social harmony. When marginalism was seen as the "psychological relation between individuals and finished goods,"<sup>ix</sup> marginalism, by being realistic, entered the continuum on which moral philosophy rested. Just as society was the arbiter of moral philosophy so was society the arbiter of

economic theory. The market place was not as natural as the natural laws of physics. The market place was a human institution, subject to human innovation. What happened at the end of the Nineteenth Century along these very lines is apparently only becoming clear today.

A sense of what is happening economically can be gained from a consideration of poor White people in Alabama. First came the Civil War, whose remaining destruction lasted to the Great United States Depression and World War II. Things were so bad that the bitterly racist "poor Whites and Blacks freely associated with each other only in brothels and in the infamous almshouses, those poorhouses of ultimate despair that represented the nadir of poverty throughout Alabama."<sup>x</sup>

During the 1960s and 1970s, new industries offered new hope. During the postindustrial age of the 1980s, the former sense of despair returned with "declining markets, foreign competition, and increasing unemployment."<sup>xi</sup> The point is that markets, competition, and unemployment define the postindustrial age.

#### G. Neighbor

With what is happening in Nicaragua and Afghanistan, and Eastern Europe, the political dimension of capitalism merits further attention. The term to watch for is "national liberation." Thinker-activists involved include Mao Zedong, Jawaharlal Nehru, Gamal Abdel Nasser, Ho Chi Minh, Kwame Nkrumah, and Che Guevara. These people made the point for political and economic independence,<sup>xii</sup> whether capitalistic or not.

Non-Communists, such as Ataturk and Sun Yet-sen, as well as Communists, such as Fidel Castro and Ho Chi Minh, have agreed that a social transformation must antedate economic and political change in the Third World. Cultural regeneration is also important. The struggle against feudalism and capitalism results in coziness with socialism.

Contrary to the Communists, Third World nations are more concerned with national than universal interests. Once the United States gets out of their way, this Third World conflict with the Communists gets out into the open. History indicates that these are issues worth continuing analysis. What actually happened was that the Soviet Union got out of the way.

This supplement was first written May 15, 1987 and, then, revised May 13, 1988. The revolution in Eastern Europe away from Russia began in the winter of 1990. As this is being written, now, Lithuania is striving to hold off Soviet sanctions and President Bush is threatening retaliation. The point is that the professorial sense of the fundamental bankruptcy of Communism seems to be borne out in current events. With the collapse of the Soviet Union by the March 14, 1992 version of this lecture, there was no longer any doubt.

#### Footnotes

<sup>i</sup>This section draws heavily upon Melvin Kranzberg and Carroll W. Pursell, Jr. (eds.), Technology in Western Civilization: The Emergence of Modern Industrial Society, Vol. II, p. 26.

<sup>ii</sup>Patrick Meila, review of Harold M. Hyman, American Singularity: The 1789 Northwest Ordinance, the 1982 Homestead and Morrill Acts, and the 1944 G.I. Bill, in Presidential Studies Quarterly, 18 (Winter 1988): 195-197.

<sup>iii</sup>This section draws heavily from Faye E. Dudden, review of Ruth Schwartz Cowan, More Work for Mother: The Ironies of Household Technology from the Open Hearth to the Microwave, The American Historical Review, 90 p. 235 and the great feminist historian, Gerda Lerner, review of Suzanne Lebsack, The Free Women of Petersburg: Status and Culture in a Southern Town, 1784-1860, The American Historical Review, 90 (April 1985): 218-219.

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<sup>iv</sup>Joanne Meyerowitz, Susan Householder Van Horn, Women, Work, and Fertility, 1900-1896 The American Historical Review, Vol. 95, No. 1 (February 1990), page 282-283.

<sup>v</sup>James A. Schmiechen, "The Victorians, the Historians, and the Idea of Modernism," The American Historical Review, 93 (April 1988): 287-316.

<sup>vi</sup>William Petersen, review of Gertrude Himmelfarb, The Idea of Poverty: England in the Early Industrial Age, in The American Historical Review, 92 (October 1987): 1073.

<sup>vii</sup>James Livingston, "The Social Analysis of Economic History and Theory: Conjectures on Late Nineteenth-Century American Development," The American Historical Review, 92 (February 1987): 69-95.

<sup>viii</sup>This supplement is almost a complete paraphrase and synopsis of James Livingston, "The Social Analysis of Economic History and Theory: Conjectures on Late Nineteenth-Century American Development," The American Historical Review, 92 (February 1987): 69-95.

<sup>ix</sup>James Livingston, "The Social Analysis of Economic History and Theory: Conjectures on Late Nineteenth-Century American Development," The American Historical Review, 92 (February 1987): 94.

<sup>x</sup>Durwood Dunn, review of Wayne Flynt, Poor but Proud: Alabama's Poor Whites, The American Historical Review, Vol. 96, No. 1 (February 1991), pages 267-268.

<sup>xi</sup>Durwood Dunn, review of Wayne Flynt, Poor but Proud: Alabama's Poor Whites, The American Historical Review, Vol. 96, No. 1 (February 1991), pages 267.

<sup>xii</sup>Larry G. Gerber, review of S. Neil MacFarlane, Superpower Rivalry and Third World Radicalism: The Idea of National Liberation in Presidential Studies Quarterly, 17 (??): 568-570. Tse-tung is the spelling MacFarlane uses.