Economic History of the US

Reunification Era, 1860-1920

Lecture #1

Peter Allen
Econ 120
## Economy At Civil War

<table>
<thead>
<tr>
<th></th>
<th>1790</th>
<th>1860</th>
<th>change, pa</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated GDP ($ mm)</td>
<td>180</td>
<td>11,800</td>
<td>6.2%</td>
<td></td>
</tr>
<tr>
<td>(% manufacturing)</td>
<td>1%</td>
<td>17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population (million)</td>
<td>4</td>
<td>31.4</td>
<td>3.0%</td>
<td></td>
</tr>
<tr>
<td>GDP per capita ($)</td>
<td>45</td>
<td>376</td>
<td>3.1%</td>
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</tbody>
</table>
Full Cost of the Civil War was Staggering

- Each year, 15% of male labor force away fighting

<table>
<thead>
<tr>
<th></th>
<th>Killed</th>
<th>Wounded</th>
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<tbody>
<tr>
<td>Union</td>
<td>360,000</td>
<td>356,000</td>
</tr>
<tr>
<td>Confederate</td>
<td>259,000</td>
<td>251,000</td>
</tr>
</tbody>
</table>

- For ea. 6 slaves freed & 10 southerners kept in the Union:
  - 1 person killed
  - 1 person wounded

- Total cost of war $6.6 billion
  - Equivalent to ≈$30 trillion in 2008
  - 2X GDP
Switch of Relative Economic Strength of North and South

- Output per capita (1879 prices)

<table>
<thead>
<tr>
<th></th>
<th>North</th>
<th>South</th>
</tr>
</thead>
<tbody>
<tr>
<td>1860</td>
<td>$74.8</td>
<td>$77.7</td>
</tr>
<tr>
<td>1870</td>
<td>81.5</td>
<td>47.6</td>
</tr>
<tr>
<td>1880</td>
<td>105.8</td>
<td>61.5</td>
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</tbody>
</table>

- Emancipation meant demise of the plantation system
- Loss of wealth estimated at $3 billion in 1860 ($15 trillion today)
- South never recovered
Southern Economy

- Emancipation ended plantation economy model
- Lost cotton market in England during war
- Plantation system replaced by...
  - Smaller-scale cotton farming
  - Greater dependence on cotton
  - Share-cropping
  - Low-wage economy, poverty

- Land reform passed in Congress, vetoed by President Andrew Johnson
  - 40 acre homestead to Black head-of-household

- Southern land ownership was unchanged
- 1910 Blacks began to migrate to northern cities
1865, Second Wave of Western Migration

- Still driven by agriculture
- Land under cultivation doubled, by 1890s
- Privatization of public land
  - Homestead act of 1862 (free, 160 acres)
  - Farmland still available: W. Iowa, Minnesota, Kansas, Nebraska, Dakotas
  - Then: Great Plains suitable for grazing only, 160 acres not enough
  - 1916, Homestead increased to 640 acres (1 sq. mi.)
- 1920, frontier closed
TERRITORIAL GROWTH

COLONIAL PERIOD: 1775

- Original Thirteen Colonies
- Other British territories

UNITED STATES: 1790–1920

- States
- State claims
- Special status areas
- Territories
- Unorganized territories
- Claimed areas
- Foreign areas

1803 Dates of territorial acquisitions
1805 Dates of initial territorial organization
(1809) Dates of latest change within given time period
1812 Dates of admission to the Union

Map scale 1:3,400,000
TERRITORIAL GROWTH

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1803 Dates of territorial acquisitions
1806 Dates of initial territorial organization
(1809) Dates of latest change within given time period
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Map scale 1:34,000,000

Republic of Hawaii annexed in 1898
## TR study, Public Land Disposal, 1789-1904

(millions of acres)

<table>
<thead>
<tr>
<th>Category</th>
<th>Acres</th>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>1,441</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sold for cash</td>
<td>278</td>
<td>1860</td>
<td></td>
</tr>
<tr>
<td>Granted to states/railroads</td>
<td>273</td>
<td>1870</td>
<td>0.2%</td>
</tr>
<tr>
<td>Free, Homestead Act (1862)</td>
<td>147</td>
<td>1880</td>
<td>31.4%</td>
</tr>
<tr>
<td>Reserved for Gov.</td>
<td>209</td>
<td>1890</td>
<td>16.2%</td>
</tr>
<tr>
<td>Unappropriated</td>
<td>474</td>
<td>1900</td>
<td>34.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1910</td>
<td>4.8%</td>
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Civil War Monetary Reforms

1. Fort Sumter, April 1861...
   - gold outflow, financial panic
   - Suspension of specie redemption, Dec. 1861

2. Revenue Act, 1862
   - Customs duties
   - first federal income tax (3% → 7½%), until 1872

3. Legal Tender Act, 1862
   - paper money not redeemable in gold or silver
   - “Greenbacks” ≈$430 million
   - Must be accepted for taxes, debts and other obligations
   - 1860-64, 1 gold $ = 2.5 greenbacks; inflation = 80-100%
Civil War Monetary Reforms

4. National Bank Act, 1863

- Charters for national commercial banks
- National Banks to buy US Treasury bonds
- ...and issued Greenbacks backed by them
- First uniform national currency
- 10% tax on notes issued by state-charted banks
- Most banks switch from state to national charters
- Office of the Comptroller of the Currency
Civil War Financing

- Federal government war cost...

  | Total cost | $3 billion |
  | Borrowing  | 1.95       |
  | Taxes      | 0.6        |
  | Greenbacks | 0.4        |

- Most financed by borrowing from the public
- Federal gov. debt was $2.8 billion at the end of the War (≈ 28% of GDP, $9.9 billion in 1865)
- Currency inflation financed only a fraction
Themes of Reunification Era, 1860-1920

- Industrial Revolution
- Revolution in Transportation (RR)
- Hard Times in Agriculture
- Gold Resumption, Deflation
- East v. West
US Federal Debt As Percent Of GDP

Government Spending in US from FY 1792 to FY 2010

percent GDP vs. Year

1800 1820 1840 1860 1880 1900 1920 1940 1960 1980 2000