

# **Economic History of the US**

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**Reunification Era, 1860-1920**

Lecture #1

**Peter Allen**

Econ 120



# ***Economy At Civil War***

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|                              | <b>1790</b> | <b>1860</b>   | <b>change, pa</b> | <b>%</b>    |
|------------------------------|-------------|---------------|-------------------|-------------|
| <b>Estimated GDP (\$ mm)</b> | <b>180</b>  | <b>11,800</b> |                   | <b>6.2%</b> |
| <b>(% manufacturing)</b>     | <b>1%</b>   | <b>17%</b>    |                   |             |
| <b>Population (million)</b>  | <b>4</b>    | <b>31.4</b>   |                   | <b>3.0%</b> |
| <b>GDP per capita (\$)</b>   | <b>45</b>   | <b>376</b>    |                   | <b>3.1%</b> |

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# Full Cost of the Civil War was Staggering

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

|             | <u>Killed</u> | <u>Wounded</u> |
|-------------|---------------|----------------|
| Union       | 360,000       | 356,000        |
| Confederate | 259,000       | 251,000        |

- ❑ 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
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# ***Switch of Relative Economic Strength of North and South***

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## **□ Output per capita (1879 prices)**

|      | <b><u>North</u></b> | <b><u>South</u></b> |
|------|---------------------|---------------------|
| 1860 | \$74.8              | \$77.7              |
| 1870 | 81.5                | 47.6                |
| 1880 | 105.8               | 61.5                |

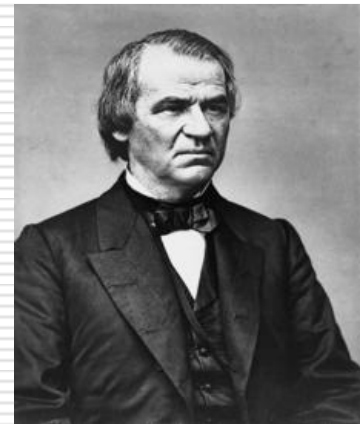
- Emancipation meant demise of the plantation system**
  - Loss of wealth estimated at \$3 billion in 1860 (\$15 trillion today)**
  - South never recovered**
-

# ***Southern Economy***

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- ❑ 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

← *no new model*



# *1865, Second Wave of Western Migration*

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- ❑ 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
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## TERRITORIAL GROWTH

### COLONIAL PERIOD: 1775

- Original Thirteen Colonies
- Other British territories

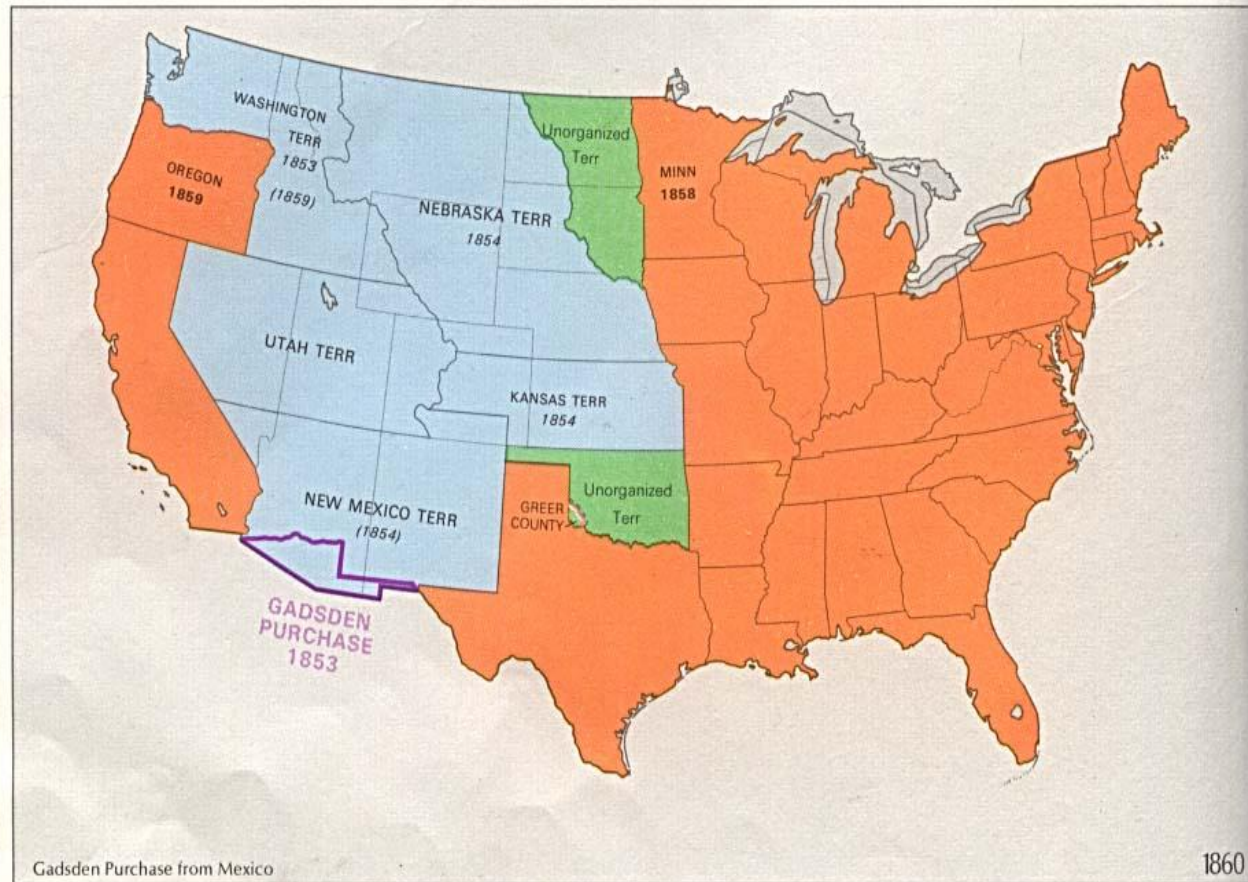
### UNITED STATES: 1790–1920

- 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 1:34,000,000

Compiled by H. George Stoll, Hammond Incorporated, 1967;  
rev. by U.S. Geological Survey, 1970





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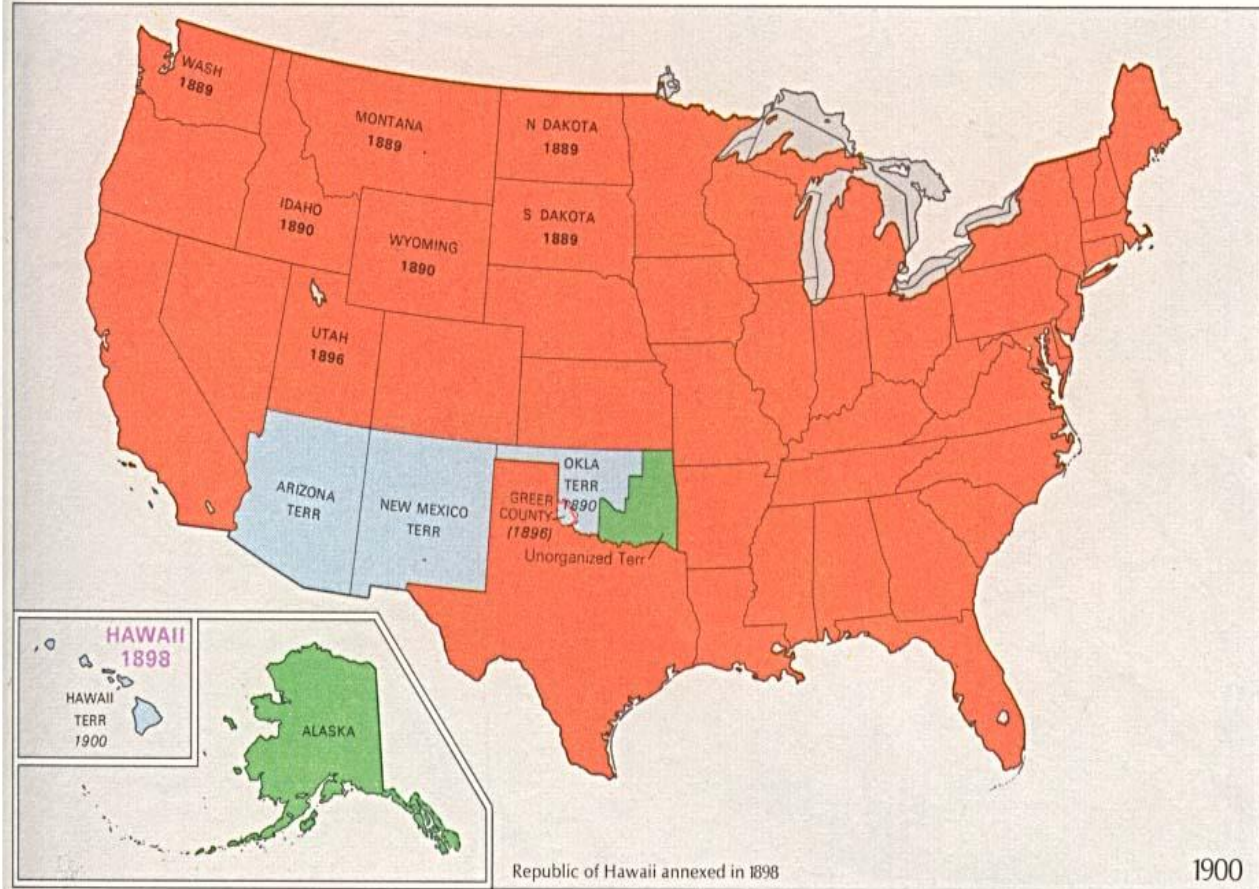
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1900

## ***TR study, Public Land Disposal, 1789-1904***

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(millions of acres)

| <b><u>Total</u></b>         | <b><u>1,441</u></b> | <b><u>Acres of Improved Farm land</u></b> |     |       |
|-----------------------------|---------------------|---|-----|-------|
| Sold for cash               | 278                 | 1860                                      | 407 |       |
| Granted to states/railroads | 273                 | 1870                                      | 408 | 0.2%  |
| Free, Homestead Act (1862)  | 147                 | 1880                                      | 536 | 31.4% |
| Reserved for Gov.           | 209                 | 1890                                      | 623 | 16.2% |
| Unappropriated              | 474                 | 1900                                      | 839 | 34.7% |
|                             |                     | 1910                                      | 879 | 4.8%  |

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# ***Civil War Monetary Reforms***

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## **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%
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# ***Civil War Monetary Reforms***

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## ***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-chartered banks
  - Most banks switch from state to national charters
  - Office of the Comptroller of the Currency
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# ***Civil War Financing***

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- ❑ Federal government war cost...

|                   |                           |
|-------------------|---------------------------|
| <b>Total cost</b> | <b><u>\$3 billion</u></b> |
|-------------------|---------------------------|

|                  |             |
|------------------|-------------|
| <b>Borrowing</b> | <b>1.95</b> |
|------------------|-------------|

|              |            |
|--------------|------------|
| <b>Taxes</b> | <b>0.6</b> |
|--------------|------------|

|                   |            |
|-------------------|------------|
| <b>Greenbacks</b> | <b>0.4</b> |
|-------------------|------------|

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

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

## Government Spending in US from FY 1792 to FY 2010

