The American Dream vs. the Gospel of Wealth: The Fight for a Productive Middle-Class Economy

Norton Garfinkle
The American Dream
vs.
The Gospel of Wealth
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The Fight for a Productive Middle-Class Economy

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Series editor: Norton Garfinkle.

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Preface

Americans today confront a choice between two fundamentally different economic visions for America. The historic vision of the American Dream is that continuing economic growth and political stability can be achieved by supporting income growth and economic security of middle-class families without restricting the ability of successful businessmen to gain wealth. The counterbelief, based on the Gospel of Wealth, is that providing maximum financial rewards to the most successful businessmen is the way to maintain high economic growth to benefit all Americans. Both visions claim to support the goals of maximum economic growth and maximum benefit for the society as a whole, but they present radically divergent programs to achieve these goals. One approach claims that the engine of economic growth can best be sustained by a progressive tax system that supports the purchasing power of middle-class Americans. The other claims that the engine of economic growth can best be sustained by a regressive tax system that increases the wealth of the highest income families to support business investment. This book draws on the historic record and a detailed analysis of economic data to demonstrate that the middle-class American Dream not only supports the
democratic ideals of our society but also provides the best path to maximum economic growth.

*The American Dream vs. The Gospel of Wealth* is a volume in the Yale University Press Series on the Future of American Democracy. Yale University Press has joined with the Yale Center for International and Area Studies and The Future of American Democracy Foundation to sponsor this series of books by some of America’s foremost thinkers. These books, together with articles, lectures, conferences, and television programs, are designed to stimulate historically informed analysis of contemporary public policy issues and to help Americans build a shared, sensible, and positive vision of the future of our democratic society.

The Future of American Democracy Foundation is a non-profit, nonpartisan foundation dedicated to research and education aimed at renewing and sustaining the vision of American democracy that has unified Americans throughout the nation’s history. The goal of the Foundation is to clarify the domestic and foreign policy choices facing the United States in the years ahead. A distinguished group of scholars and experts serves as the Foundation’s officers and as members of the Foundation’s Board of Advisors, including Jonathan Brent (Editorial Director of Yale University Press), John Donatich (Director, Yale University Press), Fredrica S. Friedman (President of Fredrica S. Friedman & Co., Inc.), Norton Garfinkle (Chair of the Foundation), William R. Griffith (Reed Smith LLP), Richard D. Heffner (Host, “The Open Mind”), Thomas E. Mann (The Brookings Institution), Norman Ornstein (American Enterprise Institute), Hugh Price (Former President of the National Urban League), Jeffrey Rosen (George Washington University), Ian Shapiro (Sterling Professor and Director of the Yale Center for International and Area Studies), Alan Wolfe (Boston College),
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As the new millennium dawned in 2000, the American economy presented an extraordinary portrait of success. For the previous four years, Gross Domestic Product (GDP) had grown at an average real rate of 4.2 percent, a figure well above the 3.2 percent average for the post–World War II era. Unemployment, at 4.2 percent, was well below the postwar average. Inflation was minimal. Yearly growth in business investment was at levels not seen since the 1960s. Indeed, to find a similar run of robust economic growth, low unemployment, low inflation, and high business investment, one would have to go back to the mid-1960s—and back then, inflation was showing signs of increasing. To top it off, by the end of 2000, the federal government had produced surpluses for three consecutive years—a minor miracle, not seen since the late 1940s. Moreover, federal surpluses in the multi-billions were projected as far as the eye could see. From 1993 through 2000, the U.S. economy created over 23 million new jobs, an average of more than 2.9 million a year. Americans were enjoying an unprecedented level of prosperity. Govern-
ment’s fiscal house was in order. The federal government was not only able to pay down trillions in accumulated debt; it had money left over to help cope with looming crises in Social Security and Medicare.

But all this was to end.

First came the inevitable. In March 2000, an inflated technology stock market crashed, setting the stage for the onset of a recession a year later. Then came the policymakers. President George W. Bush came to office in 2001 with a minority of the popular vote, a razor-thin electoral vote margin, and a radical plan to slash federal taxes. Tax cuts, the president and his advisors said, were the key to increasing investment. Tax cuts were the key to increasing jobs. Tax cuts were the key to getting the economy back on a pathway of growth. Between 2001 and 2003, the Bush administration pushed through major cuts in the income tax, the estate tax, corporate taxes, and taxes on dividends and capital gains. By 2004, the administration’s tax cuts had trimmed over $200 billion from the federal government’s annual revenues, with most of the money going to those in the top 12 percent of the income scale.²

Yet the results were not what the president and his advisors predicted. First to disappear were the projected federal surpluses. From a surplus of $256 billion in 2000, the federal budget went to a deficit of $413 billion in fiscal year 2004 and $319 billion in 2005. The number of new jobs created fell far short of economists’ estimates of the minimum of 150,000 per month needed to accommodate new entrants to the labor force. Indeed in the five years of the Bush administration from 2001 to 2005, the economy created only 31,000 new jobs per month compared to 240,000 per month during the eight years of President Bill Clinton’s administration. The promised business investment boom was slow to materialize. Business investment
growth during the first five years of the Bush administration averaged only 1.2 percent per year compared to 9.9 percent per year during the Clinton presidency. From the combined standpoint of employment, business investment, and real GDP growth, the Bush administration presided over one of the slowest recoveries of the post–World War II era. During these five years of the Bush administration the average annual GDP growth of 2.6 percent was considerably lower than the average annual growth of 3.7 percent during the eight Clinton years. Annual employment growth was anemic at 0.3 percent compared to 2.4 percent during the Clinton years. And even in 2005, three years into the recovery, GDP growth was only 3.5 percent and employment growth remained anemic at 1.5 percent.3

After five years of their ambitious tax-cutting program, in other words, the central claim of President Bush and his advisers—that tax cuts would create a fundamentally new economic environment that fostered historically high rates of investment, job creation, and growth—had not panned out. At the same time, having added nearly $2.3 trillion to the national debt in the brief span of five years, the administration was still confronted with an array of urgent spending requirements—billions for homeland security following the terrorist attacks of September 11, 2001, a protracted and costly military occupation of Iraq, substantial relief and reconstruction costs after Hurricanes Katrina and Rita, and burgeoning oil prices—all destined to take their continuing toll on both the federal budget and the U.S. economy.

The crowning irony was that the sustained boom of the 1990s had been ushered in by a major tax increase during the Clinton administration while the Bush tax cuts produced nothing of the kind.

What rationale could the Bush administration have had
for wreaking such havoc on the federal finances? Why insist on deep tax cuts, especially in the post–September 11 era, when security spending was bound to explode and costly disasters awaited right around the corner? How would major tax breaks for the highest-income earners work magic on an economy that had already been growing for several years at faster-than-historical rates—under a progressive tax structure that produced healthy federal surpluses? Why was the Bush administration content to throw away federal surpluses when huge unfunded liabilities for Social Security and Medicare loomed on the horizon, to say nothing of a dizzying array of immediate security, defense, and disaster needs?

The answer lay in the doctrine of supply-side economics, which thoroughly permeated the thinking of Bush and his economic advisers. Supply-side economics was the conservative answer to the demand-side economics that dominated U.S. policymaking from the end of World War II until 1980. To a large degree, economic debate in America for the past quarter century has centered on the conflict between these two economic visions. The health of both our economy and our democracy will be decisively affected by which of these two visions prevails in the future.

Drawing on historical analysis and data-based research, this book shows how Americans today confront a choice between two fundamentally different economic visions for American society, each of which claims to support maximum economic growth and a fair and equitable basis for American democratic society. One vision, based on the American Dream, supports a progressive tax structure that enables the government to implement programs to strengthen the income and economic security of the middle class and ordinary wage earners without restricting the ability of successful businessmen to
gain wealth. The second vision, based on the Gospel of Wealth, seeks to ensure that the few most economically successful citizens reap maximum rewards through an increasingly regressive tax structure.

The data analyzed in this book clearly indicate that regressive tax policies based on a Gospel of Wealth supply-side theory are not helpful to economic growth, while progressive tax policies based on demand-side theory can provide a continuing spur to economic growth consistent with the economic and political vision of the American Dream.

Two Theories, Three Questions

Every important economic policy has three kinds of consequences: factual, moral, and political. In effect, in evaluating economic policy, we have to ask three questions: (1) Does it work? (2) Is it fair? and (3) Will it sustain the democratic structure of our society?

Today our debate tends to focus almost exclusively on the first question, at the expense of the other two. It was not always so. A generation ago, most Americans would have instinctively understood the relevance of all three questions—factual, moral, and political. That is because public views of government economic policy were shaped by memories of the Great Depression. The Great Depression brought dramatic policy failure on all three levels. When the economy nosedived after the Great Stock Market Crash of 1929, the federal government literally did not know what to do. By and large, the federal government stood by almost helplessly as unemployment rose to catastrophic levels, eventually as high as 25 percent. Some of the steps the government took, including a tax increase in 1932, actually made conditions worse. Perhaps most gallingly, the
otherwise compassionate president Herbert Hoover adamantly opposed any federal spending for relief of the millions of unemployed. It is hard for Americans today to imagine unemployment at such levels, or what unemployment could be like in the absence of any federal unemployment insurance program. Millions of Americans were literally homeless and starving. Men rode the rails from town to town in vain search of employment. Hundreds of thousands of families, ejected from homes and apartments for which they could no longer pay mortgages or rent, lived in camps of tents and shanties that popped up in vacant lots of major cities—popularly called Hoovervilles. Most Americans became convinced of three things: that the government under Hoover did not know what it was doing, that the fate meted out to ordinary workers and their families was patently unfair, and that unemployment and spreading poverty threatened the very basis of American democracy.

After the economy recovered in World War II, Americans were still thinking within this framework. Demand-side economics, which became a kind of unofficial economic policy for the nation in the postwar years, reflected this understanding. It integrated technical economic insights developed by the British economist John Maynard Keynes with the moral and political imperatives that had grown out of the Great Depression. In a book written in 1936, Keynes showed policymakers a way out of the Depression. Keynes’s key innovation was to shift the focus of economists from production, or supply, as the engine of economic growth to the importance of consumption, or demand. The main lesson economists drew from Keynes was that government could restore growth to an economy suffering from high unemployment by engaging in deficit spending to expand “aggregate demand.” Expanded demand would get the economy moving again, provide customers for business, give investors a reason to invest, and bring down unemployment.
By the beginning of President Dwight Eisenhower’s administration in 1953, demand-side economics had become the basis for a bipartisan consensus. The post–World War II economy was understood to be “Everyman’s economy.” By broad social consensus, the purpose of the economy was to provide economic opportunities as well as a measure of economic security for ordinary workers and their families. Government was understood to have an active role—in fact, a responsibility—in this process.

The demand-side consensus constituted the basis of an economy that saw a remarkable growth of the American middle class. It was an economy in which ordinary workers in ordinary jobs could expect to better their conditions, own homes and automobiles, send their children to college, and retire in relative security. It was an economy in which the vast majority of citizens had a stake. It was an economy that promoted a strong faith in democracy.

Beginning in the mid-1960s, however, the demand-side consensus began to go awry. President Lyndon Johnson embarked simultaneously on massive federal spending to pay for a rash of Great Society antipoverty programs and equally massive spending to pay for the Vietnam War. The resulting huge expansion in the federal deficit (combined with the president’s pressure on the Federal Reserve to keep money “easy”) resulted in the emergence of high inflation. For roughly fifteen years, inflation remained a problem that would not go away. As inflation grew, the only alternative seemed to be restrictive policies that would create high unemployment—but preventing unemployment was the central goal of demand-side economics. By the 1970s, the economy began to experience “stagflation”—high inflation together with high unemployment. For middle-class Americans, stagflation represented the worst economic crisis since the Great Depression. Prices became unpredictable.
Raises in salaries and wages were eaten up by price increases. Savings eroded as the value of money declined. Mortgage interest rates went through the roof. Moreover, Americans experienced ever-higher taxes as inflation drove them into higher and higher income tax brackets, brackets originally intended for the very rich.

Supply-side economics arose in direct reaction to the inflation crisis. The architects of supply-side economics—most of them political commentators rather than trained economists—created, in effect, a mirror image of demand-side theory. The real engine of growth in an economy was not demand, said the supply-siders, but rather supply. The problem was that the government was pumping too much demand into the economy via its deficits, while its high taxes were inhibiting supply, by killing off economic “incentives” to produce. Taxes were too high to encourage investors to invest. Fewer products and services were being generated. Demand therefore had nowhere to go, which is why inflation was so high. Only the private sector could generate economic growth, and the private sector needed to be set free to do its job. Supply-siders saw tax cuts—and especially tax cuts for the highest-income taxpayers—as the key to generating new investment and production and, so they argued, eliminating inflation.

Supply-siders believed that demand-siders had put too much emphasis on the issue of fairness and in the process they had neglected job 1—which was to make the economy grow. One could engineer fairness, the supply-siders believed, only at the expense of economic growth. The government had been trying too hard to control the economy; now the government had to learn to obey the laws of economics. If the laws of economics brought lower wages or greater income inequality, so be it. The important thing was to ensure growth. That meant
getting government out of the way. Government should not be worrying about how economic goods were being distributed; it should not be worrying about ensuring an Everyman’s economy or building up the middle class. It should simply get its hands off business and the economy and let business and the economy generate growth. The most important way for government to get its hands off the economy was to lower taxes, especially on the highest earners, the most productive citizens who would invest their increased revenue in their own businesses. Many supply-siders claimed that such tax cuts would so powerfully unleash the forces of supply that the tax cuts would not even produce a deficit: they would pay for themselves.

The Republican candidate Ronald Reagan made supply-side tax cuts the center of his presidential campaign in 1980, and once in office President Reagan implemented the supply-side program full-bore, pushing through the largest tax cut in history, including a deep reduction in the top marginal income tax rate—eventually cutting the top rate down from 70 percent to 28 percent.4

By the end of the Reagan administration, however, few mainstream economists regarded the supply-side tax cut “experiment” as a success. In the first place, the tax cuts had obviously not “paid for themselves” (almost no mainstream economist expected they would). The Reagan administration’s taxing and spending policies produced the largest peacetime federal deficits in American history. Nor did the cuts in taxes for the highest-income earners bring the promised investment boom. In the seven years following the 1981 tax cut (1982–88), growth in new business investment averaged a weak 3.1 percent. Compare that to the 10.1 percent average growth in new business investment in the seven years following the Clinton administration’s 1993 tax increase (1994–2000).5 To be sure, the economy
showed healthy growth during the later Reagan years. But economists generally agree that the recovery was primarily a result of gaining control over inflation. This had nothing to do with tax cuts (indeed, the tax cuts aggravated the situation by contributing to large deficits). Rather, the recovery was mostly the result of a decisive shift toward a more disciplined monetary policy by the Federal Reserve.

It was one thing for supply-siders to claim to emphasize the factual dimension of economic issues at the expense of the moral and the political questions. That was simply a debating posture. It was another thing to actually have a factual basis for their claims (see chapter 8). Absent such factual support, it is interesting to ask why supply-side economics made such a powerful comeback under President George W. Bush.

Today we are at a crossroads. Not only has the supply-side program failed to deliver the promised higher levels of investment and faster-than-historical rates of economic growth. It has once again produced outsized deficits. It has intensified already burgeoning income inequality. And it has gone hand in hand with an economy that year after year has brought sluggish employment growth, stagnant wages, increasing job insecurity, and millions of citizens slipping below the poverty line. The federal government is in debt up to its ears, and so are many Americans, as ordinary citizens max out their credit cards and borrow against their home equity in a desperate effort to maintain a middle-class standard of living in an economy apparently no longer defined by a commitment to support such a living standard.

The word “economics” comes from a Greek term meaning “household management.” But economics in America has always been about more than managing the national household.
It has always been about more than dollars and cents. It has been about defining who we are, and what kind of a nation we seek to be. The promise of the American economy and the promise of America itself have always been closely bound up together. What kind of an economy do we seek, and what kind of a nation do we wish to be? Do we want to be the kind of country in which, as an old song from the 1920s went, “The rich get rich, and the poor get poorer”? Or do we want to be the kind of country we set out to be at the end of World War II, committed to an economy that provides for the common good, offers ready entry to the middle class, supports a middle-class standard of living, and provides generous opportunities for all? When the richest nation in the world has to borrow hundreds of billions to pay its bills, when its middle-class citizens sit on a mountain of debt to maintain their living standard, when the nation’s economy has difficulty producing secure jobs or enough jobs of any kind, something is amiss.

This book is an effort to illuminate the road ahead in economic policy by using the historical record to clarify not only the factual consequences of alternative policy choices but also the moral and political consequences of these choices. Only by understanding all three dimensions can we sustain our historic commitment to a productive economy, guided by principles of fairness, that helps sustain the middle-class basis of our political democracy.

Can we regain our political, moral, and economic compass? To recover it we need to go back to the beginning and ask what kind of nation and what kind of economy America was intended to be.
Chapter I  
The American Economic Vision

Is there an American economic vision? Is there some guiding principle of economics implicit in our Declaration of Independence, our Constitution, and our form of government? There is—though at first glance this principle might appear to have little to do with the modern debates over fiscal and monetary policy, the size of government, or the degree of government regulation of economic life. But underlying these modern debates is an economic vision familiar to virtually all Americans: the American Dream—the dream that all Americans will have the opportunity through hard work to build a comfortable middle-class life.

To a large degree, the history of American economic policy making is the story of the waxing and waning of this middle-class ideal. When Alexis de Tocqueville visited America in the 1830s, he was struck by the middle-class character of the country and the conspicuous absence of very rich people. In Tocqueville’s eyes, inured as he was to the sharp divisions between wealth and poverty in monarchical France, Americans seemed to be remarkably equal economically. Some were
richer, some were poorer, but within a comparatively narrow band. Moreover, individuals had opportunities to better their economic circumstances over the course of a lifetime, and just about everybody seemed to be busy pursuing these opportunities. People who started as servants could end up as farm owners or professionals or business owners. Tocqueville believed that this combination of relative economic equality and high social mobility in some sense held the key to the American system. It was this combination of factors that defined American democracy’s promise and simultaneously underwrote its stability.

President Abraham Lincoln came of age in the nineteenth-century America that Tocqueville described. Lincoln was perhaps the first American leader to fully grasp that this condition of economic opportunity was, in truth, the defining feature of America, its very essence and its justification for existing. He was the first to fully grasp the meaning of what was later called the American Dream.

The freedom guaranteed by the Declaration of Independence and the Constitution was of value, in Lincoln’s view, precisely because it enabled humble individuals to attain an independent, middle-class standard of living by the work of their own hands. America was the first nation on earth to offer this opportunity of economic advancement to all, even to the humblest beginner, and this was what made the nation unique and worth preserving. Ultimately, it was the largest reason for Lincoln’s willingness to fight the Civil War.

Significantly, Lincoln also believed that government had an active role to play in sustaining and underwriting this “system.” If the core meaning of freedom, if the very purpose of liberty, was to enable individuals to advance economically, to improve their condition, then government’s role under the Con-
stitution must be understood in light of this principle. Government’s role, in Lincoln’s words, was to “clear the path” for the individual’s economic advancement. In the political debates of his day, Lincoln was firmly on the side of what today we would call activist government. He favored large government expenditures for what were then called internal improvements—canals, bridges, and railroads. He believed in a strong national bank to stabilize the currency. As president, he presided over the vast federally underwritten expansion of the national railroad system and provided the first major federal funding for education with the creation of the land grant colleges. He believed, in the famous words of his Gettysburg address, that government should be not just “of the people” and “by the people,” but also “for the people.”

Yet in the era of industrialization following the Civil War, a challenge arose to this vision based on a very different view of the meaning of freedom. This new view had its roots not in a political understanding of the Declaration or the Constitution, but in the laissez-faire, or “free market,” thinking of British and other European economists. The new vision saw freedom not primarily as a universal promise of social mobility, but rather as an economic mechanism to produce national prosperity. Lincoln’s focus was always on the fate of the ordinary worker. The new vision shifted focus to the extraordinary entrepreneur, the business owner, the industrial magnate as the engine of the new industrial prosperity. Lincoln thought government could and should enhance Americans’ economic freedom by clearing the path for ordinary Americans to get ahead. The new view saw any government intervention in the economy as a severe violation of freedom and argued that government should stand aside and let business do its job. Lincoln stressed the universality of the American promise—prosperity and bet-
Pain, he repeatedly said, were to be for all. The new vision, by contrast, saw society as divided sharply between winners and losers and had little pity for the latter. Indeed, according to this new view, the very fierceness and ruthlessness of economic competition, its unbridled character, was what made prosperity grow. Under the influence of the doctrines of laissez-faire economics and Social Darwinism, the proponents of the new vision claimed that economic life—for that matter American national life—should encourage the survival of the fittest. The government should stand aside and let the laws of evolution determine who wins and who loses. Toward the end of the nineteenth century, the industrial magnate Andrew Carnegie coined a phrase that captured the essence of the new vision: “the Gospel of Wealth.” This new vision contemplated a society led by successful businessmen who were responsible for building a growing economy. Justice would be defined by the principle that those who contributed most to the economy deserved to be rewarded most and, in Carnegie’s view, could be relied upon to use their wealth for the good of society.

In a certain sense, the two visions were easy to confuse. Both celebrated the value of economic freedom. Both sought prosperity. Both contained a rags to riches theme. But the values they represented were fundamentally at odds. Lincoln’s American Dream emphasized prosperity and advancement for the ordinary worker. The Gospel of Wealth promoted worship of the exceptional individual, the millionaire, the industrial magnate, as prosperity’s engine. The ideal behind the American Dream was universality and equality of opportunity. The ideal behind the Gospel of Wealth was exceptional rewards for exceptional achievement. The American Dream aspired to a middle-class society. The Gospel of Wealth was content with a society sharply divided between the rich and the poor. The

The Gospel of Wealth reigned supreme in both the Democratic and Republican administrations of the late nineteenth century. It resurfaced in the 1920s as the dominant ideology of the Republican Party and was embraced with fervor by Presidents Warren Harding, Calvin Coolidge, and Herbert Hoover. Yet again and again Americans found the consequences of the Gospel of Wealth unsustainable. Again and again, Americans insisted on a restoration of the American Dream. The major political and economic reforms instituted under the administrations of Theodore Roosevelt, Woodrow Wilson, and Franklin Roosevelt—reforms that to a large degree built the legal framework of the modern American economic system—can be seen as efforts to revive the American Dream. All three presidents returned to ideals first articulated by Lincoln—Wilson perhaps most deliberately and self-consciously, in his references to Lincoln in campaign speeches during the election of 1912.

In his State of the Union address in 1944, President Franklin D. Roosevelt codified the essence of the Lincolnian vision for the modern economy. He proposed “a second Bill of Rights under which a new basis of security and prosperity can be established for all regardless of station, race or creed.” He included the following among these rights:

The right to a useful and remunerative job in the industries or shops or farms or mines of the nation.
The right to earn enough to provide adequate food and clothing and recreation.
The right of every family to a decent home.
The right to adequate protection from the economic fears of old age, sickness, accident, and unemployment.
That Roosevelt’s words are likely to have an odd, almost alien ring to many Americans today is a measure of how far we have come from the consensus that generally sustained American economic policy making in the decades following World War II. Today we are much less likely to speak of economic policy in such moral and political terms and much more likely to debate economic issues on technical-factual grounds that presume that the single important objective of economic policy is the growth of the economy.

It is also a sign that we live in a time when the Gospel of Wealth is again in political ascendancy.

George W. Bush echoes the rhetoric of the American Dream. But the Gospel of Wealth is clearly the basis of his policies. Nearly all the historical Gospel of Wealth themes are there: a laissez-faire economic philosophy, strong opposition to government intervention in the economy, a hatred of taxation, a desire to shrink government and strip it of resources, a celebration of the successful entrepreneur and investor as the source of prosperity and wealth—a sense that people get what they deserve out of the economy and that government has no business stepping in to even the odds. Moreover there is in the Bush program a clear rejection of Lincoln’s belief that government’s role is to take affirmative steps to encourage equality of opportunity.

**Taxing and Spending**

A major battleground of economic policy today concerns government’s decisions on taxing and spending. We have made very little progress in understanding the differential economic impact of alternative tax policies—largely because political considerations tend to overwhelm factual analysis when it comes to debate about government’s decisions to tax and spend.
Many politicians and economists today act as if the only relevant question is the factual one: Does the proposed policy work to increase the nation’s Gross Domestic Product (GDP)? They prefer to transform economics into a purely “scientific” discipline based on mathematical analysis. They want to adopt a “value-free” perspective on the discipline of economics, where empirical questions about the impact of alternative policies on economic growth are accepted, but moral judgments about fairness and political judgments about the impact of economic policies on American democracy are excluded as “unscientific.” But, in the real world of democratic politics, arguments about moral and political consequences of economic policy are unavoidable.

Americans lack clear factual answers to many of the key economic questions at issue in today’s policy debate. Economic policy debates are marked by numerous unsupported assertions—which unfortunately the American public has not been in a position to evaluate on a factual basis. To take just one example: during 2001–03, President Bush and his supply-side supporters, both inside and outside his administration, presented a technical-factual argument that tax cuts—in particular, cuts in the top marginal income tax rate—would pay for themselves by increasing government tax revenues from higher economic growth. But during the previous decade we had seen one of the longest sustained periods of economic growth and one of the biggest investment booms in American history, following President Clinton’s increase in the top marginal income tax rate. Do cuts in the top marginal income tax rate increase economic growth, or don’t they? Do they increase investment, or don’t they? These are factual questions that should have factual answers (I’ll examine the empirical evidence on these issues in chapter 8).
But factual consequences were not the only ones. President Bush’s reduction of the top marginal income tax rate meant (1) a major loss of revenue for the federal treasury and (2) a sizeable tax windfall for the highest-income earners, including the multibillionaire Warren Buffetts and Bill Gateses of the world. One could argue that such a tax windfall for the highest-income citizens and their heirs was unnecessary and in some respects unfair—since such tax cuts would create deficits and could eventually lead to cuts in the necessary functions of the government. Such functions include national defense, homeland security, dealing with the consequences of natural disasters, and supporting antipoverty and pro-middle-class programs such as unemployment insurance and Social Security. Indeed, President Bush proposed such cuts in government programs at the beginning of his second term. Interestingly, Buffett, one of the country’s richest men, wrote an op-ed piece for the Washington Post in 2003 opposing proposed cuts in taxes on dividends, arguing that he would actually end up paying a smaller percentage of his income in taxes than his office receptionist. But President Bush and his economic advisers argued that tax cuts for the highest-income taxpayers, and especially cuts in the top marginal rate, were advantageous, indeed necessary, because they would increase investment, employment, and economic growth.

The president has made this argument on many occasions. To cite but one instance: “We also drop the top rate, of course, from 39.6 percent to 33 percent. If you pay taxes, you ought to get relief. Everybody who—but everybody benefits, I’m convinced, when the top rate drops because of the effect it will have on the entrepreneurial class in America. . . . And you all can help by explaining clearly to people that reducing the top rate will help with job creation and capital formation; and
as importantly, will help highlight the American Dream” (emphasis added).^5

The president’s statement included two kinds of claims. First, cuts in the top marginal rate would increase investment (capital formation) and employment (job creation). That is a factual claim: that cuts in the top marginal income tax rate alter economic behavior in such a way as to cause more investment and employment (and, as a result, more economic growth). This is a claim that is either true or false; one should be able to verify it, based on data showing how the economy has performed under different tax structures. (I shall return to this question in chapter 8.) Second, the president said, “everybody benefits” because of these expected effects. This is a moral claim. Tax cuts for top-income taxpayers, the president argued, are in the interests of everybody. They serve the common good. They might not look fair at first glance, but they are fair because eventually the benefits accrue to society as a whole.

The point is that the president did not have to make this particular moral claim. He might have said alternatively that rich people ought to be able to keep the money they make, simply because they’ve earned it. But instead he appealed to the common good. Why? Because the president is a politician and America is a democracy. Politicians must persuade the majority that economic policies are in their interest. And in a democracy, as in any society, the rich are not the majority.

That is why issues of economic policy and issues of democratic politics are inextricably interlinked. Economic policy can go wrong in several ways. Economic policy can fail on technical grounds, simply because policymakers do not understand the impact of their policies on the workings of the economy. We have witnessed this kind of failure on a major scale twice in the past hundred years. The first episode was the Great De-
pression of the 1930s, and the second was the stagflation of the late 1970s, when the United States suffered from high inflation combined with high unemployment. In both cases, U.S. political leaders pursued policies that aggravated, rather than alleviated, severe economic problems. Economic policy can also fail on moral grounds, by undermining the sense of fairness on which our society depends. Such failures can lead to political instability by undermining the middle-class belief in the legitimacy of government that underpins our political democracy.

To understand all these aspects of economic policy, we must remember an ancient truth: every democracy, indeed every state, runs the risk of experiencing conflict between the few and the many. This insight originated with Aristotle. It speaks to the very nature of politics, especially democratic politics. Overcoming the potential conflict between the few and the many, the rich and the rest, has been one of the great achievements of modern American democracy—and the key to its continued stability. The basis for the solution lies in the modern industrial economy, which—unlike the agrarian economies of old—can produce continuing economic growth. Economic growth supported by modern technology means an ever-expanding pie. The fact that the pie is expanding means that individuals can obtain a larger piece without necessarily taking it from someone else.

Historically, the major result (and to some degree also the cause) of a growing economy has been the emergence of a strong middle class. Nearly twenty-five hundred years ago, long before the advent of modern industrialism, Aristotle observed that the most politically stable polities were democracies with a large middle class. The middle class acted as a buffer between the rich, who sought to control society through their superior economic and political resources, and the many,
who sought through their superior numbers to seize power from and dispossess the rich. Polities with a strong middle class were polities in which the majority had a strong stake in the continued stability of society, because such a society provided decent opportunities and a decent living for most citizens. The great consequence of the advent of modern economic life in the sixteenth and seventeenth centuries was the emergence of the middle class. America was not only the world’s first democracy; it was also the first modern state to be governed, not by an aristocracy, but by a prosperous middle class.

Criteria of Judgment

The American Dream and the Gospel of Wealth propose very different specific economic policies to address the modern needs of our nation. But the specific proposals can be judged by economic, political, and moral criteria that are clear and straightforward. The economic dimension can be evaluated with the question, Does the policy increase the growth of the economy? The political dimension can be addressed with the question, Does the policy strengthen or undermine the middle class, which sustains the continued stability of our political democracy? The moral dimension of any economic policy can be addressed with the question, Is it fair to all Americans? Does it lead to an increase in inequality between the rich and the rest? or does it provide support for all members of our society?

Economic policies inevitably have large effects on the day-to-day lives of average citizens: they shape the way the costs and benefits of economic life are distributed. To put the point more directly: economic policies can create winners and losers. Contemporary arguments over tax policy start with arguments about how much revenue the government needs. But
they quickly turn into arguments over how much different taxpayers should pay.

Take the income tax. Some argue for a flat tax: middle-class Americans should pay the same rate of income tax as the highest-income Americans. Others argue for a consumption tax under which middle- and lower-income families would pay taxes on a higher percentage of their income than high-income families.

For as long as the income tax has been in existence, America has preferred a progressive tax structure, by which higher-income citizens pay not only more taxes, but also a larger percentage of their income. Why? The short answer is that over time, a flat tax will create a society in which the rich get much richer than everybody else. The effect will be to create an economically polarized society. Progressive taxation is one way of softening the divide between the rich and the rest by supporting equality of opportunity for all citizens, thereby ensuring the continued strength of the middle class as democracy’s center of gravity.

Average Americans are pragmatists on economic issues. The first and sometimes the only question many citizens ask about economic policy is the practical one: does it work? Economic ideology obviously plays some role in the divisions between our two major political parties. But a majority of American citizens are lost when Republican and Democratic candidates argue about the details of economic policy. They are likely to sweep either a Democratic or a Republican president from office if the results of the president’s economic policies are perceived to be a practical failure. The Republican Ronald Reagan defeated the Democratic incumbent Jimmy Carter in 1980 by asking a simple question, “Are you better off now than you were four years ago?” The Democrat Bill Clinton similarly un-
seated the Republican president George H. W. Bush in 1992 when his campaign focused on the theme, “It’s the economy, stupid!”

This pragmatism tends to go hand in hand with a “black box” attitude to economic policy. That is, most Americans are uninterested in the detailed issues and theories that swirl around the economic policy debate. Most do not focus on how economic policy works. They want to know that it works. They have little interest in looking inside the black box to see what makes it tick. As long as the black box yields good results, they are satisfied. Only if they see economic failure—as reflected in a downturn of their economic fortunes and those of their neighbors—are they inclined to ask deeper policy questions.

That is why, at the end of the day, opinion polling on specific economic issues such as taxes, spending, deficits, Social Security, Medicaid, and other federal programs cumulatively yield an ambiguous picture. Using different selective sets of polling numbers, one could easily make the case that, on economic issues, the American people are dominantly conservative or liberal, right-leaning or left-leaning. In reality, many Americans have ambivalent positions on the theoretical side of these questions. The situation is reminiscent of the story told about the congressional candidate in Texas who went to a small town and gave an earnest speech about the problems of ignorance and apathy. Afterward, he went to the town tavern and asked one of the men sitting at the bar what he thought of the speech. The man turned to him and said, “I don’t know, and I don’t care.”

In one way, this general lack of interest in the details of economic policy can be a plus: it saves us from the paralysis of severe political polarization along class lines. The politics of
economic class has generally played a lesser role in the United States than in the nations of Western Europe—and all to the good. In another way, though, Americans’ lack of interest in the specifics of economic policy creates problems. It prevents citizens from connecting the dots in ways that would help them protect their interests. For example, few voters entering the polls in November 2004 understood that President Bush’s 2001–03 tax cuts, by wiping out federal surpluses and creating large federal deficits, had in effect made the coming Social Security crisis less manageable. President Bush took up the Social Security issue only after the election in January 2005. At that time, he argued that there was an urgent Social Security financial crisis on the horizon that must be dealt with. Whatever Social Security crisis there was, Bush’s first-term tax cuts had made it very much worse: they had eliminated federal funds that could have been used to meet Social Security’s obligations relatively painlessly for years to come. What few middle-class voters understood was that the few hundred dollars they saved in income taxes in those years would likely be taken back from them or their children later—in the form of increased Social Security taxes, reduced Social Security benefits, or a reduction in the financial capability of the federal government to pay for other essentials such as unemployment insurance, national defense, homeland security, or relief following natural disasters such as Hurricanes Katrina and Rita.

The lack of information about the specific consequences of individual economic policies opens the door to widespread demagoguery on these issues. Economic policy debate in the United States can be likened to a big snake oil yard sale, where what are offered are half-truths, myths, and canards. A major task we confront as citizens is to cut through the economic myth-
making and get at the truth. There is no greater antidote to myth than history. To understand where we are headed economically, it is vital to understand where we have been. The first American statesman to fully comprehend the meaning of the American economic vision was Abraham Lincoln.
Chapter II
Lincoln’s Economics: The Origins of the American Dream

This middle-class country had got
a middle-class president, at last.
—Eulogy to Abraham Lincoln by Ralph Waldo Emerson

Abraham Lincoln was not only a moral leader; he was also a political philosopher and an economic realist. We so fully understood Abraham Lincoln’s contribution to our nation’s moral beliefs that we have neglected his role in shaping our uniquely American economic vision. Because the moral issues surrounding the slavery question are so clear to us today, there is a tendency to understand the origins of the American Civil War solely in this familiar moral context. In actuality, the Civil War was fought not just about slavery, but about what kind of economy the nation
would have. It was a moral clash, and it was also a clash between two economic systems.

Lincoln’s genius lay in his ability to discern the relationship between the workaday, economic realities of American life and the nation’s highest moral and political principles. In Lincoln’s mind, the opportunity “to improve one’s condition” was an essential feature of the Declaration of Independence’s claim that human beings have unalienable rights to “life, liberty, and the pursuit of happiness.” To Lincoln, the economic, moral, and political elements were inextricably intertwined. Together, they represented what is distinctively American about our economy and democracy. “I have never had a feeling politically,” Lincoln said, “that did not spring from the sentiments embodied in the Declaration of Independence.” The reason that “government of the people, by the people, and for the people” was worth preserving—and even worth fighting a war to preserve—was precisely that it offered this opportunity to each American “to improve one’s condition.”

More than any other president, Lincoln is the father of the American Dream that all Americans should have the opportunity through hard work to build a comfortable middle-class life. For Lincoln, liberty meant above all the right of individuals to the fruits of their own labor, seen as a path to prosperity. “To [secure] to each labourer the whole product of his labour, or as nearly as possible,” he wrote, “is a most worthy object of any good government.” The real evil of the southern slave system was the denial of this economic right. Indeed, Lincoln insisted that African Americans were entitled to the same economic rights as all other Americans, even putting these ahead of such political rights as full citizenship or voting rights.
The purpose of the United States was to “clear the path” for the individual to labor and get ahead. Lincoln understood that this purpose was challenged by the slave-based, aristocratic economic system of the southern states. It was this challenge that created a house divided: virtually two separate nations based on very different economic structures. He saw “saving the Union” not simply as a political effort but as a moral imperative to secure for the America of the future the middle-class economy of the northern states.

For Lincoln, American liberty was intimately connected with economic opportunity. It was economic opportunity that gave liberty meaning. The universal promise of opportunity was for Lincoln the philosophical core of America; it was the essence of the American system. “Without the Constitution and the Union,” he wrote, “we could not have attained . . . our great prosperity.” But the Constitution and the Union were not the “primary cause” of America, Lincoln believed. “There is something,” he continued, “back of these, entwining itself more closely about the human heart. That something, is the principle of ‘Liberty to all’—the principle that clears the path for all—gives hope to all—and, by consequence, enterprise, and industry to all.” “The prudent, penniless beginner in the world,” Lincoln wrote, “labors for wages awhile, saves a surplus with which to buy tools or land for himself, then labors on his own account another while, and at length hires another new beginner to help him. This is the just and generous and prosperous system which opens the way to all, gives hope to all, and consequent energy and progress and improvement of condition to all.” This was, for Lincoln, the American Dream, the raison d’être of America, and the unique contribution of America to world history.
President Abraham Lincoln was the first American leader to fully grasp that this condition of economic opportunity was, in truth, the defining feature of America, its very essence and its justification for existing. He was the first to fully grasp the meaning of what was later called the American Dream.

The freedom guaranteed by the Declaration of Independence and the Constitution was of value, in Lincoln’s view, precisely because it enabled humble individuals to attain an independent, middle-class standard of living by the work of their own hands. America was the first nation on earth to offer this opportunity of economic advancement to all, even to the humblest beginner, and this was what made the nation unique and worth preserving. Ultimately, it was the largest reason for Lincoln’s willingness to fight the Civil War.

As he noted in a message to Congress in March 1861, at the outset of the Civil War, “On the side of the Union is a struggle for maintaining in the world that form and substance of government whose leading object is to elevate the condition of men to lift artificial weights from all shoulders; to clear the paths of laudable pursuit for all; to afford all an unfettered start, and a fair chance in the race of life” (emphasis added).3 Or as he said while campaigning for president in 1860, “I want every man to have the chance—and I believe a black man is entitled to it—in which he can better his condition—when he may look forward and hope to be a hired laborer this year and the next, work for himself afterward, and finally to hire men to work for him! That is the true system.”4

Throughout his political life, Lincoln supported policies that would sustain and expand this “system.” He was on one side of major partisan political struggles over tariffs, “internal improvements,” a national bank, and ultimately the issue of
the expansion of slavery in the territories. These struggles culminated in an all-out confrontation between North and South over two alternative ways of life. But whether the issue was tariffs, internal improvements, a sound currency, or the expansion of a southern economy based on slavery, Lincoln’s fealty was always to the system. In the final analysis, Lincoln did not fight the Civil War to end slavery, though that was the war’s great result. Lincoln fought the Civil War to vindicate and preserve the American Dream.

The Origin of the Dream

A well-known encyclopedia of words and phrases incorrectly attributes the phrase “American Dream” to the nineteenth-century French writer Alexis de Tocqueville. In reality, the phrase was first popularized a century later by the historian James Truslow Adams, in a best-selling book, *The Epic of America* (1932). But the encyclopedia error is fruitful, for Tocqueville’s book *Democracy in America*, based on his travels in the United States in the early 1830s, provides us with the first real glimpse of what the American Dream was about. Tocqueville described the very world in which Lincoln labored, advanced, and succeeded. The Frenchman’s American journey concluded in 1832, the very year in which Lincoln entered politics as a candidate for the Illinois State Assembly. Viewing this early American economy through Tocqueville’s eyes is a way to understand the unique opportunity Lincoln saw.

“Amongst the novel objects that attracted my attention during my stay in the United States,” Tocqueville began his account, “nothing struck me more forcibly than the general equality of conditions.” Tocqueville witnessed a land alive with in-
dividual enterprise, a land in which virtually all citizens, some a bit poorer, some a bit richer, but very few “very rich” by European standards, strove tirelessly to better their condition and in the process transformed the American landscape. Of course, the country was tailor-made for those seeking to improve their fortunes, with its virtually limitless land, a wealth of natural resources, and a geographical location that guaranteed the security necessary for the flourishing of commerce by providing the barrier of an ocean against Europe’s conflicts and wars.

Tocqueville was struck by the level of social mobility. Not only were the differences in wealth between rich and poor much narrower than in Europe, but also most of the wealthy persons he met had made rather than inherited their fortunes. Even the poor expected to be wealthy some day. “I never met in America,” he noted, “with any citizen so poor as not to cast a glance of hope and envy on the enjoyments of the rich, or whose imagination did not possess itself by anticipation of those good things which fate still obstinately withheld from him.”

The fact that most Americans were neither rich nor poor—the middle-class nature of the nation—lent American society enormous stability, in Tocqueville’s view. In combination with the opportunities for social mobility, the nation’s middle-class nature was a barrier to social upheaval and revolution: “Between these two extremes of [wealth and poverty in] democratic communities stand an innumerable multitude of men almost alike, who, without being exactly either rich or poor, are possessed of sufficient property to desire the maintenance of order, yet not enough to excite envy. Such men are the natural enemies of violent commotions; their lack of agitation
keeps all beneath them and above them still, and secures the balance of the fabric of society.”12

A Nation in Search of Its Soul

America, seen through Tocqueville’s eyes, was clearly something new and different. But for much of the first “fourscore and seven years” of its existence, America was still a nation in search of an identity. Some of the most fundamental questions concerning what America was about remained unanswered and indeed were only beginning to be asked.

Perhaps the most fundamental question of all was the meaning of the Union itself. Only with great difficulty had the Framers of the Constitution yoked the thirteen separate former colonies into a United States. Today time and long usage have led us to think of our fifty states as something akin to provinces, administrative and geographic units of a larger, unified nation. Only perhaps at our quadrennial political conventions, when the “great state of Ohio” or the “great state of Illinois” casts its votes for presidential nominees, are we reminded of the once independent character of these entities. When Americans before Lincoln’s era heard the word “state,” they heard a strong echo of the word as it is used today in the field of international relations—the way in which we say that France, Germany, and the United Kingdom are states. “United States” was not yet a singular, but a plural noun. Politicians routinely spoke of “these United States,” meaning independent, sovereign states unified under an agreed-on federal government. But whether this federal government was a strong federation or a loose confederacy remained in dispute. Many important politicians found themselves on different sides of that question,
depending on the issue at stake. Even such figures as the Ken-tuckian Henry Clay, perhaps the nation’s leading proponent of a stronger and more active federal government during Lin-coln’s first decades in politics, still had a strong sense of states’ rights.

In one sense the political issues that dominated Lincoln’s age were quite different from those of our era. In another sense, they were somewhat the same. Many of the debates of the 1830s and 1840s were about whether there should be more or less government—meaning the federal government. Perhaps surprisingly, Lincoln—despite or rather because of his ardent belief in individual economic opportunity—was firmly on the side of those who favored more.

“My politics are short and sweet, like the old woman’s dance,” Lincoln told audiences when he ran for a seat in the Illinois State Assembly in 1832. “I am in favor of a national bank. I am in favor of the internal improvement system and a high protective tariff.” Lincoln’s quip summarized the three key issues that divided the nation, and the political parties, in the decades leading up to the Civil War, before the issue of slavery overwhelmed them all: the national bank, tariffs, and government expenditures for internal improvements.

Lincoln entered politics as a Whig, in particular as a fol-lowee of Henry Clay. Clay, senator, congressman, secretary of state, Speaker of the House, was a national politician who ran unsuccessfully for president five times. He was the nation’s leading proponent of a strong Union and a strengthened federal government. By the mid-1820s, he had devised a political program under the nicely saleable label of the American System (when Lincoln, as he often did, used the word “system” in politics, he was consciously echoing Clay). Clay’s American System program had three components: a national bank, to pro-
vide the nation with a sound currency and stable financial system; high tariffs, to encourage the growth of domestic manufacturing; and federal spending, financed by tariffs, to create roads, bridges, canals, and other transportation infrastructure to aid in the development of the domestic economy. Lincoln’s “old woman’s dance” was an echo of Clay’s program.

A Bottom-Up Vision

Clay and his Whig party were the political heirs of Alexander Hamilton and the Federalists. Clay, like Hamilton, was primarily nationalistic in his motivation. He was concerned about the relative strength of the United States as a world power. In 1812, he had been a leader of the War Hawks, who agitated for war with Great Britain. When that ill-advised conflict resulted disastrously in the British sack of the nation’s capital and the burning of the White House, Clay became even more convinced of the need for a strengthened central government, with renewed military power, an infrastructure of good roads (for both economic and military purposes), and a large, independent manufacturing sector that would insulate the nation from dependence on Britain for manufactured goods. Clay also saw his American System as something that would aid the common people—by promoting economic development. He always claimed to have a concern for ordinary citizens. And he certainly believed in America as a land of opportunity and saw his American System as a way to expand opportunities. Clay was responsible for putting the term “self-made man” into political circulation. But in truth, his concern with the welfare of workers was generally secondary to his nationalistic ambitions for the United States, his vision of America as an emerging world power.
Lincoln’s vision came from his personal experiences. His perspective was that of a man starting humbly who had worked his way up the social and economic ladder by sheer discipline, persistence, and force of will; it was a perspective he never lost. It shaped his core values. “I hold the value of life is to improve one’s condition,” he told an audience in Cincinnati in 1861. “Whatever is calculated to advance the condition of the honest, struggling laboring man, I am for that thing.” Or as he sympathetically told a delegation of striking workers who visited the White House in 1863, “I know the trials and woes of workingmen. I have always felt for them.”

When Lincoln embraced Clay’s economic system, he did so not out of a sense of nationalism but because in very practical terms, he thought Clay’s program would aid ordinary working people, people like himself, those striving to become, and remain, middle class. As an inhabitant of a still-undeveloped frontier state, an Illinois bereft of decent roads and dependably navigable rivers—to say nothing of canals and railroads—he saw a need for government to act, to provide the infrastructure that would allow the expansion of internal commerce, to guarantee a sound currency to enable economic transactions, and to protect homegrown manufacturing from the threat of (mostly British) manufactured goods from abroad. The government’s job was to “clear the path” for its citizens to get ahead. The whole nation had witnessed the vast benefits that accrued to the citizens of New York from the construction of the Erie Canal. Lincoln wanted something of the same for his own citizens of Illinois. While Clay sought, with limited success, to promote internal improvements at the federal level, Lincoln pursued a similar program at the level of state government.

At bottom, there was a philosophical logic to Lincoln’s
Whigism. The founding principle of the nation was liberty. The purpose of liberty was to enable individuals to improve their condition. The role of government therefore was to serve that central purpose by, as Lincoln liked to put it, “clearing the path” for men to achieve economic success. “Clearing the path” for Lincoln meant more than government getting out of the way. Clearing the path was a frontier metaphor, suggestive of the hard work of clearing forest for a farm or a road, pulling stumps and rocks out of the ground with teams of oxen. “The legitimate object of government,” he wrote in a note around 1854, “is ‘to do for the people what needs to be done, but which they can not, by individual effort, do at all, or do so well, for themselves.” Like political philosophers from the time of Thomas Hobbes and John Locke, Lincoln saw the first purpose of government as providing for physical security and the common defense. But he also believed that government should take positive action to promote the common good: “There are many such things—some of them exist independently of the injustice of the world. Making and maintaining roads, bridges, and the like; providing for the helpless young and afflicted; common schools; and disposing of deceased men’s property are instances.” He saw “charities, pauperism, orphanage” as government responsibilities. Not that Lincoln believed government’s role should be intrusive; he thought it should be limited. But by the standards of his time, when the federal government was minimal and even state governments often had few resources at their disposal, he was in favor of activist government—on the grounds that the whole purpose of the United States was to serve the individual’s economic opportunity and that government should play its proper role in assisting this effort. His major undertaking when he entered the Illinois State Assembly was to
push through an ambitious package of internal improvements, partially state-financed roads, bridges, canals, and railroads.

The Jacksonians

If the drive for economic advancement and material progress represented one great thrust of our early national life, then the other great thrust was toward increasing political democracy. In the years leading up to Lincoln’s entry into politics, most states had expanded their suffrage to include not just property owners but all free white males. The expansion of voting rights in the decades since the Founding had given a new, more rau-
cous, more populist cast to national politics. No one better epitomized this new populism than President Andrew Jack-
son. On the occasion of his inauguration in 1829, he famously opened the doors of the White House to one and all. Farmers stood on the fine chairs in their muddy boots. Damage to the presidential residence by the end of the affair was in the thou-
sands of dollars. But the point had been made. The people were now in charge.

Jackson, “Old Hickory,” the wrathful general, the hero of New Orleans and many other battles, was also Clay’s archrival and nemesis. Like Clay he was for Union and Liberty, but he understood them in very different terms.

As Clay’s politics looked back to Hamilton, so Jackson’s looked back to Jefferson. Clay’s—and Lincoln’s—mind was on manufacturing (Lincoln despised farming, partly because of memories of his own miserable experiences working his fa-
ther’s land, partly from his conclusion that farming offered no quick path to economic success). Jackson was a North Carolina plantation owner. His mentality was agrarian, at a time when the vast majority of Americans, landowners and labor-
ers alike, were still engaged in agriculture. Where Clay and Lincoln saw an active federal government as a tool to expand opportunity, Jackson, like Jefferson before him, strove to preserve the Union but saw a strong central government as a potential threat to liberty.

Many historians have seen in Jackson a kind of founding father of the modern Democratic Party. But on economic policy the positions of Jackson’s Democratic Party bore a closer resemblance to those of today’s Republicans than to those of today’s Democrats. The Jacksonian Democratic Party was, in present-day terms, anti–big government, viewing with deep suspicion economic development, urbanization, and virtually all the other developments the Whigs saw as progress. Jackson’s economic policy approach was of a piece with his skepticism about what we would call today the public sector.

Two Economic Systems

Jackson’s attack on the activist American System proposed by Clay was manifested in his destruction of the Second Bank of the United States. Jackson’s suspicion of the bank carried with it an element of sectionalism. He thought the bank disproportionately benefited northern financial interests. The bank had had its share of problems, but on the whole it lent a vital stability to the nation’s financial system. Jackson’s destruction of the bank would condemn the nation to currency instability and a terrible cycle of booms and busts for decades to come. Jackson also demonstrated his opposition to internal improvements by vetoing bills to provide federal aid for the construction of roads.

The most explosive issue facing American politicians North and South proved to be the tariff. Tariffs were the finan-
cial centerpiece of Clay’s American System. As Speaker of the House, he had engineered passage of a major tariff bill in 1824—the first true protective tariff in American history. From the start, much of the South opposed tariffs because their main purpose was to protect domestic manufacturing, largely a northern enterprise. At the same time, in the southern view, tariffs threatened the southern economy, which was critically dependent on trade with Great Britain. Great Britain was by far the United States’ largest trading partner in the antebellum era, and the most important American export to Britain was southern cotton.

It should come as no surprise that the South opposed not only high tariffs but also federal government expenditures for internal improvements. Southern politicians questioned the constitutionality of such ambitious federal action. They argued that these activist government programs unduly benefited northern financial and industrial interests. In the South the idea of public investment in infrastructure remained largely an alien notion. Southern legislatures were controlled by slaveholders, who had little economic interest in public improvements, no need to create an active economy for a free labor force, and a substantial ability to surround themselves with luxury in the private preserve of their plantations. The southern political mind increasingly viewed both tariffs and internal improvements as northern ideas.

In the decades before the Civil War, the notion of material progress and the dream of social mobility took fire in the northern mind. Northern and western states from New York to Illinois actively pursued internal improvements and built up their public infrastructure to support this dream. By contrast, pursuing social mobility through social improvements offered no positive benefit, in the southern view.
America was increasingly dividing into two distinct sectional societies. The North was expanding its internal industrial capacity, while the South remained anchored in a highly profitable slave-based agricultural economy, heavily reliant on cotton exports to Great Britain.

Two different economies, with divergent and in many respects opposed sets of interests coexisted under one flag. And with the two economies came two cultures and worldviews, North and South. More and more, economic policy disputes were coming to be seen through the sectional lens. The growing sectional divide—the growing crisis between North and South—initially played out as a struggle over economic policy, and only later as an explicit conflict over slavery.

The House Divided

The economic battles over tariffs, internal improvements, and the national bank were important in their own right. But they were also surrogates for an emerging moral struggle that would explode in the mid-1850s. In the North the abolitionist movement was growing. Abolitionists flooded Congress with petitions against slavery. In the mid-1830s, Congress began passing annual “gag rules” to prevent discussion of the issue in the House and Senate. Northern Democrats like Stephen Douglas hated the abolitionist campaign, not as partisans of slavery, but, in their view, as statesmen dedicated to the preservation of the Union. They saw the more extreme manifestations of both northern and southern sectionalism as a dire threat to the Union.

During the three decades before the Civil War, politicians dedicated to the Union, on both sides of the slavery question, struggled to keep the division over slavery from tearing the na-
tion apart. What ultimately forced the issue was the nation’s continued westward expansion. Would the new states added to the Union have an economy based on slave labor or free labor? The repeal of the Missouri Compromise with the passage of Douglas’s Kansas–Nebraska Act in 1854, which allowed Kansas and Nebraska to choose by popular sovereignty, forced the issue of slavery to the center of the national stage. It brought the long-seething conflict to the heart of national life.

In 1858, in a speech at the Republican State Convention in Springfield, Lincoln threw down the gauntlet to the slave states:

> Under the operation of the policy of compromise, the slavery agitation has not only not ceased, but has constantly augmented. In my opinion it will not cease until a crisis shall have been reached and passed. “A house divided against itself cannot stand.” I believe this government cannot endure permanently half slave and half free. I do not expect the Union to be dissolved. I do not expect the house to fall, but I do expect it will cease to be divided. It will become all one thing or all the other; either the opponents of slavery will arrest the further spread of it, and place it where the public mind shall rest in the belief that it is in the course of ultimate extinction, or its advocates will push it forward till it shall become alike lawful in all the States, old as well as new, North as well as South.18

Because the moral issues surrounding the slavery debate are so clear to us today there is a tendency to understand the origins of the American Civil War solely in its moral context.
More than is often realized, the Civil War was fought not about the morality of slavery, but about what kind of economy the nation would have. It was a moral clash, but it was also a clash between two economic systems. It is difficult to grasp the degree to which the United States, on the eve of the Civil War, had truly evolved into a “house divided,” virtually two separate nations based on very different economic structures.

What the North feared most was the spread of the southern economic culture. The question was which economy would define the future of America as it migrated westward, that of the North or of the South? The fear, shared by Lincoln, was that the American dream would no longer sustain American society, that slave labor would ultimately drive out free labor, first in the West and then later perhaps in the country as a whole.

By 1854, Whigs and antislavery former Democrats had combined to form the new Republican Party. What ultimately unified the Republican Party was an economic vision—quite different in important respects from that of the Republican Party later in the nineteenth century and that of the Republican Party today. Lincoln was the best and most philosophical, though by no means the only, exponent of this new outlook. Its watchword was the concept of free labor. We have already seen the vision in outline. But now it becomes especially clear against the background of its alternative—which was the aristocratic economic life as it was known in the slave-owning South. The vision, especially in Lincoln’s hands, was aimed primarily at improving the lot of ordinary citizens, of creating and sustaining a middle-class country.

When his hero Henry Clay died in 1852, Lincoln delivered a eulogy in Springfield, parts of which were less a description of Clay than a thinly veiled self-portrait. The heart of the eulogy is a description of the very philosophical core of Lincoln’s
political and economic philosophy, which he artfully attributed to Clay: “Mr. Clay’s predominant sentiment, from first to last, was a deep devotion to the cause of human liberty—a strong sympathy with the oppressed everywhere, and an ardent wish for their elevation. With him this was a primary and all-controlling passion. . . . He desired the prosperity of his countrymen, partly because they were his countrymen, but chiefly to show to the world that free men could be prosperous.”

For Lincoln, liberty meant above all the right of individuals to the fruits of their own labor, seen as a path to prosperity: “To [secure] to each labourer the whole product of his labour, or as nearly as possible,” he wrote, “is a most worthy object of any good government.” The real evil of slavery, in Lincoln’s view, was precisely the denial of this right. Interestingly, in his campaign for president, Lincoln emphasized the rights of African Americans to the same economic rights as all other Americans, setting these economic rights ahead of such issues as full citizenship or voting rights. The whole purpose of the United States was to clear the path for the individual to labor and get ahead. The emphasis was always on government’s duty to the whole people and especially to ordinary, unprivileged people.

Significantly, for Lincoln and the new Republican Party the doctrine of free labor implied an active role for government in fulfilling this mission. It was the slave-owning South, rather than the Republican North, which adhered to the doctrine of pure free market economics. It was the slave-owning South that sought to diminish the size and powers of the federal government. It was the slave owners of the South, secure in their vast personal wealth, who saw little point to investments in the public sector to build a national infrastructure. It was the South
that was sharply divided between the few rich and the many poor: a region with minimal social mobility and no ethic of social responsibility.

It was this active role of government that Lincoln alluded to in the now most famous phrase from his Gettysburg Address. The essence of the United States was not merely government “of the people” and “by the people,” but also government “for the people,” government in an active role clearing the path for its citizens to advance economically.

Clay never saw his American System come to full fruition. But, as president, Lincoln was able to implement many of Clay’s ideas and a few more of his own. Lincoln, notes the historian Gabor Boritt, “had the pleasure of signing into law much of the program he had worked for through the better part of his political career.” As president, Lincoln presided over measures that decisively strengthened the role of the government in American economic life. In the process he created what Leonard P. Curry has called “a blueprint for modern America.”

Lincoln signed into law the National Banking Act, which not only revived the national bank, but gave the country its first unified currency (until then states and state banks had created their own money) and created a system of chartered national banks throughout the states. The Homestead Act provided land inexpensively to settlers willing to migrate west. Lincoln raised tariffs to encourage the development of domestic manufacturing. He chartered the first transcontinental railroad, which would link the country from East to West Coasts, the greatest internal improvement up to that time. He signed the Morrill Act, which granted land to states to establish colleges, the beginnings of the nation’s state university system—designed to clear the path for ordinary people to secure an education
and achieve the American economic dream. All were embodiments of what Lincoln believed to be government’s legitimate and vital role.

The economic challenges facing Lincoln are in some respects very different from the issues that perplex us today. But Lincoln, as our most clear-eyed president, was the first to fully understand what America is all about and to tell us so in unfailingly clear terms. He lived in a “house divided” between two ways of life. On the one side was a middle-class society honoring labor and offering multiple opportunities for economic advancement by ordinary people, where government was assuming an increasingly constructive role in clearing the path for economic success. On the other side was a society rigidly divided between rich and poor, ensuring through law and oppression that labor remained devalued and cheap, dedicated to an unfettered free market, neglectful of the public sector and offering few if any opportunities for ordinary people, and none at all for a whole race of human beings. For Lincoln, the choice was never a hard one. He consecrated his life to ensuring that “government of the people, by the people, and for the people, shall not perish from the face of the earth.” In doing so, he showed us the principled criteria by which American economic policy needs to be judged. Today, in evaluating our economic policies, it is useful to ask Lincoln’s questions again. Is our nation’s economic policy in the service of the middle-class ideal, the dream of America—to enable ordinary people to get ahead? Is our government truly “for the people”?
The decades following the Civil War were a period of unprecedented industrial growth and economic and social transformation in the United States. Literally within the span of a generation, America grew from a dominantly agrarian nation into the world’s leading industrial power. The transformation of the American landscape was epochal. From 1870 to 1900, railroad mileage more than tripled, while steel production increased by more than a hundredfold. In the same period, overall manufacturing output quadrupled, while agriculture’s share of the economy declined. An abundance of new products became available, and a national system of commerce emerged, linking farmers and manufacturers alike to markets North, South, East, and West. Overall, between 1870 and 1900, U.S. Gross National Product more than tripled in real terms, with manufacturing accounting for an ever-increasing share of output.¹

Economic life also began to be organized in larger and larger units. Between 1850 and 1880, the corporation became the standard business entity. And many corporations were in
turn absorbed into larger “trusts,” as ambitious industrial magnates sought to achieve monopoly power over specific markets. John D. Rockefeller organized the Standard Oil Trust, which by 1879 controlled 90 percent of the nation’s refining industry. By 1904, there were over three hundred such powerful industrial combinations holding dominant positions in a variety of industries.²

Even before the Civil War, the old system of independent artisans and home-based manufacturing was in decline; production was increasingly shifting to large mills and factories, driven by water and steam power. There, scores and sometimes hundreds of workers labored long hours in harsh conditions, churning out a growing flood of textiles, shoes, and other consumer and durable goods. A major source of labor for the growing industries was the swelling millions of immigrants—some 13.5 million between 1865 and 1900—who poured into tenement neighborhoods in New York and other cities of the North.³ With the immigrants came the predictable manifestations of poverty and social disorder.

Enormous amounts of money were being made, but it was increasingly concentrated in very few hands. By 1890, the richest 1 percent of the population was absorbing half of the entire national income and controlled more than half the nation’s wealth.⁴

As industrial life came to be organized on a larger scale, the size of the federal government also significantly expanded. In 1860, on the eve of the Civil War, federal outlays totaled just over $63 million. By 1865, the war’s last year, outlays had risen to $1.3 billion. Demobilization following the war led to a sharp cutback in federal expenditures. But even in 1870, the federal government was still spending some $310 million a year, five times what it had spent a decade earlier.⁵ Many of these mil-
lions were finding their way, via government loans and other
subsidies, into the hands of railroad magnates and other busi-
nessmen who secured special favors from the federal govern-
ment. Lincoln and the Republicans had won the argument
in favor of internal improvements, and certainly the construc-
tion of the railroads—financed by millions in free government
land grants and millions more in generous federal loans—
supported the country’s economic development. But the pre-
diction of some opponents of such substantial government
expenditures was also borne out: the new millions in govern-
ment funds formed a seemingly irresistible temptation to
corruption. President Ulysses S. Grant’s two terms from 1869
through 1876 were marred by an endless string of major scan-
dals, in which executive branch officials and various members
of Congress were exposed as colluding with industrialists to
enrich themselves at taxpayer expense.

Corruption at the federal level was mirrored in the big
cities, where political machines seized power and, by trading
jobs and favors for votes, maintained control of city hall and
siphoned off thousands, sometimes millions, in graft, patron-
age, and kickbacks. The bright side of the machines is that they
provided a kind of unofficial support network for newly arriv-
ing immigrants. The dark side is that they stole the public trea-
sury blind. William M. “Boss” Tweed’s notorious Tammany Hall
machine managed to bilk perhaps as much as $100 million out
of New York City taxpayers before it was finally overthrown.6

American politics in the years before and during the Civil
War had been marked by high idealism—elevated debates
about the meaning of democracy, the nature of labor, and
the future of the nation. By the end of the war, with over six
hundred thousand dead on the two sides, Americans were un-
derstandably exhausted at the prospect of further ideological
struggle. In the end Republican and Democratic policies were often indistinguishable. James Bryce, an English aristocrat who wrote a book about his own Tocqueville-like tour of the United States in the late 1880s, noted that “neither party has any principles, any distinctive tenets.” “All has been lost,” he wrote, “except office or the hope of it.” Both parties claimed to champion the interests of the common citizen, but neither party had a program for doing so.

It was a time when those who could do so grabbed for the “fast buck,” and when those who could not generally settled for their meager lot in life. It was an era when money talked more loudly than ideas. In an 1876 novel, Mark Twain and Charles Dudley Warner dubbed it the Gilded Age.

The Transformation of Free Labor

No one can say whether President Lincoln, had he survived to complete his second term, would have been able to translate his vision of the American Dream into a coherent peacetime economic program. The struggle over slavery, and the war itself, eclipsed concerns about economics, even as the economy was beginning to undergo rapid change to a new society dominated by large manufacturing concerns and industrial wage earners.

At all events, the disappearance of Lincoln opened the way for the transformation of Lincoln’s free labor idea into something gradually resembling its opposite. The agents of this transformation were a new generation of intellectuals—in a sense, America’s first crop of urban intellectuals—variously called liberals, radicals, and, in perhaps the most entertaining political moniker in American history, mugwumps. (The last label, from an Algonquin word meaning “big chief,” was slapped
on the reformers by the *New York Sun* when many of them bolted the Republican Party in 1884 to campaign for the Democrat Grover Cleveland. The implication was that they believed themselves too good for the Republican Party and its candidate, James G. Blaine.)

The mugwumps were a mixed group. Many, like the German-born politician Carl Schurz, had strong roots in the pre-war Republican Party; generally abolitionist in sentiment, they had been free labor, free soil men before the war. But, there was also new blood. The journalist E. L. Godkin, born in Northern Ireland, educated at Queen’s College, Belfast, and in London, arrived in the United States in the 1850s brimming with the new ideas of the British political economists. In 1865, with the help of the Harvard-educated writer-scholar Charles Eliot Norton and the Philadelphia abolitionist James Miller McKim, he founded the journal the *Nation*, which became a kind of flagship publication for what they called reform. Others, such as Charles Francis Adams and Henry Adams, were scions of old American families. By and large, the backbone of the mugwump movement was a rentier class, perhaps the first representatives of such a class to exist in America, the college-educated, leisured young heirs of the old merchant, manufacturing, and banking families of the Northeast (along with some sons of well-heeled clergymen and professors). Godkin at one point referred to this social group as the “unemployed rich.”

They styled themselves the champions of reform. But in retrospect their program seemed strangely disconnected from the real problems of their age, in particular, the growing plight of the industrial worker. To be sure, at the core of their vision was an understandable revulsion from the corruption that had come to dominate Gilded Age politics. They felt that instead of the collection of scoundrels populating Grant’s administra-
tion or the crude, uncultured machine bosses that ruled the cities, it was they and men like them who should rightly govern. Government should be run by the “best men,” and in their own minds they fit that description. They were educated, cultured, wise, and incorruptible, and they had the public interest at heart. Besides, they were also in possession of what they considered the modern scientific understanding of the eternal laws of political economy, which in their view held the key to wise governance.11

Lincoln’s American Dream was essentially homegrown: it emerged from his understanding of the connection between the principles embodied in the Declaration and his firsthand experience of the opportunities of American economic life. The new economic vision of the reformers was a foreign import, largely from Great Britain. Its source was the new “science” of “political economy,” what today we would call free market economics. From Adam Smith to David Ricardo and John Stuart Mill, two generations of British thinkers had sought to place the study of economics on a systematic, scientific footing.

Especially as it was understood by this new generation of American intellectuals, the new economic science had as its central tenet the nonintervention of government in economic life. At the time, the term of art for nonintervention was the French phrase “laissez-faire,” meaning, essentially, “leave it be” or “leave it alone.”

Under the influence of the new economic doctrine, the notion of free labor came to be understood in terms quite different from those embraced by Lincoln. It meant, essentially, that the laborer was on his own. Even as modern factories multiplied, destroying the old artisan system of manufacturing and driving millions of workers into increasingly desperate circumstances, with long hours, dangerous and unhealthy work-
ing conditions, and pay below subsistence levels, the self-styled reformers adamantly resisted government intervention. They opposed legislation on the eight-hour day and disparaged proposals for child labor laws. They wrote diatribes against unions and labor leaders.

Soon the new economics blended with an even harsher social doctrine based on extrapolations of Charles Darwin’s new theory of evolution to human economics. Social Darwinism saw human economic life as analogous to the process of evolution: economic outcomes reflected the “survival of the fittest”—a phrase coined by the English thinker Herbert Spencer, whose books proved massively popular among the American reformers. Those who prospered economically were the fit; those who labored long hours in factories for below subsistence wages were demonstrably the unfit. The growing inequality that America witnessed between a tiny group of super-rich industrialists and a mass of increasingly degraded and impoverished workers was actually seen as a sign of social progress; it was good for maximum economic growth and the advancement of the race, a necessary price of progress toward ever-greater national wealth and prosperity. Social Darwinism integrated the ideas of laissez-faire economics and evolution into a new doctrine that not only forbade government intervention in the economy, but also provided a moral justification for harsh working conditions and growing economic inequality.

The mugwumps looked askance both at those who stood above them and those who stood below them on the economic ladder. They saw themselves as being caught between “an ignorant proletariat and half-taught plutocracy,” in the words of the historian Francis Parkman. On the one hand, they despised the rapacious Robber Barons (it was Godkin who coined the
term in 1867 to describe the crude, allegedly self-made railroad magnates who absorbed millions in government loans and then exerted monopoly-like control over the communities that grew up along their rail lines). On the other hand, they disparaged the unwashed masses of workers—the “ignorant proletariat”—who threatened domestic tranquility with growing labor agitation. These they regarded as the “dangerous classes.” While the reformers professed equal dislike for the monopoly trusts and organized labor, “they seemed far more alarmed by [the] growing political danger from below,” as the historian John Sproat has written.13

At one level, the mugwumps’ peculiarly reactionary response to the plight of labor was simply a failure to understand the new industrial realities. It was as though they retained in their minds the image of the independent free labor craftsmen who dominated the pre–Civil War American economy. They saw the laborer as freely negotiating the sale of his labor, as if he were an independent agent, unhampered by the hard new economic realities of a factory-based economy. “The right of each man to labor as much or as little as he chooses and to enjoy his own earnings, is the very foundation stone of . . . freedom,” wrote Horace White, the editor of the Chicago Tribune. The relationship between employer and employee was simply a contract, and a society based on freely negotiated contracts represented, in their view, the pinnacle of freedom, a great advance over feudalism.14

What their economic thinking failed to grasp was that the whole structure of the economy was undergoing radical change. Whereas the early American Republic had been characterized by a continuing labor shortage that kept wages relatively high, the influx of millions of immigrants in the post–Civil War era created a labor surplus. The notion that the laborer
had significant negotiating power was simply a convenient upper-class myth. Workers everywhere were being forced to compete and settle for below-subsistence wages. While on average the U.S. economy saw a gradual rise in living standards between the end of the Civil War and the beginning of World War I, nearly half the workforce survived on below-poverty wages. “By the end of the 1880s,” wrote David Montgomery in The U.S. Department of Labor History of the American Worker, “an income of roughly $500 a year would have been necessary for a family of five in a middle-sized industrial town to enjoy any of life’s amenities (newspapers, beer, lodge membership, outings, tobacco) without literally depriving themselves of basic necessities. About forty percent of the working-class families earned less than that.” Long periods of unemployment were common, workweeks in excess of fifty hours were routine, child labor was rampant, and health and safety conditions in many workplaces appalling. From 1880 to 1900, an average of thirty-five thousand American workers died each year from work-related injuries and another half million were injured.15

Yet taking their bearings from the most extreme laissez-faire versions of the new economic doctrine, the selfstyled reformers portrayed government intervention in economic life as nothing less than a violation of natural law. Lincoln had argued that government should actively assist Americans in their quest for economic advancement. It should help to promote equality of opportunity, “clear the path . . . for all.” By contrast, the new reformers insisted that the government should have absolutely no role. Godkin’s Nation preached a particularly simplistic and rigid view of the laissez-faire dogma. In the words of the historian John C. Sproat, “Godkin reduced liberalism to a few simple maxims about society and the economy: wages and prices seek their natural levels when left alone;
society and government can exert no direct control over the individual; poverty and economic suffering result only from the shortcomings of the individuals they afflict.”

The notion that one’s economic fortunes were connected with one’s character—one’s hard work, one’s thrift, one’s persistence and dependability—ran strong in the American bloodstream throughout the nineteenth century. The theme had its origins partly in the old Calvinist idea that good economic fortunes were a sign of God’s favor, a visible symbol of belonging to the elect. It was also an outgrowth of individual experience, since many, like Lincoln, found that hard work did enable them to get ahead. But with the dawn of the Gilded Age, this belief was transmuted from Lincoln’s message of hope into a verdict of condemnation. It became a rationale for blaming laborers for their desperation and condemning the working poor for their very poverty. Meanwhile, any government effort to intervene on workers’ behalf was to be fiercely resisted as a violation of natural law. Proposals for legislation to mandate an eight-hour workday “threatened the very foundation of civilization.” Even laws forbidding child labor were anathema. Godkin editorialized against a proposal for a New York state constitutional amendment forbidding employment in factories of children under ten. The government, wrote Godkin, might as well “tell us what to eat, drink, avoid, hope, fear, and believe.”

It was precisely the hard-heartedness of these economic doctrines that the nineteenth-century English novelist Charles Dickens had satirized in *Hard Times* (1854) and other works. Partly in response to the critiques of Dickens and others, British policy by the mid–nineteenth century was already moving away from the laissez-faire model toward the beginnings of a modern welfare state. Meanwhile, America’s intellectuals, hav-
ing adopted laissez-faire as their own, were codifying an unusually harsh and uncompromising version of the doctrine.

Social Darwinism

The harsh version of laissez-faire thinking was made harsher by yet another development of nineteenth-century thought. On the eve of the American Civil War, in 1859, Charles Darwin published his opus *The Origin of Species*.\(^{19}\) Darwin’s new theory of evolution marked perhaps the most important revolution in scientific thought since Copernicus or Isaac Newton. It utterly transformed the way human beings viewed nature. Just as Newton’s mechanics in the seventeenth century had been eagerly taken up by political thinkers such as Thomas Hobbes, who adapted Newton’s paradigm to fashion a new, supposedly scientific theory of the state, so thinkers of the Victorian era found Darwin’s new paradigm of evolution an irresistible lens through which to explore and reevaluate the age’s social and economic realities. As Newton’s discoveries provided the authority for Hobbes’s new vision of political life, so Darwin’s insights provided seeming scientific authority for the new social philosophy, propounded perhaps most energetically by Spencer. Indeed, even before Darwin had published his tome on evolution, Spencer was fashioning a new political vision that integrated laissez-faire thinking with a concept of historical progress or evolution. “This law of organic progress,” Spencer wrote as early as 1857, “is the law of all progress. Whether it be in the development of the Earth, in the development of Life upon its surface, the development of Society, of Government, of Manufactures, of Commerce, of Language, Literature, Science, Art, this same evolution of the simple into the complex, through a process of continuous differentiation, holds throughout.”\(^{20}\)
Darwin’s *The Origin of Species*, published two years later, seemed to many, at least among the American reformers, to lend enormous credence to the social vision Spencer was promulgating. Darwin’s new theory of evolution based on natural selection seemed to confirm that Spencer had tapped into the very laws of nature. The new view of society as governed by evolutionary laws became known as Social Darwinism. Spencer’s writings enjoyed an enormous vogue in America—in contrast to the more tepid reception they were accorded in Spencer’s native Britain.21

According to Spencer, human social, political, and economic life, like all organic life, was governed by a universal law of adaptation. Those creatures who successfully adapted to their external conditions survived; those creatures who fail to adapt perished. This process of adaptation produced human progress, an inevitable, entirely natural ascent toward the creation of the ideal man. As noted earlier, Spencer called the engine of progress “the survival of the fittest,” a phrase he coined in 1864, later incorporated by Darwin himself into subsequent editions of *The Origin of Species*.22 In Spencer’s view, any interference in the natural human competition for survival—particularly by government—was utterly counterproductive. By exposing the whole society to maladaptation, such government intervention could potentially spell society’s destruction. The role of the state was solely the defense of individuality, a scrupulous protection of individual rights and rigid noninterference in economic activity. Those societies that most perfectly did not interfere with the individual’s absolute rights to life, liberty, and property would survive and progress; those societies that interfered with these rights would eventually die out.23

It followed that any attempt by the state to relieve the unemployed, to guarantee rights of employment, or even to pro-
vide charity for impoverished widows and orphans posed a threat to progress. Spencer opposed all aid to the poor. “Per-
vading all nature,” he wrote in *Social Statics* (1851), “we may see at work a stern discipline, which is a little cruel that it may be very kind.” He continued,

The poverty of the incapable, the distresses that come upon the imprudent, the starvation of the idle, and those shoulderings aside of the weak by the strong, which leave so many “in shallows and in miseries,” are the decrees of a large, far-seeing benevolence. . . . It seems hard that a labourer incapacitated by sickness from competing with his stronger fellows, should have to bear the resulting privations. It seems hard that widows and orphans should be left to struggle for life or death. Never-
theless . . . these harsh fatalities are seen to be full of the highest beneficence—the same beneficence which brings to early graves the children of diseased parents, and singles out the low-spirited, the intemperate, and the debilitated as the victims of an epidemic.  

The laborer struggling with wages below subsistence, the sick and infirm, even impoverished widows and orphans, in short society’s millions of “losers”—all were unfit, and the most unfit among them deserved to die so that the race as a whole would prosper. The obvious cruelty of this new modern economic system, Spencer claimed, was actually kindness in disguise.

Godkin took up Spencer’s harsh gospel in the *Nation*. The beleaguered laborer should learn to be content with his
lot, Godkin wrote, since Nature’s law decreed that “the more intelligent and thoughtful of the race shall inherit the earth and have the best time” while the rest must settle for a life that was “on the whole dull and unprofitable.” Workers who looked to the government for help were actually violating one of the core principles of democracy.

What is remarkable is how, under the influence of Social Darwinism, the definition of democracy was gradually turning into something approaching its opposite. Repelled by the huddling masses of underpaid laborers, the self-styled reformers even raised questions about the merits of universal suffrage, some of them advocating a return to the old system of voting rights on the basis of property ownership. Such antidemocratic proposals never gained much traction. But they signified a sharp departure from Lincoln’s understanding of democracy. Lincoln had regarded the equality posited by the Declaration of Independence as a core democratic value. Increasingly, the reformers and Social Darwinists saw inequality as a sign of a healthy democracy, albeit one that now exhibited sharp divisions between the rich and the wretched.

The greatest American proponent of Social Darwinism was the Yale professor and cleric William Graham Sumner, who developed a full-blown political philosophy geared to the American scene. Like Godkin, Sumner had a knack for boiling complex doctrines down to snappy ideological formulae. “Let it be understood,” he wrote, “that we cannot go outside of this alternative: liberty, inequality, survival of the fittest; not-liberty, equality, survival of the unfittest. The former carries society forward and favors all its best members; the latter carries society downwards and favors all its worst members.” Inequality had become the visible sign of democracy.
Whereas the first generation of reformers had expressed suspicion and contempt for the uncultured Robber Barons, Sumner celebrated the new millionaires as the champions of progress. They were the fittest, and their wealth was an expression of natural law: “The millionaires are a product of natural selection, acting on the whole body of men. . . . It is because they are thus selected that wealth . . . aggregates under their hands. . . . They get high wages and live in luxury, but the bargain is a good one for society.” He defended hereditary wealth as essential to progress; any effort to tax it would reduce men to “swine.” Poverty, meanwhile, was entirely the product of the individual’s moral failings: “Let every man be sober, industrious, prudent, and wise, and bring up his children to do so likewise, and poverty will be abolished in a few generations.” Sumner opposed any government intervention to improve the conditions of labor, since such measures would favor the unfit at the expense of the fit.28

The Gospel of Wealth

The reformers and the Social Darwinists produced an ideology tailor-made for business interests. Industrial magnates and the business community enthusiastically took up the slogans of laissez-faire—an irony, since at the same time big business lobbied the federal government increasingly energetically for what amounted to millions of dollars in preferential treatment. Federal land grants and loans for the railroads in the tens of millions, high tariffs to protect selected industries, and banking and financial regulations that enabled investors to line their pockets at the expense of the unwitting—such were the policies of the federal government in the Gilded Age. Far
from maintaining a scrupulous laissez-faire or hands-off attitude, the government had its thumb on the scale on behalf of its richest citizens. Still, despite the contradictions, even the hypocrisy, laissez-faire came to reign as a kind of official ideology of the era. It was, observed the Englishman Bryce in 1888, “the orthodox and accepted doctrine in the sphere both of Federal and State legislation.”

Indeed, the story of Gilded Age politics was the story of the increasing domination of both political parties by business interests. President Grant openly hobnobbed with the financial speculator James Fisk and other Robber Barons. The new Republican program of internal improvements cemented a new and often corrupt alliance between the party and business interests, the latter eager to gain access to the government’s millions. The Republican Party in turn increasingly tapped its rich business friends for the growing sums of money needed to run modern political campaigns.

The Democrats may have attacked Republicans as the party of business, but they increasingly interpreted their own Jacksonian heritage in light of the newfangled laissez-faire doctrines. While ostentatiously championing the cause of the common people, they were prepared to do little for them. After defeating the Republican candidate in 1884, the Democratic president Grover Cleveland, the darling of the mugwumps, filled his cabinet with businessmen and corporate attorneys and, in a wholehearted embrace of laissez-faire views, stood steadfast against government intervention in the economy. In words that formed a striking contrast to Lincoln’s famous closing lines of the Gettysburg Address, Cleveland affirmed, “Though the people support the Government, the Government should not support the people.” So much for government “for the people.”
Government action on a scale that neither national party was prepared to imagine in the 1870s and 1880s might have helped to rectify the worst abuses and address the growing impoverishment of workers. But the laissez-faire doctrine created a formidable ideological barrier to government action to address the problems of the new industrial economy.

Moreover, the laissez-faire doctrines not only influenced the executive branch and the Congress: they had an even more profound influence on the federal judiciary. As the century wound to a close, even as the states and the federal government slowly began to take action to control the excesses of the railroad magnates and the trusts, the Supreme Court consistently ruled that government-chartered corporations were entitled to the same privileges as individual American citizens. Regulation of corporations was rejected as an unjust attempt to deprive them of “life, liberty, or property without due process of law.” In United States v. E. C. Knight, the Court ruled that the Sherman Antitrust Act—explicitly designed to prevent unfair restraint of trade and monopolies—could not outlaw monopolies in manufacturing because manufacturing involved interstate commerce only indirectly. The effect was essentially to gut the act.

In 1905, in Lochner v. New York, the Court in a similar spirit struck down a New York state law limiting the workweek of bakers to ten hours per day or sixty hours per week. In a famous dissent, Justice Oliver Wendell Holmes, Jr., attempted, without success, to have the Court adopt the point of view that “the Fourteenth Amendment does not enact Mr. Herbert Spencer’s Social Statics.” It was a reflection of how thoroughly Social Darwinism and doctrinaire laissez-faire thinking had come to permeate American constitutional and legal thinking. “A constitution,” Holmes added, “is not intended to embody a
particular economic theory.”32 In the course of a generation, American libertarians and Social Darwinists had in effect rewritten the nation’s social contract, reinterpreted the country’s founding documents as laissez-faire charters enshrining economic freedom as an absolute right of individuals and corporations—empowering the fit to prosper while consigning the unfit to deserved suffering and presumably eventual extinction. In the process, Lincoln’s American Dream had all but disappeared. In its place was a new vision.

No one provided a more comprehensive account of this vision than that paragon of industrial magnates Andrew Carnegie. Using every available device in the unfettered nineteenth-century economy to consolidate his power in the steel industry, drive out competition, and hold down wages, Carnegie at his peak had accumulated a fortune in excess of $300 million.33 In a book published in 1889, he promulgated what he called the “Gospel of Wealth.” Carnegie’s message was an exhortation to rich industrial magnates to spend their millions in good works for the benefit of society. But what was most noteworthy in Carnegie’s new Gospel was his acceptance of the depressed condition of late nineteenth-century industrial workers (conditions that, despite occasional denials, he himself played no small role in creating) as not simply an ugly stage in history, but a permanent fact of nature. It was, observed Carnegie, simply the price society paid for enjoying a greater abundance of inexpensive consumer goods: “The price we pay for this salutary change is, no doubt, great. We assemble thousands of operatives in the factory, and in the mine, of whom the employer can know little or nothing, and to whom he is little better than a myth. All intercourse between them is at an end. Rigid castes are formed.”34
Carnegie used Spencer’s doctrine of the survival of the fittest as the justification for this new condition of society—a condition similar in its “caste” system to the old European aristocracies and the antebellum South and profoundly different from the America that Lincoln had imagined he was fighting to preserve:

The price which society pays for the law of competition, like the price it pays for cheap comforts and luxuries, is also great; but the advantages of this law are also greater still than its cost—for it is to this law that we owe our wonderful material development, which brings improved conditions in its train. But, whether the law be benign or not, we must say of it, as we say of the change in the conditions of men to which we have referred. It is here, we cannot evade it; no substitutes for it have been found; and while the law may be sometimes hard for the individual, it is best for the race, because it insures the survival of the fittest in every department. We accept and welcome, therefore, as conditions to which we must accommodate ourselves, great inequality of environment; the concentration of business, industrial and commercial, in the hands of a few; and the law of competition between these, as being not only beneficial, but essential to the future progress of the race. Having accepted these, it follows that there must be great scope for the exercise of special ability in the merchant and in the manufacturer who has to conduct affairs upon a great scale. That this talent for organization and management is rare among men
is proved by the fact that it invariably secures enormous rewards for its possessor, no matter where or under what laws or conditions [emphasis added].

Carnegie’s Gospel of Wealth turned Lincoln’s American Dream on its head. Whereas in Lincoln’s America, the underlying principle of economic life was widely shared equality of opportunity, based on the ideals set forth in the Declaration of Independence, in Carnegie’s America the watchword was inequality and the concentration of wealth and resources in the hands of the few. Whereas in Lincoln’s America, government was to take an active role in clearing the path for ordinary people to get ahead, in Carnegie’s America, the government was to step aside and let the laws of economics run their course. Whereas in Lincoln’s America, the laborer had a right to the fruits of his labor, in Carnegie’s America the fruits went disproportionately to the business owner and investor as the fittest. Whereas in Lincoln’s America, the desire was to help all Americans fulfill the dream of the self-made man, in Carnegie’s America, it was the rare exception, the man of unusual talent that was to be supported. Whereas in Lincoln’s America, the engine of progress was the laboring of all Americans, in Carnegie’s America, the true engine of progress was the industrial magnate, in effect Carnegie himself. Whereas in Lincoln’s America government was to be on the side of the laborer, in Carnegie’s America industrial oppression was justified by its capacity to generate an abundance of cheap consumer goods.

In certain respects, Carnegie intended his book of essays as a critique of the Robber Barons. A frugal Calvinist at heart, he condemned the conspicuous consumption and ostentatious spending of the superrich of his era and argued for a re-
strained lifestyle on the part of the industrial magnate. Above all, he argued that those who had made vast sums of money had an obligation to return most of it to society in the form of philanthropy. But even here, he diverged sharply from Lincoln, who saw “charities, pauperism, orphanage” as natural responsibilities of government. Carnegie rejected not only any government effort to aid the poor, but also private philanthropy in the form of direct giving. His main philanthropic endeavor was to build libraries—an important contribution, no doubt, but hardly a comprehensive answer for the millions living on below-subsistence wages, to say nothing of society’s sick and infirm, widows and orphans.

Not everyone accepted every detail of Carnegie’s Gospel. But in its broad themes, it reflected ideas that enjoyed wide social and political acceptance in late nineteenth-century America and would enjoy something of a revival in the twentieth and the twenty-first. At bottom, the Gospel of Wealth combined laissez-faire economics, strict opposition to government intervention in the economy, an acceptance of extreme economic inequality, a bias against labor in favor of the business owner, a vision of the industrialist and investor as the true engine of economic progress, and a belief that government had no legitimate role in building a middle-class future for all hardworking Americans or even in relieving the condition of the poor.

At all events, Carnegie willy-nilly had hit on a phrase that aptly summarized the dominant ethos of the Gilded Age. Yet even as Carnegie issued his Gospel, the nation was becoming increasingly uneasy with the conditions he described as being so beneficial. Political leaders were gradually coming to grips with the darker legacy of industrial development and begin-
ning to consider and fashion reforms. But support for the Gospel of Wealth would not cease to be one important side of the debate. For decades to come, the struggle over government’s economic policy would essentially boil down to the question, which was the true vision of America, the Gospel of Wealth or the American Dream?