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Volume Author/Editor: Solomon Fabricant, assisted by Robert E. Lipsey

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Chapter Author: Solomon Fabricant, Robert E. Lipsey

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The Trend of Government Activity
in the United States since 1900

CHAPTER 1

Government Activity in 1900 and 1950: A Contrast

One out of every eight persons employed in the United States today is a government worker.¹ One out of every five dollars of the nation's capital assets — even excluding public roads and streets and most military and naval equipment — is government property. One out of every twenty dollars of the consolidated net sales of business is made to government. Are these proportions merely a holdover from the war, which may be expected in time to diminish substantially, or were they large before the war too? If large before the war, do they reflect a changed concept of government's functions brought into being under the New Deal, or are they part of a trend already established before the great depression? If part of a long-term trend, what accounts for it?

To answer these questions we must study changes in government activities and in the volume of resources devoted to these activities. Then, with the totals reviewed, we need to go on to distinguish the national, state, and local levels of government and ask how each has grown; and we must consider which functions at each of these levels advanced most rapidly, which lagged, and why. Before we approach the details of the story, however, let us throw the spotlight on some of the differences in the role of government between 1900 (the year with which we choose to start) and the present day.

The Economy of 1900

The twentieth century dawned on a United States in which farming was the leading industry. The world's greatest railroad net,

¹ By "today" we mean the period just before Korea. Our figures usually stop with 1949; but there was little change between 1949 and the first half of 1950.

stimulated into being by huge government land grants, was now substantially complete and at the disposal of the farmer. Rural free delivery had just been established. The Department of Agriculture had recently been raised to Cabinet status and, with the state colleges of agriculture and experiment stations already in existence, was providing farming with various services: the farmer's almanac could be supplemented by Weather Bureau reports and Department of Agriculture booklets.

However, few roads leading to the rail lines were hard surfaced or even graded. Although the Interstate Commerce Commission was already thirteen years old, it was not yet able to regulate railroad rates effectively. Farm mortgages were held only by private investors and institutions — not including national banks, which could not lend on real property — at interest rates frequently exceeding 6 percent. Farmers complained that they paid an unfairly high share of taxes. When disaster struck, the farmer could rely only on his own resources or on what local aid he might secure: not long before, President Cleveland had vetoed an appropriation of \$25,000 to buy seed corn for Texas farmers ruined by a drought. Government tariffs raised the prices the farmer paid, but the prices he received fluctuated in a free market. Farm prices were above the low levels of the dark 1890's and were going higher; but this was not the fruit of the farmers' fight for "cheap money": the bitter greenback and silver campaigns had been lost and the latter officially closed by the passage of the Currency Act of 1900.

While farming was still growing somewhat as a source of employment, the swarming population — a million and a half persons were being added each year on the average — found no unlimited virgin territory over which to spread. Nonagricultural pursuits were already being followed by over 60 percent of the labor force — the halfway mark had been reached two decades before — and it was to these pursuits that the vast majority of new workers turned for a living. Unlike the situation in agriculture, most of the young people entering nonagricultural industries did not work for themselves or their parents. In 1900 well over half the entire labor force consisted of workers earning a wage or salary in a nonfamily, nonfarming business. Yet the number of workers affiliated with

trade unions accounted for no more than 5 or 6 percent of these. Collective bargaining, except for some skilled trades, was negligible. The attitude of government toward labor organization was at best one of tolerance — the great Pullman strike was only six years past. The Department of Labor, not of Cabinet rank, was essentially a bureau devoted to statistics.

Labor legislation to protect the employed worker was being discussed extensively. The Industrial Commission named by President McKinley in 1898 was just beginning to issue its 19-volume report, some important parts of which were focused on labor questions. But the labor legislation of those states that had any — the federal government had virtually none — related mainly to methods of wage payment, safety in hazardous industries, hours of certain classes of workers, and child labor, and was usually of limited scope and in what Elizabeth Brandeis has called “the pre-enforcement stage”.² If the unemployed worker and the chronically indigent were cared for by organized charity, the funds came largely from private sources. The first workmen’s compensation act was yet to be passed. The severe depression of the middle 1890’s, with its makeshift direct and primitive work relief, was fresh in memory. But 1900 itself stood at the center of a period of prosperity for labor as well as the farmer. And this was prosperity at levels exceeding those of earlier decades. Hours of work were lower: the ten-hour day was fairly well established. Average income was higher, indeed, higher than in most countries including Britain.³

The battle for free public schools had been won half a century before. The income of parents enabled them to send 80 percent of children ten to fourteen to school. But only 42 percent of the children fifteen to seventeen were able to continue in school.

The death rate still exceeded 160 per 1,000 in the first year of life. The few food inspection and other public health measures were poorly enforced. Public (and private) hospitals provided perhaps no more than three beds per thousand population.

² John R. Commons, *et al.*, *History of Labor in the United States*, Vol. III, “Labor Legislation”, by Elizabeth Brandeis (Macmillan, 1935), p. 625.

³ Colin Clark, *The Conditions of Economic Progress* (London, Macmillan, 2nd ed., 1951), Ch. 3.

The problem of "big business" had already thrust itself upon the attention of the people. The Sherman Act was ten years old. But few cases had been tried or even started under it, and the country was in an industrial combination boom of major proportions. However, the Industrial Commission was holding hearings on this question also, and the muckrakers were preparing to spread the iniquities of the "trusts" under the noses of the people.

These enterprising journalists drew attention also to the "shame of the cities". Local government, untrammelled by a civil service, was frequently corrupt and inefficient. This was a serious defect in a government system operating largely through the county and municipality. State governments played a minor role in providing public services, and the federal government confined its activities largely to the traditional ones of postal service, defense, and conduct of foreign affairs. There was no central bank. The United States had just endorsed the gold standard, but Secretary Gage noted that there was still "no assurance whatever that the volume of bank currency will be continuously responsive to the country's needs".⁴ Government transfers to the public consisted mainly of veterans' pensions.

Even defense and foreign affairs occupied the attention of few. The Civil War had occurred 35 years before; the Spanish War had been a quick and easy kill. Only recently had the United States acquired a colonial empire. Substantial foreign capital was still flowing to the United States. The country was only just beginning to turn its eyes back to the outside world, after almost a century of near isolation.

It was the Republican party that had won in 1896 and 1900, and on the whole the people still thought in terms of "the less government, the better". Even a Democratic president, vetoing the appropriation for seed corn referred to above, could state: "I can find no warrant for such an appropriation in the Constitution, and I do not believe that the power and duty of the general government ought to be extended to the relief of individual suffering which is in no manner properly related to the public service or

⁴ *Annual Report of the Secretary of the Treasury, 1900*, p. LXXXIII.

benefit. A prevalent tendency to disregard the limited mission of this power and duty should, I think, be steadfastly resisted, to the end that the lesson should be constantly enforced that, though the people support the government, the government should not support the people.”⁵

Yet efforts were constantly being made by every group “seriously dissatisfied with the results of private enterprise, or of private enterprise as regulated by local or state governments,” to use the federal government as an agency for attaining what it desired. “The conquerors of the continent” were often “full of complaints concerning their economic plight, and insistent with the full force of their rugged personalities that government come to their aid”.⁶ And as the record will show, even before 1900 such efforts often succeeded when the group was of considerable size. By 1900 government already held something like 7 percent of the nation’s capital assets (exclusive of roads and streets and most military and naval equipment), and employed something like 4 percent of the nation’s labor force.

The Economy of 1950

Despite the spate of births during the 1940’s children are relatively scarcer than they were at the beginning of the century and if the trend persists, will become still scarcer. We look to municipal and state government to protect our children’s milk and to give them care before and after they are ill. The infant death rate is down to about 35 per 1,000 and we are seeking to reduce it still farther. More children are in school and stay in school longer, and these

⁵ Veto of the Texas Seed Bill, Feb. 16, 1887, *The Writings and Speeches of Grover Cleveland*, edited by G. F. Parker (Cassel Publishing Co., 1892). (The veto message was drawn to our attention by a reference in W. J. Shultz, *American Public Finance* [Prentice-Hall, 1942], p. 19.) Almost identical words appear in Cleveland’s second inaugural address, March 4, 1893: “The lessons of paternalism ought to be unlearned and the better lesson taught that while the people should patriotically and cheerfully support their Government its functions do not include the support of the people.” *Grover Cleveland, Addresses, State Papers and Letters*, edited by A. E. Bergh (Sun Dial Classics Co., 1908).

⁶ W. C. Mitchell, “Intelligence and the Guidance of Economic Evolution”, in *The Backward Art of Spending Money* (McGraw-Hill, 1937), p. 119.

are largely public schools. They play more in government-operated parks and recreation centers and less in the streets. And programs for these purposes continue to be added.

Old people are more numerous. A substantial fraction — and we are expanding the fraction — now receive government pensions, as do many widows and others. A larger fraction of the helpless needing special care reside in better government institutions. And for the population at large, there are now 10 hospital beds per 1,000, of which almost three-quarters are provided by government.

More of us live in cities and demand and receive more and better municipal services. Six-sevenths of the labor force, instead of six-tenths, are occupied outside of farming. And the trend is still away from the farm. Agriculture is in substantial part a subsidized industry, which it was not in 1900.

Business enterprise is bigger and we try harder to control it. More people work for a large impersonal corporation. A higher percentage of the labor force is unionized and the unions receive government support and protection. Working conditions are more effectively patrolled by government as well as trade unions.

When depression hits, a bigger fraction is likely to be unemployed since fewer work on farms. Many of these may now receive unemployment compensation as a matter of right rather than charity. And we are expanding the coverage. We get more facts sooner about our economic troubles than we used to; and we are trying to use government agencies to prevent or alleviate them. We talk less about punishing criminals and more about slum clearance; and not only about slum clearance but also about subsidies for housing the lower middle class as well as the poor.

We are and feel more interdependent with those across our borders and are acting accordingly. We have endured two world wars and fear a third which will be greater than the second, as the second was greater than the first; and we spend money, through government, for old and new wars more freely.

Average incomes are higher and so are standards of welfare and responsibility for ourselves and others. We feel more able and more obligated to make long-term investments in human and

natural resources and do so. We argue less about old age pensions and unemployment relief than about health security; not about the Tennessee Valley Authority but about the Missouri Valley Authority. We look more to government to prevent, remove, or alleviate the economic and social evils we see about us; we think of government as "an affirmative agency of national progress and social betterment", not "a mere organized police force, a necessary evil".⁷

Today government holds 20 percent of the nation's capital assets (exclusive of roads and streets and most military and naval equipment), not 7 percent as in 1900; and employs 12 percent of the nation's labor force, not 4 percent as in 1900. Today, through transfer payments, government adds \$12 billion, or 6 percent, to the income of individuals, and through income taxes, subtracts \$18 billion, or 9 percent; in 1900 transfer payments were well under 1 percent of total income, and income taxes could not be levied.

Before 1900 a bill to appropriate \$25,000 for seed corn for Texan farmers hit by a drought could be vetoed. In 1949 a federal disaster-relief measure, started to aid snowbound ranchers in the Dakotas and Wyoming, could mushroom in little more than a year into 26,000 loans totaling \$31 million, made by the Farmers Home Administration to farmers in 35 states, to mitigate the effects of factors ranging from boll weevil damage in the South to wind storm damage in New England.

Even with this brief contrast between 1900 and 1950, we begin to grasp the great changes that half a century saw in the role of government in our economic life, and to understand some of the factors that brought them. Let us now move up to a closer examination of the changes, taking note of what happened during the years between 1900 and 1950.

⁷ Henry L. Stimson and McGeorge Bundy, *On Active Service in Peace and War* (Harper, 1948), p. 63.