

The rise of american industry- american economic history



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American Economic History 2008 The history of American private sector is that of the legal entity of the business firms that were essentially multi-unit organizations linked through production, distribution, communication and transportation, which first appeared in the 1880s and grew to a phenomenal extent through the Second World War (Chandler, 1992). Such multi-unit firms emerged with the arrival of the railroad, telegraph, steamships and cable network which were great innovations that resulted in private enterprises that have been termed as the Second Industrial Revolution. This made America the predominant capitalist economy at the turn of the twentieth century (Wright, 1990). Although America has been blessed with abundant geological resources, the intensity of conversion of natural resources into manufactured commodities, which grew the most during 1880 to 1920, was the major reason that American industry could grow to this predominance. Economies of scale and capital intensive production was possible because of the access to new materials like aluminum and copper as well as larger markets through the transportation network (Chandler, 1992). This enabled the American industry to get a competitive advantage in the period prior to the First World War.

During the inter-war years, 1929-41, the American economy witnessed the worst recession and unemployment situation as a result of demand crash, hence the period popularly known as the Great Depression. The economy recovered after the Second World War and the period between 1948 and 1973 was a boom time, with private non-farm enterprises growing fast.

Interestingly, even during the depression years, growth in real output was higher than the growth in real wages and real capital, that is total factor

productivity (TFP) grew faster than in the post-war boom years. Some <https://assignbuster.com/the-rise-of-american-industry-american-economic-history/>

economists have argued that this simultaneous existence of high labor productivity and unemployment stems from the fact that with decline in demand, private enterprises tended to lay off the unproductive labor. Hence, selective labor retention and improved management practices enabled higher labor productivity. However, other economists have found that factors other than selective retention of labor resulted in the high inter-war productivity growth, which was the base on which post-war economic revival happened in America. For example, quality of labor improved as Americans received better educational qualifications during the inter-war years, a level that was not achieved again since the 1960s (Goldin, cited in Field, 2006).

On the other hand, there is no evidence of capital deepening since the physical capital stock was nearly at the same level in 1941 as it was in 1929. Hence, the reason for growth in labor productivity in the 1930s was an across-the-board rise in TFP in all manufacturing sectors, in contrast to the information technology-led growth of the 1990s that was concentrated only in some industries (Field, 2006).

Economic growth can essentially be explained through the history of the nation since technological growth is not possible without a historical backdrop. This explains the differences in growth between different countries (Romer, 1996). Hence, it has been found that higher educational qualifications explain why America grew faster economically during 1880 to 1920 than Britain did. The differences in the rate of investment between the two countries cannot either be explained by the differences in savings rates but by the fact that Britain invested more abroad than in the national economy during this period. Therefore, while neoclassical economics simply explains growth through the factors of production, new growth theories take <https://assignbuster.com/the-rise-of-american-industry-american-economic-history/>

into account historical elements in the pattern of growth and background.

The development of entrepreneurship and technology in America, induced by education and innovation, allowed the country to grow faster than the European counterparts between 1880 and 1920. Despite the Depression during the following decade or so, the higher productivity achieved during this period resulted in the successive growth years.

Works Cited

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