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America's Competitive Heritage

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In the 150-year colonial period before the American Founding in 1776, the settlers built a prosperous society with strong, independent local governments. It was a world of freedom, enterprise, and productive competition in commerce, religion, speech, and government. That heritage profoundly shaped the Declaration of Independence, the Constitution, and the early republic. Today, separation of powers and federalism have given way to centralized executive government, and the line between public power and private enterprise has become blurred. Reintroducing competition into the operations and policies of government would be the best possible way to celebrate America's 250th anniversary.

We are one year from America's 250th birthday—born on the Fourth of July 1776, announced by our Declaration of Independence. The party is already underway, with books and symposiums, spruced-up historic sites, essays such as this one, and, in Washington, an official "U.S. Semiquincentennial Commission."

The Declaration's self-evident truths—human equality, liberty, pursuit of happiness, self-government—will be parsed and plumbed. Did you realize they were phrased in iambic pentameter, throwing down the gauntlet at the Brits in the cadence of Shakespeare and Milton? Its short list of "unalienable rights" will invite conservative paeans to natural law and liberal recommendations to extend the list. Its litany of King George's abuses will be contested. Some were trumped up and will get Pinocchios from modern fact-checkers—but they were meant to be taken seriously if not literally, and led to key provisions in the Constitution. Incumbent Presidents and Congresses cannot manipulate their tenures; the President cannot dissolve Congress; Congress cannot discharge the President except in extraordinary circumstances.

The main object of attention will be the Founding itself and the momentous epoch it launched. The Declaration's preamble did not fall from the sky, nor from the pens of Locke and Montesquieu. It was an instrument of statecraft, written by representatives from 13 colonies with disparate interests and values who found sufficient common ground to pledge their lives, fortunes, and sacred honor on a risky bet on nationhood. Their studied neglect of slavery, even as they laid the moral foundations for its eventual abolition, will be vigorously debated. In the Gettysburg Address, Lincoln recast the Declaration's "truth" of human equality as a "proposition" to test later generations, and its birth of freedom as needing rebirth. Many celebrants will say that we were a nation of immigrants from the start and came to be defined by our cultural diversity and spirit of liberal pluralism.

I believe there was a principle at work in 1776 that was undeclared but implicit in the Founders' words and deeds, something so embedded in their lives and thinking that they took it for granted. That was the principle of competition. The free-market economy, with multiple suppliers competing for resources, workers, and customers, was an American departure from British monopolies and mercantilism—and incited many of the disputes that led to revolution. Competition became the driving force of American science, religion, and culture—enshrined in the First Amendment's policy of laissez-faire. And it was the foundation of our politics and government. Through regular elections, separation of powers, and federalism, incumbents and challengers compete for votes while government institutions compete for jurisdiction and power.

Competition is a universal condition, present in all societies and throughout the natural world, but it has been codified, systemized, and given ample rein in America like nowhere else. Our touted "liberal pluralism"—mutual toleration among a mosaic of groups and cultures—is better described as *competitive pluralism*. We proselytize ardently on behalf of matters moral and practical, personal and political, and build institutions that actively compete for adherents, prestige, and prerogatives. Properly regulated, this competition generates knowledge and improvement. Americans have been more concerned with regulating and harnessing competition than with suppressing it—and first learned to do so in our founding epoch.

I came to this view in preparing a paper for one of the birthday commemorations, the American Enterprise Institute's "America at 250" project. My assignment was to write about the Founders' capitalism, a well-trodden subject. The Constitution promoted private property, freedom of contract, and limited government, and early Supreme Courts actually took its provisions seriously. Alexander Hamilton's financial brainstorms during the George Washington Administration—nationwide banking, stable currency, well-managed public debt, securities markets—set the new nation on a path of unprecedented economic growth.

It's a great story, with many lessons for our dissipated modern age. But I thought it neglected a critical question: Where did those market-friendly policies come from? Historians quote pro-property-rights passages from the *Federalist Papers* and note that Adam Smith's *Wealth of Nations* appeared in 1776 and was studied by several Founders. But this is cherry-picking. "Crony capitalism," making sport of property and contract, was prevalent in the colonial assemblies and early state legislatures. Hamilton's policies were bitterly contested and enacted through a fair amount of political subterfuge. The economy grew spectacularly in the new republic in the face of many policy uncertainties and adverse measures.

I found the answer in our 150-year colonial experience before the Founding. Robert Frost's "The land was ours before we were the land's / She was our land more than a hundred years / Before we were her people"[1] is poetic license. The colonial settlers had built a de facto nation before they declared themselves an independent people. And the building blocks were enterprise and competition. The land was a gift outright that came with severe demands. Settlement of a raw wilderness required personal assertiveness and risk-taking, active commerce with the distant Old World, and creative adaptation of British and Dutch laws and customs.

Social practices—the "folkways" of David Hackett Fischer's *Albion's Seed*—varied widely from New England to the mid-Atlantic to Virginia and the South.[2] Politics and government were accordingly localized and distinctive, with differently situated colonies competing for settlers and finance. The abundance of land and natural resources, and the industriousness and cultural similarities of the settlers, kept colonial politics from descending into dog-eat-dog tribalism. (The same could not be said of competition with the native tribes.)

These circumstances profoundly shaped the Founders' work. Fragmented political authority and competition in government gave running room for enterprising men, who were numerous, to establish a prosperous economy. There were three phases of evolution: colonial, founding, and national.

The Colonial Period (1620–1770)

America was settled by adventurers, some of them well-off but fleeing religious persecution, some facing worldly problems, some poor outcasts—all of them seeking a new life in a faraway land. Well into the 18th century, the pilgrimage began with a perilous ocean voyage followed by daunting uncertainties and challenges. There was plenty of land and water, and eventually towns and a few cities, but making one's way would take hard work, resourcefulness, and resilience. Alexis de Tocqueville's 1835 appraisal was that "nature and circumstances have made the inhabitant of the United States an audacious man."[3] Historian Carl N. Degler wrote in 1959 that "capitalism came in the first ships."[4] They were venture capitalists, investing in themselves. They left their native world, where labor was abundant and cheap and land was scarce, for a new world where land was abundant and crying out for labor.

Enterprising Religion. Many settlers were religious refugees and strongly communitarian, but their leaders were necessarily self-reliant and practical. Puritan John Winthrop and Quaker William Penn came from wealthy, well-connected English families and became enthusiastic colonial developers. Their dissident heritage, soon joined by many denominational start-ups, made competition the defining feature of American religion. Some sects advocated religious tolerance; others would have been happy with an Old World–style monopoly. The conditions of colonial life settled the matter. The vast, sparsely settled territory made tidy parishes impossible. The population was culturally diverse and included many who were irreligious or mere deists. Economic development was imperative, and merchants and traders found religious preferences bad for business. When adopted a century later, the First Amendment's protections of religious freedom were not a philosophical dispensation but rather a codification of facts on the ground.

Religion was also the proving ground of our celebrated practice of voluntary association. Americans, Tocqueville wrote, "so completely confuse Christianity and freedom…that it is almost impossible to have them conceive of the one without the other." They build schools and missionary churches on the frontiers so that the next generation may be "as free as the one from which it has issued."[5]

The Business of Settlement. The colonies began as either joint-stock companies owned by private investors or royal land grants to favored individuals. Privatized, for-profit colonization reflected English political traditions and, in the 1600s, the distracted circumstances of its kings and ministers through decades of war and revolution. In contrast, the Spanish came as conquistadores for church and state, and the French trappers as agents of the crown with no political rights of their own.

The colonies were rich in resources but starved for goods and credit and isolated by a mighty ocean. Seaborne commerce required capital investment, reliable connections in foreign ports, and management of the enormous risks of ocean transport. This led to the rise of the businessman, recounted in the first of Bernard Bailyn's studies of early America.[6] In New England, merchants became influential personages, equaling and eventually supplanting Puritan church leaders in colonial government. They were a force for economic and political reform along competitive lines—blithely ignoring the mother country's mercantilist shipping restrictions, and defeating efforts to establish homegrown government monopolies in the colonies.

Insurance and Self-Mastery. The merchants, in financing complex voyages with multiple perils, hit on the idea of treating risk as a commodity—separate from the physical commodities being transported and subject to estimation, valuation, and competitive exchange. Markets in marine insurance contracts soon appeared on both sides of the Atlantic. University of Chicago historian Jonathan Levy has shown how the invention of insurance led to the distinctly American conception of freedom as self-ownership.[7] If the future could be reckoned with, rather than passively accepted as implacable fate, then the individual could take responsibility for his own life's course.

Which eventually included the enslaved persons aboard many of those ships. From records of slave ships and court proceedings, Levy shows how insurance contributed to abolition. Slaves, like other cargo, had been insured by their owners. Could the shipowners recover their losses from a slave revolt—or not, because the slaves had taken charge of their lives and attendant risks? If modern personhood meant self-mastery, why shouldn't black persons be masters of their own selves?

From Aristocratic Endowment to Democratic Capital. The colonists' most important economic innovation was converting land from aristocratic endowment to democratic capital, analyzed in the pathbreaking scholarship of Yale Law School's Claire Priest.[8] English law and custom treated land as the foundation of hereditary social status and social stability—fenced off from mere commerce by primogeniture and entail, restricted from use as security for borrowing and investment. In contrast, the colonial joint-stock companies and land barons distributed their land widely and cheaply in order to promote remunerative settlement and development. Outright squatting, which was illegal in Britain, was natural and hard to police in the wilderness. Colonial legislatures established public records of deeds and mortgages and gave squatters rights to the value of their property improvements.

They also liberalized creditors' remedies against debtors' land—which lowered interest rates and made land routine security for commercial investments and everyday transactions. Merchants would provide cash-starved farmers with supplies in exchange for a portion of next fall's harvest, secured by an interest in the farmers' land. Justice Joseph Story, in his 1833 *Commentaries on the Constitution*, observed that the colonial legal reforms made land "a substitute for money."[9]

The Invention of Money. The land and its promise soon became the foundation of actual money. The colonies suffered from a lack of currency, the result of British hoarding of specie (silver and gold coins). The solution was "fiat money," another momentous invention. Beginning in the late 1600s, colonial governments issued "bills of credit," promising to redeem them at some future date, and set up "land banks" that issued bills as mortgage loans. In this manner, they created portable, plenteous currency. It was backed not by specie, which they lacked, but by land and credit—credit being confidence in future growth—which they possessed in abundance. Monetary performance was mixed at best, with many cases of overissuance and severe inflation. But government money was a new, complex phenomenon, and the variety of tyro colonial practices and results generated rapid learning-by-doing. (Pennsylvania was a leader in stable money.) This was America's first deployment of "laboratories of democracy"—competitive federalism—and produced steady policy improvements and economic growth.

On the eve of the revolution, Britain's North American colonies had become the most prosperous society on earth. Income, living standards, and literacy were much higher than in Britain and Europe and in the Spanish and French colonies. Adult men averaged five feet, nine inches, about three inches taller than Brits and Europeans. In the northern colonies, more than 70 percent of families owned their own land. Population was surging thanks to high fertility and immigration.

The disputes over taxes and trade that led to war were about self-government, not commerce per se. But they were powered by entrepreneurial success. If the rebels had been poorer, or conventionally risk-averse like the Tories among them and the Canadians to the north, they would have stuck with the bargain of British rule for British protection. But "audacious men" had already risked everything to settle the territory. Now they wanted political freedom, and they had acquired the resources to make a fight of it.

The Founders personified that heritage. Most of the signers of the Declaration of Independence and Constitution were accomplished men of commerce—merchants and farmers, shippers and shopkeepers, investors and speculators and land developers, such as Washington, Benjamin Franklin, John Hancock, Robert Morris, and James Wilson. The lawyers and pamphleteers among them had substantial experience in trade and finance. They were utterly unlike the usual revolutionaries—radical intellectuals, malcontent lawyers, romantic noblemen, and ambitious military officers, such as those who formed the Committee on Public Safety in the contemporaneous French Revolution. Our Founding Fathers were brilliant, learned, and conscious of their historic calling. But they were also pragmatic, accustomed to the give-and-take of business affairs, comfortable with competing interests, and amenable to compromise. They had built their world and aimed to preserve and improve it, not overthrow it.

The Founding Period (1770–1790)

The War of Independence came at a terrible cost. More American lives were lost per capita than in any subsequent war, incomes fell drastically, and towns and harbors were decimated. The war was financed by desperate emissions of paper money, which eventually became virtually worthless. And war was followed by years of economic depression, plummeting foreign trade, and domestic political turmoil. The Continental Confederation and many states were effectively bankrupt and unable to service their debts or pay the soldiers who had won independence.

Still, the exigencies of war spurred many improvements in manufacturing, transportation, and communications. With victory, they were ready for nation-building. Gordon Wood writes that the 1780s were:

> [T]he most critical moment in the entire history of America...[revealing] for the first time all the latent commercial and enterprising power of America's emerging democratic society. In the 1780s we can actually sense the shift from a premodern traditional society to a modern one in which the business interests and consumer tastes of ordinary people were coming to dominate.[10]

With peace, the Declaration's battle-cry that all men are created equal, with unalienable rights to life, liberty, and the pursuit of happiness, "released the aspirations and energies of common people as never before."[11]

Government was, as ever, a lagging indicator, but caught up fast. The 1780s state assemblies were nests of post-war recriminations and inside dealing. But the first state constitutions, drafted by the likes of John Adams and Thomas Jefferson, introduced written charters with popular consent, separation of powers with a single executive and independent courts, and bills of rights protecting speech and religion. The national government of the Articles of Confederation was seriously deficient, lacking authority to raise revenue and negotiate foreign trade agreements. Yet the Continental Congress turned in an outstanding record. It concluded a peace treaty with Britain that nearly doubled American territory, and induced the largest states to relinquish their claims to western land for the formation of additional states. It consecrated much of the new territory with its Northwest Ordinance—protecting property and political and religious freedoms; forbidding slavery; laying out a brilliant system for plotting and selling the land in fee simple (building on the colonial legal reforms); and establishing townships and schools.

Inherited Federalism. On the score of competitive government, the most striking achievement of the 1780s was adventitious: a strong system of federalism. The Articles of Confederation were a loose compact of 13 newly independent states, and the Continental Congress voted by state and required a supermajority of nine. The arrangement was a natural outgrowth of the colonial system and gave the states a head start in forging a proper national government. The impresarios of the Philadelphia Convention of 1787—James Madison, Washington, and Hamilton—were disgusted with the impotence of the Confederation and the parochial machinations of the state assemblies. Madison showed up with a plan to abolish sovereign states in favor of a unitary national government. This was to be accomplished through a bicameral Congress apportioned by population in both chambers, equipped with an absolute veto over state legislation. The scheme died in the opening days. Delegates from smaller states were implacably opposed—and many others felt it was redolent of the British Parliament's oppression of colonial assemblies and would incite popular opposition when the time came for ratification.

The Convention proceeded to draft a Constitution in which the states were equally represented by their own delegates in the Senate and were major players in national elections for President and Congress. The document made federal law supreme and fixed widely acknowledged problems in the Articles—the federal government could impose taxes and tariffs and regulate commerce, and state governments could not (among a few other things) enact ex post facto laws, bills of attainder, or laws "impairing the obligation of contract." But the states continued to possess plenary powers beyond the specific prohibitions, while the federal government was one of enumerated powers with a strengthened form of the separation-of-powers architecture pioneered by the state constitutions.

Edward C. Banfield described the Convention's federalism as "an accident"—a product not of "reason and choice" but of "competition and struggle."[12] It could also be described as an inheritance. The distributed political structure of the colonial and confederation periods shaped the Philadelphia deliberations, which adapted that structure to the needs of a new nation.

The Inheritance Justified. That structure promptly acquired a philosophical warrant. Although Madison despaired of the system of "shared sovereignty" as it emerged in Philadelphia, he left with an enlarged view of the matter. In the ratification debates, Madison "embraced the very ambiguity [he] had condemned as a fatal weakness of the Constitution as its central strength," writes historian Joseph J. Ellis.[13] His *Federalist* essays 10, 39, and 51 laid out what may be called the competitive theory of federalism:

- The first protection against tyrannical government is a large nation—"a greater number of citizens, and a greater sphere of country." An "extended republic" will encompass so many factions competing for legislative favors that it will be difficult to assemble oppressive majorities.

- The second protection is separation of powers into executive, legislative, and judicial branches. Here Madison draws explicitly on the experience of competitive markets—"[The] policy of supplying, by opposite and rival interests, the defect of better motives, might be traced through the whole system of human affairs, private as well as public."

- Federalism combines the two protections "happily for the *republican cause*." First, the "practicable sphere" of a federated nation is larger and more various than a single authority could effectively govern; second, "a double security arises to the rights of the people" by dividing powers not only within each level of government but also between the two levels.

The New Republic (1790–1890)

The American economy took off like a rocket in the 1790s, propelled, no doubt, by the spirit of democratic freedom noted by Wood, now fortified by an able national government and new protections of property and contract. But economic historians agree that the immediate cause was the genius financial policies designed by Secretary of the Treasury Hamilton and embraced by President Washington—a national banking system, the federal government's assumption of state debts, and a stable national currency backed in part by specie and in part by well-managed debt.

These were the first fruits of the Constitution's checks and balances. Congress on its own, or a parliamentary government in which the executive is appointed by the legislature, would never have adopted such radical measures. They were the upshot of "energy in the executive" confronting, and eventually prevailing upon, a surprised, reluctant legislature. It began a distinctively American form of institutional competition. In most nations, the head of government is chosen from longtime denizens of the national legislature. Our Congress, while holding immense formal power, must contend with a President with his own political base and a disposition impatient with legislative divisions and inertia.

Federalism has added powerfully to this dynamic. Since Andrew Jackson inaugurated the democratic presidency, only four men have moved from Congress to the Oval Office (Benjamin Harrison, Warren Harding, John F. Kennedy, and Barack Obama), while the President has often been a state governor challenging an inbred Washington establishment (Theodore Roosevelt, Woodrow Wilson, Franklin Delano Roosevelt, Jimmy Carter, Ronald Reagan, Bill Clinton, and George W. Bush).

Hamilton's financial program was also the advent of policy federalism. Debt assumption freed the states from inherited burdens they were ill-equipped to manage—while giving the fledgling national government instant gravitas and the means of establishing a uniform national currency, backed by a debt portfolio secured by its immense land holdings. The Bank of the United States, mainly privately owned, offered complete banking services and prompt nationwide remittances—but possessed nothing like the monopoly of the Bank of England. The Constitution forbade the states from issuing fiat money but said nothing about banks! States seized the opportunity to charter banks that issued bills of credit alongside the national currency, made easy loans to their state governments and private customers, and were attuned to local interests. State-chartered banks, numbering three in 1790, grew to 28 in 1800, 102 in 1810, and many hundreds thereafter. As early as 1800, the ownership capital of the state banks, and the value of their bills circulating as money, surpassed those of the Bank of the United States.

Capitalism in Nation-Building. Financial federalism set the stage for a highly productive division of labor in nation-building. The national government specialized in land acquisition through purchase, treaty, and conquest from Mexico and in military defense of the expanding territory. Most of the land was disbursed to settlers and investors, first at nominal prices and then, in the Homestead Act of 1862, in gifts outright, totaling 270 million acres, in 160-acre lots to settlers who agreed to live on and improve their properties. This was supply-side democratic capitalism, promoting private economic growth and widespread ownership at the cost of immediate government revenue. It was also legislative populism at its best: As Yale's David Mayhew has observed, "It is a wonder that any incumbent politician ever lost an election."[14]

But the national government was ill-equipped for the tasks of development. The Jefferson–Madison Republicans, who supplanted the Washington–Hamilton Federalists in 1801, thought it lacked constitutional authority to build turnpikes, canals, bridges, and other infrastructure. Another problem was congressional politics: Westward-ho transportation routes inevitably favored some states and regions at the expense of others, which defeated legislative efforts to forge majority coalitions for new revenues and appropriations.

The states moved into the vacuum with gusto, launching a multitude of ambitious projects on their own. In the period 1790–1860, when the federal government spent only $60 million on transportation development (mostly lighthouses and river-and-harbor projects), the states, numbering 33 by 1860, spent more than $450 million, financed mainly by heavy borrowing in league with the proliferating state banks. The results included some spectacular successes (the 1817–1825 Erie Canal was profitable even before it was completed), some equally spectacular failures (overborrowing led to a cascade of state defaults in the 1839–1843 financial panic and ensuing depression), and numerous in-betweens, with performance improving notably in the years leading to the Civil War.

At the same time, the states pioneered the for-profit business corporation, which had hardly existed before 1790 in America or anywhere else. State charters limited the liability of investors for corporate obligations and defined the rights and obligations of shareholders, directors, and managers. Corporations could thereby raise much greater capital than traditional partnerships and sustain operations beyond the lives of their founders. Ownership shares traded in securities markets alert to the policies of different states. The innovation brought private equity and specialized management into banking and transportation and more—insurance, water utilities, mining, manufacturing, and the era's high-tech disrupters, railroads and telegraphs. By 1860, America had 20,000 business corporations, more than the rest of the world combined. Most were small, local concerns, but many were big, ambitious enterprises. Railroads, many with interstate brands ("Baltimore and Ohio"), were state-supported ventures until the 1850s.

In this manner, American economic development was driven by pell-mell competition among states, regions, and private enterprises, not central national planning. Competitive development generated conflicting and duplicative projects—but that was inevitable in circumstances that were highly fluid and unpredictable, and the sorting out of successes and failures yielded valuable knowledge about the best course of empire. Decentralized development harnessed the nation's tremendous variety of population, demography, culture, climate, natural resources, and forms of agriculture, industry, and trade.

Federalism in Policy Reform. The alliances of state governments with private business interests involved many cases of political market-rigging and outright bribery. Here, as in the introduction of official money in the colonial period, interstate competition was an effective teacher. Early state banks were owned in part by states themselves (in a few cases, entirely), which gave the states strong incentives to limit new entry and protect local banking monopolies. Early corporations were created by "special charters" granted by legislatures for specific projects with special privileges. But competition for settlers led the states to expand voting suffrage and qualifications for officeholding, which shifted politics toward consumer interests.

By mid-century, most states had introduced "free banking" and "general charters"—which permitted entrepreneurs to obtain charters administratively, without limits on entry or corporate purposes, simply by filing papers demonstrating compliance with general policies. Increasingly, states raised revenue with taxes rather than corporate ownership and dividends. These reforms did not usher in a libertarian Elysium by any means, but they did enact open competition as the governing principle of American finance and commerce.

By 1888, the 100th anniversary of the Constitution's ratification and first national elections, the United States spanned a vast continent and had become the world's largest economy and greatest industrial power. The colonial and founding bequests of political and economic competition, and the deeds of heroic and quotidian enterprise they kindled, were fundamental causes of this preeminence. Americans may or may not have understood the sources of their stupendous prosperity, but it was theirs to enjoy, employ, and contend with in a looming new era.

Coda

The Progressive era beginning in the late 1800s was the first of a succession of political eras that departed ever further from our period of national development—New Deal, Great Society, down to today's unnamed conglomerate of welfare and regulatory programs. Urbanization and industrialization, the abolition of slavery and later of Jim Crow, waves of new immigrants, and fundamental changes in technology and demography transformed American society, culture, and politics. Attentions turned from the creation of wealth to its uses and abuses, and its control and distribution.

A constant across these eras has been the attenuation of competition in government and, as a result, competition in the private economy. In Washington, separation of powers is a shadow of what it was as recently as 30 years ago: The "executive state" has grown immensely in size and scope, the President has replaced Congress as the nation's lawmaker, and Congress has been reduced to partisan flailing at executive initiatives. State policies have been regimented, and interstate competition suppressed, by money and edicts from the national government. America remains a capitalist economy par excellence, with bracing competition and creativity in many sectors, including some with large corporations and market shares. But banking, finance, insurance, energy, and automobiles have become so thoroughly politicized that it is sometimes difficult to tell whether companies are agents of the marketplace or the government.

Yet, competition is not a tool that was useful for nation-building and then became outmoded. It remains a central principle of the American order in science and religion, art and literature, sports and spelling bees, and today's populist rebellion against domineering elites. While not among the Declaration's principles, competition has much in common with them. It is rooted in human nature and God's creation; it is part and parcel of the practice of liberty and the pursuit of happiness; and it is aspirational, requiring legal rules, social norms, and self-restraint to adjudicate its boundaries and realize its promise.

Today, competition occupies a lesser place in the political lexicon because politicians and public officials, armed with coercive power, prefer "cooperation," which sounds nice but is often a threat. The two are in fact complements. As Adam Smith explained at the time of the Founding, sympathetic cooperation is the domain of family, friends, and tightly-knit communities, while competition is the best means we know for promoting cooperation in the impersonal wider world. Reintroducing competition into the operations and policies of government would be the best possible way to celebrate our 250th.

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