The Civil War radically changed the role of the federal government in the macroeconomy. It also cost a lot: per capita federal debt in 1859 was less than two dollars but rose to over seventy-six dollars by 1865.1 Once the war ended, so did government payouts for men and matériel. That withdrawal, coupled with the need to repay government creditors, might seem to set the stage for recession. In fact, real per capita GDP grew faster after the war than before, with only a small downturn during the financial panic of 1873.2

But the fruits of growth did not fall evenly. What little data we have indicate an increase in wealth inequality throughout the nineteenth century. Postbellum farm productivity lagged relative to overall productivity, and the new industrial economy brought terrible workplace conditions for ordinary laborers. Most notably, the postbellum South was a wasteland for decades,

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2Willard Thorp, writing during World War II, noted that depressions typically follow wars when the government withdraws as a customer for military goods and services. Willard Thorp, “Postwar Depressions,” American Economic Review 30 (1940):352–61. Thorp’s work suggested a need for postwar planning. Depression did not occur after the Civil War; because of booming economic conditions, per capita federal debt actually halved between 1866 and 1880. Carter et al., Historical Statistics, Series Ea650–51.
particularly for black Americans—nine-tenths of whom remained below the Mason-Dixon Line in 1900.³

**Overall Growth and Its Components**

Figure 1 shows the upward climb in real GDP per capita from 1840 to 1890. Annualized growth rates tell a more nuanced story: the rate was 1.65 percent in the two decades before the Civil War but rose to 1.89 percent in the years after the war up to 1890.⁴

⁴I fit an exponential function to estimate the annual rates for each period. The annualized growth rate in real GDP per capita was 1.15 percent during the Civil War. The data before 1840 are spotty, but estimates indicate an annualized growth rate of 0.73 percent for the period 1790 to 1840. Paul Rhode and Richard Sutch, “Estimates of National Product before 1929,” in Carter et al., *Historical Statistics*. Growth was below trend
Why? Because productivity increased: a given amount of inputs yielded a greater quantity of output than before. This was true for both manufacturing and agriculture, although productivity growth was markedly greater in industry. And industry mattered more by the mid-1880s, as figure 2 shows.

in the half decade following the financial panic of 1873, which began the third week of September and was followed by an industrial downturn. The trigger for the 1873 panic, like the one for the panic of 1857, was excessive lending to railroad companies. One of the victims of the 1873 panic was Jay Cooke and Company, which had offered large advances to the Northern Pacific Railroad. Warren Persons, Pierson Tuttle, and Edwin Frickey, “Business and Financial Conditions following the Civil War in the United States,” Review of Economics and Statistics 2 (1920):5–21. Joseph Davis, “An Annual Index of US Industrial Production 1790–1915,” Quarterly Journal of Economics 119 (2004):1177–215, uses physical volume data on forty-three manufacturing and mining industries to suggest that the downturn after the panic of 1873 was shorter lived and milder than earlier scholars had thought.
Productivity growth was fueled in part by hardworking new Americans. Immigration to the United States exploded because of the opening of cheap fertile land to the west, with a net 2.2 million people arriving during the 1870s and 4.7 million during the next decade.\textsuperscript{5} Extensive railroad growth aided the westward movement. In 1860, 31,000 miles of main-line track were in operation. This figure climbed to 74,000 by 1875 and 167,000 by 1890.\textsuperscript{6}

Not only did railroads expand, but early in the 1870s the country replaced its iron rails with steel, which has significantly greater load-bearing capability.\textsuperscript{7} This meant immense savings on transportation costs. In 1868, the cost to send a bushel of wheat from Chicago to New York was 30.49 cents; by 1898 the cost had fallen to 1.55 cents.\textsuperscript{8}

Lawmakers set the stage for western growth during the Civil War, with 1862 being an especially busy year. The Thirty-Seventh Congress passed the Homestead Act on May 20 and authorized a transcontinental railroad on July 1, encouraging the population of the trans-Mississippi West to swell from 4.5 million in 1860 to 16.4 million in 1900.\textsuperscript{9}

One indicator of progress is the amount of patent activity. Figure 3 shows its escalation after the Civil War, in part due to war-related inventions. The United States issued half a million patents from 1860 to 1890 and became the world leader in applied technology.\textsuperscript{10}

\textsuperscript{5}Carter et al., \textit{Historical Statistics}, Series Ad22. Persons et al., “Business and Financial Conditions,” point to the steady and rapid increase in national output, the surplus revenue of the government, and the increasing immigration to the United States as evidence of a quick recovery from the Civil War.
\textsuperscript{6}Carter et al., \textit{Historical Statistics}, Series Df884.
\textsuperscript{9}Sidney Ratner, James Soltow, and Richard Sylla, \textit{The Evolution of the American Economy: Growth, Welfare, and Decision Making}, 2nd ed. (New York, 1993), p. 259. Overall U.S. population doubled from 1860 to 1890 and tripled from 1860 to 1910. Carter et al., \textit{Historical Statistics}, Series Aa2. On the same day as it blessed the transcontinental railroad, Congress established the Internal Revenue Service and outlawed bigamy. The next day, it passed the Land-Grant College Act. Congress in 1862 also made fiat money legal tender and freed slaves in the District of Columbia and the territories. Legislative bodies can be amazingly active when the dissidents have departed!
Distribution of the Fruits of Growth

Although information about personal wealth during the nineteenth century is sketchy, the best estimates indicate that the wealthy were getting wealthier. The top 20 percent of households possessed just under three-quarters of wealth in 1820 but owned over 97 percent by 1900. In part, this trend occurred because of the unusual amount of equality that existed in the colonies.

Some of the wealthy bear familiar names: Andrew Carnegie (who was superintendent of military railroads and telegraph lines during the Civil War...

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and supervised the evacuation of the Union army after First Bull Run), Jay Cooke (who, with Lincoln’s gratitude, generated effective ways to market government bonds directly to the public during the war), and John D. Rockefeller (who was an abolitionist supporter of Lincoln but hired surrogates to fight in his place). Some call these men “robber barons,” but others note they succeeded largely because they adopted efficient technology and innovative methods.\(^\text{13}\)

The Gilded Age had other success stories, however. From having nothing in 1865, one-fifth of black farm operators actually owned their land by 1880.\(^\text{14}\) The wealth of black Georgians grew 9 percent annually from 1875 to 1892.\(^\text{15}\) Of course, blacks’ income and wealth remained substantially below that of whites; but, in some ways, the achievements of newly freed blacks outshone those of the white men at the top. Still, wealth generally became more unequally distributed.

### Monetary Policy, Price Changes, Creditors, and Debtors

One factor contributing to the unevenness of growth was money market activity during the Civil War and Reconstruction. To finance the war, the nation moved from commodity money (backed by gold and silver) to fiat money (backed by nothing other than the full faith and credit of the federal government).\(^\text{16}\) Although the United States operates with fiat money now, it was a major innovation in the 1860s.

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Fiat money essentially means that the government prints up pieces of paper and requires people—suppliers and soldiers—to accept them as legal tender. The Civil War-era federal government printed enormous amounts of the so-called greenbacks and other federal notes; not surprisingly, this led to substantial inflation. Despite the increased cost of living, the wages of white privates in the Union army remained constant until May 1864. Wages were even lower for black soldiers.\(^\text{17}\)

The departure from specie was always intended to be temporary, and after the war the nation stumbled its way back to the prewar specie standard. Financial conservatives wanted to accomplish this quickly, but President Ulysses S. Grant allowed the reissuance of greenbacks to lubricate financial markets after the panic of 1873. The Senate under John Sherman (brother of William Tecumseh) subsequently drafted a resumption bill to return the United States to commodity money on January 1, 1879, and Grant signed it in January 1875.\(^\text{18}\)

Because of population and productivity increases, the macroeconomy effectively “grew up” to the amount of currency in circulation. But considerable uncertainty remained about what the government might do and how much deflation to expect when.\(^\text{19}\) Unanticipated price changes affect creditors and debtors differently, particularly when building flexibility into interest rates is difficult. In the nineteenth century (and much of the twentieth), fixed interest rates were nearly ubiquitous. Unexpected deflation thus hurt


borrowers, who had to pay back in dollars that were worth more than when they were borrowed.

And who were the borrowers? Farmers, for one.

**Particular Problems for Farmers**

Not only did borrowing farmers suffer from unanticipated deflation, but farm prices fell faster than other prices during the immediate postbellum years. Farm income therefore did not keep up with the purchase prices for manufactured goods. After 1873, farm prices generally turned around, but they remained highly volatile, creating considerable uncertainty about expected farm revenue.\(^2^0\)

What is more, although overall farm acreage grew, farm sizes shrank (fig. 4). This meant that people—particularly Southern blacks—had to farm their land more intensively than before.\(^2^1\) As a consequence, agricultural productivity did not grow as fast as productivity in other sectors of the economy. Figure 5 shows that per capita real output was lower in the farm sector throughout the nineteenth century, with the gap widening significantly after the war.

Farmers were further frustrated by what some thought was price-gouging by railroads, particularly on short-haul routes where the local line held a monopoly. This frustration gave rise to the Granger movement, which unified farmers across the nation.\(^2^2\) In fact, the first major postbellum national convention held in the South was a Granger gathering in Charleston, South Carolina, in 1875.\(^2^3\) The aggregate macroeconomy did well after the war, but farmers understandably felt left behind.

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Fig. 4. Farm acreage and average farm size, 1850–90. Source: Gary Walton and Hugh Rockoff, *History of the American Economy* (Mason, Ohio, 2005), p. 287.

Fig. 5. Per capita real output, 1800–1900. Source: Carter et al., *Historical Statistics*, Series Ba817, Ca11, Da28, Da1285.
By far the largest postbellum discrepancy was regional. The North was larger than the South, both in geographic area and in population, so it is not surprising that the North also had more total wealth in 1850 than the South. But, as figure 6 shows, the difference grew much larger by 1870—in part because slaves no longer counted as wealth, and because much of the war’s destruction took place on Southern soil. The South lost one-third of its hogs in the war, for instance.24

On a per person basis, output and income in the South compared favorably with that in the North on the eve of the Civil War. But real per capita output in the 1870s and 1880s in the South measured only half that in the North.25

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24Wright, Political Economy, p. 164.
25The South received 26 percent of the nation’s personal income in 1860 but only 15 percent by 1880. Per capita personal income in the South was 72 percent of the national
The cotton states stagnated even after the Reconstruction years. The annual growth rate in real per capita income between 1879 and 1899 in these states amounted to only half the rate for the United States as a whole. Not only did the South have to adjust to a different sort of labor market after the war; it also had to cope with a large decline in world demand for cotton.

Wages in the postbellum South lagged behind those in the North across economic sectors. Figure 7 shows that agricultural wages in the South Central region were roughly comparable to those in the North from 1818 average in 1860 but only 51 percent in 1880. Mark Aldrich, “Flexible Exchange Rates, Northern Expansion and the Market for Southern Cotton 1866–1879,” *Journal of Economic History* 33 (1973):399–416; Foner, *Reconstruction*, p. 535.

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until 1860; after the war, wages for farm labor were much higher in the North. Figure 8 reveals that manufacturing wages in the North and the West outstripped those in the South through the end of the nineteenth century.

Of course, the character of the regions was very different—the South was much more rural and much more devoted to agriculture, making its woes even more pronounced. During Reconstruction, the South generated only 11 percent of manufacturing despite containing more than a third of the population.28 Inventive activity was practically nonexistent:

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Southerners held only 6.7 percent of new patents in 1880 and only 8 percent in 1910.  

Like Northern farmers, Southern ones often owed debts, so price deflation hit them hard. Obtaining currency and credit was even more difficult in the South than it was in the North. Adding to the South’s misery was the advance of hookworm owing to unsanitary conditions spread by both armies. Hookworm affects physical stature as well as mental capacity, and over 40 percent of the postbellum Southern population suffered from it. As one scholar put it, the South in the 1880s was very much like a third-world economy.  

Unsurprisingly, immigrants did not find the postbellum South attractive. About one-third of the native-born U.S. population lived in the South between 1865 and 1940, but less than 10 percent of the foreign-born. And many of the more able or more fortunate Southerners simply packed up and moved out. According to census records, millions of people left the region bounded on the north by the Mason-Dixon Line and on the west by the Mississippi River in every decade between 1860 and 1890, even as population grew in other parts of the country.  

Who stayed in the South? The poor and uneducated: those who could not afford to leave and those who had few prospects elsewhere. Lower wages in the South—especially for blacks—were due in part to the dismal state of schooling. In the cotton states in 1870, more than half of persons over age ten—and more than 90 percent of blacks age twenty and over—were illiterate. After the war, Southern whites did not want to finance black education, and Southern employers did not want to lose workers to migration, so public schools generally languished.  

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When the Redeemer governments returned in the 1880s, one of their first acts was to try to reduce public spending even more, as well as to implement regressive tax structures. This made circumstances even worse for blacks and the poor. As of 1900, income for blacks was about 35 percent of white income in the United States as a whole, and the figure was even lower in the South.

But leaving the South was not an option for many blacks, despite the dreadful conditions. Only after the huge reduction in foreign immigration to the United States around 1920—due mostly to restrictions enacted after World War I—did the great migration northward occur for black Americans.

What Johnny Found

The postbellum U.S. economy was in some ways a golden age: economic growth was at an all-time high, and the nation was well on its way to becoming the world's largest economy. Amazingly, this took place on the heels of the most devastating war the country has ever known—a war in which one in four soldiers never returned home.

But the nation also suffered some ugly growing pains. Farmers did not share equally in productivity gains or wealth accumulation. Cities were rife with political corruption and xenophobia. Industry created unsafe

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Ayers, *Promise of the New South*, p. 45.


William Tweed of Tammany Hall is a prime example of political corruption. For a lively discussion, see Kenneth Anderson, *Boss Tweed* (New York, 2005). Likewise, the Chinese Exclusion Act of 1882 is one of the more egregious examples of postbellum xenophobia.
workplaces and horrible sorts of accidents, but existing law favored capital over labor.39 And the South remained economically stunted for decades after the Civil War, with the brunt of misery falling on the poor and on former slaves.

39 Attempts to regulate U.S. working conditions largely failed until the mid-1930s. The landmark case striking down workplace regulation is Lochner v. New York, 198 U.S. 45 (1905). Nineteenth-century free workers enjoyed much less legal protection than the owners of hired slaves; in fact, slave cases were used as precedent in postbellum cases to challenge mainstays of nineteenth-century employer defenses such as the fellow-servant rule and assumption-of-risk doctrine. Jenny Bourne (Wahl), The Bondsman's Burden (New York, 1998), chap. 3.