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Macune's Monopoly: Economic Law and the Legacy of Populism

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This article argues that the Populist legacy is embodied by the constrained conception of democracy underlying the American state, which restricts popular sovereignty from the economic sphere. Charles Macune led the Farmers' Alliance according to a robust conception of democracy that insisted on subordinating economic law to popular sovereignty. Macune's distinct economic thought marked a departure from previous antimonopoly movements, but his reliance on an inductive, empirical, institutionalist economic methodology was shared by the founders of the American Economic Association. Populism did not fail because it relied on outdated economic theory; it was defeated because it represented a coherent and credible threat to the established order. A successful campaign established the hegemony of the deductive method, which posited that manmade laws must serve the natural, universally valid laws of economics and that popular sovereignty must therefore be restrained from the economic realm. Without the means to conceive an alternative relationship between the state and economy, the path of twentieth-century American political development has been limited to those possibilities available under a constrained conception of democracy. This article articulates Macune's political strategy and highlights its underlying principles in order to present a more robust conception of democracy and illustrate the mechanisms by which it was defeated.

Charles Macune's leadership of the Farmers' Alliance was brilliant, beguiling, and short. In the spring of 1886, he joined a farmers' organization in Milam County, Texas; less than one year later, he was elected president of the National Farmers' Alliance. Over the next three years, he built the National Farmers' Alliance into an organization of more than 1.2 million members, with hundreds of suballiances in nearly thirty states; founded, edited, and distributed a national newspaper with more than 100,000 weekly subscribers; organized and led a powerful legislative committee that lobbied Congress on behalf of farmers; and designed and executed local commodity exchanges, insurance programs, cooperative stores, and subtreasuries. Macune set the agenda of the Farmers' Alliance until 1889, when he was forced out due to fundamental disagreements with other leaders about strategy. No longer a formal leader, Macune's influence waned and he spent the majority of his remaining forty years as a small-town minister. Despite Macune's role in leading a massive popular uprising, his distinctive economic thought remains unacknowledged, in large part because its underlying principles were roundly defeated.

By 1892, the National Farmers' Alliance allied with others in the producing class, including the Knights of Labor and the American Railway Union, to lend support to the formation of the People's Party, a national political coalition dedicated to the interests of labor.[1] But the party lost the 1896 election in devastating defeat, their poor showing at the polls the result of a widespread, well-organized, and well-funded backlash.[2] Social scientists, however, had forecast Populism's failure even before the election. Frank McVey, in a dissertation written under the guidance of Yale economist Arthur T. Hadley, argued that because Populism was not based on reasoned judgment, but simply emotions of discontent, it was guaranteed to fail:

> It is not likely that it will make any great headway, because of its lack of fundamental principles. The entire movement is the result of discontent. Party organization of lasting qualities must be based upon more than discontent. We may therefore regard the existence of this party as a transient one.[3]

McVey wrote his dissertation in the spring of 1895, basing his forecast on economic analyses of the Populist agenda, rather than the People's Party's electoral

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1. Aziz Rana, *The Two Faces of American Freedom* (Cambridge, MA: Harvard University Press, 2010), 176–77.
2. Ibid., 211.
3. Frank McVey, "The Populist Movement," *Economic Studies* 1, no. 3 (1896): 206.

defeat.[4] Contemporary scholars continue to pursue the second part of McVey's diagnosis, engaging economic analysis to evaluate Populist claims,[5] but the accuracy of his forecast that Populism would fail has been widely questioned.

Many scholars, as well as Populist leaders, have viewed Progressive Era reforms as proof that Populist agitation succeeded. This view understands Populism as a social movement with a set of concrete political demands and implies that those demands outlived electoral defeat. In 1898, the Populist leader, Tom Watson, declared that Populism was far from dead, insisting that "the *Principles* of Populism . . . never commanded more respect, never met with the approval of a larger proportion of you fellow citizens than they do to-day."[6] Macune himself reflected on the movement in 1920, arguing that the Farmers' Alliance was ultimately successful, which "obviated the necessity of its existence, as did its success as a national organization in the field of economics, its purpose having been adopted by the political parties embraced in their platforms."[7] Indeed, writing half a century later, Richard Hofstadter acknowledged the "failure of the revolt," but nonetheless pointed to legislation that originated with Populism: "railroad regulation, the income tax, an expanded currency and credit structure, direct election of Senators, the initiative and referendum, postal savings banks, even the highly controversial subtreasury plan."[8] After reviewing this list, Hofstadter concluded that, "It is precisely the enactment of so much of this program within a twenty-year period that gives us some cause to feel that third-party action was reasonably successful after all . . . and in the not too long run saw most of its programs become law."[9] Similarly, John Hicks acknowledges that, "It would be idle to indulge in a *post hoc* argument in an attempt to prove that all these developments were due to Populism," but he does not deny that, "the intensive study of agricultural problems that led ultimately to these measures did begin with the efforts of sound economists to answer the arguments of the Populists."[10] While the organization may not have outlived the 1896 electoral defeat, Hicks and others suggest that many of the Populists' demands were nonetheless enacted because they were taken up by the reformers of the Progressive Era in order to lay the groundwork for the twentieth-century American state.

Social scientists have taken up the hypothesized link between Populist demands and Progressive reforms and have tested it using modern empirical methods. Elizabeth Sanders employs roll-call analysis to show how Populism shaped key reforms, such as railroad regulation, national education, and the Federal Reserve System.[11] Monica Prasad argues that Populists' demands long outlasted 1896, for they played a key role in pushing the United States toward "agrarian statism," a state form that seeks to protect purchasing power through a flexible monetary policy.[12] Prasad argues that agrarian statism explains how the United States has arrived at the current economic crisis, thus strengthening the claim that the legacy of Populism endures in essential features of the American state.[13]

Some evidence, however, suggests that the connection between Populist demands and the twentieth-century state is tenuous at best, casting doubt on the hypothesis that the Populists did in fact succeed. Even taking into account Sanders's qualification that Progressive reforms reflect a *response* to Populists rather than an enactment of their designs,[14] and other scholars' indications that Populism's effects have been oblique rather than direct,[15] it remains unclear what causal role Populists actually played in directing American political development. Integrating roll-call analysis with the logic of electoral competition, Scott James finds that legislation shaping the modern state reflects legislators' explicit rejection of Populist demands.[16] Other scholars lend credence to James's argument, pointing out that even if legislation bore a rough resemblance to Populist demands, many policies significantly departed from their proposals. While Sanders includes the Federal Reserve System

4. Eric A. Moyen, *Frank L. McVey and the University of Kentucky: A Progressive President and the Modernization of a Southern University* (Lexington: The University Press of Kentucky, 2011), 15.

5. See, for instance, Allan G. Bogue, *Money at Interest: Farm Mortgage on the Middle Border* (Ithaca, NY: Cornell University Press, 1955); Anne Mayhew, "A Reappraisal of the Causes of Farm Protest in the United States, 1870–1900," *The Journal of Economic History* 32, no. 2 (June 1, 1972): 464–75; Douglass C. North, *Growth and Welfare in the American Past: A New Economic History* (Englewood Cliffs, NJ: Prentice Hall, 1966).

6. Thomas Edward Watson, *The Life and Speeches of Thos. E. Watson* (Thos. E. Watson, 1908), 175, quoted in C. Vann Woodward, *Tom Watson: Agrarian Rebel* (New York: The MacMillan Company, 1938), 333.

7. Macune, *Farmers Alliance* (Austin: Unpublished, Center for American History, University of Texas at Austin, 1920), 59.

8. Richard Hofstadter, *The Age of Reform* (New York: Vintage, 1955), 108.

9. Ibid.

10. John D. Hicks, *Populist Revolt: A History of the Farmers' Alliance and the People's Party* (Minneapolis: University of Minnesota Press, 1931), 416.

11. Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877–1917* (Chicago: University of Chicago Press, 1999).

12. Monica Prasad, *The Land of Too Much: American Abundance and the Paradox of Poverty* (Cambridge, MA: Harvard University Press, 2012), 87–88.

13. Ibid., 254.

14. Sanders, *Roots of Reform*, 1.

15. Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capacities, 1877–1920* (Cambridge, UK: Cambridge University Press, 1982), 253–54.

16. Scott C. James, *Presidents, Parties, and the State: A Party System Perspective on Democratic Regulatory Choice, 1884–1936* (Cambridge, UK: Cambridge University Press, 2006), 34.

as one policy that Populist demands helped shape, Lawrence Goodwyn suggests that the system that was set up not only differed from the Populists' plan, but that it hurt farmers rather than helping them,[17] and both Charles Postel and James Livingston show how the Federal Reserve System contradicts key tenets of Populist thought by removing the money question from democratic politics.[18] By focusing on the distance between Populist demands and Progressive Era reforms, these studies strengthen McVey's proposition that Populism would fail, but they reject his view that Populism lacked "fundamental principles." Instead, they focus precisely on Populists' unique understanding of modern politics. Seen from the angle of its principles, the legacy of Populism assumes a different form.

Writing in the 1950s, Hofstadter identified Populists' fundamental principles as sowing the seeds for McCarthyism. This line of analysis has been pursued by a handful of others who see the Populists as precursors to modern American fascism and anti-Semitism,[19] given their expressions of paranoia and intolerance.[20] Norman Pollack refuted this understanding of Populist thought, presenting a different view of Populists' fundamental principles that insisted that rather than being "regressive," Populist thought was soundly "progressive" and democratic.[21] Other scholars support Pollack's account, similarly showing Populists' commitment to democratic ideals, and while these accounts accept McVey's forecast that Populism would fail, they further contradict his assertion that Populists lacked "fundamental principles." In their view, Populism represents a coherent, measured, and yet unrealized, alternative to the emerging capitalist order.

Yet many of the scholars who emphasize its democratic underpinnings present Populist thought as an outdated holdover from a previous era, motivated by nostalgia for a world eclipsed by the rise of a new economic order. Bruce Palmer and Robert McMath articulate aspects of the Populists' theories of cooperative democracy, but insist that these theories failed because Populism did not adequately respond to the political and organizational challenges they faced.[22] In large part, what makes Populist thought compelling for modern thinkers is precisely that it did not survive into the twentieth century, and therefore, rather than representing an enduring impact, it remains an enduring possibility.[23] Approaching Populism from a different angle than those concerned with institutional legacies, these studies define the Populists not by what they protested, but what they actually believed.[24] Articulating Populist thought in the language of possibility, these accounts present a detailed counterfactual, suggesting that it was precisely the rejection of the Populist alternative that shaped American political development in the twentieth century. But because they often present Populist thought as out of sync with modern realities,[25] these accounts suggest that the movement was responsible for its own undoing, rather than focusing on the determined opposition seeking its defeat.

Building on these studies that challenge McVey's dismissal of Populist thought, I show that the Populist alternative rested on fundamental principles far exceeding the concrete political demands of its leaders. Reaching beyond the details of their political strategies, I argue that Populism must be recognized for its coherent and distinctive articulation of a robust conception of democracy, which depended on a particular conception of economic laws. After distinguishing Populist antimonopolism from the Jacksonian antimonopoly tradition, I present the underlying principles of Macune's economic thought. Most important was his insistence that democracy requires extending popular sovereignty to the economic sphere. In Macune's view, economic processes should be subject to democratic control, through federal institutions directed by popularly elected legislatures and through coordinated national cooperatives of local organizations. I argue that this understanding reflected a fundamental challenge to the reigning economic orthodoxy of the day, which insisted that economic decisions be directed by experts rather than the people. This challenge was also taken up by early members of the American Economic Association through the language of an inductive economic method that treated economic law as contingent on social conditions rather than universally valid. But precisely because Macune's economic thought represented a coherent and credible threat to the established order, orthodox economists launched a successful campaign against the inductive method, roundly defeating it before the twentieth century. While many Progressive Era reforms bear a superficial

17. Lawrence Goodwyn, *Democratic Promise: The Populist Movement in America* (New York: Oxford University Press, 1976), 519.

18. James Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Ithaca, NY: Cornell University Press, 1989), 26; Charles Postel, *The Populist Vision* (New York: Oxford University Press, 2007), 280.

19. Victor C. Ferkiss, "Populist Influences on American Fascism," *The Western Political Quarterly* 10, no. 2 (June 1, 1957): 350–73; Oscar Handlin, "American Views of the Jew at the Opening of the Twentieth Century," *Publications of the American Jewish Historical Society* (1951).

20. Hofstadter, *The Age of Reform*, 5.

21. Norman Pollack, *The Populist Response to Industrial America: Midwestern Populist Thought* (Cambridge, MA: Harvard University Press, 1962), 12.

22. Bruce Palmer, *"Man Over Money": The Southern Populist Critique of American Capitalism* (Chapel Hill: University of North Carolina Press, 1980), xviii, 221; Robert C. McMath, *Populist Vanguard: A History of the Southern Farmers' Alliance* (Chapel Hill: University of North Carolina Press, 1975), 157.

23. Goodwyn, *Democratic Promise*, xxiii; Postel, *The Populist Vision*, 22; Rana, *The Two Faces of American Freedom*, 177.

24. Postel, *The Populist Vision*, 5.

25. For a compelling refutation of this view, see Postel, *The Populist Vision*.

resemblance to Macune's demands, they contradict his underlying principles of robust democracy. Instead of submitting the economic sphere to popular sovereignty, these reforms were largely executed by experts in quiet consultation with policy leaders. The legacy of Populism does not survive as merely a possibility, nor was it realized in Progressive reforms; instead, the legacy of Populism is reflected in the constrained democracy of the American state, which restricts popular sovereignty from the economic sphere.

VARIETIES OF ANTIMONOPOLISM

Distinguishing Populist antimonopolism from the varieties that preceded it is the first step to recognizing how Macune's agenda presented a distinct and coherent alternative to the emerging economic order. Antimonopolism has long been a popular cause in American politics, and the Populists are sometimes understood as a continuation of Jacksonian antimonopolism of the early nineteenth century. Reacting against years of economic distress, Jacksonian antimonopolists demanded that government remove itself from commerce in order to allow the free play of natural economic laws to direct the economy. Scholars who equate Populist antimonopolism with its Jacksonian predecessor argue that Populism failed because its principles remained stuck in the economic understandings of the early nineteenth century and it was therefore unable to accommodate significant developments, such as economies of scale due to technological advances. However, as the next section will show, this equation overlooks the distinctive strategies that made Populism a real alternative to the emerging economic order and a real threat to those in power.

As the United States industrialized during the first half of the nineteenth century, labor expressed many of the same complaints that the Populists would later raise. The boom that followed the War of 1812 turned into a bust in 1819, and fuelled economic instability that lasted through the 1830s.[26] In response to the bust, the newly formed Bank of the United States (BUS) rapidly abandoned its expansionary monetary policy, furthering the economic chaos, which included the reduction of New York cotton prices by more than half by 1823.[27] But in the 1830s, prices began to rise again, which delivered substantial profits to speculators, and harmed workers, whose wages did not track increases in the cost of living.[28] The evident wealth of speculators, and the increased importance of credit in day-to-day business due to the rise of commerce, directed popular indignation toward banks, but in particular toward the BUS, whose handling of the crises was less than helpful.[29] Martin van Buren had added to the mess by introducing "safety fund banks," under which "banking became to an unprecedented extent a tightly controlled legal monopoly. The legislature decided who could operate a bank, where it would be located, and how it would be operated."[30] Far from laissez-faire, government was deeply involved in the economy in the early nineteenth century, and as their interventions only seemed to make matters worse, the banks became the clear target of the people's discontent.

The Working Men's Parties formed in the mid-1830s partly in response to the dire economic situation facing workers, but also in part because of the transformation of American politics that accompanied the introduction of the party system.[31] With the expansion of suffrage, parties began to appeal to voters on issues that the voters themselves articulated, rather than simply promulgating the views of cliques of elites. Andrew Jackson was particularly effective in this new environment, for he was able to both stimulate and reflect popular sentiments against the elite, and he was able to yoke his electoral goals to his concerns that the BUS challenged his authority.[32] Jackson's strategy was guided by his engagement with the popular resurgence of Jeffersonian equal rights.

Against the inequalities of the emerging commercial order, New York radicals, such as Thomas Skidmore, had called upon the Jeffersonian doctrine of equal rights to ground their demands for justice. Skidmore inspired multitudes with his 1829 manifesto, "The Rights of Man to Property!" in which he argued that natural law guaranteed to "every human being AN EQUAL AMOUNT OF PROPERTY ON ARRIVING AT THE AGE OF MATURITY, and previous thereto, EQUAL FOOD, CLOTHING, AND INSTRUCTION AT THE PUBLIC EXPENSE."[33] By

26. Ronald P. Formisano, *For the People: American Populist Movements from the Revolution to the 1850s* (Chapel Hill: University of North Carolina Press, 2008), 70.

27. Charles Sellers, *The Market Revolution: Jacksonian America, 1815–1846* (New York: Oxford University Press, 1994), 136.

28. Richard Hofstadter, "William Leggett, Spokesman of Jacksonian Democracy," *Political Science Quarterly* 58, no. 4 (1943): 585; Lester Harvey Rifkin, "William Leggett: Journalist-Philosopher of Agrarian Democracy in New York," *New York History* 32, no. 1 (1951): 45; Sean Wilentz, *Chants Democratic: New York City and the Rise of the American Working Class, 1788–1850* (New York: Oxford University Press, 1984), 232.

29. Formisano, *For the People*, 72; Hofstadter, "William Leggett, Spokesman of Jacksonian Democracy," 586.

30. Lee Benson, *The Concept of Jacksonian Democracy: New York As a Test Case* (Princeton, NJ: Princeton University Press, 1961), 92.

31. Wilentz, *Chants Democratic*, 220; Michael Wallace, "Changing Concepts of Party in the United States: New York, 1815–1828," *The American Historical Review* 74, no. 2 (December 1, 1968): 453–91; Richard Hofstadter, *The Idea of a Party System, the Rise of Legitimate Opposition in the United States, 1780–1840* (Berkeley: University of California Press, 1969).

32. Daniel Walker Howe, *What Hath God Wrought: The Transformation of America, 1815–1848* (New York: Oxford University Press, 2009), 376.

33. Thomas E. Skidmore, *The Rights of Man to Property!: Being a Proposition to Make It Equal Among the Adults of the Present Generation,*

invoking natural law, Skidmore situated his thought as a continuation of the Founders', and his calls for equality provided energy for the budding resistance to growing disparities in wealth and power, which were manifest most obviously in the rise of monopoly.[34]

The Working Men's Parties sought to achieve Skidmore's vision of equality, and, consequently, they focused on attacking monopoly power. They defined monopoly as

> all exclusive privileges, or powers, or facilities, for the accumulation of wealth, or the exclusive use and enjoyment of the bounties of Providence secured to individuals or combinations of men by legislative enactments, the free and uninterrupted enjoyments of which are denied by laws to other members of the same community.[35]

The target of the Working Men's Parties' antimonopolism was legislative privilege, because they believed that monopoly was political, arising from corruption rather than purely economic activity, such as the efficiencies afforded by economies of scale. In his account of the movement, Walter Hugins confirms that, "these definitions reveal no conception of economic monopoly."[36] While the Working Men's Parties folded in 1831, their formulations of monopoly were carried on by other popular movements, and by Jackson himself.[37]

The Equal Rights Party, better known as the Locofocos, grew out of the Working Men's Parties, and while the two are significantly distinct,[38] the Locofocos carried on the resistance to monopoly power, which they also saw as arising from legislative privilege rather than purely economic activity.[39] Organizing themselves as a political party in 1835, the Locofocos were less concerned about the rise of commerce than they were about securing access to its riches.[40] When Jackson vetoed the charter of the Second Bank of the United States in 1832, his veto message reflected the Locofocos' rhetoric: "Jackson blasted the bank as an engine of the 'rich and powerful, [who] too often bend the acts of government to their selfish purposes.'"[41] Underlying this rhetoric, and indeed the veto itself, as well as the Locofocos' later legislative victories, was the economic thought of William Leggett.

Leggett was never officially a member of the Locofocos, but he was often taken to be their spokesman, and he nonetheless played an important leadership role in the movement.[42] After his death in 1839, a Locofoco historian stated that, "there never lived a man with more of the true heroic in him, or more truly the hero of the rights of humanity, than William Leggett," and he was described as a "martyr," who had died because "the demon spirit of monopoly had condemned him."[43] As editor of the *Post*, and later the *Plaindealer*, Leggett articulated the antimonopoly views guiding the Locofocos, and thereby set the agenda for a broad swath of Jacksonian antimonopolist thought.

According to Leggett, all the current economic disruptions, whether high prices or low prices, could be laid at the feet of monopoly banking. Reacting to the 1837 bust, which raised prices considerably, Leggett observed that, "The fields, in many places, lie untilled . . . Hence we see flour at fifteen dollars a barrel, and hay at forty dollars a tone."[44] People were hungry, yet the fields were being traded instead of tilled, because speculators were crafting deals that disrupted the natural functioning of the economy. While ordinary people struggled under the weight of high prices, "the speculator flaunts by in his carriage," continuing to profit from the vast inequality.[45] Leggett saw the cause of this inequality, as well as the cause of all other economic disruptions, to be rooted in one single source: *"the pernicious bank system of our country is the cause!"*[46] Similar to the Working Men's Parties that preceded him, Leggett believed that legislation had given exclusive privileges to banks, thereby disabling natural economic laws from regulating their behavior and enabling speculation and other disruptions that harmed ordinary Americans. This unjust legislation had broad effects, which were observable everywhere: "Each fragment of our shattered commerce bears, stamped in characters which he who

and to Provide for Its Equal Transmission to Every Individual of Each Succeeding Generation on Arriving at the Age of Maturity (Printed for the author by A. Ming, 1829); quoted in Sellers, *The Market Revolution*, 287.

34. Joseph Dorfman, *The Economic Mind in American Civilization, 1606–1865*, vol. 2 (New York: Viking Press, 1946), 641–45; Wilentz, *Chants Democratic*, 189.

35. *Working Man's Advocate*, January 3, 1835; quoted in Walter Hugins, *Jacksonian Democracy and the Working Class* (Stanford, CA: Stanford University Press, 1967), 149.

36. Ibid.

37. Formisano, *For the People*, 86; John Gerring, "A Chapter in the History of American Party Ideology: The Nineteenth-Century Democratic Party (1828–1892)," *Polity* (1994): 729–68.

38. Wilentz, *Chants Democratic*, 235.

39. Benson, *The Concept of Jacksonian Democracy*, 95; Carl Degler, "Locofocos: Urban 'Agrarians,'" *Journal of Economic History* 16 (1956): 333; Sellers, *The Market Revolution*, 352; Wilentz, *Chants Democratic*, 235.

40. Edward Pessen, *Most Uncommon Jacksonians, the Radical Leaders of the Early Labor Movement* (Albany, NY: State University of New York Press, 1967), 169–82; Wilentz, *Chants Democratic*, 235.

41. Quoted in Formisano, *For the People*, 143.

42. Degler, "Locofocos: Urban 'Agrarians,'" 324; Dorfman, *The Economic Mind in American Civilization, 1606–1865*, vol. 2, 653.

43. Fitzwilliam Byrdsall, *The History of the Loco-Foco or Equal Rights Party* (1842), 99, 98.

44. *Plaindealer*, December 19, 1837; in William Leggett, *Democratick Editorials: Essays in Jacksonian Political Economy*, ed. Lawrence H. White (Indianapolis, IN: Liberty Press, 1984), 100.

45. Ibid.

46. Ibid., 97; emphasis in original.

runs may read, the forceful inscription – 'THIS IS THE FRUIT OF MONOPOLY LEGISLATION.'"[47]

All the problems arising in the 1830s, by Leggett's account, were not the result of economic formations accompanying the rise of commerce, but were instead the unnatural result of government interference. No matter how the economy had developed, government interference would always disrupt natural economic law, because manmade law would never be more than an imperfect approximation. Thus, society must conform to economic law, and Leggett argued that natural law must be allowed to replace manmade laws in the economy. No matter how well intentioned, the imperfections inherent in manmade economic law would only lead to further injustice. The only logical solution was to allow the natural laws of economics to run their course:

> We should attempt to remedy the evil, not by erecting ineffectual dams and barriers against the desolating tide where it was hurrying along in swollen and irresistible fury, inundating the land with its waters of bitterness, but by tracing it to its source, and demolishing the monstrous impediments placed there by ignorance and fraud, to prevent its winding through its thousand natural channels, and force the whole volume with destructive rapidity in one particular direction.[48]

In Leggett's eyes, the only plausible solution to the economic disruptions caused by monopolies was to institute a strict policy of laissez-faire. Monopolies would disappear, reasoned Leggett, only if the government would remove itself from the economy. Rather than crafting a series of laws to limit the power of combinations, government needed only one law to address the problem at its source: "Such a law would confer no exclusive or special privileges . . . . leaving capital to flow in its natural channels, and enterprise to regulate its own pursuits."[49] Without government interference, the economy would deliver efficient and equitable outcomes, directed by the immutable laws of supply and demand.[50]

Chief among the obstacles impeding the natural flow of money was the government's banking monopoly. Leggett's solution: dissolve all government banking and treasuries and allow entrepreneurs to establish locally based lending institutions. In Leggett's view, the "safe keeping of money . . . has, properly, nothing to do with the exchanges of this country," and should therefore "be left to the laws of trade."[51] Recognizing that the government would need to maintain some currency of its own, Leggett argued that government currency should be kept in subtreasuries in various cities, but he stressed that it should not be lent out. During the Bank Wars, these subtreasuries were built according to Leggett's specifications. Doubts remain concerning how closely they followed the prohibition against lending,[52] but the superficial resemblance between the Jacksonians' subtreasuries and the Populists' has led some scholars to argue for a direct link between these two varieties of antimonopolism.

According to some scholars, Jacksonian antimonopolism, especially as articulated by Leggett, survived the 1830s and came to be adopted by the Populists in their fight against monopolies at the end of the century. Bruce Palmer, for instance, suggests that Leggett influenced Populist antimonopolism:

> Ironically, much of the Southern Populists' antimonopoly thought originated with Jacksonian Democracy's original urban left wing, the Locofocos. William Leggett's emphasis on the natural laws of supply and demand and of competition came a long way, as did his attack on monopoly as special privilege and the cause of the extremes of wealth in society.[53]

While Palmer suggests that Populism failed because it was unable to update its theoretical basis to one that reflected contemporary reality, he does qualify the link between Leggett and the Populists by noting that Populism differed from Leggett's thought in that Populists did not support laissez-faire.[54] Other scholars are less judicious in suggesting a connection between the two schools of thought. Hofstadter, for instance, argues that, "In assuming a lush natural order whose workings were being deranged by human laws, Populist writers were again drawing on the Jacksonian tradition."[55] While some accounts refer only in passing to the Jacksonian influence on Populist thought,[56] others assign explanatory power to the link in order to ground a broader historical account of the Populist defeat.

Situating Populist thought in Jacksonian antimonopolism allows scholars to explain the Populist defeat

47. *Plaindealer,* May 13, 1837.

48. Leggett, *Democratick Editorials*, 381.

49. William Leggett, *A Collection of the Political Writings of William Leggett: Selected and Arranged with a Preface by Theodore Sedgwick, Jr,* ed. Theodore Sedgwick (Taylor & Dodd, 1840), 247.

50. "The law of free competition is the only one which can properly regulate either the size or the quality of bread, as it is the only one which regulates the commodities of other branches of traffick. It is the great natural law which makes the best possible adjustment, in all articles of trade, of the supply to the demand, and of the price to the supply." *Plaindealer,* December 24, 1836.

51. Leggett, *Democratick Editorials*, 121.

52. Bray Hammond, *Sovereignty and an Empty Purse: Banks and Politics in the Civil War* (Princeton, NJ: Princeton University Press, 1970), 20.

53. Palmer, *"Man Over Money,"* 114.

54. Ibid., xvii, 114–115.

55. Hofstadter, *The Age of Reform*, 63–64.

56. Gerald Berk, *Alternative Tracks: The Constitution of American Industrial Order, 1865–1917* (Baltimore, MD: The Johns Hopkins University Press, 1997), 14.

as a result of their reliance on outdated economic theory. Jacksonians, such as Leggett, argued that monopolies were caused by legislative privilege, but corporate law, technology, and the structure of the economy had changed by the late nineteenth century, all of which invalidated the Jacksonian analysis. Thomas Goebel, for instance, argues that Populist economic thought is best understood as a holdover from the Jacksonian era, and he suggests that Populists did not need, and did not have, a correct theory of economics. In his view, all that Populists needed was a strong link to the historical memory of protest: "The real strength of Populism did not derive from the way its language and arguments offered a challenge to the American political system but, rather, from the manner in which it connected to a long and rich tradition of oppositional politics in American history."[57] According to Goebel, Populism was able to mobilize millions because it revived an older antimonopoly sentiment. Leaders like Macune added little to existing arguments, serving mostly as mouthpieces and organizers for ideas that had already proven successful. But while these antimonopoly arguments were successful, Goebel argues that they misunderstood the current economic conditions:

> Antimonopoly in the nineteenth and early twentieth centuries was based on a distinct model of political economy, on the firm belief that the abuse and manipulation of political power led to economic monopolies. Modern economics with its insistence on the economies of scale and scope has rendered this belief irrelevant.[58]

For Goebel, Populist economics relied on the mistaken premise that monopoly was the result of political corruption. Stuck in the mind-set of the early nineteenth century, Populists were unable to update their theories in order to address the realities of modern commerce and industrialization, which were built on the ability of technology to provide economies of scale and scope. With industrialization, monopolies existed because they were efficient, not because their owners solicited political favor. Populist economic theory, argues Goebel, was blind to the role of technology in creating monopolies and was thus unable to correctly describe the economic conditions of its time.

Jacksonian antimonopolism plays a similar role in Scott James's account of the development of the American regulatory state. James shows how the Democratic Party's response to industrialization was shaped in large part by their rejection of agrarian demands. Like Goebel, James presents Populist demands as an extension of Jacksonian antimonopolism. In his view, the Populists' demand for legislation to improve competition among the railroads proceeded from the Jacksonian analysis that inequality was caused by legislative privilege: "To a majority of agrarians, palpably little had changed since the Jacksonian era. Favoritism and corruption were still thought to explain the disadvantaged market position of the farmer."[59] While James does include that Populists differed from their predecessors by virtue of demanding government regulation, he still insists on describing them as "antistatist," and writes that they "turned away from the various visions of national administrative power."[60] In both Goebel's and James's views, Populism was the extension of a preexisting program of political economy, so that the defeat of Populism in the 1890s did not represent the rejection of an explicit alternative to the dominant order. Instead, Populism was defeated because its outdated economic theory made it unable to recognize, let alone respond to, the actual economic conditions of its time.

However, as the next section will show, Macune's economic theory marks a significant departure from Jacksonian antimonopolism. Many of his strategies, such as the subtreasury plan, were explicitly statist, and others were based on the recognition of economies of scale, such as the Exchange. Drawing attention to these distinctions underscores that, rather than an outdated holdover from a previous era, Macune's economic thought was a perceptive and practical response to the challenges confronting American farmers in the late nineteenth century. This evidence directly challenges Goebel's claim that Populism fell because its economic thought failed to account for modern developments, and it offers a productive amendment to James's. In rejecting Populist demands, the Democratic Party, and later the Progressives, built a set of constraints into American democracy that limited popular sovereignty from the economic sphere. Recognizing how Macune differed from Jacksonian antimonopolism highlights the degree to which his agenda marked a distinct and coherent alternative to the emerging economic order, and highlights the extensive opposition that ultimately defeated it.

MACUNE'S ECONOMIC SCIENCE

Charles Macune was first and foremost a political actor, but his approach to economic knowledge belied a distinctive understanding of the conflict between democracy and the emerging economic order. In his view, economic law was not natural, or

57. Thomas Goebel, "The Political Economy of American Populism from Jackson to the New Deal," *Studies in American Political Development* 11, no. 1 (1997): 112.

58. Goebel, "The Political Economy of American Populism," 148.

59. James, *Presidents, Parties, and the State*, 30.

60. Ibid., 30–31.

in any way prior to popular sovereignty, so the economy should be subject to democratic control along with every other significant realm of public life in a democracy. Against the Jacksonians, who argued that concentration of economic power in monopolies was always harmful, Macune argued that monopolies were acceptable, and in some cases optimal, as long as they were controlled by the people. Insisting that popular sovereignty rule the economic sphere, Macune denied that conflicts between democracy and the economic order were necessary, because popular sovereignty always trumps perceptions of economic necessity. These principles account for the apparent contradiction of lobbying Congress to criminalize monopoly while simultaneously organizing the Farmers' Alliance into a massive combination in order to control commodity prices. It also explains Macune's singular focus on monetary reform, and why his subtreasury solution took such a peculiar shape. Surely some of his pronouncements were pure rhetoric, and some of his solutions appear simply incorrect to modern eyes, but only by examining what Macune said, wrote, and did, can we grasp the alternative vision of democracy that was rejected with the defeat of Populism.

Macune's economic thought grew directly out of the challenges that faced American farmers in the late nineteenth century. The Texas Farmers' Alliance elected Macune president during a meeting in Cleburne, Texas, in 1886. The meeting attracted representatives from eighty-four Texas counties, making it the largest meeting the Alliance had held, underscoring the rising desperation of Southern farmers.[61] Farmers believed that economic conditions were robbing them of just compensation for their labor: "The Texas Alliance did the arithmetic at its celebrated Cleburne convention in August 1886. European and New England spinning mills paid $80 million a year on Texas cotton. Texas producers only received $64 million for their crop. The $16 million difference was the crux of their problems."[62] While the Alliance had pursued a number of strategies to improve the farmers' position, all had failed and it was time to try something new. The Cleburne meeting concluded by issuing seventeen demands, and they elected Macune to lead the charge to realize them. Much of Macune's agenda remained defined by the Cleburne demands and the diagnosis underlying them, which identified the causes preventing farmers from receiving full value for their labor.

Farmers believed that railroads were one of the prime causes for the discrepancy between the value of the commodities they produced and the amount of money they received for their labor. Chief among their complaints was the perception that the railroads charged farmers higher prices than other customers. In his first address to the National Alliance in 1887, Macune observed that, "A car-load of lumber from Galveston to Waco will probably cost you about forty dollars freight; but if you load that very same flat car with cotton and ship to Galveston, the freight will cost about one hundred and fifty dollars."[63] Macune believed that price discrimination was the product of market imperfections that prevented competition from properly regulating prices.[64] Railroads were able to form monopolies, pooling freights in one area in order to achieve economies of scale and thereby lower prices while continuing to charge higher rates in other areas.[65] Rural areas with less railroad traffic, primarily where farmers lived, were stuck with higher prices than those areas with heavier traffic, such as towns and cities. In Macune's view, monopolies were not the product of villains' schemes, but the product of an imperfectly regulated market: "Discriminations are not caused by competition, but are caused by its imperfect and obstructed condition under the prevalent railway methods."[66] If the market were structured properly, the laws of competition would prohibit monopolies' pooling of freights, which would bar certain companies from charging higher rates to some customers than others, thereby forcing down the prices farmers had to pay to ship.

On the basis of Macune's analysis, the clear solution to the problem of railroad price discrimination was better legislation, which would enable more perfect competition among railroad companies. Macune's strategy followed the fourteenth Cleburne demand, which called for

> the passage of an interstate commerce law, that shall secure the same rates of freight to all persons for the same kind of commodities, according to distance of haul, without regard to amount of shipment. To prevent the granting of rebates; to prevent pooling freights to shut off competition; and to secure to the people the benefit of railroad transportation at reasonable cost.[67]

Farmers had been agitating for an interstate commerce law for years, and, in 1887, Congress finally

61. Nelson A. Dunning, *The Farmers' Alliance History and Agricultural Digest* (Washington, DC: Alliance, 1891), 40.

62. Postel, *The Populist Vision*, 119; *Cleburne Demands* (Cleburne, TX, August 6, 1886), in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 43.

63. Charles Macune, "Message of the Acting President" (Waco, TX, January 18, 1887), in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 49–50.

64. But see James, *Presidents, Parties, and the State*, 57. Populists may have misrepresented railroads' actual pricing practices. Recognizing inconsistencies or misrepresentations in Populist thought should not, however, inhibit explicating what that thought was.

65. Goodwyn, *Democratic Promise*, 114–17.

66. *National Economist* 2 (January 11, 1890): 267.

67. *Cleburne Demands,* in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 42–43.

passed the Interstate Commerce Act (ICA), bringing into existence the Interstate Commerce Commission (ICC), which was charged with closely regulating railroad business practices. Unsatisfied by the superficial victory represented by the passage of the ICA, Macune pushed for more severe legislation. He suggested that monopolies, such as the railroads, be prohibited under criminal law: "the law should say it is a criminal offense, punishable by imprisonment, to form combinations to suppress competition."[68] The severity of Macune's approach surely troubled his contemporaries, and presented a real threat to the railroad companies given that farmers had played a role in passing the ICA, but it puzzled them as well. While Macune called for the criminalization of monopolies, he was simultaneously leading an energetic effort to build a massive combination to suppress competition among farmers.

Macune insisted that until government passed legislation to properly regulate competition, farmers must help themselves. One solution to closing the $16 million gap between the value of what farmers produced and the value they received was to form a combination. In his first address to the Texas Alliance in 1887, Macune suggested that farmers "have an adequate and complete remedy in co-operation . . . if the farmers of the cotton belt were all to unite into an organization, they could force the world to pay a just and fair price for the labor expended in raising this staple."[69] Forming a combination of farmers would address losses due to the railroads' price discriminations, and it would also challenge the combinations of commodities buyers, who colluded in order to drive down commodity prices. Texan farmers were well aware of the buyers' strategy:

> often a country town contained six or eight stores and dealers, where two or three could transact all the business, without an increase of force or investment, and that, could trade be concentrated so as to employ a less number of men and less capital, the saving thus made should accrue to the purchaser, in the shape of lower prices on the commodities purchased.[70]

When Macune suggested that the most appropriate counterstrategy would be forming a farmers' combination,[71] he echoed the early Alliance practice of "bulking." Prior to 1886, the Texas Alliance would organize county business agents to enter contracts with one merchant, with whom they would negotiate a rate for cotton higher than the local average, in exchange for selling them all the cotton of that county.[72] Farmers were able to receive adequate value for their labor until buyers caught on and reorganized. Bulking ultimately failed because "after several lots had been bulked, and all buyers had combined against it, the sale was sometimes made at a loss, and the plan as a whole, after two years' experience, was gradually abandoned."[73] Macune interpreted the failure of bulking not as evidence that the idea of a farmers' combination was flawed, but only that it needed to be done on a larger scale.

Until Macune's election to the presidency of the National Alliance in 1887, farmers had combined only at the county level, but once local bulking practices collapsed, Macune led the effort to establish a statewide farmers' combination. Macune continued to emphasize the importance of achieving economies of scale, as in his 1889 address to the Alliance convention in St. Louis, where he explained how economies of scale could benefit farmers, if only they would organize: "organization could render farming profitable by the introduction of better business methods, in which all would unite and cooperate for the purpose of selling our products higher, and purchasing such commodities as we are compelled to buy, cheaper."[74]

While some farmers surely critiqued monopoly on the basis of the Jacksonian theory of corruption and legislative privilege, Macune recognized that monopolies resulted from an evolution of business practices. The problem was not that buyers and industrialists and the railroad companies had been granted exclusive charters; the problem was that farmers' business strategies had not kept up with developments in other sectors of the economy: "[F]arm reformers recognized the advantages of size and concentration. They, too, believed that bigger was indeed better. To explain rural poverty they pointed to the farmers' late entry into the modern business world of combination: hence the necessity of the Farmers' Alliance and similar organizations."[75] While Macune did lobby Congress to amend particular laws in order to realize more perfect competition, he also directed energy toward organizing farmers' combinations, so that they could realize the economies of scale enjoyed by other sectors of the economy.

The Texas Exchange would be, according to Macune's plan, "established for conducting the

68. *National Economist* 1 (March 30, 1889): 17.

69. Charles Macune, "President's Address to the National Farmers' Alliance" (Shreveport, LA, October 12, 1887), in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 50.

70. Dunning, *The Farmers' Alliance History and Agricultural Digest*, 356.

71. Macune, "President's Address to the National Farmers' Alliance," in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 49.

72. Dunning, *The Farmers' Alliance History and Agricultural Digest*, 357.

73. Ibid.

74. Charles Macune, "Address to the National Farmers' Alliance" (St. Louis, MO, December 3, 1889), in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 110.

75. Postel, *The Populist Vision*, 16.

production and disposition of the cotton crop . . . . They [farmers] could negotiate and consummate arrangements tending to an increased price; and should all negotiations prove of non-effect, they could adopt a graduated scale for the reduction of the cotton crop, which would be an injustice to none."[76] By combining the cotton crop of an entire state, Macune saw that farmers could interact directly with wholesale buyers on the world market, thereby cutting out the variety of middlemen, including railroads, who would otherwise inflate the $16 million difference between a farmer's labor and his compensation: "In this way the Exchange sold cotton direct to the mills or to Liverpool, and had it shipped from its home depot on a through bill of lading, thereby saving all local freights and other expenses of handling."[77] In 1892 testimony to Congress, Macune reflected on his experience with the Texas Exchange: "in the year 1888 I handled the crop for the Farmers' Alliance of Texas, and I visited the mills of Massachusetts and I made my arrangement for shipping to them direct, and I sold and shipped direct a great deal of cotton to them."[78] The official Alliance history reports that the Exchange was initially a success: "There can be no doubt that this effort . . . . raised the price of cotton to the farmers of that State at least one-half of one cent per pound . . . This, on the crop of 1,300,00 bales of 500 pounds each, was a saving to the farmers of $3,252,000 that had previously gone into the pocket of the speculator."[79] Macune's combination was a small but successful step toward closing the $16 million gap identified by the Cleburne demands. Success, however, proved short-lived.

In 1889, after less than two years, the Exchange failed because farmers did not provide enough cash to cover its operating costs. Alliance members were asked to pay dues of one dollar, but many farmers were unable to come up with the cash.[80] One major obstacle was that many farmers were unable to choose when they planted. Many rarely used cash because they had exchanged liens on their crops for credit with local merchants, so that, at harvest, they exchanged crops directly for supplies. Their cash flow was strictly dependent on the holder of the lien.[81] Realizing that the Exchange rested on such a precarious foundation, Macune attempted to set up an Alliance mortgage system so that farmers could receive cash advances on their crops.[82] But this too failed, and "when the Board of Directors met in March, they found that only about $17,000 of the capital stock had been paid in," far too little to cover operating costs, let alone the costs of the building the Alliance had purchased for the Exchange.[83] The Exchange "failed; not because the system was faulty, or the management bad, but because the people did not put in capital stock in proportion to the credit they asked, and because many of them did not pay their indebtedness."[84] While Macune interpreted the failure of the Exchange as a symptom of the failure of the monetary system to provide sufficient capital for farmers' needs, this was not the only possible interpretation: "The dearth of cash among Texas farmers partly explains the failure to collect even these minimal assessments. Explanation, however, must also be sought within the mix of opinions among Alliance members about the Exchange."[85] Farmers did not participate in the Exchange in part because they were uncomfortable with what looked very much like a monopoly. Because Macune's plans challenged widespread contemporary conceptions of monopoly, farmers were not the only observers confounded by the Alliance's efforts at combination.

Macune's contemporaries, farmers and congressmen alike, recognized the similarities between the combinations that Macune targeted and the combinations that he organized. In *The Populist Vision*, Charles Postel reports a conversation between two Texans in 1888:

> Mary B. Lesesne of Llano County, Texas, an ardent supporter of the Farmers' Alliance, had a discussion with a prominent lawyer about the organization's business principles. The lawyer asked her, "What is the platform of the Farmers' Alliances?" She responded, "They are opposed to monopolies." To which the lawyer tellingly observed that the Alliances "are forming one of the grandest monopolies that the world ever saw." Lesesne conceded the charge. "It may become a great monopoly," she replied, "but we predict it will use its power wisely."[86]

Other contemporaries of Macune were less charitable toward the Alliance's business efforts. Postel describes the Alliance receiving "stinging letters" directed

76. Macune, "President's Address to the National Farmers' Alliance," in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 72.

77. Dunning, *The Farmers' Alliance History and Agricultural Digest*, 360.

78. Charles W. Macune, Testimony before House Committee on Agriculture, *Fictitious Dealing in Agricultural Products*, 52nd Congress (Washington, DC, 1892), 252.

79. Dunning, *The Farmers' Alliance History and Agricultural Digest*, 360.

80. Postel, *The Populist Vision*, 123.

81. Ralph A. Smith, "'Macuneism,' or the Farmers of Texas in Business," *The Journal of Southern History* 13, no. 2 (May 1947): 231–32.

82. Dunning, *The Farmers' Alliance History and Agricultural Digest*, 360.

83. Ibid., 362.

84. Ibid.

85. Postel, *The Populist Vision*, 123–24.

86. *Southern Mercury*, October 9, 1888, quoted in Postel, *Populist Vision*, 118.

especially at its business activities.[87] Debates preceding the 1890 passage of the Sherman Antitrust Act demonstrate similar puzzlement over whether the Alliance was a monopoly. Senator Teller, a Colorado Democrat, objected to Sherman's bill on the grounds that it might interfere with the Alliance: "But there has been recently organized all over this country what is called the Farmers' Alliance . . . . Is it possible that we are putting it in the power of some men to coerce and force the farmers to abandon these organizations?"[88] Other senators seemed unwilling or unable to even define what a monopoly might be. Senator Turpie, an Indiana Democrat, insisted in a late March debate that, "To describe it [monopoly] is impossible."[89] Later that day, Senator Blair, a Republican from New Hampshire, argued that, on the contrary, "Everybody knows what a monopoly is, and nobody will object to prohibiting a monopoly."[90] Macune's seemingly contradictory stance on the question of monopoly reflects his challenge to the deductive orthodoxy of late nineteenth-century economics and emphasizes the distinctiveness of his economic theory. Because Macune's challenge to the established order extended beyond a concrete political program to include the very method of understanding economic facts and laws, his strategies appear contradictory unless his own understanding is taken into account.

Macune did believe that, under the correct conditions, the laws of supply and demand would distribute value in a just way, and his efforts to lobby Congress for more adequate regulation of competition reflect that belief. Once the conditions necessary for competition were achieved, the laws of supply and demand would function, and farmers would receive adequate value for their labor. At the same time, as long as the conditions necessary for competition were absent, farmers had every right to ensure that they received just compensation. The use of combination was only a temporary effort, designed to achieve the adequate purchasing power necessary for competition:

> [T]he farmers' and labor organizations are temporary combinations for self-protection and should not be regarded as permanent combinations based upon, and calculated to carry out, the principles of socialism. This is why the Alliance is not a monopoly. Still, it and like organizations must continue to exist till government shall so faithfully perform its functions as to make their operations no longer necessary or desirable.[91]

87. Postel, *Populist Vision*, 121.

88. *Congressional Record* (CR), 51st Congress., 2nd Sess., 1889, 2561. (Hereafter *CR*, 51–2.)

89. *CR*, 51–2, 2558.

90. *CR*, 51–2, 2566.

91. *National Economist* 1 (April 6, 1889): 34.

Macune believed that by securing greater value for farmers' labor, the Alliance combinations would build the conditions so that competition could replace their efforts, ensuring that farmers continued to receive the value they earned. In this central respect, Macune's leadership of the Farmers' Alliance marks a departure from Jacksonian antimonopolism. Not only did Macune appeal directly for federal intervention in the economy, but he also called for farmers to form their own combinations. Each of these tactics was decisively rejected by Jacksonian antimonopolism, which relied on the belief that economic laws were natural and must therefore guide government action, rather than vice versa.

Against the Jacksonians, Macune's economic thought was thoroughly inductive and empirical, in that he believed that economic laws were not natural, but instead were descriptions of contingent social conditions. He expressed the significance of this contingency in his 1892 testimony to Congress concerning commodities futures trading, where he instructed the committee: "You will remember our old political economists always gave us an important modification of supply and demand, the prices being regulated by supply and demand, it always presupposes the ability to purchase is perfect or ample. Whenever it is not, it is a basic modification of the law."[92] The laws of supply and demand may accurately describe phenomena in a given situation, but their validity depends upon the conditions of that situation. Macune was wise to emphasize this seemingly technical point to the committee, given that much of Macune's strategy depended on assuming a particular methodology that was unambiguously foreign to the deductive orthodoxy of the time.

The congressmen to whom Macune addressed his testimony most likely followed the common views of the time and treated economic analysis as a deductive exercise. On the deductive view, often described by Macune's contemporaries as the "English method," economic laws are seen as natural, rational, universal, and therefore normative and predictive, regardless of context. Deductive economics reasons from laws to facts, thereby viewing economic laws prior to any conceptions of democracy. Gresham's law, for instance, which posits that a high value currency will always drive a low value currency out of an economy, was a popular belief among deductive economists and was deployed to support arguments for the gold standard. The law is deductive because it predicts certain economic phenomena on the basis of assumptions untethered to facts. Macune considered the deductive approach unfounded, and he critiqued Gresham's law in the Alliance's newspaper, the *National Economist*:

92. Macune, *Fictitious Dealing*, 256.

> Nothing seems to demonstrate so completely the unfitness of the English rules of finance for this country as a few years experience . . . Like all self-styled laws of similar character advanced by financiers of a certain class, they do well to frighten the people, but never prove sound when practically applied.[93]

While Macune appreciated the utility of deductive economics, he denied its validity. His experiences of the farmers' plight had made it clear to him that economic laws were no better than the facts on which they were based.

Macune's economic thought is largely an extension of Edward Kellogg's, a nineteenth-century American economist whose *Labor and Other Capital*, was taken up by a variety of popular movements.[94] Kellogg opens *Labor* with the fundamental principle of induction: "We reason from known facts to the hidden power governing them."[95] In this view, supply and demand may determine the price of a commodity, but the relationship of supply to demand is not natural and unchanging, but is instead invalid once removed from the specific conditions in which it is observed. One upshot of Macune's debt to Kellogg was the role of Kellogg's labor theory of value in shaping Macune's diagnoses of the national economy. Kellogg believed that in modern economies, where the division of labor was well established, all economic actors were deeply interdependent, because each was forced to depend on others in order to satisfy his wants and needs.[96] But because all value originated in labor, and labor cannot easily be traded, modern economies require the use of money as a means of exchange.[97] In Kellogg's view, labor is natural because it is constituted simply by human activity, but money is artificial, because it is created by laws in order to represent labor, so that the value of labor can be exchanged.[98] While money may seem to follow the dictates of natural law, such that, in some circumstances, a high value currency will replace a low value currency, Kellogg's emphasis on the artificial, legal nature of money implies that money's ability to represent value is entirely contingent on manmade law.[99] Thus, if some economic actors fail to receive currency that adequately represents the value of their labor, this is the product of imperfect manmade law.[100] Macune's interpretation of Kellogg is what led him to advocate monetary reform as a means of making up the $16 million gap between the value of farmers' labor and the value they received.

Viewing Macune in light of his debt to Kellogg, his activities against monopolies appear secondary to his fight to reform the monetary system. This strategy was based on the fundamentally inductive view that monetary value does not accrue naturally, but is the result of a contingent social process, shaped largely by manmade laws and institutions. Business combinations may indeed have extracted value from farmers' labor, but Macune did "not believe that this was the result of any rascality on the part of any one man, but . . . the legitimate result of this system."[101] The flawed system at the root of farmers' troubles was the overly rigid monetary system, which, combined with farmers' production cycles, created conditions easily manipulated at farmers' expense:

> In the last four months of the year, the agricultural products of the whole year have been harvested, the yare placed on the market to buy money. The amount of money necessary to supply this demand is equal to many times the actual amount in circulation. Nevertheless, the class that controls the volume of the circulating medium desires to purchase these agricultural products for speculative purposes; so they reduce the volume of money by hoarding, in the face of augmented demand, and thereby advance the exchangeable value of the then inadequate volume of money, which is equivalent to reducing the price of agricultural products.[102]

While those relying on deductive, rationalist economics would argue that government should not interfere with the monetary system because the distribution of value is simply the effect of natural laws, which are always superior to manmade laws,

93. *National Economist* 2 (February 8, 1890): 328.

94. Edward Kellogg, *Labor and Other Capital: The Rights of Each Secured and the Wrongs of Both Eradicated* (New York: published by the author, 1849); Chester Destler, "The Influence of Edward Kellogg upon American Radicalism, 1865–96," *Journal of Political Economy* 40, no. 3 (June 1, 1932): 338–65; Dorfman, *The Economic Mind in American Civilization, 1606–1865,* 678–81; Goodwyn, *Democratic Promise*, 566–67.

95. Kellogg, *Labor and Other Capital*, xiii.

96. Ibid., xxxvii.

97. Ibid., xxix.

98. Ibid., 42.

99. Dorfman, *The Economic Mind in American Civilization, 1606–1865*, vol. 2, 679–80.

100. "Unjust distribution originates in wrong legislation. When monetary laws shall be made equitable, present labor will naturally receive a just proportion of present products, and capital will likewise receive a just reward for its use." Kellogg, *Labor and Other Capital*, xxxi.

101. Macune, *Fictitious Dealing in Agricultural Products*, 252–53.

102. *Report of the Committee on the Monetary System* (St. Louis, MO, December 7, 1889), in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 126. The Committee's report may appear contradictory to modern eyes, given that they seem to argue that currency is both too rigid to account for farmers' production cycles, yet flexible enough to allow manipulation by capitalists. Regardless of its accuracy, this was the justification given for the subtreasury system. But see, for instance, Richard Franklin Bensel, *Yankee Leviathan: The Origins of Central State Authority in America, 1859–1877* (Cambridge, MA: Cambridge University Press, 1991); Hammond, *Sovereignty and an Empty Purse*; Irwin Unger, *The Greenback Era: A Social and Political History of American Finance 1865–1879* (Princeton, NJ: Princeton University Press, 1964).

Macune's methodology led him to a different conclusion. Proceeding from Kellogg's theory, Macune argued that the monetary system was the product of manmade laws and institutions, so there was nothing natural that should be left free from government interference. In a democracy, human laws should always be subject to popular sovereignty, and by denying the naturalness and universality of economic laws, Macune was led to the conclusion that popular sovereignty must extend to the economy.[103]

The Alliance had been focused on monetary issues since the 1886 Cleburne demands,[104] but Macune's proposal of the subtreasury system at the 1889 National Alliance convention brought the issue to the fore. Macune recognized that the Alliance's previous efforts—lobbying Congress, building the Exchange, and so forth—had not yet closed that gap between the value of farmers' labor and the value they received for their commodities.[105] On the last day of the convention, Macune formed the Alliance's top leaders into the Committee on the Monetary System and issued a report that set out the Alliance's new goal:[106]

> The most desirable and necessary reform is one that will adjust the financial system of the general government so that its provisions cannot be utilized by a class, which thereby becomes privileged and is in consequence contrary to the genius of our government, and which is to-day the principal cause of the depressed condition of agriculture.[107]

The report represented a shift in Alliance tactics from alleviating the symptoms of the farmers' condition to attacking its cause directly. The subtreasury system was designed to accomplish three goals: "first, the increase of the volume of money; second, a flexible volume of money, and third, the issue of money direct to the people, without the intervention of banks."[108] In order to achieve these goals, the Alliance demanded that the federal government

> establish in every country in each of the States that offers for sale during the one year $500,000 worth of farm products—including wheat, corn, oats, barley, rye, rice, tobacco, cotton, wool, and sugar, all together,—a subtreasury office, which shall have in connection with such warehouses or elevators as are necessary for carefully storing and preserving agricultural products as are offered it for storage.[109]

These subtreasuries, placed close enough to farmers so that they were easily accessible, would provide currency in exchange for agricultural products, thus giving farmers access to currency that would be flexible enough to account for their production cycles. After depositing their products at the subtreasury, the subtreasury officers would give farmers "a certificate of deposit showing the amount and quality, and that United States legal tender paper money equal to eighty per cent of the local current value of the products deposited has been advanced on same, on interest at the rate of one per cent per annum."[110] Macune surely realized that if his planned subtreasury system had existed a couple years earlier, then the Texas Exchange would not have failed. But furthermore, if it had existed a few years earlier, the Texas Exchange would not have been necessary.

The subtreasury system marked a break with the current monetary regime because it "brought the nation's monetary system under democratic control and gave millions of citizens access to capital at low interest."[111] Macune's reliance on inductive, empirical economics led him to believe that the economy was no more natural than a system of manmade law, and therefore, in a democracy, popular sovereignty must extend to the economy. In Macune's view, there was no necessary conflict between democracy and the emergent capitalist order, but because Macune's methodology was not widely held, the plan directly challenged popular views that government should not intervene in the monetary system, nor any other economic matter.[112]

Macune's contemporaries argued that popular sovereignty had no place in the economy, and that the subtreasury plan was unconstitutional, representing an overreach of governmental power. Critics argued that the government simply "does not and can not embrace lending the people's money to any class of the people themselves."[113] These critics saw a crucial difference between tax-funded public

103. Rana, *The Two Faces of American Freedom*, 207.

104. Goodwyn, *Democratic Promise*, 80.

105. Charles Macune, "Address to the National Farmers' Alliance" (St. Louis, MO, December 3, 1889), in *National Economist* 2 (December 14, 1889); 197; see also John D. Hicks, "The Sub-Treasury: A Forgotten Plan for the Relief of Agriculture," *The Mississippi Valley Historical Review* 15, no. 3 (1928): 361–62.

106. Ibid., 356.

107. *Report of the Committee on the Monetary System*, in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 125.

108. *National Economist* 3 (May 24, 1890): 146.

109. *Report of the Committee on the Monetary System*, in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 127.

110. Ibid., 128.

111. Goodwyn, *Democratic Promise*, 568.

112. Substantial evidence suggests that the American state has always been thoroughly and broadly active. This, however, seems not to have dampened, but on the contrary, may have inspired, public arguments for laissez-faire. See Brian Balogh, *A Government Out of Sight: The Mystery of National Authority in Nineteenth-Century America* (Cambridge, MA: Cambridge University Press, 2009); Bensel, *Yankee Leviathan*, esp. chap. 4; Daniel Carpenter, *The Forging of Bureaucratic Autonomy: Reputations, Networks, and Policy Innovation in Executive Agencies, 1862–1928.* (Princeton, NJ: Princeton University Press, 2001); and, particularly regarding financial policy, see Unger, *The Greenback Era*.

113. *New York Times*, March 10, 1890. Cited in *National Economist* 3 (March 22, 1890): 1–2. See also Hicks, "The Sub-Treasury," 366.

projects and the type of fiscal scheme represented by the subtreasury system.

In Macune's eyes, the subtreasury system should be seen as an extension of the government's power to coin money, which is included in the Commerce Clause,[114] and he offered a telling counterexample to refute the charge that the subtreasury system represented unprecedented government intervention in the economy: "If it is wrong for the Government to give even temporary relief to the farmer, by what process of reasoning is it made right to anticipate millions of interest whenever Wall street is being squeezed?"[115] Macune insisted that no difference distinguished the government's support of bankers from his proposal that it support farmers. If the government is truly democratic, he argued, then it should serve the interests of the people, which extend to economic issues. The current system, by not responding to the people's will, appeared to be less a democracy than a monarchy: "Our monarch is a false, unjust, and statutory power given to money, which calls for a conflict on our part to emancipate productive labor from the power of money to oppress."[116] Building on an analogy to the Revolutionary War, Macune called for this monarch to be overthrown, and for reinstating the power of the people.

Opponents of the subtreasury system recognized the power that the government had given financial interests, but in their view, this was not troubling. They argued that democracy would necessarily clash with the economic order, and that the laws of economics must always take precedence over manmade law, in large part because the people are not intelligent enough to make decisions about economics: "The principles of public finance require knowledge derived from much study and observation in order to be understood, and the creation and direction of a financial policy demand the highest kind of expert ability if it is to result in anything but disaster."[117] But even worse, the farmers were particularly the type of people who needed to be kept from crafting economic policy:

> There is probably no class of men of fair intelligence who are less capable of dealing with this complex subject than those who spend their days remote from the centers of population in which the mechanism of traffic and exchange is developed and managed. They can bring it only ignorance and incapacity, however confidently they may think otherwise.[118]

These critics, engaging the deductive orthodoxy of Macune's time, argued that economic laws are natural, and therefore inherently superior to manmade law, such that manmade law can at best only approximate the perfection of natural law. Relying on this methodology, they sought to remove democracy from economic decisions, insisting that economic institutions must be designed and operated by experts. Experts' authority was justified, in this view, because their knowledge of the universal natural laws governing economic interactions would allow them to minimize the damage of manmade law. Democracy would always conflict with the economic order because the people would always want to control the economy, but would never understand how it functioned. Macune was an exact representation of the fears of the deductive orthodoxy, because he not only organized resistance to the distribution of resources, but also proposed that economic law was fundamentally contingent on manmade laws. Such an assertion threatened experts' beliefs and their authority, because Macune's inductive economic theory validated commonsense observations of economic phenomena, thereby denying any epistemic privilege that experts might claim. Without a scientific defense for separating economics from politics, there was no reason for the economy to be protected from popular sovereignty.

Despite its promise to improve farmers' lives, the plan for the subtreasury system collapsed with Macune's departure from the Alliance in 1892. Macune's relationships with other Alliance leaders, especially Leonidas Polk, had deteriorated, as Polk and others positioned the Alliance to enter electoral politics.[119] Eventually, Macune was accused of conspiring to undo Polk's efforts to form the People's Party, and he was forced out.[120] A version of the subtreasury system was eventually established in the Progressive Era, but it was done so in service of a constrained conception of democracy. Other Populist leaders, such as Leonidas Polk, Thomas Nugent, and Marion Todd, continued to struggle for the rights of farmers and producers, but none articulated Macune's conception of robust democracy with such detail, and none mobilized such organizational resources to realize that vision. Lawrence Goodwyn describes Macune as "the boldest single theorist of the agrarian revolt. He was also, in economic terms, one of the most creative public men of Gilded Age America."[121]

Macune's tenure as president of the Farmers' Alliance was short, but in the span of three years, he was able to lead the Alliance to take decisive steps toward alleviating farmers' hardships. His efforts to

114. *National Alliance* 3 (May 24, 1890): 147.

115. *National Economist* 3 (March 22, 1890): 2.

116. *Report of the Committee on the Monetary System*, in Dunning, *The Farmers' Alliance History and Agricultural Digest*, 130.

117. "An Abortive Moment," *New York Times*, December 10, 1890, cited in Hicks, "The Sub-Treasury," 366.

118. "An Abortive Moment," cited in Hicks, "The Sub-Treasury," 366.

119. McMath, *Populist Vanguard*, 110–13.

120. Hicks, "The Sub-Treasury," 372; McMath, *Populist Vanguard*, 113.

121. Goodwyn, *Democratic Promise*, 564.

lobby Congress for antimonopoly legislation, build farmers combinations, and establish the subtreasury system all responded to the initial demands from the 1886 Cleburne meeting. What made Macune's economic science so distinctive was his articulation of the link between state and economy, which represented a direct challenge to the economic theory of his day and our own, as well as a decisive break with the economic theory that preceded him. Many of Macune's proposed reforms were achieved in the period following his leadership of the Farmers' Alliance. However, his distinct vision of a democracy where popular sovereignty extends to the economy was lost, in large part due to the defeat of an economic method that treated economic law as inductive, contingent on social conditions.

ECONOMICS IN AMERICA

Macune's economic thought was a distinctive, but not unique, articulation of political protest against America's emerging economic order. The demands he proposed on behalf of the Farmers' Alliance contrasted sharply with those of the Jacksonians, but they were echoed to a large extent by the economists who founded the American Economic Association (AEA) in 1885. Distinguishing Macune from the Jacksonians makes clearer how his economic thought relied on contextualizing economic law, and it highlights the degree to which the early AEA shared Macune's basic assumptions about economics. Furthermore, emphasizing the role of contingency and induction in Macune and the AEA shows how that methodology offered a more expansive conception of democracy by subordinating economic laws to popular sovereignty. Until its decisive defeat at the close of the nineteenth century, an alternative economics founded on induction, empiricism, and institutionalism was a valid discipline; the struggle for democracy unconstrained by economic order was a conceivable and realistic political project.

The differences between Macune's economic thought and Jacksonian antimonopolism extend from conflicting first principles to opposing views on national economic policy, and can be observed directly in their competing plans for a substreasury system. Macune and Leggett both advocated a locally based system of subtreasuries, but Macune's plan was based on the government providing credit to farmers, while Leggett's was designed to prohibit the government from lending. The Jacksonian subtreasury plan was introduced in order to allow the natural laws of economics to drive economic development, while the Populist subtreasury plan was introduced to alter the manmade law on which those contingent economic laws relied. The differences between the two plans illustrate the deep distinctions between the two approaches.

Jacksonians, such as Leggett, believed in universal natural economic laws, so state involvement to remove monopoly power would only be temporary.[122] But because Macune denied the independence of natural economic laws, he insisted that the state must be recognized, and managed, as a constant presence in the economy. For Macune, it was Populist agitation that should be temporary, pursued only until the government would step in and fulfill its role, "to protect the weak, sustain the right, and prevent the wrong."[123] According to Macune's methodology, the economic order is always constituted by economic laws that depend directly on manmade laws, so a democratic government must ensure that those laws are the true expression of the people's will. While Leggett argued that democracy could be reconciled with the economic order only through laissez-faire, Macune insisted that democracy could be reconciled with the emerging capitalist order only through the extension of popular sovereignty to the economy.

Macune's reliance on empirical, inductive, institutionalist economics allowed him to formulate an economic theory that acknowledged modern conditions, the most notable of which were the economies of scale afforded by developments in technology. For Macune, monopolies were clearly the result of technological development, especially the steam engine: "The direct source from which these giant modern enemies to society have sprung are the vast strides made in invention, the application of steam to industrial pursuits."[124] In his eyes, monopolies were "enemies to society" in large part because they had been poorly regulated and allowed to turn against society's interests, but the reason for their existence was not corrupt legislation, but technology. Unlike the Jacksonians, whose method engaged observation and historical investigation only to test timeless natural laws, Macune's inductive economics drew all its conclusions from observation and analysis of those conditions that constituted economic history. The *National Economist* concluded a series of articles on political economy by noting that, "This series of articles on political economy would lose a large part of the power for good if lessons for the present were not drawn from experiences of the past."[125] By orienting economic analysis to history, Macune's method identified the economic changes to which Populist organizing needed to respond. Had his analysis ignored history, Macune recognized that it would be wrong and would fail to provide a useful guide for strategy.[126] But the strength of Macune's strategy was also its undoing.

122. Sidney Fine, *Laissez Faire and the General-Welfare State, a Study of Conflict in American Thought, 1865–1901* (Ann Arbor: University of Michigan Press, 1956), 14.

123. *National Economist* 1 (March 30, 1889): 18.

124. *National Economist* 1 (April 20, 1889): 67.

125. *National Economist* 1 (April 6, 1889): 42.

126. *National Economist* 1 (April 20, 1889): 66.

Through most of the nineteenth century, Americans learned economics in the tradition of the "English School," which was based in a rationalist, deductive, naturalist methodology and proposed laissez-faire as the system most likely to enable the unchanging natural laws of economics to properly function. E. L. Godkin had a great appreciation for the English School, and because he edited *The Nation* until 1881, and was then editor of the *Post* until 1899, he ensured that these ideas had national circulation, and that they circulated among the right people.[127] He wrote for a group of upper-class men who believed in liberal economics and conservative politics, comprised of gentlemen as well as social scientists and experts.[128] Godkin had, in the words of William James, "towering influence in all thought concerning public affairs."[129] He used this influence to shore up the position that, because history was pushed forward by natural laws, expressed in economics, but also more broadly in evolution, the state should be directed only by individuals who understand those laws.

The foundation of Godkin's thought was his unwavering belief in the independent natural authority of economic law.[130] In his eyes, economics was an extension of nature, rather than politics, so economic analysis must proceed just as natural science, by deducing conclusions from a priori assumptions. The assumption that man is rational and self-interested played the role of gravity in Godkin's economics:

> No real progress would ever have been made in astronomy or mechanics without the assumption that if a body were set in motion in a vacuum that is the way in which it would move. It is no less true that political economy, no matter how defined, cannot be taught without assuming the existence of an Economic Man who desires above all things, and without reference to ethical considerations, to get as much of the world's goods as he can with the least possible expenditure of effort or energy on his own part.[131]

Just as science proceeds by abstracting from reality to deduce general laws from assumptions, so should economics, in Godkin's view, proceed by abstracting from the messy reality of everyday interactions in order to deduce general laws. Because these laws constitute the essential assumptions of his method, they are prima facie valid in every instance, and therefore, Godkin insisted, they also hold predictive power. With reference to Gresham's law, for instance, Godkin writes:

> 'Gresham's Law' is simply a deduction from observation of the working of the Economic Man's mind when brought into contact with two kinds of currency of unequal value, and through our knowledge of the Economic Man we can predict its operation with almost as much certainty as the operation of a law of chemistry or physics.[132]

While Godkin does refer to "observation" in deducing Gresham's law, this is not the same type of observation used by Macune and other inductive, empirical, institutionalist economists. Induction directs the formulation of contingent laws based on observation of actual phenomena, but when Godkin refers to observation, he is referring to a procedure in which the economist imagines how the hypothetical "Economic Man" would react if he were given a choice between two competing currencies.

Godkin's naturalistic approach to economics led him to argue that economics must be kept free from the political realm. In his eyes, it was simply a "fact of nature" that the scientific search for natural truth was foreign to activities that defined political life.[133] To illustrate the perils of combining politics and science, Godkin invited his readers to "suppose our acceptance of the law of gravitation had been delayed by the war of 1812, or our belief in the atomic theory shaken by the *Alabama* case."[134] Because politics works at cross-purposes to scientific analysis, it would be disastrous to allow politics to interfere with the economy. Thus, Godkin's favored policy, like Leggett and other the deductive economists, was laissez-faire: "[A]ny attempt to provide by law any other measure of a man's deserts in the social state than the amount of his own labor, or the value put on the product of his labor by his fellows in free and open market, would in the long run be destructive to civilization, or at least to *our* civilization."[135] While Godkin certainly echoes Leggett's endorsement of laissez-faire, and the disaster that necessarily results from government interference in the economy, his approach to reconciling democracy with the economy marks a significant departure.

In Godkin's eyes, democracy is a particularly dangerous form of government, because the people will always try to control the economy, despite being

127. William M. Armstrong, *E. L. Godkin: A Biography* (Albany, NY: State University of New York Press, 1978), 9.

128. Skowronek, *Building a New American State*, 45.

129. Quoted in Fine, *Laissez Faire and the General-Welfare State,* 5.

130. Dorothy Ross, *The Origins of American Social Science* (Cambridge, UK: Cambridge University Press, 1991), 80.

131. E. L. Godkin, "The Economic Man," *The North American Review* 153, no. 419 (October 1, 1891): 494.

132. Ibid.

133. Nancy Cohen, *The Reconstruction of American Liberalism, 1865–1914* (Chapel Hill: The University of North Carolina Press, 2002), 57.

134. E. L. Godkin, "The Difficulties of Economic Discussion," *The Nation,* July 22, 1889, 66, cited in Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 53.

135. E. L. Godkin, "The Future of Capital," *Nation,* June 22, 1871, 381, emphasis in original. Cited in Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 56.

unable to understand it. Economic truths may appear clear to the experts, but the people exhibit a remarkable tendency to ignore those truths,[136] and because the people are unable to adequately perceive economic truth, they are unfit to make economic decisions. Democracy, however, invests the people with decision-making power through voting. Godkin invoked an analogy for his nineteenth-century readers in order to illustrate the absurdity of the value placed on voting:

> We laugh at the poor African who consults his wooden fetish before he takes any step in the business of his wretched and darkened life; but when a Caucasian demagogue tries to show us that the springs of justice and truth are to be found in a comparison of ten thousand bits of paper with nine thousand similar bits, we listen with gravity, and are half inclined to believe that there is something in it.[137]

Instead of allowing the people to determine their fate through voting, argued Godkin, government should be directed by experts, those who understand the scientific laws underlying reality. He took some solace in observing that Americans were increasingly receptive and respectful of "scientific men."[138] Calling for a reorientation of authority from politicians and the people to experts, Godkin and his group came to be called the Mugwumps, from the Algonquin word for "Chief."[139]

Many of those in Godkin's Mugwump sphere followed his invocation of deductive, rationalist, naturalistic economics, and some were eventually involved in designing and implementing essential Progressive Era reforms. Godkin's approach to economics reflected a broader view of the relation between nature, society, and progress, which energized political debates and set the terms for academic disputes. As history pushed America forward at the end of the nineteenth century, many wondered whether and how America's essential character would survive such great transformations. Evolution provided social scientists the most developed theory for asking how essential group traits change over time, but interpretations were sharply divided.

On the one hand were the followers of William Graham Sumner, who argued that societies developed as natural organisms, "determined by a natural process of selection linked to the market, and impervious to the intervention of reason, politics, and morality."[140] This theoretical standpoint led Sumner to argue that America's essential character would not be diluted, as long as these natural processes of selection were left unhampered. Chief among these processes was the market, and Sumner was a leading advocate of laissez-faire. On the other hand, Francis Amasa Walker and a handful of others argued that what Sumner took for natural processes were not independent of, but instead directly contingent on, broader social conditions. Walker demonstrated convincingly that the creation of economic value depended less on the laws of supply and demand than it did on the productivity of labor.[141] While a seemingly technical point, Walker argued that this demonstrated that the state could not treat economic laws as independent of society, especially its laws and institutions. Ensuring prosperity, in Walker's view, would require the state to guarantee labor productivity, and doing so might require actions that contradict the laws of supply and demand. Walker was suggesting, in other words, that the natural processes of selection were functional only when placed within broader social context. Walker's challenge to Sumner's universalistic, naturalistic methodology led to his dismissal from Yale, and it foreshadowed the conflict that would erupt between the two approaches before the end of the century.

Through the 1870s and 1880s, the deductive economists[142] consolidated their power in academia, and they played a major role in establishing American social science by forming associations, securing professorships, and publishing in academic and popular presses.[143] In the 1870s, they advocated laissez-faire economics through their participation in the American Social Science Association[144] and in the newly formed Political Economy Club.[145] By the mid-1870s, the deductive economists had successfully established a stronghold in academia, from which they could study contemporary conditions and offer expert advice. Relying on academic credentials to justify their activities as experts, the deductive economists introduced a new role for American social scientists as policy advisors and unelected de facto

136. E. L. Godkin, *Problems of Modern Democracy: Political and Economic Essays* (New York: Scribner, 1903), 87.

137. E. L. Godkin, *Reflections and Comments, 1865–1895* (New York: C. Scribner's Sons, 1895), 234.

138. Godkin, *Problems of Modern Democracy,* 94–95.

139. Armstrong, *E. L. Godkin,* 160; Ross, *The Origins of American Social Science,* 61.

140. Ross, *The Origins of American Social Science,* 219.

141. Cohen, *The Reconstruction of American Liberalism, 1865–1914,* 154.

142. Because my focus is the group of individuals who advocated and articulated the doctrines of deductive economics, the term "Mugwump," due to its diverse application, proves unhelpful here. Although Cohen's term, "liberal reformer," picks out a neater group, "deductive economists" cuts no corners, but I must acknowledge considerable overlap with Cohen's "liberal reformers," as well as Ross's "Mugwumps," and Skowronek's "political mugwumps" and "economic mugwumps." See Cohen, *The Reconstruction of American Liberalism, 1865–1914,* 11–16; Ross, *The Origins of American Social Science,* 61–71; Skowronek, *Building a New American State,* 133–34.

143. Fine, *Laissez Faire and the General-Welfare State,* 49.

144. Cohen, *The Reconstruction of American Liberalism, 1865–1914,* 12; Mary O. Furner, *Advocacy and Objectivity: A Crisis in the Professionalization of American Social Science, 1865–1905* (Lexington: University Press of Kentucky, 1975), 40.

145. Furner, *Advocacy and Objectivity,* 60.

political leaders. Wielding significant power over politics without necessarily being subject to the whims of electoral politics, journalists had previously enjoyed similar influence, Godkin foremost among them.

Young, ambitious, and dedicated to social issues, Henry Carter Adams had intended to be a journalist, and looked to Godkin as his role model. But when Adams had a chance to meet with Godkin during an 1876 trip to Cambridge, Godkin encouraged him to study social science instead.[146] Adams followed Godkin's advice, accepted his help, and enrolled at Johns Hopkins University, where he eventually received the first doctoral degree in social science. Hopkins was based on the German model of graduate education, and, midway through his program, Adams left Hopkins to continue his studies in Germany.

In the nineteenth century a significant number of American economists received their training in Germany, and having studied economics under professors identified with the Historical School, they brought the Historical School's methodology back to the United States. Henry Adams, Richard Ely, Edmund James, and Edwin Seligman, among others, all studied in Germany, and were impressed not just by the ideas they learned, but also by the academic institutions built by their professors, especially the *Verein für Sozialpolitik*. The Verein had been founded in 1872 to bring together German intellectuals to address the pressing problems of the day, and its members became well known for their role in the *Methodenstreit*, a long-running protest against the Austrian school of economics. On the basis of their own inductive, empirical, historicist approach, members of the Historical School vigorously objected to the Austrians' deductive, axiomatic approach, insisting that economic facts cannot be separated from national context, particularly because of economics' relationship to a nation's history and culture, as well as its specific issues of policy and distribution.[147] The opposition to universal economic laws put the Historical School in direct opposition to laissez-faire, which was purported to apply to all economies, regardless of national distinction. Adams and the other American economists returned to the United States thoroughly convinced of inductive, historicist, empirical, institutional economics and ready to challenge the orthodoxy, ascendant in its commitment to deduction, rationalism, naturalism, and universalism.

In 1885, Adams, Ely, and other American economists who had studied in Germany founded the American Economic Association (AEA) in order to, in Ely's words, "accomplish in America what the Verein für Socialpolitik has done in Germany."[148] The AEA's original statement of principles began by declaring, "laissez faire is unsafe in politics and unsound in morals; and it suggests an inadequate explanation of the relations between the state and the citizens."[149] The journal *Science*, sensing a controversy, invited the founding members of the AEA to state their principles in a series of articles in 1886. What followed was a heated exchange between the "new school," that challenged the orthodoxy on first principles by insisting that economic science must be inductive, empirical, institutional, and the "old school," that invoked the principles of deduction to argue that the scientific validity of economics depended on recognizing economic laws as natural and universally valid.[150]

Adams penned one of the opening salvos in an issue of *Science* from early July 1886. According to the view of the new school, economic analysis must take into account not only "the economic nature of man," but also "the material surroundings of men," as well as "the legal structure of society."[151] Rejecting the abstracted assumptions of the orthodox approach, Adams insisted that economic life does not occur in a vacuum, but is embedded in society, and unless social factors are taken into account, economic analysis will fail to describe reality. Economic science, for Adams, was a discipline whose responsibility included not just accurate observation and portrayal of economic reality, but its findings must be useful for government officials and policymakers. In order to be useful, economic analysis would need to take social context into account.

The old school did not take these challenges lying down. Arthur T. Hadley responded to Adams's piece in the next issue of *Science*, where he diagnosed Adams's problem: "The error lies in confounding the material to which a science is applied, with the material out of which it is built; or—to put the same thing in another form—in identifying the material of a science with the materials of an art."[152] Hadley distinguished between science and art in order to restrict the scope of economic analysis. In his view,

146. Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 156.

147. Erik Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany 1864–1894* (New York: Oxford University Press, 2003), 247.

148. Private correspondence between Ely and Seligman, noted by Joseph Dorfman, "The Seligman Correspondence," *Political Science Quarterly* 56 (1941): 281, quoted in Daniel T. Rodgers, *Atlantic Crossings: Social Politics in a Progressive Age* (Cambridge, MA: Belknap Press of Harvard University Press, 1998), 102.

149. Richard T. Ely, "Report of the Organization of the American Economic Association," *Publications of the American Economic Association* 1 (1886): 7.

150. For the view that the opposition to laissez-faire was a personal crusade of Ely's, unshared by other members of the AEA, and that Ely inflated the popularity of that doctrine, see Thomas L. Haskell, *The Emergence of Professional Social Science: The American Social Science Association and the Nineteenth-Century Crisis of Authority* (Urbana: University of Illinois Press, 1997), 178–89.

151. Henry C. Adams, "Economics and Jurisprudence," *Science* 8 (1886): 15.

152. Arthur T. Hadley, "Economic Law and Methods," *Science* 8 (1886): 46.

the context in which man is situated, whether material or legal, was irrelevant to economic analysis.[153] Instead, those material or legal conditions are precisely what should be the subject of economic policymaking. Economic science should provide the information necessary to make decisions regarding public administration, but, argued Hadley, to base that economic science on previous decisions of public administration would be illogical. The laws on which economics relies are always valid, independent of particularities of context.

Adams did not let the point go, and he replied to Hadley in the following issue, where he insisted that context must be relevant to economic science and that Hadley's conception of context was overly narrow. "Lego-historical facts," he wrote, "are material out of which to construct an economic science."[154] Against the orthodox view that economic science should be deductively sound, logically derived from first principles, Adams insisted that it must be "analytical and constructive," because economic life is always embedded in, and therefore secondary to, the social.[155] Hadley seemed to understand social context as being completely constituted by a legal framework, thereby denying Adams's position that social reality is constructed out of a multitude of interactions, some voluntary and others not. Adams mocked Hadley's understanding by comparing him to an astronomer, and his method to the "astronomical method of investigation," whereby one constructs a system of thought to build a straight line and then measures how crooked it is in reality.[156] According to the AEA, economists relying on the deductive approach mistakenly focused on measuring imaginary theories, thereby overlooking the actual facts constituting economic reality.

The AEA attacked the orthodoxy on two levels. Their method caused economists to overlook the pressing facts of economic reality, and because they overlooked the facts, their theories were therefore invalid. Against this view, the AEA insisted on an inductive, empirical, institutionalist method, which required that the scientific validity of economic laws rest on social facts, such as material and legal conditions. According to the AEA's view, a world of difference existed between economics and astronomy, the most important being that humans create economic facts but do not create astronomical ones. Induction provided a framework for economists to observe how economic facts are causally reducible to a collection of social facts. For the AEA, economic laws were produced through inference based on observation. Social facts, such as laws, history, and material surroundings, constituted the content of relevant observations. Members of the AEA may have been primed for such an approach by their German professors, but they found that induction most accurately captured their intuitions about contemporary American life. Laissez-faire was destroying the social fabric. Induction, empiricism, and institutionalism provided the AEA with the framework to observe and interpret that doctrine's effects, and to craft potential solutions.

Elements of the debate were surely scholastic, but the implications for the discipline of economics were profound because the split between inductive and deductive foundations led to opposing views on pressing social issues, not the least of which was monopoly.[157] According to the new school, the old school's disregard for facts had led them to argue that monopolies could not, and should not, be regulated because only by allowing the laws of supply and demand to function would the most efficient and just outcome be achieved. The new school distinguished themselves by centering their analysis on the material and legal circumstances that made monopolies possible, and it was on these grounds that they argued for government regulation, in a manner that echoed Macune's approach.

Indeed, Macune's methodology may have been shaped by the AEA's agitation, for he was certainly aware of their activities. After laying out Macune's position on regulating railroad monopolies through competition, an 1890 issue of the *National Economist* distinguished Macune's theory from two popular alternatives. Briefly mentioning Hadley's theory of monopoly, James Hudson wrote that, "The other is an ingenious theory of the classification of different classes of business, made by Prof. H.C. Adams, and supported by Prof. E. J. James."[158] Hudson was referring to the theory of "natural monopoly," which Adams had introduced and James had made popular. The theory of natural monopoly proposed a solution to the monopoly problem orthogonal to Macune's in that Adams argued for direct state control of these businesses, while Macune stressed the importance of reconfiguring the underlying economic structure. Both, however, relied on the same inductive, empirical, institutional methodology, in that both saw monopolies proceeding from economies of scale, rather than political corruption or privilege.

Adams defined natural monopolies as businesses for which expansion would always lead to increased returns. In a sense, if a business saw economies of scale, it was a natural monopoly. Adams identified communication (telegraph and post), transportation (roads and railways), and utilities (gas) as the most common natural monopolies. But, he noted, "There

153. Fine, *Laissez Faire and the General-Welfare State,* 73.

154. Henry C. Adams, "Another View of Economic Laws and Methods," *Science* 8 (1886): 104.

155. Ibid.

156. Ibid., 104–5.

157. Ross, *The Origins of American Social Science*, 113.

158. *National Economist* 3 (April 26, 1890): 90.

are many other lines of business which conform to the principle of increasing returns, and for that reason come under the rule of centralized control. Such businesses are by nature monopolies."[159] The upshot of Adams's theory of natural monopoly was that such businesses should be publicly owned and run by the state because they were naturally predisposed to centralization.

Natural monopolies, however, were not natural in the a priori sense intended by the orthodox economists. Rather, in Adams's view, a monopoly was natural to the extent that its position was entailed by a web of myriad social conditions, whereby no single cause could be isolated to account for the business's increasing returns. Because of its degree of embeddedness, the only way to control the behavior of a natural monopoly without a far-reaching reconfiguration of the social fabric was to turn its ownership and management over to the state. "We certainly deceive ourselves," wrote Adams, "in believing that competition can secure for the public fair treatment in such cases [of natural monopoly], or that laws compelling competition can ever be enforced."[160] For Adams, the problem was twofold. First, competition between natural monopolies did not entail adjustments to price according to supply and demand, but caused real destruction to the firms' productive capacities. Because natural monopolies were founded in economies of scale, reducing output due to competitive pressure led to significant losses, which were suffered not by the firms, but by the public.[161] Government would ideally be able to craft economic regulations to avoid this pitfall and still achieve an efficient outcome, but Adams questioned this as well, because the regulations would need to be so far reaching, which led to the second problem with regulating natural monopolies.

Even if the orthodox economists recognized the existence of natural monopolies and their potential dangers, they argued that government regulation would likely do more harm than good because it would interfere with the natural laws of economics.[162] In their view, government intervention would only further the opportunities for corruption, both moral,[163] and through mismanagement.[164]

Placed in charge of complex organizations, government officials would fail to understand the natural laws of economics, and would operate businesses in a manner harmful to the public, in part because politicians are subject to political, rather than economic, incentives: if industries are placed under state control, "we should run the risk of having facilities granted and capital invested, not because business needed them, but because they were demanded by doubtful states or influential members of Congress."[165] In Hadley's eyes, the attempts at regulating the railroads that had been pursued following the demands of farmers, the so-called Granger laws, were deeply flawed and ineffective because "a more powerful force than the authority of the courts was working against the Granger system of regulation. The laws of trade could not be violated with impunity."[166] The farmers' efforts, no matter whether justified by the Supreme Court, could not bend railroad practices to their will, because the natural laws of economics would necessarily prevail. While Hadley's critique of the Granger laws proceeded from a judgment of inefficiency, Godkin's was more direct, describing them as "robbery," and, when referring to the law, putting "justice" in quotation marks.[167]

For Adams, however, the law of the land was not economic necessity, but the public good, and he believed that state regulation could and should serve the public. In his eyes, his opponents' mistake was to take the effects of noninterference as justification for barring state control of private enterprise. But noninterference was itself the problem, argued Adams: "The policy of restricting public powers within the narrowest possible limit tends to weaken government and render it inefficient; this leads to corruption on the part of public officials, which in its turn, invites to yet greater corruption in private practices."[168] Against his laissez-faire-inclined opponents, Adams argued that the choice of noninterference would be more prone to corruption and inefficiency because of the stakes involved. A well-designed Civil Service could enact harmonizing regulations,[169] such that the competition between natural monopolies, which was widely recognized to be harmful, would be prevented. According to Adams, an economist who takes up the argument for laissez-faire based on a fear of corruption and inefficiency "commits a grave error of mistaking a result for a cause."[170] Adams's solution to natural monopoly represents an attempt to reconcile the orthodox economists' concern for economic necessity with a democratic

159. Henry C. Adams, "Relation of the State to Industrial Action," *Publications of the American Economic Association* 1, no. 6 (January 1887): 528.

160. Ibid.

161. Ibid., 513–14.

162. Arthur T. Hadley, "Private Monopolies and Public Rights," *The Quarterly Journal of Economics* 1, no. 1 (October 1, 1886): 40–41, 37.

163. E. L. Godkin, "Political Economy in Germany," *Nation*, November 7, 1872, 294.

164. Hadley, "Private Monopolies and Public Rights."

165. Arthur T. Hadley, *Railroad Transportation: Its History and Its Laws* (New York: G.P. Putnam's Sons, 1885), 256.

166. Ibid., 135.

167. Godkin's response to Edward F. Adams, "The Wisconsin Method of Railroad Reform: Correspondence," *Nation*, August 20, 1874, 122, quoted in Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 130.

168. Adams, "Relation of the State to Industrial Action," 529.

169. Joseph Dorfman, *Economic Mind in American Civilization: 1865–1918*, vol. 3 (New York: The Viking Press, 1949), 169.

170. Adams, "Relation of the State to Industrial Action," 529.

concern for an economic structure that serves the public good. Accordingly, Adams lent support to the Granger laws: "Certain businesses are regarded as of a *quasi*-public character, and on that ground are adjudged to be under the control of the law . . . the decisions in the so-called Granger cases established for law, and in public opinion, the right of the states to control railroad property."[171] Demonstrating that support for the Granger laws could be formulated on scientific grounds, Adams directly challenged the position of the orthodox economists.

The AEA upstarts thus presented a threefold challenge to the old school economists who advocated deduction and laissez-faire. They disputed the first principles that undergirded the deductive methodology, they questioned the conclusions of the old school regarding laissez-faire, and, by presenting an argument against laissez-faire in the language of science, the AEA threatened to validate the demands of farmers and labor for an increased role of the state in the economy.[172] Sharing Macune's view that in a democracy popular sovereignty must extend to the economic sphere, the AEA proposed an expansive conception of democracy that challenged the existing economic distribution. The old school had relied on their authority as experts to repel demands for more equitable distribution of resources by claiming that such demands were ungrounded in science.[173] Godkin, for instance, wrote "[W]e trust they [the public] will ask themselves, not how many votes the new movement probably numbers, but whether it has a solid reason for existence; whether the arguments of its supporters are true, or mere hollow imitations of reasoning."[174] While the deductive economists had once commanded exclusive control over expert authority, the credentialed economists of the AEA presented the possibility that experts would lend their authority to validating the Populists' and labor parties' demands.[175] In order to prevent widespread acceptance of increased economic intervention, the old school economists were presented with two strategies: either they could undercut the credentials of the AEA upstarts, or they could invalidate the AEA's inductive method on scientific grounds. They did both.

DEFEATING CONTINGENCY

Mugwump leaders like Godkin led a charge against members of the AEA that resulted in many losing their academic positions, and those who remained in the academy were forced to strategically adapt their views. This development of the economics profession left an enduring legacy because it was academic credentials that enabled economists to lead the Progressive reforms central to early twentieth-century American state building. Those economists who retained their credentials, such as Adams, directed Progressive reforms along the lines dictated by a deductive, rationalist, naturalistic method, thus structuring reforms that reflected a conception of democracy constrained by economic laws. Seen from this angle, the Progressive Era represents not only a marked shift in American economics, but suggests that the defeat of Populism can be understood as the stabilization of a constrained conception of American democracy, where popular sovereignty cannot extend to the economic sphere.

Because Americans had been observing the revolutions unfolding in Europe over the course of the nineteenth century, when the Haymarket Affair occurred in May 1886, public fears of revolution ran high. It was the perfect opening for the AEA's opponents to attack. Unfortunately for Ely, his book on the labor movement was published directly following Haymarket, even though he had written it beforehand.[176] Presented the opportunity to connect Ely's economic theory with the public's fears about revolution, Godkin and his associates began a campaign to have Ely fired from his professorship at Johns Hopkins.[177] While he was able to keep his position, Ely's influence steadily waned, and his career was repeatedly threatened over the following years. He gave up his position as secretary of the AEA in 1892, and, following the 1894 Pullman Strike, found himself on trial at the University of Wisconsin for his views.[178] Adams, too, came under serious pressure. Following a speech at Cornell in March 1886, where he endorsed the labor movement, he lost his position there, and when he went to assume the professorship he had arranged at the University of Michigan, the university president pushed him to publicly renounce his views.[179] Other AEA members were also pressured, including Edward Bemis, who was forced out of the

171. Adams, "Economics and Jurisprudence," 18.

172. Fine, *Laissez Faire and the General-Welfare State,* 302; Ross, *The Origins of American Social Science*, 99.

173. Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 16.

174. E. L. Godkin, "The Granger Collapse," *Nation,* January 27, 1876, 58,cited in Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 132.

175. Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 174; Leon Fink, *Progressive Intellectuals and the Dilemmas of Democratic Commitment* (Cambridge, MA: Harvard University Press, 1997), 58–59.

176. Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 168.

177. Ibid., 169; Ross, *The Origins of American Social Science*, 116–18.

178. Fink, *Progressive Intellectuals and the Dilemmas of Democratic Commitment*, 63; Furner, *Advocacy and Objectivity*, 152; Ross, *The Origins of American Social Science*, 116–23.

179. Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 171–72; Fink, *Progressive Intellectuals and the Dilemmas of Democratic Commitment*, 62; Furner, *Advocacy and Objectivity*, 128; Rodgers, *Atlantic Crossings*, 104–5.

University of Chicago,[180] and Edmund James, who was forced out of the Wharton School.[181]

In addition to attacking the careers of the AEA economists, the opponents of the AEA also attacked the scientific validity of the AEA approach. Godkin, for instance, charged that the AEA was engaged only in political, rather than scientific, debate. Deeply committed to the deductive program of a priori natural laws, Godkin saw no scientific value in the AEA's program: "There is hardly a trace of science in their [AEA members'] talk any more than in that of city missionaries. What they are asking us to do is simply to try a hazardous experiment in popular government."[182] The members of the AEA responded in kind, shaping their work to meet the standards of the profession, as articulated by the old school.

Richard Ely and John Bates Clark both changed their views considerably in order to tailor their research away from threatening the old school's deductive, rationalist, naturalistic, and laissez-faire principles,[183] but Adams's shift was the most illustrative.[184] In 1897, he published *The Science of Public Finance*, which one can read as his attempt to reestablish scientific credibility in a profession overtly hostile to induction, empiricism, historicism, and institutionalism. While some passages echo his earlier commitments,[185] his articulation of the "science of public finance" is explicitly deductive and naturalistic:

> The service rendered by an adequate working hypothesis in the development of any science is familiar to all students, and the reason now urged for considering the theory of public expenditures in advance of the formal study of the statistics of expenditures is found in the fact that the former is essential for the successful prosecution of the latter.[186]

By emphasizing the importance of grounding research in previously formulated hypotheses, Adams echoes Godkin's articulation of the deductive method. The inductive, empirical method employs hypotheses as well, but according to that method, hypotheses must proceed from observation, and they are always subject to invalidation by conflicting observations. This is why Adams's former professors of the German Historicist School had insisted that economists must first gather statistics before they were able to formulate any theories about the economy.[187] Adams stated his goal in the present volume as the exact opposite. He wrote that, while the necessary statistics do not yet exist, his goal is to formulate a theory in order to guide future investigations:

> [T]he author ventures to express a hope that a consistent theory of public expenditures having been set forth as a general theory of social evolution, it will prove to be of sufficient interest to claim the attention of many students, and that at their hands it will be expanded and modified so as to become eventually an established generalization in the science of which it is a part.[188]

Despite Adams's attempts to qualify his explicit rejection of induction,[189] his seeming reversal did not go unnoticed.

Edwin Seligman, one of the cofounders of the AEA, reviewed Adams's *The Science of Public Finance* in *Political Science Quarterly*, and his comments reveal the distance Adams had travelled from his previous position. Seligman suggested that Adams's privileging of theory may be valuable in its own right, but "we miss not only historical examples, but also any detailed statement of actual fiscal methods in America and any comparison with the institutions of other countries."[190] Praising Adams where he does present historical examples,[191] Seligman also slyly notes the change in Adams's methodology: "In this detail Professor Adams has forgotten the general doctrine which he elsewhere so eloquently inculcates."[192] And while Adams had earlier identified himself as a socialist,[193] Seligman notes that his position now "lies midway between the two extremes of *laissez faire* and socialism."[194] The shift in Adams's thought from challenge to capitulation illustrates the general trend among other AEA economists, as he began to treat economics as a technical field removed from political struggle, rather than viewing economics as a field on which to fight those struggles.[195] And while the AEA had "quietly abandoned its statement of principles," including its opposition to laissez-faire, as early as 1888, the organization grew steadily less

180. Fink, *Progressive Intellectuals and the Dilemmas of Democratic Commitment*, 65; Furner, *Advocacy and Objectivity*, chap. 8.

181. Rodgers, *Atlantic Crossings*, 105.

182. Godkin, "The Economic Man," 502.

183. Furner, *Advocacy and Objectivity*, 161, 184–92; Ross, *The Origins of American Social Science*, 118.

184. Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 182–83; Furner, *Advocacy and Objectivity*, 138, 127.

185. Henry C. Adams, *The Science of Finance: An Investigation of Public Expenditures and Public Revenues* (New York: Henry Holt and Company, 1905), 13–14.

186. Ibid., 35.

187. Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany 1864–1894*, 106.

188. Adams, *The Science of Finance*, 35.

189. Ibid.

190. Edwin R. A. Seligman, "Adams's Science of Finance," *Political Science Quarterly* 14, no. 1 (March 1, 1899): 133.

191. Ibid., 137.

192. Ibid., 135.

193. Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 158.

194. Seligman, "Adams's Science of Finance," 134.

195. Shelton Stromquist, *Reinventing "The People": The Progressive Movement, the Class Problem, and the Origins of Modern Liberalism* (Urbana: University of Illinois Press, 2006), 23.

politically charged, and moved further from its founding methodology, as the nineteenth century drew to a close.[196]

By 1898, American economics had been transformed so significantly that Arthur Hadley was elected president of the AEA. While the AEA had abandoned its principled opposition to laissez-faire and its scientific commitment to an alternative methodology, Hadley and others had changed their views as well. Emerging from the disputes between the inductive and deductive economists was a new synthesis, which accepted the role of the state in the economy, but still clung to the deductive, universalistic method.[197] Adams's *The Science of Public Finance* illustrates the methodological background of the synthesis,[198] but Hadley's 1898 presidential address set the tone for how economists would employ this synthesis through their political involvement in the coming years of the Progressive Era.[199]

In his address, Hadley argued that economists could and should play a key role in navigating the necessary conflict between democracy and the economic system. Echoing Godkin's admonitions against popular government, Hadley perceived a necessary conflict between democracy and economics: "Under the current system of political ethics there is in fact a direct antagonism between the theory of economics and the practical working of representative government."[200] The problem, in his eyes, was that representatives acted only in terms of the interests of their constituents, and not for the nation as a whole. The solution was for economists to take a more central role in directing government policy. While his advice was offered in relation to imperial projects, there is reason to believe that it also applied to the domestic situation.[201]

> I believe that their [economists] largest opportunity in the immediate future lies not in theories but in practice, not with students but with statesmen; not in the education of individual citizens, however widespread and salutary, but in the leadership of an organized body politic.[202]

196. Furner, *Advocacy and Objectivity*, 265; Rodgers, *Atlantic Crossings*, 106.

197. Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 176, 183. Due to space constraints, I do not address whether the other synthesis of the era, marginalism, embodies a similar capitulation to the deductive program, but one could reasonably be led to that conclusion. See Dorfman, *Economic Mind in American Civilization: 1865–1918*, vol. 3, 165–66, 191–92, 200–205; Furner, *Advocacy and Objectivity*, 184–92; Ross, *The Origins of American Social Science*, 118–22.

198. Cohen, *The Reconstruction of American Liberalism, 1865–1914*, 183.

199. Skowronek, *Building a New American State*, 161.

200. Arthur T. Hadley, "Relation between Economics and Politics," *Yale Law Journal* 8, no. 4 (January 1898): 203–4.

201. Dorfman, *The Economic Mind in American Civilization, 1606–1865*, vol. 2, 263–64; Rana, *The Two Faces of American Freedom*.

202. Hadley, "Relation between Economics and Politics," 206.

Accordingly, Hadley directed economists away from interacting with, and educating, the people, and instead suggested that they focus on commissions, advisory boards, and other such positions from which they would have direct access to the executive and other key decision makers. Hadley's advocacy for economists to involve themselves in politics marked an "amazing reversal" from his position in the 1880s, but he had not rejected the necessity of allowing natural economic laws to function free of democratic intervention.[203]

While continuing to advocate the necessary role of the state, the new synthetic view of the AEA explicitly rejected the view that popular sovereignty should extend to the economy. Despite having earlier formulated a methodology that mirrored Populist economic thought, the early members of the AEA became active reformers during the Progressive Era under the mantle of the deductive, rationalist, naturalistic approach that undergirded the new synthesis.[204] To the extent that Progressive reforms reflected Populist demands, the purge of inductive, empirical, institutional economics ensured that none of those reforms embodied the key elements of Populist thought.

From 1887 through the Progressive Era, academic economists played a key role in shaping railroad regulations. Economists recognized that railroads posed broad questions for social science regarding the relation of state to economy, and the issue was widely taken up in the academy.[205] Hadley, for instance, had published an influential book on the topic in 1885,[206] and Adams's 1887 "Relation of the State to Industrial Action"[207] had also pushed the discussion forward. Hadley and Adams had both been involved in the passage of the 1887 Interstate Commerce Act (ICA), which had brought the ICC into existence, but they had, at the time, disagreed over the proper method of regulation, with Adams's invocation of induction and empiricism undergirding his defense of an unequivocally strong role for the state. The ICC, however, remained ineffective until Progressive Era reforms updated its administrative and enforcement capabilities,[208] and while Hadley and Adams were again involved in this effort, their engagement was now defined by Hadley's program.[209]

203. Furner, *Advocacy and Objectivity*, 273.

204. Rodgers, *Atlantic Crossings*, 109.

205. Skowronek, *Building a New American State*, 135–36.

206. Hadley, *Railroad Transportation: Its History and Its Laws*.

207. Adams, "Relation of the State to Industrial Action."

208. Berk, *Alternative Tracks*, 153; Sanders, *Roots of Reform*, 195–97; Skowronek, *Building a New American State*, 160. For Adams's lasting influence on public economics, despite frustration with the ICC, see Dorfman, *The Economic Mind in American Civilization, 1606–1865*, vol. 2, 171–74.

209. For Hadley's influence, see Martin Sklar, *The Corporate Reconstruction of American Capitalism, 1890–1916: The Market, the*

The resurgence of economists' attention to government action in the economy coincided with the birth of the Progressive Era, and their views were taken up by reformers aiming to apply scientific solutions to political conflicts. At the turn of the century, no conflict had more influence over the shape of the American state than the regulation of railroads. The struggles over railroad regulation "became a public conflict over the institutional norms by which twentieth-century Americans would define the nature of democratic citizenship, market landscape, state structure, and the relationship between public and private."[210] These widespread impacts depended on the minutiae of regulation, one of which was the ICC's efforts to mediate the disagreements between shippers, who argued that the railroads' rates were too high, and railroads, who argued that they would be bankrupted if rates were reduced. At issue was the larger question of governmental authority, and, especially, what role the state should play in the emerging capitalist order.[211] Despite Hadley and Adams's earlier disagreement over the role of the state in the economy, once Adams abandoned his views about method, his analysis of the railroad problem complemented Hadley's.

Adams had written extensively on railroad rates since 1887, but at the turn of the century, he offered a new analysis. The ICC had regulated railroad rates based on the overall financial structure of each railroad company, evaluating its debt structure and securities holdings in order to determine what a "reasonable" rate would be. In 1901, however, Adams told the Commission that, "he no longer trusted the long-standing practice of evaluating reasonable rates according to whether they provided sufficient revenue to pay interest on bonds."[212] Debt, argued Adams, does not properly signify the value of property. Instead, the ICC should set rates based on assessments of the actual physical value of railroad property. Conveniently for the ICC, Adams's position corresponded with the Supreme Court's ruling in *Smyth v. Ames* (1898), and, in 1911, the ICC successfully formed a commission under the Mann-Elkins Act to perform a physical valuation of the railroads.[213] Adams provided the justification for the commission in a series of works after 1901, and the commission itself was led by Hadley.[214]

The involvement of the AEA in the Mann-Elkins Act demonstrates the degree to which their inductive, empirical economic method was rejected. In 1886, Adams's challenge to the deductive orthodoxy had taken the form of proposing a solution to the railroad question fundamentally at odds with Hadley's. But, in 1911, Adams was not only working with Hadley, but had fully abandoned the inductive, empirical program.[215] The Hadley-led commission gave the ICC the resources and justification for setting rates on a basis they described as factual, rather than political, social, or legal. By nominally rooting their approach in science instead of politics, the commission hoped to avoid the intractable disputes that had previously prevented effective regulation, but their new method was far from perfect:

> The promise of a factual solution to an inescapably political problem (namely, the trade-off between current consumption and future investment) resulted in circular logic. Any way commission and carriers looked at it, the value of railroad property depended upon net earnings and net earnings, in turn, depended upon rates.[216]

The problem facing the ICC was that their new regulatory scheme required disaggregating a collection of economic facts that were contingent on one another. Most striking about the failure of the ICC's new scheme is that it would have avoided this particular problem had it been structured according to inductive, empirical, institutional economics. The major flaw of the regulatory framework was that it took the concept of economic value as a natural fact rather than an observation embedded in social and political context.[217] Because the Mann-Elkins Act considerably increased the ICC's regulatory ability and had far-reaching consequences, this distinction, based on Adams's economic reasoning, combined with the Court's decision in *Smyth v. Ames*, was not lost on contemporaries. Legal scholar Gerard Henderson, for instance, complained that, contrary to the ICC's focus on apparent facts of value, actual railroad rates "depend on compromise and practical adjustment rather than deductive logic. The whole doctrine of Smyth v. Ames rests upon a gigantic illusion."[218] But illusion or not, the hegemony of deductive, rationalist, naturalistic economics had a lasting influence on the ICC, and by extension, the path of the twentieth-century American political development.

The passage of Mann-Elkins revived the ICC from decades of ineffectiveness by introducing a new

Law, and Politics (Cambridge, MA: Cambridge University Press, 1988), 57–58.

210. Berk, *Alternative Tracks*, 179.

211. Ibid., 13; Sklar, *The Corporate Reconstruction of American Capitalism, 1890–1916*, 33–34; Skowronek, *Building a New American State*, 135–36.

212. Berk, *Alternative Tracks*, 157.

213. Ibid., 165; Skowronek, *Building a New American State*, 268.

214. Skowronek, *Building a New American State*, 268.

215. Berk, *Alternative Tracks*, 157.

216. Ibid., 176.

217. This abstracted use of statistics can be contrasted to the German Historical School's use of statistics, which insisted on context and contingency. See Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany 1864–1894*, 155.

218. Gerard Henderson, "Railway Valuation and the Courts," *Harvard Law Review* 33, no. 8 (June 1920): 1031–32, quoted in Berk, *Alternative Tracks*, 177.

framework for regulation and, with it, a new role for the American state. By significantly altering accepted regulatory practices, the act was "a landmark of Progressive Era legislation."[219] The ICC had originally been designed to enact meaningful state regulation of railroad business activities, but it was only with the changes brought by Mann-Elkins that such regulation was possible.[220] The framework evolved over the next decade, so that "the Interstate Commerce Commission (ICC) emerged in the 1920s as the signal triumph of the Progressive reconstitution," and it set the standard for the Progressive Era's other reform efforts.[221] That standard mandated a "pattern of regulation by agencies that were independent from politics and staffed by experts, [and thereby] it established the American mode of regulation."[222] As the ICC provided an effective model for other agencies, the diffusion of its framework held broader significance, as "it became a symbol of a new democracy and a new political economy."[223] According to this new model, the relationship of state to economy had to be adjudicated by the strict limitations of deductive, universalistic economics. The state may play a role in the economy, but only so long as democracy is not allowed to interfere with economic laws, for under this new system, it was broadly recognized that, "the laws of trade were stronger than the laws of men."[224]

Some have recognized alternative streams of thought embedded in the Progressive Era, emphasizing for instance the more experimentalist approach of Louis Brandeis and the Federal Trade Commission (FTC).[225] Certainly the Progressive Era was not entirely overrun by deductive, universalistic economics and a constrained conception of democracy, but it must be acknowledged that the exception proves the rule. Brandeis may have offered an approach to economics that was not strictly deductive, and the FTC may have pursued a novel regulatory strategy.[226] Despite the potential that each of these alternatives may have held for a conception of democracy that extended popular sovereignty to economics, they represent only a marginal aspect of Progressive reform, for the underlying consensus ran deep:

> the Progressive Era was characterized by a paucity of alternatives to the status quo, a vacuum that permitted political capitalism to direct the growth of industrialism in America, to shape its politics, to determine the ground rules for American civilization in the twentieth century, and to set the stage for what was to follow.[227]

Progressive reforms largely followed the model of the ICC, which relied on expert commissions, staffed by economists trained in deductive, universalistic economics who directed government to meet the requirements of economic law. Even recognizing that Progressives represented a diverse range of thought from left to right,[228] it must be emphasized that beliefs about the universal validity of natural laws undergirded the dominant viewpoints. Herbert Croly, for instance, a major leader of Progressive thought,[229] rejected strict laissez-faire, but he did emphasize that popular sovereignty needed to bend to natural economic law, which "stirred anxieties even in his own mind about the role that would remain for democratic citizens."[230] Decades earlier, there had been a handful of alternative approaches for leading American democracy into the future, but the Progressive Era marked the decisive rejection of a more robust conception of democracy: "this reduced vision of democracy, its sphere narrowed by administration and its authority limited to a kind of veto power, extended the deferential role mugwumps and Whigs had assigned to the people."[231] According to Progressive reformers, the same processes of natural selection applied in the Progressive Era as the Gilded Age, and the imperative for government action to follow their direction had not diminished. As such, the foundation of the twentieth-century American state was built on a conception of democracy in which popular sovereignty must be limited by natural and universal economic laws.

Progressive Era reforms may bear a superficial resemblance to the Populists' demands, but they mark a direct rejection of the Populist vision of expansive democracy. While some of the economists who were involved with the reforms of the Progressive Era had previously defended the inductive, empirical, institutionalist methodology that grounded the strategy of Populist leaders like Macune, by the turn of the century this methodology had been thoroughly rejected. Some of the former inductive economists, such as Adams, abandoned their views, while those who did not, such as Bemis, were removed from the profession. Indeed, given that railroad regulation

219. Sanders, *Roots of Reform*, 208.

220. Berk, *Alternative Tracks*, 167.

221. Skowronek, *Building a New American State*, 249.

222. Prasad, *The Land of Too Much*, 188.

223. Skowronek, *Building a New American State*, 249.

224. Berk, *Alternative Tracks*, 180.

225. Gerald Berk, *Louis D. Brandeis and the Making of Regulated Competition, 1900–1932* (Cambridge, UK: Cambridge University Press, 2012).

226. Ibid., 52.

227. Gabriel Kolko, *The Triumph of Conservatism: A Re-Interpretation of American History, 1900–1916* (New York: Free Press, 1977), 305.

228. Stromquist, *Reinventing "The People."*

229. Rogers M. Smith, *Civic Ideals: Conflicting Visions of Citizenship in U.S. History* (New Haven, CT: Yale University Press, 1999), 414.

230. Ibid.

231. Dorothy Ross, *The Origins of American Social Science* (Cambridge, UK: Cambridge University Press, 1991), 278.

provided the model for Progressive reform, it is likely that, "if the coming of managerial capitalism placed unassailable constraints upon twentieth-century state structure and democratic politics, one is sure to find them in this industry."[232] One such constraint was the commitment to deductive, rationalist, naturalistic economics. By discrediting inductive methodology, orthodox economists limited Progressive Era reforms from realizing a greater role for popular sovereignty in the economy. Instead, while accepting the increased role of the state, the economists who shaped those reforms were careful to ensure that the underlying natural laws of the economic order remained undisturbed by the popular will.[233] Despite having achieved many of the piecemeal reforms he proposed, Macune's overarching vision of democracy unconstrained by economic laws remained unfulfilled.

Treating the Populist legacy as based in the enduring institutions of the Progressive Era overlooks the extent to which Macune's expansive vision of democracy was defeated as soundly as the People's Party. The state responded to Populist demands, but did so from within a deductive, rationalist, naturalistic framework, thereby necessarily constraining democracy to the demands of the economic order. The Federal Reserve, for instance, could be seen as the extension of Macune's demands for a distributed system of subtreasuries, but while Macune's subtreasury plan revolved around an extension of popular sovereignty, Progressive Era reforms entailed a "peculiar sort of democracy."[234] Livingston notes how the Federal Reserve actually restricted the role of popular sovereignty regarding economic issues, such as the control of the money supply: "Not until the Federal Reserve System was in place were such issues finally removed from congressional jurisdiction and hence from normal political discourse."[235] While deductive economists, such as Hadley, came to recognize the necessity of regulating the economy, they did so from the perspective of "intervention," which implicitly treated economic laws as natural, universal, independent, and superior to manmade law. Following the advice and specifications of experts, policy was crafted to follow economics, rather than the will of the people because, in the economists' view, the people were uneducated and unappreciative of the complexities of economic law, unable to choose the correct economic policy. This limited conception of democracy, where popular sovereignty is constrained by economic laws, defined the twentieth-century growth of the American state, and continues to define the political economic crises of the twenty-first.[236]

CONCLUSION

Macune's vision of an alternative to the emerging capitalism of the Gilded Age challenged the dominant order of his time, and it continues to represent a possibility in American political development, given that his underlying principles remain unrealized. Yet without uncovering its foundations, we lose sight of what made Macune's vision distinctive, and our perception of its failure remains clouded in generalities about the rise of industrial capitalism. Indeed, it was inductive, empirical economics that enabled Macune to propose such a comprehensive strategy for the Farmers' Alliance, and it was precisely his invocation of this school of thought that sealed the absolute defeat of Populist politics, following the 1896 election. Because inductive economics was so thoroughly invalidated by the deductive orthodoxy's response to the early AEA, the foundations of Populist thought did not survive into the twentieth century. As a result, Progressive reforms, even those resembling Populist demands, fail to reflect the essential principles of Populism, which called for extending popular sovereignty to the economy. Instead, the Progressive Era solidified the hegemony of deductive methodology through the construction of durable institutions that limited democratic control in the name of natural economic law. While the Populists demanded a larger role for the popular will in the economy, the Progressive Era delivered state action in the form of administrative intervention, taking for granted the distinction at the heart of the deductive method between the laws of man and the laws of economics.

The loss of an alternative economics as a valid method of analysis constrained the path of twentieth-century American political development to those possibilities conceivable under the deductive method. While the range of possible economic policies remains broad, each presupposes a necessary antagonism between democracy and economic necessity, and requires the laws of man to serve the laws of economics. These constraints are most visible during the century's repeated economic crises. Searching for solutions to the Great Depression, for instance, policymakers, naturally enough, could not rely on invalidated economic reasoning. Their options were thus constrained by economics' disciplinary history, which, in this case, led to a policy pattern mirroring Progressive reforms whereby the laws of man can regulate the economy only so far as allowed by the natural

232. Berk, *Alternative Tracks*, 4.

233. Stromquist, *Reinventing "The People,"* 23.

234. James Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Ithaca, NY: Cornell University Press, 1989), 206.

235. Ibid., 26.

236. Prasad, *The Land of Too Much*, 191, 194–95; Skowronek, *Building a New American State*, 14.

laws of economics.[237] The absence of inductive economics entailed the absence of a range of possible policies, for an entire set of potential solutions was left inconceivable, as they would have transgressed the core assumptions of the dominant methodology. Thus, while articulating the foundations of Macune's economic thought may present a substantiated counterfactual regarding an alternative to the ascendant economic order, much more significant is that doing so brings into view the constraints that the legacy of Populist defeat has placed on American political development.

These constraints are all too evident in the era of "too big to fail," where it is widely accepted that experts' pronouncements of economic necessity trump popular demands. Since the financial crisis of 2008, popular protests against concentrated wealth and power have refocused the public's attention on the gap between democratic governance and economic administration, and the legacy of Populism has been brought back into discussion with the rise of Occupy Wall Street. That Occupy's demands were rejected as unrealistic demonstrates the value in reinvestigating the legacy of Populism's defeat, which emphasizes that the currently hegemonic methodologies were not always so, and that their dominance resulted from a highly contingent, and deeply political, series of conflicts. But if the currently dominant methods of analysis and investigation are contingent, and we are free to pursue alternative methods, what type of social science is to be done in the era of "too big to fail"? Macune's approach represents one possibility, but he by no means holds exclusive privilege to the potential alternatives.

237. Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge, UK: Cambridge University Press, 2002), 49–51, 90–95.