



# AMERICA'S SOCIALIST ORIGINS

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Americans didn't invent free market capitalism. But you might say they perfected it.

In doing so, they created more wealth for more people than any society in the history of the world. To begin to understand this fascinating and complex story, we have to travel back in time to the very first settlers of America.

But before we get to the history, let me define what I mean by capitalism. It's not an easy term to pin down because it developed over thousands of years of human interaction. Adam Smith, the great English thinker, first described it in his famous 1776 treatise, *The Wealth of Nations*, but he didn't invent it.

For our purposes here, I define capitalism as an economic system in which individuals freely decide what they will produce and who they will serve. Since both parties have to consent, it's a system in which success demands that you serve the needs of others before you are rewarded for your work.

Now back to history:

When the first settlers arrived—at Jamestown in 1607 then Plymouth in 1620—they were operating under an economic system common to all European nations at that time, known as mercantilism. Under mercantilism businesses, especially in colonies, were operated for the benefit of the state. While governments permitted the companies to make profits, their primary purpose was to advance the national interest of England or Spain or France. The early American settlements were set up to be self-sufficient so that the English government didn't have to support them. And they had to stake out territory. That was key to the colonial game: if England held the territory, Spain and France didn't.

The early colonists began their adventure with what they thought was a beautiful idea. They set up a common storehouse of grain from which people were supposed to take what they needed and put back what they could. Lands were also held in common and were worked in common. The settlers owned no land of their own. Though there was no name for this system, it was an ideal socialist commune. And you can probably guess what happened. It began to fall apart almost immediately. As the colonists learned, when everyone is entitled to everything, no one's responsible for anything. A colonist who started his workday early or stayed late received the same provision of food as a colonist who showed up late, went home early, or didn't work at all.

After about two years, the settlement was reduced to eating shoelaces and rats. Half of them

died of starvation. Captain John Smith (of Pocahontas fame) took control of the colony and scrapped the socialist model. Each colonist received his own parcel of land. Private property had come to the New World. “He who won’t work, won’t eat!” Smith told them, citing the Biblical admonition. Well they worked. And they ate. And the colony was saved.

The same story unfolded further north in the Plymouth colony 10 years later. Although this was a Puritan colony with religious goals, its plan was the same as Jamestown’s. And it also failed. As its young governor, William Bradford, noted, by adopting the communal system “We thought we were wiser than God.” So they quickly abandoned the commune for private ownership. Soon, they had an abundance, which they celebrated with the holiday we now know as “Thanksgiving.” Over the next 150 years, this hard-learned lesson, that men should be responsible for their own economic fate, became conventional wisdom in the colonies.

The American Revolution was largely fought over the burden that British mercantilism placed on the colonies. Two unpopular taxes—The Stamp Act and The Tea Act—are well known examples. The Americans saw the British government regulating and controlling almost all of their economic activities—and didn’t like it.

Now, it’s true that even after gaining independence, none of the Founders could be called capitalists. The idea of capitalism as a description of an economic system was only just beginning to be discussed in America. Yet many of the most influential Founders intuitively gravitated toward free market principles. Thomas Jefferson’s ideas of private land ownership shaped the famous Land Ordinance of 1785 that made public land available to private citizens, while Alexander Hamilton’s concepts of individual responsibility and sanctity of contracts could be seen in the Panic of 1791-92, in which he steadfastly refused to allow the US government to bail out bankers who had triggered the panic. Benjamin Franklin, of course, had practiced capitalism all his life with his printing business and with his maxims in Poor Richard’s Almanac.

The Constitution itself is awash in core concepts of a free market: sanctity of contracts, freedom of expression; powerful limits on the government’s ability to regulate or tax; an emphasis on paying debts; and so on.

In short, it was the wisdom of experience, not academic ideology, that created America’s free-market principles. The result has been the most prosperous and free nation in the history of the world.

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