Protests, Progress, and Democracy: Some Economics of Expressed Discontent

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One of the seemingly incongruous facts of human existence is that relatively free nations with market oriented economies are sometimes wracked by widespread expressions of discontent, including heated debate, mass demonstrations, political agitation, and so on. Indeed, this often happens during periods when, by objective measurements, both gross and per-capita real output and incomes are rising. Such visible and audible turmoil and friction is always cited by the intellectual and political enemies of freedom as indication of distributive injustice, monopoly power, racism, oppression and misery in capitalist society. Their proposed solutions always involve increasing regulatory command and control, socialist nationalizations, coercive income redistributions, and the like. Defenders of freedom and limited government resist such measures, believing that they will reduce human happiness, prosperity and well being. But we must answer the question: whence the turmoil in times of apparent increasing prosperity?

The incongruity stems, of course, from our suspicion that rising incomes should make people happier. It is certainly true that monetary measures of gross and per-capita income miss many factors of life that are important to people=s feelings of well being, and that fact may be part of the explanation. Consider, however, that in 1976, the Gallup organization began conducting international polls asking people in nearly every nation to rate their own satisfaction with various aspects of their lives. The striking result that emerged from the very first such poll was that, both within and across nations at all income levels, the degrees of people=s self-reported satisfaction with specified aspect of their lives, including family, health, leisure time, housing, work and communities, were all strongly positively correlated with real per-capita income (Gallup, 1976).

The 19th century agrarian protests

One of the most conspicuous of such socially turbulent historical episodes occurred in the late-19th century U.S. This was the classic period of mass industrialization in the American economy, in which both agricultural and industrial productivity grew rapidly, generating rapidly rising gross and per-capita incomes. Douglass North, the Nobel-Prize winning economic historian, claims it was the longest period of sustained economic growth in U.S. history, with annual compounded real output growth of nearly four percent and per-capita real income growth of about two percent per year (North 1983, p. 123). Amazingly, this rapid real output and income growth occurred despite sustained deflation, in which prices fell from the end of the Civil War to about 1895, or for a period of thirty years. Indeed, the two events were connected. The money supply in the U.S. grew very slowly over this period, first because the federal government was trying to remove civil war greenbacks from circulation in order to restore gold convertibility and later because many other nations also switched to the gold standard and competed for limited world gold stocks. The combination of slow money stock growth and rapid real output growth required prices to fall so that people with limited *nominal* money balances could have adequate *real* cash balances and be able to purchase the larger quantity of goods and services.

The incongruous element of the period, however, noted by all historians, is the pervasive ferment and expressions of discontent in the agrarian sector of the economy, particularly the rural Midwest. This was the period of the Greenback movement, which agitated for renewed issuance of Greenback dollars to stop the deflation. It was the period of the Grange movement, organized by officials of the U.S. Department of Agriculture and other agencies, which many farmers joined, and saw the emergence of the Populist party, which had a virtually socialist program call for nationalization of banks, railroads, and the telegraph industry. The Populists gained significant representation in Congress in 1894, and merged with the Democratic party a few years later. The period also saw another inflationist movement arise, known as the Free Silver movement. This consisted of Western silver mining interests, who worked (with eventual disastrous success to renew federal monetization of Silver through government purchases at a high price.

Initial explanations

It might be that the source of this agricultural ferment can be found by simply examining the complaints of those involved. Throughout the period many farmers complained that crop prices were falling more rapidly than prices generally. They griped repeatedly and endlessly that railroads, grain elevator operators and other middlemen were charging them monopoly rates. Perhaps worse, they claimed that bankers were robbing them because interest rates on loans had not fallen enough to compensate for the deflation. Since farmers were paying back dollars of a higher value than those they had borrowed, they believed they were paying usuriously high real interest rates. Political action focused on these beliefs resulted in the Midwestern state Granger laws of the 1870s, fixing prices charged by railroads and grain elevator operators at low levels in order to redistribute income to farmers.

The surprising fact discovered by modern economic historians, however (and even by some contemporary observers, whose voices were drowned out by the cacophony of complaints) is that careful analysis of the relevant data *fails* to confirm most of the claims of the rural radicals. Most comparisons of farm product price series with general price series do not show a decline in relative crop prices for other than short periods, offset by short periods in which they increased (North, et al., p. 128). Even if relative crop prices did fall over time, as Walton and Rockoff (1998, p. 337) claim, it is clear that productivity increases *raised* farmers real incomes, as Fogel and Rutner (1972) showed. Nor did the terms of trade between agricultural and manufacturing products worsen for agriculture. Bowman and Keen (1974) looked at twenty-four different indexes of these terms of trade over the period 1870-1900 for Illinois, Indiana, Iowa and Wisconsin, where the agrarian protests were very strong. They found that twenty-two of these indexes showed improvements for the farmers. Crucially, farm revenue deflated by the prices of manufactured goods rose over the period.

As for railroad rates, both Arthur Hadly (1885, p. 17) and H. T. Newcomb (1898, p. 78), writing at the time, estimated that railroad rates had fallen more than crop prices. Probably the best comparison of crop prices relative to railroad rates however is the recent one by Robert Higgs (1970), who found a slight rising trend in relative crop prices until the 1890s, when they did fall for three years (1893-1896), after when they increased again.[1] In addition, an increasing fraction of American grain output was being sold overseas through the North-Pacific grain trade in those days, and as Douglass North (1983, p. 129) points out, ocean freight rates fell significantly relative to crop prices over the period.

[1]Higgs actually takes the positionCwith which I disagreeCthat the slow rise in the ratio of crop prices to railroad rates before the Depression of the 1890s is consistent with the populist claims that railroad rates were too high, but he admits that it is hard to prove this.

The credit problems of farmers in the late-19th century also seem to have been overstated. According to North (1983, p. 130), relatively few farms (about 29 percent) were mortgaged in those days, and those only for about 35 percent of their value on average. Also, most mortgages were for less than five years. In addition, over the period as a whole, nominal interest rates did fall enough to keep real interest rates from rising to excessive levels as product prices fell (Walton and Rockoff, 1998, p. 341).[2] Again, however, these observations leave us with questions. If rapid productivity growth was raising real income in both the agricultural and non-agricultural sectors of the economy, why did farmers complain? And, if deteriorating real crop prices and ripoffs of farmers by middlemen and bankers were not the actual source of the widespread and loudly expressed agrarian discontent, then what was?

North has identified several subtle factors which, in a certain sense, were detrimentally affecting rural people at the time, and these factors were rooted in the process of economic growth itself. In a Schumpeterian vein, North (1983, chapter III) argues that economic growth is destabilizing. It alters the structure of the economy, making some sectors expand while others contract, at least in relative terms. It also alters relative incomes, and relative losers may feel motivated to complain even if the growth process is raising their absolute incomes. Relative social standings of persons and groups are also distributed and altered in the process of general economic growth, and here again, those who perceive themselves as losing status may loudly express their discontent. In addition, growth alters the relative political influence of groups, with the same effect.

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[2]This was particularly true after the government announced, in 1875, that it would resume gold convertibility in 1879 (Reynolds, 1984, pp. 254-255), which had been suspended as a necessary precondition of the Civil War finance through monetary expansion and inflation.

The application of such observations to the late-19th century agrarian sector in America is straightforward. When the American colonies took root in the 17th century, as much as 95 percent of the population was directly engaged in agriculture. Over time, however, rapid growth in agricultural productivity, due to new techniques, machinery, the eventual settlement of the fertile Midwest and the development of fallowing, herbicides, and pesticides, etc., combined with relatively income inelastic demand for most agricultural crops, caused a declining fraction of the population to be engaged in agriculture. Such a smaller relative agricultural labor force could still feed everyone more abundantly, even while food exports increased. At the beginning of the 19th century around 80 percent of employment was still agricultural employment, but by the end of that century it was down to 40 percent (Council of Economic Advisers 1991, p. 114).

As part of this process, the nation was rapidly industrializing and urbanizing. Rapidly growing incomes in the manufacturing and service sectors were drawing increasing fractions of the labor force into those employments, and off the farm. Everything was changing for farmers as agricultural employment diminished past 50 percent of total employment in the early 1880s. Hence unease may have set in among the rural populace as a way of life was perceived to be passing. What was once a member of the landed gentry or a gentleman farmer was increasingly viewed as a simple hick from the sticks as industrialists took center stage and political power began to shift to the cities. Many rural people may never have consciously realized what was actually bothering them and simply struck out blindly at the nearest targets. Those turned out to be the middlemen with which farmers, as commodity suppliers in the market, dealt.

A Choice-theoretic approach

Insightful as North=s arguments are in explaining the ferment of the late-19th Century U.S., there are other observations that may further aid our understanding of why such ferment may sometimes occur in period of rising per capita real income, increased citizen freedom and authority, and/or other generally beneficial social changes. The primary observation may be that decisions to express discontent are economic decisions based on consideration of the marginal costs and benefits of doing so, just as with any other type of human action. As such, anything that increases the marginal benefits to people of expressing discontent, up to the point that the marginal benefits are once again equated to the marginal costs.

The effects of economic growth North has identified may indeed increase the desire of some people to express discontent. It is important to distinguish, however, between discontent itself and willingness to express such discontent. It would be absurd to suppose that there are not segments of the population who are very discontented under stagnant, rigid sociopolitical systems based on hereditary caste and status such as the medieval system from which the Western market democracies emerged. What would seem to be different is that under such rigid and stagnant systems there is very little that most people can do about unsatisfactory conditions, short of outright revolt (which, of course, sometimes occurred). That is, the marginal benefits of publicly expressing discontent under such institutional conditions are low, and the potential marginal costs very high, for the bulk of the population. Free societies, in contrast, allowing occupational and associational choice, political participation, and economic growth, virtually by definition allow people greater control and attainment of personal goals. It seems likely, then, that economic growth does not generate more discontent than would exist under conditions of stagnation, as North=s theory might (perhaps erroneously) be interpreted to imply, but less. What it may do, however, simultaneously, is generate increased opportunity and willingness for certain population segments to express discontent.

Historically, economic growth resulted from a process of social change involving the emergence of private property, limited government, occupational resource mobility, the rule of law, and political democracy. In addition to the dislocations identified by North, economic growth normally generates both increases in the available means (the printing press, telegraph, radio, television, computer networks, etc.) and associated reduction in the costs of expressing discontent. Instituting democracy makes it more likely that such expressions can, by altering policy, change the conditions under which people live. Thus, people may express more discontent as a direct result of an event that makes them feel happier by increasing their options and perceived control over the conditions of their lives.

Illustrations and application

I remember closely watching the events of 1987 in South Korea. From the time that the U.S. reduced its foreign aid to Korea in the mid-1960s, that nation had been increasingly freeing its economy and had consequently experienced rapidly rising real incomes. Though it remained mildly authoritarian, South Korea incrementally instituted legal procedures, establishing the rule of law; and, its rulers were voluntarily initiating a switch to multi-party democracy, scheduled for February 1988. President Chun Doo Whan, who had taken power in 1980 following the assassination of strong man Park Chung Hee in 1979, had from the first pledged to serve only one seven year term, and to negotiate for constitutional and electoral reforms. Approaching the changeover, South Korea experienced widespread, often organized, protests, marches, rallies and similar expressions of discontent, as university students and other members of the new middle class tried to affect the form of the emerging democratic system.

Contrast this experience with that of North Korea. From the populace of that poverty-stricken, totalitarian Communist nation, we heard little then, and have heard little since. This is true though they are racially and culturally identical to the South Koreans, differing only in the political and economic system under which they live (and have recently been suffering a devastating famine as a consequence). Yet in which Korean nation does one suppose that ordinary people were and are actually happiestCthat in which protests are expressed or that in which complaints are suppressed?

Another clear example occurred a mere two years after the democratic transition of South Korea, as the Soviet Union began to break up. It was precisely when Gorbachev instituted his programs of Perestroika (economic restructuring) and Glasnost (removing totalitarian controls on freedom of expression), allowing people their first glimpse of freedom in decades and hope of an improved future, that mass demonstrations and expressions of discontent appeared. On the other hand, as the Russian reform and privatization program has fizzled in recent years, with most of its benefits going to the Russian mafia (mostly composed of the old communists), and living standards of ordinary citizens have stagnated if not fallen, few mass public protests have been observed. These and similar examples make the central point of this paper obvious: the magnitude of expressed discontent in a society is, by itself, a very unreliable indicator of either the level or direction of change of people=s actual well being and satisfaction with life.

The application of such observations on the economic character of expressed discontent to the events of the late-19th century is also fairly straightforward. In that period, the telegraph, improved printing and publication technologies, and transportation cost reductions were making newspapers cheaply available on a mass basis in the thinly populated Midwest for the first time. Previously, newspapers had been readily available to the majority of the public only in eastern urban centers. The emergence of this mechanism of mass dissemination of information must have greatly increased the incentives of the rural populace for organized expressions of discontent. Reporters then and now usually respond more to group than to individual events, and widespread reporting of group protests, attitudes, and cries for change is likely to generate support elsewhere.

Political changes of the time were also important. In earlier U.S. history membership in political parties was dominated by a relatively small group of wealthier people able to afford political activity. Likewise, the franchise was restricted, keeping the marginal benefits of political activity low for many people. However, Jacksonian Democracy, franchise extensions, and the appearance of mass political parties all tended to increase the marginal benefits and reduce the marginal costs of political participation and agitation for precisely that rural class of people among which the late 19th century ferment subsequently occurred. Governmental policy, as an unfortunate consequence of these and other factors turned over time in a redistributionist direction (Anderson and Hill, 1989, pp. 49-51).

The expansion of railroads and the telegraph as the economy grew aided rural agitation by reducing the costs of transporting, meeting, and organizing over larger areas. General economic growth had two other effects that worked in opposite directions. On the one hand, rising real income logically gave people less to complain about, but on the other hand, it also gave the average person more time and resources to devote to social and political activity, thus increasing the expression of populist discontent. This process had a natural limit, however, as far as purely agrarian populism was concerned. Over time, as economic growth continued and the agricultural sector as a proportion of employment and population continued to decline, protests from that sector became less noteworthy, and public attention turned elsewhere.

Conclusion

There appears to be little reason for believing, then, that economic growth in the late 19th century was making rural people less happy in any absolute sense. Increased freedom and higher levels of real income, even where they have the distributional impacts North stresses, almost certainly make people in general feel better off, *ceteris paribus*. But discontent is never entirely eliminated. The very universality of scarcityCthe perceived disparity between a person=s desired ends and the resources he or she has available to attain or acquire themCmeans that people at any level of income and well being always have sources of discontent.[3] The degree to which they express that discontent depends on the levels of, and changes in, the marginal costs and benefits of doing so. Expressions of dissatisfaction may increase from various segments of a public even as their absolute prosperity and internal levels of felt well being increase.

[3]It may be that certain scarcities can rise as market developments reduce others. Knowledge of the future is always scarce, hence a certain stability is often cherished. New technologies (the most recent example of many being the computer and the Internet) and market developments (such as the recent increase in international economic integration) open opportunities. On the other hand, however, they make existing jobs, roles and invested capital less secure, arguably increasing the uncertainty people face. This seems to be a key observation in the argument of McKenzie (1997) in explanation of the recent public angst amidst rising prosperity. The observation has validity, but again, as with North: do people living in market systems face more uncertainty and risk than they did in medieval systems and do now in underdeveloped nations, or less? Any catalog of the random factors (famine, disease, etc.) facing people living on subsistence agriculture, and the magnitude and frequency of swings in well being historically generated by such factors, or of comparative mean life expectancies, makes the answer to that question obvious.

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