

F. The Political Economy of Industrialization

1. When the *Industrial* period of technological progress began following the Civil War, however, the idea that government must *encourage* “merchants” no longer made sense.
2. One reason is that the *Transcontinental Railroad*, finished in **1869**, was encouraged by the government when it didn’t make any sense.
 - a) The government wanted a railroad from the eastern United States to California, even though railroad business experts said it could not make any money.
 - b) The government decided to proceed anyways, paid the railroad builders a lot of money to do it.
 - c) When the railroad later went bankrupt (as predicted by the business experts), taxpayers were angry that their taxes had been wasted.
 - d) They demanded new laws to control the railroads so that they served the “public interest.”
 - e) The **Interstate Commerce Act of 1887** was the first of the laws passed to place the railroads under government control. (They would still be run by private companies, but they would have to follow strict government rules under government oversight.)
3. Another reason encouraging industries didn’t make sense is that companies like *Standard Oil*, created in **1870**, became huge and successful without any help!
 - a) The Standard Oil company was so big and successful that it drove almost all its competitors out of business.
 - b) This made a lot of people jealous and angry.
 - c) The **Sherman Anti-Trust Act of 1890** was passed to prevent companies like Standard Oil from being *too* successful. (According to this law, the Standard Oil company was eventually broken up into 34 smaller companies.)
4. The new idea for railroads and big companies was to *regulate* them, which means to make new rules that they have to follow.
5. The government also took control of the banking industry by creating a bank called the **Federal Reserve Bank of the United States in 1913**. This was a bank that the banks could turn to for help, if they were in trouble.
6. Most people thought that this was the right way to organize industry, and that it would be very successful, but then something terrible happened.