



American Exceptionalism: Economics

Beginning as a largely agrarian nation, the United States has become a leading global economic power through a commitment to free-market capitalism, constitutionally protected property rights, and innovation. From its founding, the United States' rejection of mercantilist controls of the eighteenth century drove incredible growth and enabled the US to outpace its contemporaries across the centuries. America's pioneering approach remains the foundation for its global leadership and economic exceptionalism in the twenty-first century.

Free-Market Capitalism. Unlike the state-driven, mercantilist economies of eighteenth-century European powers such as Britain and France, the United States embraced free-market capitalism and laissez-faire principles that were inspired by Adam Smith's *Wealth of Nations*, published in 1776.¹ The American economic system prioritized limited government intervention as well as competition and innovation, individual enterprise, and voluntary exchange. The rejection of top-down, state-controlled trade, tariffs, and colonial monopolies led to greater wealth creation, fueled innovation, and helped set the United States apart from contemporary nations that were bound by rigid hierarchies. The US Constitution enshrined individual property rights.² The 1790 Patent Act democratized innovation by creating an efficient and affordable patent system for ordinary men and women, in stark contrast to the lengthy bureaucratic European model that favored elites.³ The result: over the next two centuries, the United States regularly experienced greater economic growth, higher per capita income, more socioeconomic mobility, and a greater life expectancy than its competitors with top-down economic systems.⁴

Property Rights. In 1787 the US Constitution pioneered a new approach to property rights that stood in stark contrast to its European contemporaries and propelled American economic exceptionalism from the eighteenth century all the way to the present day. Most European powers at the time were monarchies, and property rights were controlled through aristocratic privileges and hereditary rights, sometimes subject to arbitrary confiscation and royal seizures. Intellectual property rights favored elites and state monopolies via royal charters.⁵

The United States, on the other hand, enshrined strong protections for private property and intellectual property for individuals regardless of socioeconomic status or any hereditary rights. Inspired by the English philosopher John Locke, the Founders believed individual and secure property rights were essential to a free society. The Contract Clause (Article 1, Section 10) protected individuals from arbitrary state interference with private agreements for debts, land grants, and business deals.⁶ The Fifth Amendment curbed the government's ability to deprive anyone of life, liberty, or property without due process, and declared that no private property could be taken for public use without just compensation.⁷ The 1790 Patent Act expanded upon the Intellectual Property Clause of the Constitution (Article 1, Section 8), helping to democratize invention and innovation.⁸ Property rights in America became a constitutionally safeguarded right, which encouraged widespread ownership, spurred innovation, and enabled greater socioeconomic mobility.

American property rights drove innovation in industrialization in the nineteenth century, producing inventions such as the telegraph, the telephone, and the light bulb.⁹ Property rights paved the way for westward expansion¹⁰ with 1862's Homestead Act¹¹ and Pacific Railway Act¹² resulting in agricultural and railroad booms¹³. During the twentieth century, they led to the mass production of automobiles and aircraft, economic booms, and postwar prosperity. Today, they underpin advancements in technology such as AI. Throughout America's history, its fundamental belief in individual property rights has yielded exceptional economic growth, led to remarkable technological advancements, and created widespread prosperity.

Immigration and the American Labor Force. The core tenets of free-market capitalism and constitutionally protected property rights, as well as the economic opportunity they provided, attracted the immigration of global talent, which in turn, spurred rapid population growth and created a diverse, dynamic, and dominant labor force. By the late 1800s, immigrants and their descendants made up roughly 33% of American laborers.¹⁴ While the United States experienced a population boom at a growth rate of around 3%,¹⁵ Europe grew more slowly,¹⁶ at around 1%, sometimes less, the difference due in part to the millions of immigrants arriving in the US from Ireland, Germany, Italy, Poland, and other European nations.

The influx of skilled laborers from overseas allowed for successful westward expansion in the mid-to-late 1800s and enabled the agricultural and industrial booms of the late nineteenth and early twentieth centuries.¹⁷ The United States was able to scale up its factories, steel mills, and railroads faster than its European contemporaries, including Britain, France, and Germany, which experienced not only slower population growth, but relied more on native labor or colonial workforces.

Immigration sustained the industrial revolution through the twentieth century and led to higher incomes and lower poverty rates.¹⁸ By the twenty-first century, immigrant-founded companies in the United States—including Google, NVIDIA, Tesla, and SpaceX—have generated trillions of dollars in economic value and created millions of American jobs. For two and a half centuries, immigration has helped drive and sustain US advantages in economic growth, productivity, and global leadership.

Industrial Dominance in the Twentieth Century. Building on the economic exceptionalism that attracted waves of immigrants and created a dynamic, growing labor force, the United States achieved unparalleled industrial dominance in the twentieth century.¹⁹

At the turn of the century, the United States leveraged its vast labor force, both immigrant and homegrown, to overtake older industrial powers, owning the world's largest gross domestic product per capita.²⁰

By the 1920s, America had become the global leader in the production of steel, automobiles, electricity, and consumer goods. Innovations such as Henry Ford's assembly line slashed not only production times but also prices, creating a more democratized and affordable product for consumers.

Post World War II, America's industrial base expanded dramatically. On an annual basis, between 1945 and 1973, GDP grew at an average rate of 3.8%, labor productivity rose 2.5%, and wages rose roughly 2.2%.²¹ The US pioneered high-value industries including commercial aviation, computers, semiconductors, and consumer electronics. By 1970 American firms dominated global markets in automobiles, chemicals, and machinery.

Global competition grew in the late twentieth century, but the United States maintained leadership in high-tech sectors, as well as manufacturing, R&D, and innovation. Rooted in constitutional property protections, limited government interference, and a culture of innovation, America's twentieth-century industrial dominance cemented the nation's status as the world's leading economic power.

Public-Private Partnerships. The more monopolistic, state-driven models of Europe in the eighteenth and nineteenth centuries stifled innovation. The United States, however, embraced a completely different approach: public-private partnerships, rooted in free markets and property rights. Rather than relying solely on government to develop, create, and expand national infrastructure like roads, bridges, and railways, America, since its founding, has leveraged private enterprise to deliver public projects, innovate, and develop technologies efficiently and at scale.

Early examples like the Northwest Ordinance (1787)²² and the 1792 Post Office Act²³ blended federal oversight with private contractors for roads and mail, while the 1817 Bonus Bill (ultimately vetoed) inspired states to encourage partnerships for canals and turnpikes, fostering collaboration without full government control.

This public-private framework has driven American economic exceptionalism throughout its history.²⁴ In the nineteenth century, it enabled massive infrastructure booms, such as federal land grants to private railroads that connected coasts and spurred industrialization. Twentieth-century public-private partnerships amplified wartime and technological ascendance. Private firms such as Chrysler, Ford, and Boeing produced unmatched output of tanks and bombers; the interstate highway system (1956) blended federal funding with private construction; and NASA's Apollo program (1960s) partnered with Lockheed and other contractors in the race to the Moon. In the twenty-first century, public-private partnerships, or PPPs, sustained leadership in tech and infrastructure—from the Defense Department's collaborations with universities and private firms to create the internet to modern ventures like SpaceX's NASA contracts for reusable rockets—generating trillions in value and outpacing China's state-owned enterprises. This hybrid approach has yielded exceptional US growth, efficiency, and adaptability over more statist rivals.

The opinions expressed in this video are those of the authors and do not necessarily reflect the opinions of the Hoover Institution or Stanford University. © 2026 by the Board of Trustees of Leland Stanford Junior University.



HOOVER INSTITUTION
TENNENBAUM PROGRAM
FOR FACT-BASED POLICY

The Tennenbaum Program for Fact-Based Policy is a Hoover Institution initiative that collects and analyzes facts, provides easy-to-digest nontechnical essays and derivative products, and shares reliable information on the nation's highly debated policy issues.



ENDNOTES

- ¹ Glory M. Liu, "Adam Smith Is Known for His 'Invisible Hand' Theory. The Truth Is More Complex.," Wall Street Journal, accessed March 2026, <https://www.wsj.com/economy/who-is-adam-smith-american-capitalism-founder-80283873>
- ² Roger Pilon, "Property Rights and the Constitution," Cato Handbook for Policymakers, 9th Edition, Cato Institute, 2022, <https://www.cato.org/cato-handbook-policymakers/cato-handbook-policymakers-9th-edition-2022/property-rights-constitution>
- ³ LegalClarity Team, "The Patent Act of 1790: America's First Federal Patent Law," LegalClarity.org, December 16, 2025, <https://legalclarity.org/the-patent-act-of-1790-americas-first-federal-patent-law/>
- ⁴ Kuznets, Simon. "Two Centuries of Economic Growth: Reflections on U.S. Experience." *The American Economic Review* 67, no. 1 (1977): 1-14. <http://www.jstor.org/stable/1815873>
- ⁵ Charles Sumner Lobingier, "Rise and Fall of Feudal Law," *Cornell Law Review* 18, no. 2 (February 1933): 192-231, <https://scholarship.law.cornell.edu/clr/vol18/iss2/5>
- ⁶ Legal Information Institute. "Contract Clause." In U.S. Constitution Annotated. Cornell Law School, n.d. <https://www.law.cornell.edu/constitution-conan/article-1/section-10/clause-1/contract-clause>
- ⁷ National Constitution Center. "Interpretation: The Fifth Amendment Due Process Clause." Constitution Center, n.d. <https://constitutioncenter.org/the-constitution/articles/amendment-v/clauses/633>
- ⁸ Legal Information Institute. "The Framing and Ratification of the Intellectual Property Clause." In U.S. Constitution Annotated, ArtI.S8.C8.2.2. Cornell Law School, n.d. <https://www.law.cornell.edu/constitution-conan/article-1/section-8/clause-8/the-framing-and-ratification-of-the-intellectual-property-clause>
- ⁹ Khan, B. Zorina. "Property Rights and Patent Litigation in Early Nineteenth-Century America." *The Journal of Economic History* 55, no. 1 (1995): 58-97. <http://www.jstor.org/stable/2123768>
- ¹⁰ Social Studies Help. "How Railroads Shaped America's Western Expansion and Growth." n.d. <https://socialstudieshelp.com/american-history-lessons/how-railroads-shaped-americas-western-expansion-and-growth/>
- ¹¹ Potter, Lee Ann, and Wynell Schamel. "The Homestead Act of 1862." *Social Education* 61, no. 6 (October 1997): 359-64. Adapted for U.S. National Archives and Records Administration. <https://www.archives.gov/education/lessons/homestead-act>
- ¹² U.S. National Archives and Records Administration. "Pacific Railway Act (1862)." Milestone Documents. <https://www.archives.gov/milestone-documents/pacific-railway-act>
- ¹³ Jeff Chan, "For Amber Waves of Grain: Commodity Booms and Structural Transformation in 19th Century America," *Canadian Journal of Agricultural Economics/Revue canadienne d'agroeconomie* 72, no. 4 (December 2024): 489-507, <https://doi.org/10.1111/cjag.12372>
- ¹⁴ Charles Hirschman and Elizabeth Mogford, "Immigration and the American Industrial Revolution from 1880 to 1920," *Social Science Research* 38, no. 4 (2009): 897-920, <https://www.sciencedirect.com/science/article/pii/S0049089X09000398?via%3Dihub>
- ¹⁵ Zvi Griliches. *The Demand for a Simple Production Function: A Note*. NBER Working Paper No. 56. Cambridge, MA: National Bureau of Economic Research, 1974. https://www.nber.org/system/files/working_papers/h0056/h0056.pdf
- ¹⁶ Kuznets, Simon. "Two Centuries of Economic Growth: Reflections on U.S. Experience." *The American Economic Review* 67, no. 1 (1977): 1-14. <http://www.jstor.org/stable/1815873>
- ¹⁷ Charles Hirschman and Elizabeth Mogford, "Immigration and the American Industrial Revolution from 1880 to 1920," *Social Science Research* 38, no. 4 (2009): 897-920, <https://doi.org/10.1016/j.ssresearch.2009.04.001>
- ¹⁸ Sequeira, Sandra, Nathan Nunn, and Nancy Qian. "Migrants and the Making of America: The Short- and Long-Run Effects of Immigration during the Age of Mass Migration." NBER Working Paper 23289. National Bureau of Economic Research, March 2017. <https://www.nber.org/papers/w23289>
- ¹⁹ Joint Economic Committee. *The U.S. Economy at the Beginning and End of the 20th Century Chartbook*. Office of the Chairman, U.S. Senator Connie Mack, December 1999. <https://usinfo.org/enus/economy/overview/docs/century.pdf>
- ²⁰ Council on Foreign Relations. "How Did the United States Become a Global Power?" Education CFR, n.d. <https://education.cfr.org/learn/reading/how-did-united-states-become-global-power>
- ²¹ Economic Policy Institute. "The Productivity-Pay Gap." n.d. <https://www.epi.org/productivity-pay-gap/>
- ²² U.S. National Archives and Records Administration. "Northwest Ordinance (1787)." Milestone Documents. <https://www.archives.gov/milestone-documents/northwest-ordinance>
- ²³ Mailings Systems Technology. "USPS: A History Built on Industry Partnership." Article 5397. n.d. <https://mailingsystemstechnology.com/article-5397-USPS-A-History-Built-on-Industry-Partnership.html>
- ²⁴ Origins: Current Events in Historical Perspective. "How Public and Private Enterprise Have Built American Infrastructure." Ohio State University, n.d. <https://origins.osu.edu/article/how-public-and-private-enterprise-have-built-american-infrastructure>.