The Death of the Yeoman Farmer

Austin Adams
Whetstone Research
austin@whetstone.cc

July 3, 2025

Figure 1: Baptism in Kansas by John Steuart Curry depicts an idyllic small farm with local farmers, known as Yeoman. These farmers were the backbone of the economy of early America. A large portion of the remaining independent farmers would go bankrupt in the Panic of 1873 due to currency debasement, the crop-lien system, and widespread local bank failures. This effectively crushed their farms, the banks, and the entire economy of Kansas - leading to the concentration of farm land held by large corporations and Kansas being the home of some of the most sophisticated financial laws.

1 Summary

Lately, I've been reading about early financial markets, early monetary theory, and Kansas. Very rarely do all three of these things combine, and I feel compelled to tell the story and what I think could be the future of how the economy functions. It's a story about the structural collapse of Yeoman farmers during the industrial revolution and can tell us how the economy evolves during periods of innovation and crisis.

In the past century, there has been a massive structural shift in how the economy works - away from many small businesses and towards fewer large corporations. This trend started with the 2nd Industrial Revolution and was accelerated by the growth of capital markets (capitalism). We can endlessly debate (and have) on whether this was a positive or negative outcome, but it happened, and it is definitely the system most countries are under.

The death of Yeoman farmers warns us that current capital market structures cause rapid consolidation. We are here to talk more about how capital markets in their current form favor larger firms, about what killed and is continuing to kill small businesses, and how we can adjust incentives to benefit smaller firms without harming larger ones. Additionally, we talk about what small businesses could become with this change, especially with the emergence of AI and the internet, new market structures enabled by crypto, solo founders, and the rapid growth of small businesses capturing market share and revenue.

2 The Small Businesses of Old

The Yeoman farmers referred to in the title were self-sufficient subsistence farmers, which was the most common job pre-Industrial Revolution. The term "Yeomen" is generally associated with Thomas Jefferson, who heavily alluded to this class as the "virtuous owners" of democracy.

Yeoman and subsistence farmers were all but wiped out by the Industrial Revolution. Mechanized farming and railroads created massive grain oversupply, collapsing prices by 50% post Civil War. At the same time, tripled grain prices during the Civil War had incentivized farmers to scale rapidly with the help of early forms of capital, and many of those loans were collateralized by silver bars or the land itself.

Sadly, the Panic of 1873 effectively collapsed the local banking system, along with removal of silver bars as legal tender. As a result, these farmers were wiped out entirely and went bankrupt, losing their farms. The decision to remove silver for use in minting was due to more silver mines opening in the western part of the United States, creating fears of potential inflation. However, the opposite happened - rapid deflation crushed farmers who took on significant dollar-denominated debt to leverage up their farms. Even with a good farming season, many could not pay back these loans, as grain prices had collapsed and deflation caused currency to be more valuable instead of less. Many thought that the capital expansion in the earliest days of the Industrial Revolution would not stop, so the government contracted it heavily. Crucially, there was no national bank controlling monetary policy at this time.

This collapse heavily concentrated farm lands in the hands of banks, which were increasingly indebted themselves. Banks were forced to offload (fire sale) these somewhat toxic assets to well-capitalized businesses, which had generally larger, stronger balance sheets. This fire sale, run on the banks, and mass defaults led to the collapse of the local banking system. Kansas and other prairie states were hit hardest due to their largely agrarian economies. As a result, Kansas became an early pioneer of financial regulation. Its laws would eventually form the basis for nationwide regulatory frameworks like the Blue Sky Laws and federal banking regulation.

3 The Problem of Consolidation

Post-Industrial Revolution, consolidation via capital has only become further entrenched. Today's small businesses continue to face consolidation pressure but in a different form. Instead of bank runs and fire sales, we have cheap capital and intense centralization pressures from network effects.

Rapid consolidation brings systemic risks into the economy. Consolidation creates less innovation, more monotony in product, and less system-wide resilience. These risks can be hard to see in the short term, but have become much more apparent in recent years.

There is a classical innovators dilemma where, paradoxically, companies that are larger and spend more money on R&D are structurally less likely to innovate compared to their smaller upstart competitors. As companies grow, they generally stop innovating and restructure the organization to hold onto their existing gains. As this happens, teams become more risk-adverse and less likely to disrupt themselves, which leads to monotony.

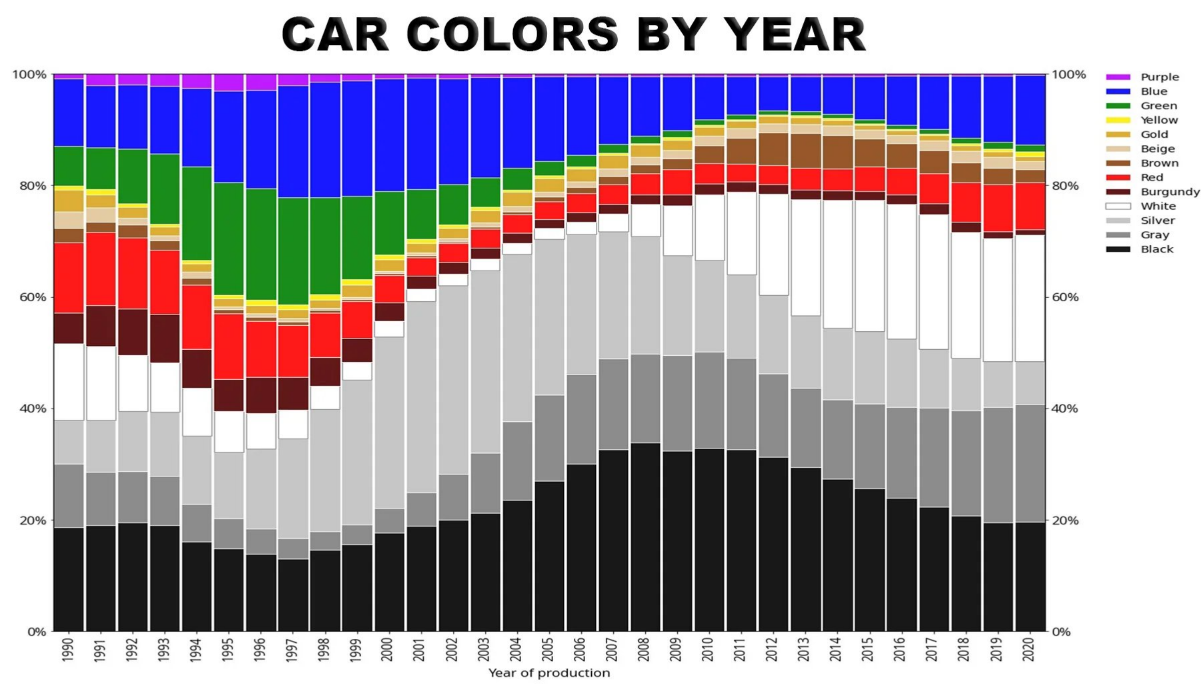

Figure 2: Source: James Gurney in Changing Color Preferences Over Time

Products also become more monotonous as the innovations become more small iterative improvements resulting in more products designed for the "median user" (who doesn't really exist). The most intuitive explanation is shown in Figure 2. This monotony is visible everywhere. Cars used to come in dozens of colors. Today, 75% are white, black, or gray. There are fewer "interesting" choices as all products get pushed into optimizing for the median user. This is why there are so many choices, but all the choices are all functionally the same.

Finally, large companies lead to less resilience inside of the system. As there are fewer points of failure within a system, this leads to a fear that those entities are "too big to fail" . The network effects that create efficiency and allow companies to grow to their huge size also propagate failures more efficiently during a crisis. It also leads to more reliance on the company in the system, as the company is now responsible for the livelihoods of those working for it.

However, the economy is not just a few companies that have been around for years and constantly gobble up the competition, so there must be a counterbalance effect. Traditionally, that balance has been driven by new innovative companies emerging to overtake their existing rivals. However, the counterbalance is weakening.

This is reflected in the amount of new companies IPOing. There is a structural incentive for companies to delay an IPO as long as possible, as an IPO makes it significantly more difficult for them to be bought out by a larger company. Larger companies are able to tap their distribution without much of a cost from raising from equity. If the new company is additive to the existing company that bought it, then the sale was functionally free. This has led to more unicorn private companies who sustain themselves forever without the public markets.

Additionally, the model of scaling until you win and then find a business model further entrenches capital within businesses. The most common tactic from new startups has been to rapidly expand at a loss by fueling the company with venture capital. Once the market is mostly captured, these businesses must change their entire business to capture some value or revenue. This may have been a zero-interest rate policy phenomena, as most startups seem to benchmark themselves now on annual recurring revenue (ARR).

At the same time, it is more difficult to get a small loan from small banks, because the community banking system has all but collapsed. The incentives in place are for larger loans to fewer people, leading to poor capital flow to smaller businesses.

Small businesses used to dominate the economy - until the advent of the industrial revolution and the associated boom of capital markets. Indeed, centralization was one of the key themes of the early boom of the industrial revolution. A fractured economy of artisans was rapidly consolidated into mega-companies that effectively dominated the economy.

4 Fixing the Counterbalance

We are currently undergoing a rapid innovation cycle driven by the advent of modern AI and the capital formation of crypto. Successful companies are smaller, faster to market, and capturing unprecedented scale. There also has been a huge expansion in non-traditional team constructions driving significant innovation through hyperspecialization. These specialized teams are able to compete due to time to market benefits of the Internet and the scale of modern computing.

The Internet accelerated time to market by causing innovation all over the world simultaneously. This has greatly accelerated the speed at which companies both must and do go to market. The userbase is much more broad than it used to be and winners entrench themselves faster everywhere. This accelerated the innovation cycle for both markets and products and has allowed smaller teams to capture and hold onto their gains.

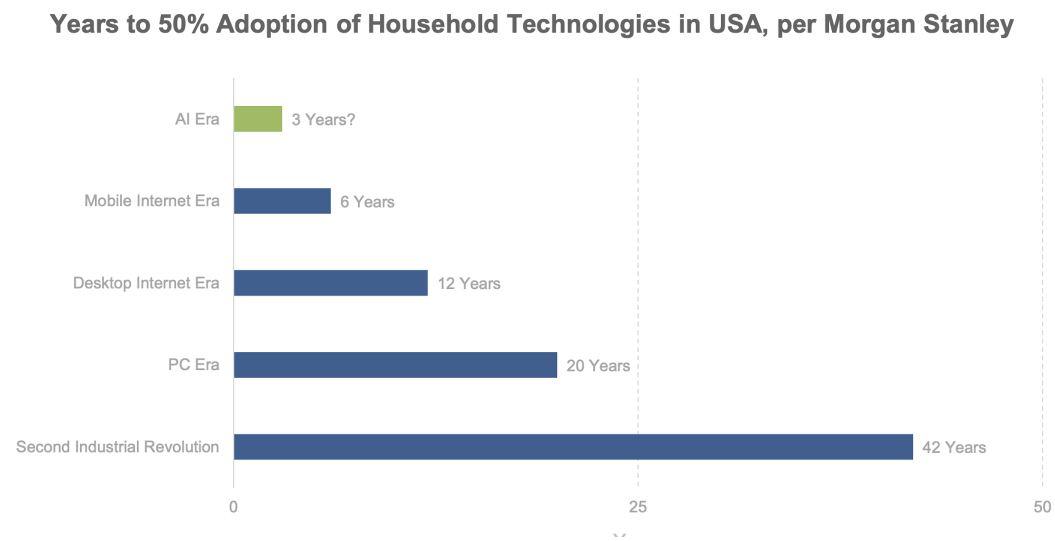

Figure 3: Source: Trends - Artificial Intelligence

This collapse in both the innovation cycle and time to market means that companies are generally smaller and require capital earlier in their journey. There are many other challenges with this and its meaning, but that is for another piece (or several). At the same time, capital markets have not kept pace with this structural change. Companies are IPOing later, leading to private capital markets capturing this gain or fewer companies benefiting from capital markets in general.

Tokenization can create simple and reproducible rails to value generation. Companies could sell assets that are valuable in the form of equity, a future/current revenue stream, or property rights to raise necessary funds. By creating a system for the smallest and largest pieces of value, much of the rails can be automated and new economies can be built around them. This allows both the public markets to capture some of that value and allows companies to raise more capital.

The same technologies that could enable thousands of small, specialized businesses instead accelerate consolidation because capital structures haven't evolved.

5 Conclusion

Capital markets naturally have a centralization effect due to broad market incentives. We argue that some forms of new capital would directly benefit smaller and newer businesses by spreading the benefits of capital markets to these underserved firms. We argue that newer firms are increasingly driving innovation and represent a large portion of the "innovation capital" in the economy.

Micro-IPOs, tokenization of revenue streams, specialized local banks like the Sparkassen could deter some of these centralization effects and additionally invest in newer businesses.

First, Micro-IPOs inject capital into smaller businesses allowing them to accelerate growth. They would also benefit private small businesses who struggle to compete with large investment vehicles due to their cheaper capital. Cheap capital has led to an increase in investment, but also an increase in both wealth inequality and by creating consolidation. For example, there has been a rapid consolidation of banks due to the ease of raising capital to acquire another one.

Second, tokenization of revenue streams would directly yield to a better incentive alignment between investors and token projects by minimizing their natural principal-agent problem. Revenue streams from protocols could be programmatically enforced via an immutable layer, leading to better incentive alignment in a permissionless system. Revenue streams can be collateralized and sold to the open market allowing speculation on the future value of this revenue stream, resulting in a capital-like structure without anything resembling any type of contract.

Finally, we believe that a revival of local banks through more specialized capital opportunities could benefit more banks in local areas. We imagine more specialized banks more akin to how investment banks work today but with a local and stakeholder lens. For example, the Sparkassen is Germany runs incredibly efficiently, with a profit motive, and has led to an increase in the local enterprises and small businesses. Consolidation in the banking sector has led to a much larger portion of the banking system owned by "global systemically important banks". We argue that local banks are incredibly important to capital flow within a region, especially to medium sized enterprises.

AI and crypto are offshoots of the direct impact that modern computing and the Internet have had on the economy. Accelerating the impacts of both network effects and economies of scale, but displacing intermediaries and local fixed effects. Capital markets have not kept pace with the innovation created by these effects, but this is expected. Companies need to capture value from the public markets earlier in their journey (lest the public is locked out forever) and need less additional overhead from doing so. In short, there should be capital markets designed for a permanent innovation economy where value companies can raise capital easier and faster for innovative ideas.

The economy is largely an emergent phenomenon where what feels like cornerstones can shift widely as incentives move. Fundamental cornerstones have been shifting for the last few years as another wave of capital fuels the technology that could grow to dominate society and the last few centuries with the Internet.

Who will be the 4th Industrial Revolution's Yeoman Farmer? Most importantly, how do we build the pieces of the new economy earlier to avert their stoppable death?