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Book Review

Capitalism in America: A History

Alan Greenspan and Adrian Wooldridge
New York: Penguin, 2018, 486 pp.

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What could possibly go wrong when a former Fed chairman and the *Economist's* political editor walk into a publisher's office with an almost five hundred page manuscript? Quite a lot, it turns out. In *Capitalism in America: A History*, Greenspan and Wooldridge sketches American economic history through the lens of Schumpeterian Creative Destruction. The result is, to be polite, a mixed bag. It has the hallmarks of overly simplistic, broad-brushing and all-encompassing efforts of those formerly in the spotlight—looking back at their extended careers and trying to make sense of their experiences. It reads halfway between a dull encyclopedic account of major American businessmen and a vaguely-supported yet boldly-argued *Economist* column. It is neither as comprehensive as a full-scale account of American capitalism ought to have been, nor as shallow as we have become accustomed to from the pages of said magazine. Despite the book's many shortcomings, it is a magnificent overview of American business, describing the lives

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and deeds of many known and lesser known industrialists that propelled America forward, woven together into an overarching tale that cherishes creative destruction above all else (pp. 14–19).

The book's title leads one to believe that its object of inquiry is *Capitalism* proper, the monetary system of societal interactions characterized by private ownership of the means of production—or what Mises (2008, 1) described in the first sentence of *The Anti-Capitalistic Mentality* as "mass production of goods destined for consumption by the masses." Instead, Greenspan and Wooldridge quote Schumpeter (2003, 83) to say that capitalism means creative destruction ("Creative Destruction is the essential fact about capitalism"), and then interpret creative destruction to roughly mean 'industrial innovation', after which they take the reader us on a fascinating journey through most major American industrialists, their businesses, their innovations and their achievements.

The book defies easy categorization, as it may serve as a brief introduction to political, social and predominantly business history and only tangentially does *economic* history. The common thread running through the authors' account is one of the Great Man Theory, perhaps first comprehensively expressed by Carlyle (1841) and recently compellingly opposed in Matt Ridley's (2011; 2015) more widespread accounts. Antithetical as it is to regular notions of capitalism as decentralized, coordinating, spontaneous or "anarchical" decision-making (Mises 1951, 120), the Great Man Theory states that history can be understood as the outcome of actions and ideas of a selected number of persons—the Great Men. Greenspan and Wooldridge devote pages and pages to these leading men of American industrialization: Eli Whitney and his cotton gin (pp. 46, 74–75); John Deere's and Cyprus McCormick's agricultural inventions (pp. 46–48); Oliver Evans' steam engine (p. 52); Henry Bessemer's steel inventions (pp. 99–102) and Carnegie's steel empire (pp. 126–28); Edison's light bulb (p. 105); Ford's and Sloan's automobiles (pp. 107, 209–13); Rockefeller's revolution of the oil business (pp. 128–30); J. P. Morgan's domination of the world of money (pp. 130–31); Bell's telegraph (pp. 109–10); and Swift's refrigerated railroad cars (p. 119).

Occasionally, however, impersonal and decentralized trends make appearances, for instance through institutional and infrastructural achievements including the Erie Canal (p. 51), the railroad boom (pp. 96–98) and the importance of the Chicago futures market

(p. 120). Even more recent business trends are described, such as Silicon Valley's overtaking of Massachusetts' Route 128 corridor (e.g. Saxenian, 1996), explicitly attributed to its "decentralized, free-wheeling and porous" (p. 353) nature. Indeed, the praise of Silicon Valley is further described as:

> a living embodiment of the principle of creative destruction as old companied died and new ones emerged, allowing capital, ideas, and people to be reallocated. (p. 353)

The dissonance between the "decentralized, freewheeling and porous" aspects of capitalism and the significance of the authors' top-down approach goes entirely overlooked. Indeed, sometime around the mid-twentieth century in the authors' story, they change from describing Great Men to describing Great Presidents: a few examples include JFK (pp. 302–03); LBJ's Great Society and Nixon's closing of the gold window (pp. 305–06); and of course the authors' beloved achievements of the Reagan Era (pp. 326–31) that allegedly "created the conditions for a business revival, removing the shackles that had bound business ever tighter" (p. 329). Admittedly, some prominent business leaders make brief appearances (Jack Welch at GE; George Mitchell, whom the *New York Times* (2013) called "The Father of Fracking"; Bill Gates; Larry Page and Sergey Brin) but their importance is secondary to the main, now political, storyline.

There are at least three areas that warrant serious criticism: the idea of a wartime 'prosperity,' the authors' use (and presentation) of data, and the big elephant in the room: central banking, especially considering the deficient accounts of the *Great Recession* and *Great Depression*.

Firstly, perhaps the most morbid celebration of wartime ever, Greenspan and Wooldridge argue that the American human capital stock during World War II was "upgraded" (p. 270) and that the war acted as "a huge on-the-job training program" (p. 270). In a paragraph that cannot be read with a straight face, they argue not only that a contributing benefit to American wartime prosperity was that demographics such as women massively entered the labor force and learned valuable skills, but astonishingly enough that soldiers coming back from the war "with new skills, from organizing groups of people to repairing jeeps" (p. 271). Never mind the human capital *literally destroyed* among the four hundred thousand-odd American military casualties (not to mention many more wounded), or the millions upon millions of people whose skills were redirected into uniquely specific wartime production lines, the "human capital" value of which were highly doubtful. Neither does the madness end here, as the authors maintain—contrary to common sense and indeed both sound economic theory and empirics—on the basis of four(!) selected indicators that Americans at home were better off during the war. Noticeably, Robert Higgs (1992, 50–53) debunked the main myth that real consumer spending increased dramatically, and I leave the relevance of the other three exhibits to be judged by the reader (gambling on horses increased by one-and-a-half times; half a million new businesses were created; eleven thousand new supermarkets were constructed).

At this point, one sincerely hopes that the nonsense will end, but alas, it does not. Rather than explaining the immediate post-war boom in economic data (double digit GNP growth between 1945 and 1946) as a return to capitalism from a wartime command economy, Greenspan and Wooldridge invoke the infamous pent-up demand argument. The dissonance is quite remarkable. Instead of the real income growth and improved living standards in wartime America—posited no fewer than six pages earlier—the authors argue that Americans "made up for the deprivations of the depression and war" (p. 276). American households could not have *both* seen their incomes and living standards grow tremendously during the war *and* suffered deprivations of war, leaving many needs and demands unmet. Of course, they were not, and the conviction stems from misapplied GNP numbers deflated with an inappropriate price index (Higgs 1992, 45–52).

In another oft-repeated argument, pundits denounce the idea that government spending during the New Deal got America out of the Great Depression, only to turn around and claim that government spending during World War II got the job done. Greenspan and Wooldridge do precisely this: "War spending provided the stimulus that the economy needed" (p. 268), they write, but just a few pages earlier, the authors dismissed the New Deal's emphasis on spending, since it was "offset by job destruction in the private sector" (p. 254). What, one might ask, is so "miraculously" different with government spending on tanks and munitions for use overseas compared to government spending on bridges and public works at home (Murphy 2012)? The dissonance is surreal.

Second, Greenspan and Wooldridge use a very peculiar selection of data in making their many arguments. Often, they report irrelevant or at least unconventional versions of fairly standard statistics: real GDP during World War II (p. 268), rather than *per capita* real GDP; comparing *nominal* US national income with the national incomes of Germany, Japan and Italy (p. 262) as if country-size GDP is of any concern; ignoring massive territorial and population changes when contrasting the GDP of Germany in 1946 with Germany in 1890 (p. 276), or the doubling of "America's real GDP" (p. 361) between 1980 and 2000—conveniently hoping that the reader had overlooked the emphasis on tens of millions of immigrants some 15-odd pages earlier. Sometimes, the authors refer to "the nation's real income" (p. 304), presumably meaning price-deflated GDP, but most of the time they settle for reporting what look like nominal, unadjusted, numbers, which over a time span of 250 years amounts to little more than rubble. How is the national output to be rendered legible between vastly different eras of American history (population, institutions, territorial expansion), with no recourse to comparability adjustments of any kind? Besides, a well-read economist with rough knowledge of historical price and income series (or readily available access to measuringworth.com) might decipher the present-value equivalent of money prices, but the employment figures of GM of 1 million in 1960 (p. 288), conveys very limited information beyond the obvious statement that GM was a large company even then.

Remarkably, the only time *per capita* numbers are reported (p. 387), they are used to make the Congressional Budget Office's dire projection of the long-term potential growth rate for the U.S. economy (1.7 percent/year) *even worse*; with population increases, the per capita potential growth is therefore well below 1 percent, which emphasizes the gloomy outlooks for America. One does wonder why recourse to per capita numbers was superfluous for close to four hundred pages.

More saliently, all graphs not presenting fractions are given in logarithmic scale, for rather puzzling reasons. In long-term time series they are often warranted (for example: stock market index on p. 222, business productivity and worker output on p. 93, or prices and wages on p. 175), since nuances in earlier periods would be entirely swamped by the curves' exponential increases. But in a few cases, the frequent use is both unneeded and contributes to concealing rather than supporting the authors' main message (as for miles of railroad construction on p. 97 and wholesale price of steel on p. 100 and p. 145).

Third, central banking is suspiciously downplayed for a book on American economic history co-authored by the second longest-serving chairman of the Fed. It makes an appearance discussing the accidental invention of the Fed's 1922 Open Market Operations (p. 235) and a minor comment on monetary policy in the 1980s (p. 331), in addition to a rather brief inclusion during the Great Depression and the Great Recession. The Great Depression, noticeably,

> was a consequence of the shattering of a stable world order, underpinned by fixed gold-standard-linked exchange rates, and by the war and the failure of the Great Powers to adjust to a changed distribution of economic and financial power and to put a sustainable new system in its place (p. 226)

In a twist as remarkably as the dissonances of wartime America (see above), Greenspan and Wooldridge conclude that Keynes's "barbarous relic"—the gold standard—was barbarous only in the *wrong* way: "the fetters that doomed the international economy were not Keynes's fetters of gold but the fetters of pride"(p. 229), since its only problem was the price at which foreign countries pegged their currencies against the dollar, not the many problems associated with a centrally-regulated pseudo-commodity standard (Rothbard 2010, 68–98).

At one point, the authors even go as far as blaming "America's quirky banking system" (p. 234) at least compared to Canada, before invoking Friedman and Schwartz's banking failure explanation of the Great Depression. Rather, the very brief account of the Great Depression contains nothing but irresponsible stock brokers, Irving Fisher's debt deflation and the Smoot-Hawley tariffs (pp. 230–33).

The Great Recession fares no better, prefaced by generic quips like "bubbles are endemic to capitalism" (p. 375), and "people's animal spirits exceed their rational powers" (p. 375) before castigating derivatives and their "notional value" (p. 381). The blame for the crisis is squarely placed on securitization, the exuberance of lenders and the thriftiness of Asian savers (pp. 376–79)—the so-called 'Savings Glut'—allegedly forcing down interest rates with a powerless but nevertheless noble Fed standing by (p. 385). Indeed, the swift and competent actions of the Fed, the "superior quality of the official response" (p. 385) prevented another Depression. Their grand achievements included rescuing major financial institutions, performing stress tests and lowering short-term interest rates to boost the economy—remarkably so considering that no less than six sentences earlier, the authors had entirely discounted this transmission mechanism in their quest to exonerate the Fed.

There is a superficial attempt at criticizing low-interest rate arguments (explicitly that of John Taylor) by placing the beginning of the housing boom before the interest rate cuts in 2001, and specifying that originations of a subsection of mortgage lending "peaked two years before the peak in home prices" (p. 385), allegedly undermining any low-interest rate arguments. The attempt is unconvincing to say the least.

While the first eleven chapters provide broad sketches of American business from 1750 to the present, the value of which is questionable, chapter twelve ("America's Fading Dynamism") offers a more extensive view into what Greenspan and Wooldridge see as America's biggest challenges. This is also their best and most pertinent chapter, putting the blame of America's woes in many of the right places: overburdening regulation, stricter labor markets and massively reduced (social, geographical, economic) mobility; the explosive cost of education, its unenlightened pettiness (p. 394) and the stagnation of Americans' educational attainment; and the core reason of America's failures: "the growth of productivity-suppressing entitlements" (p. 404). They spend eight pages emphasizing well-appreciated facts such as the legislative permanence of entitlements alongside more surprising ones—for instance that since 1965 entitlements have grown faster (10.7 percent/year) under Republican presidents than Democratic ones (7.3 percent/year, p. 405)—and another five pages on how regulation is crippling entrepreneurial innovation in favor of lawyers, bureaucrats and consultants. By comparison, acquitting the Fed of blame during the financial crisis and criticizing low-interest rate arguments is done in less than a single page.

Huddled among its many shortcomings are many flashes of brilliancy: quotable quips, accessible summaries of business trends and revolutionizing innovations (the so-called robber barons, automobiles, the rise of Silicon Valley and the financial services innovations of recent decades), a devastating critique of FDR's New Deal and a surprisingly Rothbardian position on monopolies (p. 132). Moreover, the entrepreneur is front and center, albeit more of a hands-on type than the kind we find in the Austrian entrepreneurship literature (e.g. Kirzner 1999, Salerno 2008). At least, one must admit, the authors embrace the entrepreneur as driver of economic change, a trait they describe as synonymous with America itself:

> American entrepreneurs were drawn from every level of society but united by their common assumption that every problem was capable of solution so long as you thought hard enough. (p. 45)

In summary, despite the book's many flaws of technical, economic and statistical nature, there is some value to it, especially the two finishing chapters that identify some of America's greatest challenges. The message is ultimately one of optimism, of belief in the power of entrepreneurial innovation and (mostly) benign impact of creative destruction. Greenspan and Wooldridge argue that every time America has been pushed to the brink she has come back stronger (pp. 28, 449), and despite her current challenges, we should not despair.

This is a history of American capitalism only if one believes that capitalism is the actions and consequences of America's many noticeable businessmen. Favorably judged, that amounts to a birds-eye view of American Big Business, 1750 to the present, a much more apt title for what the authors are doing: paying homage to the unmatched wonders of creative destruction.

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