Review Essay

Ages of American Capitalism: A History of the United States. *By Jonathan Levy*. New York: Random House, 2021. 944 pp. Illustrations, figures, notes, index. Paperback, $24.00. ISBN: 978-0-8129-8518-4.
doi:10.1017/S0007680522000587

Reviewed by Naomi R. Lamoreaux

When people ask me, as they often do, to recommend a single-volume overview of American economic history, I always feel stumped. Sometimes I suggest textbooks in the field, sadly all out of date at this writing, and sometimes monographs that cover specific periods or topics. Now, finally, I have a good answer. I can recommend Jonathan Levy's *Ages of American Capitalism*. A comprehensive narrative that runs from the colonial period through the recent financial crisis, the book is broader than the accounts most economic historians would offer in that it pays considerable attention to Americans' cultural responses to economic change. At the same, time, however, it provides up-to-date coverage of the relevant economics literature, making it accessible to readers not able to follow the econometrics. Undoubtedly, specialists will find things to quibble about. I did. But that goes with the territory. The bottom line is that *Ages of American Capitalism* is an impressive work of synthesis that everyone interested in American history should read.

Ages of American Capitalism is divided into four "books" whose titles convey its narrative arc: "The Age of Commerce, 1660–1860," "The Age of Capital, 1860–1932," "The Age of Control, 1932–1980," and "The Age of Chaos, 1980–." The first three parts contain six chapters each; the last, four. It is a long book! Levy aims to keep the reader engaged by focusing on key figures such as Presidents Thomas Jefferson and Franklin D. Roosevelt and entrepreneurs Andrew Carnegie and Henry Ford. This attention to great men, as well as the familiar periodization of the book's chronology, gives the narrative a conventional, old-fashioned cast that some readers might find off-putting. I hope they will not be put off, however, because the individual chapters contain many intriguing nuggets of interpretation that will reward those who persevere.

Business History Review 96 (Autumn 2022): 647–652.
© 2022 The President and Fellows of Harvard College. ISSN 0007-6805; 2044-768X (Web). This is an Open Access article, distributed under the terms of the Creative Commons Attribution license (https://creativecommons.org/licenses/by/4.0/), which permits unrestricted re-use, distribution, and reproduction in any medium, provided the original work is properly cited.

https://doi.org/10.1017/S0007680522000587 Published online by Cambridge University Press

"The Age of Commerce," for example, opens with the provocative argument that mercantilism was a variant of what today we would call industrial policy and that its pursuit jump-started capitalism in the British Empire. Organizing the section around the concept of Smithian growth, Levy shows how commercial expansion led to a productivity-enhancing division of labor within and between economic units. This kind of growth, Levy argues, was particularly compatible with the system of plantation agriculture that spread across the southern half of the United States after independence, and he offers a nicely nuanced view of that development, explaining slavery's links to the larger U.S. economy without in any way overstating its importance for the country's economic development. Indeed, in contrast to many so-called new historians of capitalism, Levy recognizes the critical role in modern (as opposed to Smithian) economic growth played by the era's high-tech sector—the new machine-tool-based industries that sprang up in the Northeast under the stimulus of, first, burgeoning trade within the region and, later, interregional connections with the Old Northwest. This section of the book also provoked one of my most important quibbles. From Levy's overly schematic treatment of Jacksonian antimonopoly politics in the chapter "Capitalism and Democracy," one would never realize that it was the Whigs who were behind New York's pathbreaking free banking law. The chapter "Confidence Games" offers abundant compensation, however. Levy's remarkable discussion of Herman Melville's *Confidence Man* both decodes this extraordinarily difficult novel and uses it to explore the growing problems of trust that Americans had to solve as the economy expanded.

To grasp the argument Levy develops in the three books that follow, one must understand his definition of capitalism. Most new historians of capitalism have eschewed serious discussion of the term, equating it simply with the dominance of the profit motive. Levy, by contrast, tackles the problem of definition head on, using his introduction to lay out a set of three principles—or, as he calls them, "theses"—about capitalism that give the book its structure. I use the word "structure" deliberately here in the sense that steel beams structure a skyscraper. They give form to the edifice and keep it standing, but they do their work beneath the surface and are largely hidden from view. *Ages of American Capitalism* is not a theory-laden book; a reader who skipped the introductory chapter might completely miss its theoretical underpinnings. Nonetheless, it is important to consider Levy's theses critically because they drive the rest of his analysis.

Levy argues that what distinguishes "capitalism" from the economic systems that preceded it is the centrality of "capital" to economic life. Hence, defining "capital" is critical to the enterprise of the book.

https://doi.org/10.1017/S0007680522000587 Published online by Cambridge University Press

According to his first thesis, capital is a "process," specifically, the "process through which a legal asset is invested with pecuniary value, in light of its capacity to yield a future pecuniary profit" (p. xiv). Levy initially proposed this definition in a brilliant article, "Capital as Process and the History of Capitalism," published in this journal in Autumn 2017. A product of our age of financialization in much the same way as Marx's labor theory of value was a product of early industrialization, Levy's definition effectively turns Marx on his head. Capital's value derives not from the dead labor that produces it, nor from the control it confers over the labor process, but rather from the stream of returns it will generate, albeit with a great deal of uncertainty, in the future. By this definition, what Marx termed the means of production could be transformed into capital, but so too could land, enslaved human beings, patents, brands attached to consumer goods, information about consumers' desires, even synthetic securities with no productive assets behind them.

Levy's second thesis is an important qualification of the first. If what turned assets into capital was not their intrinsic utility but instead the stream of returns they promised to generate over time, it did not necessarily follow that the entrepreneurs who propelled the capitalist system forward were solely, or even primarily, engaged in the pursuit of profits. To the contrary, Levy argues that "the profit motive of capitalists has never been enough to drive economic history" (p. xviii). In his view, the innovators who did the most to expand the economy's productive capacity persevered out of a complex of motives, not simply because they were convinced they had discovered the path to greater wealth, and much of his discussion of entrepreneurs like Carnegie and Ford is devoted to demonstrating this point. This thesis is a major advance over earlier literature that assumed that what distinguished capitalists from precapitalist economic actors was their single-minded concern with the bottom line. As I have argued elsewhere, this assumption impaired not only our understanding of entrepreneurial behavior but also our ability to see capitalism as a historical development (see "Rethinking the Transition to Capitalism in the Early American Northeast," *Journal of American History* [2003] and "Interchange: The History of Capitalism," *Journal of American History* [2014]).

Levy's third thesis is, in my view, more problematic. It is the idea that the "history of capitalism is a never-ending conflict between the short-term propensity to hoard and the long-term ability and inducement to invest." In Levy's telling, this "conflict holds the key to explaining many of the dynamics of capitalism over time, including its periods of long-term economic development and growth, and its repeating booms and busts" (p. xxii). At its simplest level, the thesis is an unobjectionable

https://doi.org/10.1017/S0007680522000587 Published online by Cambridge University Press

restatement of John Maynard Keynes's theory that, in some circumstances, investment falls short of the level needed to maintain the economy at full employment, with one of the main causes of the deficit being a "liquidity preference" on the part of the owners of capital. But Levy pushes the idea further, drawing on an obscure observation of Keynes—that "there has been a chronic tendency throughout human history for the propensity to save to be stronger than the inducement to invest" (quoted on p. xxii)—to give capitalist dynamics a direction.

Keynes's observation allows Levy to tie the three parts of his theory together. Capitalism's speculative aspect—its dependence on future returns—makes investors cautious and concerned with liquidity, which is why long-run growth depends on entrepreneurial innovation driven by nonpecuniary motives. In Levy's telling, as the American economy developed over time, its progressively greater ability to generate new revenue streams—to transform assets into capital—funneled ever larger amounts of investment into entrepreneurial innovation, but it also made flights to liquidity easier and potentially more economically devasting ("The Age of Capital"). The ensuing crises, especially the Great Depression, provoked government policymakers to build the regulatory capacity to moderate capitalism's swings ("The Age of Control"). In the late twentieth century, however, capitalism again burst its fetters. What we call "financialization" was nothing new. Indeed, to Levy it was the defining feature of capitalism. In the period's "new economy," however, it became a central locus of entrepreneurial innovation and accounted in its own right for an increasing share of national product. "Since 1980," as a result, "a preference for liquidity over long-term commitment has dominated capital investment as never before. Fast-moving money, rapid investment and disinvestment, across various asset classes, as well as in and out of various companies, has not only overturned old methods of production—its logic has often threatened to overwhelm other economic patterns" (p. 587). The 2008 financial crisis was a consequence, and Levy implies that more bad times are in store. We are in "The Age of Chaos."

It is always risky for scholars to infer a direction to history from their present circumstances. Joseph Schumpeter shared Levy's view that entrepreneurs were the drivers of growth and were motivated by more than the pursuit of profits. Writing *Capitalism, Socialism, and Democracy* (1942) in the wake of the New Deal and the rise of totalitarianism in Europe, he predicted that capitalism was doomed—that what Levy calls the Age of Control would destroy the social context that fostered entrepreneurial ambition. Obviously, Schumpeter got it wrong. Levy takes the 2008 financial crisis as a sign that we are being engulfed by chaos, and he too may be getting it wrong. As Christina Romer long

https://doi.org/10.1017/S0007680522000587 Published online by Cambridge University Press

ago demonstrated, the apparent stability of the "Age of Control" over the era that preceded the Great Depression was largely a statistical illusion—an artifact of the different ways in which national product was calculated in the two periods (see, for example, "Is the Stabilization of the Postwar Economy a Figment of the Data?," *American Economic Review* [1986]). When Romer applied the algorithm used to generate the modern series to the earlier data, the difference between the two periods disappeared, and the same thing happened when she applied the earlier algorithm to the later data. And Levy's own graphs suggest that macroeconomic volatility has continued to decline since then (see, for example, the recessions graphed from 1945 to 2015 in the figures on p. 671).

Once upon a time, scholars saw the Great Depression as the last in a series of accelerating downturns, the product of speculative excesses that led ultimately to the catastrophic stock market crash of October 1929. More recent research has shown, however, that rather than the crash, it was world leaders' stubborn commitment to the international gold standard that transformed an otherwise normal cyclical downturn into the most serious depression in U.S. history. Levy accepts this interpretation of the Great Depression, but he does not think to explore the Great Recession in a similar way. Yes, there was excessive speculation in U.S. mortgage markets. Yes, the U.S. rating agencies failed to assess properly the vulnerability of mortgage-backed securities to systematic risk. But that was by no means the whole of the story. Long after housing prices turned down, banks continued to turn out the synthetic equivalent of mortgage-backed securities. They did so because global commodity markets were booming and the world was awash with cash. One has only to look at the yields on Pakistani and Ukrainian sovereign debt to glimpse the bigger story. Relative to U.S. treasuries, these yields collapsed from over 500 basis points in 2002 to under 200 in 2007, though no one thought the bonds were becoming less risky (Martin Wolf, "The World Wakes from the Wish-Dream of Decoupling," *Financial Times*, 22 Oct. 2008). Although the subprime crisis in the United States triggered the financial meltdown, the underlying causes of the crisis were deeper and more international than Levy suggests (see Gary Gorton and Andrew Metrick, "Getting Up to Speed on the Financial Crisis," *Journal of Economic Literature* [2012]).

As for the failure of control, yes, the Federal Reserve made mistakes in responding to the crisis, but it kept the damage to the economy sufficiently in check that the Great Recession did not become a Great Depression and people quickly forgot how dire the situation could have been. At least as of this writing, the Fed has also mitigated the economic fallout from the COVID-19 pandemic. Over the past two decades, moreover, companies have been deliberately delinking their businesses from

https://doi.org/10.1017/S0007680522000587 Published online by Cambridge University Press

"fast-moving" capital markets. By adopting noncorporate organizational forms, taking their companies private, and going public with dual-class shares, among other strategies, entrepreneurs have taken steps to solidify control and isolate their operations from the flightiness of liquidity-minded investors.

Levy acknowledges many of these developments, but he is too carried away with his idea of the investment/liquidity tradeoff (and perhaps also by a need to weigh in as a critic of capitalism) to see them as potential challenges to his view of the system's trajectory. My concerns about Levy's final section are minor, however, when weighed against my admiration for his ability to bridge the economic history literature, the more general literature in American history and culture, and the history of capitalism to boot. That is a remarkable achievement, and Levy deserves further plaudits for advancing our understanding of capitalism's distinguishing features, even if not of its future.

Naomi R. Lamoreaux is Stanley B. Resor Professor of Economics and History at Yale University, senior research scholar at the University of Michigan Law School, and research associate at the National Bureau of Economic Research. She recently edited The Battle over Patents: History and Politics of Innovation *(2021), with Stephen Haber.*

https://doi.org/10.1017/S0007680522000587 Published online by Cambridge University Press