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Greenspan and Wooldridge. *Capitalism in America: A History*. New York: Penguin, 2018.

Reviewed by Deirdre Nansen McCloskey

It's good to have a cheerful economic history of the United States. Alan Greenspan, the economist and Federal Reserve Chairman 1987-2006, and Adrian Wooldridge, political editor of *The Economist* and author of nine *Economist*-like books, set out to tell the "exhilarating story" of America's economic triumph, with a few headwinds towards the end. We know the story, or at least some comic or tragic version of it picked up from high school, the college course, the movies, the formulas of politics. Even the headwinds, such as the rise of entitlements and the inflexibility of the financial system, are seen as cheerfully overcome-able.

The cheer, true, occasionally grates. Thomas Jefferson is praised, as he should be, for articulating the great idea of liberal equality. But he is not blamed, as he should be, and in the next sentence, for his unusually tight grip on his slaves, some of them his children. He is praised, as he should be, for intoning that "The mass of mankind has not been born with saddles on their backs, nor a favored few booted and spurred to ready to ride them." But he is not blamed, as he should be, and in the next sentence, for lifting imperfectly the formulation without attribution from Richard Rumbold, the English Leveller, in his speech from the scaffold in 1685.

The book does the Lord's work, though, with verve and statistics and charm. Along with a good deal of what every adult knows there are brilliant and informative riffs, as on Hamilton versus Jefferson by Wooldridge (his grasp of the Homestead Act is not so good), or what to do about the recent financial system by Greenspan (his grasp of the gold standard is not so good). Apt quotations sparkle throughout—a stylistic device that academic histories often overlook. It is very much a trade book, not a textbook, but nonetheless covers the ground. It's a good read, which American Republicans and British Tories will delight in, and which American leftish Democrats and British Corbynites should read, for the cheerful news, but won't.

It's filled for example with engaging capsule biographies of clever and avaricious people, mainly in illustration of American innovations from Franklin to Jobs. Yet Greenspan and Wooldridge are judicious in blame, too, pointing for example to Edison's Folly about direct current, which for decades stopped progress in electricity. It was similar to James Watt's Folly, which for decades stopped progress in steam engines. Both arose, it should be noted, from patents, the temporary but too-long monopolies the government grants to the clever and avaricious. And Greenspan and Wooldridge get right the egalitarian and often unpatentable sources of innovation. It didn't take science to innovate with, say, container ships. It took enterprise, and the liberal institutions letting people like Malcom McLean have a go.

Unsurprisingly, some of the most original portions of the book are those on monetary affairs. Late in the book the authors dissect the ill-considered reactions to 2007–2008 (it is a pity, one could unkindly observe, that before 2007 Greenspan was not so clear minded). They give a capsule version of their theory of the business cycle: "People will always accumulate too much risk. Innovators will always dance with danger." Spot on. The business cycle, as against an earlier war-and-famine non-cycle, starts in the very late 18th century. Why is that? Answer: because an enriching people with diverse portfolios will want to accumulate more risk; and because innovators will dance with the risk if liberalism allows them to have a go, as increasingly after 1800 it massively did. Since then we have seen over forty ups and downs of irrational exuberance (as one might put it) followed by excessive pessimism, albeit with the subsequent up always higher than the last one. Up, up, up is not merely irrational cheer on the part of Greenspan and Wooldridge. It is, as they argue, the great fact of the economy since 1800.

The book insists on the good news, and backs it up with statistics. The Conclusion, for example, packs it in. On Social Security: "Retirement has been transformed from a brief stay in death's waiting room . . . into a new stage of life devoted almost entirely to golf." The late, great Hans Rosling argued that the best summary statistic of a country's progress is child mortality, because it registers numerous social and natural problems in one number. Greenspan and Wooldridge note that in 1900 a tenth of children under one-year old died, and higher in the South. Now it is down to one in 150, though higher in the U.S. than in many other rich countries.

Their story plays throughout on the phrase of Werner Sombart made famous by Joseph Schumpeter, that capitalism succeeds through "creative destruction." The reaction by our friends on the left to such news is clear: You created riches by destroying slaves or workers or the Third World. The latest iteration of the marxoid theme, innocent of economics, is the King-Cotton history of Sven Beckert's *Empire of Cotton* (2014), which, embarrassingly, Greenspan and Wooldridge fully credit.

The usual reply on the right, and by Greenspan and Wooldridge, is like the reply by a fellow bourgeois to the lament by Engels about the condition of the working class in England: "And yet a great deal of money is made here. Good day, sir." And a great deal it was. The Great Enrichment after 1800 was unique, an enrichment of the poorest among us not by 100 percent or even 200 percent, but in places like Japan and Finland fully 3,000 percent, and even 1,500 percent in an English America already in the 18th century above the human average.

Yet Greenspan and Wooldridge pull their beards wisely over "those left behind" by "capitalism." "The 'perennial gale' of creative destruction," they write, "thus encounters a 'perennial gale' of political opposition." Yes, as is evident in populist promises to bring back West Virginia coal mining and Hungarian agriculture. But it is progress that is the problem, not "capitalism." If we want the poor to be better off, we want progress, and therefore "destruction." The socialist-calculation debate concluded in the 1930s that an ideal central planner would do exactly the same things by way of closing West Virginia coal mines or driving Hungarian farmers out of business that an ideal market "capitalism" would do. If an activity is unprofitable it should be destroyed, to make way for creation and human progress..

The problem is that Schumpeter and, it must be admitted, most students of the matter from Marx down to Fernand Braudel and David Harvey have believed against the evidence that "capitalism" is new, and therefore that markets and bankers should be blamed for the disturbances of progress. It ain't so. *Homo erectus* accumulated Acheulean hand axes by the hundreds in each campsite, the Romans accumulated their roads, the Chinese their (ineffective) wall. Nor are finance or capital markets or specialization new. The ancient Athenians borrowed from banks, the ancient Romans and Chinese elaborately specialized, and English peasants in the 13th century traded land with each other vigorously.

The better name for the book, then, would be *Innovism in America.* What matters for progress—never mind "capitalism"—is encouragement to innovation, which depends on the acceptance of an ideology of innovation. Though one would have liked in the book a little more attention to the birth of liberalism and innovism in Holland and especially Britain, America is indeed exceptional. And the success of government by the people, for the people, and for their pursuit of happiness, was certainly crucial to the Great Enrichment worldwide. But it was habits of the lip, not money and banking that mattered most. Greenspan and Wooldridge quote Tocqueville noting that Americans were willing to "put something heroic into their way of trading," down to movies about Ray Kroc and Joy Mangano, warts and all. Yes.

The big threat is the rise of a socialist ideology, which we can see nowadays in the fatuity of young people urging us to "try socialism." If the word is defined properly as regulation by government against the free action of individual wills, the past eighty years have seen a steady drift. Greenspan and Wooldridge note that in 1950 only one out of twenty jobs required a government-issued license. By 2016 three out of ten did: "florists, handymen, wrestlers, tour guides, frozen dessert sellers, secondhand booksellers, and interior decorators," the last requiring in Florida a college graduate completing then a two-year apprenticeship. The plague of "ill-considered regulations" out of the illiberal U.S. liberalism of the 20th century yields in the book some very good pages, such as their riff on the 2010 Dodd-Frank regulation on financial institutions. Greenspan proposes instead that the investment houses simply be made to keep some skin in their games.

FDR said in a Fireside Chat in September 1934: "The old reliance upon the free action of individual wills appears quite inadequate . . . . The intervention of that organized control we call government seems necessary." The evidence even then was to the contrary, despite the sickening fall from 1929 worsened by the fetish for gold. The free action of individual wills in the century and a half preceding 1929 had increased real income per head in the United States by a factor of four. In the eighty years to follow it increased it again by a factor of six. Fantasies of "the entrepreneurial state" to the contrary, enrichment of the poor was produced by human action in aid of innovation.

In short, Greenspan and Wooldridge have written a charming, interesting, accurate book. True, one can complain about this or that. They participate early and late in the cant about American "dominance" declining, the horserace metaphor that dominates the pages of *Foreign Affairs*. It has no connection to their subject, the prosperity of the economy. Worse, they accept the myth of a recent "prolonged economic stagnation." Robert Gordon's *The Rise and Fall of American Growth* (2016) gets the second most citations in the book, extracted mainly from the sensible Rise part of his book. But they also accept the erroneous Fall part, namely, the belief that, as another gloomster, Tyler Cowen, puts it, average is over. It's not, though people simply love to be told that The End Is Near. It lets them pull their beards. In fact, real income even in the already rich United States has continued to go up, up, up, and for the poorest, if one allows for the sharply increasing quality of everything from cell phones and automobiles to medical care and airline connections. And China and India, and most of the world as Rosling argued, are enriching in such a way that we can expect a doubling of income in each long generation well into the next century. Out of China and India already the innovators are pouring, to our benefit.

So cheer up. The end is not near. The American story of raising up the poor, our ancestors and our fellow humans, is not close to finished.