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Alan Greenspan & Adrian Wooldridge, *Capitalism in America: A History,* Penguin Audio, 2018, 267 pp. $62.39 Hardcover

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Abstract. Throughout history, market arrangements are necessary institutions in historical context. Greenspan and Woodridge provide a scholarly narrative for US economic history against the backdrop of creative destruction, irrational exuberance, and secular stagnation to evaluate periods when markets became more prominent and policies that made them less so.
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Book review

Karl Marx's Theory of History emphasizes feudalism's transition into capitalism—in turn—which transitions into socialism. His materialist dialectic is a social good because it addresses the needs of the poor and elevates the working class within an economic and social system. Joseph Schumpeter recognized Marx's dialectic. However, where Marx finds the transition from feudalism to socialism good because it frees the worker from an oppressive, unjust market system, Schumpeter laments the transition, and it is the proletariat's rebellion against the efficiencies of the market system that is mis-understood. Marx and Schumpeter were both scholars of the market system, and it appears we no longer have high profile scholars studying the intricacies of markets. However, Alan Greenspan—former chair of the US Federal Reserve System—is a long-time policy advocate, who has made his career studying markets and extolling their benefits. While not an academic publishing numerous papers on the benefits of a market system, Greenspan is a pre-eminent policy maker who appreciates and understands the intricacies and benefits of a market system, with deep appreciation of the institution with the knowledge that resembles Marx and Schumpeter. It is against this backdrop that Alan Greenspan and Adrian Wooldridge have written an historical account of US market development in *Capitalism in America: A History*.

Where Adam Smith is the father of modern economics, Schumpeter is the father of economic dynamism and innovation. Joseph Schumpeter was

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an early 20th century polymath who specialized in industrial and growth economics (Schumpeter, 1942; McGraw, 2007). His lasting contribution to economics is the now staple "creative destruction," where new innovations or technologies displace previous production methods, which displace previous modes of economic production. The engine of innovation is the entrepreneur, the agent who fosters new ideas and brings new products, processes, and artistic works to market that exploit profitable trading opportunities to create new markets. Because these innovators are frequently not the same as individuals who accumulate excess funds, behind most entrepreneurs is the entrepreneurial financier, or the agent left to evaluate which new products should be brought to market, who finances successful entrepreneurial ideas with seed capital until budding ideas blossom into fully functioning products (Bodenhorn, 1999). Students of capitalism, Greenspan and Wooldridge emphasize creative destruction's role in market processes and invoke it throughout American economic history.

The American founders saw the importance of innovation and built it into early American founding documents. However, when new products are brought to market, existing traders and unsuspecting speculators are unable to accurately price such innovations, which leads to irrational exuberance. These are periods when new product's actual prices exceed unknown intrinsic values, or that period when bubbles are more likely. At the other end of the innovative cycle is the period of decline, when mature economies lose their vigor, and as Alvin Hanson predicted, economic growth declines in advanced economies because demographic and economic structures mature, which leads to secular stagnation. In the history of economic thought, these three themes—creative destruction, irrational exuberance, and secular stagnation—are core economic theories that Greenspan and Wooldridge use to weave dynamic periods in US economic growth, such as the second half of the 19th century with spurts of rapid economic growth, accompanied by periods of financial crisis.

The early economic history chapters are loosely organized into market dynamism in technology, industry, factor markets, and institutions, such as legal arrangements and organizational structure. Traditional economic history emphasizes the 18th through 19th century's Agricultural, Industrial, and Transportation Revolutions, and US economic history is partitioned into these research clusters. Greenspan and Woodridge weave together a well-written, informed narrative about how market forces and the dynamism of creative destruction are cornerstones of US market development.

Alfred Chandler's 1976 Pulitzer Prize winning book *Managerial Capitalism* emphasizes the history and role of firm structure in US economic development. Characteristics of the modern firm are the separation of ownership from management, the development of specialized units within firms that perform specific tasks, and efforts to take advantage of economies of scale. Reflecting Chandler's insights, Greenspan and

Wooldridge use the device of institutional evolution to reflect how the modern firm evolved simultaneously with US economic history. Where new products and markets developed, budding firms were essential with entrepreneurial efforts. Astor had the Northwest Company. Vanderbilt had the Accessory Transit Company (Stiles, 2007). Rockefeller had Standard Oil (Chernow, 1998). Carnegie had US Steel (Nasaw, 2007). Ford had his Motor Company. Contemporary entrepreneurs of Gates, Jobs, and Bezos have Microsoft, Apple, and Amazon. So, throughout US economic development, it is difficult to separate iconic entrepreneurs from their iconic companies. Much of contemporary economic history emphasizes more traditional areas, like agricultural and transportation revolutions, frequently to the detriment of a more eloquent narrative. However, Greenspan and Wooldridge weave the rise of the modern firm into economic history, creative destruction, and the dynamism of market forces.

In a surprise but natural diversion from their tale of markets in US economic history, Greenspan and Wooldridge address policy makers and periods they believe took American economic history down the wrong paths, away from capitalism and market efficiency. During the Great Depression, output decreased and unemployment rolls swelled. National and International calls for socialism followed. In the United States, segments of the population doubted capitalism's ability to deliver economic benefits associated with a modern industrial economy. Ten years prior to the onset of the Great Depression, a depression subdued US agriculture, which led to agricultural displacement. Rex Tugwell and Franklin Roosevelt went so far as to model the US agricultural system on the former Soviet Union's agricultural sector's five year plans (Schlaes, 2008; Kennedy, 1999). Lyndon Baines Johnson went further to expand the social safety net and save individuals from the fear created by markets and creative destruction. However, Greenspan and Wooldridge take issue with Roosevelt and Johnson's revolutions in that they interfered with markets and prevented creative destruction. Later in their evaluation of markets and challenges that markets face, Greenspan and Wooldridge boldly contrast the dilemmas created by unfunded entitlement programs created by Roosevelt and Johnson. As larger fiscal deficits and labor market disincentives distort real economic activity, social entitlements and unfunded liabilities threaten creative destruction, which is a profound indictment on two previous presidents from Alan Greenspan, one of the most influential economic thinkers and policy advocates in modern times.

Nevertheless, from 1987 through 2006, as US Federal Reserve Chair, Greenspan's free-market record is not unblemished. There are competing views on the causes of America's 2008-2010 Great Recession, but the underlying facts are mostly agreeable. A host of institutional factors failed in the early 2000s. To prevent the US from sliding into a recession after the dot-com bust, the Federal Reserve kept interest rates inordinately low in the late 1990s and early 2000s. The Security and Exchange Commission failed to regulate securities markets. Private sector credit rating agencies failed to appropriately rate collateralized mortgages associated with the housing market. The Federal Reserve kept key interest rates too low for too long. Bank regulators—captured by bankers—failed to exercise appropriate oversight over derivatives markets and mortgage lending (Johnson, 2010). Brooksley Born and Shiela Baird warned of credit risks associated with the US banking sector's use of derivatives and over reliance of unfettered financial markets. Greenspan stood idly by, and his faith in unfettered markets with his overwhelming stature as Federal Reserve chair drowned out legitimate decent that may have curbed speculation with the 2008 US housing market collapse. Before 2008 and the early financial crisis, Greenspan maintained his faith in free-market liberalism and his belief that markets were self-regulatory, that markets were sufficiently efficient and transparent that large-scale financial market disruptions were not possible. Nonetheless, the 2008-2010 financial crisis occurred, markets did not see through perverse financial market participant's actions. Alan Greenspan—with his unfettered belief in unfettered markets—did not recognize or prepare the US economy as Federal Reserve chair against the largest financial market disruption since the Great Depression. He was not alone. During much of his Federal Reserve administration, Greenspan was known for overly accommodative monetary policy—the Greenspan put—where the Fed was fast to accommodate financial market participants with bond purchases that favored large financial institutions. Moreover, while *Capitalism in America* addresses an abundance of not-fully identified potential causal explanations for the 2008 financial crisis, it does not seriously consider the role that the US Federal Reserve had in the crisis, which is a significant omission in a US economic history book. The omission and de-emphasis of the Federal Reserve's potential roll in 2008's financial crisis is sobering and mistaken.

Where do we go from here? Greenspan and Wooldridge consider the role of declining favorable US demographics and market orientation. Entitlements are considerable threats to the future vitality of US economic progress. Deficit spending looms large as obstacles for future US economic vitality. Nonetheless, across developed economies, the US demographic structure remains favorable, entitlements—while a real threat—remain manageable, and a large US debt has to be put in context of negative real interest rates, which indicates world financial markets favor more US debt as opposed to less.

It does not matter what one thinks of Alan Greenspan's role in the 2008 World economic crisis. *Capitalism in America* is a well-written, clear minded history of markets in US history. Although a policy economist, like Marx and Schumpeter, Alan Greenspan is a student of capitalism. Greenspan and Wooldridge's broad application of economic principles enlightens our understanding and appreciation of capitalism.

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