

# Alan Greenspan's prescription for American decline

An exhilarating history of US capitalism from the former Fed chief and Adrian Wooldridge

October 15, 2018



© Getty

This co-authorship combines an unlikely pair. The “maestro” is 92-year-old Alan Greenspan, not only the second-longest-serving chief of monetary policy as chairman of the [Federal Reserve](#) for 18-plus years, but also a life-long student of American capitalism as a provider of economic forecasts and advice. But Greenspan's legacy at the Fed of inscrutable statements designed to obscure the intent of monetary policy makes him a most unlikely creator of an accessible economic history.

This is where Adrian Wooldridge comes in, author of nine previous books and one

of the anonymous team of writers at The Economist. This book snaps, crackles and pops with a sustained Economist-quality writing style, mixing a clear set of themes on the evolution of the [American project](#) with a full plate of anecdotes, mini-biographies, and pithy quotes from both well-known and obscure sources.

Three themes are highlighted — productivity as the measure of economic progress; the “Siamese twins of creation and destruction” as the sources of [productivity growth](#); and the political reaction to the consequences of creative destruction. This triplet fosters a unique blend of economic, business, and political history. Readers are warned to expect a heavy dose of politics: “anyone who regards economic history as history with the politics left out is reading the wrong book.”

The narrative interplay between business success and failure and the changing forms of government’s response make this a “top-down” history. We follow companies newly formed and long-established — from Eli Whitney and his cotton gin to Jeff Bezos and Amazon — sometimes ignored but frequently overregulated by occupants of the Oval Office. Seldom do we get a “bottom-up” account — the passages on economic [progress](#) as experienced by ordinary people, while evocative and colourful, are few and far between. The most notable lapse is the near-total absence of any mention of the fact that inequality has soared since the late 1970s.

*Capitalism in America* begins with an inspired leap of the imagination as the world’s elite of 1620 convene in [Davos](#). Wrapped in their national costumes of the day, the Chinese, Turks, Spaniards, and Britons argue about which among them will be the dominant power of the coming centuries. “In all of the arguing in Davos, one region goes unmentioned: North America. The region is nothing more than an empty space on the map.”

Soon we are immersed in an account of the heady days of post-1776 expansion in a nation blessed with infinite resources and an immense ratio of land to people. Rapid growth alternated between waves of boom and bust marked by frequent financial crises. The split nation of north and south contrasted New England inventiveness with the irony that Whitney’s cotton gin made slavery more profitable and fuelled its territorial expansion. A centrepiece is the “binary dispute

between industrial modernisers and agrarian slaveholders” personified in the alternative visions respectively of Alexander Hamilton and Thomas Jefferson.

*Profit-rich American corporations have chosen to pay higher dividends and buy back shares instead of investing for long-term growth*

The great post-civil-war expansion featured the “giant sucking sound” of millions of immigrants being drawn in from Europe as the ever-expanding railroads, enjoying massive government subsidies in the form of free land, in turn subsidised the new arrivals so that they would populate the west. Mini-biographies of [Carnegie](#), Rockefeller,

and other tycoons contrast their creative ruthlessness with their philanthropy. “These great entrepreneurs earned their place in history not by inventing new things but by organizing them.” Ever downward went the price of steel, oil, and with Henry Ford’s assembly line, the price of mobility. Yet, only a page or two reckons the human cost of underpaid labourers, including the consequences of malnutrition. And the workers shot in the back by Carnegie’s company-hired paramilitaries during the Homestead Steel lockout of 1892 or in other episodes of labour unrest receive no mention at all.

In the “revolt against laissez-faire” of the 1900-1920 progressive era, trusts were busted, food and drugs were regulated, women gained the vote, and the Fed was established. Economic growth soared in the 1920s under the impact of electric machines in reconfigured factories. Calvin Coolidge, president from 1923-29, briefly emerged from his silence to declare that “ordinary people would hardly notice if the federal government went out of business.” Looming trouble — “serpents in this paradise” — appears in the form of ballooning consumer debt and restrictive immigration laws.

The descent into the Great Depression is colourfully described — “the Union League club had a room wallpapered with worthless stock certificates.” Overhanging debt squeezed economic activity in a downward spiral of deflation,

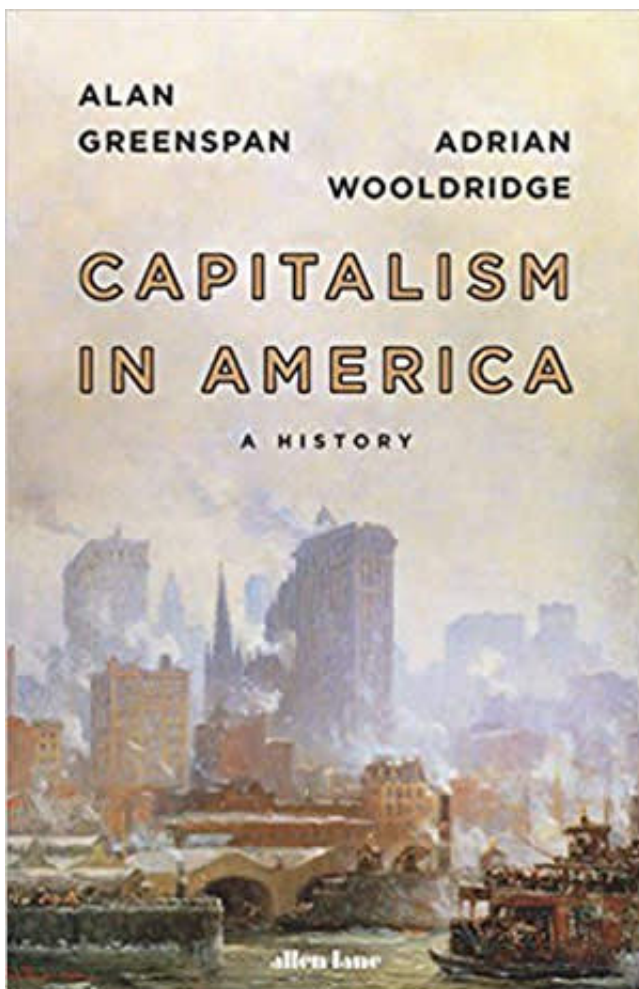
while America's fragile and atomised banking system suffered 25,000 failures. The [Smoot-Hawley](#) tariff of 1930 stifled trade and invited retaliation, while the Fed was paralysed. Missing in this account was the regulation laxity of allowing investors to buy equities with only a 10 per cent down payment that pumped up the 1928-29 stock market bubble and hastened its collapse.

The book's conservative tilt first emerges in its treatment of President Franklin Delano Roosevelt, who is grudgingly admired as a politician, salesman, and wartime leader. His New Deal is criticised for centralising power in Washington with an alphabet soup of new agencies and for creating a social security entitlement that was not fully funded. FDR's attempts to revive the economy are viewed as a failure in light of the devastating second depression that occurred in 1937-38.

Instead, the Great Depression finally ended with the explosive growth of military expenditures starting in mid-1940. The authors paint a masterful portrait of the second world war production miracle, blending tales of Ford's Willow-Run plant and Henry Kaiser's west coast shipyards with obscure achievements such as the doubling of America's stock of machine tools between 1940-45.

The "golden era" of postwar America with its baby boom and world dominance is viewed as the creation of Harry "no experiments" Truman and Dwight "limited government" Eisenhower. The socialism that condemned Britain to decades of slow growth was wisely avoided, while America took the lead in rebuilding war-torn Europe and establishing the institutions of globalisation. Eisenhower's supreme achievement of the interstate highways formed "the nation's commercial and cultural grid, binding its regions, bridging its dialects . . . they've insinuated themselves into our slang, perception of time and space, our mental maps."

Most histories end the golden age in 1973 with the oil crisis and the breakdown of the Bretton Woods system. But here the Johnson presidency of the 1960s is treated as a precursor of the stagflation of the 1970s. LBJ is chastised for over-reach, particularly in the form of the 1965 creation of the Medicare entitlement: as one quoted observer quips "he adopts programs the way a child eats chocolate chip



cookies”. There is no recognition that Medicare was a blessing to an elderly population thereafter freed from health insecurity and medical bankruptcy.

The “Age of Optimism” begins with the inauguration of Ronald Reagan, who is praised for breaking the unions, continuing Jimmy Carter’s legacy of deregulation, and achieving the most substantial tax reform since the first world war, leading to a “rebirth of business optimism”. Yet the authors’ devastating indictment of the complacency of US business and its lack of attention to quality undermines their upbeat portrait of the 1980s. German and Japanese auto imports squeezed the Big Three of Detroit, while Japanese firms took over the market

for consumer electronics.

Reagan does not escape criticism, as he allowed the nominal national debt to triple, and it is Bill Clinton who receives praise for reducing the debt and reforming welfare. The book is at its best in profiling the rise of Silicon Valley and the “electronic frontier,” the role of the defense department in the origins of the internet, and the rebirth of American entrepreneurship that led to today’s global dominance by Apple, Google and their corporate brethren.

What of the [great financial crisis](#)? The authors’ account combines the growth of derivatives and securitisation and their interplay with subprime mortgages in an environment of complacency because the financial world had been stable for so long. Greenspan argues against blaming his Fed’s low 2003-05 interest rates for the housing bubble and bust, pointing to a worldwide saving glut that pushed down long-term interest rates. Not mentioned are the regulatory levers his Fed could

have used to dampen the housing bubble.

The book ends with an America in decline. Greenspan and Wooldridge recognise that “more Americans are living better lives than ever before” and paint a stunning portrait of the multi-dimensional improvement in living conditions since the late 19th century. Otherwise the omens are bleak. Productivity growth since 2010 has slowed to a trickle, creative destruction is drying up, [business dynamism is fading](#), labour mobility is ossifying, and business concentration is rising as firms protect themselves with “all sorts of walls and moats.” Besides overregulation, the underlying evil is the growth of entitlements, which crowd out investment spending which in turn pinches productivity growth. The solution is to follow Sweden by moving from a defined-benefit system toward a defined-contribution plan, while indexing the retirement age to rising life expectancy.

But Sweden stands for much else that the authors ignore — a regime of greater security for ordinary people with medical care and parental leave provided as rights of citizenship, financed by higher taxes, together with less inequality. Further, to blame entitlements for the slump of private investment ignores the fact that the crowding-out mechanism works through high interest rates, whereas actual rates have been historically low. Instead, profit-rich US corporations have chosen to pay higher dividends and buy back shares instead of investing for long-term growth.

Readers will emerge from this heady blend of economic, business, and political history with a sense of exhilaration that so much of the American experience could be described so vividly and insightfully, but many will prefer a different portfolio of policy prescriptions.

[Capitalism in America: A History](#), by Alan Greenspan and Adrian Wooldridge, Penguin Press, RRP\$35/Allen Press, RRP£25, 486 pages

*Robert Gordon is professor of economics at Northwestern university and author of ‘The Rise and Fall of American Growth’*

*Join our online book group on Facebook at [FTBooksCafe](#). Subscribe to [FT Life](#) on YouTube for the latest FT Weekend videos*