THE EVOLUTION OF AMERICAN CAPITALISM

PUBLISHED ON PROJECT SYNDICATE ON AUGUST 27, 2021

Although the American economic system has undergone significant change since colonial times, there are identifiable threads running through the centuries-long narrative. Chief among these are the themes of "liquidity" and state action – both of which can either be a blessing or a curse.

Jonathan Levy, *Ages of American Capitalism: A History of the United States*, Random House, 2021.

CAMBRIDGE – Jonathan Levy, a historian at the University of Chicago, is a leader in the burgeoning movement to place capitalism at the core of the American experience. His major new work provides a framework for reading American history over 400 years and a set of themes for explicating its conflicts and crises. *Ages of American Capitalism* is an outstanding work of scholarship and storytelling.

The "new history of capitalism" has been motivated in good part by the 2008 global financial crisis. The crisis demonstrated the impact that financial events could have on the real economy, thereby exploding the prevailing macroeconomic doctrine that treated such events as literally inconceivable. Levy is one of a number of generally younger historians whose work is available to enrich the ongoing construction of a macroeconomics that integrates the behavior of financial markets and institutions.

The new history he delivers is different in kind from much that has gone before. It roots the "maps and chaps" of conventional historical narratives in the muck of economic life and the

fantastic visions of financiers. It is a history constantly informed by what is happening in markets for goods, services, labor, and – especially – financial assets, but with the structure and movements of markets always understood to be shaped by political forces.

Levy's book demonstrates the power of grand, synthetic history at its best. History of this kind is always subject to criticism for what it leaves out, particularly instances that might illustrate or call into question the historian's argument. But, whereas much of American history's energy in recent years has come from accounts that deliver the experience and the perspective of the exploited or the merely ignored – history from the bottom up – that is not the engine moving this narrative.

Levy draws on the work of the originator of macroeconomics, John Maynard Keynes, from whom he takes his central theme of "liquidity," the defining attribute of money that enables its owner to effect transactions in goods and services ("transactional liquidity"), hoard resources for fear of an uncertain future ("precautionary liquidity"), and speculate on the appreciation of asset prices ("speculative liquidity"). It is the flux and reflux of liquidity within financial markets and between those markets and state agents and entities that drives *Ages of American Capitalism*, and have shaped how Americans have worked, earned, consumed, and invested – and protested and voted – over 400 years.

THE AGE OF COMMERCE

Levy structures his book around four "ages." The first, Commercial Capitalism, emerged in the colonial seventeenth century and broadly persisted until the Civil War. British mercantilism initially encouraged the growth of commerce, which gradually pulled colonists from subsistence farming into increasing dependence on market exchanges. A political economy of property – land and people – developed along a north-south axis, mediated by the rivers of the Mississippi system.

As he explores the multiform interactions between markets and political processes, Levy builds on one of the main achievements of the new history of capitalism: its in-depth investigation of "slave capitalism" and its interdependence with northern commercial and nascent industrial capitalism. Even as industry, led by textiles, appeared in New England and spread to the old northwest, the internal market in, and ownership of, slaves enabled the cotton kingdom to expand south and west.

In 1860, Levy notes, the value of property in slaves was three times the value of all US industrial capital. The expansion of slave capitalism thus drove the politics of the Age of Commerce. Not only was this evident in a succession of national compromises – the Missouri Compromise of 1820, the Compromise of 1850, and the Kansas-Nebraska Act of 1854; it also led to a rejection of Henry Clay's effort to re-animate Alexander Hamilton's vision of a federally funded "American System" of infrastructure investment. Levy aptly reports the warning of a North Carolina congressman: "If Congress can make canals, they can with more propriety emancipate" the enslaved.

From the Revolution to the Civil War, the defense of slavery meant that funding for "internal improvements" was overwhelmingly left to the states. Canals and turnpikes extended the market and, as Adam Smith had predicted, induced higher productivity through intensification of the division of labor. Growing internal-market demands, in turn, motivated more investment in northern manufacturing, supported by the one element of the Hamilton-Clay program that survived southern resistance: protective tariffs. And exports of slave-produced cotton, along with waves of speculative capital from London, funded the imports that domestic producers could not yet provide.

A turning point in the Age of Commerce came in 1832, when Andrew Jackson mobilized "the Democracy" against the East Coast capitalists and vetoed extension of the Second Bank of the United States. An era of "wildcat banking" followed, with state-chartered banks springing up, subject to no effective supervision and devoid of recourse to any lender of last resort.

The financial fragility that accompanied economic growth in the new nation highlights the role of confidence as what Levy describes as "the emotional and psychological mainspring of economic activity." Levy brilliantly illuminates this theme by invoking P.T. Barnum's exploitation of suckers and Herman Melville's 1857 novel, *The Confidence-Man.* By then, American capitalism had arrived at a point that made Melville ask: "What would happen if economic life – nay, life itself – were nothing more than a running series of commercial transactions in pursuit of pecuniary gain?"

Levy uses Melville to limn the contradictory dynamics of "capitalist cycles of boom and busts, just emerging in his day." While "speculation can lead to genuine capitalist investment booms" – what I have termed "productive bubbles" – "individuals can also succumb to the temptations of short-term speculation alone." And in Melville's central character of the miser who hoards "the hard currency of gold for precautionary… reasons," Levy finds the final contradiction that liquidity offers: the excessive "liquidity preference" that Keynes identified as

the source of prolonged economic slumps.

The Age of Commerce ended when conflict between the expanding slave economy and an expanding industrial economy could no longer be managed through compromise. The North's increasing investment in physical assets had fueled the development of a railroad network from the East Coast to the Great Lakes and beyond. When war finally broke out, the North's infrastructure for moving men and munitions radically exceeded that of the South.

The Union's victory in the Civil War ended 250 years of chattel slavery in the territory of what had become the US. Here, Levy cites economists Mary and Charles Beard's observation that emancipation represented "the most stupendous act of sequestration in the history of Anglo-Saxon jurisprudence." If human beings could no longer be capitalized into economic wealth, where would capitalism turn next?

THE AGE OF CAPITAL

What followed was industrialization on a scale never previously imagined. Railroads fundamentally changed the country's economic geography – shifting the north-south axis to an east-west one – while a reduction in transportation costs enabled new economies of scale as specialized manufacturing reached markets that were now national in scope.

One shortcoming of Levy's discussion of the post-Civil War industrial economy is that he misses an opportunity to put earlier economics-driven historical analyses in their place. Almost 60 years ago, the Nobel laureate economist Robert Fogel set out to extract the American railroad network from the statistical economy of 1890. On the critical assumption that the resources invested in building railroads would otherwise have been fully employed in extending canals and improving roads, Fogel concluded that the "social saving," or incremental reduction in transportation costs, that the railroads provided was trivial – on the order of 2% or less of national income.

Since then, economists have shown that the railways had an economic impact orders of magnitude above what Fogel's "cliometric" analysis found. For example, Dave Donaldson and Richard Hornbeck note that, "Removing all railroads in 1890 is estimated to decrease the total value of US agricultural land by 60%, with limited potential for mitigating these losses through feasible extensions to the canal network or improvements to country roads." Hornbeck returned to the subject with Martin Rotemberg, this time to examine the increases in manufacturing productivity consequent on gaining market access through railroads: "We estimate that US aggregate productivity would have been 25% lower in 1890, in the absence

of the railroads, with an associated annual loss of $3 billion or 25% of GDP."

I linger on the railroads and their central role in the Second Industrial Revolution for three reasons. First, it is important to highlight the kind of quantitative economic history being done by Donaldson and his co-authors, where data is subjected to causal interrogation. The "empirical turn" in the economics discipline is not only liberating economists from the neoclassical fixation on efficiency as the sole criterion for evaluating market outcomes. It is also offering historians rigorous frameworks in which to anchor their narratives.

Make your inbox smarter.**SELECT NEWSLETTERS**

The second reason to focus on the advent of the railroads is that, as Levy explains, "a new industrial investment multiplier" now complemented Adam Smith's "commercial multiplier" in driving economic growth. It was no longer just the increased extent of the market that mattered. Railroads needed steel, and steel production depended on coal. But with this expanded production came additional materials for industrial and commercial construction. Levy might therefore have gone one step further and recognized mail-order retail – invented and delivered by Montgomery Ward and Sears Roebuck – as the railroad era's "killer app" that created a truly national market for consumer goods of all sorts.

The third reason is to highlight the much richer context in which Levy situates his discussion, compared with Fogel. Using the contrasting life histories of the financier Jay Gould and Andrew Carnegie, the reformed investor turned industrialist, Levy shows how the Second Industrial Revolution was finely balanced between speculation and productive investment, with corruption deepening the interdependence between markets and politics. And this dynamic played out at the same time that emancipation was being betrayed – a development happening "offstage," but certainly not beyond Levy's reach.

GILDED GREED

Onstage, following emancipation, the political economy of property was transformed into the political economy of income. Industrial workers and organized farmers began to contest for larger, more consistent shares of the rising value-added being generated by industrial capital and claimed by its owners. Carnegie's defensive response to this was philanthropy – a story well documented by Levy. But while Carnegie was funding public libraries, his subordinate Henry Clay Frick was mobilizing the Pennsylvania Militia to shoot down strikers at Carnegie's Homestead Steel Works.

The attempt to create a farmer-labor alliance against capital focused on the gold standard as both the symbol and engine of international financial discipline. The 1896 election represented the triumph of the first great wave of globalization – resulting from the confluence of new transportation (railroads, steamships) and communication (telegraphy) technologies – over populist domestic politics. Yet even as income and wealth inequalities reached their peak, there were indications that unbridled capitalism could generate political responses that represented some aspects both of regulation and of insurance from outside the market.

For example, the 1887 Interstate Commerce Commission (ICC) was created in response to agrarian outrage at the rate-setting power of the railroads and their corruption of local, state, and federal legislatures in pursuit of land grants. Ironically, as we shall shortly see, it also served to defend the railroads from themselves. Then, the 1913 Federal Reserve Act belatedly confirmed that President Abraham Lincoln's National Bank Act was utterly inadequate as a bulwark against the persistent boom-bust, speculation-hoarding cycles that had continued to animate industrial capitalism.

The Age of Capital's climax came between 1895 and 1904, and expressed itself in the Great Merger Movement, the unprecedented consolidation of some 1,800 industrial firms into 157 corporations organized as trusts to evade the common law prohibition of cartels. Levy correctly documents the revolution in the means of valuing businesses that accompanied (and rationalized) the trust movement. Businesses had previously been valued based on their historic record of paying dividends to their shareholders. But now, they were to be valued on their prospective earning – and thus dividend-paying – power.

The first wave of this phenomenon, as Levy notes, began when J.P. Morgan's bankers took control of railroads that were facing default on debts that the bank had sold to its clients. But, surprisingly, Levy does not address the underlying logic that explains why the railroads, followed by enormous swaths of mid-scale manufacturing industry, needed to be recapitalized and consolidated.

The railroads exemplified network economics: enormous, debt-financed investment is required to yield a service whose marginal cost approaches zero for delivering the incremental seat-mile or ton-mile. The same logic applies to telegraphy and telephony, electric power generation and distribution, cable television, and internet connectivity. Under competitive conditions in these industries, prices will tend toward marginal cost, which is necessarily less than the average cost after accounting for debt service. All competitors lose money.

Beyond these technology-enabled service industries, the communications and transportation

innovations that enabled the first great globalization radically intensified competition within vastly expanded markets across virtually all manufacturing sectors. Hence, the railroads and many other industries had an existential need to restrict competition and amass enough market power to raise prices above marginal cost.

While the ICC represented the political legitimization of this solution for the railroads, the trust movement invited antitrust intervention by the state. But regulated or not, the monopolies built during the Gilded Age could not freeze technological innovation or stop the process of Schumpeterian creative destruction. The power of the railroads would eventually be undermined by automobiles and the trucking industry, operating on – and therefore subsidized by – the most economically important infrastructure solely financed by the state: roads and highways.

Levy accounts for the variable of innovation as he moves from the trust movement to a detailed analysis of "Fordism," the moving production line that became an industrial religion in the years before, during, and after World War I. In direct contrast with the defensive, financially driven restructuring of railroads and established manufacturing, Henry Ford the man and Ford the company rejected dependence on outside sources of capital, presenting an aggressive model of self-financed industrialization that could only rarely be emulated.

Levy passes swiftly through the great bull market on Wall Street, and thus largely misses the productive bubble within the boom that accelerated electrification, the second great deployment of transformational, technologically innovative network infrastructure after the railroads. On the international front, he recounts the ignorance and indifference with which the US emerged from World War I, incapable of accepting the responsibilities that attended its status as the world's dominant economic and financial power.

Nemesis, in the form of the Great Depression, soon followed. Levy's invocation of Keynes in his opening pages now resonates when he identifies the liquidity trap into which the economy sank. "Paradoxically," he notes, "the Great Depression could not have happened a century earlier." Only in an economy with so much of its wealth denominated in money – in contradictory fashion, both a potential means of investment in production and a potential store of value that saps production – could a crash have such collapsing economic effects.

THE AGE OF CONTROL

As a systemic loss of confidence threatened the liquidation of capitalism itself, the Age of

Capital yielded to the Age of Control. Barely a week after taking office, in his first fireside chat, US President Franklin D. Roosevelt banned the private export of gold and announced a national bank holiday. Only "sound" banks would be allowed to reopen, and, as they did, the national bank run was reversed: cash flowed back into deposits. The volatile dynamics of liquidity, central to Levy's fundamental argument, were tamed by an exogenous source of confidence emanating from the White House.

The "early pivot" of economic recovery, according to Levy, was Roosevelt's decision to abandon the gold standard, freeing the US from its "golden fetters." But Levy fails to mention that Roosevelt went further than that, formally rejecting the international cooperation sought by the June 1933 London Conference, which would have subjected US domestic policy to deflationary international constraints. Instead, Roosevelt made an explicit and demonstrable commitment to inflation, and that proved sufficient to break "deflationary expectations and [lead] to a recovery of spending of all kinds."

Levy analyzes the Roosevelt administration's response to the Great Depression along two dimensions: regulatory and developmental. The New Deal's regulatory initiatives both constrained business behavior and, by formally sanctioning trade unions and establishing a national minimum wage and the Social Security system, shifted the terms of the political economy of income. The developmental initiatives also operated through two channels: state-funded public corporations supported private-sector companies while new federal agencies invested fiscal resources directly into the construction of public assets.

Levy might have paid more attention to what at the time appeared to be the New Deal's centerpiece: The National Recovery Administration. The NRA proposed to bring order to American industry, while a companion institution, the Agricultural Adjustment Administration, was to do the same for the farm economy. But both institutions reflected the profound confusion of conventional pre-Keynesian economics. Their architects looked out at mass unemployment and collapsing prices and sought salvation on the supply side of the economy. The idea was that by restricting production, state interventions in the market economy could raise prices, restore profits, and effect a recovery.

Keynes himself sought to intervene in this policy debate. And though he had already recognized that a shortfall of aggregate demand was the source of economic collapse, his political judgment was deficient. In an open letter in late 1933, Keynes saw that governments faced the double task of "Recovery and Reform." He urged Roosevelt to defer reform and "not upset the confidence of the business world," believing that a successful recovery would create

"the driving force to accomplish long-range Reform." Fortunately, while Roosevelt's understanding of economics was primitive, his political instincts were sound. He saw that only in a crisis could radical reforms be enacted.

In 1935, the Supreme Court declared the NRA and other New Deal interventions unconstitutional. By denying that the federal government had the authority to respond to the crisis, the Court transformed a policy fiasco into a popular political rallying cry. When the incipient recovery appeared to stall, Roosevelt responded to the Court's challenge by launching the substantially more radical "Second New Deal" of 1935, encompassing the Social Security Act, the National Labor Relations ("Wagner") Act, the Banking Act of 1935, the Rural Electrification Administration, and the Public Utilities Holding Company Act. Contrary to Keynes, recovery and reform marched hand in hand to the tune of FDR's radical rhetoric against "economic royalists."

In the event, the recovery resumed in time for FDR's landslide victory in 1936. Levy works his way through the complex, frustrating dynamics of politics and economics in Roosevelt's second term. While the economy had recovered to 1929 levels, it remained manifestly fragile. When Roosevelt yielded to Secretary of the Treasury Henry Morgenthau and others who were calling for a return to balanced-budget orthodoxy, the result was the "Roosevelt Recession" of 1937-38.

But Roosevelt then followed the proto-Keynesian advice marshaled by US Federal Reserve Chair Marriner Eccles. With the Public Works Act of 1938, he presided over the first deliberate act of deficit spending in peacetime American history. By the time Hitler started World War II, a renewed US economic expansion was already taking hold.

FROM WAR TO GOLDEN AGE

The fall of France in June 1940, 18 months before the Japanese attack on Pearl Harbor, triggered the massive commitment to rearmament that definitively ended the Depression. The Roosevelt administration implemented far more extensive controls of business and launched a powerful new type of public-private partnership: federally funded "government owned/contractor operated" defense plants. Even while the armed services argued over priorities – planes versus landing craft versus tanks – the war was won on the momentum of production.

In contrast with World War I, inflation this time was substantially constrained. With business's contribution to victory having restored its political standing, politics in the

immediate post-war years was dominated by the first efforts to end the Age of Control. The Republican-controlled Congress elected in 1946 made a bonfire of residual wartime controls. More strategically, it passed the Taft-Hartley Act in 1947, substantially weakening the Wagner Act's pro-union provisions. While it took a generation, allowing individual states to enact "right to work" laws enabled the liquidation of private-sector unions.

Levy accurately charts the continuation of the Age of Control in the sphere of international finance. At Bretton Woods, the senior representative of the new hegemon, Harry Dexter White, was in full agreement with Keynes, his counterpart representing the previous hegemon. They concluded that international financial stability required limits to short-term capital movements, and that a return to free trade in goods between markets linked by "fixed but adjustable" exchange rates would require capital controls.

Domestically, American capitalism enjoyed a golden age after the war. A sustained boom in industrial investment was matched by a rise in mass consumerism and underwritten by an extension of Big Government from the nascent welfare state of the New Deal to the full-blown warfare state of the Cold War. But the golden age dissolved in what Levy properly calls the "ordeal" of the 1960s.

US President Lyndon B. Johnson's mission to renew the New Deal and, especially, to address its exclusion of African-Americans, ran aground in the self-initiated tragedy of Vietnam. The legislation of the Second Reconstruction did establish a framework for advancing civil and voting rights; but as Johnson clearly foresaw, it also transformed the South from solidly Democratic to Republican. Race would remain a central pole of American politics.

Looking back, it is difficult to grasp the pretensions of policymakers at the time. I graduated from Princeton University's School of International and Public Affairs in 1965. I had been taught that all public problems were management problems, and that we were now equipped with all the necessary tools for addressing them. But in the second half of the 1960s, I, along with the rest of the world, watched this assumption turn to dust. The Age of Control began its passage into what Levy calls the Age of Chaos, even as economic theory, and its influence on policy, underwent a radical transition.

The post-war golden age was complemented by the "neoclassical synthesis" formulated at MIT by Paul Samuelson and Robert Solow. This held that at the macro level, Keynesian demand management policies would ensure that all resources are fully employed; and that at the micro level, competitive markets would efficiently allocate those resources among competing demands, fairly distributing the resulting income to the factors of production in

proportion to their (marginal) contribution. 1

But the new, nominally liberal economics abstracted from the actual power relationships in markets, especially the labor market, and thus contradicted much of the original rationale for the New Deal's regulatory initiatives. It also left a hole in the foundations of theory – one that was exploited by the University of Chicago school of economists, led intellectually by Robert Lucas, and masterfully publicized by Milton Friedman. They argued that Keynesian macroeconomic theory had no "microfoundations" to link it to the utility-maximizing activities of individual, presumptively rational market participants.

A concatenation of events in the early 1970s generated a chaotic decade. The dollar shortage of the immediate post-war period became a dollar glut, fed by growing balance-of-payment deficits, as US manufacturing dominance was eroded by the competitive recoveries of West Germany and Japan, and by the unfunded expenditures on the Vietnam War. In 1971, the US recorded its first actual deficit in trade, and the Bretton Woods system collapsed. The interwar chaos of unconstrained capital flows returned. Two years later, OPEC effected a fourfold increase in the price of oil. As companies fought to maintain profit margins, and as unions fought to maintain real wage levels, inflation rose along with unemployment. This "stagflation" discredited both the Keynesian neoclassical synthesis and the liberal state.

Even before Chicago School economics was welcomed into the White House, Democratic President Jimmy Carter initiated the generation-long process of liquidating the regulatory institutions originally devised to constrain the power of concentrated capital. One of the New Deal's central achievements had been to align real wages with productivity growth. But from the 1970s on, this alignment ended. Even as productivity continued its upward trend, compensation below the top 10% began to stagnate. When President Ronald Reagan proclaimed in his first inaugural address that, "Government is not the solution to our problem, government is the problem," the Age of Control was definitively over.

THE AGE OF CHAOS

Levy might well have called his fourth Age of Capitalism the Age of Finance. From 1980 on, the dominant phenomenon of American capitalism, shared with the United Kingdom but much less so with other developed countries, has been the pyramiding of financial assets on the underlying cash flows generated in the real economy. Levy captures the consequences for the political economy of income: "The financial appreciation of the asset…generated

pecuniary income. Income growth thus shifted from labor to the owners of… the appreciating asset."

The inflation of the 1970s was reined in by Carter's last Fed chair, Paul Volcker, who hiked interest rates to historically unprecedented levels in both nominal and real terms. With acute insight, Levy traces the real consequences of the Volcker Shock both at home and abroad. Volcker's interest rates pulled liquid capital to the US, driving up the value of the now-floating dollar, deepening the US trade deficit, and accelerating the hollowing out of America's manufacturing industries. The sharp recession reversed itself quickly, but the structural change in the US economy, and in its international position, lasted for at least a generation.

The US thenceforth became the "consumer of last resort," while manufacturing dominance moved first to Germany and Japan and then increasingly to China. US employment in non-tradable services soared, as did income inequality and, even more, wealth inequality. What George Soros later dubbed the "super-bubble" took off. Liquidity provided by the Fed reversed the one-day crash of 1987 in its tracks and protected financial markets from twin shocks – the collapse of the hedge fund Long-Term Capital Management and the "Asian Flu" financial crisis – at the end of the century. Confidence in the bull market's perpetuation became informally institutionalized in Fed Chair Alan Greenspan's "put": the expectation that the Fed would protect asset values and the real economy whenever they were threatened.

Within the super-bubble of ever-rising debt, a genuine productive bubble emerged in the second half of the 1990s. The dot-com bubble reflected the maturation of the digital technologies that had been nurtured by the US Department of Defense since WWII. The internet's incipient commercialization heightened investor anticipation and led to the unsustainable capitalization of the next "New Economy" (not unlike the New Economy of autos and electricity transiently celebrated in the 1920s). When the bubble burst in 2000, the Fed duly stepped in once again.

Levy's narrative skills are well deployed in recounting the excesses of financialization, from the first leveraged buyout (LBO) boom engineered by Mike Milken in the 1980s to the "truthful hyperbole" of the reincarnation of Melville's confidence man in the person of Donald Trump. Unlike Trump, and unrecognized by Levy, Milken did leave some productive assets behind. His method of selling high-yield (or "junk") bonds was judged criminal in federal court, but Milken not only funded corporate raiders and LBO financiers; he also financed the deployment of cable television and cellular networks across the country.

For more than 25 years after the Volcker Shock, the Fed's underwriting of the increasingly

financialized economy masked the underlying structural changes. In 2004, just three years before the onset of the worst financial crisis since the one that triggered the Great Depression, Greenspan's successor, Ben Bernanke, could still speak confidently of a "Great Moderation" in economic volatility.

In somewhat piecemeal fashion, Levy identifies the key factors that contributed to the global financial crisis and subsequent Great Recession. The same technologies that triggered the tech bubble of the late 1990s also operationalized modern finance theory. The apparent ability to quantify, and thereby order and manage, risk was applied to generate limitless layers of derivative securities. Financial models (not liquid financial markets themselves) "priced" these securities in a vacuum.

At the same time, corporate managers' "mission" had been simplified to maximizing shareholder value, as represented by the current stock price, which motivated a maximization of leverage on cash flows. Finally, the prevailing macroeconomic models had excluded the financial system by design, creating a massive blind spot.

The intellectual failure was bipartisan. Sadly, Levy does not invoke a key name in this narrative: Hyman Minsky (a mentor of mine). A renegade from neoclassical economics, Minsky spent a generation laying out the dynamics by which a prudently hedged financial system shifts endogenously, through increasing speculative exposure, to an unsustainable regime of "Ponzi" finance. At that stage, lenders must advance interest payments to debtors simply to maintain the fictional value of the outstanding credit. The "Minsky Moment" when Lehman Brothers went bankrupt in September 2008 turned my forgotten teacher into a household name.

Levy emphasizes that the crisis was all about liquidity, and he demonstrates that the crucial attribute of liquidity in times of stress is that the more you need it, the less of it there is. Once again, at an unprecedented scale, the Fed came to the rescue as the liquidity provider of last resort, not just for the US but for the whole world. Confronted with financial chaos and economic collapse, the Obama administration "skillfully cobbled the financial system back together." Yet, as Levy reports, "End-of-millennium faith in a finance-led vision of globalization… persisted, incredibly enough, after the panic of 2008 and over the Obama years…."

Levy's Age of Chaos is framed by the post-Volcker Shock retreat of political authority from responsibility for market behavior and the economic and social consequences of that behavior. Neoliberal administrations from Reagan to George W. Bush saw no legitimate reason for

government to cushion the domestic consequences of US sponsorship of China's full entry into the global trading system, or to address the return of Gilded Age inequalities. Only during his first two years in office did President Barack Obama shift the terms of trade in the American political economy, through his "Affordable Care Act" (Obamacare).

That legislation and the American Recovery and Reinvestment Act of 2009 provoked the Tea Party backlash, which led to the Democrats' loss of the House of Representatives in the 2010 midterm election. But even while the Democrats controlled both houses of Congress, Obama used his January 2010 State of the Union address to champion the same self-destructive economic ignorance that had led Roosevelt in 1937 to compromise both the economic recovery he had engineered and his freedom of political action. "Families across the country are tightening their belts and making tough decisions," Obama said. "The federal government should do the same."

The fiscal austerity that followed had two main consequences: It slowed the recovery to a crawl, and it deepened the impression that the US government is incapable of buffering its constituencies from the shocks of economic life. The Tea Party then morphed into the "MAGA" bloc that delivered Trump his victory in 2016, leading to an administration whose only domestic legislative policy initiative was to tilt the tax system even more toward inequality.

Fiscal austerity also transformed the Fed from a successful crisis-fighter into what Mohamed El-Erian termed "the only game in town." The Fed joined the other major central banks in driving real, risk-free interest rates to negative levels and holding them there for what has now been almost 15 years.

THE FUTURE AFTER CHAOS

A global crisis of excessive financialization thus launched a further appreciation of the prices of financial assets to heights never before observed – not in 1929 nor in 1999 – creating a bubble that has survived Trump's chaotic four years and the first global pandemic since 1918. Wealth inequality has reached previously unimaginable levels. Regardless of whether this bubble deflates in a measured, managed fashion or implodes catastrophically, it must end eventually.

We don't yet know what will emerge from the end days of the Age of Chaos. But we do know that throughout American history, it has always been state action that brought on each new

age of capitalism.

Now climate change has emerged as a forcing function from outside the capitalist system. It is belatedly beginning to drive state action, and it is bound to “transform the structure of investment,” the key to changes in capitalism’s form and content. It may even prove to be compatible with the “democratic politics of capital” that Levy advocates. Such a politics is embodied in the progressive agenda being pursued by President Joe Biden, to the variously enthusiastic and enraged surprise of all.

I look forward to a second edition of this masterwork to see how it will deal with a fifth Age of American Capitalism: the green one.