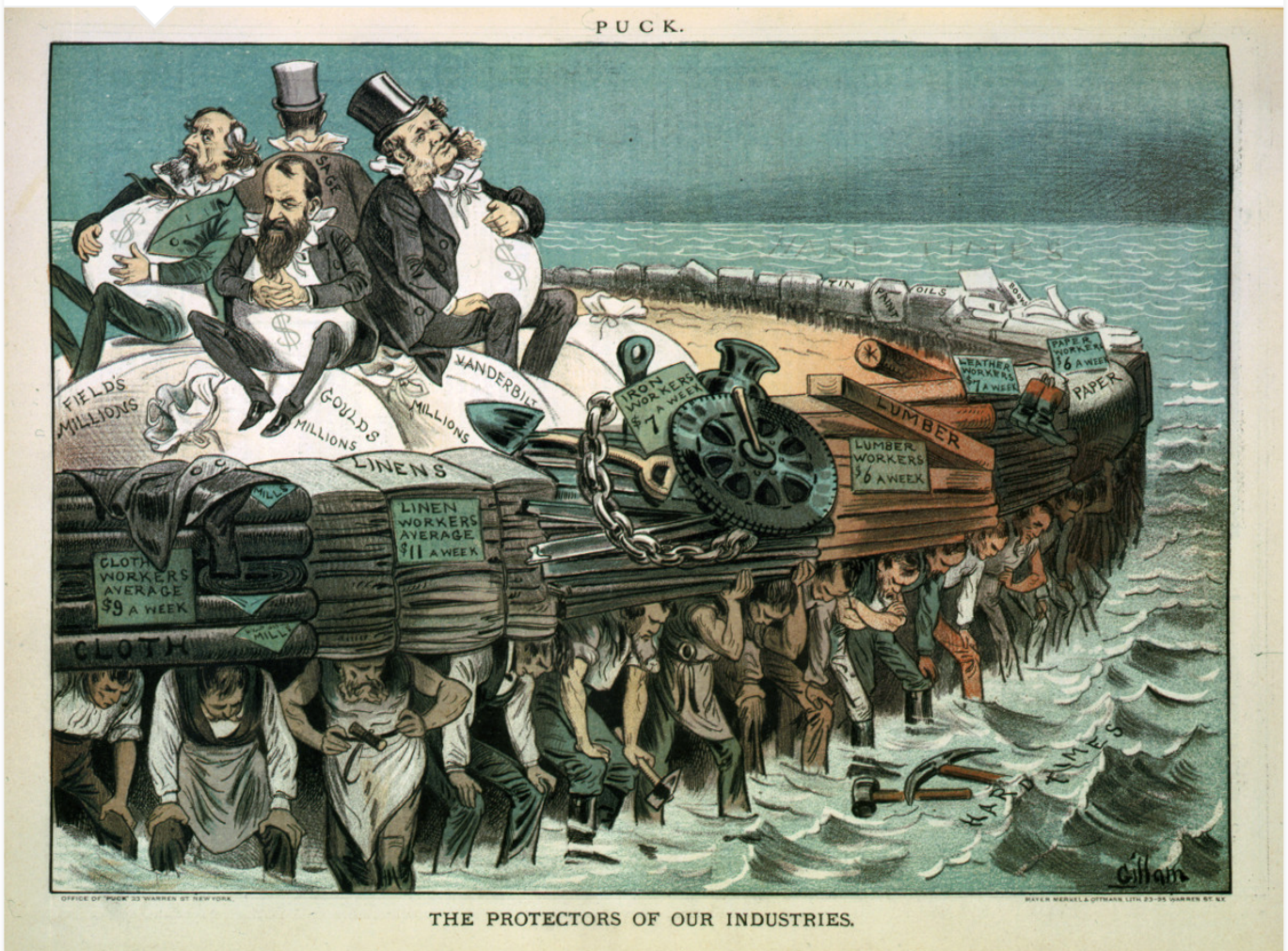


{essays in history}

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The New Robber Barons?



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Reviewed Work(s)

Freaks of Fortune: The Emerging World of Capitalism and Risk in America. By Jonathon Levy (Harvard University Press, 2012) 414 pp. Cloth, \$35.00. E-book, \$35.00.

A Nation of Counterfeiters: Capitalists, Con Men, and the Making of the United States. By Stephen Mihm (Harvard University Press, 2007) 457 pp. Paper, \$23.00.

The New York Times, despite being the nation's paper of record, is typically not the historical profession's first recourse for contemporary reporting on historiography. Its April 6th article "In History Departments, it's up with Capitalism" was, therefore, an intriguing aberration. The punch line was the grossly oversimplified notion, even by the author's own estimate, that a discipline which had spent several decades digging around in farms, mines, factories and other subaltern terrains had finally learned to love the lives of the rich and famous.^[1] But the wave of scholarly interest in the capitalism has not produced any laudatory Rockefeller biographies, nor has it resurrected the robber baron myth. The historians building the field are not particularly concerned with towering industrialists; they incorporate a range of characters including mid-level professionals, politicians, blue collar workers, slaves, and career criminals. The postmodern sensibilities of these historians do not lend themselves to stark moral dichotomies as readily as they do to analyses of the interdependency of culture with economic power structures. "The History of Capitalism," now a distinct field with its own undergraduate courses, diverges sharply from the older school of business history. Some of the changes, however, are subtler than others. With the exception of Richard White's *Railroaded*, the recent monographs have not prioritized the grand industrial enterprises that had constituted the core narrative of American economic history. Deindustrialization and the recent crisis in the American high finance have made historians more aware of esoteric financial devices that escaped the attention of previous generations. Consequently, recent books like Stephen Mihm's *A Nation of Counterfeiters* and Johnathan

Levy's *Freaks of Fortune* shed light on businesses that seem to have very little relation to the normal processes of production and distribution as we like to imagine them. Even more central to the field is the claim implicit in its chosen moniker, namely, that capitalism is subject to history. Economists have largely concluded that the market is best understood through the lens of mathematical formulae which leave little room for historical contingency; historians offer a different method.

Mihm's *A Nation of Counterfeiters* does a commendable job of incorporating the most subaltern of characters, the criminal class. Stories of counterfeiters constitute the bulk of the narrative. Forgotten by modern readers, characters like Stephen Burroughs and James Brown were legendary in their time and arguably more famous than infamous. They were able to evade the law, despite their personal renown, because they were vigorously supported by their communities; Brown was even elected justice of the peace in Boston, Ohio.^[2] The stories of these characters are entertaining and, though they include a level of detail which often seems superfluous from an analytical perspective, the reader has to respect Mihm's ability to reconstruct the history of one of America's most invisible classes. Mihm builds a narrative around the migration of the industry's hub. In the late eighteenth and early nineteenth centuries the business was established just north of the boarder in Canada, where legal jurisdictions made law enforcement difficult. By the 1820s, counterfeiters were increasingly located in Midwestern states like Ohio and Michigan, where locals were friendly and navigable waterways helped distribute their product throughout the country. Finally, in the 1850s, business boomed in major urban areas, especially New York, where expanding population made economic exchange progressively more anonymous, enabling "passers" to spread their wares at small shops that had previously protected themselves by maintaining intimate relations with their customers.^[3] Shopkeepers kept "detectors," books that could run to approximately 400 pages, with depictions of legitimate and counterfeit bank notes. The system of private printing, however, produced hundreds of varieties of bank notes. Unable to familiarize themselves with the panoply of US currencies, merchants entered into a risky bet every time they accepted paper money, a bet that was wagered against the presumed character of the customers.^[4]

The story of American counterfeiting illustrates a larger argument about the deficiencies of antebellum banking. The United States lacked the gold and silver necessary to create a circulating medium of exchange based entirely on hard money. Private banks exercised their right to print paper money, but such currency was only valid when it was backed up by and redeemable for hard specie or securities. Banks often printed notes with little regard for their reserves. This was especially true in the currency starved west after Andrew Jackson's bank war. In this region, free banking laws allowed anyone to enter into the business and print money, blurring the lines between bankers and counterfeiters. Because paper money lost all value when the bank of issue could no longer afford to redeem them, many consumers openly preferred counterfeit versions of notes from reputable banks to real notes from unreliable "wildcat" banks. Known counterfeits, suspect bank notes, and respected bank notes were exchanged at prices indicative of their credibility rather than their printed value. The popular sympathy for counterfeiters extended so far that President Andrew Jackson pardoned several. Despite introducing radical insecurity into the system, counterfeiters and wildcat bankers provided Americans with a valuable service, creating currency in regions that, if the rules were strictly adhered to, would have been relegated to a barter system.^[5] Bank notes—real, fake, or somewhere in between—served as an inflationary source of credit that lubricated economic exchange.

In the mid-nineteenth century banks adopted industrial methods despite an awareness that mass-produced banknotes facilitated counterfeiting.^[6] The use of interchangeable type put former engravers out of work, pushing them into the black market. Interchangeable type also led to a relative standardization of notes from different banks. When one went out of business their type could be bought at auction and used with minor alterations to make replicas of notes from other banks. Bankers were aware of these issues, but did little to ameliorate them. For Mihm this is indicative of the inability of individual enterprises to sacrifice their own efficiency for the good of the industry.^[7] He observes one effort at business cooperation, under the aegis of the "New England Association against Counterfeiting." This collection of Boston bankers, the most conservative circle of American high finance, prosecuted counterfeiters and forced provincial banks to maintain reserves of specie by redeeming all the bank notes they received. In the long run, however, even the most

stalwart Boston bankers were unwilling to pay dues to preserve the integrity of American currency.

The Civil War and the period of vigorous federal activism it precipitated undermined counterfeiting and created a reliable currency by evoking confidence in the American nation state. Then Secretary of the Treasury, Samuel Chase, used patriotic imagery to make the greenback a symbol of the Union, in the process reducing popular support for counterfeiting.

At the same time, William Wood formed the Secret Service to protect the sanctity of the greenback. Wood had little legal authority for his crusade, a fact which seems to have furthered his zeal in the war on counterfeiting. Chase was able to decouple the greenback from hard specie, a necessary task in the context of massive war spending, by backing it with something more substantial—confidence in the American nation. The Confederacy, conversely, never developed a stable and trusted currency, undermining its economic authority and contributing to its collapse.^[8] By arguing that currency played an important role in the Civil War balance of power, Mihm shows that financial mechanisms rooted in something as intangible as “confidence” can be as important as industrial infrastructure.

Mihm points out that the adoption of a single national currency was not “inevitable.”^[9] It is hard to overestimate the economic import of the transition from an economy in which every exchange of paper money was rife with uncertainty to one in which a trusted national currency reigned. As Mihm points out, even William Graham Sumner, whose credentials as a free-market liberal are beyond reproach, praised the federal government’s expanded power over currency after the Civil War. But the change was not born out of natural market conditions or the wise decisions of executives. There was no meaningful demand for the change until the Civil War forced an institutional crisis. Even then, the political entrepreneurship of Samuel Chase and William Wood was required to affect the change. Under normal circumstances, Americans would have been hesitant to accept a form of currency that was not backed by specie, but Chase had adeptly turned the greenback into a national symbol. The question was decided, Mihm argues, “in the hands of the nation’s citizens, whose day-to-day handling of the greenback ... testified to a sea change in economic practice.”^[10] Similarly, Mihm notes that faith in the Secret Service was operative in the elimination of counterfeiting; the

black market had always thrived because of the supportive atmosphere that the public provided.[11] Chance, public policy, and cultural changes all played instrumental roles in the inauguration of one of the most significant developments in nineteenth century political economy.

Johnathan Levy's *Freaks of Fortune* is a more expansive book than Mihm's but is occasionally vulnerable to the charge of being overly ambitious. Levy's subject is *risk*, a term which originally referred to an insurable commodity, but came to embody the principle of pecuniary insecurity in a capitalist society. The word first came into usage in maritime trade, where captains insured their goods against damage. Risk management was important, perhaps even essential, for underwriting the transatlantic slave trade, but the application of laws designed to insure inanimate commodities became precarious when slaves exhibited unique features – rebellion, for example. Insurance increasingly covered complex and intangible objects as the perils of the sea became commonplace on land. Life insurance protected free labor, and banks marketed savings plans as all-purpose safety nets. As Levy notes, the failure of Freeman's bank demonstrates that the goods were not necessarily as advertised. Levy follows with chapters on farm mortgages and fraternal associations. Risk, which by law had only applied to tangible commodities, became entirely unhinged from economic reality with future's trading, a practice that mitigated the effect of agricultural price fluctuations by buying and selling goods that never changed hands and might not even have existed. The story of risk management reached its conclusion with the oligopolistic corporation, an entity that possessed the power to control economic downturns and to establish welfare provisions for its employees. The New Deal state ultimately obviated the better part of the economic insecurity Americans had been subject to, though, beginning in the 1970s, a new epoch of speculative gambling began to take shape.[12] Levy's studies might seem too diverse to provide a coherent narrative, but there are a handful of ideas that undergird his monograph.

Levy highlights the role that the court system played in shaping the insurance industry. His first chapter introduces *Farwell V. Boston and Worcester R. R. Corp.* In that decision Chief Justice Lemuel Shaw ruled against a worker suing for accident compensation and laid the foundation for the insurance industry.[13] Precedent had declared that

employers were responsible for their workers, but Shaw reasoned that Farwell was paid a premium to engage in dangerous work and that, as the owner of his own labor, he possessed an insurable commodity. The ruling was the first application of the term “risk” outside of maritime trade. It loosed rules which made insurance valid only when applied to tangible commodities. Within a few years, life insurance companies sprouted around the country to insure the labor of those engaged in dangerous professions.^[14] In 1885, the Iowa Supreme Court ruled in *State V. Miller* that fraternal societies were required to keep a reserve fund similar to those maintained by insurance companies. Fraternal orders had assessed contributions when their members needed assistance; reserve funds were kept by insurance companies for investment. The fraternalists objected to what they perceived as speculative investments, potentially compromising the security of their funds, but the courts left them little choice in the matter. Similarly, Oliver Wendell Holmes’ opinion in *Board of Trade V. Christie* both legitimated a questionable form of insurance and eliminated an alternative. The Supreme Court ruled that the standard rule of insurance “double commodification”—meaning that insurance had to be placed on a real commodity—did not apply to the trading of futures. Derivatives, as they are sometimes known, effectively consist of bets on fluctuations in commodity prices, but Holmes, with his pragmatic legal philosophy, recognized that they were able to protect farmers from changes in the price of their goods. The *Christie* decision, however, banned the same practice at local, unincorporated “bucket shops.” Levy demonstrates that the development of modern insurance was not natural, but the result of legal precedents that both created the current system and suppressed alternative means of managing risk.

One of Levy’s most significant points is that the individual ownership of one’s risk, though often assailed by counter movements, was integrally connected to a sense of self-ownership that Americans prized. Slavery’s most articulate defenders, like George Fitzhugh, argued that capitalism was immoral because it forced workers to bear the burden of their own misfortune. In southern society, the slaves were supposedly provided for by their masters in instances of old age and debilitating illness. Levy profiles Elizur Wright, a prominent abolitionist and leading figure in the actuarial science of probabilistic life insurance. Wright represented the mirror image of Fitzhugh’s perspective; he was an active proponent of

the idea that insuring one's labor was a means of asserting self-ownership. It was an individual responsibility that both accorded with and facilitated free labor. Risk had its up-sides; taking a stake in the market meant the possibility of accruing enormous profits. Protecting oneself against catastrophe was the necessary consequence of engaging in that game of chance. Levy notes that risk is not coterminous with meritocracy, that it, in fact, undermined the Horatio Alger myth by suggesting that wealth is often accrued by sheer luck.^[15] Levy never quite engages with the question of how these two ideals coexisted in the American mind, but he does show that many were eager to play the roulette game of American enterprise.

In the course of Levy's monograph, we encounter other counter movements less nefarious than that spearheaded by Fitzhugh. Levy notes that the producerist tradition, because it valued the products of manual labor, treated profits from risk as unearned speculation, but he does not engage with that conflict in a sustained way. Levy dedicates a whole chapter to the yeoman farmer who traditionally hedged risk by investing in physical capital (land) and by reserving much of his property for subsistence production. That changed when mortgages forced farmers to produce for the market and to buy life insurance so that they could cover their debts should the worst befall them. The individual ownership of risk came under a more sustained and serious assault from the monopolistic firm. Levy highlights George Perkins, a former life insurance executive, a leading figure in two of the nation's largest monopolies, and a politically influential associate of Theodore Roosevelt. Perkins believed that large corporations could better handle the risk of financial instability than average Americans and that, under the right circumstances, they could manage the economy to prevent downturns. Perkins was particularly influenced by the role he and J. P. Morgan played in stabilizing the economy during the panic of 1907. He worked in close coordination with Theodore Roosevelt to ensure that monopolies continued to have the market power to prevent downturns. In his own firms he designed welfare systems to protect workers against misfortune. Always a supporter of cooperation between big government and big business, in his final years he lobbied for state intervention to mitigate risk through workmen's compensation. Levy seems to imply that Perkin's vision of an alliance between business and the government to mitigate risk was largely realized in the New Deal.^[16]

Levy makes the field's most ambitious attempt to place intellectual history within the context of the history of capitalism. He argues that the anti-foundationalism of American pragmatism owes its origins, in part, to the probabilistic theory of truth implicit in the actuarial tables of insurance companies. Louis Menand has demonstrated that pragmatism was influenced by probability theory, but Levy adds that the popularity of mathematical notions of truth owed their existence to the salience of risk in American culture.[17] Both Oliver Wendell Holmes and Charles Peirce had fathers engaged in statistical work; Benjamin Peirce developed actuarial tables for the New England Mutual Life Insurance Company. The argument does not hold as well for William James, who was perhaps the most important popularizer of American pragmatism. Levy quotes Peirce's observation that while his notions of indeterminacy were rooted in statistical probability, James prioritized belief.[18] James encouraged readers to disregard the odds-makers and hold on to the faiths they found most comforting until they encountered direct empirical refutation.[19] If the case for James is precarious, Levy's model is even more strained with John Dewey, who never cared enough for big business to use it as a philosophical model. Dewey, therefore, does not figure into Levy's argument despite the important role he played in the history of pragmatism. While some minor qualifications might be in order, Levy does demonstrate that the history of capitalism can contribute meaningfully to our knowledge of the American mind.

The underlying argument of Levy's book is that the risk management industry was spurred by the development of a capitalist economic structure that introduced elements of uncertainty into daily life.[20] At first the argument suggests a fantastical pre-modern world of absolute stasis. It also evokes the fairly obvious rebuke that death predated capitalism and, as a consequence, so did the sort of risk that life insurance helped to mitigate. Levy, however, shows that the common law rule of *respondeat superior* had made "masters" responsible for the care of their laborers, and it was only after the Supreme Court eliminated that rule in the *Farwell* decision that workers felt a compelling need to insure their lives. Farmers', on the other hand, had non-market means of hedging risk. Life insurance only became popular in agriculture when the pecuniary obligations imposed by mortgages required immediate liquidity in cases of personal catastrophe. The argument that capitalism introduced a qualitatively different type of insecurity into human

existence is a book on its own, but Levy does a commendable job of at least demonstrating that it spurred the demand for insurance.

Levy and Mihm share an ambivalence about the role of speculation in the US economy. By printing money without any collateral to back it, antebellum banks were betting that customers would not redeem their notes *en masse* and that they would make enough profit from loaning money they did not have to be able to redeem their notes. When the system failed, assets were transformed into worthless paper, but, when public confidence kept the system afloat, it provided credit and currency to a nation that needed it. Levy observes that when the farm mortgage system became popular in the 1880s, the Dakotas were able to obtain in seven years a commensurate level of wheat production as that obtained by Illinois and Indiana together in over fifty years.^[21] These gains in productivity were built on “debentures,” securities crafted out of a hodgepodge of mortgages, remarkably similar to the mortgage-backed securities that have been credited with the recent financial collapse. That mortgage bubble burst in 1893, bankrupting debtors and investors. Both authors suggest that the speculative economy was characterized by a cycle of extreme boom and bust and that parallels can be drawn to the present day. Levy, in particular, is quite clear that, at least in regards to proclivity toward risky speculation, the contemporary world has less in common with the century that directly preceded it than that which hosted the Civil War.^[22]

Mihm and Levy are representative of the new field’s break with traditional historiography. The progressive school, best embodied in the work of the Beards, treated economic history as a battle between the people and special interests.^[23] In the most extreme iteration of this school, the “robber barons” were denizens of an entirely different moral universe than that inhabited by honest and hardworking common folk.^[24] Mihm problematizes this narrative by blurring the line between bankers, counterfeiters, and the communities that supported the black market. The new scholarship is no friendlier to the Marxist school, which treated ideas as a reflection of economic self-interest, sometimes in crude, and other times in rather sophisticated ways. Elizur Wright, who plays such an important role in Levy’s story, at one point suggested that the federal government enter the field of insurance, despite his own interest in the industry.^[25] Wright was guided by the abolitionist faith

that workers should own their own labor, and frequently objected to industry practices that resulted in the metaphorical transfer of those rights, primarily the forfeiting of policies for non-payment. Levy also highlighted George Perkins, a monopolist who identified with socialism. Levy is not convinced that Perkin's socialism, in which big business would lead the drive for economic centralization, was real socialism. [26] Perkins was, however, eager to cede much of his economic autonomy to government regulation and Levy depicts his political activity as an honest effort at public service.

The nascent history of capitalism school seems to take the better part of its inspiration from post-modernism, though, in doing so, has neglected other readily available paradigms. Louis Hyman, who has written about the history of American debt, highlights the influence of Foucault. [27] Foucault's impact is evident in the field's fascination with the way power structures interrelate with culture and the field's faith in radical contingency. If something as biologically ingrained as sex is susceptible to historical variation, why not capitalism?[28] These are not bad insights to bring into discussion, but the school of economics to which Thorstein Veblen is attributed paternity offers another large body of relevant literature that appears to have gone unnoticed. For over a century institutional economists have argued that their peers abstracted the study of the market from time and space in ways that misrepresented real world conditions. As the name suggests, they were interested in institutions, entities that were both historically constructed and inclined to persist after they had ceased to be efficient. Veblen wrote about archaic cultural institutions, but later practitioners studied the role of law, public policy, interest groups, and economic power. John Kenneth Galbraith's theory of countervailing powers and Mancur Olson's work on rent-seeking define periods in which the fundamental incentives of a free market system have been radically transformed.[29] Their research is largely one-sided, oriented toward how exogenous institutions affect the market, but their models could be appropriated to explain an array of political, social, and cultural phenomena. At least it is worth observing that, since historians are venturing onto territory in which their authority is questioned, they have the precedent of a prestigious cadre of experts who traditionally asserted their discipline's susceptibility to historical methodology.

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[1] Jennifer Schuessler, “In History Departments, It’s up with Capitalism,” *The New York Times*, April 6, 2013.

[2] Stephen Mihm, *Nation of Counterfeiters: Capitalists, con Men, and the Making of the United States* (Cambridge: Harvard University Press, 2007), 179.

[3] Ibid., 210.

[4] Ibid., 245.

[5] Ibid., 160

[6] Ibid., 260.

[7] Ibid., 296-301.

[8] Ibid, 329-3.

[9] Ibid., 362.

[10] Ibid., 359.

[11] Ibid., 372.

[12] Johnathon Levy, *Freaks of Fortune: The Emerging World of Capitalism and Risk in America* (Cambridge: Harvard University Press, 2012), 309.

[13] Ibid., 7.

[14] Ibid., 12.

[15] Ibid., 311.

[16] Ibid., 305-307.

[17] Louis Menand, *The Metaphysical Club* (New York: Farrar, Straus and Giroux, 2001), 177-184.

[18] Levy, 257.

[19] William James, "The Will to Believe," *The New World* 5 (1896): 327-247.

[20] Levy, 1-2.

[21] Ibid., 156.

[22] Ibid., 315-316. Mihm, 19.

[23] Charles Beard and Mary Beard, *History of the United States* (New York: Macmillan, 1921).

[24] Matthew Josephson, *The Robber Barons: The Great American Capitalists* (New York: Harcourt, Brace and Company, 1934), vii-viii.

[25] Levy, 101.

[26] Ibid., 264.

[27] Louis Hyman, "Why Write a History of Capitalism," *Symposium Magazine* (July 2013).

[28] Michel Foucault, *The History of Sexuality*, trans. Robert Hurley (New York: Vintage Books, 1990).

[29] John Kenneth Galbraith, *American Capitalism: The Concept of Countervailing Power* (Boston: Houghton Mifflin, 1962). Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven: Yale University Press, 1982).

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