Review Essay

Prophet of Perspective: Thomas K. McCraw

The Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy. *By Thomas K. McCraw*. Cambridge, Mass.: The Belknap Press of Harvard University Press, 2012. vii + 485 pp. Illustrations, notes, index. Cloth, $35.00. ISBN: 978-0-674-06692-2.

Reviewed by Richard R. John

Thomas K. McCraw is justly admired as a consummate prose stylist, a talented editor, a perceptive historian of the United States, and an inspiring teacher whose mastery of the biographical form led to a string of elegantly written prize-winning publications that are widely read and often taught. The publication one month before McCraw's death in November 2012 of his last book, *The Founders and Finance*, provides the occasion for this essay, which contends that McCraw also deserves to be remembered as a founder of two thriving academic subfields—policy history and the history of capitalism—despite the fact that he trained relatively few history PhD students, and rarely appeared in public during the final years of his life as the result of a debilitating illness that greatly limited his mobility.

McCraw's contributions to scholarship defy capsule summary. In large measure, this is because they are so diverse. To a degree that is unusual among academics, he published in a multitude of styles for a variety of audiences. Among the audiences that he targeted (and this list is not exhaustive) were fellow historians, social scientists, government administrators, undergraduates, the proverbial general reader, and his colleagues at Harvard Business School, for whom he prepared numerous case studies and teaching notes. McCraw was also an effective classroom instructor who taught for many years a popular course for Harvard MBAs on the history of capitalism. All in all, McCraw may well have reached as large an audience as did his renowned colleague Alfred D. Chandler Jr., whom McCraw succeeded as the Isidor Straus

For helpful advice and suggestions, I am grateful to William R. Childs, Walter A. Friedman, Nancy R. John, Susan McCraw, Rowena Olegario, and Edwin J. Perkins. In the interests of full disclosure, I should note that I was a friend of Tom McCraw's for many years and, as a PhD candidate at Harvard in the early 1980s, took a very stimulating independent study with him on the history of American public policy.

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Professor of Business History at Harvard Business School. Chandler was a consummate hedgehog who had one big all-consuming idea rather than a fox who knew many things, as McCraw aptly observed in an admiring memorial tribute to his colleague, in which McCraw revived the ancient distinction that the British philosopher Isaiah Berlin had invoked to characterize the Russian novelist Leo Tolstoy.[1] McCraw himself was by temperament more of a fox: there is no McCraw thesis and no McCrawian school. Even so, it would be a mistake to overlook certain themes that recur in his oeuvre, especially since at least two of them—the constructive role of U.S. economic policy and the dynamism of capitalism—have proved to be of enduring significance for historical writing today.

This essay provides a brief survey of McCraw's ideas about economic policy and capitalism. Other reviewers might have chosen different themes; possibilities include the relationship between the United States and the world, the advantages and disadvantages of biography as a literary form, and even the contrasting aesthetics of history and social science. Even so, I believe that the two I have chosen provide a revealing perspective on McCraw's most abiding concerns. This essay has three parts. The first part provides a brief overview of McCraw's intellectual milieu; the second part surveys his contributions to our understanding of economic policy and capitalism; and the third part shows how in *The Founders and Finance* McCraw combined his interests in economic policy and capitalism to reinterpret a pivotal event in the American past.

Intellectual Milieu

Thomas K. McCraw was born in 1940, in Corinth, Mississippi, the son of a civil engineer who worked for the Tennessee Valley Authority (TVA). The TVA in McCraw's youth was a vast and sprawling federal government–owned public utility, located in the southeastern United States, that was, and is, among the country's largest generators of electric power. McCraw's memories of this vast organization were strong and enduring. In looking back at the age of fifty on his upbringing, McCraw remarked in 1990 that at his age his father had been the construction superintendent of the largest coal-fired power plant in the world.[2] "I remember, quite vividly," McCraw added, in recollecting a childhood visit to a massive 137-foot single-lift canal lock that his father had built, "going down into the huge hole that was dug for this lock, looking up at the sides as

[1] Thomas K. McCraw, "Alfred Chandler: His Vision and Achievement," *Business History Review* 82, no. 2 (Summer 2008): 209.

[2] Thomas K. McCraw, "Ideas, Policies, and Outcomes in Business History," *Business and Economic History*, 2nd ser., 19 (1990): 6.

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the concrete was being poured, and simply being overwhelmed with the scale of it all."[3]

McCraw's youth was peripatetic. Like many civil engineers, his father moved his family often as he relocated from assignment to assignment, always within the South. McCraw attended primary school in East Tennessee, graduated from high school in Alabama, and earned his BA at the University of Mississippi. To fund his undergraduate education, McCraw obtained a fellowship from the U.S. Naval Reserve Officers Training Corps, which obligated him to serve a four-year stint in the navy upon graduation. Following the end of his tour of duty, he came north to attend graduate school at the University of Wisconsin, where he obtained a PhD in history in 1970. McCraw's dissertation advisor at Wisconsin was the political historian Paul W. Glad; in later years, he would also make reference to the influence of the renowned legal historian J. Willard Hurst.

McCraw's upbringing shone through in his first two books, *Morgan versus Lilienthal: The Feud within the TVA* (1970) and *TVA and the Power Fight, 1933–1939* (1971). Each built on insights McCraw had gleaned as the son of a federal civil servant wholeheartedly committed to the public provisioning of electrical power. Both had been written during his graduate years at Wisconsin. *Morgan versus Lilienthal* was McCraw's master's thesis. Its publication was one of the perquisites of a prize it had been awarded by the history department of Loyola University of Chicago for the year's best master's thesis. *TVA and the Power Fight* was McCraw's PhD dissertation; he wrote it following the receipt of an advance contract for its publication from a major East Coast trade press.[4] Though McCraw was, by his own admission, a "dyed-in-the wool New Deal Democrat," these books won the admiration of reviewers not only for their vigorous prose, but also for their balanced treatment of a controversial chapter in the history of economic policy.[5]

McCraw's later publications had their origins in the very different intellectual milieu of Harvard Business School, where, following a six-year stint at the University of Texas, McCraw taught between 1976 and 2006. Among them were a Pulitzer Prize–winning survey of American regulatory politics—*Prophets of Regulation: Charles Francis Adams, Louis D. Brandeis, James M. Landis, Alfred E. Kahn* (1984)—a sheaf of incisive essays, and two highly successful textbooks: *Creating Modern Capitalism: How Entrepreneurs, Companies, and Countries Triumphed in Three Industrial Revolutions* (1997) and *American Business, 1920–2000: How It Worked* (2000; second edition, from 2008, is entitled

[3] Ibid., 6.

[4] William R. Childs, email communication with author, July 2014; Susan McCraw, email communication with author, Aug. 2014.

[5] McCraw, "Ideas, Policies, and Outcomes," 7.

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American Business since 1920: How It Worked). Following McCraw's retirement, he would publish two additional monographs: the multiple-prize-winning *Prophet of Innovation: Joseph Schumpeter and Creative Destruction* (2007) and *Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy* (2012).

The historian's task, McCraw believed, is to combine two very different perspectives: the wide-angle photograph from an orbiting satellite and the close-up snapshot portrait.[6] McCraw's embrace of this dual perspective helps to explain his simultaneous commitment to sweeping generalization and pointillist detail. A connoisseur of the revealing anecdote, the apt quotation, and the deft summary, McCraw took literary form seriously—he had majored in English in college—and practiced what he preached. Irony, McCraw once observed, was the historian's stock-in-trade.[7] He was fascinated not only by "how it worked," the subtitle of his U.S. business history textbook, but also by what people believed, or, as he put it in his biography of the Austrian economist Joseph Schumpeter, their vision.

McCraw's dual perspective was much in evidence in *Regulation in Perspective: Historical Essays*, a collection of original essays, published in 1981, which he edited and for which he wrote a notable revisionist essay on the history of antitrust law. This collection features surveys of major topics in the history of economic regulation in the United States by one political scientist, David J. Vogel, and four historians—McCraw, Morton Keller, Samuel P. Hays, and Ellis W. Hawley. A second political scientist, Gerald K. Berk, then a PhD candidate at MIT, was the rapporteur. The quality of the essays is high. Even more impressive is their interdisciplinarity. By uniting historians and political scientists in a common endeavor, *Regulation in Perspective* facilitated the melding of history and social science.

McCraw's dual perspective also helps explain the unusual organization of the two textbook projects to which he contributed: *Creating Modern Capitalism* and *American Business*. *Creating Modern Capitalism* is a multiauthor textbook for business school students that McCraw edited and to which he contributed several chapters; *American Business* is an undergraduate textbook that McCraw wrote. Each artfully

[6] Thomas K. McCraw, "Introduction," in *Regulation in Perspective: Historical Essays*, ed. Thomas K. McCraw (Cambridge, Mass., 1981), viii.

[7] Thomas K. McCraw, *National Competition Policy: Historians' Perspectives on Antitrust and Government-Business Relationships in the United States* (Washington, D.C., 1981), 263. This remarkable government document grew out of a series of seminars that McCraw organized for the Federal Trade Commission (FTC) in the fall of 1979. It included extensive historical commentary for FTC staffers on the history of government-business relations in the United States by five historians: McCraw, Alfred D. Chandler Jr., Ellis W. Hawley, Louis Galambos, and Robert D. Cuff.

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juxtaposed detailed case studies of specific business innovations with sweeping overviews of economic trends.

Economic Policy

Of the many themes McCraw explored in his publications, two stand out: the constructive role of U.S. economic policy and the dynamism of capitalism.

McCraw's positive evaluation of U.S. economic policy was rooted in an incontrovertible fact: the performance of the U.S. economy in the twentieth century had been, by any reasonable quantitative measure, outstanding. Despite McCraw's admiration for irony, or perhaps because of it, this outcome led him to lavish praise on the economic reforms that had been instituted during the Progressive Era (1901–1917) and the New Deal (1933–1938).[8] In so doing, he challenged the many historians, most of whom were on the left, who had castigated both reform movements as failures. The Second World War did not, McCraw protested in a pointed review of a monograph on the limitations of the New Deal by political historian Alan Brinkley, mark the "end of [liberal] reform." By characterizing war mobilization in this way, Brinkley had turned the "economic bang" of the war and postwar years—the "strongest performance the world had ever seen"—into a "political whimper": "Similarly, [Brinkley's] analysis takes too little account of the decisive role of the United States in shaping the Marshall Plan, the General Agreement on Tariffs and Trade, the International Monetary Fund, the World Bank, and the United Nations. These institutions pushed forward the postwar liberalization of the international trading system, a monumental shift that engendered unprecedented economic growth through much of the world."[9]

McCraw was particularly impressed by the "mixed economy" that Franklin Delano Roosevelt's New Deal Democrats had established during the 1930s. The mixed economy was not coeval with the history of the republic; on the contrary, it was one of the most notable contributions to statecraft that had been pioneered by a political party. For the first time in U.S. history, a presidential administration had committed itself as a matter of principle to insuring economic prosperity by smoothing out the business cycles that, prior to 1933, had periodically devastated the American economy. To a remarkable degree, the New Dealers succeeded. "The most important historical fact about the American

[8] Thomas K. McCraw, "The Progressive Legacy," in *The Progressive Era*, ed. Lewis L. Gould (Syracuse, N.Y., 1974), 181–201; Thomas K. McCraw, "The New Deal and the Mixed Economy," in *Fifty Years Later: The New Deal Evaluated*, ed. Harvard Sitkoff (New York, 1985), 37–67.

[9] Thomas K. McCraw, review of *End of Reform*, by Alan Brinkley, *Journal of American History* 82, no. 3 (Dec. 1995): 1170–71.

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mixed economy, in the half century since Roosevelt's first inauguration," McCraw concluded in a judicious assessment of the New Deal and its legacy, "has been its outstanding performance over sustained periods."[10] The United States would become in the twentieth century the wealthiest country in world history, an outcome that McCraw attributed not only to its entrepreneurs, but also to its lawmakers. To be sure, several sectors of the U.S. economy had by the 1970s fallen on hard times, while the TVA had become embroiled in controversy. Even so, for McCraw, these failings did not discredit the mixed economy. On the contrary—and notwithstanding the challenges posed by structural unemployment, rising levels of economic inequality, and environmental degradation—the "remarkable economic success" of American business remained its defining feature, even if this achievement was "not, by itself, cause for unconditional celebration by everyone involved."[11]

McCraw's positive assessment of U.S. economic policy was tempered by his recognition that the U.S. economy faced stiff competition in the 1980s from foreign rivals, of which the most threatening was Japan. Economic rivalry between the United States and Japan furnished a major impetus for McCraw's least successful editorial venture, *America versus Japan* (1986). *America versus Japan* was a multidisciplinary, multiauthor exploration of business-government relations in the United States and Japan. Japan's economic success, or so McCraw concluded both in this volume and in several essays dating from this period, owed much to the Japanese government's top-down "industrial policy," a policy that he contrasted with the procompetitive, "adversarial" tradition of government-business relations that had long prevailed in the United States.[12]

America versus Japan was faulted by critics not only because of its contributors' unfamiliarity with Japanese-language sources, a shortcoming that understandably irritated East Asian specialists, but also because of its controversial premise that, in practice (as well as in theory), Japanese economic policy had spawned a business environment that was more cooperative and less competitive than the business environment that had been fostered by economic policy in the United States.[13]

[10] McCraw, "New Deal," 65–66.

[11] Thomas K. McCraw, *American Business since 1920: How It Worked*, 2nd ed. (Arlington Heights, Ill., 2008), 255.

[12] Thomas K. McCraw, "Government, Big Business, and the Wealth of Nations," in *Big Business and the Wealth of Nations*, ed. Alfred D. Chandler Jr., Franco Amatori, and Takashi Hikino (Cambridge, U.K., 1997), 541; Thomas K. McCraw, "The Trouble with Adam Smith," *American Scholar* 61, no. 3 (Summer 1992): 371; Thomas K. McCraw, "What Economists Have Thought about Competition, and What Difference It Makes," *Proceedings of the Massachusetts Historical Society* 101 (1989): 26.

[13] W. Mark Fruin, review of *America versus Japan*, by Thomas K. McCraw, *Business History Review* 61, no. 3 (Autumn 1987): 526–28.

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Often forgotten amidst these criticisms was the project's basic premise. Henceforth, no history of modern business could exclude East Asia. This premise would reap rich dividends in the following decade with the publication in 1997 of a far more successful multiauthor project, *Creating Modern Capitalism*. *Creating Modern Capitalism* was an innovative business school textbook that compared and contrasted the "varieties of capitalism" in Great Britain, Germany, the United States, and Japan, and that included a landmark essay by McCraw on "American Capitalism," a topic that would increasingly come to preoccupy McCraw during the final decades of his life.

McCraw spent part of his summers in Japan for several years during the 1980s, an experience that persuaded him that its "economic miracle" posed a major challenge to U.S. economic policy.[14] Indeed, at least for a time, McCraw posited that it might well advance our understanding of comparative business history to treat Japanese economic policy as the norm and U.S. economic policy as the exception, a perspective that was reinforced by McCraw's positive evaluation of admittedly anomalous U.S. government projects such as the TVA. Or to put it differently, for Chandler the exceptionalism of U.S. economic policy was an achievement, while for McCraw it had become an impediment to fresh thinking about political choices in a rapidly changing world. When Japanese policymakers discussed economic policy, McCraw observed, only rarely would they dwell, like their American counterparts, on procedural norms such as competition. Instead, they reasoned backward from the outcomes they hoped to attain: "Americans seem obsessed with process; Japanese are more preoccupied with results. While Americans emphasize means, Japanese tend to focus on ends."[15]

The rejection by McCraw of a naive American exceptionalism was articulated with unusual frankness in an essay he coauthored on the rationale for the Harvard Business School course on "Creating Modern Capitalism" that he cotaught for several years. This course, the authors explained, as well as other activities by business historians at Harvard Business School, was a "conscious assault on nationalism and on the unconscious American exceptionalism that many incoming students bring with them to our classrooms."[16]

Though McCraw published widely on topics in business history, his intellectual interests were somewhat different from those of many leading business historians in the United States. In large part, this was

[14] McCraw, "Ideas, Policies, and Outcomes," 3.
[15] Ibid.
[16] Thomas K. McCraw, Nancy F. Koehn, and H. V. Nelles, "Business History," in *The Intellectual Venture Capitalist: John H. McArthur and the Work of the Harvard Business School, 1980–1995*, ed. Thomas K. McCraw and Jeffrey L. Cruikshank (Boston, 1999), 265.

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because, in the United States, business history has long been dominated by internalists such as Chandler, Naomi R. Lamoreaux, and Philip Scranton, rather than by contextualists such as Thomas C. Cochran, Susan Strasser, or Richard White. McCraw himself had more in common with the contextualists, even though he was often identified with, and was openly admiring of, the internalists. Given McCraw's affinity for contextualism, he is best characterized not as a business historian but as a historian of the United States who had a longstanding interest in business, technology, the economics profession, and public policy.

Creating Modern Capitalism and *American Business* bulge with memorable thumbnail sketches of corporate moguls. Yet McCraw's favorite subjects were neither entrepreneurs nor managers. Rather, they were government administrators, academics, and public intellectuals. Intellectual biography was McCraw's métier, and he would rely on this genre for each of his three major monographs: *Prophets of Regulation*, *Prophet of Innovation*, and *Founders and Finance*.

Prophets of Regulation and *Founders and Finance* each chronicle government economic policies that, in the main, succeeded. Indeed, these policies proved to be so enduring that the rival ideas of their opponents—Louis Brandeis in *Prophets of Regulation*; Thomas Jefferson in *Founders and Finance*—were, in the end, swept aside. *Prophet of Innovation* is different. Its principal subject, the economist Joseph Schumpeter, was a public intellectual who evinced little interest in policy issues, even though, or perhaps because, he had briefly and disastrously served as a government administrator in Austria after the First World War. This is not to say that Schumpeter lacked opinions about government-business relations. On the contrary, he was throughout his life a fierce critic of socialism who, while by no means unmindful of the negative effects of capitalism, remained unwavering in his conviction that the "economic bounties" hastened by the "creative destruction" of innovative entrepreneurs outweighed their cost.[17] To be sure, Schumpeter understood that creative destruction could be "violently disruptive" and that the "steady hand" of government was necessary to promote social stability.[18] Even so, McCraw faulted Schumpeter for downplaying the indispensability of government regulation to keep the capitalist engine humming smoothly.[19] The "mixed economy" instituted by government administrators *had* succeeded in stabilizing the business cycle, a political achievement that Schumpeter assumed to be impossible.[20] These

[17] Thomas K. McCraw, *Prophet of Innovation: Joseph Schumpeter and Creative Destruction* (Cambridge, Mass., 2007), 8.
[18] Ibid., 32.
[19] Ibid., 9.
[20] Ibid., 149, 422.

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criticisms notwithstanding, McCraw had enormous admiration for the acuity of Schumpeter's insights into institutional change, and would ultimately endorse Schumpeter's Lippmannesque belief that, though the "philosophical justification" for capitalism could be understood by elite public intellectuals such as Schumpeter—and, by implication, McCraw himself—it might well be "too detailed and complicated" for the "intellectual capacity" of "average citizens."[21]

McCraw's results-oriented approach to U.S. economic policy resonated with a number of rising historians who worked on related topics.[22] Yet its most enduring legacy lay in its role in helping to jumpstart the emergence of policy history as a new academic specialization. Princeton political historian Julian E. Zelizer has dated the beginnings of policy history to a conference that McCraw co-organized with Brandeis political historian Morton Keller at Harvard University in November 1978. The rationale for this conference, as Zelizer explained, was to encourage historians to work together with social scientists to study public policy as an unfolding "process," rather than merely as a discrete bundle of time-specific issues.[23]

Policy history would rapidly emerge in the 1980s as a distinctive field of historical inquiry. Landmarks included the establishment of the *Journal of Policy History* in 1989 and the establishment of a biannual Policy History Conference in 2000. McCraw neither published in the *Journal of Policy History* nor attended any of the policy history conferences, yet his *Prophets of Regulation* and *Creating Modern Capitalism* would become landmarks in the field—as have two monographs that they inspired by one of his former students, Gerald K. Berk, each of which was stimulated by, and ultimately sharply critical of, McCraw's preoccupation with technological imperatives and market incentives.[24]

[21] Ibid., 358. Schumpeter's analysis of the mainsprings of capitalist dynamism had much in common with McCraw's, a similarity that some reviewers of *Prophet of Innovation* found hard to square with Schumpeter's loathing of Franklin D. Roosevelt, his Nietzschean contempt for the kind of market-stabilizing regulatory policies that McCraw admired, and his solicitude toward Nazi Germany. As late as 1939, Schumpeter contended that a German victory in the looming world conflict would promote European stability. See Richard N. Langlois, review of *Prophet of Innovation*, by Thomas K. McCraw, *EH.net* (Nov. 2007), http://eh.net/book_reviews/prophet-of-innovation-joseph-schumpeter-and-creative-destruction/.

[22] Jason Scott Smith, *Building New Deal Liberalism: The Political Economy of Public Works, 1933–1956* (Cambridge, U.K., 2006).

[23] Julian E. Zelizer, "Clio's Lost Tribe: Public Policy History since 1978," *Journal of Policy History* 12, no. 3 (2000): 369–94, esp. 373. See also Robert Kelley, "The History of Public Policy: Does It Have a Distinctive Character and Method?" in *Federal Social Policy: The Historical Dimension*, ed. Donald T. Critchlow and Ellis W. Hawley (University Park, Pa., 1988), 1. Kelley for some reason dated the first meeting to 1979, an error that Zelizer corrected by consulting the papers of one of the participants.

[24] Gerald K. Berk, *Alternative Tracks: The Constitution of American Industrial Order, 1865–1917* (Baltimore, 1994); Berk, *Louis D. Brandeis and the Making of Regulated*

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Policy history has long been shaped by the circumstances of its founding. Like McCraw, many of the field's early practitioners focused primarily on developments originating in the United States in the post–Civil War era. In addition, they tended to be sympathetic to McCraw's often jaundiced characterization of overly ambitious regulatory initiatives and, in particular, by the alleged "capture" of twentieth-century regulatory agencies by the industries that they were ostensibly regulating—themes prominent in McCraw's *Prophets of Regulation* and in his essay in *Regulation in Perspective* on "Rethinking the Trust Question."

The unintended consequences of public policy in the post–Civil War United States remain a preoccupation of policy historians today. Yet the field has also become more open both to non-U.S. topics and to scholarship on the less recent past.[25] No longer is it de rigueur to posit that the New Deal marked a decisive turning point—if not *the* decisive turning point—in the history of public policy in the United States or to dismiss the antebellum era as a prelude to the mixed economy. These shifts in emphasis are reflected in McCraw's own growing interest in both transnational comparisons and the founding of the United States—topics that he would perceptively explore in, respectively, *Creating Modern Capitalism* and *Founders and Finance*.

Capitalism

McCraw's writings on capitalism built on the pioneering scholarship of his mentor and colleague Alfred D. Chandler Jr. According to Chandler, one of the most important economic institutions in the modern world is the managerial corporation, an institution that first emerged in the United States and Germany in the second half of the nineteenth century. Managerial corporations possess organizational capabilities that differentiate them from both individuals and social processes, capabilities that built on, and were largely constrained by, exogenous factors over which they exercised little control; the most important of these factors were technological imperatives and market incentives. Innovative managers capitalize on technological imperatives and market

Competition, 1900–1932 (Cambridge, U.K., 2009). My own monograph on American telecommunications was also shaped, in part, by a critical engagement with McCraw's interpretation of Chandlerian assumptions about the relationship of business strategy to public policy. Richard R. John, *Network Nation: Inventing American Telecommunications* (Cambridge, Mass., 2010), esp. chap. 1.

[25] For one self-conscious attempt to push the policy history subfield backward in time, see Richard R. John, ed., *Ruling Passions: Political Economy in Nineteenth-Century America* (University Park, Pa., 2006). The essays in this collection originally appeared as a special issue of the *Journal of Policy History*.

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incentives to devise new organizational forms, which can then become a source of future innovation. Business strategy, as Chandler famously put it, can shape organizational structure. Properly structured organizations, in turn, possess capabilities that far exceed the reach of the most talented entrepreneur or the collective results of the densest network of market transactions.[26]

Chandlerian assumptions about organizational capabilities informed virtually everything McCraw wrote about economic regulation between 1975 and 1988 and would be a central premise of his 1984 Pulitzer Prize–winning *Prophets of Regulation*.[27] During this period, for example, McCraw often took Chandler's side in intellectual set-tos with rising stars in the field, such as Naomi R. Lamoreaux.[28] The "inherent characteristics" of an industry, McCraw declared in a resolutely Chandlerian 1981 essay in *Regulation in Perspective*, were more consequential than different legal systems or different national cultures in determining whether the average size of firms in an industry would be large or small. In country after country giant firms dominated certain industries while in other industries a multitude of tiny firms competed for market share. This pattern, in McCraw's view, held great significance for the administrators of the country's regulatory agencies, since it implied that the relevant scope for regulatory interventions—to, say, decrease the ability of a firm or cluster of firms to exert monopoly power—was much narrower than often assumed and much more likely to result in perverse outcomes antithetical to the regulators' intentions. In explaining the practical limitations of the "trust question" that had been posed by the enactment of the Sherman Antitrust Act in 1890, McCraw underscored that technological imperatives and market incentives held the key: "*This is a fact of surpassing importance in assessing the historical record of the evolution of big business in the United States and the conceptualization of the trust question from the late nineteenth century to the present day.*"[29] Such factors, McCraw elaborated in *Prophets of Regulation*, were "much more important" in explaining

[26] Richard R. John, "Elaborations, Revisions, Dissents: Alfred D. Chandler, Jr.'s, *The Visible Hand* after Twenty Years," *Business History Review* 71, no. 2 (Summer 1997): 151–200, esp. 152n1.

[27] Thomas K. McCraw, "Regulation in America: A Review Essay," *Business History Review* 49, no. 2 (Summer 1975): 159–83; Thomas K. McCraw, "The Intellectual Odyssey of Alfred D. Chandler, Jr.," in *The Essential Alfred Chandler: Essays Toward a Historical Theory of Big Business*, ed. Thomas K. McCraw (Boston, 1988), 1–21.

[28] Thomas K. McCraw, review of *The Great Merger Movement*, by Naomi R. Lamoreaux, *Journal of American History* 73 (Dec. 1986): 777.

[29] Thomas K. McCraw, "Rethinking the Trust Question," in *Regulation in Perspective*, ed. McCraw, 24; McCraw, "Regulation in America," 181. Italics in original.

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the relative size and organizational structure of firms in particular industries than the "differences in legal systems or national cultures."[30]

An analogous theme informed McCraw's 1984 essay on the "public and private spheres" in historical perspective. In this essay, McCraw affirmed Chandler's technologically based thesis concerning the origins of the "adversarial relationship" between business and government in the world's leading industrial nations. Having undertaken a systematic comparison of public policy in the major market economies, McCraw endorsed Chandler's contention that the United States was the only country in which the rise of big business had preceded the rise of big government, and that this unique "reverse sequence" best explained why business-government relations in the United States had acquired their supposedly "adversarial" cast. Since big business had emerged before big government, government regulations to better align the performance of giant firms with civic ideals were necessarily constrained by institutional arrangements that predated their enactment.[31] To drive this point home, McCraw tinkered with the idea of writing a multi-industry monograph in the tradition of Chandler's *Strategy and Structure*. This project would combine economic and intellectual history by exploring the relationship of "ideas, policies, and outcomes" in the steel, retail distribution, and newspaper industries—or so McCraw announced in his presidential address for the Business History Conference in 1989.[32] For reasons that are unclear, but that probably owed something to McCraw's growing interest in biography as a historical genre, this was one of the few projects that McCraw never completed.

Perhaps the most enduring influence of Chandler on McCraw lay in the example of Chandler's embrace of the comparative method. When McCraw first arrived at Harvard in the late 1970s, Chandler was already immersed in an ambitious cross-national history of managerial capitalism in the United States, Great Britain, and Germany that would culminate in 1990 with the publication of *Scale and Scope: The Dynamics of Industrial Capitalism*. Prior to his arrival at Harvard, McCraw had focused almost exclusively on the United States. Impressed

[30] Thomas K. McCraw, *Prophets of Regulation: Charles Francis Adams, Louis D. Brandeis, James M. Landis, Alfred E. Kahn* (Cambridge, Mass., 1984), 77.

[31] Thomas K. McCraw, "The Public and Private Spheres in Historical Perspective," in *Public-Private Partnership: New Opportunities and Meeting Social Needs*, ed. Harvey Brooks, Lance Liebman, and Corinne S. Schelling (Cambridge, Mass., 1984), 44. For Chandler's fullest statement of the "adversarial relationship" thesis, see Alfred D. Chandler Jr., "Government versus Business: An American Phenomenon" [1979], in *Essential Alfred Chandler*, ed. McCraw, 425–31. For a condensed version of McCraw's "Public and Private Spheres" essay, see McCraw, "Business and Government: The Origins of the Adversary Relationship," *California Management Review* 26 (Winter 1984): 33–52.

[32] McCraw, "Ideas, Policies, and Outcomes," 1–9.

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by Chandler's commitment to the comparative method, McCraw widened his scope. If Chandler could analyze managerial capitalism in several countries, McCraw could frame cross-national generalizations about public policy.

The influence of Chandlerian orthodoxy on McCraw's oeuvre would never entirely disappear. The refusal of antitrust regulators to place sufficient stress on the inherent characteristics of firms and industries was, for example, a recurrent theme of McCraw's *Prophet of Innovation*, published in 2007.[33]

Yet McCraw would begin to move in different directions in the 1990s. In *Creating Modern Capitalism*, published in 1997, McCraw underscored that his approach to comparative business history paid far more attention to public policy than Chandler had.[34] In addition, it placed more emphasis on credit creation—the "money of the mind"—a factor that Chandler consistently downplayed.[35] Capitalism, McCraw concluded, was a "perpetual motion machine." Its "essence" lay not in the innovative deployment of organizational capabilities, as Chandler might have contended, but instead in a "psychological orientation toward the *future*—the pursuit of wealth and income as much for tomorrow as for today."[36] Perhaps most notably, McCraw now documented how the structure of certain economic sectors—including, most notably, banking—had been shaped at least as much by political forms and cultural norms as by technological imperatives or market incentives. Banks proliferated in the United States, McCraw observed—in marked contrast to, say, Germany and Japan—not because of technological imperatives and market incentives, but because of the enactment of legislation that institutionalized the enduring American distrust of economic concentration.[37] In the banking sector, McCraw found it less important to emphasize the influence of business strategy on the organizational structure of the firm—Chandler's great theme—than the influence of the political structure on business strategy.

[33] McCraw, *Prophet of Innovation*, 481–82.

[34] Thomas K. McCraw, "Retrospect and Prospect," in *Creating Modern Capitalism: How Entrepreneurs, Companies, and Countries Triumphed in Three Industrial Revolutions*, ed. Thomas K. McCraw (Cambridge, Mass., 1997), 540.

[35] McCraw, "Introduction," in *Creating Modern Capitalism*, ed. McCraw, 4.

[36] McCraw, "Retrospect and Prospect," 533.

[37] McCraw's characterization of the American financial sector echoed Schumpeter's; McCraw was well aware of this, having recently completed a biography of the Austrian economist. In looking back on the Great Depression in the United States, Schumpeter concluded that the United States had far too many banks, adding that, because the financial sector had been so decentralized, banks had played a relatively small role in American economic development. The United States was the "most entrepreneurial country on earth"—McCraw wrote, glossing Schumpeter—but "not because of its banks" (*Prophet of Innovation*, 532–33n21).

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The Founders and Finance

The Founders and Finance can be read as a capstone to McCraw's creative engagement with the internalist, social-scientific tradition in business history that Chandler exemplified. McCraw hugely admired Chandler and was fiercely protective of his reputation. Even so, it is worth underscoring that McCraw's primary intellectual allegiance was neither to business history nor even to social science, but rather to the history of the United States in a post–New Deal world, a commitment that gave it a special relevance not only for policy historians and historians of capitalism, but also for historians of modernity.

McCraw's growing interest in the moral dimension of capitalism shaped what was to become his final major project—a synthetic history of immigrant entrepreneurship in the United States. *The Founders and Finance* was one installment in this project and, with the exception of an essay on immigrant entrepreneurship, the only installment to find its way into print prior to McCraw's death in 2012. In it, McCraw joined his longstanding preoccupation with the constructive role of government economic policy with his emerging interest in the dynamism of capitalism, a theme that he had previously explored in *Creating Modern Capitalism*, *American Business*, and *Prophet of Innovation*.

The central theme of *The Founders and Finance* was the enduring legacy for American history of the "fusion" of the "economic strategies" of two of the country's first treasury secretaries, Alexander Hamilton (1789–1795) and Albert Gallatin (1801–1814). This fusion would help establish the "basic capitalist framework" of the United States not only in the nineteenth century but "even down to the present time."[38] In the years immediately following the 1783 Treaty of Paris that ended the War of Independence, the United States was saddled with the highest debt relative to its resources in its history.[39] To make matters worse, the country was in the throes of the biggest financial meltdown prior to the Great Depression of the 1930s. The situation was so serious that, in the absence of creative statesmanship, government administrators might well have found themselves unable to raise the revenue necessary to defend the country against European powers, to build public works, and to finance territorial acquisitions such as the Louisiana Purchase.

To meet this challenge, the country's leaders turned to Hamilton and Gallatin. During his six-year tenure as the country's first treasury

[38] McCraw, *The Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy* (Cambridge, Mass., 2012), 349.

[39] Ibid., 1.

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secretary, Hamilton established a sound financial system that transformed the new nation's revolutionary war debt, its most serious fiscal liability, into a reliable source of credit that could be used to fund public projects, its greatest fiscal asset. At the core of Hamilton's program were the assumption by the federal government of the financial obligations that had been incurred by the individual states; the imposition of a moderate tariff to ensure a steady inflow of revenue to help service the national debt; and the establishment of a Bank of the United States to align the economic interests of the country's wealthiest merchants with the new regime. Following the establishment of the Bank, the United States would enjoy the highest credit rating of any country in the world, keeping borrowing costs low.[40] Gallatin, for his part, would build on Hamilton's achievement during his long tenure as treasury secretary. Gallatin's signal achievement was the establishment of an institutional mechanism to facilitate the rapid sale of federal government–owned land, an innovation that simultaneously drew down the federal debt and hastened the settlement of the trans-Appalachian West.

McCraw's Hamilton was sensitive not only to the mechanism of credit creation, but also to the sociology of elites. Consider, for example, Hamilton's support for the rapid reintegration into postwar society of the pro-British loyalists. Hamilton's position made sense, McCraw observes, since it helped ensure that the loyalists' capital would remain in the United States rather than migrating with them to Canada. To put it differently, Hamilton understood what economists today call macroeconomics. Like the great Austrian economist Joseph Schumpeter, the subject of McCraw's previous book, he recognized the importance of cultivating an "entrepreneurial elite."[41]

Hamilton's solicitude toward loyalists was echoed by his prudent assessment of the country's revenue needs. The United States in the early republic relied on tariffs for the bulk of its revenue, and by far its most important trading partner was its former enemy, Great Britain. Determined to ensure a steady flow of the British imports necessary to keep tariff revenue flowing into the country's coffers, Hamilton set tariff rates low.[42] Had Hamilton raised the tariffs too high, imports would have been reduced, and the credit of the United States imperiled. Had he raised direct taxes, he might have transformed the country into a British-style "fiscal-military state." Instead, he kept the tax burden seven

[40] Ibid., 131.

[41] Ibid., 130.

[42] Ibid., 128. For a somewhat different interpretation of Federalist fiscal policy, which places less emphasis on British trade and more on the fears of slaveholders terrified by the future implications for slavery of a powerful central government, see Robin L. Einhorn, *American Taxation, American Slavery* (Chicago, 2008).

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times lower than it had been in Great Britain in the conviction that the American people would oppose the creation of an overgrown permanent military establishment.[43]

The financial system that Hamilton and Gallatin established was, in a certain sense, highly conservative. Neither would have approved of the speculative abuses of financiers like Jay Gould, much less the "shameless profiteering" of financial insiders today.[44] Yet it presupposed a sophisticated understanding of public credit that far exceeded that of most of the other founders of the republic—including Thomas Jefferson, James Madison, and John Adams. For Jefferson, Madison, and Adams, the country's primary economic resource was land. For Hamilton and the mature Gallatin, in contrast, it was credit.[45] For each, it was self-evident that the credit market knew no national boundaries, that the creation of an Atlantic-based credit economy was in the best long-term economic interest of the United States, and that, as government administrators in charge of public finance, they had an obligation to hasten the "responsible deployment" of "rootless capital" to facilitate the creation of a new economy.[46]

This outcome was in no sense preordained. Too often, McCraw observes, historians looked backward on this period from the twentieth century, rather than forward from the colonial and revolutionary era, ignoring the significance of deliberate policy choices, happenstance, and luck: "The result of looking only backward—rather than also forward, from the perspectives of the participants—can be an ossification of history. . . . Historians of this period too often neglect this remarkable series of dramatic, touch-and-go contingencies, each of which reflected deep divisions within the country."[47] Had, for example, the Republican party of Gallatin and Thomas Jefferson controlled the federal government before the ascendency of the Federalist party of Hamilton and George Washington, this "different sequence" of events would almost certainly have hindered the country's rise: "It was uncommonly lucky for the United States that Hamilton's financial program—which rescued the nation from bankruptcy and placed it on a sound financial footing—preceded the [Jeffersonian] 'Revolution of 1800' and its single-minded goal of extinguishing the national debt."[48]

[43] McCraw, *Founders and Finance*, 151.
[44] Ibid., 326.
[45] To be sure, Gallatin made an early false start, investing in a farm in western Pennsylvania —"Friendship Hill"—that failed to turn a profit. Luckily for the country, Gallatin proved better at managing liquid capital than at farming the land. McCraw, *Founders and Finance*, 183, 330.
[46] Ibid., 326.
[47] Ibid., 348.
[48] Ibid., 348–49.

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The positive contributions of Hamilton and Gallatin to American economic policy established a pattern that would prove enduring. Notwithstanding the frequent claims to the contrary of conservatives, libertarians, and even some historians, the United States was never a laissez-faire economy of the kind admired by Adam Smith and championed by today's free-market fundamentalists. On the contrary, lawmakers had championed frequent, if uncoordinated, government intervention since the founding of the republic.[49] The mixed economy would not emerge until the 1930s, yet government-business cooperation had been present at the creation. No longer was the emergence of the alleged adversarial relationship between government and business in the 1880s the defining event in the history of American public policy. Other policy-relevant events, including the creative statesmanship of the founding generation, were now also given their due. To be sure, the nineteenth-century "American system" had never been a "full-blown industrial policy," even though it did combine high tariffs with the lavish public-works spending that had been popularized by the Kentucky statesman Henry Clay and admired by the German political economist Friedrich List.[50] Yet the tariff had been far more important to American economic development than previous historians assumed. Though Hamilton favored low tariffs, his successors gradually raised the rates to levels that significantly limited foreign competition. In fact, during the heyday of American industrialization that stretched from the 1820s to the 1930s, the tariff on imported goods averaged fully 30 percent, protecting American manufacturers from overseas rivals while generating the necessary revenue to keep direct taxes low.[51] Economic regulation in finance as well as manufacturing had been critical to the country's prosperity from the start.

McCraw's positive assessment of Hamilton's financial program broke decisively with the neo-Jeffersonian critique of Federalist public policy championed by Joyce Appleby, Edwin J. Perkins, and Gordon S. Wood. For McCraw, the significance of Hamilton to American financial history would be hard to exaggerate. The "twig-bending of national economic policy" that Hamilton oversaw during the nation's "most formative years," McCraw declared in an essay on immigrant entrepreneurship that appeared two years before his death, made him "likely" the "most significant person" not only "in the history of American finance" but also in the "history of American business generally."[52]

[49] Ibid., 357.
[50] Ibid., 364.
[51] Ibid., 439.
[52] McCraw, "Immigrant Entrepreneurs in U.S. Financial History, 1775–1914," *Capitalism and Society* 5, no. 1 (2010): 7.

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For Appleby, Perkins, and Wood, this was little short of preposterous. In an essay published in her *Relentless Revolution: A History of Capitalism* (2010), Appleby came as close as a responsible historian could to ignoring Hamilton altogether.[53] In his *American Public Finance and Financial Services, 1700–1815* (1994), Perkins contended that Hamilton's indispensability has been much exaggerated. Far from being pivotal to the country's subsequent economic success, Hamilton had, in fact, been the beneficiary of the highly effective financial sector that lawmakers in several of Britain's North American colonies had established before 1775. Hamilton tried, briefly and mostly without success, to centralize this financial sector in the 1790s. Far more effective were Hamilton's Jeffersonian successors—including Gallatin—who supported branch banking, an innovation Hamilton opposed, making the Jeffersonians the true architects of the highly decentralized financial sector that would characterize the United States from the early republic until the present.[54]

Wood echoed Perkins's dismissive account of Hamilton's legacy in his *Empire of Liberty: A History of the Early American Republic, 1789–1815* (2009). Following Jefferson's victory in the election of 1800, Wood contended, the incoming administration dismantled Hamilton's elitist financial system in favor of a financial system that was far more responsive to localist concerns. No one managed credit in the early republic, a circumstance that caused the system of public credit to spin out of control, hastening the bankruptcy of eight states and the territory of Florida following the Panic of 1837.[55] Little wonder that Wood found much to object to in *The Founders and Finance* when he reviewed it for a popular readership in the *New Republic*, or that McCraw took pains to enumerate his disagreements with Wood in his notes.[56]

Such disagreements are to be expected. Like every historian who has written about financial policy in the early republic, McCraw had inserted himself in the ancient quarrel between the Federalist political party of Hamilton, George Washington, and John Adams, which had held the levers of power between 1789 and 1801, and the Republican party of Gallatin and Jefferson, which came to power following Jefferson's victory in

[53] Joyce Appleby, *Relentless Revolution: A History of Capitalism* (New York, 2010), 174–76.

[54] Edwin J. Perkins, *American Public Finance and Financial Services, 1700–1815* (Columbus, Ohio, 1994).

[55] Gordon S. Wood, *Empire of Liberty: A History of the Early American Republic, 1789–1815* (New York, 2009), chaps. 2–4; Gordon S. Wood, "The Birth of American Finance," review of *Founders and Finance*, by Thomas K. McCraw, *New Republic*, 12 Dec. 2012. For a related discussion that emphasizes the Jeffersonian origins of American financial institutions, see Charles W. Calomiris and Stephen H. Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton, 2014).

[56] Wood, "Birth of American Finance"; McCraw, *Founders and Finance*, 485.

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the election of 1800. McCraw well understood that he had entered a minefield. Had the main theme of his book been political theory, he mused, he would have ranked Madison first and Hamilton or Jefferson second. Had, alternatively, his theme been the politician's art, he would have given pride of place to Jefferson, "one of the shrewdest and most inspiring politicians in American history." Yet McCraw's theme was finance, and in this realm, Hamilton and Gallatin ranked well ahead of Jefferson and Madison.[57]

McCraw reserved some of his most biting comments for the Embargo of 1807. The embargo was the Jefferson administration's quixotic attempt to forestall war with the European great powers by suspending for fifteen months all overseas trade between the United States and Europe. The contrast with Hamilton was obvious. Hamilton's economic policies had guided the self-interest of mercantile elites into productive channels. Jefferson's embargo tried to ground the country's merchant fleet. The regulations Congress enacted to enforce this remarkable experiment in economic autarky constituted the "most rigorous and prolonged economic restrictions on the liberties of white Americans up to that time" and the most onerous peacetime restrictions on commerce in American history.[58] Gallatin, among many others, derided the embargo as a disastrous mistake. Equally wrongheaded was the subsequent refusal of Congress in 1811 to recharter the Bank of the United States. When European bankers learned of the lawmakers' decision, $7 million in liquidity fled the United States, significantly weakening the government's ability to raise revenue on the eve of its second war with Great Britain.[59]

McCraw's conclusions echoed those of Henry Adams, whose magisterial nine-volume *History of the United States of America* (1889–1891) chronicled national politics during the presidential administrations of Jefferson (1801–1809) and Madison (1809–1817). On balance, Adams concluded, the Jeffersonians built on, rather than rejected, the administrative achievements of their Federalist predecessors. McCraw concurred.

The Founders and Finance was for McCraw a departure in several respects. With the exception of a detailed essay on Hamilton published in 1994, McCraw had never before written extensively about the early republic.[60] Like Schumpeter, whose final book, *History of Economic Analysis*, reached much farther backward in time than any of his prior publications, so McCraw also turned in his final book to a constellation of concerns that predated the issues to which he had previously

[57] McCraw, *Founders and Finance*, 342–43.
[58] Ibid., 283.
[59] Ibid., 296.
[60] Thomas K. McCraw, "The Strategic Vision of Alexander Hamilton," *American Scholar* 63, no. 1 (Winter 1994): 31–57.

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devoted the bulk of his attention. To be sure, McCraw had published suggestive overviews of American "industrial policy" and the corporate form that reached back to the founders.[61] In addition, he had written a highly critical essay on Adam Smith and a comparative essay on American public policy that took the long view.[62] Yet in each of these essays, McCraw had more or less self-consciously rummaged around for analogies that might prove suggestive for contemporaries. In *The Founders and Finance* he reconstructed for the first time the day-by-day decision-making process of pre–Civil War policy makers.

The change in perspective was subtle, yet significant. Prior to *The Founders and Finance*, McCraw had almost invariably viewed the early republic through a post–New Deal lens. Dominating center stage were the European political economists Adam Smith and Friedrich List; in the wings, mostly out of sight, were the actual ideas, policies, and outcomes that had shaped the American experience.[63] Specific legislative enactments were almost entirely ignored, in marked contrast to his publications on the more recent past. At no point in these earlier publications, for example, did McCraw question the then-common assumption that federal economic regulation in the United States had originated with the Interstate Commerce Act of 1887, rather than with the Banking Act of 1790, the Post Office Act of 1792, the Patent Office Act of 1836, or the National Telegraph Act of 1866. This was true even though the "release" of entrepreneurial energy unleashed by nineteenth-century lawmakers had been a favorite theme of one of McCraw's mentors, the legal historian J. Willard Hurst.[64]

The fact that McCraw was a newcomer to the early republic was, in certain respects, an asset, since it encouraged him to read widely in the burgeoning literature on early American political economy. The result was a persuasive synthesis on the foundations of American financial policy that drew imaginatively on the innovative revisionist literature on the early American state that had been published since the mid-1990s. The revisionists have transformed the field of nineteenth-century American history in ways that McCraw could not have conceived when he

[61] Thomas K. McCraw, "Mercantilism and the Market: Antecedents of American Industrial Policy," in *The Politics of Industrial Policy*, ed. Claude E. Barfield and William A. Schambra (Washington, D.C., 1986), 33–62; McCraw, "The Evolution of the Corporation in the United States," in *The U.S. Business Corporation: An Institution in Transition*, ed. John R. Meyer and James M. Gustafson (Cambridge, Mass., 1988), 1–20.

[62] McCraw, "Public and Private Spheres"; McCraw, "The Trouble with Adam Smith."

[63] See, for example, McCraw, "The Trouble with Adam Smith," 373; McCraw, "Strategic Vision," 56–57; McCraw, "Government, Big Business," 541.

[64] On McCraw, Hurst, and the "release of energy," see McCraw, "Government, Big Business," 537, and McCraw, "Strategic Vision," 55.

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coconvened the first policy history conference in 1978. No longer was it customary, as it had been then, to characterize the early American state as a "midget institution in a giant land."[65] On the contrary, a generation of revisionist financial historians led by Richard Sylla, Max H. Edling, Robert E. Wright, and David J. Cowen joined specialists on a raft of other topics to "bring the state back in."[66] As a consequence, it has become far easier for nonspecialists to take nineteenth-century public policy seriously and to locate American governmental institutions in an international comparative frame.[67]

The revisionists have been joined recently by a second group of historians who have rallied under the banner of the history of capitalism. While the contours of this scholarship remain somewhat murky, the movement has received wide attention not only from senior business historians such as Louis Galambos, but also from journalists in prestigious forums such as the *New York Times*.[68] Historians of capitalism are mindful of labor practices, work culture, and management-labor relations, as one might assume, since many of its leading practitioners would in an earlier generation have probably styled themselves labor historians. Yet they place special emphasis on the history of finance, credit,

[65] Richard R. John, "Governmental Institutions as Agents of Change: Rethinking American Political Development in the Early Republic, 1787–1835," *Studies in American Political Development* 11, no. 2 (Fall 1997): 347–80; Richard R. John, "Ruling Passions: Political Economy in Nineteenth-Century America," in *Ruling Passions*, ed. John, 1–20.

[66] Richard Sylla, "Experimental Federalism: The Economics of American Government, 1789–1914," in *The Cambridge Economic History of the United States,* vol. 2, *The Long Nineteenth Century*, ed. Stanley L. Engerman and Robert E. Gallman (Cambridge, U.K., 2000), 483–542; Sylla, "U.S. Securities Markets and the Banking System, 1790–1840," *Review of the Federal Reserve Bank of St. Louis* 80 (May/June 1998): 83–98; Douglas A. Irwin and Richard Sylla, eds., *Founding Choices: American Economic Policy in the 1790s* (Chicago, 2011); Max M. Edling, *A Revolution in Favor of Government: Origins of the U.S. Constitution and the Making of the American State* (New York, 2003); Robert E. Wright and David J. Cowen, *Financial Founding Fathers: The Men Who Made America Rich* (Chicago, 2006).

[67] The new literature on the nineteenth-century state has been capably synthesized in Brian Balogh, *A Government Out of Sight: The Mystery of National Authority in Nineteenth-Century America* (Cambridge, U.K., 2009). The primary limitation of Balogh's synthesis is his neglect of public policy at the state and local levels. This lacuna is characteristic of historians who, like Balogh, were trained as twentieth-century specialists, and who intended their scholarship primarily for a general audience, whom they presumed to be mostly interested in the recent past. Broader in scope will be Gary Gerstle's forthcoming history of the American state. For a preview of Gerstle's argument, see Gerstle, "The Resilient Power of the States across the Long Nineteenth Century," in *The Unsustainable American State*, ed. Lawrence Jacobs and Desmond King (Oxford, 2009), 61–87.

[68] Louis Galambos, comments on panel on "Is the History of Capitalism the New Business History?" Annual Meeting of the American Historical Association, Washington. D.C., January 2014; Jennifer Schuessler, "In History Departments, It's Up With Capitalism," *New York Times*, 6 Apr. 2013. For a recent survey of this field by a leading practitioner who had himself spent a formative year at Harvard Business School as a postdoctoral fellow, see Sven Beckert, "History of American Capitalism," in *American History Now*, ed. Eric Foner and Lisa McGirr (Philadelphia, 2011), 314–36.

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and risk.[69] These topics lie at the very heart of *The Founders and Finance*, just as they did in *Creating Modern Capitalism* and *Prophet of Innovation*, making McCraw a historian of capitalism *avant la lettre*.[70]

Historians of capitalism today often regard themselves as radical critics of business institutions. It is thus perhaps ironic that this academic field received a vital impetus from scholarship published at Harvard Business School. McCraw, of course, was by no means the first prominent historian to write extensively about the history of capitalism. Indeed, he was not even the first professor of business history at Harvard Business School to insert the word capitalism into the title of a historical survey. Chandler, after all, had published two massive histories of the modern corporation that chronicled the rise of "managerial capitalism," while Chandler's predecessor, N. S. B. Gras, had published a survey of business history that included "capitalism" in its title as early as 1939. Yet McCraw was among the first historians to identify capitalism specifically with credit creation, a trend that accelerated in the years after the publication of *Creating Modern Capitalism* in 1997.

Among the contributions of *The Founders and Finance* was McCraw's explanation for the social circumstances that helped spark the creativity of Hamilton and Gallatin. Each of these men, McCraw contended—along with a cohort of other Americans who were active in public finance in the period, including Robert Morris, William Duer, and Haym Solomon—had been an immigrant to the United States. Finance, in McCraw's view, was the only field in which immigrants made a substantial contribution to the public realm in this period—an assertion that, while not without merit, overlooks the military and journalism, two other havens for immigrant upstarts.[71] Hamilton immigrated as a young man to New York from St. Croix in the West Indies; Gallatin came to America at age nineteen from Geneva.[72] The decision to

[69] For a sampling of recent scholarship in this vein, see Michael Zakim and Gary J. Kornblith, eds., *Capitalism Takes Command: The Social Transformation of Nineteenth-Century America* (Chicago, 2011). The essays on the history of capitalism in *Capitalism Takes Command* are, on balance, far more critical of their subject—and far more representative of recent work on this topic by academic historians—than is Joyce Appleby's upbeat, neolibertarian *Relentless Revolution*.

[70] Indeed, if historians of capitalism were in search of a foundational text, one plausible candidate would be McCraw's essays "American Capitalism" and "Retrospect and Prospect" in *Creating Modern Capitalism*.

[71] McCraw, *Founders and Finance*, 2.

[72] Early Americanists have long quibbled about whether Hamilton was really an immigrant. Though St. Croix was ostensibly Danish, the island had passed into de facto British hands by the time of his birth. Yet Hamilton always regarded himself—and was so regarded by the colonial elite—as an outsider. Gallatin's foreign status was undeniable. To be sure, he would briefly try to insinuate himself into landed gentry by buying land and building an

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uproot oneself and move to the United States was a "profound personal step" that would decisively shape each man's approach to public policy.[73] Credit creation benefited not only the entrepreneurial elite, but also immigrants like themselves who—unlike Jefferson, Madison, Washington, and so many of the other founders—had not been born into the landed gentry.

Social origins, in short, best explained why Hamilton's and Gallatin's visions for the country's future focused not on land, but rather on commerce and, in particular, on the establishment of institutions to facilitate the creation of credit for the rising generation of entrepreneurial men-on-the-make.[74] Energized in no small part by the existence of a sound national credit, the United States would become in the early republic a "hothouse" for the "germination of business" that would hasten the upward mobility of countless ordinary Americans of the "middling sort."[75]

The Founders and Finance was a fitting culmination to McCraw's four-decade-long intellectual odyssey. The "essence" of a "capitalist system," McCraw explained in his conclusion, reiterating a resolutely Schumpeterian claim that he had advanced in *Creating Modern Capitalism* and *Prophet of Innovation*, lay not in land, labor, or capital, or even in entrepreneurship. Rather, it was ultimately cultural, and manifested itself in a "strong psychological orientation toward the future."[76] This psychological orientation, in turn, was much strengthened by the "pervasive reliance" on credit by entrepreneurs and would-be entrepreneurs: "Despite its many faults, credit-based capitalism has turned out to be the most productive economic system ever devised, by a wide margin."[77] Yet to be

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estate in western Pennsylvania. Yet the venture failed, prompting him to return to the seaboard, where he would spend most of the rest his life in Washington, D.C., and New York City.

[73] McCraw, *Founders and Finance*, 365.

[74] Immigrant entrepreneurship furnished the theme for the last major scholarly essay that McCraw published, as well as for an op-ed piece in the *New York Times* that appeared two days before his death: McCraw, "Immigrant Entrepreneurs"; Thomas K. McCraw, "Innovative Immigrants," *New York Times*, 1 Nov. 2012.

[75] McCraw, *Founders and Finance*, 352–53.

[76] Ibid., 351.

[77] Ibid. As McCraw got older he placed more stress on Schumpeter's writings on credit creation. Credit creation figured little in, for example, the essay on Schumpeter that McCraw published in 1991. Far more important was the legacy of Schumpeter's ideas for postwar economic planning in Japan and the supposed affinities between Schumpeterian "creative destruction" and Chandlerian organizational capabilities. In *Founders and Finance*, in contrast, as in *Creating Modern Capitalism* and *Prophet of Innovation*, Schumpeter became a prophet not only of credit creation, the "money of the mind," but also of an extraordinarily dynamic kind of capitalism that, unlike Chandler's managerial capitalism, was, at its core, chaotic and unpredictable. "Above all else," McCraw declared in *Creating Modern Capitalism*, "capitalism is a perpetual motion machine. . . . As Joseph Schumpeter wrote, 'Stabilized capitalism is a contradiction in terms.'" No longer would McCraw associate innovation primarily with the large-scale managerial firm. In fact, McCraw went so far in his Schumpeter biography as to proclaim the

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successful, capitalism required not only the "active promotion of entrepreneurship," but also "constant monitoring by government," a task that both Hamilton and Gallatin had performed admirably.[78] No longer did McCraw posit, as he had in *Regulation in Perspective* and *Prophets of Regulation*, that the relative size of firms in a specific economic sector could be best explained primarily by technological imperatives and market incentives. The relative size of U.S. banks, after all, owed far less to technology or markets than to political fiat. In reaching this conclusion, he reaffirmed the priority of vision and political choice, a theme that had featured prominently in his two books on the TVA.

The implications of this shift in perspective could be extended beyond the early republic. No longer, for example, would it seem so self-evident that the main contours of economic regulation in the American past were best understood as a byproduct of the supposed "adversarial relationship" between government and business that had been hastened by the technological imperatives and market incentives that had supposedly shaped the late-nineteenth-century industrial corporation. On the contrary, the regulation of business (including finance) had also helped to create the entrepreneurial environment in which big business flourished. Just as government administrators should take business strategy into account in crafting government regulation, so too should historians acknowledge the extent to which political structure has shaped business strategy, as well as the other way around.[79]

History is not predictive. Yet historians can sometimes provide a perspective on the past that transcends the antiquarian, the aesthetic, or the merely instrumental. "Business," McCraw declared, in an essay on business history that he coauthored with a group of colleagues in 1999, "ought to be profoundly concerned about the maintenance of some kind of social harmony and ought to invest in creating and sustaining that harmony. Business is not a world apart. . . . Schumpeter's 'perennial gale of creative destruction' exacts a dreadful human toll. . . . Business requires moral choice. . . . We live in a relativistic universe,

"Schumpeter hypothesis" linking large-scale organization with fundamental innovation to be wrongheaded. On the contrary, McCraw concluded, Schumpeter admired start-ups and was agnostic with regard to the relationship of innovation and scale. Thomas K. McCraw, "Schumpeter Ascending," *American Scholar* 60, no. 3 (Summer 1991): 389–91; McCraw, "Retrospect and Prospect," 533; McCraw, *Prophet of Innovation*, 639n25. For a prefiguration of this revisionist interpretation of Schumpeter, see Louis Galambos's testimony in *National Competition Policy*, 184–85.

[78] McCraw, *Founders and Finance*, 353.

[79] I am grateful to Susan McCraw for helping to clarify McCraw's evolving view on the relationship between business strategy and political structure.

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but there are still some absolutes that must not be traded off."[80] Credit creation was a tricky business, and government administrators might well go wrong. Political choices mattered, McCraw warned in an angry editorial that appeared in *Forbes* on the eve of the 2008 financial crisis. Government administrators had a sacred obligation to ensure the transparency of the nation's financial markets, an obligation that the founders of the republic had met yet their successors had not: "Without enforcement, no transparency. Without transparency, credibility has nowhere to go. We (and that includes the central banks of China and Japan) can now believe in . . . what?"[81]

The Founders and Finance is best read as the history of a remarkably successful ongoing project rather than as a hopeful prelude to innovations that had yet to occur, or a lament for the lost promise of a vanished world. The "ultimate basis" of capitalism, McCraw candidly conceded in his American history textbook, was the "insatiability of human wants."[82] To contend that human wants were insatiable, however, revealed nothing about cultural expectations. What Hamilton and Gallatin sought for their country was neither boundless wealth nor perpetual innovation, but rather a new economy full of opportunities for immigrants like themselves.[83] This was a moral vision with which McCraw—who, while not himself an immigrant, had had a childhood that shared certain features with the "deep personal experience of rootlessness" of Hamilton and Gallatin—could easily identify and readily empathize.[84] *The Founders and Finance*, like McCraw's earlier publications, was a defense of this moral vision and, more broadly, of a profoundly humane sensibility that left a legacy of books and articles that are a fitting tribute to the deep learning, broad range, and graceful prose of a consummate scholar.

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[80] McCraw, Koehn, and Nelles, "Business History," 266–67.
[81] Thomas K. McCraw, "Just Trust Us," *Forbes*, 26 Oct. 2007, 32.
[82] McCraw, *American Business*, 253.
[83] McCraw, *Founders and Finance*, 326.
[84] Ibid.

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