

HOW CAPITALISM SAVED AMERICA: THE UNTOLD HISTORY OF OUR COUNTRY, FROM THE PILGRIMS TO THE PRESENT. BY THOMAS J. DiLORENZO. NEW YORK: CROWN FORUM, 2004

One advantage that Austrian economists have over those in the mainstream is that they often specialize in other disciplines besides economics. This Austrian phenomenon is particularly true in the field of history.

A case in point is Thomas J. DiLorenzo, professor of economics in the Sellinger School of Business and Management at Loyola College in Maryland. After reading his *The Real Lincoln*, one would think the writer was a historian who also specialized in economics. In his new book, *How Capitalism Saved America: The Untold History of Our Country, from the Pilgrims to the Present*, DiLorenzo not only maintains, but firmly establishes, his status as a historian of the highest caliber.

Aside from the fact that the book is authored by the highly respected (except among Lincoln idolaters) and widely-published Professor DiLorenzo, we know that it is sure to be a good read before we even get to the table of contents because of the book's dedication—"To Ludwig von Mises, the twentieth century's most dedicated and accomplished champion of free markets, individual liberty, and the free society." Not only will one not find Mises mentioned in most economics textbooks, the majority of economics professors have never even heard of him. It is no wonder then that this book is sorely needed to counteract the numerous myths and distortions of capitalism promulgated in college and university history and economics departments.

DiLorenzo clearly stands in the tradition of Mises, and quotes him quite often in the two introductory chapters of the book. But this is not merely a repackaged *Human Action* with a historical twist, for rather than parroting Mises, DiLorenzo introduces his readers to a diverse group of thinkers who have all had something to say about capitalism: John Locke, Murray Rothbard, Ayn Rand, Walter Williams, Leonard Read, Adam Smith, Joseph Schumpeter, George Reisman, Friedrich Hayek, Hernando de Soto, Tom Bethell, Thomas Sowell, Paul Johnson, Charles Adams, Henry Hazlitt, Israel Kirzner, Dominick Armentano, Presidents Thomas Jefferson and James Madison, and Congressman Ron Paul. Not that all of these individuals used the term *capitalism*, for as DiLorenzo points out, "The word *capitalism* was coined by none other than Karl Marx, who hoped that it would help in his crusade to denigrate the system of private property and free enterprise and promote socialism" (p. 1).

Although this is a book about capitalism, it is not a book on economics. As an economist, DiLorenzo is naturally quite at home when he discusses concepts like consumer sovereignty, supply and demand, scarcity, the division of labor, comparative advantage, inflation, price floors, price ceilings, monopoly, the free-rider problem, eminent domain, protectionism, mercantilism, rent seeking, embargoes, predatory pricing, and equilibrium prices. But because these concepts are all explained in layman's terms, and are only introduced when necessary, no prior knowledge of economics is required. In fact, because of the pervasive misunderstanding of capitalism, it might be better if the reader didn't know anything about economics because he would have less to "unlearn."

The title of the book may initially seem to be an exercise in hyperbole, but such is not the case. *How Capitalism Saved America* is indeed the untold history of our country. After a brief introduction and two very crucial introductory chapters on the nature of capitalism and the perpetrators of anticapitalism, DiLorenzo takes us through nine chapters of American history—from the Pilgrims to the recent California energy "crisis"—and shows "how, from the very beginning, capitalism has been vital to America's growth, and how excessive government interference in the economy has only exacerbated economic problems and stifled growth" (p. 4). Although the book is written chronologically, any of these nine chapters can be read independently. However, only one of them is necessary to see that the book's title is not an overstatement.

Because it was Marx himself who coined the term, it is no surprise that capitalism has been falsely thought to benefit only capitalists and the rich while exploiting workers and the poor. DiLorenzo dismisses as Marxist propaganda the idea that capitalism is "a zero-sum game in which 'somebody wins, somebody loses'" (p. 13). Instead, "Capitalism succeeds precisely because free exchange is mutually advantageous" (p. 11). And not only does it succeed, it is "the source of civilizations and human progress" (p. 1). Capitalism has "brought to the masses products and services that were once considered luxuries available only to the rich" (p. 12). Capitalism is not only "the best-known source of upward economic mobility" (p. 26), it "actually reduces income inequalities within a nation" (p. 26). In short, capitalism alleviates poverty, raises living standards, expands economic opportunity, and enables scores of millions to live longer, healthier, and more peaceful lives.

DiLorenzo makes great claims for capitalism. But consider the alternative: "The more regulations, controls, taxes, government-run industries, protectionism, and other forms of interventionism that exist, the poorer a country will be" (p. 4). Why then is capitalism blamed for causing monopolies, harming consumers, endangering workers, damaging the environment, causing instability, exploiting the Third World, breeding discrimination, and causing war? Why does "a careful review of our nation's history" reveal "a long series of myths that demonize capitalism" (p. 4)? DiLorenzo believes that because there is "a widespread misunderstanding of what capitalism is, our leaders—and also much of the general public—incorrectly blame capitalism for any economic problems we face" (pp. 2-3).

The author spares no one in showing the tremendous anticapitalist bias in existence today: the entertainment industry, universities, intellectuals, private foundations, journalists, radio and television personalities, columnists, government regulators and agencies, environmentalists, politicians, egalitarians, ministers, priests, religious leaders. Indeed, even "most businesspeople are not even capitalists" (p. 43). DiLorenzo indicts large corporations, not because they are large or because they are

corporations, but because “many corporations support interventionist or anticapitalist policies like trade protectionism or corporate welfare because they hope to benefit from the policies at everyone else’s expense” (p. 45).

Echoing Murray Rothbard, DiLorenzo carefully distinguishes between free-market capitalism and state capitalism. Free-market capitalism—“true capitalism” (p. 5)—is based on secure private property rights, the division of labor, social cooperation, freedom of contract, freedom of association, and voluntary exchange on the free market. It is characterized by an absence of “excessive government regulation and taxation” (p. 5). DiLorenzo considers private property “the most important distinguishing feature of capitalism” (p. 14). In a system of private property, “individuals are free to choose different occupations, consumption patterns, or lifestyles as long as they don’t interfere with the freedom of others to do the same” (p. 15). The absence of “property rights protections is a major cause of world poverty” (p. 19). Another theme that appears throughout the book is the crucial role of the entrepreneur in a capitalist society.

True to the book’s subtitle, DiLorenzo begins in chapter three with the Pilgrims. Why did so many of the early American settlers starve? They adopted communal ownership of land and property. The absence of property rights—one of DiLorenzo’s cornerstones of capitalism—destroys the work ethic and leads ultimately to starvation. After the securing of private property rights, the settlers began trading with the Indians and exploiting their comparative advantages. On the eve of the American Revolution, capitalism had made the American colonists wealthier, taller, and in better health than their British counterparts (p. 62).

In chapter four, “America’s Capitalist Revolt,” DiLorenzo examines the economic issues behind the Declaration of Independence and the Constitution. He maintains that one must understand the economic context within which the Declaration of Independence was written. King George “wanted to forcefully impose British mercantilism on the colonies” (p. 64). Beginning with the Molasses Act of 1733, DiLorenzo recounts all the egregious attempts of Great Britain to tax and restrict the trade of the colonists: the Navigation Acts, the Sugar Act, the Stamp Act, the Townsend Acts, and the Tea Act. He continues with what he considers to be the “safeguards” built into the new constitution to protect capitalism: the Contract Clause, the Commerce Clause, the Due Process Clause, the Uniform Taxation Clause, and the General Welfare Clause. However, because of the later abuse of these clauses, DiLorenzo’s elaboration of these “safeguards” may be seen as a little too brief.

One of the most common objections to the ideal of a free society based completely on private property is the matter of transportation—railroads, canals, and roads. In “Highways of Capitalism” DiLorenzo tackles this concern head on and destroys the myths of the “free-rider” and “eminent domain” problems.” The fact is “most roads and canals were *privately* financed in the nineteenth century” (p. 80). Because economics is the main decision-making criterion in private road building and politics is the main decision-making criterion in government road building, “private road building is *inherently* more efficient than government-run road building” (p. 86). DiLorenzo labels the calls for tax-funded transportation projects for what they are: “corporate welfare” (p. 80).

The next myth exploded in *How Capitalism Saved America* is that capitalism exploits the working class. The author considers this to be one of the most pervasive and pernicious myths about capitalism (p. 93). The truth is just the opposite:

“Capitalism has continually improved the lot of the working class” (p. 93). Capitalism results in more leisure time, provides new, better, and cheaper goods, and increases workplace safety, productivity, and wages. DiLorenzo defends “child labor” and “sweatshops” with an argument that should be quite obvious: They were better than the alternatives of malnutrition, starvation, prostitution, begging, and stealing (p. 95). It is the increased productivity per adult worker brought about by capitalism that eliminates the need for child labor—whether in manufacturing or agriculture. The myth that labor unions are responsible for the long-term rise in wages and living standards in America is similarly demolished.

The exploits of the heroic entrepreneurs falsely referred to as “robber barons” merits a whole chapter. Focusing on James J. Hill (railroads), John D. Rockefeller (oil), and Cornelius Vanderbilt (steamships), DiLorenzo concludes that these men were heroes because they improved the lives of millions of consumers, employed thousands of people, created entire cities, pioneered efficient management techniques, and donated hundreds of millions of dollars to charities (p. 133). He carefully distinguishes between what he calls a “market entrepreneur” and a “political entrepreneur” (p. 111). A market entrepreneur succeeds by pleasing his customers; a political entrepreneur succeeds by influencing the government.

In “Antitrust Myths” DiLorenzo refutes “the story of how capitalism supposedly became monopolistic in the late nineteenth century, and how it was brought under control by antitrust regulation” (p. 135). Indeed, he considers “the whole story of antitrust” to be a myth (p. 136). Rather than being monopolies that restricted output to drive up prices, the late-nineteenth-century trusts “were expanding production and dropping prices” (p. 140). The Sherman Antitrust Act (1890) was in reality “designed to protect incompetent businesses from superior competition, not to protect consumers from monopoly” (p. 141). Why then did many businesses support the Sherman Act? The same reason that many corporations today support interventionist and anticapitalist policies: They wanted to use the power of government to hurt their competitors. Most of the major antitrust cases are revisited here: American Tobacco Company, Alcoa, the Ready-to-Eat Cereals Case, Brown Shoe Company, IBM, Schwinn, RCA, Pan Am, and, of course, Microsoft. DiLorenzo concludes that the entire antitrust system has served to lessen business competition and the efficiency and productivity of the free market (pp. 146-47).

Chapter nine is devoted to the Great Depression. Here our author disposes of two myths: that the Great Depression was caused by the breakdown of capitalism and that government intervention was the remedy to save it. Using Austrian business cycle theory, and relying on Murray Rothbard’s *American’s Great Depression*, DiLorenzo explains in simple terms what caused the recession that Herbert Hoover turned into the Great Depression. Hoover was “an FDR-style interventionist” (p. 160) with “a dangerously poor grasp of economics” (p. 161) who “did just about everything wrong that could have been done” (p. 178). Hoover’s misguided policies and socialistic programs attacked free-market capitalism and exacerbated the Great Depression. Of special concern to the author is the Smoot-Hawley Tariff—signed into law by President Hoover despite a letter of protest signed by more than a thousand economists. Under what DiLorenzo terms the “Smoot-Hawley-Hoover tariff” (p. 172): “The average tariff rate soared to 59.1 percent, the highest in American history” (p. 172). The result of these increased tariffs—the hallmark of Republican economic policy since Lincoln—was a trade war that dried up the importation of many items completely, brought about

retaliatory tariffs, deepened the Depression, and contributed to the rise of Japan's militaristic nationalism.

An even bigger myth than the cause of and remedy for the Great Depression is that FDR's economic policies got us out of the Great Depression. DiLorenzo calls this the "biggest economic myth of the twentieth century" (p. 179), and appropriately makes "How the New Deal Crippled Capitalism" his longest chapter. Roosevelt's grasp of economics was even less than that of Hoover. Because he believed that low prices caused the Depression, FDR paid farmers to burn their crops and slaughter their livestock. This was followed by paying farmers not to grow crops or raise livestock. Roosevelt's alphabet soup of new federal programs and agencies (NRA, NIRA, AAA, CCC, WPA, TVA, Social Security, Fair Labor Standards Act, National Labor Relations Act, etc.) destroyed jobs and hindered recovery. FDR's "cure" for the economy was government spending on make-work projects; his "cure" for unemployment was to conscript millions of men and send them to an overseas war. DiLorenzo concludes that, "in reality, FDR's economic policies made the Great Depression much worse; caused it to last much longer than it otherwise would have; and established interventionist precedents that have been a drag on economic prosperity and a threat to liberty to this day" (p. 179).

So what does DiLorenzo credit with finally ending the Great Depression? Naturally, the answer is capitalism. Economic prosperity was not restored until 1947—after the scaling back of government spending, intervention, and regulation.

The last chapter before the book's conclusion deals with an event most of us have lived through: the energy crisis. Here DiLorenzo takes up oil, natural gas, and electricity. The American oil industry began in an environment of laissez-faire. It sustained its first attack when the Sherman Act was used to break up the Standard Oil Company. Then came World War I, and government central planning of the oil industry. Naturally, this "collaboration" between government and industry was not ended after the war. The shortage of gasoline in the early 1970s was not just the result of the OPEC oil embargo. DiLorenzo also faults increased regulations and price controls. He also views the natural gas "crisis" as government-induced, and credits deregulation of oil and natural gas with ending the energy crisis. He also explains how regulation and not deregulation was the cause of California's recent electric power crisis. The all-too-familiar circle of the government regulating an industry, creating a "crisis," and then intervening even more to solve the crisis, thus making things worse, is no where more apparent than DiLorenzo's examples from the energy industry.

The book concludes with a look at "the never-ending war on capitalism" by government intervention, regulations, agencies, and bureaucrats. DiLorenzo also includes university professors, politicians, and lawyers in his indictment. "American universities devote an inordinate amount of time and resources to teach potential business leaders not how to be capitalists but how to be corporate bureaucrats" (p. 230). Politicians "view businesses as cash cows to be plundered for the benefit of their own political careers" (p. 230). "Lawyers now have incentives to spend their lives digging up cases and evidence against corporations because some consumers stupidly misused their products" (p. 240). DiLorenzo also briefly reviews three anticapitalist but best-selling books: Eric Schlosser's *Fast Food Nation: The Dark Side of the All-American Meal*, Barbara Ehrenreich's *Nickel and Dimed: On (Not) Getting By in America*, and Michael Moore's *Stupid White Men* and *Downsize This!* He finds that the capitalism attacked in these books is not capitalism at all, it is socialism, mercantilism,

interventionism, and assorted anticapitalist myths. Although these “reviews” are an added bonus to the book, they would be even better if they were lengthened and made into a series of appendices.

How Capitalism Saved America is a great book in every respect. At 295 pages, it is not too long. The chapter titles are indicative of their contents. The chapters are subdivided with section headings. The introduction not only introduces the reader to capitalism and anticapitalism, it briefly summarizes the content of each of the chapters. The conclusion is not merely a recasting of the introduction. The book is extremely well-written, with a careful use of italics. The book is also very well-documented. And although the notes have been relegated to the end of the book, the page numbers on which they appear are given as a header to facilitate finding them. The bibliography does not contain every work mentioned in the book, but is annotated, and will certainly stimulate further reading on a variety of topics that relate to capitalism. And yes, the book has an index.

Thomas DiLorenzo has written a masterpiece. This book should be required reading for every college freshman to immunize him against the anticapitalist drivel he will get in his history and economics classes. It should be required reading for every college graduate to destroy the myths of capitalism that he was exposed to while a student. But this is not just a book for students, for every teacher, politician, and minister needs this book as well. For those of us who are already true free-market capitalists, we have not only a great reference source, but a great weapon in our arsenal against all varieties of socialism, interventionism, and anticapitalism.

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