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BOOK REVIEWS

Rowena Olegario, *The Engine of Enterprise: Credit in America* (Cambridge, MA: Harvard University Press, 2016), pp. 312, $41 (hardcover). ISBN: 9780674051140.

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The financial history of the US is a rollercoaster, and *The Engine of Enterprise* takes you along for the ride. The strength of the work is in the narrative, and credit is portrayed as the protagonist of an engaging drama. Credit's twin faces are lending and borrowing, which is itself indicative of credit's dual nature. On the one hand, credit can be a force for good. Lending is responsible for financing the American dream, and it makes long-run economic growth possible. On the other hand, credit can be a force for evil. Mismanaged debt burdens consumers, leads to bankruptcies, and causes short-run economic recessions. For good and bad, *The Engine of Enterprise* tells the exciting story of America's financial development, warts and all.

The book fills a missing niche, which is a complete but brief history of credit and debt in America that is meant for the general-interest reader. The time for it is ripe, as growing national indebtedness and the recent financial turmoil have led to a general anxiety about debt and an increased interest in its effects. Given the format, the exposition is light on academic jargon and journal article citations, and there is little by the way of systematic data analysis. Instead, the reader is treated to a narrative filled with interesting tidbits of information and many references to the secondary literature. Olegario stays strictly within the lines of received majority opinion. This is probably a good thing for an overview meant for the general reader. But there is a downside, which is that the book does not offer anything novel, it cannot pursue any subject in much detail, and it must skip over many areas of academic disagreement. The narrative also lacks any explicit economic theory, which occasionally becomes problematic. For example, there is a lack of clarity about the distinction between money and credit that permeates the book. Or, to take another example, during the discussion of the real bills doctrine, the theoretical underpinnings of the doctrine are unstated and the economic consequences of following the doctrine are not mentioned.

The overall story arc of the book is about how credit has slowly spread wider and wider and become more available. The book is divided chronologically into five chapters and a postscript. Each chapter explores the general contours of five areas relating to credit during a specific time period in American history. These areas are the evolution of private credit markets, government regulations and laws regarding debt and lending, changing cultural attitudes toward debt, and the role of debt in economic growth and business cycles.

Chapter 1 tells the story of credit from the Colonial period through to the end of the eighteenth century. It discusses how many of America's most important financial institutions, including commercial banks, the government bond market, and the stock market, were first created during this period, and how these financial developments affected

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the economy and Americans' attitudes toward debt. On the one hand, the improved financial intermediation substantially increased lending, which increased capital formation and led to economic growth and a substantial increase in the standard of living. But, on the other hand, it also increased indebtedness and the frequency of bankruptcy, and it subjected the economy to more short-run instability. Financial markets allowed fortunes to be amassed quickly or lost in the blink of an eye; first came the speculative rise and fall of William Durer and the financial crisis of 1792, and then the fall of William Morris and the financial crisis of 1797. These episodes are fascinating to read about, and they are a reminder that for as long as there have been financial markets, there have been financial crises.

The narrative of chapter 1 gives special attention to three founding fathers: Benjamin Franklin, Alexander Hamilton, and Thomas Jefferson. Franklin, we learn, supported state-issued bank money backed by land, and his *The Way to Wealth* epitomized Americans' view that virtuous character and good credit go hand in hand, and defaulting on debt reveals the moral failing of the debtor. What was the basis for this viewpoint? In one of the strongest sections of the book, Olegario explains that during this time most loans were personal, and reputation and repeated interaction between private parties largely regulated lending. Private, informal mechanisms developed in order to disseminate information about the character and credit-worthiness of borrowers, to solve principal-agent problems, and to enforce contracts at a time when formal institutions were undeveloped; most business lending was long-distance, and technology was limited. Hamilton is held up as the main hero of this period, especially for his role in funding the US debt by creating US Treasury securities and the First Bank of the United States. Jefferson is presented as Hamilton's vanquished rival, an agrarian idealist who opposed financial innovation and wasn't ready for the modern world. Personally, I disagree with this interpretation and find it overly simplistic, although it is common practice among historians. Amusingly, the author states, "It would be unjust to present Jefferson simply as the foil to Hamilton's modern vision of finance" (p. 38), and then proceeds to do just that without mentioning or citing anything to the contrary. Other interesting topics discussed in chapter 1 include the existence and ineffectiveness of usury laws, the bankruptcy laws and debtor prisons, the various forms of money that were created, and the crucial role that store credit played in supporting consumption spending.

Chapter 2 examines the period between 1800 and the Civil War. The most important development during this period was the explosion in the number of commercial banks. Bank capital and bank credit expanded rapidly, and likely contributed to economic growth. However, the need for banks to obtain state charters in order to operate, and the restrictions on branch banking, led to a proliferation of small, undiversified banks that left the US banking system fragile and prone to periodic crises. Olegario ably explains how overexpansions of bank credit and subsequent contractions led to business cycles and severe recessions in 1819, 1837, and 1856. Perhaps surprisingly to the modern reader, commercial banks did not yet provide credit for consumer loans or mortgage loans. Instead, consumers had to rely on the store credit of retailer stores, while home buyers turned to private lenders, or increasingly to building and loan associations and mutual savings banks. Overall, credit flowed freely at reasonable interest rates throughout the entire nation, including to the west and also in the South, where the factorage system of credit fueled the cotton export trade. Usury laws stayed on the books, but were easy to work around, and an entrepreneurial process of discovery led to the creation of the first credit reporting agencies. A strong point of this chapter is that it reveals the close interaction between the developments in finance and in politics during this era. Highlights include Andrew Jackson and the Democrats' campaign to abolish the Second Bank of the United States, and the Whigs' passage of the Bankruptcy Act of 1841 and its subsequent repeal by the Democrats two years later.

Chapter 3 examines credit conditions from the Civil War until the early 1900s. It correctly emphasizes the fragile nature of the American banking system during the National Banking Era. Government bond capital requirements and restrictions on branching resulted in an inelastic currency and a large number of weak and undiversified banks that were prone to seasonal panics, culminating in the Panic of 1907 and the establishment of the Federal Reserve System in 1913. One highlight of the chapter is the discussion of how the defects of the monetary institutions shaped the Populist movement and culminated in William Jennings Bryan's "cross of gold" speech in 1896. Another highlight is the discussion of the lack of consumer credit. Ironically, usury laws were enforced more heavily, but led to paycheck discounting at high interest rates, and pawnshops' playing a surprisingly large role in providing credit to cash-strapped consumers. Other interesting topics include the discussion of financial conditions in a South that was hindered by inadequate capital flows and high interest rates, the development of mortgage markets, the financing of railroads and other corporations and businesses, and a discussion of the rise of investment houses and the leading role that J. P. Morgan played in the development of financial conditions.

Chapter 4 examines the period from the Great Depression through the 1970s. During this period bank lending was made widely available to everyday consumers and home buyers, and many financial institutions start taking on their modern form. The discussion of Depression-era legislation and financial reforms is informative and laden with provocative tidbits. For instance, the Federal Deposit Insurance Corporation is explained to have been a product of lobbying by unit banks against larger banks, and had the negative unintended consequences of simultaneously preserving unit banks while introducing a moral hazard into the financial system that would lead to future calamities like the 1980s Savings and Loan Crisis. On the consumer credit front, we learn about the significance of automobile finance and the fascinating history of the market emergence of the credit card, which was not imagined by a single entrepreneur. "Instead, the universal credit card evolved out of a series of innovations and trial-and-error experiences that saw banks collectively lose millions of dollars before they figured out how to make the card profitable" (p. 144). Almost as interesting are the histories of the development and modernization of credit-reporting agencies and bond-rating agencies that round out the chapter.

Chapter 5 chronicles the erosion of lending standards that precipitated the Great Recession. It places some of the blame on deregulation of the financial sector beginning in the 1980s, and on market-based innovations like securitized debt instruments. But the government is also implicated for its role in promoting risky mortgage debt, especially through its regulation of government-sponsored enterprises. The reader is treated to titillating details about the trials and tribulations of the overindebted American: besides the explosion in mortgage debt, there's also the crushing credit card debt on which nearly half the cardholders make only minimum payments; there's the student loan debt with default rates as high as 30%; there's fringe lending payday loans, rent-to-owns, and pawnshops; there's even out-of-control corporate debt with Michael Milken and the rise of the junk bond market. Meanwhile, bankruptcy filings explode and the bankruptcy code is rewritten to be friendlier to the debtor. One is left with the impression that credit has gone from being too hard to obtain to too easy, and out-of-control debt-financed consumption and investment is ripe for a correction.

The final chapter is a brief postscript that discusses in a few pages the financial innovations that allowed for the securitization of mortgage debt, the prevalence of credit default swaps, the financial crisis in 2007, the government's response to the crisis by bailing out the financial sector and imposing stricter capital requirements, and the Federal Reserve's response of emergency lending and large-scale asset purchases. As a reader, I couldn't help but feel a little disappointed that the final chapter was so brief. At the least, I was expecting it to cover the major themes in as much detail as it did for the earlier periods. I was hoping that a deeper understanding of the Great Recession would be a major payoff for investing so much time into learning about the history of credit in America. Instead, the financial innovations and convulsions of the last twenty years are somewhat glossed over and relegated to a brief postscript. I suppose my disappointment with the ending reflects my biggest personal dissatisfaction with the book, which is that it contains a lot of description, but not much instruction. The greatest works of economic history use the experiences from the past to help clarify the present. Of course, my disappointment is mostly my own fault for wanting more out of a work than it means to give. The author's main intention is to synthesize a large body of literature and then provide the general reader with knowledge about the history of credit in America, and not to make any pronouncements that might be theoretically debatable or potentially construed as having a political or ideological bent. That is fair enough, and the book succeeds in meeting its objective. Overall, *The Engine of Enterprise* is a fast-paced, entertaining, informative narrative of the entire history of credit in America. I recommend it to anyone who is interested in the history of finance or private enterprise.

Nicholas Curott
Ball State University

Manuela Mosca, *Antonio de Viti de Marco: A Story Worth Remembering* (Basingstoke: Palgrave Macmillan, 2016), pp. 141, $100. ISBN: 9781137534927.

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Several years ago I emailed Steve Medema and asked him if there was any chance that more of the early Italian literature on public finance and public choice would be published. We rued the lack of access to that literature in English. Antonio de Viti de Marco's *First Principles of Public Finance* was, of course, already available, through the work of Arthur and Edith Marget (de Viti de Marco 1936). And at least one key work of each of his successors, Maffeo Pantaleoni (1898) and Luigi Einaudi (2006), have now been made available. But there are still many gaps for those of us who cannot be immersed in the Italian editions. Now, with the publication of this volume and the accompanying video documentary (available at vimeo.com/29599475), we at