of the more general history of American economic and political development. Perhaps scholars will conclude that important shifts in the organization of the civilian side of the national political economy have been mirrored by changes on the military side. But it also seems possible that historians might find that developments in the defense sector may have figured in some instances as leading indicators, or even driving forces, of broader developments. For example, historians might do more to explore how the steps taken toward the privatization of the military-industrial complex in the 1950s and 1960s might have related to other aspects of the transformation of the so-called New Deal order. They might even consider whether those developments in the defense sector may have prefigured, and contributed to, changes in the broader political economy, including the moves toward deregulation and neoliberalism that are often described as flowering in the 1970s.[43]

This essay may also serve to suggest how revisiting the past may liberate us to consider a wider range of viable policies in the present day. It may well be that even after looking harder at the longer-run history of the military-industrial complex, policymakers will still conclude that the military should continue to get most of what it needs from for-profit contractors. But at least that policy choice would be better informed by an awareness that many intelligent policymakers in the past favored different arrangements, in part because of their concerns about equity and the balance of power between public and private actors.

For today's historians of business and politics, the opportunities for doing important new work in this area seem substantial, in part because their predecessors, over the past couple of generations, have let the ground lie mostly fallow. A new generation of scholars, by doing more to comprehend the defense sector, should be able to write fuller, richer histories of business and politics in America.

Chapter 5

Beyond the New Deal: Thomas K. McCraw and the Political Economy of Capitalism

Richard R. John and Jason Scott Smith

Political economy is back. Following a long hiatus, the relationship between business and politics has reemerged in recent years as a compelling concern for historians of the United States. Writing in 2014, historian Beth Bailey put it well. American history, she observed, was currently in the midst of "what appears to be a major historiographical transition," bringing to a close the "long dominance of social and then cultural history" while lifting up "new studies of politics and institutions, political economy, and transnational history."[1] One testament to this sea change is the frequency with which the contributors to *American History Now*, an influential survey of recent trends in the field, invoked the phrase "political economy" in their essays. As recently as the 1980s, the frequency with which the phrase is now popping up would have been inconceivable: instead of putting political economy front and center, it would have been would have been more likely for a senior scholar to dismiss the topic as a dry-as-dust relic of an outdated mode of institutional-economic analysis. Now it is all the rage.[2]

If such a transition is indeed under way, and we believe that it is, then historians will naturally raise questions about its lineage. Might there be visionary forebears who can furnish the current generation with guidance as they navigate a new and perilous terrain? All historians stand on the shoulders of giants. This essay contends that the Harvard historian Thomas K. McCraw anticipated—and, if carefully read, can help inspire—the legion of historians who are turning their attention to topics that lie at the intersection of business and politics (understood broadly to include public policy, public administration, and the state), including those who have enlisted under the banner of the history of capitalism.

This essay has four sections and a brief conclusion. The first section showcases affinities between McCraw's oeuvre and the history of capitalism, a field that would not acquire a widely recognized collective identity until 2011, one year before McCraw's death.[3] McCraw, in our view, was a historian of capitalism *avant la lettre*, a distinction that has been echoed by McCraw's longtime Harvard colleague Sven Beckert, a leading light in the field.[4]

The second section surveys the first phase of McCraw's career, during which he was primarily concerned with the relationship of individuals and ideas. During this phase of his career, McCraw relied on an actor-oriented contextualism to demonstrate how a small number of business managers, government administrators, and lawmakers used institutional economics to influence public policy during the New Deal, inventing an innovative array of new institutional arrangements that he called the "mixed economy." The third section shows how McCraw shifted from contextualizing institutional economics to using institutional economics as an explanatory scheme. No longer did McCraw merely historicize theory; now he used theory to write history. It was in this phase of his career that McCraw published what probably remains today his best-known book, the Pulitzer-Prize winning *Prophets of Regulation*.[5] The fourth section, which is followed by a brief conclusion, shifts attention to what we regard as the major phase in McCraw's career, during which he expanded his range beyond the United States to compare and contrast the evolution of institutional arrangements in the United States with those in other parts of the world. It was during this phase that McCraw published what we regard as his two most enduring single-author books—both of which, interestingly, appeared following his retirement: *Prophet of Innovation: Joseph Schumpeter and Creative Destruction* (2007) and *Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy* (2012).[6] Since the focus of this book is the twentieth century, we will focus on *Prophet of Innovation*. Readers interested in *Founders and Finance* can learn more about its relationship to McCraw's oeuvre in an already-published essay by one of this essay's coauthors.[7]

Prophet of Capitalism

Although McCraw taught business history for many years at the Harvard Business School, he was never only a business historian. Instead, he drew on several disciplinary traditions to explore a wide array of topics that ranged from biography, entrepreneurship, and regulation, to public policy, innovation, and economic thought. In Joseph Schumpeter's seminal *Capitalism, Socialism, and Democracy*, McCraw observed, the Austrian economist "freely crosses traditional boundaries of economics, history, political science, sociology, philosophy, law, and business."[8] Much the same could be said of McCraw himself.

McCraw's death in 2012 (he was 72) deprived the rising generation of historians of capitalism of an inspirational, eloquent, and influential ally. Though McCraw grew up in a very different world from the historians who currently dominate this field, he shared many of their aspirations and concerns. Like today's historians of capitalism, McCraw was impressed by credit creation as an engine of innovation; admiring toward the New Deal and its legacy; skeptical of what we today call the neoliberal turn in politics and economics; hostile toward market fundamentalism; sympathetic to institutional economics; committed to locating American cultural norms and institutional forms in a cross-national setting; dedicated to depicting key figures in politics, business, and economics as fully rounded protagonists rather than one-dimensional stick figures; and convinced that the relationship of business and politics (or what McCraw preferred to call "business-government relations," or "regulation") should be studied as a single, ever-evolving process.

Historians of capitalism presuppose, as Beckert has observed, that "states and markets, politics and business, cannot be understood separately from one another."[9] McCraw could not have put it any better. Beginning in the early 1970s, McCraw turned his attention to the relationship of business and politics in the American past, a theme that he would explore not only for the twentieth century, his own specialty, but also for the early republic.

McCraw's understanding of capitalism built not only on the social and cultural themes that have proven so influential for historians of capitalism but also, and even more directly, on the celebrated insight of Joseph

Schumpeter that, at its core, capitalism is a "perennial gale of creative destruction."[10] For McCraw, as for Schumpeter, capitalism was protean, unpredictable, disruptive, and surprisingly fragile. Nothing about its past was inevitable, and nothing about its future could be taken for granted. In all these ways, McCraw and Schumpeter differed profoundly from the law-and-economics orthodoxy of the Chicago School of economics, with its equilibrium models and self-regulating price mechanisms. Underscoring this distinction, McCraw explained that Schumpeter was perhaps the "most insightful" of "all critics of perfect competition." This was because the "creative destruction" that Schumpeter had in mind was driven not by price competition but instead by innovation, or what Schumpeter called the competition from the "new commodity, the new technology, the new source of supply, the new type of organization." By commanding a "decisive cost or quality advantage," this kind of highly disruptive, non–price-based competition struck "not at the margins of the profits and the outputs of the existing firms" but, instead "at their foundations and their very lives."[11]

McCraw's understanding of capitalism became increasingly sophisticated as his career evolved. In his first two books—each of which he researched in graduate school, and each of which focused on the Tennessee Valley Authority (TVA), a vast public works project that helped define Franklin D. Roosevelt's New Deal—McCraw deployed an actor-oriented contextualism to understand his protagonists. In his next major publication, *Prophets of Regulation* (1984), McCraw combined actor-oriented contextualism with the conceptual apparatus of institutional economics to chart the evolution of the independent regulatory commission. In the years between 1984 and his death in 2012, McCraw expanded his ambit still further in a series of publications that compared and contrasted the relationship of business and politics in the United States, Britain, Germany, and Japan. His most important single-author books from this period were *Prophet of Innovation*, a sweeping, evocative, and penetrating biography of Joseph Schumpeter, and *Founders and Finance*, a perceptive and persuasive history of the origins of American public finance.

McCraw never wavered in his deep admiration for Franklin D. Roosevelt's New Deal—and, in particular, for its embrace of the "mixed economy," a public-private hybrid in which private corporations remained the primary engine of wealth creation, while public agencies assumed an unprecedented measure of responsibility for regulating business and labor, monitoring financial speculation, increasing business investment, and promoting

economic prosperity. The preponderance in the 1950s and 1960s of a rapidly expanding middle class could best be explained not by demographic expansion but instead by "government actions instituted during Roosevelt's presidency" to safeguard the elderly by instituting Social Security, protect the jobless through unemployment insurance, establish a living minimum wage, manage aggregate demand through deficit spending, and strengthen the labor movement by mandating collective bargaining with the Wagner Act. On certain topics, such as the most likely locus of innovation, McCraw would shift his views over time. Yet he never abandoned his bedrock conviction that, as an engine of wealth generation, the "mixed economy" had been a stunning success. The United States could be faulted for many things, but not for its failure to expand output in ways that earlier generations would have found utterly astonishing.[12]

In his later publications, McCraw would move beyond the New Deal in a dual sense. Most obviously, McCraw would shift his attention to other topics. Instead of doubling down on the history of regulation, he expanded his range to capitalism, innovation, and the history of economic thought. The second way in which McCraw altered his perspective was by adopting a chronologically expansive understanding of the New Deal's legacy. McCraw's New Deal did not end in 1939 or, as it would for Columbia University historian Alan Brinkley, with Roosevelt's death in 1945. Rather, it became the indispensable modus vivendi for the historically unprecedented upsurge in economic growth that the United States would enjoy between the Second World War and the economic downturn of 1973.[13]

Historians of capitalism might prefer to call the "mixed economy" a "political economy" rather than an economy, and some skeptics will certainly raise questions about McCraw's enthusiasm for economic growth.[14] Even so, if American historiography is indeed taking a political-economic turn, then we would be well advised to reflect on the economic ideas and institutional arrangements that undergirded the postwar boom. And these ideas and institutions were emphatically not the free-market fundamentalism that is so fashionable today. On the contrary, economic growth was stimulated not only by the private sector, which McCraw always regarded as the single most powerful wealth creator, but also by governmental institutions that operated not only as an engine of innovation but also as an agent of liberal reform. At his most ambitious, McCraw probed the relationship of institutions and ideas, as Schumpeter had before him, on five different layers: the firm, markets, institutions, cultural values, and leadership.[15] All in all, this was a hugely ambitious agenda that, if it were to be embraced by today's historians of capitalism, would have the potential to complete the epochal "historiographical transition" to which Bailey alluded in the passage that was quoted at the beginning of this essay.

Actor-Oriented Contextualism

It is one thing to recognize the merits of a multilayered explanatory scheme to explore the relationship of ideas and institutions and quite another to devise a suitable method to facilitate its study. The first method McCraw hit upon was, like so much of his best writing, biographical. For McCraw, biography was a means rather than an end. In particular, it provided him with a highly flexible tool to reconstruct the character and significance of the decisions of identifiable historical actors. The primary unit of analysis was never the individual or even the group, but instead the context in which historical actors lived, worked, and thought. Toward the end of an essay on the legacy of early twentieth-century progressivism, McCraw paused to "indulge" in what he termed the "ahistorical and risky enterprise" of identifying the most important generation of reformers in the American past. In this exercise, McCraw awarded first place to the late eighteenth-century founders of the republic; second place to the New Dealers of the 1930s; and third place to the progressives. This exercise in "rankings and reputations," McCraw freely conceded, was nothing more than a parlor game, since the historians' primary unit of analysis was neither the individual nor the group but the process through which individuals and groups interacted.[16]

McCraw's fascination with process had its origins in his graduate training in the 1960s at the University of Wisconsin in Madison. The Madison history department in McCraw's day was a petri dish brimming with new and sometimes radical ideas. A distinguished galaxy of left-leaning historians that included Merle Curti, George Mosse, and William Appleman Williams was creatively reworking the half-century-old progressive canon of Charles Beard, Vernon Parrington, and Frederick Jackson Turner. Warren Susman, who had studied history at Wisconsin in the 1950s, summed it up this way: "There are three parts of the god-head here at Wisconsin—the Father, the Son, and the Holy Ghost—Beard, Parrington, and Turner."[17] The persistence of the progressive tradition in a department that was receptive to the radical currents of the 1960s would shape

the influential interpretative tradition known as the "Wisconsin School" and would help make the department-sponsored journal *Studies on the Left* (founded in 1959) what intellectual historian Peter Novick would call the "first, and in many ways the most important organized vehicle of the new historiographical left."[18]

Madison exposed McCraw to both the familiar, and sometimes ossified, political-economic radicalism of the Progressive era and the New Deal, as well as to the emerging New Left critique of American power that had been energized by the Civil Rights movement and the growing furor over the Vietnam War.

McCraw shared the Wisconsin School's interest in the relationship of business and politics and in 1989 would publish a thoughtful review of one of the foundational monographs to come out of the New Left–inspired "corporate liberal" tradition.[19] Yet his intellectual orientation had already been fixed by the time he arrived in Madison. The son of a TVA engineer, McCraw obtained his B.A. at the University of Mississippi, which he had funded by winning a scholarship from the Navy ROTC. Following his college graduation and prior to his arrival at Wisconsin, McCraw would serve an obligatory four-year stint as a naval officer—a venture that would give him first-hand exposure to a giant organization that he would repeatedly draw on in his scholarship, and that would set him apart from the vast majority of his graduate-school peers.

The TVA was a signal achievement of Franklin D. Roosevelt's presidency, and McCraw proudly described himself as "a dyed-in-the-wool New Deal Democrat."[20] McCraw's dissertation on the TVA, a topic suggested to him by his TVA-engineer father, was, as he initially conceived of it, a study of individuals and ideas. Only later, he would observe, would he come to see that its actual subject was the "the seductive power of organization."[21]

McCraw's mentors in graduate school included the intellectual historian Paul Conkin and the legal historian James Willard Hurst.[22] McCraw's dissertation advisor was Paul W. Glad, a political historian who had published a sympathetic biography of Populist firebrand William Jennings Bryan. Glad joined the Madison faculty in 1966, the same year McCraw began graduate school. McCraw obtained his Ph.D. in 1970, just four years after he had arrived in Wisconsin. By the end of the following year, he would have two books in print. Although Glad would not exert an enduring influence on McCraw's career, he was, McCraw reminisced, a "wonderful adviser" who helped set McCraw on his future path by constantly pushing him to make "more rigorous connections between ideas and policies."[23]

Two books grew out of McCraw's years at Wisconsin: *Morgan vs. Lilienthal: The Feud Within the TVA* (1970) and *TVA and the Power Fight, 1933–1939* (1971). The first was McCraw's master's thesis, which was published as a book after winning a prize administered by the history department of Loyola University in Chicago. Like many of McCraw's subsequent publications, its primary focus was biographical. In particular, it traced the bureaucratic infighting between TVA directors Arthur E. Morgan and David E. Lilienthal. Lilienthal proved to be the savvier operator, and he succeeded brilliantly in "identifying himself with a progressive program and portraying Morgan as an ally or dupe of the utilities."[24]

McCraw's dissertation, which became *TVA and the Power Fight*, focused less on the interplay of individuals and ideas than on the process by which ideas became transformed into public policy. Its principal protagonists were the empire-building Chicago utilities magnate Samuel Insull and the progressive Nebraska Senator George Norris. Each became a stand-in for "mutually hostile" traditions of electric power management: a "private tradition" promoted by Insull, which "started it and built most of its network of generators and high-tension lines," and a "public tradition" defended by Norris that "tried to curb private financial and political excesses, sometimes by going into the business itself."[25]

Among the most notable features of *TVA and the Power Fight* was the close attention McCraw paid to contemporary issues in institutional economics. Institutional economics was a venerable tradition of academic inquiry that in the 1960s was rapidly being eclipsed by a new neoclassical orthodoxy that substituted abstraction, quantification, and mathematical theory for the industry-specific empiricism that the institutionalists prized. By imaginatively glossing 1930s accounts of public utilities, McCraw reconstructed a forgotten debate over the allegedly "inherently monopolistic" cast of electric power generation. The construction of an electric power plant entailed huge fixed costs that were most easily recouped by operating at high volume. Electricity—in contrast to, say, automobiles or steel—could not be stored but rather "must be generated, transmitted, delivered, and consumed in virtually the same instant."[26] To cover their costs, power companies organized themselves as holding companies, a legal instrument that, although prone to corruption, facilitated access to capital markets, simplified the transportation of electric power, and streamlined the recruitment of technical and managerial personnel.[27]

History and Theory

McCraw's performance in graduate school won him an assistant professorship at the University of Texas at Austin, where he moved with his family in 1970. In other circumstances, he might have settled down to a long and productive career at one of the nation's premier public research universities. Within three years, however, he received an unusual opportunity: a one-year postdoctoral fellowship at the Harvard Business School. McCraw moved his family to Cambridge, Massachusetts, for his fellowship in 1973–74. It would be, for him, a turning point in his career. McCraw's teaching and research impressed his business school colleagues—including, in particular, the senior business historian Alfred D. Chandler, Jr.—and, in 1976, McCraw was offered a two-year visiting professorship. Two years later, McCraw obtained tenure. He would remain at Harvard until his retirement in 2006.

McCraw found the intellectual environment at Harvard to be challenging and demanding, and he rose to the occasion. Prior to his arrival in Cambridge, his research had focused on a single government agency. Now at Harvard, he expanded his range to include the firm. McCraw's next major project reflected this more expansive agenda. Chandler had analyzed the firm's internal dynamics; McCraw set out to analyze the regulatory context in which the firm operated. In so doing, McCraw built on the sturdy foundation of Chandler's magisterial history of the managerial corporation, *The Visible Hand* (1977), which had appeared in print during McCraw's stint as a visiting assistant professor at Harvard, one year before he received tenure in 1978.[28]

To analyze the relationship between government regulation and the firm, McCraw drew for the first time on the vocabulary and methods of social science. No longer content to rely on the actor-oriented contextualism that had served him so well in his first two books, he now turned his attention to deploying social science, rather than merely to studying it. In making this theoretical turn, as in so much else, McCraw's built on Chandler as well as on the institutionalist tradition that he had first encountered when writing about the TVA. From Chandler McCraw drew the social scientific distinction between vertical and horizontal integration, and from institutional economics, the contrast between "center" and "periphery" firms.

The first fruits of McCraw's new project, "Regulation in America," appeared in 1975 in the *Business History Review*. A culmination of McCraw's fellowship year, this essay analyzed two "widely known but troublesome" concepts that haunted both academic and journalistic accounts of economic regulation: "public interest" and "capture."[29] McCraw found both of these concepts unduly simplistic. The relationship of business and politics, in his view, was far too complex to be encapsulated in a single explanatory scheme.[30] Building on the literary skills he had honed as an undergraduate English major, he noted the startling rhetorical symbiosis between the critical evaluation of Progressive-era economic legislation popularized by the New Left historian Gabriel Kolko—who characterized the period's most important regulatory laws as a "triumph for conservatism" engineered by big business lobbyists terrified of competition—and the highly disparaging assessment of federal regulatory policy proffered by the Chicago School economist George Stigler. For both Kolko and Stigler, the government had been "captured" by the interests it was ostensibly regulating—and the "public interest" was nowhere to be found. Kolko's embrace of the "capture" thesis was unequivocal. "Federal economic regulation," Kolko concluded in his *Triumph of Conservatism* (1963), a revisionist history of progressivism from which McCraw quoted in his review essay—was "generally designed by the regulated interest to meet its own end, and not those of the public or the commonweal."[31]

Stigler was no friend of the New Left. Even so, his assessment of the Interstate Commerce Commission (ICC) bore a remarkable similarity to arguments that Kolko had advanced in *Triumph of Conservatism*. Inspired by what McCraw sardonically termed Stigler's "near-worship of the market as allocator of resources," the Chicago School economist had added a "measure of ideology" to the "cold logic of price theory." And in particular, McCraw faulted Stigler for transforming his burning resentment at the "interference" of lawmakers with market forces into a full-blown market fundamentalism that—surprisingly enough, given their markedly different political orientations—had refashioned the "Kolko model" to fit his ideological agenda.[32] Stigler vented his wrath on ICC administrative rulings—rather than, like Kolko, on the political maneuvering that had culminated in regulatory legislation. Yet the "capture" that Stigler lamented found its consummate expression not in anything the ICC did, but, rather, in the "prior political power" that had called forth its original establishment as a "regulatory mechanism."[33] Stigler, as McCraw would acerbically note several years later in a review of a collection of Stigler's essays on economic regulation, had ventured sweeping claims about the origins and operations of early twentieth-century regulatory commissions without consulting either historians or the "available evidence" and had theorized about their politics while "ignoring political scientists": "And why? Because for him, price theory is sufficient unto all things. It is not just another tool, but the philosopher's stone, The Answer. It is a religion, and he is a true believer."[34]

The most impressive feature of McCraw's 1975 essay is to be found not in the perceptiveness with which he glossed the large and sprawling academic literature on regulation—though this is, by itself, a major achievement—but, rather, in its method.[35] For the first time, McCraw moved beyond the actor-oriented contextualism of his two books on the TVA to deploy, rather than merely to describe, the explanatory scheme of institutional economics. The country's principal independent regulatory commissions, McCraw observed—including, in particular, the ICC and the Securities and Exchange Commission (SEC)—had embarked on a multifunctional project of diverse and sometimes even contradictory economic, political, and cultural agendas.

Historians, and here McCraw included himself, had painstakingly chronicled these agendas by recovering the protagonists' own language. It was time to do more. To fully contextualize the regulatory process, historians had to transcend the actors' own conceptual categories and investigate the structure, conduct, and performance of the industries that the regulatory commissions had been established to regulate. "If, as seems likely"—McCraw cagily observed, in venturing an educated guess that would soon transmogrify into an article of faith—"the inherent nature of an industry is the most important single context in which regulators must operate, then the range of policies open to them has been narrower than many observers have hitherto believed."[36] McCraw framed his industry-centrism as a hypothesis; it would quickly become a cri de coeur. By positing that the "inherent nature" of an industry was the "most important" context for regulatory decisionmaking, he presumed that industries did in fact have an inherent structure that rendered them impervious to political fiat in some fundamental, though ill-defined, way—a presumption that would shape everything he wrote about business and government for the next twenty years.

McCraw's creative juxtaposition of history and theory informed a two-day interdisciplinary conference on the history of regulation that he organized in 1980.[37] The attendees discussed precirculated essays by four historians (McCraw, Morton Keller, Ellis Hawley, and Samuel P. Hays) and one political scientist (David Vogel), all of which would be collected shortly thereafter by McCraw in *Regulation in Perspective* (1981).

Among the most wide-ranging and provocative of the essays to come out of this conference was McCraw's own "Rethinking the Trust Question."[38] In its ambitiously titled opening section—"Elements of a Fresh Analysis"—McCraw borrowed from institutional economics to better understand the operational challenge that overcapacity posed for the large-scale industrial firms that had once been called "trusts" and that were now popularly known as "big business." Certain reformers, McCraw contended, had conspicuously failed to understand this operational challenge, with disastrous results. Historians should do better. In particular, they should gird themselves against the profoundly mistaken "central assumption" that had been endorsed by so many big-business critics: namely, that the trusts were "unnatural," the "bastard offspring of unscrupulous promoters."[39]

Among the critics that McCraw had in mind was Louis Brandeis. Hailed as the "people's lawyer," Brandeis had represented several defendants in antitrust lawsuits before he obtained a seat on the U.S. Supreme Court. Yet in his assault on economic consolidation, or what he was wont to call "bigness," Brandeis had, or so McCraw contended, conspicuously failed to comprehend even the most rudimentary facts about the nature of the firm.

To make his point, McCraw analyzed a set of unpublished lectures that Brandeis had prepared in the 1890s for a course on business law that he taught at the Massachusetts Institute of Technology. These lectures, in McCraw's view, provided a key to Brandeis's jurisprudence as both an advocate and a jurist. In his explication of the law, McCraw observed, Brandeis had displayed an inability to "grasp the distinction" between vertical and horizontal integration and between center and periphery firms. As a consequence, Brandeis was fundamentally confused about how and why big businesses evolved, which business practices "would or would not help consumers," and which types of organizations "were or were not efficient."[40]

Perhaps the most startling feature of Brandeis's lectures was the surprising cast of characters for whom he served as a "mouthpiece." They were, most emphatically not "the people"—Brandeis's earnest protestations to the contrary—but instead a motley group of retail druggists, small shoe manufacturers, and other members of the "petite bourgeoisie."[41] By failing to locate the "inherent nature" of the industries in which they operated,

Brandeis had demonstrated one of the "characteristic shortcomings of the American regulatory tradition"; namely, a "powerful disinclination" to persist in hard economic analysis that might "lead away from strong ideological preference."[42]

McCraw's indictment of Brandeis's economic literacy would eventually occasion a vigorous rebuttal from McCraw's former student Gerald Berk. McCraw, in Berk's view, had exaggerated Brandeis's naïveté and ignored his political critique of the potentially deleterious consequences of concentrated economic power.[43] Even so, McCraw's indictment quickly gained adherents, at least in part because it echoed, and very possibly drew inspiration from, the markedly similar critique of the progressives as backward-looking, economically naïve denizens of a status-anxious middle class that the political historian Richard Hofstadter had famously mounted several decades earlier in his *Age of Reform*.[44] Further support for McCraw's position came from one of McCraw's graduate school mentors, Willard Hurst. Hurst, as it happens, had once served as a law clerk for Brandeis, and when queried by McCraw about Brandeis's economic literacy, proved to be "enormously helpful" in reassuring him that "I was right in my heretical interpretation of Brandeis's thinking about economic matters."[45]

The theoretical position McCraw staked out in his "Trust Question" would inform much of what he would write in the next few years on the independent regulatory commission. The "great achievement" of the SEC during the Great Depression, McCraw concluded, in a thoughtful analysis of its early years that he published in 1982, "was to restore legitimacy to an essential element of the capitalist framework."[46] The key to this achievement lay in the process SEC regulators hit upon to restore public confidence in the nation's capital markets. By recruiting brokers, bankers, accountants, and lawyers to police corruption, the agency mobilized the talents of interested parties, a strategy that the economist Charles Schultze would famously term the "public use of private interest."[47]

Gifted regulators sometimes changed their minds. A case in point was SEC chairman James M. Landis. Though Landis had relied on institutional economics to defend commission regulation in his 1938 book, *The Administrative Process*, he would later undertake a "merciless dissection of regulatory failure" in a 1960 report for the incoming John F. Kennedy administration.[48] The evolution of Landis's thinking, McCraw concluded, paralleled the wider arc of American liberalism from the New Deal to the Great Society.[49]

McCraw's research on the regulatory commission culminated with the 1984 publication of *Prophets of Regulation: Charles Francis Adams, Louis D. Brandeis, James M. Landis, and Alfred E. Kahn.*[50] Here, as in his essay on the SEC and his books on the TVA, McCraw relied on biography to carry his narrative. To a greater extent than had been possible in his first two books, McCraw located his dramatis personae in a theoretically informed explanatory scheme. "This book is about people," McCraw would later explain, "but more importantly it's about the strategy of regulatory agencies."[51] McCraw's goal as author, as he would later elaborate, was to place a "very intelligent person inside a regulatory agency," confront that person with a "series of problems that demanded innovative polices," and "see what outcomes followed."[52] To reconstruct such a complex sequence of events demanded far more than a fluid expository style. In addition, it presupposed a robust theoretical framework that McCraw gleaned from Chandlerian business history and institutional economics.

Although *Prophets of Regulation* was widely regarded as an intellectual history, McCraw took care to emphasize the interplay of ideas and institutions: "Despite the power of thought in the history of regulation, ideas in themselves could not determine concrete outcomes."[53] From the vantage point of the 1980s, neoclassical economics had triumphed: the economist (Alfred E. Kahn) supplanting not only the lawyer (James M. Landis) but also the jurist (Louis D. Brandeis) and the advocate (Charles Francis Adams). Yet the future remained open. "What I have called in this book the 'economist's hour' of the 1970s and 1980s," McCraw cautioned, "represents a phenomenon of unpredictable duration."[54]

The thinly veiled skepticism with which McCraw regarded the "economist's hour"—the vindication, as it were, of the law-and-economics orthodoxy about which he had long harbored such misgivings—was balanced by his unabashed confidence in his method. What had remained in 1975 a promising hypothesis about the "inherent nature" of the firm had now acquired the status of an iron law of social science: "Every industry, whether regulated or not, does possess a certain underlying economic structure: characteristics that make it different from other industries and that help to shape the internal conditions for regulatory opportunities and constraints. *More than any other single factor, this underlying structure of the particular industry being regulated has defined the context in which regulatory agencies have operated.*"[55]

Prophets of Regulation was well received both inside the academy and among the general public. In addition to garnering the 1985 Pulitzer Prize for history, it received the *Business History Review*'s triennial Thomas Newcomen award for the best book in business history. Sympathetic reviewers played down its industry-centric essentialism and focused on its mastery of biographical detail. "By centering his analysis around biography," observed Barry Karl in the *Business History Review*, "McCraw might be making "his most important historical assertion," yet he had done it "so subliminally that its significance could get lost": "Economic and political ideas, he implies, are neither pure abstractions nor fixed realities. They are conceptions held by men who seek to give them effect in the world they see in front of them."[56]

More skeptical was the economic historian Gavin Wright. Writing in *Reviews in American History*, Wright raised penetrating questions about McCraw's essentialism while praising *Prophets of Regulation* as a "landmark" in the "modern resuscitation of 'the market' to intellectual and political respectability"—a backhanded compliment, given McCraw's misgivings about neoclassical economics.[57] The hard-and-fast distinction that McCraw made between center and periphery firms, Wright observed, was "not matched by a rigorous body of research documenting the economic basis for survival-power on the part of large, vertically-integrated corporations." As a case in point, Wright cited an innovative monograph on the great merger movement (by Naomi Lamoreaux, then a recently minted Johns Hopkins PhD) that had pointedly questioned the economic rationale for late nineteenth-century economic consolidation.[58] Even McCraw had conceded, Wright elaborated, that the center-periphery duality would become "somewhat less useful" as a conceptual tool after the Second World War, given corporate diversification, the rise of the conglomerate, and the growing allure of franchising.[59] Each of these developments revealed the contingent character of the supposedly "natural" technological imperatives that McCraw, following Chander, had so admired: "Since the corporate structure of modern business enterprise only stabilized in the 1920s, and began to escape its bounds in these ways in the 1960s, this means that the window in historical time during which these alleged deep technological imperatives were at work was in fact rather brief."[60]

Wright's critique highlighted a limitation of McCraw's method that, by the end of his career, even sympathetic students of McCraw would concede. From the standpoint of hindsight, and notwithstanding its enviable renown, *Prophets of Regulation* remains an artifact of a post–New Deal debate in institutional economics over the intellectual merits of the technologically driven explanatory scheme that lay at the heart of Chandlerian business history.

The United States and the World

Looking back on *Prophets of Regulation*, McCraw reflected that he had taken inspiration not only from Chandler but also from the interdisciplinary hothouse of the Harvard Business School.[61] This school had a marked influence not only on McCraw's scholarship but also on his teaching. Unlike most history professors, McCraw's primary classroom audience consisted neither of impressionable undergraduates nor would-be history professors. Rather, they were ambitious and assertive MBA students, of whom roughly one-third hailed from outside the United States. In keeping with the Harvard Business School tradition, McCraw abandoned formal lectures (a pedagogical style at which he had excelled at Texas) in favor of the Socratic question-and-answer "case method." It was not always easy. On more than one occasion, McCraw repeated the observation of his predecessor N. S. B. Gras—the first professor to hold the chair in business history that McCraw inherited following Chander's retirement—that it could be an "exceedingly difficult task" to persuade MBA students of the relevance of history in the months just before they embarked on careers in "practical affairs": "I am not sure that I will succeed, but I do sympathize with the motive behind the experiment, that is, to give the students a cultural background for their work and a perspective to their training."[62]

The challenges of teaching such a diverse and demanding group of students helped prod McCraw to expand his intellectual horizons beyond the United States. Cross-national comparisons were an integral component of a required first-year MBA course on business, government, and the international economy that McCraw taught for many years. These comparisons furnished the rationale for an innovative second-year elective course on "the coming of managerial capitalism" that McCraw helped design. By focusing on what McCraw termed "*the relentlessness of change*" in myriad realms—including managerial prerogatives, firm and industry structure, technology, and the external environment—McCraw's courses surveyed the evolution of economic institutions in four countries—the United States, Great Britain, Germany, and Japan.[63]

The internationalization of McCraw's outlook on the relationship of business and politics received a boost from Chandler's own example. In the late 1970s, Chandler began research on a cross-national history of industrial capitalism in the United States, Great Britain, and Germany. Following Chandler's lead, McCraw published in 1984 a cross-national essay that compared the sequencing of the rise of big government and big business in the United States, Europe, and Japan.[64] Only in the United States, McCraw concluded, had big business emerged before big government, a circumstance that he believed went far toward explaining the persistence of what he called—following Chandler, who had floated a similar argument several years earlier—the uniquely "adversarial" relationship between government and business in the post-1880 United States.

The cross-national contrast that McCraw found most intriguing involved the United States and Japan. In the United States, McCraw hypothesized, the relationship between business and politics was far more conflict-ridden than in Japan, a distinction that helped explain the rapid rise of Japan as an industrial power. To find out what Americans might learn from the Japanese, McCraw spent a few weeks in Japan for several summers in the 1980s, gaining insights into Japanese business history that he would draw on in an ambitious cross-national research project on the relationship between business and politics in the United States and Japan. This project culminated in the publication of a multiauthor collection of essays titled *America versus Japan* that compared and contrasted the relationship of business and politics in the United States and Japan, to the decided advantage of the latter.[65] The adversarial nature of the relationship between business and politics in the United States—and, in particular, the constant threat of antitrust prosecution—made the United States a much less business-friendly place. In Japan, in contrast, a benign and paternalistic Ministry of International Trade and Industry promoted harmony and economic growth by matching production to demand while fostering technological innovation.

American versus Japan was McCraw's least successful scholarly project. Few of its contributors were East Asianists, and none had conducted extensive primary research in Japanese-language primary sources. Even so, it provided McCraw with a glimpse of the possibilities of cross-national institutional comparisons. "As the great historian Macaulay once wrote," McCraw observed in a summary essay, "'He knows not England who only England knows'; and our experience in writing the book has confirmed the wisdom of Macaulay's comment."[66] The "basic point is well made," as one not entirely sympathetic East Asianist observed, in a review of the collection: there was "not simply one form of competition, one best way to organize, one effective way to manage. . . . Instead, every economy is really a *political economy* and the structures that emerge in the course of history and of political and economic maneuver lead to differences in national and corporate strategy, policy, and action."[67]

Decidedly more successful was McCraw's next major venture in cross-national comparative history, a multiauthor textbook—designed for the business school market, and for many years required reading for first-year MBA students at Harvard Business School—that analyzed the evolution of economic institutions in both the private and public sectors in the United States, Great Britain, Germany, and Japan.[68] Titled *Creating Modern Capitalism: How Entrepreneurs, Companies, and Countries Triumphed in Three Industrial Revolutions*, edited by McCraw and published by Harvard University Press in 1997, this surprisingly coherent and eminently readable overview included sparkling essays on all four countries by leading specialists in their fields that were complemented by highly informative synthetic chapters by McCraw. Almost twenty years after its publication, it remains one of the best, if not the best, single-volume institutionally oriented histories of capitalism in print.

Creating Modern Capitalism's largest theoretical debt was to Schumpeter, who remained almost a half century after this death (or so McCraw proclaimed in his introduction), "one of the most astute of all analysts of capitalism."[69] From a Schumpeterian perspective, McCraw reflected, any "worthwhile analysis" of economic phenomena had to contain "elements of history, theory, and statistics." The contributors to *Creating Modern Capitalism* took Schumpeter's advice.[70] So too would McCraw himself in his hugely successful U.S. business history textbook, *American Business since 1920: How It Worked*, which he published three years later.[71]

McCraw would not publish his biography of Schumpeter until 2007. Yet he had had the economist on his radar ever since he had first arrived at Harvard in 1973. Schumpeter's presence loomed large at Harvard, where he had taught from 1932 until his death in 1950. Though Schumpeter's primary appointment was in economics, he would furnish the inspiration for a short-lived Center for the Study of Entrepreneurship, funded by the Rockefeller Foundation, that would help advance the careers of a highly distinguished cohort of specialists in economic history. The center's fellows, McCraw later

quipped, were a veritable "Who's Who of economic historians from the 1950s to the 1980s." Among them were Chandler, Hugh Aitken, Bernard Bailyn, David Landes, Douglass North, and Henry Rosovsky.[72]

McCraw's first major publication on Schumpeter dates from 1991. It took the form of a capsule summary of Schumpeter's life and work, intended for a general audience, that McCraw had been commissioned to write for a semi-popular magazine, *The American Scholar*.[73] In it, McCraw affirmed what would become known as the "Schumpeter hypothesis"—that is, the presumption that the most fundamental economic innovations originated not in the dingy garret of a mad-genius inventor—or, to update the metaphor, in the Silicon Valley garage of a teenaged boy-wonder—but in a well-established institution such as Bell Labs or General Electric.[74]

Giant organizations, of course, could sometimes become sclerotic, and it was entirely conceivable for innovation to originate on the periphery rather than at the center. In 1991, however, these were possibilities that McCraw did not see fit to entertain. McCraw had a longstanding fascination with giant organizations of all kinds—from Alfred Sloan's General Motors and David Lilienthal's TVA to James Landis's SEC—and simply assumed that sites like these had spawned the most fundamental innovations of the age. McCraw's bigger-is-better bias derived partly from his personal familiarity with the TVA and the Navy; partly from his deep skepticism toward the market fundamentalism that by 1991 had become firmly entrenched in the economics profession; and partly from his embrace of certain theoretical insights derived from Chandlerian business history—including, in particular, its valorization of "organizational capabilities" and "economies of scope."

McCraw's bigger-is-better bias received further validation from his reading of Schumpeter. The "creative destruction" wrought by innovations originating inside giant organizations, McCraw believed, was one of the main themes of *Capitalism, Socialism, and Democracy*. McCraw elaborated on this characterization in his 1991 essay, in which Schumpeter became a crypto–New Dealer, who combined a pragmatic understanding of institutional economics with a Chandlerian faith in the power of organizational capabilities to spawn technological innovation.[75] It was a remarkable interpretation, not the least because of the extent to which McCraw would back off from its implications when he came to write his Schumpeter biography.

McCraw's interpretation of Schumpeter sparked a pointed rebuttal from Louis Galambos, a history professor closely associated with Chandler who had assumed Chandler's teaching responsibilities at Johns Hopkins when

Chandler moved to Harvard. The occasion for Galambos's rejoinder was a wide-ranging U.S. Federal Trade Commission–sponsored seminar on the history of antitrust that McCraw had helped organize in 1981. In one of the most revealing moments in this seminar, Galambos conceded that, at present, there existed a consensus among historians of innovation (and here Galambos lumped together McCraw and Chandler) that linked an organization's size with its capacity for innovation. To make his point, Galambos proposed a thought experiment. If Schumpeter were alive, Galambos hypothesized, who would he pick as the more disruptive innovator: the maverick General Motors president Billy Durant or Durant's successor, the organizational genius Alfred Sloan? Most of his colleagues, Galambos predicted, would pick Sloan over Durant. Galambos demurred. In his view, Schumpeter would pick Durant over Sloan, since, as a believer in the power of "creative destruction," he favored disruption over stability and chaos over calm.[76]

Galambos's reading of Schumpeter would eventually gain widespread traction in the academy, and, beginning with *Creating Modern Capitalism*, would be endorsed even by McCraw. Among Schumpeter's intellectual gifts, McCraw wrote in his introduction, was his encouragement of a "dynamic, flexible, and future-oriented way of thinking" that "injected a pattern of ceaseless and merciless competition into nearly every aspect of life."[77] Not until the publication of *Prophet of Innovation*, however, would McCraw fully back off from the implications of the bigger-is-better argument that he had advanced in 1991.

Prophet of Innovation was in many ways McCraw's most impressive book. Beautifully written, well researched, and consistently illuminating about matters large and small, it offers its readers a superb introduction to an economist whom McCraw and many others have come to hail as the world's preeminent theorist of capitalism. In its opening chapters, McCraw dutifully recounted the economist's Austrian upbringing and German education. Yet it was not until Schumpeter relocated in midcareer across the Atlantic to take a professorship at Harvard that McCraw really hit his stride. For it was at Harvard that Schumpeter would nurture a generation of economists who would rise to the front ranks of their profession after the Second World War, while writing three of his most impressive books—*Business Cycles* (1939), *Capitalism, Socialism, and Democracy* (1942), and the posthumously published *History of Economic Analysis* (1954). The second and third of these books—*Capitalism, Socialism, and Democracy* and *The History of Economic Analysis*—were hailed from the moment of their publication as masterpieces; the first, *Business Cycles*, made reviewers' heads spin. Sprawling, pretentious, and overlong, it discouraged even sympathetic readers—which was highly unfortunate, in McCraw's opinion, since it included enough trenchant insights into business behavior to make it a foundational history of capitalism in the United States if only a creative editor had reorganized it to make its central argument more compelling.[78]

The Schumpeter of McCraw's *Prophet of Innovation* was no longer the proto–New Dealer of his 1991 *American Scholar* essay. Yet he was also not the Roosevelt-phobic anti–New Deal covert Nazi sympathizer that McCraw might have made him out to be had he been so inclined.[79] More importantly, McCraw's 2007 Schumpeter had become, rather like McCraw himself, much more sympathetic than McCraw's 1991 Schumpeter had been toward the innovative potential of insurgent start-up firms and adversarial regulatory regimes. The "Schumpeter hypothesis" linking bigness and innovation had ceased to be an article of faith among historians and social scientists, and McCraw embraced the new consensus. "Innovation," McCraw now conceded, in a revealing footnote, was simply "not as automatic in large enterprises as Schumpeter makes it out to be in *Capitalism, Socialism, and Democracy*."[80] Had McCraw lived, he might well have published yet another masterwork. Following the publication of *Founders and Finance*, McCraw embarked on a new research project on the history of immigrant entrepreneurship that built on his newfound appreciation for the innovative potential of individuals who worked not at the center but on the periphery.[81]

Conclusion

McCraw's major publications in twentieth-century U.S. history—*TVA and the Power Fight*, *Prophets of Regulation*, and *Prophet of Innovation*—offer up a heady mix of insights for historians interested in the relationship of business and politics in the American past. When McCraw began to publish on what historians today call "political economy" (a term McCraw rarely used), institutional history remained marginalized in the historical profession.[82] To hasten its revival, he combined an actor-oriented contextualism with theoretical insights drawn from Chandlerian business history and institutional economics to craft compelling analytical narratives about key developments in the making of the modern world.

The defining events that shaped McCraw's historical imagination were the Great Depression, the New Deal, the Second World War, and the postwar economic boom. Unlike today's historians of capitalism, McCraw remembered how business and politics had interacted in the period preceding the post-1973 economic downturn, the dot-com bubble of 2000, and the Great Recession of 2008. This reservoir of personal knowledge gave McCraw a sense of optimism about creative statecraft that is often missing today.

At the heart of McCraw's achievement lay an enviable gift for combining lucid prose and theoretical rigor to explore the character and significance of five different kinds of phenomena: business, markets, institutions, culture, and leadership. He was, in short, an exemplary historian of capitalism who helped lay the foundations for a field that would take as its primary subject a nexus of relationships that, as one of its most penetrating practitioners has observed, are perhaps best characterized not as capitalism but as political economy.[83]

To understand the relationship between business and politics in the twentieth century—or what McCraw would call at different times the "mixed economy" or "modern capitalism"—historians would do well not to forget the legacy of the New Deal, a legacy that extended well beyond the 1930s and would lay the foundation for the unprecedented prosperity that the American people would enjoy in the postwar era. To understood how this all came about, it is incumbent on the historian to look not only to contingency, luck, and the momentous transformations wrought by the Second World War, but also to statesmen, business leaders, and social scientists.[84] To be sure, McCraw's faith in the collective wisdom of lawmakers would be sorely challenged by the regulatory failures that contributed to the 2008 financial crisis. Yet McCraw remained to the end, as he had been throughout his career, a principled champion of liberal reform and a pointed critic of the market fundamentalism that he feared would imperil not only the economic foundations of capitalism, but also the humanistic, theoretically informed, and morally grounded exploration of modernity that McCraw's scholarship exemplified, and that remains a resource, a challenge, and an inspiration for historians today.[85]

PART III

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