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I first began to consider the issues that motivated this book as a graduate student in the American studies program at the University of Texas at Austin. In my first semester there, I and my fellow entering students took a required course from Dr. Robert Crunden. Giving shape to my poorly articulated interests, he suggested that I write that semester’s paper on Friedrich Hayek. His direction was instrumental in helping me to focus my research area. Soon after that semester ended, the fifty-eight-year-old Crunden died suddenly of a heart attack. My experience with him, though quite brief, greatly affected the intellectual development that led to this book, and I do not know if it could have been written without him.

Among faculty at Texas, Bill Stott was crucial in helping me to find my voice as a writer. Though I never worked directly with Steve Hoelscher, he consistently expressed an enthusiasm for my scholarly interests. I only met Harry Cleaver once, but a twenty-minute office visit with him forever changed the way I thought about scholarly writing. After I enrolled in Daniel Slesnick’s undergraduate microeconomics course, he allowed me to pester him incessantly about economic theory even as I made few attempts to bone up on my rusty calculus. Jeff Meikle and Janet Davis led me through comprehensive exams, helping me to obtain the background necessary for a project as wide ranging as this one. Committee members Gretchen Ritter, Julia Mickenberg, and Bill Brands all gave valuable input on the dissertation as it lumbered toward completion. Dan Bonevac was a thoughtful and engaged philosopher who was consistently generous with his time. Mark Smith introduced me to the field of American intellectual history, indulged my overly ambitious dissertation, and eventually agreed to chair my committee. Acquiring him as a mentor and friend is among the most valuable achievements of my graduate years.

In my time at the University of Texas, I was particularly fortunate to have met fellow students Kyle Barnett, Chris Jennings, and Amy Ware, who
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After graduate school, I became an itinerant lecturer, moving across the country three times in as many years. Such transience did not nurture the focus required for a long-term research and writing project, and I was desperately in need of colleagues. I found them on the Internet, living all over the country. United by a desire to build a space to pursue a mutual interest in American intellectual history, these historians came to constitute my primary professional community. We founded first a blog, then a conference, and ultimately the Society for U.S. Intellectual History (S-USIH). It was within this scholarly and institutional environment that I worked out the ideas that define this book. Whatever contributions I have to offer would not have seen the light of day were it not for the camaraderie, insight, knowledge, and hard work of these early bloggers: Julian Nemeth, Lauren Kintz Anderson, Joe Petrusionis, Sylwester Ratowt, Ben Alpers, James Levy, Paul Murphy, and Tim Lacy. Through the annual conference, I was able to meet David Steigerwald, Jennifer Burns, and Jennifer Ratner-Rosenhagen, each of whom has helped me to think through my ideas more clearly. Three other members of the S-USIH community have played a particularly prominent role in the development of this book. Ray Haberski has been especially generous with his time and good humor. The society’s first president, Andrew Hartman, has been invaluable in sharing his knowledge of twentieth-century US history, belief in the value of the project, and great friendship. More than anyone save me, my good friend David Sehat has left an imprint on this book. His pointed criticism and sage counsel have made its writing clearer and its arguments sharper.

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Years ago, when I was an inexperienced graduate student, I wrote to David Hollinger and asked if I could talk to him about my project during an upcoming visit to the Bay Area. He agreed to meet, and he offered some encouraging counsel. His willingness to do that made a big impression on me, and it speaks well of his generosity and commitment to the discipline. Since then, I have frequently prevailed upon others whom I do not know for help with my work, and the presumption of a mutually supportive academic enterprise has seldom let me down. Those who have responded to my requests to read parts of this book by sharing their time and insight include Daniel Horowitz, Kevin Mattson, Brian Domitrovic, and Angus Burgin.

My abiding interest in politics and history I owe to my father, Jack. It is no doubt because of him that my earliest memories include the words Vietnam and Watergate. My mother, Susan Hoppe, encouraged me to do what I love while exemplifying the commitment to meeting one’s responsibilities. My brother Brian has always inspired me with his work ethic and commitment to improving himself. I could not have gotten to this point without the love and support of my family.

Over a decade ago, I took home a three-month-old puppy from the Austin pound. I cannot claim that Sophie has refined my thinking or improved my writing, but she is the only one who has been with me every day and in every city that I was writing this book. That makes it hers as much as anyone’s. In writing this book, I relied heavily on her affection and enthusiasm, which never wavered.

Finally, one of the few positive things that I can say about the life of the nomadic and marginally employed scholar is that it allowed me to meet Rebecca, the woman who is now my wife. She has said that this book “took away my husband,” and no doubt she is right. Yet she never questioned my
belief in its value, nor did she express anything less than complete confidence in my abilities and total support for my ambitions. The facts did not necessarily offer support for her faith in me, but I never saw it waver. For that I will always be grateful.
A Commercial Republic
In 2008, the federal government of the United States began a program of intervention in the private economy unlike any the nation had seen since World War II. The immediate cause of this new direction was a financial crash so great that it unceasingly evoked comparisons to 1929. As is the case with most bursting economic bubbles, the years immediately preceding the crisis had been very good ones for banks and other financial institutions. Opportunities had seemed so lucrative and investors had held so much cash that these businesses had felt the need to find increasingly exotic vehicles in which to invest their holdings.

One of the major destinations for these funds became home mortgages. The popularity of these investments had much to do with the “securitized” form in which Wall Street brokers began selling them. When investors buy housing loans from the original lender, they are purchasing the right to collect the monthly payments owed on the loan. If the borrower should default, however, the loan’s owner would lose his or her entire investment. Thus, the purchase of such a loan carries a certain element of exposure. Financial houses mitigated this risk for their customers by combining a large number of mortgages and then splitting the resulting mass into smaller pieces, which were sold one by one. The resulting securities would carry less risk than an ordinary home loan. If, for instance, a potential investor is considering the purchase of one home mortgage, the success or failure of this venture will be entirely determined by the behavior of the original borrower, who might or might not, for any number of reasons, continue making payments. Alternatively, an investor who buys 1 percent of 100 aggregated loans has purchased an equivalent amount of debt as has the person in the previous scenario. But the long-term worth of the latter investment will turn on the

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Economic Intervention
behavior of a hundred separate borrowers, rather than that of one particular person. This innovation rendered home mortgages a much more attractive investment than they had been previously.

The increased demand for these loans set in motion a series of events that ended in financial catastrophe. Many companies that initiated home loans, in the face of this lucrative opportunity, came to view selling mortgages to investment houses as their primary business, rather than evaluating and servicing borrowers. Wanting as many customers as possible and not planning to hold the mortgages for too long, these firms steadily dropped their standards for creditworthiness and offered low introductory interest rates and minimal early payments. These policies seduced borrowers into signing up but often left the new homeowners unable to keep up with their mortgages. Americans, facing great encouragement to borrow money, sought more and bigger homes, and the construction industry was happy to meet this demand. Housing became one of the biggest industries of the first decade of the twenty-first century.

It was, in retrospect, an unsustainable state of affairs. Both the financial and the housing industries, two of the nation’s largest in this period, based their growth on credit. The economy was producing very little in the way of tangible goods and services, but investors saw no problems as long as the prices of securities continued to climb. After the fact, commentators often compared the American economy of the century’s opening decade to a Ponzi scheme, in which earlier investors were paid off with the money of later ones in order to hide the fact that the underlying asset has not grown in value. In his book on the financial crisis, former Wall Street Journal reporter Roger Lowenstein invoked a similar idea to explain this behavior. “Mortgage bankers and investment bankers believed that there would always be another lender, another loan, to relieve them of the bad coin,” he wrote. “Economics alone cannot explain such dizzying speculation. The lenders, whether on Main Street or Wall Street, were swept up in a gale of mass hallucination.”

Meanwhile, the federal government performed little oversight of the financial industry, kept taxes low (by historical standards), and financed its operations by the sale of low-interest bonds to foreigners. Paul Krugman, the Princeton economist and New York Times columnist, characterized the nation’s economy throughout much of this period as one in which “Americans made a living by selling each other houses, which they paid for with money borrowed from China.”

Inevitably, the housing market softened. By the end of 2007, new homeowners were defaulting in large numbers, and as a result, the value of
mortgage-backed securities declined significantly. Those who had been purchasing these instruments stopped doing so, seeking instead to sell the ones they had. This pushed the value of the assets down even further. Nearly all of the major Wall Street players held these securities as a substantial part of their portfolios; as the worth of the paper declined, so did the firms’ access to cash. Many companies were perilously close to defaulting on their obligations, and one by one, they began to collapse. The resulting atmosphere on Wall Street resembled a fire sale, as once-venerable companies closed their doors or agreed to be purchased by still-solvent institutions.

Though this catastrophic state of financial affairs represented the culmination of a pattern of private decisions, government officials nonetheless felt the responsibility of mitigating the possible damage. The intertwined financial firms owned so much of each other’s debt that the collapse of any one company would have real effects on the balance sheets of many others. Such failures would consequently threaten the demise of the entire financial system, an event whose reverberations would certainly be felt by ordinary citizens—read voters—as they affected consumer credit, banking, and ultimately employment.

Most often, federal assistance came in the form of the promise of cash or of the use of the government’s good name in borrowing money. In March 2008, Bear Stearns—founded in 1923 and a survivor of the Great Depression—required a guarantee of $30 billion from the Federal Reserve to remain in business. Such a promise turned out to be insufficient, and Treasury Secretary Hank Paulson pressured the company to sell itself, in the face of near-certain insolvency, to JP Morgan Chase.

The government remained heavily involved in the crisis. In September, a series of frantic actions prevented what easily could have become a complete meltdown of the global financial system. First came Fannie Mae and Freddy Mac. Initially formed by the government to help Americans purchase homes, both had, by the time of the crisis, been private entities for decades. Though the two collectively controlled 55 percent of the nation’s mortgages, they had been plagued by corruption, mismanagement, and debt. In response to the deteriorating financial condition of these firms, on September 7 Paulson announced that the federal government was placing the two mortgage giants in conservatorship and replacing their leadership teams. Federal agencies pledged up to $100 million in support of each company, taking in return 79.9 percent of its common stock.

Next, Paulson again interjected the government into the market by refusing to offer Lehman Brothers a bailout similar to the one earlier granted to
Bear Stearns. The secretary of the Treasury had instead encouraged Bank of America to purchase the company; however, its chief executive officer (CEO), Ken Lewis, demurred and opted to commit the bank’s money to acquiring the venerable yet ailing Merrill Lynch. Lehman, the fourth-largest investment bank in the United States, had no choice but to file for bankruptcy. Shortly thereafter, the Federal Reserve granted a line of credit to insurance giant AIG only minutes before the company would have run out of cash. In exchange, the government took a 79.9 percent stake in the company and installed a new CEO. On September 25, regulators from the Federal Deposit Insurance Corporation (FDIC) seized tottering Washington Mutual in the biggest bank failure in US history. They placed it into receivership and quickly sold its assets to JP Morgan Chase. Finally, after the FDIC brokered a deal in which Citigroup would buy most of the assets of the Wachovia Corporation for only $1 a share, Wells Fargo tendered a better offer at the last minute and bought the entire company (for a still-low $7 a share) without government assistance.

This one-month period marked only the beginning of government involvement in this economic crisis. No matter who owned them, the securitized mortgages were still a problem. Few wished to purchase, at any price, those commodities that were increasingly being referred to as “toxic assets.” Without purchasers, no market existed to properly assess their value. The companies that held them had great difficulty making sense of their own balance sheets or moving forward with new plans, and this posture was locking up the nation’s credit system. To deal with this problem, the government stepped in again, this time with the Troubled Asset Relief Program (TARP). Proposed by Paulson, supported by President George W. Bush, and reluctantly approved by Congress, the plan was signed into law (as part of the Emergency Economic Stabilization Act) on October 3, 2008. The program allotted up to $700 billion for two purposes: directly purchasing assets from financial institutions and investing directly in these corporations through the purchase of nonvoting stock. TARP was authorized for two years; in that time, the United States invested nearly $500 billion in hundreds of financial institutions, even as hundreds of others failed.

TARP had been proposed and championed by a Republican presidential administration and passed by a Congress controlled by Democrats. Though neither of the two major parties offered overwhelming or unwaiving support for the program (the House initially voted it down), the legislation that authorized TARP passed on the strength of a more-or-less bipartisan conviction that the severity of the crisis demanded emergency
government economic intervention. Indeed, Barack Obama, a sitting Democratic member of the Senate who was running for president, not only supported the bill as a candidate but also voted for it as a senator. After winning the presidency, he assertively used the powers that the new law granted him. He pushed hard for continued payments to banks, and most notably, he used TARP funds as leverage to sack the CEO of General Motors (GM), force the company into bankruptcy, and assume government ownership of the corporation that emerged.

Outside of Washington, however, the muscular government response to the financial crisis did not enjoy even the muted support accorded it by professional politicians. Some saw a significant break with American free-market traditions. In February 2009, for example, the reliably centrist Newsweek magazine published a cover article by veteran journalists Jon Meacham and Evan Thomas. In their opinion piece, titled “We Are All Socialists Now,” the two writers suggested the recent government actions had demonstrated that the United States had completed its drift toward European-style social democracy. Noting that the “U.S. government has already—under a conservative Republican administration—effectively nationalized the banking and mortgage industries,” they warned against a “fail[ure] to acknowledge the reality of the growing role of government in the economy.” This reality, they claimed, represented the end to an ongoing creative tension that characterized American political economy in the past. The nation now needed to develop the tools to guide this new socialist economy through the twenty-first century. “For the foreseeable future,” the writers concluded, “Americans will be more engaged with questions about how to manage a mixed economy than about whether we should have one.”

Meacham and Thomas were not the only observers who saw the September bailouts and the TARP as an economic Rubicon that the United States had already crossed. Others who noted these developments, however, did not view them with the same equanimity. They looked upon these policies less as a new reality to which Americans had to adjust than as a tide that had to be beaten back. Two weeks after the appearance of the Newsweek article, Rick Santelli, an editor and reporter for the financial network CNBC, captured the nation’s attention with an on-air tirade. Reporting from the floor of the Chicago Board of Trade, Santelli was asked by the network anchor about a $75 billion plan, announced the previous day by President Obama, that would help homeowners who had difficulty paying their mortgages. He responded by proposing that the administration should instead initiate an online referendum allowing Americans to vote on whether the
government should “subsidize the losers’ mortgages” or, alternatively, set up a system whereby foreclosed cars and houses might go to “people who might actually prosper down the road . . . people that could carry the water, instead of drink the water.” After many of the traders working near Santelli loudly expressed their enthusiasm for his ideas, he concluded by saying that he was “thinking of having a Chicago Tea Party in July. All you capitalists that want to show up to Lake Michigan, I’m going to start organizing.” Santelli’s perception of a threat to American capitalism and his attendant outrage immediately touched a nerve: within two weeks, dozens of “tea party” protests had sprung up all over the country. The Tea Party movement soon became a major voice within the Republican Party, spawning caucuses in the House and the Senate and fueling the political ambitions of several presidential candidates.

Though they took different attitudes toward this economic intervention, both the mainstream journalists and the conservative activists articulated a belief that the government’s actions represented a significant break with American traditions. In so doing, they implicitly invoked the idea of a national past in which the federal government played a minimal or nonexistent role in the national economy. This notion of a prelapsarian period in which the government refrained from influencing economic affairs plays a prominent role in contemporary conservatism. The website of one of the more influential Tea Party groups, for instance, advances as one of the organization’s three “core values” the principle that “the founders believed that personal and economic freedom were indivisible, as do we. . . . Therefore, we support a return to the free market principles on which this nation was founded and oppose government intervention into the operations of private business.” The most prominent version of this narrative places the responsibility for ending this long Edenic idyll with the New Deal programs of the 1930s. Indeed, in the inaugural issue of the movement’s flagship journal, National Review, the magazine’s founder, William F. Buckley, Jr., went so far as to identify conservatives with “those who have not made their peace with the New Deal.” In 1989, near the end of his presidency, the conservative icon Ronald Reagan clearly had the New Deal in mind when he claimed, in delivering his annual economic report to Congress, that his administration had “reversed a 50-year trend of turning to the government for solutions,” Americans under Reagan had “relearned what our Founding Fathers knew long ago—it is the people, not the government, who provide the vitality and creativity that make a nation.” More recently, conservative
journalist Amity Shlaes has argued the New Dealers “forced . . . collectivism on their own country.”

Certainly, no one would deny that the New Deal played a significant role in defining the economic practices and policies of the federal government. But that fact alone does not justify the implied conclusion of the traditional conservative narrative—that before the Great Depression, the US government exerted little or no influence on the economy. This is not a justified interpretation of American history but a utopian conservative political ideal read backward into the past. The actions of the federal government have always influenced the character of the nation’s economy, as one might expect given the many roles that this institution has been asked to perform: regulator, legislator, tax assessor, purchaser, law enforcer, employer, military protector, provider of infrastructure, and many others. For as long as there has been a United States, its federal government has exerted considerable influence on the nature and shape of the national economy.

That the American experiment has consistently admitted of government economic intervention, however, does not mean that this practice has gone unchallenged. Politicians, activists, and scholars have continually sought to justify and decry particular visions of federal economic stewardship and regulation. As a result, the history of the United States is characterized by a long-standing and contentious exchange about the desirability, scope, attributes, and limitations of such plans. The ongoing debate over the proper role of the federal government in the American economy is the subject of this book.

This volume is a work of intellectual history that employs a case study approach, concentrating at any one time on a specific policy, text, personality, or decision. This method allows for a deep excavation of the assumptions and insights that motivated politicians and thinkers as they articulated the principles that shaped the debate over the desirability and character of federal economic intervention in different periods. It is further based on the presumption that, in the realm of political economy, specific historical eras are defined by characteristic preoccupations, questions, and problems. Though the particular subjects of the case studies might be idiosyncratic, the wider points that emerge from studying them are broader and more applicable than the given topic. Beginning with the early national debate over the economic plans proposed by Alexander Hamilton, continuing through the legal construction of the corporation in the Gilded Age and the New Deal commitment to full employment, and concluding with the con-
temporary concerns over lowering taxes and limiting government intervention in the market, the book seeks to demonstrate that the modern-day libertarian conception of US political economy has served as only one perspective among many.

To consider the shifting perspectives on the subject of government economic intervention, however, is inevitably to investigate two particularly significant American intellectual motifs: democracy and capitalism. The democratic character of the nation’s politics has often served as the primary justification for groups of citizens to demand from the government policies that have unmistakable economic impact. At the same time, the widespread American consensus in support of private property and market mechanisms has frequently motivated those who strongly oppose exactly the same programs. The intellectual and political cultures of the United States, for the most part, have been reluctant to cast aside their commitments to either of these ideals. Thus, the competing commitments and insights that have shaped the debate over government intervention in the economy have served as proxies for positions on the meaning and compatibility of two constitutive American values. The ever-shifting contours of this debate illuminate the possibilities and limits of American democratic capitalism.

Of course, the nation’s founders did not see themselves as creating either a democratic polity or a capitalist economy. Instead, they frequently referred to the type of nation that they hoped to construct (or, in the case of some of them, to avoid constructing) as a “commercial republic.” The employment of contemporary terms to describe older ideas is anachronistic and ahistorical. The use of these words here is intended only to provide a certain continuity throughout the text, not to suggest that earlier generations were progenitors of some more modern understanding. To that end, the terms democracy and capitalism are intended here in broad, nontechnical senses. Though the idea of democracy raises many central historical, political, and philosophical questions, in this context it should be understood in its most basic sense, as a theory of legitimacy. A government is democratic when its rulers depend for their power on the continued support of the people (however defined), when popular approval plays a significant (but not necessarily definitive) role in the formation of policy objectives, and when the people in turn feel justified in using their voice (however expressed) to shape public policy. Capitalism should be understood here in an equally broad fashion, as an economic system that presumes the institution of private property and that distributes goods through the aggregated decisions of individuals in the market.
Ever since the very founding of the United States, Americans have struggled to reconcile their commitment to the political sovereignty of the people with their equally fervent desire to ensure the integrity of markets and to protect private property. The ongoing attempt to honor these conflicting impulses has led to a variety of innovations and insights for which the simplistic conservative narrative can offer no room. A proper understanding of the story of American democratic capitalism allows for an appreciation of the facts that the nation’s highest ideals have consistently faced significant challenges to their realization and that these values have demonstrated a great capacity to surmount those obstacles. This insight will remain relevant for as long as Americans continue to be motivated by urges toward democracy and capitalism.