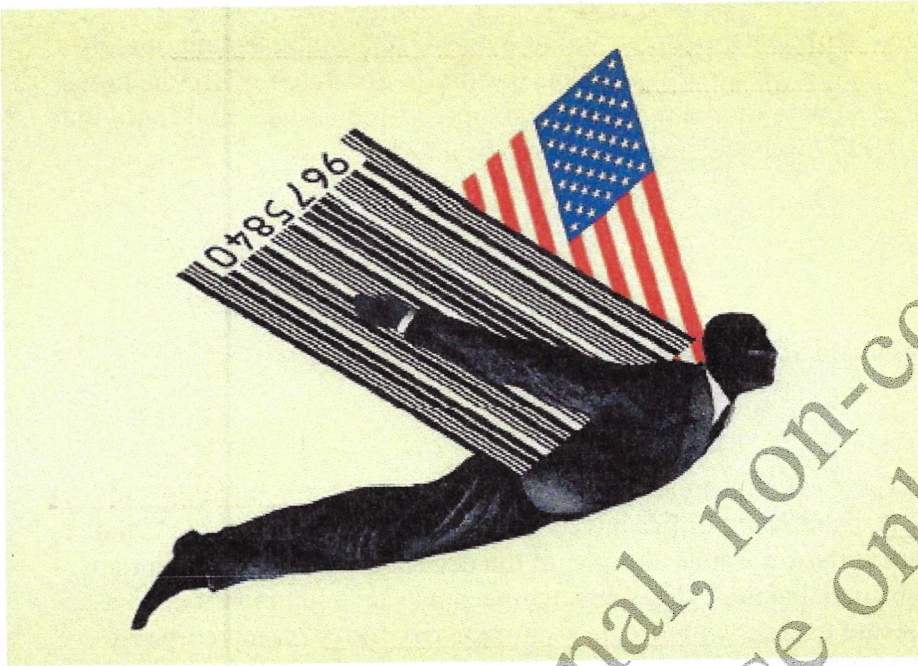
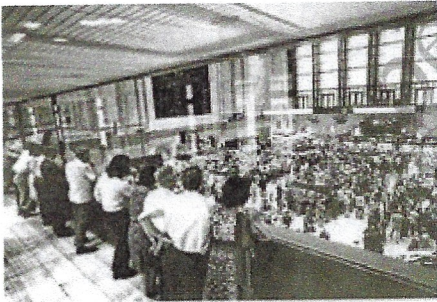


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NYSE GROUP *Americans eagerly plunge into market risks. Visitors looking over the NYSE trading floor in 1970.*

How—and Why—U.S. Capitalism Is Unlike Any Other

The main difference between America's brand of capitalism and elsewhere: a focus on the individual and an incentive to take risks

BY ROGER LOWENSTEIN

AMERICAN CAPITALISM was created by American democracy, wrote Gordon Wood, the Depression- born historian. One can go further: The unique strength of our capitalist system mirrors that of our political ideal. By offering opportunity to all, it fosters vigorous competition. By permitting merit to trump entrenched elites, it motivates individuals with the plum of fortune.

While adherence to these adages has waxed and waned (women were essentially excluded from business, as from the ballot, until the 20th century), they are present throughout, and distinguish U.S. capitalism from rival versions. In particular, the Jeffersonian origins of our economic system make it uniquely geared toward the individ-

ual. Europe has a broad safety net and high-speed rail; America has highways and startups.

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Nowhere else is risk-taking so encouraged—and not coincidentally, nowhere else has innovation thrived as it has here. Both law and culture helped to shape our capitalism in ways that reflect the spirit of the American Revolution. “No taxation” was famously a cry of the colonials in Boston; less well-remembered is that the Declaration of Independence charged George III with obstructing immigration— newcomers being then as now a sparkplug of American enterprise.

To state the most basic fact of political democracy, it permits the popular will to override the establishment, merely another name for what the business professors call “creative destruction.” Thus did the automobile replace the horse; thus were punch cards voted out by mainframes; and so with minicomputers, desktops, search engines and (until the next smart fellow decamps) artificial intelligence. All of these upheavals occurred in the U.S.

Term limits indeed.

Live by the market...

Let us clear the air and stipulate that American capitalism also has the manifest flaws of democracy.

It is intensely market-centric.

Markets are changeable, creatures of popular will. Their verdicts are often dubious; at present, three bitcoins trade for the approximate price of the median American home. American politics have always coughed up a veritable “laundry ticket,” as Fiorello La Guardia used to say, of empty suits and frauds along with the occasional statesman. Capitalism has answered with a gallery of patent-medicine salesmen, hustlers, dreamers, meme stocks and con men. Leave it to future generations to distinguish which speculations are useful. Ambition is a summons to effort. As my corporate-lawyer father used to say, “No speculation, no railroads.”

Because it is market-centric, American capitalism is highly transactional, besotted by the short-term. Countless derivatives were invented by people who in less market-driven societies might have been the next Marie Curie. The Spectator of London reported from New York in 1884, “Millionaires in America make ‘corners’ as if they had nothing to lose, or their sons amuse themselves with ‘financing’ as if it were only an expensive game.”

Whereas an Englishman “fears poverty excessively, and a French--man shoots himself to avoid it; an American with a million will speculate to win ten.”

This trait has a long pedigree.

President Lincoln was outraged by gold speculators who drove down the value of the Union currency. Émile Boutmy, a French political scientist in the 19th century, hazarded that America was not so much a “nation” as “a huge commercial company for the discovery, cultivation, and capitalization of its enormous territory.”

Many societies regard risk-takers with skepticism or censure.

The U.S. resolved this tension in its cradle. Alexander Hamilton, the first Treasury secretary, proposed in 1790 that the war debts incurred by individual states and by the Continental Congress be redeemed at par by the new federal government. Thomas Jefferson, then secretary of state, and James Madison were opposed, in particular to redeeming paper held by speculators. In the Virginians’ opinion, the speculators (having purchased at great discounts and poised to make a fortune) were unworthy compared with original investors, many of whom were war veterans.

Hamilton, who won the day in Congress, rejected the Jeffersonian notion that speculation was necessarily unproductive. He replied, “If that Capital is well employed in a young country, like this, it must be considerably increased so as to yield a greater revenue than the interest of the money... A considerable part will be invested in new speculations, in lands canals roads manufacturers commerce.”

One cannot imagine the America we know had the debate gone otherwise. The right to “unproductive” speculation vanishes— but given the difficulty of distinguishing, useful speculation vanishes as well.

Wealth in every pocket

Lubricated by Hamilton's plan, the early American economy was close to the Jeffersonian egalitarian ideal. The overwhelming economic fact was abundance of land. Immigrants improved their station merely by migrating (not that the trip was easy). Unlike in Europe, they could put down a stake or enter a trade without interference by a dominant caste or entitled elite.

The result was profoundly democratic. Americans were yeoman farmers, small manufacturers, fur traders, saltpeter men, canal builders, tavern keeps, craftsmen and merchants. Jefferson himself said with respect to the small gap between rich and poor (among white Americans), "Can any condition of society be more desirable than this?"

Parson Weems, the cloning first biographer of Washington, scorned the "sordid monopolizing aristocracy" of Europe. In America, he claimed, every citizen might easily get property; "wealth pours into every pocket." Weems had articulated the American dream.

The singularly American fact that people could rise above their --birth inspired a new literature: tales of self-improvement. Equality wasn't guaranteed, but opportunity was. If Philadelphia or Boston became too stratified, the bottomless reserve of land shifted the opportunity westward—albeit this slowly decimated indigenous civilizations. Perhaps as Americans like to imagine, those who migrated here were more ambitious. In any case, those who *were* here nurtured a culture that was uniquely individualistic. Daniel Webster said, "Our system begins with the individual man."

The social malleability of America unnerved the graying founders, who had envisioned a classical republic rather than a freewheeling bazaar. Endless waves of newcomers fostered chaos and checked the staying power of elites. The lawyer David Dudley Field observed in 1844 that his profession was "crowded with bustling and restless men." It was as if "a new race has sprung up and supplanted the old."

The emerging commercial culture was fortified by legislation.

At first, corporate charters were granted by the state. Even divorce was a matter of legislative fiat. But in 1811 New York enacted a law establishing general incorporation for manufacturing. Other states followed. New York doubled down in 1838 with a "free banking" law. Consider the social implications: Capitalistic startups, formerly granted from above, now arose from the individual.

Any who satisfied basic statutory requirements could incorporate a business under the protective shelter—crucial to raising capital—of limited liability.

Early corporations were hardly models of transparency, but the quintessential openness of American society saw later expression in the American invention of corporate disclosure. Congress abolished debtors' prisons in 1833.

Liberal bankruptcy laws removed a shackle from would-be borrowers. As the freedom to fail is also the freedom to succeed, capital flowed more copiously than in other countries. Today, our legal system's highly developed protections of the sanctity of contracts is a uniquely American asset.

Legislatures also advanced a social agenda for public education, necessary if opportunity were to be more than a slogan.

To be sure, there was pushback against incurring taxes for other people's children. Thaddeus Stevens, a Pennsylvania legislator, grouched that it was "easier to pass a bill to improve the breed of hogs than that of men." Nonetheless, from the 1850s on literacy in America was significantly higher than elsewhere.

The shameful exception to capitalist opportunity was slavery. A revisionist historical school posits that slavery was the template for American capitalism, the irreducible fount of American prosperity. It oddly mirrors the propaganda of Southern planters who overstated the dependence of the Northern states and Europe on slave-grown cotton.

South Carolina Sen. James Hammond held that "no power on earth" dared to make war on the South because "cotton is king."

He was wrong. The South was in fact the antithesis of American capitalism. The planters more resembled Saudi oil sheikhs (at least until the latter began to diversify). They resisted development—lagged behind in manufacturing,

railroads and agricultural innovation.

Compared to the North, planter society was stratified. The dirty secret of the South was the miserable condition of poor whites. Note

Rather than encourage opportunity, the slave masters frowned on education as a provocation to subversive social leveling. In 1671, William Berkeley, governor of Virginia, proclaimed, "I thank God there are no free schools nor printing" in Virginia. The revisionist school, which asserts the centrality of slavery, cannot answer why other slave societies never approached the prosperity of the U.S.—nor why this country enjoyed a fabulous period of growth after slavery had ended.

The recurring weakness of American capitalism is inequality. During the first century of constitutional government, the disparities were muted. Cheap land offered an escape from poverty and imports exerted downward pressure on basic goods—iron, textiles and others. High tariffs after the Civil War created a protective umbrella for monopolies (known as trusts) just as railroads connected the country and the frontier escape valve disappeared. Note

Factory workers were shunted into urban slums.

The robber barons, America's first class of superrich, stained the popular image of American business to this day. In television's engaging but stereotyping "The Gilded Age," just about every striving mogul is greedy, unethical or both. Search the great books from Theodore Dreiser's "The Financier" to Tom Wolfe's "The Bonfire of the Vanities," and American capitalism would seem constituted purely of rogues.

That first bout of inequality was cured by antitrust prosecutions, reformist legislation, the Great War and the Depression.

(Cures for inequality are sometimes worse than the affliction.)

Inequality 2.0 is alive and well.

American capitalism remains fiercely competitive, remarkably productive, resilient in the face of a thousand doomsayers—and the author of a persistent wealth gap.

Inequality significantly increased in the 1980s and '90s and it remains well above previous levels. In 1979, the top 1% of earners took home 10% of the pie; today it is higher than 20%. Taxes and social transfers level it but only a bit; in 2022, the affluent 1% collected 22% of total income and 19% after taxes. Clearly, the market for talent is more skewed than before. Note

Europe is more equal but it is also poorer. Per capita income in Arkansas, one of the poorest states, is greater than in Germany.

Overall, per capita income in the U.S. is an astonishing 84% higher than in Europe.

The gap shrinks if one adjusts for purchasing power, but by any measure more Americans are employed, they have bigger houses and more washing machines, air conditioners and computers—and they eat out more. And the differences are significant.

One caveat. American capitalism doesn't produce for those at the bottom. An American at the 10th percentile earns only \$19,000 a year. In Europe, at least, poverty is mitigated by a richer array of social goods. For example, not only is life expectancy greater, but the poor experience less of a gap in life expectancy than the poor in America.

The U.S. remains, as Webster observed, centered on the individual. American capitalism is especially pitched toward getting capital to entrepreneurs. Last year, the U.S. registered a record 5.5 million applications for new businesses—one for every 24 households. Note

"It is interesting to ask why 95% of internet innovation happened in this country," notes a wealthy investor. The American system rewards success. In a virtuous circle, talent is attracted from around the world to universities that seed

the next generation. The system is also warped by risible overkill at the top. Elon Musk, whose one-eighth ownership of Tesla would seem to provide him *some* incentive, was awarded a \$23 billion bonus to stay on the job two more years.

Rival nations lack the defining American assumption that business is, firstly, a vehicle for individual capital. Europe has a thicket of regulation, a prevailing assumption that business serves a social purpose. Individual success is met with significant taxation.

In most of Europe stock trading itself is taxed. Regulation tends to protect workers in existing (read: entrenched) industries. Innovative disruptions come less easily.

During the U.S. financial crisis in 2008-09, government purchases of bank stocks were regarded as exceptional. Overseas they are not. In Germany, where

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labor unions hold clout on corporate boards, it is expected that government will rescue troubled firms. In France, a government agency owns stakes in 81 companies. In China the central and local governments wield vast control over industry. All these are nonmarket checks on the tiller of business.

No guarantees

American exceptionalism is plausibly not forever, nor is it changeproof, as the Trump administration has shown. The government's plan to take a 10% stake in Intel, a flailing chipmaker once synonymous with American entrepreneurship, twists the American model into something closer to French or Russian statism. More broadly, there is nostalgia on the Trumpian right as well as on the left for American capitalism as it was practiced after World War II, when the government exercised a more visible hand and when the economy grew at an impressive clip and with less inequality.

Some aspects of that period aren't retrievable. Rival industrial powers had been devastated by the war, and manufacturers in Asia had yet to emerge. America had the field to itself. Capital and labor were insulated by doubledigit tariffs and a dearth of immigration. Even assuming we could build a fortress, we couldn't reim--pose the Bretton Woods agreement, which controlled foreign-exchange rates, and the associated national and international controls on capital flows, interest rates and so forth. Bretton Woods was a reaction to the economic chaos of prewar years—an effort to freeze economies in place. When Europe and Japan rebuilt, it collapsed.

A distant observer of that supposedly halcyon era is struck by how *un-* Jeffersonian it was. Wood said of the bustling enterprise of early America, "No one was in charge." The phrase is redolent with the democratic spirit. Postwar America was regimented by (as it was known) Big Business, Big Labor and Big Government. It was productive but remarkably static. The biggest corporations in 1955 (ranked by revenue) were **General Motors, Exxon, U.S. Steel and General Electric.** Fifteen years later they had scarcely changed (GM, Exxon, **Ford Motor, GE**).

America had superb scientists but they toiled for giant industrial labs rather than startups. Corporate managers took comfort in tariffs that sheltered domestic cartels (notably in autos and steel).

Unlike today, CEOs were managerial bureaucrats, suckled by boards that were all but assembled at their country club. Facing no threat, they were unresponsive to markets. Every phone was black. Department stores charged fat markups. That version of capitalism lost its way. Stocks had a 17-year losing streak. American manufacturing, the object now of syrupy remembrance, was exposed as deficient when the first Toyotas rolled onto American wharves. Innovation had to be rekindled by college dropouts.

Present-day American capitalism doesn't satisfy the needs of the indigent or the need for improved public education, two of the many vital purposes of government. What it has achieved is to rediscover its distinguishing strength: opportunity.

Roger Lowenstein is a writer in Cambridge, Mass., and author of "Ways and Means: Lincoln and His Cabinet and the Financing of the Civil War" and other books. He can be reached at reports@wsj.com.

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