The Intelligent Woman's Guide to Capitalism

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There is a received wisdom in other Anglophone countries that Americans do not get irony. I have never been quite convinced that is true, but in preparing an address to be delivered in a country with Donald Trump as its president, I did hesitate a bit before settling on my title. It may well be that some of you thought I was making immodest suggestions about my own intelligence in proposing "The Intelligent Woman's Guide to Capitalism," and there may even be an inkling of truth in that suspicion. Nevertheless, the title is primarily intended as an ironic nod to *The Intelligent Woman's Guide to Socialism and Capitalism*, published in 1928 by the redoubtable Irish playwright George Bernard Shaw.[1] Here, you see the book with its original cover,

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My reading and thinking about profit was greatly facilitated by a wonderful year as a fellow of the Wissenschaftskolleg zu Berlin in 2016–2017. Many colleagues contributed to the form and content of my presidential address. Meg Graham, Sebastian Guex, Maggie Levenstein, Naomi Lamoreaux, Ken Lipartito, Phil Scranton, Bob Wright, and Mary Yeager deserve special mention in this regard but I would also like to thank other colleagues for the stimulating discussions I have had with them about the history of profit, both before and after I delivered my address. These exchanges raised fascinating questions, and although some of them remain in the margins of this written version, they are already animating my further research on the history of profit. Finally, I would like to acknowledge the invaluable contributions of David Sicilia, our program chair in Baltimore, and the other members of the program committee—Christy Chapin, Per Hansen, Naomi Lamoreaux, Rory Miller, and Julia Ott—to an excellent BHC conference in April 2018.

1. Shaw, *Intelligent Woman's Guide to Socialism and Capitalism*.

Figure 1 Cover to Shaw, *The Intelligent Woman's Guide to Socialism and Capitalism*.

Source: https://en.wikipedia.org/wiki/The_Intelligent_Woman's_Guide_to_Socialism_and_Capitalism#/media/File:The_Intelligent_Woman%27s_Guide_to_Socialism_and_Capitalism.jpg

featuring a delightful blonde woman, partially nude, no doubt to emphasize her intelligence.

From the 497 pages of guidance that Bernard Shaw's book offered to the intelligent woman, one piece of advice strikes me as especially useful—to approach questions that might seem closed as if they were really open—and it has guided me in preparing my remarks. But my address is inspired too by a riposte to Bernard Shaw's book, written by Lilian Le Mesurier, who objected to the assumptions he seemed to make about female intelligence.[2] Her advice to the man himself was to go back to what he was good at, which was writing plays, and her advice for intelligent women, at least as I see it, was to guide themselves on socialism and capitalism.

Sadly, that advice is almost as relevant today as it was nearly a century ago, although the primary focus of discussion has shifted from socialism to capitalism. Besides the occasional exception like *The Origin of Capitalism*, by Ellen Meiksins Wood, or Joyce Appleby's *The Relentless Revolution: A History of Capitalism*, men continue to exercise a virtual monopoly in writing guides to capitalism, with some of them explicitly targeting these guides at their own daughters and granddaughters.[3] Indeed, the extent to which opining on capitalism remains a man's world is as striking as it is disgraceful. In the recent *Cambridge History of Capitalism*, which runs to two volumes and 1,200 pages of text, there are only two women—Ann Carlos and Kristine Bruland—among its forty-one authors, and each of them coauthored her essay with a man.[4] Historians do better in this regard, with *Slavery's Capitalism* counting four women among its sixteen authors, but that still leaves some distance to travel.[5] It seems far from impertinent to suggest, therefore, that another women or two might dare to reflect on what the intelligent woman might look for in a guide to capitalism.

That is what I will do this evening. My goal is to suggest some questions that I think are important rather than to offer answers to them. Although I have worked on some of these issues myself, I have made a conscious effort in writing my address to avoid citing my own research. Well, you might say, will that not make my presidential address representative of precisely the kind of academic practices that women should avoid? We know that men are more confident in projecting their ideas, and we know their ideas circulate better, with men being cited more than women by their colleagues and, more controversially, by themselves. If women want their voices heard on capitalism, therefore, should they not adopt the practices that have proven so successful for men?

Sometimes it is good advice for women to ape the practices that keep men at the center of scholarly discourse, but there are intellectual

2. Mesurier, *Socialist Woman's Guide to Intelligence*.

3. Meiksins Wood, *Origin of Capitalism*; Appleby, *Relentless Revolution*. For men writing about capitalism for their daughters, see Varoufakis, *Talking to My Daughter About the Economy*; Corneo, *Is Capitalism Obsolete?*; Ziegler, *Le Capitalisme expliqué à ma petite-fille*.

4. Neal and Williamson, *Cambridge History of Capitalism*.

5. Beckert and Rockman, *Slavery's Capitalism*.

advantages to being on the edge of academic clubs. In a paper presented at this conference, Les Hannah described me as a scholar with "somewhat renegade perspectives."[6] I hesitated when I read that description, but, on reflection, I think it is fair enough. Still, I am not the only woman to whom that label applies. When I was a young economist, one of my greatest sources of inspiration was Joan Robinson—now there was a real renegade—and one of the best articles she ever wrote is entitled, "What Are the Questions?"[7] So, this evening I will tell you about a question that I have come to think is one of the most important and open questions about capitalism: How do profits behave in capitalist systems? It is a deceptively simple question, but to paraphrase Robinson, it is a question that involves the whole political and social system of the capitalist world, it cannot be decided by theory, and it would be decent, at least, if we admitted that we do not have an answer to it.[8]

It is worth being explicit, for fear that I might be cast off as a zealot, that I do not believe that the history of capitalism can be reduced to profit. There are other aspects of capitalism—commodification is a leading example—that are just as worthy of our attention, but historians are largely getting on with the task of exploring them. In contrast, they seem downright reluctant to grapple with the complexities of the history of profit and, so, in my remarks this evening, I will try to persuade you of three claims. First, if we are to understand how capitalism worked in the past, we must understand the history of profits. Second, our grasp of capitalism is greatly hampered by a marked reluctance on the part of historians of different stripes, albeit with some notable exceptions, to explore the dynamics of profit in the past. Third, if we are willing to grapple with some basic questions about profit—questions about how profits are generated, eroded, appropriated, and redeployed—there is a great deal to be gained insofar as our historical understanding of capitalism is concerned.

My Road to Capitalism

So there is my hammer, and soon I will wield it, but not before offering you a brief description of my own road to capitalism. As a European, and a woman to boot, I hesitated to embark on a personal prologue to

6. Hannah, "U.S. Stock Exchanges, 1868–1950."
7. Robinson, "What Are the Questions?"
8. Ibid., 1337.

my presidential address, but you have two people to blame for what is to come. Last year, when Walter Friedman gave his presidential address, he allocated approximately one half of a short sentence to his own personal life, but that did not stop him from pestering me over the last year to tell you something about myself.[9] I might have fobbed Walter off had it not been for the even more formidable Mary Yeager. In her presidential address, Mary noted that female presidents of the BHC hardly ever divulge personal details about themselves.[10] I shared their instinct, but as soon as I chose the title of my address, I started to worry that Yeager would heckle me from the floor if I did not come through with something.

If you look up 98, Ranelagh in Dublin on Google Maps, you will see what remains of the place where I spent most of my childhood.[11] When I was not at school or sleeping, I sold sausages and milk over the counter at Lily's Dairy, my father's grocery shop. We never knew the Lily who gave the shop its name, but the woman who had built the business was my father's mother and another Mary O'Sullivan. She was a local legend, being known to fling full-grown men, literally drunk on the fruits of their labor, into the street. My grandmother's facility with belligerent drunks reflected the fact that some of our most important customers were the inebriated men who rolled out of the pub across the street, keen to buy a peace offering to take home. The following morning, their long-suffering wives would come into the shop, often sporting a black eye that their loving husband had bestowed upon them, begging for credit to buy bread and milk to feed their children.

I learned many lessons for life in that shop, swearing off Irish men early in my life, and vowing to become a financially independent woman before I was even a teenager. At the time, I was less interested in what was to be learned about business and economics, but the lessons were there for the taking. We sold goods over the counter—typically on credit to people who paid laconically—and often delivered groceries to customers' homes. It was a high-cost operation, one that was characteristic of the Irish grocery business when I was born, and one that became harder to sustain as I grew up in the 1970s and 1980s. Supermarkets brought what they brought everywhere else in retailing history—self-service and lower prices—and a veritable revolution in

9. Friedman, "Recent Trends in Business History Research."

10. Yeager, "Women Change Everything."

11. Google Maps, 98 Ranelagh, Dublin 6, D06 V992, Ireland, https://www.google.com/maps/place/98+Ranelagh,+Dublin+6,+D06+V992,+Ireland/@53.324266,-6.2543773,17z/data=!3m1!4b1!4m5!3m4!1s0x48670ea57d613fdb:0xbcd1b78ed0cf419a!8m2!3d53.324266!4d-6.2521886

the Irish grocery trade. There was little profit to be made by small grocery businesses, and they persisted only because they did not have to pay for the labor they used. The story would be a tragic one were it not for its banality—my life as a statistic if you like—but it seemed tragic at the time because it was my life.

We never lived in a corridor or in an old water tank on a rubbish tip, and certainly not in a hole in the ground covered by a piece of tarpaulin, but I did grow up with a morbid fear of running out of money. If that never happened, it was in no small part due to my mother—another woman called Mary O'Sullivan, and long before she ever heard of my father—who knew how to manage money because she had grown up without it. Still, in light of the financial uncertainty that marked their existence, my parents had one overriding goal for all of their children: to get the best education available in Ireland and to monetize it in the form of a steady, well-paid job. Having reluctantly accepted that I would not be the nun she wanted, my mother earmarked me for a position as an accountant or an actuary. The problem in the late 1980s was that such jobs were not to be had in Dublin and, like many young Irish people, I headed to London to start a new life.

When I left Ireland, I had strong convictions, but they were about patriarchy and religion rather than capitalism. Strictly speaking, of course, I came from a petit bourgeois background but, since my father had labored so much to make money out of money, he did not seem like much of a capitalist to me. The Irish economy struggled too, with unemployment above 15 percent in the late 1980s and GDP per capita at about 70 percent of the European Union average, but it was difficult to situate capitalism in a diagnosis of the country's economic problems.[12] In the Republic of Ireland, as in other postcolonial states, there was debate about whether capitalism itself was at fault or the way it had been imposed. So I had more questions than answers about capitalism, and my open mind on the matter was one reason, despite our shared background, that I never aspired to be the woman below (Figure 2), although I admit that the hairdo played a role too.

Besides, I had more pressing things to do as a young woman than sit around thinking about capitalism since I needed to support myself. When I found a fancy job in London, working for McKinsey & Co., the consulting firm, I thought I would do that in style. Some of the allure

12. Central Statistics Office, *Ireland and the EU 1973–2003*, https://www.cso.ie/en/media/csoie/releasespublications/documents/statisticalyearbook/2004/ireland&theeu.pdf

Figure 2 Photo of Margaret Thatcher, circa 1975.
Source: Library of Congress.

wore off once I calculated my hourly wage, but what really distressed me was the fact that my initial assignment took me to the shops of a leading retail chain all over Britain. The irony of finding myself back in the world I had just left seemed almost too cruel to bear until I realized that I had landed on a different planet. My task was to hang around these shops, surreptitiously measuring their surface area and calculating the number of people who bought goods. Then I was told to divide one number by the other to measure capital turnover, a concept that had never occurred to me, despite all of my years as a shopkeeper's daughter. It soon struck me that there was an entire world out there populated by enterprises that worked very hard to understand what they were doing with their capital and how it affected their profit. And when McKinsey sent me to the Harvard Business School to do an MBA, the extent and influence of this world became clearer still.

I arrived in Cambridge, Massachusetts, as Michael Jensen was penning and publicizing some of his most influential work on shareholder value.[13] His course at Harvard Business School was conceived of as an introduction to price theory for MBA students. But no course on price theory ever had the kind of success that Coordination, Control and the Management of Organizations (CCMO) enjoyed, with students flocking in their hundreds to hear Jensen rail against "fat and lazy" U.S. corporations and advocate the downsizing of their workforces and the distribution of their profits to their shareholders. His course was a performance that showcased Jensen's sartorial slick, his undoubted charisma and, above all, his analytical acumen and agility. There was much to admire in all of that, but sitting in Jensen's classroom, surrounded by his acolytes, my stomach turned. I started to take issue with what he preached, arguing every point with him, back and forth, until he snapped one day and told me that if I ever wanted to make my arguments persuasive I should go and get myself a PhD in Economics.

Naïve as I was, I followed his advice and trotted across the river to the Harvard Economics department. What a rude awakening that turned out to be! Very few people can say they were truly radicalized by an MBA and a PhD in Economics, but that is what happened to me. No one wanted to talk about capital or profit in the Harvard Economics department. Instead, they spoke about the "free market economy" and the "competitive market economy," and, well, you know what they say about a lie. If you repeat it often enough, it becomes politics, and that is when capitalism began to intrigue me.

Capitalism in Theory and History

As a student of economics, I got into bad company without even trying. I read economists who talked about phenomena that seemed important to the way the economy operated. Such bad company included a few clever fellows like Marx and Veblen and Schumpeter and Keynes, as well as highly intelligent women like Luxemburg and Robinson and Penrose. So much for the dead people, but there were some live ones too in the bad company I kept. My doctoral advisor, Stephen Marglin, played a crucial role for me, helping me discover the intellectual richness of economics that so many of his colleagues worked to conceal. And he soon told me that if I wanted to understand what capitalism meant, then I needed to understand capital.

13. Fourcade and Khurana, "Social Trajectory of a Finance Professor."

On the face of it, his advice was sensible enough and seemed to echo something that prominent Swedish economist Eli Heckscher had said decades earlier. Referring to "that unwholesome Irish stew called 'modern capitalism,'" Heckscher suggested, "if those two words have a distinct meaning, it ought to be connected with what is called in economic science 'capital.'"[14] So off I went to read about the economic "science" of capital, and what I discovered was not what Heckscher had in mind, but what Marglin knew I would find. Economists had made sustained, though sporadic, efforts over more than two centuries to develop an economic theory of capital. However, their efforts had spawned enormous contention and confusion within the discipline as exemplified by successive "capital controversies."[15] Indeed, the mess was such that the economic "science" of capital might itself be deemed Heckscher's unwholesome Irish stew.

That stew appealed to me, and still does, so that the reopening of old debates about the nature of capital is a welcome development from my perspective. In recent years, we have seen a surge of research that revives the "Is it a bird, is it a plane?" question about capital, with contributions from, inter alia, Francesco Boldizzoni, Thomas Piketty, Geoffrey Hodgson, and, most recently, Jonathan Levy in the *Business History Review*.[16] Indeed, if there is anything to worry about in this new literature, it is the tendency of some contributors to try to resolve the confusion about capital by proposing their own definitions of it. In this regard, I think that what Louis Hyman said about capitalism makes a good deal of sense for capital: the immediate challenge is not to define it, but to understand why it is so resistant to simple definitions.[17]

Yet, whatever the interest and importance of these debates about capital, I soon learned that if capitalism is to have a distinctive economic meaning, it does not stem from the mere existence of capital (whatever that might mean), but from capital's relationship to profit. Compared with the term "capital," the notion of capitalism is a relative newcomer and, when one looks at the earliest conceptual

14. Heckscher, "Revisions in Economic History."

15. For an introduction to these controversies, see Cohen and Harcourt, "Cambridge Capital Theory Controversies."

16. Boldizonni, *Means and Ends*; Piketty, *Capital in the Twenty-First Century*; Hodgson, *Conceptualizing Capitalism*; O'Sullivan, "Confusion of Capitals"; Levy, "Capital as Process." Within seconds of my delivering this presidential address, several people pointed out that I had broken my own rule and cited myself on the slide I used to make this point. In the interests of the historical record, I have retained the reference to my own research as a testament to their careful attention and rapid feedback!

17. Comments by Hyman, "History of Capitalism," 513.

usages of the term, it is clear that it meant more than the economic use of capital. Indeed, Louis Blanc, the French socialist who is often credited with inaugurating the modern use of the term capitalism, attacked the "sophism ... of perpetually confusing the usefulness of capital with what I shall call capitalism."[18] Most scholars who have made a serious effort to conceptualize capitalism, to understand what it signifies as an economic system that is distinct from other systems, have attributed capitalism's distinctiveness not only to the presence of capital but to capital's relationship to profit.

That some people might make profit at the expense of other people's losses has been understood for centuries. But the idea of sustained profit, the possibility that profit might be a systemic feature of the economic system, that profits for some would not necessarily be cancelled out by the losses of others, comes much later, perhaps as recently as the middle of the eighteenth century.[19] From then on, the potential significance and persistence of profits garnered attention in the emergent field of political economy. Now, if economists have struggled to understand capital, their debates about profit are messier still. As prominent Chicago economist Frank Knight observed in his entry on "profit" in the *Encyclopaedia of the Social Sciences* in the early 1930s: "Perhaps no term or concept in economic discussion is used with a more bewildering variety of well-established meanings than profit."[20] The only concept that comes close, of course, is capital, and that is hardly surprising since the challenges of understanding profit and capital are so closely intertwined.[21]

At least that was true until the consolidation of neoclassical economics as the mainstream of the discipline. The founding fathers of neoclassical economics took a firm stand on the issue of profits as exemplified by the writing of Léon Walras. "So far as profit is concerned, in the sense of profit of enterprise," he insisted, it was "the correlative of possible loss, that it is subject to risk, that it depends upon exceptional and not upon normal circumstances, and that theoretically it

18. In the 1850 edition of his *L'Organisation du Travail*, Blanc says: "Vive le *Capital*! Nous applaudirons, et nous attaquerons avec d'autant plus de vivacité le *capitalisme*, son ennemi mortel. Vive la poule aux œufs d'or, et défendons-la contre qui l'éventre!" (162).

19. One might cite the obligatory Adam Smith here, but his contemporary and Scottish compatriot, Sir James Steuart, was even clearer in drawing a distinction between relative profit—in which someone's gain was somebody else's loss—and positive profit—which "implies no loss to any body" because "it results from an augmentation of labour, industry, or ingenuity—and the effect of swelling or augmenting the public good. See Steuart, *Principles of Political Economy*, 1767.

20. Knight, "Profit."

21. Frank Fetter's entry on capital in volume 3 of the same encyclopedia is riddled with the words *confusing*, *confused*, and *confusion*. Fetter, "Capital."

ought to be left to one side."[22] If profit was so tricky, so bewildering, it seemed better to cast it out beyond the margins of economic theory. Of course, no serious mainstream economist, writing in the twentieth or twenty-first century, could possibly believe that what Walras said was a reasonable approximation of the reality of profits. Still, not having any theory to explain profit meant that its generation and erosion was treated the way the nuns who taught me treated the Immaculate Conception: the less that was said about it was very much the better.

Once I understood that, I moved on from the mainstream of my discipline to become what in tolerant circles is called a heterodox economist and in less genteel company is no economist at all. I read and I read and I read everything I could find on capital and profit, enjoying a kind of intellectual stimulation and freedom that I had never imagined would be mine. Still, you cannot make a silk purse from a sow's ear overnight, and my flights of intellectual fancy were dogged by a recurrent fear that economists' blathering about capital and profit was just intellectual posturing. I acknowledged, at least to myself, that I could not distinguish between a good and a bad theory of profit for the simple reason that I did not know much of anything about the economic behavior of profit in capitalism. I was drawn to the few heterodox economists I met—like Bill Lazonick and Jane Humphries and Mike Best and Michael Piore and Alice Amsden—who pursued their heterodoxy through history. And I wondered if there might be something to learn about the relationship between capital and profit in capitalism by looking to the past and, specifically, to the history of enterprise.

It was my curiosity about the historical dynamics of capitalism that brought me to the Business History Conference in the mid-1990s, and thanks to many of the people in this room and some who are no longer with us, I learned a great deal here. Still, the challenge of understanding what it was about capital and profit that might make capitalism distinctive turned out to be much more difficult than I had envisaged. Indeed, what I discovered is that many historians of economic life—whether they be economic historians, historians of capitalism, or, perhaps most surprising of all, business historians—were remarkably reticent in grappling with the history of profit.

One could illustrate the point by focusing on any number of controversies in the history of capitalism: debates about the origins of capitalism in different parts of world, the transition from merchant to industrial capitalism, the historical dynamics of capitalism and socialism. All of these debates have been greatly hampered by historians'

22. Walras, *Elements of Pure Economics*, 225.

lack of attention to how profits are generated and appropriated. Since I cannot possibly convince you of such a claim for all of them, let me illustrate the larger problem by focusing on one debate: the debate on capitalism and slavery. It has generated seemingly endless controversy and, today, contention is focused on the relationship between capitalism and slavery in the antebellum United States. I shall direct my attention there and, specifically, to the increasingly hostile clash between historians of capitalism and economic historians about the relationship between slavery and capitalism.

Capitalism as Rhetoric or Scholarship?

Slavery features so prominently in the recent history of capitalism, especially in its interpretation of U.S. capitalism, that Sven Beckert and Seth Rockman claim it has fostered a fundamental recasting of the country's history of economic development until the Civil War as "slavery's capitalism."[23] They identify "the most ambitious books on this front," as their critics do too, as Walter Johnson's *River of Dark Dreams*, Greg Grandin's *The Empire of Necessity*, Edward E. Baptist's *The Half That Has Never Been Told*, and Sven Beckert's *Empire of Cotton*.[24] Taken together, these books make two claims about the relationship between slavery and capitalism in the ante-bellum United States: on the one hand, slave plantations were run according to capitalist principles; on the other hand, slavery in the South played a crucial role in the larger history of U.S. capitalism.

These claims have attracted a great deal of favorable attention from historians in the United States—although not everyone is convinced of their merits—as well as in the public sphere. Among economic historians, however, the reaction has been less favorable and seems increasingly hostile as time goes by. In an early review of Walter Johnson's book in the *Journal of Economic Literature*, Gavin Wright, a noted specialist of the economic history of U.S. slavery, made his reservations quite clear. He acknowledged that "reminders of the human reality of slavery are valuable for economic historians," but insisted on the importance of getting "both parts of the history right," and suggested that "the book's economic analysis is unfortunately not particularly strong."[25] Wright's criticism was tempered, but as other

23. Beckert and Rothman, *Slavery's Capitalism*.

24. Johnson, *River of Dark Dreams*; Grandin, *Empire of Necessity*; Baptist, *Half That Has Never Been Told*; Beckert, *Empire of Cotton*.

25. Wright, review of *River of Dark Dreams*, 878.

economic historians piled on they took a more severe tone. In 2017, in the *Journal of Economic History*, Eric Hilt observed that there is economic analysis in Johnson's book, but it "often falters," and with regard to Baptist's book, he suggested, "As has been said of other polemical but problematic works, *The Half That Has Never Been Told* is perhaps best understood as 'history as rhetoric' rather than 'history as scholarship.'"[26]

In the most recent and comprehensive article on the new literature, "Cotton, Slavery, and the New History of Capitalism" in *Explorations in Economic History*, Alan Olmstead and Paul Rhode emphasize that the new history of capitalism (NHC) tells a "barbarous story" and that there is much in the "big picture" with which to agree. However, they claim that "much that is true in the NHC story has long been commonplace," and that it "makes spectacular but unsupported claims, relies on faulty reasoning, and introduces many factual inaccuracies." They conclude: "Neither the NHC's evidence nor its methodology supports its major conclusions."[27]

The overall message of these reviews is quite clear: insofar as slavery and capitalism is concerned, the new history of capitalism combines bad economics with bad history. What galls economic historians more than anything is that the new historians of capitalism pay so little attention to the extensive literature in economic history on slavery. The clear implication is that immersion in that literature would have prevented historians of capitalism both from vaunting the originality of claims that economic historians have been making for years and from reaching erroneous conclusions that economic historians have long rejected.

There are many lines of fire in economic historians' attack on historians of capitalism, but given its relevance to my overall theme, I want to focus on the character and operation of slave plantations in the antebellum southern states.[28] The new historians of capitalism characterize slave plantations as profoundly capitalist in nature, with planters portrayed as being, in Ken Lipartito's words: "As rational, entrepreneurial, and grasping as any factory titan."[29] Economic historians have taken

26. Hilt, "Economic History," 519, 518. In the contrast between rhetoric and scholarship, Hilt is alluding to the characterization by Seymour Drescher (*From Slavery to Freedom*, 391) of Eric Williams's *Capitalism and Slavery*. It is worth pointing out that, notwithstanding scathing criticism of Williams's work by Drescher and many economic historians, Williams's book is increasingly credited with offering a great deal more insight than such critics allowed.

27. Olmstead and Rhode, "Cotton, Slavery," 2, 15.

28. Thus, I will not deal with the controversy on the relationship between the southern slave economy and the economic development of the northern states.

29. Lipartito, "Reassembling the Economic," 115–116.

umbrage at this characterization, not because they disagree with it but because they insist it has been common knowledge among economic historians for decades. As Olmstead and Rhode put it: "The NHC has touted its findings that slavery was profitable, that slave owners were capitalists," but that "for economic historians, most thoughts of an unprofitable plantation economy were put to rest by Alfred Conrad and John Meyer's 1958 path-breaking analysis."[30] Insofar as the operation of slave plantations is concerned, in contrast, there is profound disagreement between new historians of capitalism and economic historians. The controversy turns largely on how to explain the enormous increase in the productivity of raw cotton production in the United States between 1820 and 1860. Economic historians accuse historians of capitalism of attributing productivity increases largely to the exploitation of slaves despite the fact that the economic history literature emphasizes other factors, including technological improvement, not least biological innovation.[31]

Capitalism as Economic Rhetoric

Given the forceful nature of these criticisms, it seems important to take a careful look at what the economic history literature really tells us about the character and operation of antebellum slavery in the United States. In asking what it is that historians of capitalism might have learned from that literature, it makes sense to start with "The Economics of Slavery in the Ante Bellum South," published in 1958 by Alfred Conrad and John Meyer.[32] As Olmstead and Rhode observe, the article represents the seminal contribution in economic history on the capitalist character of slavery; it was, moreover, a pioneering paper in the establishment of cliometrics. Thus, the paper is worth reading and rereading for a variety of reasons, but especially to understand what it reveals about slavery as capitalism.

Since economic historians often emphasize the political, even polemical, character of the new history of capitalism, they would do well to reread the opening paragraphs of the Conrad and Meyer paper. There the authors laid out their challenge to historians like U. B. Phillips, who argued that slavery was so unprofitable that it "would have toppled of its own weight," and they made it quite clear that their motivation was to challenge the political implication of Phillips's reasoning that "the Civil War, far from being an irrepressible conflict,

30. Olmstead and Rhode, "Cotton, Slavery," 11.

31. A key reference that is cited by economic historians in this regard is Olmstead and Rhode, "Biological Innovation and Productivity Growth."

32. Conrad and Meyer, "Economics of Slavery."

was an unnecessary blood bath."[33] Conrad and Meyer acknowledged that there were historians before them who had argued that slavery was profitable, but they explained that it had proven difficult to overturn Phillips's view since the evidence employed "has been provided by the few, usually fragmentary, accounting records that have come down to us from early plantation activities."[34]

In light of this observation, one might have expected their contribution to depend on the marshalling of new evidence, but their study relied on existing historical data, some of it drawn from Phillips's own work. Nor did Conrad and Meyer pioneer in the application of advanced quantitative methods for analyzing these data. What was new, as Conrad and Meyer explained, was their theoretical approach to the profitability of slavery: "We shall attempt to measure the profitability of southern slave operations in terms of modern capital theory. In doing so, we shall illustrate the ways in which economic theory might be used in ordering and organizing historical facts."[35]

What they meant by "modern capital theory" is contained in the formula below. One might think that only a twit would show a mathematical formula during a presidential address, but I do so only to emphasize the simplicity of its logic, for therein lies its powerful and problematic character. All the formula says is that the rate of return on any capital asset can be calculated by comparing the amount invested in that asset with the expected profits that it generates over its lifetime. What Conrad and Meyer did was to apply that logic, which was just filtering into empirical studies of capital investments, to the historical analysis of slavery in the antebellum United States.

$$\text{Value invested in capital} = \Sigma(\text{annual revenue-annual cost})/(1+\text{i})^{\text{n}}$$

where summation is from n = 1, 2, 3,.....T

To be a bit more concrete, let us focus on male slaves, who presented an analytically simpler challenge than female slaves since they did not give birth. The cleverness of Conrad and Meyer's approach can be seen in just how little historical information they needed to plug into their model to generate estimates of the profitability of slavery. First, they computed the investment in slavery, on the left hand side of the equation as shown below, as the average market price of a slave ($925), and the cost of acquiring the land on which to grow cotton ($450). Second, they calculated the annual returns that an average slave generated by multiplying his physical output of cotton

33. Ibid., 95.
34. Ibid., 96.
35. Ibid., 96.

by its market price: 3.75 bales or 1,500 pounds of cotton produced per year and sold at an average price of $0.075 per pound to give annual revenues of $112.50. Third, they estimated the average cost of maintaining a slave on a cotton plantation in the antebellum South as $20.50 per year. These assumptions generated an estimated profit on a "prime field hand" of $92.00 per year, and Conrad and Meyer assumed he was productive for thirty years. On an initial investment of $1,375, therefore, a slave owner could generate an internal rate of return, or profit rate, of 5.25 percent, but Conrad and Meyer played around with a range of possibilities before concluding that profit rates between 4.5 and 6.5 percent were the "most typical" of U.S. slavery. It was on this basis that they concluded: "Negro slavery was profitable in the ante bellum South" and "southern plantation agriculture was at least as remunerative an economic activity as most other business enterprises in the young republic."[36]

$$\$925 + \$450 = \sum(112.50 - 20.50)/(1+i)^{30}$$

Given that their conclusion confronted what Phillips had said about the economic unattractiveness of slavery, it is worth asking where the difference came from, especially since Phillips used the same kind of reasoning as Conrad and Meyer, albeit without applying their formula. The basis of the disparity can be seen in the data shown in Figure 3. Phillips focused on the rising market price of slaves in the nineteenth century, on the one hand, and the falling price of the cotton, on the other hand, to conclude that slave owners' profits were being squeezed from both sides. Rising slave prices and falling cotton prices played a central role in Conrad and Meyer's analysis too, but it was their estimate of physical productivity that made the difference. They knew, as Figure 3 shows, that average physical productivity on cotton plantations increased a great deal in the antebellum United States. In contrast, Philips assumed there was no change in the physical productivity of U.S. slaves in the nineteenth century; had he been correct, slavery would have looked unprofitable based on the formula proposed by Conrad and Meyer. Instead, the estimate of physical productivity they plugged into their formula, which was nearly four times the productivity recorded at the beginning of the century, largely drove the difference in their analysis of the economics of antebellum slavery compared with that of Phillips.

So much for the numbers that Conrad and Meyer used, but what of their method? The justification they offered for the theoretical

36. Ibid., 95–96.

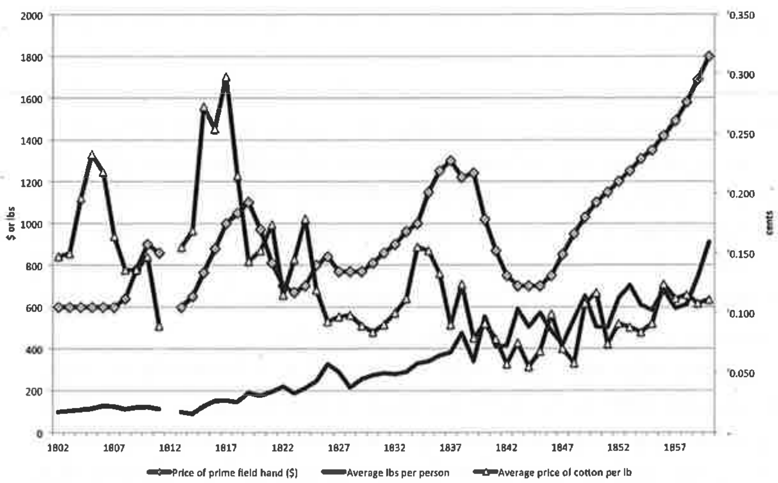

Figure 3 Different histories of U.S. antebellum slavery.

Source: Author's analysis based on data in Conrad and Meyer, "The Economics of Slavery in the Ante Bellum South."

approach they took to slavery was that "from the standpoint of the entrepreneur making an investment in slaves, the basic problems in determining profitability are analytically the same as those met in determining the returns from any other kind of capital investment."[37] Perhaps the most striking implication of modeling the economics of slavery as if it resembled an investment in a bond or a stock was that it allowed Conrad and Meyer to talk about the profitability of slavery without saying anything at all about operating a slave plantation. They portray slaveowners as "purchasing" and "maintaining" and "selling" slaves. Nowhere in their article is there a hint of exploitation or indeed any other method of generating productivity in the production of cotton. Instead the higher physical output per slave seems to bubble up miraculously over the course of the nineteenth century.

If one can raise moral objections to the way that Conrad and Meyer went about their task, there are economic problems with it too. All of their analysis is based on averages of slave prices, physical production, and cotton prices from 1830 to 1860 for the entire cotton-producing plantation sector of the U.S. economy.[38] The problem of approaching their task in this fashion is readily seen if we take our minds off slave plantations in the southern United States and imagine

37. Ibid., 98.

38. They did not have data on slave plantations or slave owners or slaves themselves.

performing a similar exercise for the U.S. iron and steel industry from 1865 to 1895. We find echoes of the economic story that Conrad and Meyer recount, given the rising costs of building Bessemer steel mills, the declining iron and steel prices, and the rising average productivity of a steel worker. By estimating averages for these variables, and applying the logic that Conrad and Meyer used, we could estimate an average rate of return for the iron and steel industry. Yet, whether that average return would be 5 percent or 4 percent or 9 percent, it would tell us little or nothing about the profitability of actual U.S. capitalists in the iron and steel industry during this period.

One reason why the logic used by Conrad and Meyer is so problematic in such settings is that time matters when you invest in fixed capital. *When* you build your steel mill and *when* you sell your output matters a great deal to your profitability. We know, for example, that Andrew Carnegie benefitted greatly from the fact that he completed his factory after the panic of 1873. His investment expenditures were lower in a depressed economy than for his more precocious competitors. Moreover, by the time his factory was built, the prices of iron and steel were about to recover from their low point, allowing Carnegie to generate crucial revenues in the early years of his operation.[39] So time mattered in iron and steel, not in the sense of *n* identical periods, as Conrad and Meyer characterize it in their model, but time in the sense of when you invest and when you sell. Dealing with temporal variation was a major challenge for slaveowners too, as we can see, for example, in the correspondence of John Couper about his Hopeton plantation on the Altamaha River in Glynn County, Georgia.[40] And there is no surprise there since cotton prices were among the most volatile of all commodity prices in the nineteenth century.[41] It seems more

39. Livesay, *Andrew Carnegie*, 97.

40. The plantation was established before the War of 1812 by Couper, a Scotsman, and it remained in his possession until the end of 1826. In a letter dated January 1, 1827, he described his business tribulations in the following terms: "You know I commenced planting without capital. Of course had to go in debt and 8 per cent compound interest I found to be the real perpetual motion. Though tolerable successful sometimes, yet I had sad reverses—Embargo, non-intercourse & War—interfered with my prospects, whilst interest progressed—My loss of 60 prime effective negroes—carried off by the Enemy—lessened my annual income full $15,000—to supply their places *in part* I bt. 120 slaves for which I paid an average of 450$. Crops were not favorable. In the year 1824—I had *matured* a crop of 600 Bales cotton—which would have produced $90,000—This was lost in 12 hours by hurricane. In 1825 I again nearly lost my crop by caterpillar. Cotton then sunk in price, without any prospect of improvement. Lands were reduced to 1/3 of their value. Slaves to 250 or 200. In short I saw no hope of paying my debts and retaining my property—and tho not pushed—I thought best during my life to meet the storm" (cited in Govan, "Was Plantation Slavery Profitable?," 527).

41. MacDonald and Meyer, "Fluctuations in Cotton Prices."

than a little strange, therefore, to imagine you can understand what it meant to invest in an industry with such a volatile price for its output by averaging cotton prices over a thirty-year period; furthermore, it is important to consider the variation over the same period in the prices of slaves and, therefore, in slaveowners' so-called fixed capital, rather than suppressing it through averaging.

That is not, however, all the interesting history that Conrad and Meyer's approach destroys, since their averaging eliminates variation across slave plantations, too. In principle, you could calculate the average rate of profit from investing in a steel mill over the period from 1865 to 1895, but it would have little economic or historical meaning. An investment in a Bessemer steel mill was not enough to give an entrepreneur access to the fabulous returns being generated in the post-bellum U.S. iron and steel industry since only some companies made spectacular profits. Similarly, you could not take advantage of the rising productivity of slave plantations in the United States just by buying a slave. You had to devise methods, cruel and clever, to make him produce cotton, and we know that some plantations were better, much better, at doing that than others. Interestingly, Conrad and Meyer knew that too, but that did not stop them taking questionable shortcuts that downplayed variation across slave plantations.[42]

It is clear, therefore, that serious questions can be asked about the appropriateness of the model that Conrad and Meyer used to assess the profitability of slavery, but they received little attention when their paper was published.[43] Conrad and Meyer did face a barrage of criticism, mainly from likeminded economic historians, but it focused almost exclusively on the empirical estimates of cotton prices, maintenance costs, and slave longevity that they plugged into their model. That meant that, more than fifteen years later, when Robert Fogel and Stanley Engerman presented their analysis of the economics of slavery in the antebellum United States, they felt no pressure to rethink what had become the accepted approach to assessing "the capitalist character of slavery." All they added was the rhetoric—since Conrad and Meyer did not use the term "capitalist"—but their evidence was calculated on the same conceptual basis as Conrad and Meyer's findings and implied still higher rates of profit from slavery.[44]

42. Conrad and Meyer knew there were differences in productivity across plantations, and they tried to incorporate them by assuming they reflected different land qualities, but as they recognized themselves, that got them into serious conceptual trouble. Conrad and Meyer, "Economics of Slavery," 106n10.

43. For one exception, see Desai, "Consolation of Slavery."

44. Fogel and Engerman, *Time on the Cross*, Vol. 1., 70.

What was strikingly original about *Time on the Cross*, in contrast, was its analysis of the operation of slavery as capitalism and, specifically, its claims that slave-based cotton plantations were highly productive; that larger plantations were more productive than smaller ones; and that the source of their efficiency was their "highly disciplined, highly specialized, and well-coordinated labor force."[45] To support these claims, Fogel and Engerman relied on data for a large sample of U.S. cotton plantations from the 1859 census that had been compiled by fellow economic historians William Parker and Robert Gallman. The real novelty of their contribution stemmed, as for Conrad and Meyer, on their reorganization and reordering of the historical facts collected by someone else.

While Conrad and Meyer relied on averages, Fogel and Engerman were interested in variation across slave plantations and, in particular, variation by size of plantation. They calculated extremely simple measures of productivity, measured by dividing the overall output of cotton plantations by the inputs they thought were used to produce it, for plantations of different sizes, as shown in Table 1. They interpreted their key results to mean that there were economies of scale in cotton production. But they went further still, to describe how planters on medium and large plantations organized and disciplined their labor force, and concluded, "This feature of plantation life appears to be the crux of the superior efficiency of large-scale operations on plantation."[46]

Such confident statements are characteristic of Fogel and Engerman's discussion of the productivity of slavery, but when you look for the basis on which such statements are made, you will find an astonishing vacuum. There is little to be found in the usual academic footnotes, since there are none, but there is an extensive discussion of evidence and methods in a second volume of their book. Fogel and Engerman provide a great deal of information there on how they measure productivity but they cite no sources for their claims about the importance of scale for productivity or the role of organization and discipline in generating it. In the end, the only historical evidence for these claims, including those about the gang system that they emphasize so much, comes down to Table 1. And, as a little scrutiny suggests, that table offers rather meager pickings as evidence, since it does not even show a consistent relationship between scale and productivity, never mind support for any assertions about the reasons that larger operations might be more productive than smaller ones.

45. Ibid., 199–203.
46. Ibid., 193.

Table 1. The relationship between Total factor productivity and farm size in each region (index of free farms in each region = 100)

Size of farms as measured by the number of slaves per farm	Slave-exporting states (Old South)	Slave-importing states (New South)	All states in Parker-Gallman sample (Cotton South)
0	100.0	100.0	100.0
1–15	105.0	112.9	107.7
16–50	126.9	156.3	144.7
51 or more	137.3	137.3	133.5
All slave farms	120.8	135.8	128.5

Source: Fogel and Engerman, *Time on the Cross*, 139, Table B.24.

Clearly, the foundations for the provocative claims made in *Time on the Cross* are rather flimsy, and they drew fire from economic historians as soon as the book was published. In a lacerating review in the *Journal of Economic History*, Paul David and Peter Temin asked whether "the key empirical propositions advanced by Fogel and Engerman—those regarding the comparatively favorable material conditions of life, and the greater efficiency of slave labor—possess an objective 'scientific' status that derives from the methods employed in securing them?" Their answer was a resounding no, and based on a "detailed examination of the authors' evidence and methods," they sought to show "just how unwarranted it is to accept their empirical 'findings' as scientifically incontrovertible."[47] Their review ran to nearly fifty pages and identified numerous statistical errors and technical problems with Fogel and Engerman's analysis. They followed up three years later with an edited volume, on which they collaborated with other historians, to show that *Time on the Cross* is so "seriously flawed ... that [it] is likely to mislead readers as often as it enlightens them."[48]

However, these critics' unrelenting focus on statistical errors and technical problems turned out to be a huge mistake, since it allowed the more egregious problem, the fact that *Time on the Cross* rests on little direct evidence, to be lost in the shuffle. By getting down to the level of whether Fogel and Engerman had made due allowance for the number of frost-free days in the south in calculating labor inputs, they seemed to suggest that there was a discussion worth having. And that allowed Fogel and Engerman's book not only to survive but to become an integral element of the canon of economic history with

47. David and Temin, "Progressive Institution," 748.

48. David et al., *Reckoning with Slavery*, 8; see also Haskell, "True & Tragical"; Gutman and Levine, *Slavery and the Numbers Game*.

respect to slavery.[49] Everyone acknowledges that criticisms were made, of course, not just by David and Temin but by others too, such as Gavin Wright.[50] Still, the tone was set early on by Claudia Goldin in her review of David and Temin's edited volume when she said that "a good many of the factual discrepancies found do not undermine the analysis."[51] Lost in the discussion was the fact that Fogel and Engerman had so few facts of any kind—historical or economic—to support their claims.

Indeed, it is only recently, thirty-four years after the publication of *Time on the Cross*, and one Sveriges Riksbank Prize later for one of the authors, that economic historians have carefully examined its claims against historical and econometric evidence. In an article published in the *Journal of Economic History* in 2008, Alan Olmstead and Paul Rhode investigate the key assertions that Fogel and Engerman make, notably their argument that larger slave plantations were more productive than smaller ones, and that "slave plantations had a significant efficiency advantage because of their ability to exploit the 'gang system.'" They test these claims based on plantation data for the period 1801 to 1862, rather than the widely used Parker and Gallman data from 1859, and find *no* effect of plantation size once they control for other plantation characteristics. Furthermore, they report that:

> In fact, the use of the term gang was rare in discussions of picking operations in the hundreds of cotton books and plantation journals that we reviewed, usually occurring with reference to a trash, house, or children's gang performing some unusual activity. More generally, we have seen almost no slave era testimony extolling the productivity system (under any name) in any cotton production activity.[52]

These conclusions are devastating for the claims that Fogel and Engerman made about the operation of U.S. slavery in *Time on the Cross*. The way I read them, although the authors do not put it this way, is that insofar as its claims about scale and gangs are concerned,

49. See the entry on U.S. slavery at eh.net, which says: "Despite its shortcomings, *Time on the Cross* inarguably brought people's attention to a new way of viewing slavery. The book also served as a catalyst for much subsequent research. Bourne, "Slavery in the United States."

50. Wright, "Slavery and the Cotton Boom."

51. Goldin notes, "This is crucial—within the South the larger the unit of production the more efficient the farm," emphasizing that their evidence of economies of scale is "pivotal" to the overall argument but saying nothing about its limits. See Goldin, review of "Reckoning with Slavery," 727.

52. Olmstead and Rhode, "Biological Innovation and Productivity Growth," 1151–1152.

Time on the Cross is built on a foundation of bad economics and bad history.

The good news is that some economic historians out there are doing better history and better economics insofar as U.S. antebellum slavery is concerned, with Olmstead and Rhode in the lead. Based on their new historical evidence for a large sample of plantations over a long period of time, they identify improved cotton seeds as a primary cause of productivity growth in the antebellum cotton industry. Their findings have attracted a great deal of attention and deservedly so. However, they are far from representing the last word on the matter of U.S. slavery as capitalism since they raise as many questions as they answer.

It is hard to think of an innovation that would diffuse more easily than a better seed, especially at a time when they were not subject to any patenting restrictions. So something else must be going on if we see what Olmstead and Rhode show us, which is a widening dispersion of daily picking rates per worker by plantation. Indeed, they recognize the significance of the puzzle themselves, noting:

> The high and increasing variance in mean picking rates is an important phenomenon calling for further investigation and interpretation. Focusing on the 1850s and early 1860s ... there was a one-standard-deviation spread of roughly 40 percent in the average productivity per worker performing the key task in the production of a relatively standardized commodity trading in world markets."[53]

As good economic historians, Olmstead and Rhode are modest and careful in presenting the results of their own research. The same cannot be said when it comes to their assessment of what new historians of capitalism ought to have learned from economic history about capitalism and slavery. What my review of that literature suggests is that some of the most basic questions about the character and operation of slavery as capitalism remain wide open. In particular, we know hardly anything about the profits that U.S. slave plantations did or did not make from slavery, especially once we acknowledge that profits must have varied a great deal over time and across plantations. Insofar as the generation of these profits is concerned, moreover, we remain unsure about what features of the operation of slave plantations were crucial. We have new findings on the importance of better seeds in facilitating productivity growth, but we do not know how better seeds interacted with other factors, including exploitation of

53. Ibid., 1150.

slaves, to generate the increasing variation in productivity, and presumably of profits, that Olmstead and Rhode observe across plantations. The fact that these fundamental questions about the character and operation of slavery as capitalism remain unanswered and, therefore, ripe for further research is the message that economic historians should be communicating to historians working on slavery. To pretend otherwise is to use economics as rhetoric rather than scholarship.

Capitalism as Historical Rhetoric?

For historians of capitalism, therefore, the value of digging into the economic history literature on slavery would be to encourage them to address certain questions more carefully in their own research as much as to find answers to them. In the literature on the history of capitalism, as Ken Lipartito put it: "The maw of capitalism appears much bigger than was once assumed."[54] However, if you try to pin down the character and operation of U.S. slavery as capitalism based on the NHC literature, whether you look in Beckert or Baptist or Johnson, you are likely to be frustrated.

Certainly, there is no doubt that the empirical underpinnings of the designation of slavery as capitalism are surprisingly weak for a literature that is organized around it. For the most part, NHC takes for granted that plantation owners treated their slaves as fixed capital and that their plantations were profitable, but only scraps of evidence are offered for these characterizations. The occasional references that Sven Beckert makes to the spectacular profits to be made on slave-based plantations are characteristic of the literature and unenlightening since they are so clearly cherry-picked to make his point. Walter Johnson offers more nuance in this regard, emphasizing the vulnerability of planters' profits to the vagaries of cotton prices, and suggests that the ebbs and flows of planters' profits had an important impact on their behavior toward the slaves who worked their plantations as well as the merchants who sold their cotton.[55] There is no question, however, that there is much more to be done by historians of capitalism to "follow the money" and bring the process of profit making out from the shadows of their work on slavery's capitalism.

There is much work to be done too by the NHC insofar as the operation of slavery as capitalism is concerned. As critics have observed, the NHC's claim that exploitation is the primary source of plantation productivity and profit is stated rather than shown. If there is no doubt

54. Lipartito, "Reassembling the Economic," 114.
55. Johnson, *River of Dark Dreams*, 270–271, 277.

about the extent of exploitation on slave plantations, its importance as a source of productivity growth needs to be studied more carefully, especially if we are to understand the variations across slave plantations in terms of picking rates. Insofar as generating profits is concerned, moreover, it must be kept in mind that exploitation is not enough to generate profits when other plantation owners exploit their slaves too. What that means is that explaining which plantations were profitable and under what conditions remains as significant a challenge for the NHC as it is for economic historians.

It seems puzzling that historians of capitalism have not paid more careful attention to the character and operation of slave plantations until one recognizes that, to the extent that they agree on a defining characteristic of capitalism, it is to be found in the process of commodification rather than the realm of production. At the core of their research on slavery, therefore, are the historical dynamics of commodification, a process that transforms a product or an idea or even a person into an object intended for trade or an object of economic value.[56] Their close attention to the historical process of commodification may explain why historians of capitalism are less curious and careful in characterizing the processes through which cotton was produced in the antebellum United States than we might like them to be. Still, the emphasis on commodification in the history of capitalism is a strength, too, and a source of the literature's most important insights. Of particular interest in this regard is research by Edward Baptist, Walter Johnson, and Bonnie Martin, which opens up important avenues of research on the character of capital in slavery precisely because it takes us beyond the typical focus on slaves as productive capital and labor on the plantations. In exploring the widespread use of slaves as collateral for credit, for example, they shed light on the economic and human dimensions of widespread practices that are hardly visible in the economic history literature on slavery.[57]

However, the emphasis on commodification as defining of capitalism comes at an intellectual cost too. As Nicolas Barreyre and Alexia Blin put it, it fosters an all-encompassing vision of capitalism, one that is coincident with any kind of market economy, blurring our understanding of the distinctive character of capitalism. From such a perspective, it is difficult to define the temporal and spatial perimeters

56. For an excellent discussion of commodification in, and other aspects of, the literature on the NHC, see Barreyre and Blin, "A la rédecouverte du capitalisme américain."

57. On the role of finance capital in the history of capitalism, see Sklansky, "Financial Turn in the History of Capitalism"; Mihm, "Follow the Money."

of capitalism.[58] It is little surprise, therefore, that the new history of capitalism "has been little interested, until now, in the origins of capitalism, in the sense that it scarcely asks the question of what is *beyond* capitalism."[59]

In this regard, NHC would benefit from closer engagement with a longer established literature on capitalism and slavery developed by Marxist historians. The new historians of capitalism seem to take as much pride in the fact that they do not write Marxist, as neoclassical, economic history. But there would be conceptual benefits from greater engagement with scholars like Robin Blackburn or Ellen Meiksins Wood, given the rich theoretical insights they bring to the discussion of slavery and capitalism and, especially, their skepticism about the characterization of slavery as capitalism. In a review of *Empire of Cotton*, for example, Blackburn challenges Beckert's concept of "war capitalism":

> That violence in one form or another was inseparable from the emergence of capitalism into the modern world is well established: enclosure, slavery, piracy, indentured labour, colonial greed and aggression of every kind, are familiar to anyone with an interest in the history of capitalism. Marx's account of primitive accumulation, unmentioned by Beckert, supplies their inventory. But to amalgamate all of these into 'war', and elevate war into the 'foundation' of industry is rhetoric, not historical argument.[60]

There would be empirical insights too from such engagement, since it would help to situate U.S. slavery in its global context as one aspect of what Robin Blackburn describes as "The Making of New World Slavery." Of particular benefit is the fact that it would bring the NHC—a literature rather peculiarly preoccupied with the U.S. case in its analysis of capitalism and slavery—into closer contact with the rich historical literature on slavery in the Caribbean. Since the publication of Eric William's book on *Capitalism and Slavery* in 1944, that literature has evolved somewhat differently from its counterpart in the United States. For the British West Indies, J. R. Ward's book on the profitability of slave plantations in the sugar industry allows us to see the temporal and transversal variation in profit rates that are concealed by the methods used by Conrad and Meyer. And precisely because that variation is so important, some historians have focused even more sharply on the plantation as a unit of analysis to offer

58. Goody, *Metals, Culture, and Capitalism*; Temin, *Roman Market Economy*.
59. Barreyre and Blin, "A la rédecouverte du capitalisme américain," 7.
60. Blackburn, "White Gold, Black Bodies," 160.

fascinating insights on the complexity of the relationship between capital and profits in the leading French and British sugar islands in the seventeenth and eighteenth centuries.[61]

In speaking of the limits of our understanding of the historical relationship between capital and profit in the debate on capitalism and slavery, I have said nothing about business historians for the simple reason that they have so little to say on the matter. There has been some discussion recently about why the business of slavery has played such a shadowy role in the history of business, with Bill Cooke emphasizing what he describes as a "denial of slavery" through the exclusion of antebellum slavery from discussions of managerial modernity.[62] There should be more discussion of this troubling issue, even if there are some signs in the recent publications that the situation might be changing. Yet, even if business historians had assumed more responsibility in developing historical research on slavery, it is unlikely that they would have shed much light on the relationship between capital and profit there, given the general disinterest in that relationship in business history.

Hamlet Without the Prince

I have made the case that to understand if, when, and how slave-based economies operated as capitalism, we need to know much more about the relationship between capital and profit within them. But the challenge that I see for historians goes far beyond understanding that relationship for slavery. Historians of economic life have been slow—downright reluctant really—to grapple with the historical complexities and dynamics of profits in capitalism and, as a result, we know very little about the history of profit in general. Historians' reticence in this regard has proven to be a major handicap since trying to tell the story of capitalism without exploring the relationship between profit and capital is like performing Hamlet without the prince. As Jean Bouvier, François Furet, and Marcel Gillet put it:

> As long as the incomes of different classes in contemporary society remain out of the reach of scientific inquiry, it will be futile to attempt to undertake a valid economic and social history. And, among all of these incomes, profit is the one that is shrouded in

61. Ibid.; Higman, *Plantation Jamaica*; Burnard and Garrigus, *Plantation Machine*; Cheney, *Cul de Sac*.

62. Cooke, "Denial of Slavery."

> the greatest mystery. As the engine of the capitalist economy, it has become almost mythical. And it is because its analysis and measurement falls so far short of what is required that historical analysis tends to surreptitiously overlook its crucial role. Profit is, however, the dominant source of capitalist investment and accumulation, and of the enrichment of the business bourgeoisie.[63]

Bouvier and colleagues emphasized both the importance of profit to an understanding of capitalism as well as its historical elusiveness. They outlined the challenge for historians in overcoming their neglect of profit in the following terms: "It will be seen that there are two stages in the analysis of profit: on the one hand, the measurement of its level—or, rather, its levels—and the identification of its movements, that is, its acceleration and deceleration; on the other hand, the explanation of these quantitative elements by looking for all possible associations [with profit]."[64] Still, the task of measuring profit over the long run proved to be so daunting that it absorbed most of their efforts.[65] And, as a general rule, the historical studies of profit that we have at our disposal tend to focus on measuring profits as much or more than on explaining them.

Typically, these studies begin from a specific definition of profitability, with profit as a percentage of invested capital or total assets (return on assets) being the standard one. Economists of different persuasions—Marxist, post-Keynesian and neoclassical—have generated a plethora of studies of corporate profit rates, but they tend to rely on highly aggregated measures and to focus on the decades after World War II. Some historians have taken on the challenge of going further back in time and studying profits at finer levels of detail. However, since the widespread use of return on capital or assets for analyzing profits—both by enterprises themselves as well as those who study them—is of relatively recent origin, ready-made estimates of profits as a percentage of capital are usually not available to historians, even from internal sources.[66] Instead, they have to generate

63. Bouvier, Furet, and Gillet, *Le mouvement du profit en France au 19th siècle*, 9.

64. Ibid., 10.

65. As the authors recognized themselves, noting: "The first stage will be undertaken here, almost exclusively." Ibid., 10.

66. For the United States, for example, serious efforts to estimate enterprises' profits on capital emerged only with debates about the regulation of railroads and public utilities in the late nineteenth and early twentieth centuries. See Covaleski, Dirsmith, and Samuel, "Use of Accounting Information." The use of such a benchmark of corporate performance in the U.S. industrial sector is usually traced to the DuPont Powder Company in the early years of the twentieth century. See Chandler and Salsbury, *Pierre DuPont*, 201–226.

estimates themselves through historical reconstructions based on data that were never intended for this purpose. The challenge is illustrated, for example, in Will Hausman's study of the profitability of English colliers in the eighteenth century, or in J. R. Ward's analysis of the profitability of British sugar plantations from 1650 to 1834, and that challenge surely accounts for the limited number of these studies.[67] Moreover, given that these historical reconstructions depend on numerous, often heroic, assumptions, "the data on profits need to be treated with a great deal of caution," as Michael Hiscox put it in his recent study of interindustry profit rates in the United States in the nineteenth and twentieth centuries.[68] More problematic still, the methodology underlying these studies supposes that there is a definition of profit—in most cases, as I noted, return on assets—that makes economic sense over long periods of time. As we shall see, that assumption is open to serious challenge based on what we have learned from the history of accounting.

Besides historical studies that are predominantly focused on measuring profits, historians have generated strikingly little evidence on the history of profitmaking, that is, on the process through which profits are generated and eroded and appropriated and deployed, either in capitalist economies or in their counterparts. For business historians, in particular, the neglect of profits is surprising given their preoccupation with the organizations that have been largely responsible for generating and deploying profits in the history of capitalist economies. While there is no question that one can find useful evidence on profit in the research generated by business historians,[69] it remains rare to find sustained attention to the generation and erosion of profit or its appropriation and redeployment in their research.

Rare does not mean nonexistent, of course, and there are important books by business historians that offer fascinating insights about the historical process of profit making. It is worth highlighting a few of them—Naomi Lamoreaux's *The Great Merger Movement*, Philip Scranton's *Proprietary Capitalism*, Robert Freeland's *The Struggle for Control of the Modern Corporation*, Susie Pak's *Gentlemen Bankers*, and William Lazonick's *Business Organization and the Myth of the Market Economy*—to show that exploring the history of profit is

67. Hausman, "Size & Profitability"; Ward, "Profitability of Sugar Planting."
68. Hiscox, "Interindustry Factor Mobility."
69. Chandler and Salsbury, *Pierre DuPont*; Livesay, *Andrew Carnegie*; Howard, *From Main Street to Mall*; Dyer and Sicilia, *Labors of a Modern Hercules*; Cassis, Colli, and Schröter, *Performance of European Business*; Wilson, *Destructive Creation*.

possible based on a rich variety of methodological approaches.[70] We can look to more recent work, too, such as Shaun Nichol's dissertation, "Crisis Capital: Industrial Massachusetts and the Making of Global Capitalism," which was a Krooss Prize finalist in 2017. Were I to add articles to my list, I might mention Dan Raff's "Making Cars and Making Money," the research of Leonard Reich, Shigehiro Nishimura, and Maggie Levenstein on market control, Christine Rosen's research on environmental issues in the meatpacking industry, Mark Wilson's article on making profits from goop, a series of articles by Peter Scott and James Walker on retailing, as well as a slew of research on financialization, including Bill Lazonick's recent work on U.S. pharmaceutical profits and Hartmut Berghoff's research on Siemens.[71]

For the most part, however, you have to dig deep into the business history literature to find evidence on profit making, and what you find fades into insignificance compared with what we could know or, as I see it, what we ought to know. The potential of business history as a laboratory for understanding profits is extraordinarily rich. The possibilities go far back in time to include the long-distance trading companies of the seventeenth and eighteenth centuries as well as slave traders, planters, and financiers from the seventeenth to nineteenth centuries. We might consider, too, the porcelain makers of the eighteenth century, the Meissens and Sèvres just as much as the Wedgwoods, not to mention their Chinese competitors.[72] There are, of course, the textile mills of the late eighteenth and early nineteenth centuries to consider, all the way up to the retail and tech giants of the twenty-first century, along with everything in between. Given the richness of the laboratory for the study of profit—and the possibilities go far beyond what I have explicitly mentioned—it seems hard to deny that what we know about the history of profits falls far short of its potential.

The truth of the matter is that for business historians, just as for most historians of economic life, the history of profit is not high on their agenda. You can sense that if you do something that every BHC

70. Lamoreaux, *Great Merger Movement*; Scranton, *Proprietary Capitalism*; Freeland, *Struggle for Control*; Pak, *Gentlemen Bankers*; Lazonick, *Business Organization*.

71. Raff, "Making Cars and Making Money"; Reich, "Lighting the Path to Profit"; Nishimura, "Financing the Laboratories"; Levenstein, "Escape from Equilibrium"; Rosen, "Pollution Regulation and Litigation"; Wilson, "Making 'Goop' Out of Lemons"; Scott and Walker, "British 'Failure'"; Lazonick and Tulum, "U.S. Biopharmaceutical Finance"; Berghoff, "Varieties of Financialization."

72. For an interesting account of profit and art in the development of the European porcelain industry in the 18th century, see Reed, "European Hard-Paste Porcelain Manufacture."

president does before making her address, which is to read what past presidents of the BHC have said when faced with a similar challenge. There are many interesting aspects of these addresses, but all I want to draw attention to here is how few of them use the word "profit." For one prominent BHC president, for example, the word "profit" is mentioned only once in his address, and only to say: "I loved history, but it never occurred to me that a historian might profitably study business."[73] That president was Alfred Chandler, the world's most renowned business historian, and he probably had as much to say about profit in his scholarly work than any other business historian. Nevertheless, it was clearly not a central concept for him. Nor was it a keyword for most of the other past presidents of the BHC whose speeches I read; although the words "capitalism" and "capitalists" and "capital" crop up in some of the addresses, references to profit are more limited and often nonexistent.

For most BHC presidents, the word "profit" or its derivatives appears somewhere between zero and eight times. There are, however, two exceptions, and both of them are women with surnames that begin with an *L*. In fact, one of them mentions "profit" or its derivatives a total of thirty-one times.[74] Once you know who it was—and I am referring to Maggie Levenstein, who was BHC president in 2011–2012—her identity should come as no surprise. Not only is she a highly intelligent woman but, as the author of *Accounting for Growth: Information Systems and the Creation of the Large Corporation*, her intellectual trajectory is linked to the history of accounting. And that is the one field that represents a significant exception to the general neglect of capital and profit by historians of economic life.[75]

Accounting for Capitalism

There is a long-established literature, inspired by Werner Sombart and Max Weber, which explores the origins and evolution of capitalism through the history of accounting for capital and profit. Werner Sombart was a pioneer in positing an important historical relationship between accounting and capitalism, arguing that the development of double-entry bookkeeping activated and stimulated the "rationalistic pursuit of unlimited profits" that he regarded as an essential element

73. Chandler, "Business History: A Personal Experience," 1.
74. Levenstein, "Escape from Equilibrium."
75. Levenstein, *Accounting for Growth*.

of the "capitalistic spirit."[76] In a similar vein, Max Weber postulated: "A rational capitalist establishment is one with capital accounting."[77]

However, when historians looked for evidence that capital and profit were accounted for in ways deemed by Sombart and Weber to be typical of a capitalist enterprise, they found that such practices diffused relatively late in history. As Basil Yamey explained in a pioneering contribution, merchants hardly ever called on double-entry accounting as a tool for calculating profit on their capital or for guiding their business objectives or strategies.[78] Other accounting historians followed a similar trail and reached much the same general conclusion based on a steady accumulation of historical evidence. The consensus that formed among accounting historians was that most merchants and manufacturers took limited advantage of the double-entry system for centuries after it was developed, and, when they did, it was not to establish checks and controls for their business activities. As Sidney Pollard explained:

> The merchants and moneylenders of fourteenth-, fifteenth- and sixteenth-century Italy, among whom accounting practices first arose, were indeed interested in profits and probably also in maximizing profits, but there was in their case no sense in which they could relate profits to any fixed investment or "capital" of a firm as a whole: their calculations showed the costs and returns from individual journeys, or individual commodities, and were designed to allow an appropriate division of profits among the shifting groups of associates for each separate venture. Even where fixed assets were used, such as houses or ships, they were not entered into the accounts, as they did not change hands during the transactions and no money value could be attached to them.[79]

In recent years, early modern historians have taken an interest in accounting practices in their efforts to understand how merchants thought and acted.[80] Their findings, based on studies of merchants' calculations, are very much in line with accounting historians' claims, confirming that even when balance sheets were used, it was rarely to provide the information needed to compute merchants' profits on their invested capital.[81] There would seem to be good reason,

76. Sombart, *Der Moderne Kapitalismus*, 195–217.
77. Weber, *General Economic History*, 275.
78. Yamey, "Scientific Bookkeeping."
79. Pollard, *Genesis of Modern Management*, 249.
80. Gervais, Lemarchand, and Margairaz, *Merchants and Profit*; Jeannin, Bottin, and Pelus-Kaplan, *Marchands d'Europe*.
81. Gervais, Lemarchand, and Margairaz, *Merchants and Profit*, 113.

therefore, to question the claim that merchants in the early modern period understood, calculated, and used profit on capital in the rationalistic way that Sombart and Weber imagined. Indeed, even as late as the nineteenth century, few industrial firms "showed, in their accounting practice, an understanding of the meaning or concept of capital, particularly fixed capital."[82]

Although there may be a widespread consensus that accounting for profit and capital in a systematic and regular fashion developed late in the history of business, there is less agreement about what these historical findings imply for the origin and evolution of capitalism. To some historians, they suggest that the "rationalistic pursuit of unlimited profits," as Sombart put it, is not deeply rooted in our past, and that capitalism emerged much more recently than we usually allow. The implications of this perspective can be seen in debates about the origins of capitalism in various places with the ongoing dispute about the transition to capitalism in the early American economy as a prominent example.[83] In a recent contribution to the debate, accounting historian Rob Bryer makes the dramatic claim that if we associate capitalism with a particular "accounting signature," and specifically with the calculation of a return on capital, then full-blown capitalism is only about a century old in the United States.[84] Indeed, Bryer goes so far as to question even Andrew Carnegie's credentials as a capitalist based on his reading of accounting history.[85]

Not all historians are willing to go in this direction, however, and for good reason in my view. In an article on capitalism in early America, Naomi Lamoreaux—the other female president whose surname begins with an *L* and talked about profit in her address—warned against characterizing capitalists as acting according to stereotypical models of economic behavior.[86] In the domain of accounting history, a similar view is reflected in the claim that the pursuit of profit by capitalists is associated with a wide variety of "calculative mentalities" that enterprises have used in the past.[87] In plain English, what that means is that profits had different meanings in the past, meanings that may bear little resemblance to what profits mean to capitalists today.

82. Pollard, *Genesis of Modern Management*, 79.
83. See, for example, Gervais, "Early Modern Merchant Strategies"; Lamoreaux, "Rethinking the Transition to Capitalism."
84. Bryer, "Americanism and Financial Accounting Theory–Part 1."
85. Bryer, "Americanism and Financial Accounting Theory–Part 2."
86. Lamoreaux, "Reframing the Past."
87. Toms, "Calculating Profit"; Gervais, "Early Modern Merchant Strategies"; Levy, "Accounting for Profit."

The fact that early modern merchants did not measure profit as a return on capital does not mean that they ignored profit, rather that when they discussed or measured it, they had something else in mind. In the earliest uses of the term "profit," merchants seem to have meant an advance or improvement in their business that was not exclusively, or even primarily, economic. Over time, however, we observe a growing concern with a more specific notion of profit. In a recent article entitled "The 'Particular Gain or Loss Upon Each Article We Deal In,'" Yamey shows: "Merchandise accounts for each category of goods, voyage or venture are a prominent feature of many ledgers of the period 1300 to 1800," and that "the separate merchandise accounts in the ledger for different categories or lots of goods treated each category or lot as a kind of profit centre, to use modern terminology."[88] What profit in such contexts seems to have implied is analogous to what we would today call gross profits, and Yamey cites several examples of merchants' preoccupation with such profits from the fifteenth to the eighteenth centuries.

What is especially interesting is that even for the minority of merchant enterprises that had substantial amounts of capital invested in their businesses, they too were preoccupied with profit margins on sales rather than their return on capital.[89] The important case of the Dutch East India Company (the Vereenigde Oostindische Compagnie, or VOC), which Yamey mentions, is notable in this regard. The accounting system of the VOC "in spite of several attempts never attained to a central bookkeeping including the whole of the concern."[90] That meant that the company did not have any clear grasp of what it had at stake in terms of its capital invested, which has led some historians to conclude that the VOC's profit calculations were "of the very most primitive kind."[91] However, that is an appropriate conclusion only if one believes that profit can have only one meaning, that is, profit on capital.

In fact, the VOC carefully calculated its profits, but it understood them to mean the gross margins on the sales of the commodities in which it traded. Glamman argues: "It is no exaggeration to say that calculations of the gross profit on each commodity was the Alpha and Omega of the Company's trade," even if these calculations were not necessarily to be found in the company's formal accounts.[92] Some historians are skeptical of the value of such calculations for decision

88. Yamey, "Aspect of Mercantile Accounting, 3.
89. Ibid.; Jeannin, *Marchands du Nord*, 82; Grassby, "Rate of Profit," 721.
90. Glamann, *Dutch-Asiatic Trade*, 244.
91. Ibid., 250.
92. Ibid., 258.

making, since they did not include all operating costs and they were often unreliable guides to future profit rates. Certainly, there is more historical research to be done to understand how merchants in the early modern period used calculations of profit in the operation of their businesses. But the example shows us that we need to be attentive to different meanings of profit in the past and to the fact that some of the crucial information used by businesses to track profit may be found outside the formal accounts and in qualitative as well as quantitative forms.

That even rudimentary systems of accounting, as well as other sources of information, may be sufficient in certain business contexts to facilitate the pursuit of profit opportunities is echoed in research for more recent periods. An important implication of this stream of research is that the meaning of particular types of accounting and other forms of calculation can be understood only by analyzing how they were used by business enterprises.[93] What that implies, of course, is that the history of keeping books and doing business do not tell the same stories. As Judith McGaw concluded from her study of papermakers in nineteenth-century Berkshire, Massachusetts: "Properly interpreted, surviving account books can reveal much about how early manufacturers made decisions," but such interpretations can only be made if the historian understands what manufacturers were trying to do, what their business strategies were, and consequently what the information they collected meant for them.[94]

That brings me back to Maggie Levenstein's book, since it is highly unusual in systematically linking the history of accounting to the history of business. As Levenstein herself puts it, it offers "a chronology that focuses on the relationship between changes in the use of accounting data and changes in firm organization, market structure, and technology, rather than on changes in accounting technique per se."[95] And what we learn from it is that "in each phase of Dow's strategic development, the information system changed to provide managers with data necessary to implement that strategy."[96]

Unfortunately, there is still limited historical research of this kind on the use of accounting, of numbers and estimates of all types, even for prominent manufacturing sectors. If we turn to the slave plantations with which I started, Conrad and Meyer's reference to the

93. Lee, "The Concept of Profit"; McGaw, "Accounting for Innovation"; Levenstein, *Accounting for Growth*. An argument that can be made for all types of information systems, as Yates, *Control through Communications*, has done.

94. McGaw, "Accounting for Innovation," 704.

95. Levenstein, *Accounting for Growth*, 29.

96. Levenstein, "Information Systems and Internal Organization," 395.

"few, usually fragmentary, accounting records" of slave plantations reflected a widespread sense of their accounting as rudimentary, with Chandler echoing that view in claiming: "Neither the overseer nor the planter himself kept detailed financial accounts."[97] Only recently, however, have systematic studies of accounting in slavery systems been conducted, and they suggest a much more nuanced view. In the most comprehensive study to date, Fleischman, Oldroyd, and Tyson show that accounting for slavery in the British Caribbean was highly developed as compared with the United States, a pattern they attribute to the different characteristics of these two plantation economies.[98] As yet, however, there is hardly any research on the "use" of accounting on slave plantations, although Caitlin Rosenthal's recent "From Memory to Mastery" represents a pioneering effort in trying to uncover how various forms of calculation were employed by planters and overseers in the pursuit of higher output from slaves.[99]

What Are the Questions?

If there are elements of the existing historical literature on which we can build—notably the history of accounting—there is still no denying that we are very far from having a comprehensive understanding of profit in the history of capitalism. And, having begun with Joan Robinson, the least I can do is to point toward some of the questions that historians of economic life might address were we to apply ourselves to the challenge of developing a history of profit. Given my concern with capitalism in this address, I am especially interested in identifying the questions we need to answer to understand how profits behave in capitalist systems.

Lest that statement might seem to be an oxymoron, it is worth emphasizing that there is no reason to assume that the phenomenon of profit is specific to capitalism. The point could be illustrated by going back in time to delve into discussions of profits in economic systems that predate capitalism. Of particular importance in this regard is the rich literature that discusses medieval scholars' debates about the moral and economic justifications for profit.[100] Still, the problem with this approach is that historians disagree about when capitalism began, so it is difficult to reach a consensus on what is and is not "precapitalism." It seems better, therefore, to illustrate the point that profits do not

97. Chandler, *Visible Hand*, 65.
98. Fleischman, Oldroyd, and Tyson, "Plantation Accounting."
99. Rosenthal, "From Memory to Mastery."
100. See, for example, Todeschini, *Les Marchands et le Temple*.

suppose the existence of capitalism by focusing on profits in socialism, an economic system built on a logic that is expressly opposed to capitalism.

In February 1965, *Time* magazine ran a cover story on "The Communist Flirtation with Profits" to discuss a series of reforms to the Soviet economy, advocated by Evsei Liberman, an economist who proposed introducing a profit incentive for Soviet enterprise. Liberman had initially outlined the possibility of using enterprise profits as a benchmark for productive efficiency almost twenty years earlier and mooted the possibility again in the mid-1950s, but it was only in the early 1960s that such ideas gained traction in the Soviet Union. Predictably, *Time* portrayed the Communists as "Borrowing from the Capitalists"—the title of its cover feature—but Liberman went into print in the English language to challenge what he regarded as the magazine's misinterpretation of his ideas.[101]

In an article entitled "Are We Flirting with Capitalism?," Liberman argued that it was a mistake to believe, as many Western economists did, "that private enterprise stands for profit while socialism 'denounces' it." Profits, he insisted, were possible in both types of economic system, being merely "the monetary form of the surplus product, that is, the product which working people produce over and above their personal needs." He emphasized that there was a difference between capitalist and socialist profits, but argued that it could be understood only by going "rather deeply into the essential character of profits."[102]

Liberman sought to persuade his readers that profits differed fundamentally between capitalism and socialism in the way they were generated and spent. Insofar as the generation of profits was concerned, for example, he explained that capitalist profits might stem from improvements in technical and organizational efficiency but could "indicate anything under the sun over and above" it, given the possibilities that capitalism offered for profit from "advantageous buying of raw materials ... [to] raising the prices of stocks on the stock exchange."[103] Liberman argued that in socialism, in contrast, many of these sources of profits were ruled out by the way the economy was organized, so that socialist profits could come only from improvements in technical and organizational efficiency. For Liberman, therefore, profits in capitalism could "smell" of price fixing and exploitation and speculation, while socialist profits could come only from technological and organizational improvement.

101. Liberman, "Flirting with Capitalism."
102. Ibid., 36.
103. Ibid., 36–37.

Whatever we might think of Liberman's claims about profits in capitalism (or socialism, for that matter), we would have to acknowledge that it would be hard to prove him wrong. We only have to focus for a minute on one of the best-known figures in the history of capitalism to see that. Ask yourself how Andrew Carnegie made and sustained profits in his steel business and then go and read everything that has been written about him. You will find yourself spoiled for choice and you will learn a great deal about his mother and his brother, his philanthropy, his obsessiveness, his pacifism, and his ruthlessness. But, having done your homework, sit yourself down and write a lecture on profits and capital to show how this wee Scot became one of the richest men in the world. I guarantee that you will not be able to do it. Of course, all of us have our pet theories about Carnegie's profits, and they run the gamut from exploitation of his labor force, to process and product innovation, to the development of cheaper sources of raw materials, and more besides. But I challenge anyone to show me, nay to prove to me, which of these factors was more important in explaining the pattern of profits that Carnegie generated based on the existing historical literature.

What this example suggests is that Liberman's article is insightful not so much for the answers it offers but for the questions it asks about profits. Indeed, we might well ask ourselves if, as historians, we are really grappling with the historical dynamics of capitalism if we do not go "rather deeply into the essential character of profits."[104] And what digging deeply into the character of profits would mean is exploring some basic questions about profits in capitalism that are essential to understanding their historical behavior.

First, we need to ask how business people understood what it meant to profit in different temporal, spatial, and economic contexts. One of the serious limits of existing historical research on profits is that it has assumed that there is some "true" definition of profit that can be applied to the past. However, if we are interested in understanding the role of profits in the motivation and behavior of historical actors, it makes much more sense to ask how it is that these actors conceived of profit rather than deciding how they ought to have understood it. Although there is some pioneering research in this area, it only scratches the surface of what needs to be done.[105] It seems especially important that we explore changes as well as continuity in actors' conceptions of profit, notably during periods that have been posited as crucial transitions by historians and social

104. Ibid., 36.

105. Gervais, Lemarchand, and Margairaz, *Merchants and Profit*; Levy, "Accounting for Profit."

scientists. In this regard, studies that focus on conceptions of profit in the emergence of merchant capitalism, the transition from merchant to industrial capitalism, the emergence of postindustrial capitalism, and the development of financial capitalism could offer important insights into whether scholarly ideas about temporality are borne out in actors' conceptions and behavior.

A second question concerns the processes that business people pursued to generate profit and the extent to which capital featured in these processes as well as the roles it played there. There are numerous different ways in which business enterprises can generate profits, but we know little about their relative importance, even in well-known cases such as Carnegie. Indeed, the extent of our ignorance can be measured in the resort to concepts such as "economies of scale," "technology," and, more recently, "network economies" to explain sustained profits, even though none of them actually does so. The limits of our knowledge represent a major obstacle to understanding the operation of economic dynamics in the past, with the elusiveness of the historical meaning of capitalism itself being a striking case in point. In this regard, the challenge is not only to identify how profits have been generated in the past but also to understand to what extent and in what ways capital has been involved in the process of profitmaking.

That profits are generated in a particular time and place does not guarantee, of course, that they will be sustained. At least since Adam Smith, economists of various persuasions have emphasized that competition in capitalism will tend to equalize profits within and across industries. However, until well into the twentieth century, it was impossible to know if this widely accepted characterization applied to the historical functioning of capitalism. As Ralph Epstein observed in 1925, in one of the pioneering empirical studies of profit rates: "About all we know is that the variations [in business profits] exist. We have had practically no information concerning their distribution or size."[106] Writing a few years later, he emphasized: "[Probably] in no part of the entire field of economic theory is there more need for inductive evidence which will enable a set of sound generalizations to be built up than in that of business profits."[107] Once evidence began to accumulate, moreover, it seemed to confront widely held views about profit rates and suggested a great deal of enduring heterogeneity in profits within and across industries.[108]

106. Epstein, "Industrial Profits in 1917," 241.
107. Epstein, "Statistical Light on Profits," 320.
108. For a long-term perspective on interindustry profit differences, albeit subject to caveats given the definition of and data on profits that are used, see Hiscox, "Interindustry Factor Mobility."

While economic studies of profit rates are useful in showing that certain questions about the functioning of capitalist economies are more open than economists have been wont to admit, they typically offer little help in explaining why profits vary so much across company and industry. Moreover, once we observe profits over time, we find that even successful enterprises and industries display a great deal of volatility in the profits they generate. To understand the dynamics of capitalism, therefore, we need to explain why there is so much variation in profits across firms and industries, as well as over time. To do that requires digging into the history of enterprises and industries, into the history of capitalism, to understand how profits are sustained or eroded over time and, again, how capital has featured in the processes of shoring up or undermining profits.

The final set of questions that are essential to an historical study of profits concern the appropriation and redeployment of profits: Who appropriated the profits that were made in the past, and what did they do with them? Largely due to interest in recent trends toward "financialization," there has been a burst of research on the changing distribution of profits by large corporations. As a result, we have a good grasp of the dramatic changes that have occurred since the 1980s, notably the sharp rise in payouts to shareholders and the decline in the percentage of corporate profits used for reinvestment. This research focused initially on the United States, but has been extended to show rather similar developments in other advanced economies, and in some developing economies too.

Researchers have interpreted these developments as evidence of a systemic shift in the history of capitalism. Much ongoing discussion centers, therefore, on the developments that brought about this shift, as well as its implications for the enterprises at the core of the dynamics of financialization. The result is a vibrant debate about the history (and future) of capitalism that is interdisciplinary in nature, drawing in historians as well as economists and sociologists.[109] Valuable as the research in this area has been, there is plenty more to be done on the appropriation and redeployment of corporate profits in recent history. Indeed, it should be said that the redeployment, as compared with the appropriation, by shareholders of the corporate payouts they receive in the form of dividends and stock repurchases has received hardly any attention in the financialization literature. That reflects, no doubt, the difficulties of conducting such research,

109. Hansen, "Finance Capitalism to Financialization"; Hyman, *Debtor Nation*; Krippner, "Financialization of the American Economy"; Lazonick, "Profits Without Prosperity."

but it is essential to "follow the money" a little further to have a comprehensive understanding of the dynamics—social, political, and economic—of the current phase of capitalism.

For the United States, at least, what that implies for the recent past is tracing corporate dividends and stock repurchases to the 10 percent of households that own 84 percent of the total value of corporate stocks to see what they do with them.[110] Advocates of "disgorging the cash" to the shareholders, to use Michael Jensen's evocative phrase, have defended their exhortations on the grounds that shareholders will put profits to more productive use than the corporations that generate them.[111] They are right that it matters what shareholders do with the money, but they have never felt any compulsion to defend their view with evidence. And, certainly, evidence is needed since the rich may be tempted to spend their money on antique ceramics, fine wines, Swiss watches, and mega-mansions as well as investing in startups. Given that these various possibilities for redeploying profits have quite different implications for the dynamics of capitalism, it is crucial that we study the ends to which they are put.

Yet, whatever the limits of existing research on the most recent phase of capitalism, they are nothing compared to the enormous gaps in what we know about the appropriation and redeployment of profits in the more distant past. That can be seen most readily, perhaps, in a discussion initiated by Fernand Braudel and then developed by Giovanni Arrighi about the historical dynamics of capitalism.[112] Braudel took issue with a commonly held view among historians that the "specialization" of capitalism in the nineteenth century, when it "moved so spectacularly into the new world of industry," represented "the final phase which gave capitalism its 'true' identity." Braudel proposed a rather different view, even a contrary one:

> Let me emphasize the quality that seems to me to be an essential feature of the general history of capitalism: its unlimited flexibility, its capacity for change and *adaptation*. If there is, as I believe, a certain unity in capitalism, from thirteenth-century Italy to the present-day West, it is here above all that such unity must be located and observed.[113]

110. Wolff, "Household Wealth Trends."
111. Jensen, "Agency Costs."
112. Braudel, *Wheels of Commerce*; Arrighi, *Long Twentieth Century*.
113. Braudel, *Wheels of Commerce*, 433.

In *The Long Twentieth Century,* Arrighi built on Braudel's observation to argue that recent financialization has much in common with earlier phases of "financial expansion" in capitalism, beginning with fifteenth-century Italy when finance came to dominate economic and political activity.[114]

Other scholars have made related arguments that capitalism's flexibility—its capacity to transform itself from one form into another—is essential to its identity. The pioneer of neoclassical economics in the United States, John Bates Clark, also emphasized that flexibility and attributed it to the purported facility with which capital moved from one use to another. In an article in the *Quarterly Journal of Economics* in 1895, Clark argued: "A whaling ship cannot be made to spin cotton; but capital has, in fact, transferred itself from the whale fishery of New England to cotton spinning. Ships were allowed to decay, and mills were built in place of them."[115]

When it came to explaining the process through which capital was transferred, however, Clark had little to offer other than a vague and mystical reference to "the miracle of transmutation," a miracle that ostensibly allowed capital to adapt itself perfectly to the needs of different economic contexts.[116]Such statements proved highly dissatisfying, even to Clark's economist colleagues; for historians, they are an invitation to explore just how capital stays and moves to determine to what extent its flexibility and adaptability can be seen as a defining feature of the history of capitalism.[117] Interestingly, when it comes to the history that Clark evokes—the mobility of capital from whale fisheries to cotton spinning in New England—it is possible to grasp some of the complexity that capital mobility entailed based on the research of Shaun Nichols and Eric Hilt.

Nichols emphasizes the fabulous profits that whaling seemed to offer to capitalists, but he underlines too "the ups and downs of one of the most chaotic of extractive industries." The risks of their business certainly gave whalers an interest in looking for alternative ways to invest their enormous profits, and spinning mills featured as one of their options. Nevertheless, whaling ships were not "allowed to decay" while the initial cotton mills were being built in New Bedford. Even as whaling profits began to decline and their risks remained high in the period from 1815 to 1860, whalers in New Bedford ploughed their profits back into the industry, increasing the number, tonnage, and value of whaling ships many times over. It was the Civil War that

114. Arrighi, *Long Twentieth Century.*
115. Clark, "Origin of Interest," 265.
116. Clark, *Distribution of Wealth*, 170.
117. See, for example, Cowie, *Capital Moves.*

brought decisive change to the whaling industry, given the destruction and requisitioning of its ships, plunging it into a decline from which it never recovered.[118]

Nichols's analysis suggests that John Bates Clark was too sanguine in speaking of capital transferring through a miracle of transmutation. He tracks a process that was much more drawn out than Clark suggested and, perhaps most importantly, depended on factors other than capitalists' flexibility, notably the construction of a municipal water system by the city of New Bedford, not to mention a momentous political shock. Eric Hilt's analysis raises further doubts about miraculous transmutation, at least by New England whalers, in his article, "Investment and Diversification in the American Whaling Industry." What his analysis suggests is a striking degree of inflexibility by these whalers even when it came to transferring their capital within the whaling industry in ways that would have raised their profits and reduced their risks.[119]

Conclusion

I wrote this address to convince you that to understand capitalism we need to study profit and its relationship to capital. I emphasized too that an understanding of profit in capitalism cannot come from theory alone but needs to be grounded in a history of profit. I have argued that what we know about profit in the past has been severely limited by the fact that most historians have not seen profit as a priority in their research. There are exceptions in this regard, and I have drawn inspiration from them, but taking them into account does not change the fact that we know far less than we ought to know, or could know, if we were to focus our efforts on developing a history of profit.

Toward the end of my address, I highlighted some specific questions that are important if historians were to take profit seriously. These seem to be simple questions but, in this regard, appearances are entirely deceptive. That is evident, as we have seen, when we try to answer them for businesses that are deemed to exemplify the historical dynamics of industrial capitalism, and they are still more difficult when we pose them for enterprises operating in other periods or sectors.

Before concluding, I want to emphasize that the questions that I have raised about profits are not just questions for historical research, since how profits are understood, where they come from, as well as how they are used are crucial questions for the present too.

118. Nichols, "Crisis Capital," Chapter 3, especially 76, 90.
119. Hilt, "American Whaling Industry."

To illustrate that point, I cannot resist returning to the beginning and, specifically, to my beginnings to talk about grocery shops. My interest is in one grocery shop in particular, which is the largest private-sector employer not only in the United States but in the world, and is often seen as emblematic of modern retail capitalism. I am speaking, of course, of Wal-Mart.

You do not have to have grown up as a grocer's daughter to take an interest in Wal-Mart's undoubted success. As Lou Galambos recently observed, Wal-Mart is a subject of interest for anyone interested in business or economic history:

> While many academics may not shop at Wal-Mart, those in economic and business history are probably aware that the firm has been either number one or number two in recent years on the *Fortune* list of largest US companies. They will probably want to know more about a business that is a success, domestically and internationally, without any patentable innovations.[120]

Unfortunately, it is not that easy to understand how it is that Wal-Mart became a symbol of success for postindustrial capitalism. There are chronicles of the dynamics of retail capitalism in the twentieth century, which are helpful in understanding the Wal-Mart phenomenon in historical perspective. In addition, there are two excellent books by historians—Bethany Moreton's *To Serve God and Wal-Mart: The Making of Christian Free Enterprise*, and Nelson Lichtenstein's *The Retail Revolution: How Wal-Mart Created a Brave New World of Business*—that offer in-depth analyses of Wal-Mart's historical development. What is striking about both of these books is that in explaining Wal-Mart's success, they emphasize factors that are constants in the company's history. Thus Bethany Moreton's book explains how Wal-Mart leveraged the fundamentalist Christian teachings espoused by large numbers of its employees to encourage them to work, without much complaint, for low wages and benefits.[121] Nelson Lichtenstein offers a more matter-of-fact argument about Wal-Mart's exploitation of its labor force, but it leads more or less in the same direction. Wal-Mart has been much studied by economists too, and the explanation of Wal-Mart's success that they favor is its alleged mastery of technology, and it too is presented as a constant in the company's history.[122]

120. Galambos, "Decisive Moment for the History of Business," 9–10.
121. Moreton, *To Serve God and Wal-Mart.*
122. Lichtenstein, *Retail Revolution.* See, for example, Basker, "Wal-Mart's Growth."

What is not a constant, however, is Wal-Mart's performance at least in the way that the company itself defines it. If you go through all of Wal-Mart's annual reports for the nearly fifty years for which they are available, you will find that when it talks about and presents its performance, it speaks in terms of its return on assets. If you look at the pattern of that return over time, it does not look constant; to the contrary, it is subject to ebbs and flows that find no obvious explanation in the existing literature on the company. I think I have some of the answers to questions about Wal-Mart's profits, and you can read all about them soon, but having made it all the way through my address without citing my own work, I am not going to start now. Instead, I want to leave you with a sense that there are important questions out there about profits in capitalism—capitalism in the past and the present—and that these questions will not answer themselves.

You might well ask, given the challenges of addressing these questions about profit, whether the effort is worth it. And, for those of you who are interested in technology or discrimination or consumption or design or politics or any of the other large number of subjects that we see on the program of the BHC, you might wonder whether knowing how businesses succeed or fail to generate profits has any relevance to you. The fact is that in the capitalist economies that most of us live in, the interaction between business and culture or business and politics or business and any sphere of social activity is mediated in a crucial way by businesses' pursuit of profits. If we do not study the process of profit making, and study it carefully, then we risk glamorizing or demonizing how it is that businesses operate in the societies we have created for ourselves.

It is a great pity, therefore, that the history of profit is not high on the agenda of business historians or other historians of economic life. For that reason, there are many questions about the history of profit to which we do not find ready answers. If we do not address them, others will offer their own answers. And if recent writing on the subject is anything to go on, even highly intelligent women cannot be trusted as guides to capitalism, at least in a world where profit persists.[123]

123. McCloskey, *Bourgeois Equality*, 58. McCloskey argues that "the greatly enriched world cannot be explained in any deep way by the accumulation of capital ... as the very word 'capitalism' seems to imply. The word embodies a scientific mistake." Her mistake, in my view, is linked to her views on profit: "The business profit that the left abhors ... is indeed temporary, unsustainable. That's good, not bad." For the naiveté of that statement, see McKinsey & Company, "Playing to Win."

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