Steven Durlauf: Hello everyone and welcome to the inequality podcast. This is Steven Durlauf. I'm delighted today to introduce Jonathan Levy, who's a professor of history at Science Po in Paris. I am not delighted to say that he recently left the University of Chicago. John is by any measure one of the leading historians of his generation and has written deeply and widely on the history of capitalism among other topics and it is just a delight to talk to him today. Part of what I hope will be accomplished in this conversation is for economists to recognize the vibrancy of ideas in history which in many ways are challenges to the way that economists leads to conceptualize the economy. And with that background that naturally leads to John's most recent book called *The Real Economy*, which is an integrated set of essays. And so John I was hoping we could start with that.

Jonathan Levy: Sure. So, well first let me say thank you for having me on. It's a pleasure to be here. Should we talk about *The Real Economy* first and just the notion of the economy itself and how it gets understood within and without economics as a discipline?

Steven: Absolutely. I think that that's an important, you know, in terms of messages, I as an economist took from your writings. I think we really should start with how you conceptualize the notion of real economy and what contrast there are with the way that economists would implicitly define it.

John: Economics I think is unique as a discipline. I don't think, and we can talk about this, it's certainly a provocative statement or it's at least intended to be a provocative statement. But I don't think contemporary economists worry too much about what the economy is or defining it. You know, I think that's really the motivation for the book that economics has become very preoccupied with methodology over the years. I think for a very long time and stop caring about its object of study, stop caring about what you think economists would be busy studying and that's the economy. You know, if you look across mainstream economics, if you start with micro, here I think, I mean, I don't think this is a controversial statement, but it might be, but I think there's really no attempt to define the economy. There's certainly attempt to define or at least isolate certain kinds of conduct, choice or behavior that exist under certain conditions, assumptions like scarcity or certain kinds of choice or behavior like optimization. But this could happen with it and without the domain of the economy, no matter how you would choose to define it. If you look at the macro tradition, I think here there is an economy, there's the macro economy, but here the economy refers to a flow of output in a particular period of time. It's usually a year measured by, you know, such statistics as GDP. I think that that's– I certainly object to the usefulness of that construct, but I don't think it's a particularly compelling definition of the account of the economy as such. If you think about that definition, it has no institutional content, it has no behavioral content that would already get us into issues of sort of micro foundations of macro. And we can talk about that if we like. So first, just to say, I don't think anybody has a convincing definition of the economy. That very likely includes me. I mean, I find it highly unlikely that I just came up with one myself. But, you know, instead what I wanted to do in the book was just sort of get the ball rolling on a conversation that somehow over the years got stalled. So what I say in the book, it is a, it is a mouthful, but I say the real economy is a bounded special temporal order, demand constrained production. That's determined by a logical account to relationships among the different stocks of wealth and the economy that generate different flows of income in it over time. Let me–perhaps I could just say a few very brief things about that definition of that if that's all right.

First, I would emphasize stocks of wealth. That's the show. I think you start here. I think since the marginal revolution in economics, it's like a century ago, more really. You know, economics largely became preoccupied with questions of relative value. That's of course the micro tradition and emphasizing stocks of wealth obviously calls back to the legacies of, of classical political economy. Second would be the demand constraint, but, but I would admit that I have a pretty idiosyncratic way of talking about demand. You know, my real economy has in it time. It has historical time. You know, at the highest level of abstraction, recent from two different periods in which because of the ability of stocks of wealth to store value over time, purchasing power is always leaking out of period one into period two. You know, that's the demand constraint and how different economies solve that problem or not largely determines its character. Third, that already points to the issue of storage. So storage, I think is the first act that creates the economy. I mean, I don't think there's such a thing as a trans-historical economy for all times and places. I don't think that exists or I don't think we should try to find one or theorize one. So the real economy I'm talking about or the economy I'm talking about emerges out of, you know, 10,000 years ago. You can debate it with the world's first states, you know, found new ways to store wealth over time. It's usually grains in the first instance. And that's created the economy that I'm talking about. How you store wealth, granaries, layered, capital, money, human beings, slaves, human capital. There's a different way to do that institutionally morally, et cetera. But the storage function, I think, is very critical. And then finally, I'll just say, you know, money, you know, a lot of the book is about money and how to think about money. Money, of course, is the primary way we store wealth and value in our economies today in what I think should be called or are called capitalist economies. And you know, typically when economists refer not to the economy, but to the real economy, this goes back to post World War II macro course. They typically conceive in the first instance of an economy, you know, without money in it. But I don't think that's a plausible way to conceptualize the real economy. You know, I think money is central.

Steven: So let me start by saying–identifying some dimensions I absolutely agree. And so this will be idiosyncratic in the sense that when I teach introductory micro economics at Harris, I don't start with the definition of the economy. I do start with the definition of economics as a discipline as a body of thought. And so one can move from the way that I do it at least I start with Marshall. I may throw in Robbins, put in Paul Samuelson, but I end with Gary Becker, who defines not economics, but the economic way of thinking about behavior. And so I think part of the message in what you want to argue is that. That's about models. That's about environments that are written down on a piece of paper often mathematized, as you know, whereas your vision of the economy wants to start with there's a society and there's a domain where we want to call the economy, which is going to have an overlap with the objects that I typically would talk about when I teach micro economics, for example, or for that matter macro. And so I put that on the table because I think that that's one of the messages I took from your writings is that the economy itself, we want to think of it as in a much richer conception than falls into the friendly confines of what are now defined as economic models. So are you comfortable with that distinction?

John: Absolutely. Yeah.

Steven: I think it's then a second issue I take from the writings is that in this transfer from the economy to economic models, one has to think about the role of mathematics. It's invariable that there's rich dimensions of human behaviors of identity of what constitutes human beings that are necessarily lost. Similarly, let me step back and say that a common statement by economists is that we are trying to construct low-dimension approximations during higher-dimensional reality, which is a nice phrase. It sounds good. But it begs the question, what are the dimensions we're choosing and why do we have confidence of the ones we've left off are not fundamental to the phenomena that we talk about?

John: Yeah, no, I mean, I think this is on point. I mean, as you say, I'm a historian. I'm not trained as an economist. So in some respects this book is immodest because it attempts to enter into dialogue with economists, having not been trained in the discipline itself. But it's also I hope a very modest book in the sense that there's going to be a lot that I get wrong. But hopefully there's some benefit to the attempt to kind of engage economics from the standpoint of history. Let me say on my side of the fence, typically the history side, let's call it the humanity side, humanistic social sciences, qualitative, whatever you want to call it. Usually people think that mainstream economics is just, well, it's just wrong, right? Because it abstracts from reality too much. Or in it’s attempt to reason mathematically, it ignores just too many important domains or swaths of human existence. My sort of take on this is that economics is incomplete. And it's not a critique of mainstream economics in any sense. But other than to say that I think at many points, and we can talk about some if you like, that in an attempt to get kind of parsimony through mathematical reasoning, you know, too much is sacrificed, too much is assumed away. But I suspect I mean, here I'd be curious to your thoughts that that doesn't necessarily have to be the case. Sometimes it does, right? I mean, you can't talk about everything at once. One has to exclude what has to it assume. Methods get traction by sacrificing alternate modes of analysis and reasoning. But I think there is more space for economics and other disciplines who use different methods and think about human behavior in institutions in different ways, you know, to find common cause. Maybe that's overly optimistic, but that's, you know, that's at least my view.

Steven: Well, I hope it's not overly optimistic and I believe that that's actually a way to describe some of the successes of economics in terms of, you know, looking at research over, you know, last half century. So to be concrete about that behavioral economics as an area was predicated on the belief that there were aspects to human psychology–and I'll say preferences that simply were not captured by you by neoclassical models. And so to go down the economy there when claim would be that the mathematical notion of rationality is inadequate. And I think to this day economist do not have a good way to describe smart agents versus mathematically rational in the confines of a model agents. And so why do I bring that up? That's why we describe traders and stock markets to say that they are fulfilling the, you know, the behaviors in a model and that's problematic, but to not say that they are not aggressively trying to look for arbitrage opportunities, I think is, would be a misstatement. So I think behavioral economics has is an effort to have more psychological realism. I want to talk about your views on psychoanalytic approaches later. I'm not saying that the domains adequate, but I think that that is a case. A second set of ideas has been to try to change–and this is within behavioral economics–the domain of how we think about preferences notions of altruism, the fact that we would embody notions of right and wrong in our motivations. I think again, that's an effort to expand. Certainly social economics, which I'll define as looking at sociological phenomena, such as neighborhoods, networks, or I can say, peer effects, role models, etc. All of that, I think is a good faith effort to engage with other disciplines. And then institutional economics, and of course, which is very well represented at UChicago and at the Harris School, in political economy, all of those are efforts, I think, to enrich the domain with respect to institutions. And so I didn't take what you said, actually, as negative about economics. I think it's exactly right. It's incomplete, but what makes a, you know, a thriving discipline is one that tries to, tries to reduce the incompleteness. Now, surely you were correct that we don't want to end up with the map that's a one-to-one direct relationship to reality, because then it's not interpretable. But I think I honestly read the book as challenges, not as hostile criticism.

John: Good.

Steven: So I was hoping that we can then talk more about your ideas about capital and its meaning. And you provide a very unique definition, at least in my experience, which is capital is a process. And I was hoping you could talk about that, and then we could touch on the implications for thinking about wealth inequality.

John: Good. I mean, there's one definition of capital. It comes out of the industrial revolution naturally enough. Capital is, is defined as a factor of production. That somehow physically embodied. So you think of a factory, you think of capital goods like machinery. Or you can think of a person in the human capital tradition. It's another form of physically embodied capital. You know, I think capital can be that, but it has to become that, you know, historically. So I underscore that there has to be, you know, all kinds of larger processes through which things, through which wealth, to kind of return to that issue, objects of wealth get valued in a particular way in light of their capacity to yield an expected money profit. And so if you want to take a kind of institutional perspective, and here I think one should, you know, we can think about property rights as always being in the background, historically, that makes kind of conversion of wealth into capital possible. So I define capital as the process through which wealth gets capitalized. You know, that could happen to return to money. Capital can be liquid money stocks, they're not productive at all or capital could be highly productive, what embodied in factors of production.

Steven: You know, obviously with Thomas Piketty and now many others, you know, focus on wealth and equality is fundamental to contemporary inequality discourse in economics. And this issue of how to define wealth is obviously essential to any of these calculations. And so to go down the route, if the inequality of wealth is the the number of, uh, Rembrandt's that are owned in private hands, that's very different than, uh, then control of, uh, of industries, et cetera. So I really want to, again, with those, you know, very vague observations I wanted to know how you think your vision of wealth interacts with the contemporary discourse and measurement of wealth inequality.

John: So first with Piketty, I mean, I think that he's really talking about wealth, right? He's not talking about capital and there might be reasons why we want to just talk about wealth and not worry about capital. So then what would, you know, what would a focus on capital through a processual kind of analytic framework, you know, get you, as opposed to just a kind of static picture of, you know, the measurements of wealth, ownership within a broader society and economy. So here, I mean, maybe I give a couple examples from another book I wrote called *Ages of American Capitalism* that has a discussion about the rise of inequality in the late 20th century by trying to root inequality in very specific kind of institutional context, very specific processes. So, you know, I think one of the reasons why inequality narrowed, say in the postwar years, was because of the nature of, of capital.

Because it was still, although less and less so, but still largely an industrial economy in many respects, in which capital was embodied, it was fixed on the ground and large scale factories, such that labor could actually contest it, right? You could have labor unions, you could have institutions of collective bargaining, such that you simply could not produce a future profit. You couldn't generate value from capital with having to interact with labor. I think you have a shift around the 1980s, I wouldn't be too dramatic about the shift through new processes through which capital appreciates–appreciates financially, appreciates by recourse to debt. And that's a form of capital and a form of capitalism in which it's much more difficult socially and politically to contest it, either through collective bargaining, either through taxation perhaps, becomes much more difficult. And so kind of a discussion of inequality, you know, for me would not start from kind of abstract, you know, general mechanisms, but rather would get–and I'm a historian, so this is what we, this is what we do, this is our comparative advantage, I think, getting very kind of specific, very contextual–and at the point of a definition of capital, you know, as process is kind of point to those kinds of histories, and how they could be brought to bear and how we understand dynamics of inequality.

Steven: So I think that's fascinating. First, you know, you're absolutely right that the Pickety work conflated capital and wealth. And I think the message of what you had to say is really that in thinking about capital, it's a, it's a higher dimensional process than simply taking some number against it's units multiplied it by prices. And I was very taken by the, the example you gave of capital in the 1950s versus the 1990s in terms of the nature of the object and the implied bargaining power or interactions with labor. And so to go down this route in a different dimension, you know, one of the important technological changes in my judgment, and I'm hardly alone in this, that's occurred is that the requirement of technologies that capital and labor be physically proximate has ended or has diminished in ways that are fundamentally different. And Ford's a great example where you had all the types of workers were together physically with the things called factories, whereas now with you think about outsourcing offshore into this globalizing markets, but how can you do that in globalizing markets of labor, you break physical proximity as a requirement. And so I could obviously elaborate on that. I think this notion of capitalist process really does open up new challenges for thinking about quantitative measurement. So it's another example I take from your writings, these are the, you know if graduate students are listening, these are topics that one wants to, one wants to pursue.

John: I wonder how you would do it, right? I mean it goes beyond my capacities, you know, how would you how would you tie these kind of insights into the kind of quantitative measurements of inequality that we're used to referring to in our discourse of inequality. But I'm glad to hear that you think that one could.

Steven: I'm very much of the view that part of what the inequality research should be doing is trying to expand the domain of measurement in terms of what are the statistics we use. And again, it's what you raise is really hard and it's not worth giving a cheap speculation. I don't think it would be terribly useful, but it's a very, very, very interesting question. So moving from capital to profit, you had some extremely interesting discussion of accounting practices and profit and I'm hoping you can give an overview.

John: Yeah, I mean, there's a technical definition of profit in economics that's helpful. But I think if you look at profit as a historical category, it's extremely contingent. You know, when I looked into this history, I as a historian who's you know, habituated into seeing things as contingent and as historical, you know, I was quite surprised myself at how many times the meaning of profit as an accounting category had changed across time and how often it was contested. You know, my definition of capital, you know, it's a stock and flow definition, right? So capital, but distinguish it from wealth is that it can yield a future income. A future expected income at least. So therefore that led me to kind of want to investigate profit, maybe just to return to that kind of postwar transition, that postwar moment of a largely industrial capitalism or at least the most industrial capitalism, perhaps that we've had. You know, the accounting metric is historical cost, right? What you're using capital to do is you're using it up, right? You're literally depreciating its value to produce a product in combination with labor. And therefore you have an accounting category of profit that's fit for that, you know, for that task. As you move, you know, you mentioned that 90s, I think it's probably a good touchstone to a logic of capital appreciation as opposed to depreciation. You have a new accounting metric, a new definition of profit, actually old that goes back, you know, hundreds of years, but it becomes newly dominant in late 20th century. And that's market to market, which of course if you're thinking about capital appreciating, market to market is very helpful. So, you know, what do we take from that? I mean, I don't think I have a claim that the way we define profit is a unique kind of causal driver of which way capitalism goes. But it is an important site of contestation and articulation to look at. And I do think, you know, the accounting matters, you know, I say in the book, and here, drawing from some remarks that a great economist, you know, once made, John Hicks of just how fundamental accounting is to economics itself. And that every attempt we have to define the economy in some respect is a version of accounting, you know, for the economy. And therefore, if you're doing, I think economics right, one needs to be sensitive to the way which overtime actors themselves in the economy have accounted for it. So it's a kind of double move, both theoretically and empirically to focus upon accounting practices in particular as they relate to profit.

Steven: So one of the provocative things you talk about in **The Real Economy** is the insights the psychoanalytical perspectives can give. And so might you elaborate those?

John: Yeah, I mean, I'm a Keynes scholar. A lot of the book comes out of my reading at times, idiosyncratic, reading of Keynes, at times already of Keynes that follows from traditions and interpreting Keynes. So probably the most idiosyncratic would be my emphasis on psychoanalysis. And, you know, I think that Keynes, when he was writing in *The General Theory* of the 1930s, as well known from his biography, he was traveling through the Bloomsbury group in London that was part of the reception of Freud and psychoanalytic ideas in English language societies in the 1930s. And I think that Keynes' reading of Freud's understanding of psychoanalysis in the 1930s was very important to some of the central categories, central analytical categories of the general theory, the most important being liquidity preference, which Keynes, as one point says in *The General Theory*, is equivalent to the propensity to hoard. You know, Keynes was a monetary economist, so he studied monetary economics under Marshall. That was his field. That's what he taught. That's what he lectured on at Cambridge as a lecturer in economics. I think the central question really for Keynes throughout his career as an economist, but also *The General Theory* is why would anybody want to hold money beyond the needs of transactional liquidity in the present or in the future? You can't eat money. Money is not productive. It doesn't yield any kind of utility other than what happens when you when you spend it. And so Keynes really premise, his entire analysis of the economy upon the idea that in modern economies, there was a pathology. There was a propensity to hoard and a propensity to hoard money. And he saw it as neurotic, but following from Freud, he saw it as a way to guard against uncertainty, right. Fear of the future, a rational fear of uncertainty was the reason why we hoard money. Now, he said two more points then I'll stop. Keynes himself had a highly idiosyncratic understanding of speculation. I think Keynes hoarding, okay, you put money on the mattress. That's hoarding. That's an easy case. Keynes actually saw speculation as a kind of hoarding, which he contrasts to long term productive investment, which would lead to growth, productivity, employment, all the things we like, especially during the 1930s during the Great Depression. Speculation might feel exciting, a bit titillating. You're sort of investing money, you're moving across different asset classes, you're buying different stocks. It's very energizing, right? It's very exciting. And yet, capital never fixes in long term investment, much like capital doesn't fix in long term investment when you put money under the mattress. Now, Freud had some interesting ideas about neurosis and uncertainty. Freud's main theory of neurosis was that neurotics, not so much that they fear uncertainty, they strive to create uncertainty even when it's not there. And Keynes saw speculation as a form of that kind of hoarding. Maybe I'll say one more thing and then I'll stop, just because you brought up behavioral economics, a field which, I've admirative and learned from deeply. Although it's sometimes, not always, sometimes I read behavioral economics as a way to kind of salvage standard microeconomic models, right? We know that we can't operationalize a certain kind of rationality, but here over there we find within psychology, within lab studies, a kind of consistency in human irrationality, which we then can go about and operationalize and carry on with our normal business. That's not the approach here to understanding psyche and choice and behavior. These are irrational behaviors. They're unstable. They're conditioned by institutions. They're conditioned by culture. They change across time. But nonetheless, have a kind of pattern like basis such that we can pull them out and say, this is what we should expect to happen. So what you should expect to happen, Keynes says, if institutions, right, if the political economy enables it, we should expect a liquidity preference to prevail that undermines the productive capacities or otherwise the potential of a particular economy.

Steven: Well, I'm not a behavior economist. And the reason I say that is actually I think there's much wisdom in what you say. It reminds me of an anecdote. What I was saying, under a sophomore in college where a professor was defending rationality as an assumption, he said, well, if you start by saying, a man first people are irrational. There's nothing else to say. All behaviors are therefore possible. And we can go home as economists. And that, of course, maybe encapsulates the negativity that many economists may have to what you had to say in terms of trying to introduce a really very different vision of how cognitive processes. But you gave the affirmative vision as to how to respond to my teacher who will go nameless from many years ago. And that is that it is one thing to say that we reject rationality. It does not mean we reject the possibility of pattern recognition and behaviors. And that's maybe a place where your critique, I'll say, are more radical surgery for economic bottles than say that well, rather than say that my conditional belief structure is a set, is this probability statement, which is, which is coincident with the actual structure of the economy is that I want to have a different, really radically different way to think about how you would articulate beliefs about the future. I don't want to say marginal or just start with a baseline and then you expand in a certain direction. And so again, I don't take what you said is so much negative, but it's a deep challenge.

John: Yeah, you know, Becker has a great piece on a rationality. It's early. I think I think it's 60s or 70s. And he basically says, look, you know, I don't deny that these behaviors exist, these kinds of motivations exist. It's just that I can't operationalize them in the context of the methods that I think are, you know, gold standard methods. But he doesn't say that one couldn't, right, doesn't say it's impossible. He just says, you know, what we know right now, and of course 20 years later, Becker went on to write a lot of pieces on altruism and try to find creative ways to incorporate kinds of what one might think would be irrationality from the from the standpoint of kind of individual optimization. And so into ways of economic reasoning.

Steven: That's right and I actually teach that in introductory Economics.

John: It's a great piece. Yeah.

Steven: Yeah. So maybe we can talk a bit about the more specific critiques you make of mainstream economic theory. And you know, are there two or three really want to communicate to our listeners?

John: There's really just one, you know, I mean, I do want to underscore what we talked about earlier about the kind of incompleteness and the need for dialogue across disciplines. And perhaps we'll come back to that. And you know, my sense that economics needs history and that history needs economics just as much. And there's real potential there for mutual insight. I think my critique, though, and here it is, here it is a critique of mainstream economic theory. Is that I think, well, I don't know, how far do I want to go here? But it might be almost, you know, constitutionally unable to incorporate time the way that historians think about time. And I think there, you know, every chapter in the book, even when I'm talking about capital, what I'm really talking about is a way that we should think about the relationship between capital and time. And I'm talking about money again, it comes back to time. There's chapter in the book on radical uncertainty that's also about temporality. This might have two kind of more most obvious kind of concrete examples. I mean, one as historian, I'm thinking about the economy, you know, I'm averse to anything that smacks of universal transhistorical assumptions or universal transhistorical claims about causation. I just don't think we need that, right? I mean, I don't think it's something we should strive for. I don't see any benefit in terms of social science or policy in coming up with kind of one size fits all explanations of any kind. The second would be that historians have a very, and part of one of the problems with historians, I should say, is historians are not very methodological or theoretically self conscious. It's kind of–history is a craft and you sort of pick it up by osmosis and graduate school and you sort of learn how to do it, but you don't really learn how to say what it is. But I mean, historians actually have a very sophisticated understanding of time and temporality. History is eventful, right? It never stops. You can talk about continuity and path dependency, but there's always transformation, right? There's always change. History is contingent, right? There's always capacity for transformation, even if there's not transformation. Time is fateful, so you can't go backwards. Right? So if you have a model in which you know you can move things forward, then you can reverse them. Like that's not going to work historically. Every day is new, every second is new. You can't reverse time. And then finally, I think historians are, I think, are very good at thinking across multiple scales. Right? So you can have long terms, long runs, you can have short runs, you can have medium runs, you can have 97 different medium runs, all existing at the same moment. And of course, the way historians build arguments that incorporate the complexity of time and the multiplicity of scales, it goes through narrative. And of course, narrative is a very different style of argumentation than the way that, you know, economists tend to argue and reason through things like models. So I think that this is a case which I think there are some real methodological divisions and gaps that can't be breached. But I think to the degree to which economics, mainstream economics, could you know, think more seriously about time, the way that historians are habituated into thinking about time, you know, that would be better. And so therefore, I think that, you know, temporality is always at the basis of the different critiques that I make in the book.

Steven: So, I'm going to extract some narrow variants of what you said, which I think are our challenges that economists think about, but not necessarily successfully. One of them is that jargon I'm going to use is non-stationarity. You know, the act of estimating a model over time is there's some parameters, those parameters are invariant. And it's a very, you know, problematic assumption depending on the time scale, the time horizons you're looking at. So, the whole notion of what does it mean to, to analyze data and look for a statistical representation. I'm going to turn to really to econometrics now. Your challenge has to do with addressing with the stationarity assumption, which is the invariance of the objects. And so, there's actually theorems in statistics to tell you the limits to the ability of data to reveal varying parameter structures. And so that's probably a fundamental barrier to acknowledge through these statistics. The second issue again, you may, if you know this jargon, I apologize, is ergodicity. And that is that many of the models we use empirically have this property that they assume that all possible outcomes will eventually be seen. And of course, history is fundamentally about, I would say non-ergodicity. There is no data that allows you to talk about the world without the American Revolution or the Russian Revolution, etc. And so having tools that are adequate to the tax of history that has this, you lock into a subset, etc. Which is kind of how we formalize the notion of path dependence, I think is a, is a deep challenge. There interestingly enough, much of this progress can be done using economic theory. So in other words, it may be possible. Again, if condition on believing the theories that you can estimate an environment and from that infer what could have happened, but you'll never see.

John: Right.

Steven: And so I put those simply on the table. And I think that there is a dimension where there's simply going to be limits to what statistics can do. I do think that there are ways to make progress partly by using economic theory as a way that facilitates statistical analysis. But I think we have to be very cognizant of the limits that you talked about. The other thing you brought up, I think, is very interesting and understudied is timescales. And what I mean by that is that again, is the way I think for better or worse about the world about macroeconomics is as a set of models of business cycles, which are valuable in understanding business, you know, certain timescale of fluctuations. They are not the same models in my head that I would use for thinking about economic growth over a 75 year period. And there is a tendency among many macroeconomists to think there's one model of the macroeconomy and that there's not a principal distinction between the two. And so granted that I think many economists would agree with me that there's different models for different timescales. I don't think we have any adequate theories that link them up. And so I take that again as a challenge.

John: Yeah. I mean, I'll just say briefly, I think the ergodicity question appears in the book, although under a different guise or the guise of the risk uncertainty distinction and how to think about the usefulness of that distinction, but also about the ways of which that distinction can kind of obscure some temporal dynamics and processes that historians are very good understanding that I think can't be captured by a hard binary distinction between risk and uncertainty. And then you're exactly right. I mean, and here I don't know, but I mean the, you know, what history is about is finding mediation among scales, right, along short term time scales log and all those in between. And here I don't know. I mean, I sort of have some trepidation saying this, but I mean, I wonder, I mean, economics as a discipline going back, the kind of statics dynamics distinction, long term short term, you know, those are kind of grounding distinctions in economics for a very long time. And I wonder if those ladders have ever really been kicked down, you know, maybe, but maybe not.

Steven: Maybe we could talk about your book, *Ages of American Capitalism*, which is, you know, really a, you know, a magnificent history and, you know, for a layman like myself it was just wonderful to read. The risk of asking you to, you know, summarize a very big book, describe the four ages of American economic history that you used to organize.

John: Sure. I mean, maybe just start by saying, you know, there are, as you say, there are these four ages and an age is an era that has a certain continuity to it. It has a certain pattern. And then you have these ruptures that bring about new ages. You know, this isn't a universalizing theory, in any respect, but I think in American history, it's been true that those ruptures have usually involved the state, and the state kind of pushing capitalism in one direction or another. The first age I call the age of commerce. It starts with the attempts of the British Empire to further commerce in North America. I think there's a continuity across the age that that moves past the, the American revolution and that age, which is about the physical expansion of commerce across space, you know, ends with the Civil War. Slavery had been an institution through which to move commerce across space. And when you abolish slavery in the context of the Civil War, that created a rupture. The second age, I call the age of capital, it starts with the Civil War, it ends with the Great Depression. I call it the age of capital for two reasons to emphasize the kind of dual nature of capital. First, we have industrial revolution, we have capital being embodied as a factor of production, industrialization, the other rise of Fordism and such, an energy transition, a transition to a fossil fuel economy, very important there. But then second, capital as a liquid stock in the form of money, the kind of financial dynamics and financial volatility that led to the Great Depression. The third age starts with the New Deal, the attempts of the New Deal to shift, change, regulate of capitalism through, through various means. You know, I call it an age of control because the state is trying to actively to control capitalism. It fails, I think, for a lot of reasons, having to do with the failures of New Deal liberalism itself. But crisis period in the 1970s, and after 1980, I began the fourth period, what I call the age of chaos, the age which sees new kinds of social life, new kinds of enterprise, which are much more flexible, much more fluid, much more networked as opposed to the old industrial hierarchies that had dominated the industrial economy, and also an era that leads to those dynamics of asset price appreciation with respect to capital and finance and leverage in debt. You know, I'm often asked, like, when is the next age of American capitalism? The answer is, I don't know, the book ends, you know, I finished writing the book. I mean, really, the book was published in 2021, but I finished writing it in 2016, the narrative ends in 2010. But I sort of still see continuity since then. I mean, we can go into it if you like. But I still think we're sort of in a moment of transition in which we don't quite know what the new world's going to look like.

Steven: So I was we could talk a bit about inequality in particular. And so what insights or perspectives you take about the growth of inequality in the last 40 years from the vantage point of the broader sweep of American history, economic history?

John: Yeah, I mean, we touched upon this issue a little bit so far, both in our, in how we contrast or how I contrasted the kind of post war period to the post 1980s period withe respect to capital and accounting styles of profit. I mean, I don't think with respect to kind of inequality discourse, we touched on this too. I mean, I don't think capitalism has a, you know, an endogenous drive to increase inequality forever and for all times. Maybe so, maybe not. I don't think those kinds of arguments hold much water. They strike me more as, as kind of slogans as opposed to serious thinking. But, you know, at the same time, you know, what I would also say is that if someone were to say, we shouldn't worry about inequality, we should just focus on growth. That's another kind of slogan that I think doesn't hold water. I mean, it strikes me again that we need to sort of grapple with some very specific mechanisms and processes, you know, that drive inequality, when inequality increases. So, you know, we refer to some that come up in the book, having to do with financialization, the logic of appreciation. I think there's a geographical dimension and a spatial dimension to those arguments in the book that could explain, you know, why valuation is occurring in particular places in the United States economy and not others. And that kind of urban rule divide, I think is, you know, is quite important. I think the third part of the book, if I could mention, would be the global scale. And I think that accounts of inequality in the United States over the last 40 years that don't kind of point to or can't explain, you know, the role of the United States economy as a hedge model within a broader global economy I think are insufficient. And so a lot of this part of the book tries to make sense of how the logic of US global economic longevity has changed over the last 40 years and how that could contribute to inequality too.

Steven: So the last thing I wanted to ask you about with reference to *The Real Economy* was Veblen, Thorsten Veblen. I was hoping you could say a bit about him. I would put him in the category of economists that are not infrequently cited, but subsequently, ignored by contemporary academia.

John: Yeah, Veblen, you know, along with Keynes is the central figure of thinker in the book. We talked about capital as process, the theory of capital. I think that I, you know, I drew that essentially out of out of Veblen's writing on capital theory out of his critiques of the emergence of what became neoclassical capital theory at the turn of the 20th century. Veblen has a lot of arguments. I mean, I think, I think maybe the most important thing to understand about Veblen would be this. He was an economist, you know, in fact, he was among the first generation of economists who saw themselves as economists as opposed to being political economists. So he's the sort of the same generation of as Marshall. He was an economist at the University of Chicago. He saw it as his mission to help found and create economics as a, as a social science. So, you know, we typically think of Veblen as a sociologist or as a kind of social anthropologist, but, but to me, it's important that Veblen is, is called an economist. That's certainly how he thought of himself. Second, I mean, Veblen thought economics, to be successful had to draw from, from history. It had to draw from philosophy. Veblen earned his first PhD in philosophy, he wrote a dissertation on Kant before you're into PhD in, in political economics. That's what it was still called at Cornell. But he also thought that economics had to be in dialogue with sociology, with anthropology, with political science, and then of course the sciences too. And here I think this is a big reason why Veblen got written out of the canon of economics. Veblen thought that biology was really the master kind of natural science that economics had to engage and emulate, not physics. Now, Veblen thought, you know, all of these social sciences had a contribution to make, but the test would be if they made a contribution to one another within a kind of grand attempt to come up with human social sciences. So, there'd be no hierarchy. There'd be no queen of the social sciences. There'd be no king, nothing like that. And, you know, Veblen lived in work at the sort of founding of those disciplines in the early 20th century, and he was worried about two things, one that they would grow too far apart.

And then second, that one might dominate the other step. The discipline that Veblen was most fearful would dominate other disciplines in the social sciences was anthropology because he thought that anthropology would link up with evolutionary accounts of human history and would become the kind of master social science. I can kind of maybe chuckle at that. I don't know if anthropologists would chuckle, but maybe we would. Yeah, of course, that happened, right? The disciplines moved away from each other, and economics became the dominant discipline in the social sciences by far, both from with respect to, I think, is fair to say in the economy, but also certainly within the world of policy, right? The kind of gold standard methodology in policymaking, you know, that's going to come out of economics, it’s not going to come out of other disciplines. So with Veblen, you know, if you think like I do, this, you know, and this is a provocation, but economics, psychology, anthropology, sociology, political science, you know, these are, these were 20th century intellectual formations. And I just think at the end of the 21st century that they're not going to exist anymore. You know, I really think we're at a moment, and this is another motivation for writing a book of this kind. You know, we're at a moment where I think the social sciences need to be rethought and refounded and reground and recreated. And so you can read Veblen for his arguments on capital and culture and evolution, and the way he thinks about institutions, because Veblen was kind of the original institutionalist as an economist, that was his language. I mean you could do that, but I also think Veblen is really stimulating and really good if you're really trying to think across social science disciplines and really kind of address thorny, difficult, you know, fundamental issues and questions that often keep the social sciences, you know, moving apart, as opposed to coming together, which I think we're at a moment in time now that really demands that, you know, that that's going to, that that needs to happen. I really think they’re left to their own. And again, this is a bold statement, but you know, many of the social science disciplines are adrift, if not failing.

Steven: Well, that opens up a whole separate conversation about how to proceed. So I think, you know, story, history of capitalism and economic history have an uneasy relationship. And I wanted to ask you to talk a bit about that and how you might see ways to improve or integrate interactions at least.

John: I think that in the last 10 years, there's been a revival of interest in history among economists. I think that's always a good thing. It's never a bad thing. Whereas before maybe 15 years ago, 20 years ago, you know, one had to really worry if the field of economic history as practiced in economics departments, you know, could survive. So that's good. Although I think oftentimes because the papers that economists write about economic history are not targeting historians, either historians or economic historians, but are rather targeting other sub disciplines within the field of economics, right? They're not making arguments in the register of historical exploitation. And so what you'll get is kind of application of a method, try to refine a method or to search for so-called natural experiments within history to try to find data. That's good, right? I mean, I think that there's a lot of old data that's good data. We shouldn't think that the newer data is, the better it is. I don't really think it speaks to the kinds of interpretive problems or questions that history is preoccupied with. And so it's limited the kind of conversation between the disciplines. History is just as guilty. Maybe, maybe more guilty. I think that, you know, I should be careful here. I was trading history at Chicago. I had wonderful, tremendous mentors in history. I could not have been more fortunate. So this isn't a critique of my graduate school dissertation mentors in any way. But you know, when I was a PhD student in history at the University of Chicago, you know, you had to read Smith, you had to read Marx, maybe read Weber, maybe read Schumpeter, probably not. But you could be a historian of capitalism and not engage modern economics in any way, shape or form, which I think is not okay. Right. So I think that there's been a need for historians of capitalism to engage economics and economic history, no matter how practice further. And you know, there are historians that do that, but there needs to be more. So I see, I guess what I see here is unnecessary mutual ignorance. It's really born from things like job market dynamics and the kind of sociology of the professions that has, you know, basically no intellectual, substantive intellectual merit whatsoever, although, you know, to kind of trace back our steps a little bit. I mean, you know, there are arguments to be had here. I don't think, you know, historians, economic historians and historians of capitalism could just easily sit down and sing kumbaya together. But like those debates, those arguments would be beneficial for both sides, I think.

Steven: I absolutely agree that's true. And it's not a matter that they integrate, but rather the perspectives clearly can build on one another. I think that as banal as that sounds, it's factually correct. So, John, I can't thank you enough. This has been just a wonderful conversation. And I'm just delighted we had a chance to talk.

John: Terrific. Thank you.

Steven: The Inequality Podcast is a production of the Stone Center for Research and Wealth and Equality and Mobility at the University of Chicago. I want to end the podcast with thanks to the people who really make it happen. First, I want to express deep appreciation to our producer and engineer Shane McKeon, who oversees every aspect of the process of creating these podcasts and really does just a splendid job. Second, I'd like to thank our assistant director Nina Gray for production oversight and the role she plays in bringing the podcast to fruition. And finally, I'd like to thank Grace Kolovo, who's the executive director of the Stone Center, who basically does everything in terms of making the center work. You may get in touch with us at StoneCenter@uchicago.edu. Thank you so much for listening.

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