Thinking about Capitalism
Parts I–III

Professor Jerry Z. Muller
Jerry Z. Muller, Ph.D.
Professor of History, The Catholic University of America

Jerry Z. Muller is Professor of History at The Catholic University of America, where he has taught since 1984. He received his B.A. from Brandeis University and his M.A. and Ph.D. from Columbia University. He has been a fellow of the American Academy in Berlin; the Rockefeller Foundation Center in Bellagio, Italy; the Olin Foundation; the Bradley Foundation; and the American Council of Learned Societies.

Professor Muller is the author of *The Mind and the Market: Capitalism in Modern European Thought* (published in paperback as *The Mind and the Market: Capitalism in Western Thought*), which was cowinner of The Historical Society’s Donald Kagan Best Book in European History Prize. He is also the author of *Adam Smith in His Time and Ours: Designing the Decent Society* and *The Other God That Failed: Hans Freyer and the Deradicalization of German Conservatism*.

Professor Muller is also editor of *Conservatism: An Anthology of Social and Political Thought from David Hume to the Present*. His many articles and essays have appeared in scholarly journals as well as in *Foreign Affairs, The New Republic, The Times Literary Supplement, The Wall Street Journal*, and *The Wilson Quarterly*. 

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# Table of Contents

## Thinking about Capitalism

<table>
<thead>
<tr>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Professor Biography</strong></td>
</tr>
<tr>
<td><strong>Course Scope</strong></td>
</tr>
<tr>
<td>Lecture One</td>
</tr>
<tr>
<td>Lecture Two</td>
</tr>
<tr>
<td>Lecture Three</td>
</tr>
<tr>
<td>Lecture Four</td>
</tr>
<tr>
<td>Lecture Five</td>
</tr>
<tr>
<td>Lecture Six</td>
</tr>
<tr>
<td>Lecture Seven</td>
</tr>
<tr>
<td>Lecture Eight</td>
</tr>
<tr>
<td>Lecture Nine</td>
</tr>
<tr>
<td>Lecture Ten</td>
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<tr>
<td>Lecture Eleven</td>
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<tr>
<td>Lecture Twelve</td>
</tr>
<tr>
<td>Lecture Thirteen</td>
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<tr>
<td>Lecture Fourteen</td>
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<td>Lecture Fifteen</td>
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<tr>
<td>Lecture Sixteen</td>
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<td>Lecture Seventeen</td>
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<tr>
<td>Lecture Eighteen</td>
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<tr>
<td>Lecture Nineteen</td>
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<tr>
<td>Lecture Twenty</td>
</tr>
<tr>
<td>Lecture Twenty-One</td>
</tr>
<tr>
<td>Lecture Twenty-Two</td>
</tr>
<tr>
<td>Lecture Twenty-Three</td>
</tr>
<tr>
<td>Lecture Twenty-Four</td>
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<tr>
<td>Lecture Twenty-Five</td>
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<tr>
<td>Lecture Twenty-Six</td>
</tr>
<tr>
<td>Lecture Twenty-Seven</td>
</tr>
<tr>
<td>Lecture Twenty-Eight</td>
</tr>
<tr>
<td>Lecture Twenty-Nine</td>
</tr>
<tr>
<td>Lecture Thirty</td>
</tr>
<tr>
<td>Lecture Thirty-One</td>
</tr>
<tr>
<td>Lecture Thirty-Two</td>
</tr>
<tr>
<td>Lecture Thirty-Three</td>
</tr>
<tr>
<td>Lecture Thirty-Four</td>
</tr>
<tr>
<td>Lecture Thirty-Five</td>
</tr>
<tr>
<td><strong>Timeline</strong></td>
</tr>
<tr>
<td><strong>Glossary</strong></td>
</tr>
<tr>
<td><strong>Biographical Notes</strong></td>
</tr>
<tr>
<td><strong>Bibliography</strong></td>
</tr>
</tbody>
</table>
Thinking about Capitalism

Scope:

This course is designed to help us think about capitalism, not only as an economic system, but in terms of its moral, political, and cultural effects. Does the spread of the market—both across geographical borders and into more and more regions of our lives—make us better off or worse? What effect does it have on personal development, on the family, and on collective identities? Is economic growth desirable, and if so, what sorts of policies are most conducive to economic development?

This course focuses on the response to such questions by major European and American thinkers from the 17th through the 20th centuries, with a view to casting light on recurrent and perennial issues in thinking about capitalism. Placing each thinker in historical context, it provides an overview of the development of modern capitalism and of the cultural and political reactions to it. Exploring the historical roots of thinking about what has come to be called "globalization," the course provides perspectives on capitalism that are not typically encountered in economics courses or on the business pages of newspapers—perspectives drawn from a variety of political, disciplinary, and national points of view.

We begin by examining the two main premodern traditions that formed the backdrop against which modern intellectuals thought about commerce: the civil republican tradition (a legacy of ancient Greece and Rome) and the Christian tradition. Both traditions were suspicious of commerce. One form of commerce, the lending of money at interest, was viewed as a sin by the Catholic Church. This important economic function was relegated to the Jews, who were seen as beyond the brotherhood of the faithful, with later consequences that we trace in the course.

In the 17th century, in reaction to an era of religiously based civil war, Thomas Hobbes and other thinkers called into question the ideal of a polity dominated by religious ideals. They advanced a view of the world based upon the pursuit of worldly happiness, and they explored the potentially positive role of self-interest. At the same time, the rise of Holland led European thinkers and policymakers to a new emphasis on the link between commerce and national power.

Through an examination of the career of Voltaire, we explore the rise of intellectuals as shapers of public opinion, a rise made possible by the market for print. We examine Voltaire’s arguments for the connection between commerce and toleration, and his debate with Jean-Jacques Rousseau over whether the rise in material well-being is conducive to happiness and morality.

Four lectures present a nuanced view of the ideas of Adam Smith, author of The Wealth of Nations, perhaps the most influential work ever written about capitalism. Smith explained how a competively structured market could channel self-interest into a higher level of material well-being for all. But he also pointed to the difficulties of creating and maintaining a competitive market economy, to some of its intrinsic dangers, and to the role of government in combating these dangers. He offered a balance sheet that tallied the moral and immoral sides of contemporary capitalism. In a later lecture, we look at the work of a sympathetic critic, Alexander Hamilton, and why he believed that the free trade policies Smith advocated were inappropriate for the new United States, and for any nation seeking to emerge from what we would now call “underdevelopment.” We look at the tensions between conservatism and capitalism in the work of the late 18th-century thinkers Edmund Burke and German writer Justus Möser.

In the 19th century, we examine the arguments of Hegel about the link between commerce and modern individuality, and the role of the state in making both possible. We explore Alexis de Tocqueville’s reflections on the pitfalls and possibilities offered by capitalism as he encountered it in America. Two lectures devoted to Karl Marx examine his cultural criticism of the nature of work under capitalism and the reasons for his prediction that the ongoing misery of the new industrial working class would lead to class conflict and the end of capitalism. Marx’s contemporary, British critic Matthew Arnold, provides a conception of cultural criticism that is not antipathetic to markets but is wary of applying market criteria to other areas of life.

A series of lectures explores the turn of the century debates between German social theorists Ferdinand Tönnies, Georg Simmel, Max Weber, and Werner Sombart on the relationship of capitalism to community, individuality, rationalization, and religion.

Joseph Schumpeter’s conception of capitalism as “creative destruction,” in which entrepreneurial activity creates dynamism but invites resentment and reaction, is the subject of another lecture. We examine the early 20th-century debate between Lenin and others on the relationship of capitalism to imperialism and to war.

After a brief look at the policies adopted by Lenin’s Bolshevik government in the new Soviet Union, we look at a spectrum of reactions to the crises of capitalism in the interwar era, and the new analyses to which they gave rise, from intellectuals associated with fascism (Carl Schmitt and Hans Freyer), neoliberalism (Ludwig von Mises and Friedrich von Hayek), and ironic conservatism (Schumpeter). Then we explore the rise of welfare-state capitalism, including its intellectual origins in social democracy, Christianity, and in the new liberalism represented by John Maynard Keynes. We explore the varieties of
postwar welfare-state capitalism (as explained by Gøsta Esping-Andersen) before turning to its foremost critics from the left (Herbert Marcuse) and the right (Hayek).

In the 1970s, American sociologist Daniel Bell argued that capitalism was developing into a postindustrial society, yet he thought there was a risk that the character traits promoted by contemporary culture and by the market itself might undermine the system. The economic stagnation of the era led to the growth of analyses of the tensions between democracy and capitalist economic growth, which we explore in the work of James M. Buchanan and Mancur Olson.

A lecture on the family and the market shows how each of these institutions continues to transform the other, and explores the trade-offs between household labor, paid labor, and familial consumption. Later lectures examine contemporary globalization in historical perspective, the link between capitalism and nationalism as explained by Ernest Gellner, the varieties of contemporary capitalism, and finally the intrinsic tensions of capitalism and the reasons it has outlasted its competitors.

By the end of the course, listeners should have a broad sense of the history of modern capitalism, an acquaintance with what Matthew Arnold called “the best that has been thought and said” about capitalism, and an arsenal of concepts with which to think about contemporary developments.
Lecture One
Why Think about Capitalism?

Scope: This course provides a historical introduction to thinking about how capitalism works, and about its political, moral, and cultural prerequisites and effects. For the most part, our approach is historical, trying to understand what the great debates of the past were about, with an eye to thinking about their current resonance and ramifications. We provide a working definition of "capitalism," discuss the history of the term, and learn why it is plausible to argue that societies first became capitalist in the 17th or 18th centuries.

Outline

I. Capitalism is a central phenomenon of modern life, and as intellectually and morally reflective people, we should be interested in getting some critical perspective on it.
   A. This series of lectures is an attempt to convey what Matthew Arnold called “the best that has been thought and said” about capitalism, in order to provide fresh perspectives upon it.
   B. I am a Professor of History at The Catholic University of America and have a particular interest in intellectual history (i.e., the history of ideas and of intellectuals).
   C. The premise of this series of lectures is that capitalism is too important and complex a subject to be left to economists because it involves a great deal more than what we typically think of as “economic.”

II. The course sets out to convey a variety of ways of thinking about capitalism.
   A. It examines capitalism from various political and disciplinary perspectives, and from thinkers who transcend normal political and disciplinary boundaries.
   B. The course focuses on how capitalism has been analyzed, interpreted, and evaluated by intellectuals, rather than by major capitalists.
   C. In order to understand their concerns and to appreciate their insights, the lectures put them in their historical contexts.

III. Capitalism has changed over time.
   A. The capitalism of the 17th and 18th centuries focused on the importation to Europe of new goods from overseas and on new means of production, such as cottage industry based on a greater division of labor.
   B. In the 18th century, there was a financial revolution connected to the rise of international trading companies and the rise of a market for government bonds. There was also a consumer revolution, at least in England and northwestern Europe.
   C. In the 19th century and well into the 20th century, it was industrial factory production that moved to center stage.
   D. The 19th century saw the rise of several new institutions with tremendous ramifications for the development of capitalism, including the limited liability corporation, the development of the bureaucratic corporation, and the development of trade unions and labor parties.
   E. In the course of the 20th century, advanced capitalist societies moved from an industrial economy to one increasingly focused on what we’ve come to call “services.”

IV. The term “capitalism” is relatively new, though as often happens in the history of ideas, the phenomenon existed long before the term, and under a variety of labels.
   A. It was originally a political slogan, a term coined by socialists who sought to stigmatize the phenomenon.
   B. The term came into more neutral, social scientific usage at the beginning of the 20th century.

V. Like most concepts in the social sciences, “capitalism” is an ideal type—a model, an abstraction from experience that helps us grasp the key elements under consideration and their relationship to one another.
   A. The first of those elements is private property. Usually, private property depends on the existence of governmental power that is able to protect property.
   B. The second element is exchange between legally free individuals, as opposed to serfdom or slavery, in which labor is extracted by political superiority.
   C. The third element is that capitalism is a system in which the production and distribution of goods operate primarily through the market mechanism, rather than by custom or common decision of any sort.
   D. This is a model from which there have historically been many variations and even divergences.
VI. The question of when capitalism began has no discrete answer.
A. There was a good deal of trade in the Middle Ages; indeed, historians speak of a commercial revolution of the Middle Ages, from about 1100 to 1300. But most households continued to consume most of the things that they produced, and to produce most of what they consumed.
B. It is only in the 18th century that in the most advanced parts of Europe, the majority of people came to buy most of the things they needed, and to buy those things, they took to selling most of what they produced, rather than using it themselves.
C. This meant the growth of market-oriented households.

VII. Households became more market-oriented in a variety of ways.
A. One way was through agricultural specialization, in which goods are produced not for household consumption, but with an eye toward selling them to others.
B. Another way was through cottage industry, in which family members within the home produce goods for sale.
C. Another way was through wage labor: working for others to gain money, rather than working in the household itself or taking more leisure time.
D. In turn, households increasingly purchased items that in the past would have been made at home because it was more efficient for them to do so.
E. They increasingly lived in a commercial society, in which, as Adam Smith put it, everyone was a merchant to some degree or another.

Suggested Reading:
Hirschman, “Rival Views of Market Society.”

Questions to Consider:
1. What connotations does the term “capitalism” have to you, or in the circles in which you travel? Do you know others who hold a different view? If so, how does their definition or conception of capitalism differ from yours?
2. In our society, capitalism is often regarded as the purview of economists. What sorts of important questions about capitalism do economists (or the business pages of the newspaper) typically ignore?
Lecture Two  
The Greek and Christian Traditions

Scope: In thinking about how modern intellectuals have evaluated capitalism, we must keep in mind the premodern traditions that formed the backdrop against which modern thinkers developed their ideas. Commerce and moneymaking were regarded with suspicion in two of the great traditions of the West. In the civic republican tradition, which went back to ancient Greece, commerce was seen as ignoble, and the pursuit of economic self-interest was seen as a threat to civic virtue and the protection of the polity. In the Christian tradition, wealth was seen as promoting pride and hence impeding salvation, and the lending of money at interest was condemned as "usury." In medieval Europe, the stigmatized activity of lending money was permitted to Jews, who were seen as beyond the community of the saved.

Outline

I. How we interpret the world around us depends in good part on the categories that are available to us, and those come from the cultural traditions that are handed down to us.
   A. To understand the views of modern European and American thinkers, we have to keep in mind these older cultural traditions to see how they took issue with these new traditions or how they reformulated them under the new conditions of a more commercial society.
   B. Two of the main traditions that European and American intellectuals had available to them were very skeptical about commerce and moneymaking: Those were the traditions of civic republicanism and Christianity.

II. The civic republican tradition began in ancient Greece, was continued in classical Rome, and was revived in the Renaissance in Italy.
   A. It was formulated in Greek city-states that were republics (i.e., self-governing political entities).
   B. The problem for such republics was how to prevent getting conquered by other states, and how to prevent their republican self-government from degenerating into some form of dictatorial rule.
   C. The civic republican tradition stressed the importance of "virtue," understood as personal devotion to the republic through participation in its political life and a willingness to fight on its behalf.
   D. This ideal of "virtue" applied only to citizens, and citizens made up a minority of the population, excluding women, slaves, merchants, and artisans. The citizens of the city had to be economically independent, and citizens who used their votes or their government positions to enrich themselves were seen as corrupt.

III. The civic republican tradition was very suspicious of those who made their livelihood from trade.
   A. According to Aristotle, a well-governed city should not have citizens live a merchant’s way of life because that way of life is “ignoble and contrary to virtue.”
   B. He believed that commerce tended toward excess, and that merchants especially were subject to “pleonexia,” translated as “overreaching” or “greediness.”

IV. Christianity was the other great tradition that formed the cultural backdrop for modern European thinkers. It too was hostile to trade and to merchants, as well as to worldly acquisition in general.
   A. The Gospels warned that riches were a threat to salvation.
   B. The fathers of the church adhered to the classical assumption that because the material wealth of humanity was more or less fixed, the gain of some could only come at a loss to others.
   C. The church’s attitude toward commerce began to change during the late Middle Ages, when the Scholastics formulated a less hostile view of trade.
   D. Thomas Aquinas defended private property and the dignity of labor, but his view of economic life was essentially hierarchical and static. Economic life, in his conception, should be ordered to provide the male head of the family with enough income to support his family according to the traditional standard of living.
   E. To try to get richer, then, was itself a sign of the sin of pride, and a danger to one’s soul and to eternal salvation. We find echoes of this view after the Reformation as well, among both Dutch Calvinists and English Puritans.

V. Christian thinkers were vehemently opposed to usury (the taking of interest), on both biblical and philosophical grounds.
   A. The book of Deuteronomy allowed Jews to lend to non-Jews but prohibited Jews from lending with interest to each other.
B. Aristotle had argued that the lending of money for profit was unjust because it was unnatural, because he viewed money as sterile.

C. Usury was expressly forbidden by the Second Lateran Council of 1139. But this focus on usury was taking place at a time when the role of commerce in European life was starting to expand, and when people needed to borrow money.

D. One method by which the church resolved this dilemma, beginning in the 12th century, was to prevent the evil of Christian usury by allowing Jews to engage in that forbidden economic activity.

E. So began an association of moneymaking with the Jews, an association which would further taint attitudes toward commerce among Christians and which would survive in transmuted forms in the reflections of modern intellectuals.

Suggested Reading:
Rahe, *Republics Ancient and Modern*.
Noonan, *The Scholastic Analysis of Usury*.

Questions to Consider (and reconsider as the course progresses):
1. Is there a tension between public-spiritedness and capitalist market activity? Is there a role for civic virtue today?
2. Is there a conflict between being a Christian and functioning in a capitalist society?
Lecture Three

Hobbes’s Challenge to the Traditions

Scope: In the 17th century, the Christian and civic republican traditions were subject to fundamental criticism by Thomas Hobbes, especially in his *Leviathan* (1651). Hobbes also pioneered an approach to social analysis based on exploring the passions and the ways they could be put to socially positive uses through institutions. Hobbes’s great importance, for our themes, lies in his emphasis on this-worldly happiness as the goal of government; and for his early explorations of the role of self-love in human affairs; and for his abandonment of the notion that the role of government is to guide us to some shared purpose, some highest ideal, be it religious holiness or civic virtue.

Outline

I. In the course of the 17th century, both the civic republican tradition and the Christian tradition came to be challenged.
   A. The religiously based civil wars that tore parts of Europe apart in the 16th and 17th centuries led to a critique of the Christian tradition and a critique of its suspicion of the pursuit of material self-interest.
   B. The thinker who challenged that tradition most incisively was Thomas Hobbes. He probably did more than any other single thinker to bring about the secularization of political thought.
   C. He put forth a way of thinking about human affairs that would be followed by many subsequent thinkers who disagreed with him on one issue or another, such as John Locke.

II. Hobbes not only called into question the Christian ideal of a pious and holy society—he treated it as a danger.
   A. For Hobbes, a key problem was how to rescue people from the fanaticism and strife that religion seemed to bring.
   B. His great book, *Leviathan*, was written in the midst of the English Civil War, or the Puritan Revolution.
   C. Hobbes was a humanist, a person trained in classical and foreign languages who earned his living as the employee of a rich and powerful aristocratic family.
   D. As an advisor to the family, Hobbes became a participant in the leading political controversies and conflicts of the era.

III. Hobbes contended that in thinking about political life, one must not begin with the assumption that man has any intrinsic purpose other than his own survival and worldly well-being.
   A. In point of fact, people don’t agree on what their ultimate purposes are, or on how to get there.
   B. Often enough, in the century and a half after the Reformation, they were willing to oppress, expel, or even murder one another to enforce their beliefs.
   C. Hobbes’s concern was how to prevent religiously based civil war, and his approach was to try to discover what motivates people.

IV. Hobbes contended that while one couldn’t get people to agree on fundamental truths about the purpose of life, one could perhaps get them to agree that everyone wanted to avoid a violent, unexpected death.
   A. Everyone was faced with the constant possibility of a violent death in what Hobbes called “the state of nature” (i.e., any situation in which there is no state capable of enforcing laws equally).
   B. Without a state to enforce such laws, we are all subject to being murdered or deliberately injured for one reason or another.
   C. The one thing that every self-interested person should be able to agree on is the need for an effective government, with a power formidable enough to enforce the rules that make coexistence possible.
   D. That formidable power was what he called “Leviathan,” which was another name for the state.

V. Hobbes’s vision of the good life is resolutely this-worldly, and the secular world he sought to forge was of individuals living in peace, prosperity, and intellectual development.
   A. The problem for Hobbes was that many people at the time did not value their lives above all: They valued their eternal salvation. Many believed that only by following the claims of their church could they avoid hell and get to heaven.
   B. So Hobbes devoted a good deal of *Leviathan* to questions of religion in general and the Bible in particular.
   C. He tried to deflate religious zeal by pointing out the weak basis for the theological differences over which Christians were willing to kill one another.
D. He tried to redirect people’s concerns from their eternal salvation to their earthly well-being, believing that the prospect of improving their worldly well-being would provide broader grounds for consensus, or at least for peace.

VI. In discussing the passions, Hobbes often evaluated them quite differently from the Christian tradition.
   A. “Covetousness” was regarded by the Catholic tradition as a sin; indeed, it was more or less a synonym for “avarice.”
   B. Hobbes defines “covetousness” as the desire for riches and says there is no reason to condemn the desire to get rich as such. It is only when people pursue that desire through illegitimate means that we ought to condemn them.
   C. In Hobbes we see a legitimation of self-interest that would be picked up by many later thinkers.

VII. Hobbes showed that claims to an absolute right of property would undermine the basis of effective property rights.
   A. Among the rights of the sovereign is the collection of taxes.
   B. People are reluctant to pay taxes, Hobbes says, because their self-love makes them short-sighted, so they exaggerate the costs to themselves of paying taxes and fail to see the long-term benefits of having a government that can protect them.
   C. He therefore criticizes the notion that all people have an absolute right to their own property.
   D. He argues that without taxation, there is no government, and without effective government, there is no effective private property.

VIII. Hobbes’s work was important for the history of thinking about capitalism in a number of ways.
   A. His emphasis on this-worldly happiness as the goal of government advanced the secularization of political thought.
   B. His early explorations of the role of self-interest in human affairs contributed to a trend in early modern thought that was also reflected in French Jansenist Pierre Nicole’s “Of Charity and Self-Love” (1675) and in Bernard de Mandeville’s *The Fable of the Bees* (1706).
   C. Hobbes’s abandonment of the notion that the role of government is to guide us to some shared purpose, some highest ideal—be it religious holiness or civic virtue—set the stage for modern liberalism.
   D. In these respects, he challenged both the Christian tradition and the civic republican tradition.

Suggested Reading:
Oakeshott, *Hobbes on Civil Association*.

Questions to Consider:
1. Hobbes thought that in order to create a society not driven by religious conflict he had to deflate the confidence of people that their religious denomination offered the only road to salvation. Was he right?
2. Is there a clear distinction between “covetousness” or “greed” or “avarice” and the pursuit of material well-being? Or are the first three terms merely ways of stigmatizing the pursuit of material well-being?
Lecture Four
Dutch Commerce and National Power

Scope: In the 17th century, the Dutch Republic provided an example of a highly commercial society with increasing national power. The Dutch East India Company, which transported luxury goods from what are now India and Indonesia to Europe, became the most important commercial enterprise in the world. To conduct their overseas trade, the Dutch developed into a major naval power. Thus commerce and national power were interlinked, leading European thinkers to reformulate the civic republican tradition in a more commercial direction.

Outline

I. In the course of the 17th century, the civic republican tradition was transformed with the growing recognition that trade and commerce were essential elements of national power and political survival.
   A. The increase of material wealth came to be seen as part of the logic of state power.
   B. This close interweaving between political power and economic policy became “political economy,” a term first used, in French, in 1615.
   C. It also led to two divergent ways to achieve national power: through free trade and through the policy of protecting national commerce against foreign competition.

II. When 17th- and 18th-century European thinkers considered issues of national power, they inevitably had to think about the United Provinces of the Netherlands.
   A. Though it was a small country without significant natural resources, it was rich, and powerful enough militarily to fend off attacks by nations that were far larger in population and natural resources.
   B. Because the Dutch were the most commercially oriented nation in Europe, their success raised the issue of the links between commerce and national power.
   C. By the late 16th century, the Dutch became the dominant power in world commerce, a position that they maintained for almost a century and a half.

III. How did they do it?
    A. For much of the 16th century, the Netherlands, together with what is now Belgium, had been part of the Spanish empire, until they revolted and attained their independence.
    B. The Dutch profited from the influx of Calvinist refugees from Antwerp, which had been the center of European commerce—refugees who brought with them capital and skills in artisanal trades.
    C. Holland was also a magnet for the Marranos, or crypto-Jews—a prime example of a diasporic merchant minority—who brought with them their capital and commercial contacts in Spain, Portugal, and the Spanish empire.
    D. Holland thus profited by becoming a center of religious toleration.

IV. The Dutch moved into intercontinental trade and then into colonization.
    A. Prohibited from trade with the Spanish and Portuguese empires, Dutch merchants decided that they had to go to the sources of the “rich trades.”
    B. To do so, the Dutch pioneered the creation of merchant companies to pool capital and risk for large-scale single undertakings.
    C. In 1602, they formed the Dutch East India Company, the first multinational corporation and the first company to issue stock.
    D. Dividing ownership in this way meant that people with smaller amounts of money could come to own part of the company.

V. To trade in the East Indies, the Dutch developed a powerful navy, which they used to spread their commercial reach.
    A. The Dutch East India Company set up trading posts in the Spice Islands and Indonesia and drove out the British and the Portuguese by armed might.
    B. The company established a colony on the Cape of Good Hope and outposts across much of coastal Asia, in what are now Iran, India, and Malaysia.
    C. The government of the United Provinces had granted the company the right to make treaties and engage in war on behalf of the United Provinces.
    D. By 1669, the East India Company was the richest private company the world had ever seen.
VI. By the mid-17th century, the Dutch were clearly the most commercially oriented nation in Europe.
   A. To make it easier to find funds for new ventures, they created stock markets, at which shares of the East India Company and other companies could be bought and sold.
   B. The United Provinces were also the center of international finance, and the Bank of Amsterdam, founded in 1609, was the most important bank in Europe.
   C. They developed a number of industries as well. These were essentially artisanal, but with a substantial division of labor.
   D. Many of these industries involved new commodities that began as luxuries oriented to the rich but were becoming accessible to a much wider population.
   E. Holland was perhaps the first society in which a majority of households made the switch in allocation of time toward production for the market.

VII. Dutch politicians and political publicists began writing books on the links between the preservation of the republic and its commercial strength.
   A. The best known of these was The True Interest and Political Maxims of the Republic of Holland, published in 1662 by Pieter de la Court. He argued that the power of Holland to defend itself depended upon free trade policies.
   B. Nicholas Barbon, an English author, wrote in his Discourse of Trade in 1690 that the problem with political thinkers was that they had said almost nothing about trade and its importance to the state.
   C. By the early 18th century, we increasingly find political thinkers writing about commerce as part of politics, giving rise to “political economy.”

VIII. De la Court’s views on freedom of trade were very much a minority position. Most political writers and politicians in Britain and France were more inclined to government policies that later came to be called “mercantilism.” They sought to take commerce away from the Dutch.
   A. The implicit assumption of mercantilist policies was that international wealth was fixed, so international economic relations were a zero-sum game, in which gains for one nation could only come at the expense of other nations.
   B. The result of this way of thinking was war and protectionism.
   C. To try to strengthen their own cause and weaken that of the Dutch, Britain, France, and other European countries developed protectionist policies that made it difficult or impossible for the Dutch to control international trade.
   D. By 1720, the Dutch no longer dominated international commerce.
   E. What had happened in 17th-century Holland set the stage for a series of debates in the 18th century and beyond.

Suggested Reading:
Clark, Commerce, Culture and Liberty (the selections from Pieter de la Court’s Political Maxims of the State of Holland and Nicholas Barbon’s A Discourse of Trade).
Viner, Essays on the Intellectual History of Economics, especially the essays “Power versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries” and “Mercantilist Thought.”
Hont, Jealousy of Trade, “Free Trade and the Economic Limits to National Politics.”

Questions to Consider:
1. To what degree is military power a prerequisite for a nation’s economic growth?
2. How does economic stagnation or growth affect a nation’s military power?
Lecture Five
Capitalism and Toleration—Voltaire

Scope: Voltaire (1694–1778) was the central figure in the early European Enlightenment. By writing accessibly about matters of public interest for an audience that purchased his books in the commercial market, Voltaire helped carve out the modern role of the intellectual. In his *Letters on England* (1734), much of which concerned the evils of religious intolerance, Voltaire laid out the argument that commerce provides a means through which people of different ultimate orientations can cooperate. His portrait of the London Exchange entailed the defense of what was then a highly controversial institution, connected to what historians call “the financial revolution,” which allowed Britain to become the leading world power.

Outline

I. There was a deep connection between capitalism and Enlightenment in two senses.
   A. New commercial means of communication and places of sociability made the Enlightenment possible, leading to the formation of public opinion.
   B. Thinking about the implications of the spread of commerce was a focus of concern for many of the thinkers of the Enlightenment.

II. Voltaire embodied and helped create the new social role of the intellectual, or to use the 18th-century French term, the *philosophe*.
   A. Until the 18th century, writers had depended primarily on patronage, the largesse of the rich and powerful, to provide them with a living.
   B. The rise of the market for print loosened authors’ direct dependence on powerful patrons, even while it increased their dependence on the tastes of the reading public.
   C. “Public opinion” was a product of new institutions through which a mass of citizens could become familiar with questions of government, including reading clubs, coffeehouses, and journals of opinion.

III. Voltaire’s significance for our topic comes from his legitimization of self-interest and his popularization of the notion that the pursuit of wealth through market activity had important political benefits.
   A. Voltaire’s *Letters on England* (1734; also known as *The Philosophical Letters*) was a work of social and political criticism that marked the beginning of the French Enlightenment as a public force.
   B. He was drawn to England by commercial, intellectual, and personal motives.
   C. What Voltaire most valued about contemporary European civilization was the growing liberty of the individual from coercion, through greater government toleration of intellectual differences and, above all, through the rule of law.
   D. He lays out the arguments about the links between individual self-interest and public welfare, the notion that economic self-interest was not just a source of suspicion, but that with proper channeling it would have positive effects.

IV. Voltaire’s *Letters* tied the importance of trying to reduce religious ferocity to arguments in favor of the market.
   A. He argued that the pursuit of economic self-interest through the market might serve as an antidote to religious zealotry and religious intolerance.
   B. His literary portrait of the London Stock Exchange in his *Letters* helped popularize one of the most important and lasting arguments in favor of capitalism.
   C. It was Voltaire’s claim that religious enthusiasm was a primary source of discord, which at best led to injustice, at worst to civil war.
   D. The quest for economic gain, he argued, made people more willing to tolerate those with different views of ultimate salvation.

V. The London Exchange was part of what historians now call “the financial revolution,” a new form of financial capitalism closely linked to the rise of the modern state and international transoceanic commerce.
   A. The trading on the London Exchange was mainly in government securities: bonds and treasury bills.
   B. In the course of the 18th century, Britain replaced Holland as the great commercial and naval power of the era, and one reason for that was the founding of the Bank of England in 1694.
C. Wars were often decided by whichever government was the first to run out of money. Until the founding of the Bank of England, the government borrowed money from private moneylenders at a fairly high rate of interest because the government wasn’t considered a particularly good credit risk.

D. With shares of these great merchant companies like the East India Company, shares of the Bank of England, and also bonds and treasury bills, the government could borrow money instead of depending on private moneylenders.

E. The emergence of this stable, public market for state debt was in many ways the most politically significant economic innovation of the age. It allowed the British government to borrow funds at far lower interest rates, which meant that in case of war the British government could supply its troops and its navy for longer than its competitors could.

F. The advantages to English power and English commerce brought by this financial revolution are now widely acknowledged by historians. But at the time, the public reacted to the new institutions of finance with suspicion and even hostility.

VI. The entire stock exchange scene was written so as to upset the reader’s expectations by inverting the accustomed hierarchy of values.

A. Voltaire’s scene is meant to suggest that the pursuit of wealth through the market is actually more commendable than religious commitment.

B. The notion that capitalism allows for the bridging and diminution of cultural and religious differences would later be picked up by liberal supporters of capitalism (who saw it as promoting cosmopolitanism), as well as by critics who saw it as eroding religious and national commitments.

Suggested Reading:
Williams, *Voltaire: Political Writings*.
Hirschman, *The Passions and the Interests*.

Questions to Consider:
1. How plausible is Voltaire’s portrait of human relations on the London Exchange?
2. Do trade and commerce tend to lead to more peaceful relations between people of different faiths?
Lecture Six
Abundance or Equality—Voltaire vs. Rousseau

Scope: A major debate during the Enlightenment concerned the moral status of material well-being. Moralists in the civic and Christian traditions stigmatized material comfort as “luxury.” Voltaire laid out a number of arguments in defense of luxury: that the very notion of what constituted “luxury” was historically relative, and that luxury was the basis of civilization. His arguments were countered by Jean-Jacques Rousseau, who argued that material progress had increased inequality, undermined virtue, and actually made people less happy.

Outline

I. In two works published shortly after his Letters on England, Voltaire set forth another defense of commerce: that it promoted material wealth and comfort.
   A. In the 18th century, material prosperity was frequently condemned as “luxury” by religious and civic moralists.
   B. Moralists in the civic tradition saw luxury as leading to the decline of nations.
   C. Christian moralists portrayed luxury as distracting men and women from the pursuit of salvation.

II. Voltaire and other leading thinkers of the Enlightenment reacted against a political culture based on the aristocratic values of manliness and warfare, and against a religious culture oriented to piety.
   A. In its place, they endorsed an emerging secular culture that valued gentler relations of sociability.
   B. They worked to bring about a culture in which people’s imaginations were filled not by stories of religious miracles or experiences of ascetic piety or the contemplation of the mysteries of faith. Instead they sought to fill the imagination through secular art, literature, histories, and the wonders of natural science.
   C. That was what Voltaire and Hume meant by “civilization”: a world of arts and sciences, of technological improvement and greater well-being.
   D. The material basis of that world, they argued, came from the economic growth brought about by commerce. Luxury to them meant the increased possibilities for consumption and leisure brought about by economic growth.

III. Voltaire entered the debate over luxury in 1736, with the distribution of his poem “The Worldling.”
   A. It combined its praise of contemporary worldly joys with ridicule of the Christian and civic myths of past golden ages.
   B. He argued that material prosperity is the prerequisite for the development of higher civilization.
   C. Voltaire defended luxury against its moralist detractors by trying to show that the notion was historically relative: that much of what his contemporaries considered to be basic necessities had once been regarded as luxuries.
   D. He later developed this point in his Philosophical Dictionary, with his example that when scissors were first invented they were called a luxury for “dandies and squanderers” who used them to “mar the work of the Creator.”
   E. Voltaire’s defense of consumption was echoed by other great figures of the Enlightenment, including Scottish philosopher David Hume, but it came under attack by another figure of the Enlightenment, Jean-Jacques Rousseau.

IV. Rousseau became the most important internal critic of the Enlightenment, critical of key trends in Enlightenment thought.
   A. His breakthrough to fame came in 1750, in his “Discourse on the Arts and Sciences,” followed by his “Discourse on Inequality” in 1755.
   B. Rousseau not only denied that progress in the arts and sciences improves morality, he asserted, on the contrary, that such progress leads to moral corruption.
   C. The arts (by which he also meant the fine arts and the mechanical arts) and sciences, Rousseau argued, bring with them the desire for unnecessary wants and comforts that distract people from their moral purposes.
   D. Indeed, people will sacrifice political freedom and self-rule in order to pursue the comforts and stimuli offered by the arts and by luxury. They become “happy slaves,” so besotted by culture and luxury that they don’t recognize their servile state.

V. The development of the arts and sciences also leads to inequality, with negative moral consequences.
   A. The talents needed to pursue the arts and sciences are unequally distributed among people, and in a civilized society this becomes the basis of greater distinction among people.
B. In addition, a civilized society demands great expenditure to support those who distinguish themselves in the arts and sciences, and this can only come about when some work for others, leading to greater inequality.
C. Thus in modern commercial nations there is a gap between the rich and the poor, and that comes at the expense of the self-esteem of the poor.
D. Calculation of self-interest becomes the basis of human relations, and this destroys the foundations of trust and leads to poor citizenship.

VI. The great corruption of human sentiments comes with the creation of private property.
   A. With the notion of private property comes the fact that some people have more private property and some people have less.
   B. It leads to inequality: Because people have different talents, some of them increase their possessions, and soon some have more than they need and others less.
   C. A state of war ensues between the haves and the have-nots.
   D. It also leads to alienation, as people come to live for others, as they learn to compare themselves with them.
   E. As people move into civilization and as civilization develops, people’s desires grow—especially the desire for the recognition of other people—and so man becomes driven by his vanity, his *amour-propre*.
   F. Because there is scarcity and the needs and desires of all people in society cannot be satisfied, the rich need protection and the poor are oppressed.
   G. As an antidote to the corruptions of modern society, Rousseau sought a reinvigorated civic republicanism.

VII. Who was right, Voltaire or Rousseau?
   A. Do our increasing comforts, made possible by economic growth, make us happier, as Voltaire suggests?
   B. Or is Rousseau right? Isn’t all this a distraction from some higher purpose?
   C. If, as Rousseau believes, what we long for is the recognition of others, and if recognition is a zero-sum game, then isn’t inequality too high a price to pay for material improvement?
   D. This line of thought is continued in the 20th-century conception of poverty as “relative deprivation.”

Suggested Reading:

Rousseau, *The Discourses and Other Early Political Writings*.

Questions to Consider:
1. Who do you think is more correct about the moral effects of economic growth, Voltaire or Rousseau?
2. Are contemporary citizens motivated more by concern with the economic well-being of the nation or their own, narrower economic well-being? Should the government try to cultivate civic-mindedness in its citizens?
Scope: Adam Smith (1723–1790) began his career as a Professor of Moral Philosophy, and he took his moral concerns into his study of what he called “commercial society” and the new science of political economy. The goal of the market economy, as Smith conceived of it, was to make possible an ongoing rise in the standard of living of the vast majority of the population. In *The Wealth of Nations* (1776), he laid out a model that explained how a competitive market channeled self-interest in socially beneficial directions. It did so by increasing productivity and making commodities available at cheaper prices, affordable by ever-broader portions of the population. This is the famous “invisible hand”—a metaphor for institutional arrangements that channel self-interest toward socially desirable outcomes.

Outline

I. In this lecture, we’ll look briefly at who Adam Smith was and at some of the key historical experiences that formed the backdrop of his writings on the market, especially the process that historians call the “consumer revolution” of 18th-century Britain.
   A. Smith’s *Inquiry into the Nature and Causes of the Wealth of Nations* emerged out of his reflections upon the real successes of the consumer revolution.
   B. Smith was a Professor of Philosophy. He was born in Scotland in 1723, studied in Glasgow and Oxford, and was appointed to a Professorship of Philosophy at the University of Edinburgh.
   D. Though Smith would later write a great deal about the role of self-interest in human affairs, he regarded the attempt to explain all of human action on the basis of self-interest or self-love as patently absurd.

II. One of the most important developments in 18th-century European life was the increasing role of commerce, and nowhere was this commercialization more evident than in the case of Smith’s own Scotland.
   A. Across Europe, philosophers and “men of letters” in the 18th century were turning their attention to the spread of commerce and reflecting on its moral and political implications.
   B. Once Smith finished *The Theory of Moral Sentiments*, he too turned his attention to reflecting upon the implications of the growth of commerce.
   C. *The Wealth of Nations* was written against the background of what historians now call the “consumer revolution.”
   D. Economic conditions in Britain were improving, slowly but demonstrably, and this provided the historical backdrop of the book.

III. In Smith’s day, many policymakers viewed trade with other European powers as a form of undeclared warfare, with the object of maximizing benefits to England while minimizing those to rival nations.
   A. The prime weapons in this war were prohibitions on the import of goods, or heavy government duties on imported goods, which made them less profitable to bring into the country.
   B. The goal of Smith’s analysis was to bring about “universal opulence,” or a respectable standard of living for as many people as possible.
   C. Economic growth was hampered, in Smith’s eyes, by existing protectionist restrictions, so much of *The Wealth of Nations* was an argument for expanding the freedom to trade.
   D. *The Wealth of Nations* was a work of political economy with two objectives: to provide plentiful subsistence to the people and to provide the state with sufficient revenue to cover the cost of public services.
   E. Smith lays out a couple of key models of the capitalist economy based on observation and on generalization from those observations.

IV. Smith sets out the first element of his model, which is self-interest as a motivating force in market activity.
   A. Smith does not claim that all of human relations is based on self-love or self-interest, but he thinks that benevolence is a limited phenomenon.
   B. He thought that altruism, while a real phenomenon in many areas of life, is not a motive that we can depend on in market activity, because much of it occurs among people who have no altruistic attachment to one another.
C. His example of universal opulence is the woolen coat worn by common day laborers in Britain. He shows that the number of people involved in making this coat is enormous.

V. The model begins with self-interest as the motive of human interaction in the marketplace, and the main form of that interaction is exchange.
   A. Exchange makes possible the division of labor, which was the great mechanism that increased human productivity. He illustrates its advantages by describing a pin-making factory.
   B. Smith attributed the tremendous expansion of productivity to the division of labor through specialization, which led to greater skills and saved time, and new inventions that reduced the amount of required labor.
   C. So self-interest leads to market exchange, which makes possible the division of labor and the growth in human productivity, which mean more things can be produced more cheaply.
   D. The wider the market, and the more people who are involved in it, the more effective will be the productive effects of the division of labor.

VI. A second model explained the conditions under which goods would be sold at the lowest price possible.
   A. Each good sold in the marketplace had what Smith termed the “natural price.” This was the lowest price at which it could continue to be produced.
   B. The price at which a commodity was sold had to reflect the average cost of labor, the average profits to be gained by investing money, and the average rent paid to landlords for using their land.
   C. Smith calls the actual price at which a commodity was sold the “market price.”
   D. The market price is determined by the relationship between supply and effective demand.
   E. Smith explained how under conditions of market competition, the market price would tend toward the natural price.
   F. The market, therefore, was the most efficient institutional mechanism by which to channel self-interest toward the wealth of the nation.

VII. Smith, as a social scientist, could explain the logic that transformed the quest for self-interest into universal opulence, which brings us to Smith’s “invisible hand.”
   A. He explained how individuals who pursue their self-interest through the competitive market are compelled into actions that ultimately have beneficial social effects.
   B. Without intending to promote the public interest, they are compelled to do so by the structure of incentives offered by the market.
   C. This image of the invisible hand is a metaphor for the socially positive, unintended consequences of the institution of the market, which through increasing productivity and declining prices, channels the self-interest of individuals into collective benefits.

Suggested Reading:
Smith, The Wealth of Nations, especially Book I, chaps. 1–3 (division of labor), 7–8 (natural price and market price); Book IV, chap. 2 (the invisible hand).
Muller, Adam Smith in His Time and Ours, chaps. 1–6.
Evensky, Adam Smith’s Moral Philosophy.

Questions to Consider:
1. Is there anything mysterious about the “invisible hand”?
2. Why do so many people find the notion that self-interested behavior can have socially beneficial outcomes disturbing?
Lecture Eight
Smith on Merchants, Politicians, Workers

Scope: Adam Smith argued that free international trade would expand the economic benefits of the market. It would also have the political benefit of diminishing conflict between nations through mutually beneficial trade. Much of *The Wealth of Nations* is devoted to showing how the reality of contemporary capitalism diverged from the desirable, competitive model that Smith had set out. By a variety of means, including the lobbying of politicians, each economic group tries to avoid the competitive market. Each group tries to promote its self-interest at the expense of the general interest. The role of intellectuals, for Smith, is to combat these pressures and urge policymakers to promote competitive markets that serve the general interest, in order to attain “universal opulence.”

Outline

I. Many people mistakenly believe that Adam Smith asserted that everything would work out for the best if people merely followed their self-interests.
   A. This argument that self-interest can have socially beneficial outcomes has a kind of repulsion for some people and an attraction to others for that very reason.
   B. Smith’s analysis was far more subtle, and we’ll take into consideration his major works: *The Wealth of Nations*, *The Theory of Moral Sentiments*, and the *Lectures on Jurisprudence*.

II. Self-interest actually plays a pernicious role in economic matters in *The Wealth of Nations*.
   A. From the point of view of the public interest, it was most beneficial for people to pursue their self-interest by channeling it through the market, but from the point of view of the producer it was most beneficial to circumvent the competitive market.
   B. The market would produce the best possible outcome for consumers under the conditions Smith called “free competition,” but as Smith showed, much of European society and government was still structured to prevent free competition.

III. Smith thought that the proper task of the legislator concerned with the public interest was to prevent the short-circuiting of the market mechanism despite organized economic interests seeking to protect themselves from market competition.
   A. Smith showed that wherever and whenever individuals or groups could promote their own interests at the expense of the public by bypassing the free market, they would. *The Wealth of Nations* is a great compendium of such attempts.
   B. Market competition creates difficulty in making profits. And from the point of view of those producing goods and services, free competition, or market competition, also makes you work harder.
   C. Smith showed that the citizens of the towns contrived with one another to keep up the price of urban-made goods at the expense of the people in the countryside.
   D. He noted that merchants, whenever they have the opportunity to get together, will try to conspire to pursue their self-interests. When they did so in ways that went around the market, then it redounded to their benefit at the expense of the larger public.
   E. Both workers and employers also tried to organize to circumvent the market for labor, but under contemporary conditions the law and the nature of political influence in an undemocratic parliamentary system favored the employers.
   F. The most effective means of circumventing the competition of the market was through legal monopolies that gave an individual or a trading company the sole right to sell a particular product.

IV. For Smith, most of the existing regulation of foreign commerce was motivated by one or another group of merchants or manufacturers trying to limit competition for their goods.
   A. The favorite method of eliminating competition at the time was by prohibiting foreign imports or placing heavy duties on them.
   B. Smith showed that these measures were inimical to the public interest because they raised the price of goods to consumers.
   C. Most of Book IV of *The Wealth of Nations* is devoted to an attack on the policies of international trade based on a view of international economic relations as a zero-sum game in which one nation’s gain must be another’s loss.
   D. The model of international relations that Smith sets out in *The Wealth of Nations* is a model of economic and political relations along more cosmopolitan and more peaceful lines.
V. One function of public-spirited intellectuals like himself, as Smith understood it, was to counteract national prejudices and the zero-sum conception of economic life that led to international conflict.

A. Smith coined the term “mercantile system” to describe the dominant economic doctrine because he believed that it reflected both the interests and the mentality of merchants and manufacturers, whose quest for monopoly had been extended into a view of international commerce.

B. This notion of the advantages of international trade was reconceptualized and expanded a generation later by David Ricardo, who coined the term “comparative advantage.”

C. According to Smith, the prosperity of other nations was based on the fact that they produced things that the British wanted to buy—and those other countries, as they became more prosperous, provided a market for the goods and services that the British could produce most efficiently.

D. One of the main notions that he wanted to convey in *The Wealth of Nations* is that nations benefit when other nations are rich and productive, are a source of goods, and provide a market as well.

VI. Smith showed that the pursuit of self-interest does not automatically or inevitably lead to the public benefit. But how can one keep individuals and groups from trying to use their political influence to benefit themselves at the expense of the public?

A. One of the purposes of *The Wealth of Nations* was to warn politicians and policymakers of the dangers that protective legislation and other ways of getting around the market posed to the development of most of the populace.

B. Smith wrote the book in good part to counter what he termed the “sophistry and clamour” of individuals and groups urging legislation that would protect them from market competition.

C. In the Britain of Smith’s day, the right to vote was confined to a wealthy few; only their “sophistry and clamour” counted.

D. Since Smith’s day, the right to vote has become more universal. That doesn’t mean that the problem has gone away; it has simply become more widespread.

**Suggested Reading:**


Muller, *Adam Smith in His Time and Ours*, chap. 5.

**Questions to Consider:**

1. Has the balance of power between employers and employees changed since Smith’s day? If so, why, in what direction, and does it make the problems he addressed more or less pressing?

2. Smith lamented in his day that

   Each nation has been made to look with an invidious eye upon the prosperity of all the nations with which it trades, and to consider their gain as its own loss. Commerce, which ought naturally to be, among nations as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity.

   How relevant is Smith’s lament today?
Lecture Nine

Smith on the Problems of Commercial Society

Scope: Smith thought that a well-functioning government was a necessary prerequisite for a commercial society. Certain functions can only be provided by government, including national defense, the provision of law, and what we now call “infrastructure.” Smith was also acutely aware that some of the very processes that made commercial society more productive, such as the division of labor, could have negative effects, which he thought it the duty of intellectuals like him to analyze and of government to alleviate.

Outline

I. Because Adam Smith’s influence was probably greatest in providing arguments against direct government involvement in economic life, the crucial significance of government in his work is often overlooked.
   A. For Smith, the state was the most important institution on which modern commercial society depended.
   B. Smith believed that while the state ought to relinquish its direct economic role in enforcing tariffs, wage rates, and other restrictions on trade, the size and functions of the state would actually grow with the development of commercial society.
   C. The benefits of commercial society required a larger state, but the wealth generated by a well-functioning market economy would make the economic burden of the state bearable.
   D. This was stated most explicitly in his Lectures on Jurisprudence, and The Wealth of Nations devotes hundreds of pages to analyzing the proper functions of government and how to pay for them.

II. Smith’s views on the functions of the modern state followed from his analysis of the anticipatable negative consequences of the central institutions of modern commercial society, namely, the market.
   A. If the spread of the market and the resulting intensification of the division of labor was the source or at least the precondition for much of what was best about modern civilized society, it was also the root of a number of intrinsic dangers.
   B. Smith thought that the role of intellectuals like him was to alert legislators to these dangers, with an eye toward obviating them.

III. One of those dangers dealt with the problem of national defense. The need for national defense grew more urgent with the progress of economic development.
   A. The record of history showed that as a society grew richer it became a more attractive object of attack by its poorer neighbors. At the same time, the division of labor created a style of life that left most men less fit to be soldiers.
   B. Smith provides a historical analysis of the development of institutions of defense, and he developed a model of historical stages of society, which was a way to show the connections between political, economic, military, and cultural developments.
   C. In the first three stages, wars didn’t involve a great deal of additional expense to government, but at this time in history, war becomes more expensive for government.
   D. Smith believed that the art of war became more complex with the division of labor and that its mastery required the same specialization as did other fields.
   E. It was only the wise policy of the state that could attract some individuals to devote themselves fully to military matters, by the creation of a permanent army.
   F. Smith’s acute historical awareness of the link between national defense and the preservation of civilization led him to insist on the primacy of defense over economic considerations in trade policy.

IV. Next to providing for the national defense against other sovereign states, the most important function of government was to provide justice and security under the law.
   A. It was only the state that protected property and hence made “private property” possible.
   B. Those with more property had a greater interest in maintaining the state, and they could enjoy their income only because of the protection offered by the state.
   C. It was on these grounds that he argued that the rich ought to be taxed at a higher rate than the poor.
   D. Another function of government that was bound to expand with the advance of commercial society was the provision of infrastructure.
V. In other words, *The Wealth of Nations* was much concerned with what in the language of modern economics are called “public goods.”

A. By providing for defense, justice, and infrastructure, government created the preconditions for a market economy.

B. The role of government went further yet because it was up to the legislator to anticipate, and up to the intellectual to make the policymakers aware of, negative cultural effects so they could be mitigated and ameliorated.

VI. Smith argued that the very division of labor that increases human productivity has negative effects as well, especially upon manual workers.

A. In a famous passage of *The Wealth of Nations*, he gives a really frightening portrait of the narrowing effects of the division of labor on the human psyche and the human soul.

B. As an antidote to the mental degradation caused by the division of labor, Smith recommended the encouragement of universal public schooling, largely at government expense, so that even those in the lower ranks of society could acquire the essential skills of reading, writing, and arithmetic.

C. The division of labor therefore not only stunted intellectual abilities by narrowing the horizons of the worker, it created economic incentives for the neglect of any formal education.

D. In addition to the benefits of education for the individual, Smith thought, it was also a prime political consideration for the state to have a more educated populace to make political judgments as citizens.

VII. Smith does maintain many elements of the civic republican tradition in a form more amenable to a commercial society.

A. The whole structure of *The Wealth of Nations* is intended to motivate policymakers toward the general interest.

B. Smith didn’t think that every result of the market was good, nor did he think that every action of government was bad.

Suggested Reading:
Evensky, *Adam Smith’s Moral Philosophy*.
Fleischacker, *On Adam Smith’s “Wealth of Nations.”*
Muller, *Adam Smith in His Time and Ours*, chaps. 6–13.

Questions to Consider:
1. Does providing for national defense remain a dilemma for contemporary capitalist societies?
2. Does Smith’s description of the mentally stultifying effects of the division of labor have any contemporary relevance?
Lecture Ten
Smith on Moral and Immoral Capitalism

Scope: Smith thought that commercial society had the potential of making people not only better off materially, but also of improving their character. It had a propensity to promote certain positive character traits, such as industriousness and probity. It held out the possibility of a society in which most people would be more self-controlled, prudent, and free. That was no small achievement. Under the right institutional conditions, a capitalist society could make people better, as well as better off. But where the rule of law was lacking—or where there was inequality before the law, as in the case of slavery or of colonial companies—commerce could lead to immoral outcomes.

Outline
I. Adam Smith was a moral philosopher particularly interested in the question of how men become moral (i.e., the social processes through which they develop desirable character traits, or virtues).
   A. He did not think that “virtue” is a single character trait but rather that there are a variety of desirable character traits, some of which the market tends to cultivate and some of which it does not.
   B. One important element in Smith’s evaluation of commercial society and its relationship to the virtues was that he didn’t think that poverty was ennobling.
II. Smith thought that a well-functioning market, by leading to greater prosperity, would make it more likely that people would act with benevolence.
   A. He believed that moving beyond a society of scarcity would allow people the mental space to sympathize with others, to try to put themselves in the shoes of others and act more benevolently toward them.
   B. In this sense, Smith takes the Christian virtue of charity and translates it into the more worldly form of benevolence toward others.
III. Smith thought that the market activity itself tends to produce certain desirable character traits.
   A. Business leads the merchant to develop habits of “order, economy, and attention … [that] render him much fitter to execute, with profit and success, any project of improvement.”
   B. The development of regular and frequent market relations, Smith thought, tends to lead to honesty, or what he called “probity.”
   C. Recurrent market relations guide self-interest toward the keeping of promises. This makes honesty the best policy.
   D. The seller wants to cultivate trust, and the best way to do that is to act in a way that is trustworthy. So, too, with punctuality.
   E. Because character traits are created by habit, there is a spillover effect from economic relations, and the habits of honesty and punctuality are carried over into other areas of life.
IV. Smith thought that the master virtue was “self-command,” or what we would call “self-control.”
   A. The market tends to lead toward self-control through the pursuit of self-interest in the market.
   B. The quality of character that the market promotes is prudence: the disciplined pursuit of self-interest and the ability to defer short-term gratification for long-term benefit.
   C. To the degree that in a commercial society every person becomes a merchant, the qualities of self-control, commitment to honoring promises, and punctuality are spread through society.
V. As an enlightened thinker, Smith valued freedom of the individual and autonomy (i.e., the ability to exercise control over one’s fate).
   A. He thought there was a link between individual autonomy and self-support through legally free labor.
   B. Thomas Carlyle—and later Marx and Engels—would decry the system of mutual appeals to self-interest as the “cash nexus.”
   C. But there are two positive sides of the cash nexus: the freedom and self-determination that come from having cash, and the fact that relations based on cash do not involve the total subordination of one individual to the will of another (the characteristic forms of human relations under slavery or serfdom).
   D. It was the combination of legal security of person and property, free labor, and the market that produced the virtues that Smith valued in commercial society as it had developed in northwestern Europe.

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VI. These priorities are evident in Smith’s discussion of slavery and serfdom.
   A. Commercial development by itself did not produce liberty or freedom.
   B. Slavery and serfdom, Smith reasoned, appeal to some of the most pernicious human passions.
   C. For Smith, the most liberating effect of the rise of commercial society was its replacement of direct and open-ended personal dependency with the cash nexus, the contractual relations that limit the entitlement of people to dominate one another.
   D. Smith’s moral preference for commercial society based upon free wage labor was that it made it necessary for everyone to bargain with everyone, to persuade them to work, rather than being able to command them to work in the way characteristic of slavery or serfdom.

VII. Another example of what Smith regarded as a pernicious form of commerce was the East India Company.
   A. The growth of European trade with China, India, Japan, and the East Indies, Smith reasoned, should have been of great benefit to the consumers of Europe.
   B. But it had been of only limited advantage, because it was conducted exclusively by monopolies, such as the East India Companies of Holland, England, and France.
   C. If these monopolies had kept Europe from gaining the full potential benefits of transcontinental trade, the consequences for some of its colonies were even more negative, Smith showed.

VIII. Smith’s evaluation of the moral effects of capitalism, or what he called “commercial society,” was mixed.
   A. Commercial society, in Smith’s portrait, did not make most people highly virtuous and noble—but then, he thought no society could.
   B. While Smith thought that commercial society tended to produce certain commendable character traits (virtues) such as prudence and self-control and a certain level of concern for others, he did not think that a society that produced only those character traits would thrive.
   C. Society needed at least some people with greater virtues, like bravery and fortitude, without which it could not defend itself.
   D. One purpose of Smith’s Theory of Moral Sentiments was to encourage these greater virtues that were not provided by the market itself.
   E. Perhaps the main purpose of The Wealth of Nations was to produce more informed legislators and statesmen, who could better foresee the results of their actions.
   F. Here too we see elements of the civic republican tradition, now reformulated to be more compatible with a market-based society.

Suggested Reading:
Muller, Adam Smith in His Time and Ours, chap. 10.
Muthu, “Adam Smith’s Critique of International Trading Companies.”

Questions to Consider:
1. What sorts of desirable character traits are fostered by the market itself?
2. What sorts of socially desirable character traits are not fostered by the market?
Lecture Eleven
Conservatism and Advanced Capitalism—Burke

Scope: Edmund Burke (1729–1797) offered a conservative analysis of the hazards posed by some forms of capitalism to the politics and culture of an already commercialized society. As a member of Parliament, he became a leading critic of the British East India Company. He argued that the company’s agents, in search of gain and unrestrained by the inherited culture of England, were riding roughshod over traditional Indian society. Burke then applied this analysis to the French Revolution in Reflections on the Revolution in France (1790), his seminal work of conservative thought. He argued that the revolution was propelled into dangerous radicalism by a combination of radical intellectuals and newly rich entrepreneurs who were oriented toward risk and failed to appreciate the existing institutions of their society.

Outline

I. Edmund Burke’s Reflections on the Revolution in France (1790) is the single most influential work of conservative thought published from his day to ours.
   A. Along with Burke’s arguments for the continuity of established institutions as conducive to human happiness, Reflections is best known for its critique of the pernicious role of intellectuals in political life.
   B. Less well known is the book’s sustained contention that “men of money” were undermining the institutions of the state and the church.
   C. Burke was among the most important intellectuals in European politics, and he championed capitalist economic development from his earliest published writings until his last days.
   D. Unraveling why Burke wrote one of the most biting critiques of both intellectuals and entrepreneurs will lead us into the ever-changing forms of tension between capitalism and conservatism.

II. The society Burke sought to conserve was a hierarchical society that was already highly commercialized.
   A. Burke shared the preference of Voltaire and Smith for commercial society over its historical alternatives.
   B. He concluded, however, that Smith had overlooked the institutional and cultural prerequisites of a commercial society, and that radicalized intellectuals presented a threat to the foundations upon which modern commercial society rested.
   C. The problem was with intellectuals who had an unreasonable conception of reason, and of men of money whose self-interest was unrestrained by legal or cultural codes.
   D. Understanding how Edmund Burke arrived at that position requires a quick journey through his career, from his birth in Dublin (1729), when Ireland lacked a politically connected native elite that was devoted to economic growth, to his entry into politics as a member of Parliament (1765–1794).

III. As the intellectual engine of the Rockingham Whigs, Burke’s function was to enunciate principles, to influence Parliament through his speeches and reports, and to influence extra-Parliamentary opinion.
   A. Burke’s greatest influence was exerted via the new means of cultural production through which “public opinion” was created.
   B. Burke was very conscious that what counted as public opinion was heavily influenced by intellectuals.
   C. From the beginning of his public career to its end, Burke warned of the potentially disastrous social and political results of intellect gone astray.
   D. As a conservative, Burke argued that radical change was dangerous because institutions and customs often interlinked, so intentionally changing one might bring about negative unintended consequences.
   E. The attempt to subject all institutions to rational scrutiny could have its own negative consequences, by destroying the legitimacy of existing institutions without being able to provide workable new ones.

IV. Burke was in substantial agreement with Adam Smith about self-interest, but Burke was a defender of aristocracy as providing a kind of anchor, slowing down the pace of change in a commercializing society.
   A. Burke argued that those engaged in commerce, who stem from more modest backgrounds, have more to gain from change and are more likely to do so without the proper caution.
   B. Burke had a dynamic view of commercial society, believing that as new interests arose, they ought to be represented in the political system.
   C. He was suspicious of too great a role for new-moneyed men, who lacked a sufficient sense of tradition.
D. He also became a defender of the established Church of England as a repository of inherited culture.

V. As a member of Parliament, Burke became a leading critic of the British East India Company.
A. He argued that the company’s agents in India were unrestrained by the inherited culture of England and were riding roughshod over traditional Indian society.
B. These men then used their ill-gotten wealth to buy influence in Parliament and prevent governmental scrutiny of their actions.
C. Burke concluded that commerce unchecked by traditional moral codes could erode the foundations of the political order.

VI. Burke then applied this analysis to the French Revolution in *Reflections*.
A. Late in 1789, the revolutionary parliament voted to nationalize the assets of the church, and to sell them to pay the national debt.
B. Writing in an early stage of the revolution, Burke predicted that it would become more radical and more murderous.
C. In Burke’s analysis, this is due to the coming together of two forces: politicized intellectuals who wanted to remake society according to their abstract theories and radicalized intellectuals who wanted to undermine the position of the established Catholic Church and its monopoly on education.
D. They were supported by men of money, who now held the national debt and wanted to be sure that it was paid.
E. Burke reasoned that men who made their money through commerce and finance had a mentality that made them too open to the entreaties of radical intellectuals.

VII. Burke argued that the intellectuals’ attack on the church would lead to an erosion of cultural constraints.
A. Because inherited cultural codes had come about and been transmitted by the church and the aristocracy, weakening the power of these institutions would create people with more freedom but less self-restraint.
B. This, he predicted, would lead to political radicalization and to barbaric behavior.
C. Burke’s main contribution to the debate over capitalism was his notion that commercial society may depend upon inherited institutions that restrain people and make them decent.

VIII. Burke also argued against taking contractual relations as the model of all relations.
A. Contractual relations are the typical relations in the market, and Burke thought a spillover effect on nonmarket relations would be counterproductive.
B. Burke pointed to the importance in some areas of life of noncontractual obligations that applied to the state.
C. He said that not every relationship is like a market-oriented contract that one enters into through choice and that one can get out of when one thinks it’s no longer in one’s interest: There are political and social institutions.

**Suggested Reading:**
Burke, *Reflections on the Revolution in France*.
Muller, *Conservatism*, Introduction, Afterword, and selections from Burke.
———, *The Mind and the Market*, chap. 5.

**Questions to Consider:**
1. Compare the critiques of Adam Smith and Edmund Burke of the East India Company and of moral and immoral forms of capitalism.
2. In the United States, the distinction is often made between those who consider themselves “cultural conservatives” and those who consider themselves “economic conservatives” and tend toward minimal government and unrestrained markets. What ongoing sources of tension between these two varieties of conservatism can be traced back to Burke’s thought?
Lecture Twelve
Conservatism and Periphery Capitalism—Möser

Scope: While Edmund Burke was a conservative in an already commercialized society, his German contemporary Justus Möser (1720–1794) provides an example of a conservative in a precommercial society, for whom the spread of international capitalism was a threat to existing institutions. Möser came from the tiny state of Osnabrück in Westphalia, on the edge of the international capitalist economy. He saw himself as the defender of a traditional, hierarchical society in which people knew their place. His conservatism is reflected in the values that he championed: localization, particularity, historical institutions, hierarchy, limits, and boundaries. For Möser, the influx of new and cheaper goods from abroad, sold through new forms of marketing, was destroying the traditional economy, society, and local culture of his beloved homeland. He thus became an early critic of what later came to be called “globalization.”

Outline

I. Justus Möser provides us with an interesting example of a conservative in a precommercial society, a society on the periphery of capitalist development that was being transformed by capitalism in ways that threatened its traditional way of life.
   A. As you’ll see, Möser was in many ways a precursor of contemporary critics of what we now call “globalization.”
   B. Möser was born and lived most of his life in Osnabrück, in western Germany.
   C. He served for much of his life as the chief administrator of this tiny state of Osnabrück, but he also published articles in newspapers, magazines, and books, so he was part of the print culture of public debate that was such an important element of the Enlightenment.

II. Like Edmund Burke, Möser was a conservative, but the society that he wanted to conserve was a precommercial one.
   A. For Möser, the international market was pernicious because it was destroying the particular local culture of Osnabrück.
   B. The international capitalist economy did so, first, by creating new wants that could not be fulfilled by the traditional economy of the region.
   C. Second, through competition from commodities that could be produced more cheaply abroad, the capitalist market was destroying the traditional guild-based modes of production and the social and political structures with which they were intertwined.
   D. In the subsequent development of capitalism, this fear that local cultures and social structures faced destruction by competition from goods from abroad would often be repeated.

III. The enlightened German political writers of Möser’s day regarded the market as a tool that encouraged economic growth.
   A. The state and its citizens, they reasoned, could become richer if men were allowed to follow their “natural” self-interest.
   B. Like Adam Smith, they believed that the task of law was to create the conditions of free competition that would allow the economy to grow.
   C. They urged the monarchs and their bureaucracies to do away with traditional institutions that restricted the sale of land, movement of labor, and entry into occupations. In short, they favored laws that would provide greater legal equality.
   D. Creating such conditions meant doing away with many existing historical institutions.

IV. The society that Möser defended was a corporate society of ranks (Ständestaat).
   A. In such a society, property was not private. It was linked to power, which included the control that landowners were able to exert over their serfs.
   B. Nobles, serfs, and independent peasants lived their lives barely aware of the market economy.
   C. The town economy was organized into guilds of artisans, each of which had a monopoly over production and marketing of the commodities it produced.
   D. In such a society, status was inherited, not achieved. It was a society oriented toward stability, not growth or dynamism. Social relations were based on deference and paternalism.
   E. According to Möser, one advantage of such a society was that everyone knew their place in the social order.

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V. In contrast to the Enlightenment’s typical emphasis on individual opportunity and autonomy, Möser valued those institutions that circumscribed the individual, if in doing so they provided a firm sense of identity.

A. Experience, he said, embodied a wisdom that general theories of justice and efficiency just couldn’t match, because the wisdom of experience took into account that the functions of existing institutions were interlinked.

B. Because institutions were interlinked, reforming one institution might have destructive effects on other institutions, so Möser often saw his role as a conservative intellectual as making explicit the tacit wisdom of existing institutions and practices.

C. Möser scandalized enlightened intellectuals of his day by defending the institution of serfdom, that traditional paternalistic relationship between the lord and serf in which the serf was the lord’s legal property.

VI. The traditional society of Osnabrück was being transformed by the spread of capitalism in a number of ways that alarmed Möser.

A. The artisan was central to Osnabrück’s political institutions as Möser thought of them, but their status was now being undermined by the international market and its local agents, namely the shopkeeper and the peddler.

B. Möser recognized that the products produced abroad by the method of simplification were often better and less expensive, but he regarded shopkeepers as agents of social destruction.

C. Imported goods had another quality that disturbed Möser, and that was their novelty. For Möser the whole notion of fashion was pernicious because it was at odds with the traditional products created by the guildsmen.

D. He reserved his greatest hostility for the peddler, who was the agent of the market economy in the countryside. To Möser, the activities of the peddlers were ruining the good morals of the rural population by awakening new needs and desires.

E. Möser also saw the market and its agents as despoiling morals because the market (in the form of the peddler) drew women away from the protected confines of the household and the supervision of their husbands.

VII. Möser also worried about the rise of cottage industry, which provided a new way of making a living but had some destabilizing social effects.

A. Previously, the population among the peasantry had been quite stable because men and women deferred marriage until they inherited land and could support a family.

B. Now, there was the ability to earn additional income through cottage industry, and this was leading to earlier marriage and higher fertility.

C. A whole new class of people was coming into existence, people who were outside the existing social structure and its social hierarchy. They were multiplying more quickly than the economy of the town could absorb them, leading to the issue of pauperism.

D. Möser analyzed and eloquently expressed the recurrent laments of those who saw their traditional way of life destroyed by the spread of capitalism.

Suggested Reading:


Questions to Consider:
1. What are the major similarities and differences between the thoughts of Justus Möser and Edmund Burke?
2. What are the advantages and disadvantages of living in the sort of society Möser defended?
3. Do Möser’s laments have any contemporary counterparts?
Lecture Thirteen
Hegel on Capitalism and Individuality

Scope: Because he stressed the historical significance of the modern state, German philosopher G. W. F. Hegel (1770–1831) is sometimes regarded as a critic of liberalism and of capitalism. In fact he was neither. An exploration of Hegel’s context shows that the Prussian state with which he identified was trying to use state power to break down the legal restrictions on commerce in order to create a richer and more dynamic society. Hegel believed that liberal advocates of modern individuality tended to overlook the link between capitalism and individuality, and the role of the state in making both possible. For Hegel, the great challenge of modern institutions is to provide us with enough choice to foster our individuality, while linking us with others and with our cultural past to provide us with a sense of meaning and belonging.

Outline
I. German philosopher Georg Wilhelm Friedrich Hegel became one of the great figures in 19th-century thought.
   A. Hegel’s thought combined elements of liberalism, conservatism, enlightenment, and romanticism.
   B. He valued autonomy but believed that liberal advocates of individuality tended to overlook the link between capitalism and individuality, and the role of the state in making both possible.
   C. Hegel wanted a set of institutions that would provide people with a sense of their own individuality, as well as a sense of their place in the larger, institutional world.

II. Hegel came from a family of enlightened bureaucrats in Württemberg.
   A. He thought that the French Revolution created the possibility of realizing the idea of man as a self-legislating human being, and that it was a victory of modern rationality and reform based on equality before the law.
   B. But he thought that the revolution had gone astray because people were not yet sufficiently conscious of the nature of freedom under modern conditions.
   C. Hegel thought they lacked an awareness of the fact that modern liberty depends upon political institutions of the state.

III. Hegel wrote the Philosophy of Right in 1820, when he was a professor in Berlin, Prussia.
   A. He made his way to Prussia in 1818 because he thought that its new reformist government was in the process of creating the kind of polity that embodied the liberal ideals of greater freedom and equality before the law.
   B. Under the military defeat by Napoleon in 1806, Prussia was more willing to engage in radical reforms to bring about a more modern, productive, and dynamic society.
   C. In 1815, the Prussian reformers were able to enact reforms that brought about a more liberal society.
   D. They called Hegel to the chair of philosophy at the new University of Berlin, and he gave the lectures that we now know as the Philosophy of Right.

IV. Hegel’s relationship to liberalism was ambiguous and ambivalent.
   A. He thought that liberalism’s emphasis on individuality expressed something distinctive and valuable about the modern world, but he regarded that individualist standpoint as too limited and potentially destructive of the value of freedom.
   B. Freedom, for Hegel, is that acting as rational beings, we must be able to relate ourselves to some commonly shared ends that go beyond our self-interest.
   C. Hegel believes he is free when he can identify with his community’s institutions—when he feels that he is a part of them and feels them to be a part of him.

V. Hegel thinks that in the modern world, people are conscious of themselves as autonomous, choosing individuals, but he feels we won’t feel at one with the institutions of our community unless those institutions allow us to act upon this sense individuality.
   A. The main goal of Hegel’s philosophy is to reconcile people to the legitimacy and desirability of modern institutions, so people can identify and feel free as part of those institutions.
   B. Modern freedom is a result of European history, and these kinds of freedoms have only become actual in the modern state, which he thinks is itself a product of more recent historical processes, the Lutheran Reformation and the French Revolution.

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VI. Hegel was developing his ideas during German romanticism, which claimed that people felt alienated in the contemporary world.
   A. Hegel was sympathetic, but he thought that a lot of these concerns were addressed through a series of “mediations.”
   B. Hegel sees modern society as characterized by the realm of the family, civil society, and state, all of which are forms of mediating between the individual and something larger.
   C. For Hegel, civil society is the key institution in modern society in which individuals achieve a sense of themselves, to the extent that they depend on themselves for their own livelihood and welfare.
   D. Therefore, self-interest in the market is not antisocial, because to make money in the marketplace, we need to orient ourselves to other people and to their needs.

VII. Hegel was concerned that individuals in civil society would regard themselves just as individuals, not as part of some larger whole.
   A. A serious threat to freedom in the modern society was a tendency of people to withdraw too far into themselves.
   B. To help form a specific identity that was part of some larger whole, Hegel wanted to retain a system of professional associations, a modified version of the guilds.
   C. Without this, Hegel feared, individuals will lack any shared standards for success in life. So they will gauge their self-worth in society by the selfish pursuit of wealth, which can never satisfy them because it has no determinate measure.

VIII. In his thinking about the state, Hegel emphasizes that the contractual model is not the appropriate one for thinking about all human relationships.
   A. Hegel thinks that the state is misconceived in liberal thought when it is regarded as only an agency for the protection of individual rights and property.
   B. How can such an understanding of the state justify taxes and army service? Yet without these, he argues, there is no state.
   C. The state, he thought, was the realm of universalistic altruism, in which we work for the ends of others. It involves everyone.
   D. Patriotism comes from the recognition that one’s particular interest and individuality is dependent on the state, and the preservation of the state is therefore part of one’s larger interest.
   E. Hegel thought that a well-structured modern state harmonizes the personal rights of individuals, but it does so in a set of institutions that gives them a sense of place and some guidance on how to live their lives.
   F. The role of Hegel himself, as he saw it, was to educate this universal class of civil servants to look out for the well-being of society as a whole, but Hegel feared that that realm of civil society would come to dominate the family and state as well.

Suggested Reading:
Avineri, Hegel’s Theory of the Modern State, especially chap. 7.
Hegel, Elements of the Philosophy of Right.
Muller, The Mind and the Market, chap. 6.
Pinkard, Hegel: A Biography, chap. 10.

Questions to Consider:
1. Discuss Hegel’s critique of the notion of freedom as “doing as one likes.”
2. How do market relations contribute to our sense of ourselves as individuals?
Lecture Fourteen
Hamilton, List, and the Case for Protection

Scope: Advocates of free international trade followed Adam Smith in arguing that free trade between nations produced mutual benefits. A countertradition has maintained that while Smith’s arguments would hold true if all nations were at an equal stage of economic development, the situation is different when some nations are less economically developed than others. Under such circumstances, it is argued, the government must intervene more forcefully to protect new industries and to guide resources into the sectors necessary for further economic advance. We look at two early expositors of these arguments: Alexander Hamilton (1755–1804), the first secretary of the treasury of the United States, who made the classic case for the protection of “infant industries,” and Friedrich List (1789–1846), a German political publicist who came to the United States, admired Hamilton’s program, and then returned to Germany and developed a more wide-ranging program of nationally oriented industrial policy.

Outline

I. The most effective argument against Adam Smith’s argument in favor of the benefits of international free trade was developed in the United States by Alexander Hamilton, in his Report on the Subject of Manufactures (1791).
   A. For Hamilton, the issue was how to bring about the capitalist development of a relatively underdeveloped society.
   B. The new United States was primarily an agricultural country, with plantations in the South and some manufacturing in the North.
   C. Hamilton thought Smith’s arguments in favor of free trade between nations, unhampered by government prohibitions or protection, didn’t apply in the short term.
   D. Hamilton argued that the government needed to play a more active role in the promotion of commerce, and especially in the promotion of industry.

II. Hamilton also differed from Smith on the question of how one ought to think about public policy.
   A. In The Wealth of Nations, Smith had subordinated historical generalizations to generalizations based on a few basic principles.
   B. The history that Hamilton saw as relevant was the record of how the leading economic powers of the 18th century had become leading powers.
   C. He concluded that if the new United States was going to prosper, it needed to consider similar protective measures.
   D. Hamilton thought it was essential for the United States to develop economically, into an industrial and financial power.

III. That notion that the United States had to evolve into an industrial and financial power was controversial in its day.
   A. Thomas Jefferson, for example, believed that it was better for a republic to be made up of small farmers because it would make for more self-reliance and greater equality.
   B. He also believed that the rise of industry would create a divide between owners and workers, and between the rich and the nonrich.

IV. Hamilton, by contrast, wanted a more industrial republic, for several reasons.
   A. First, Smith had indicated that the greater division of labor in manufacturing was more likely to promote a productive economy.
   B. Second, a manufacturing economy left more room for enterprise or entrepreneurship—and that too would lead to a more productive society.
   C. Third, an economy with many sorts of manufacture would be able to utilize a wider range of human talents and abilities.
   D. Fourth, the United States was underpopulated, and it could attract a wider range of people if there were jobs for them beyond simply farming.
   E. Fifth, the increased availability of manufactured goods would give farmers more to buy, and it would act as a stimulus for them to be more productive.
   F. Sixth, there would be times when the United States would find itself cut off from European suppliers, so it would be prudent to produce the full range of commodities that the population required.
V. Hamilton agreed with Smith that in the long run, free trade between nations was mutually beneficial. In the short run, however, he felt free trade would mean that the United States would remain an agricultural nation, exporting only agricultural goods and importing most of the manufactured goods it needed from Europe.

A. Hamilton said that in the short run, it wouldn’t be profitable for American entrepreneurs to compete with imports from Europe unless they had some form of governmental protection.

B. He argued that even if a new industry would be profitable, people are risk averse, so the government has to use financial incentives to encourage people to start businesses and make investments that they otherwise wouldn’t.

C. In the long run, by attracting more people to the United States and by creating a richer population involved in manufacturing, these measures would create a larger market in the North for the agricultural goods produced by the South.

D. As part of his program, Hamilton wanted the government to spend money on infrastructure, to provide the roads and canals that made commerce possible.

E. He also recommended the creation of a national bank of the United States, which would have the power to issue paper money.

F. The War of 1812 added weight to Hamilton’s argument of the need to develop American manufacturing, so by 1840, wide-scale industrial tariffs had been adopted. America became an international industrial powerhouse behind a wall of protective tariffs.

VI. Hamilton’s arguments were popularized in Europe by Friedrich List.

A. List’s idea in 1815 of moving toward a single German state was so subversive that he was forced to emigrate. He moved to the U.S. state of Pennsylvania in 1825.

B. List was very much impressed by the ideas of Hamilton and the group known as the “national economists,” and he developed these ideas in his book *Outlines of American Political Economy*.

C. In 1834, List returned to Germany and again advocated for the industrial development of Germany, especially of the railroad.

D. In France, he also became an advocate of national industrialization and of the centrality of railroads in the process of industrialization. Here he wrote his major book, *The National System of Political Economy*.

VII. Throughout his career, List had tried to put forth a way of thinking about economic matters that would be relevant for any nation striving to advance economically.

A. In *The National System*, the distinctive characteristic of List’s system was its emphasis on the nation and his notion that the nation was the necessary intermediate organ between the individual and humanity at large.

B. List was an advocate of the nationalist idea that the nation was a community of shared culture and that each nation should have its own state.

C. Like Hamilton, List believed that free trade ultimately was the best system, but he said free trade only works for mutual benefit between nations that are at the same level of economic development.

D. Hamilton and List were forerunners of theories of uneven development. Their argument that this requires a more active role of government continues to resonate.

**Suggested Reading:**
Chang, *Bad Samaritans*, especially chap. 2.
McNamara, *Statesmanship and Political Economy*.

**Questions to Consider:**
1. Why or under what conditions should government play a role in fostering economic development?
2. The argument for the protection of “infant industries” assumes that eventually such protection will become unnecessary. Why might it continue nevertheless?
Lecture Fifteen
De Tocqueville on Capitalism in America

Scope: In 1831, the French aristocrat and aspiring statesman Alexis de Tocqueville (1805–1859) visited the United States. In 1835 and 1840 he published the two-volume work *Democracy in America*, which would become a classic work of social science and influence of American self-understandings. The United States (at least outside the South), as de Tocqueville analyzes it, is characterized by equality, not in the sense of equality of wealth, but rather in the sense of equality of legal condition, without the inherited hierarchies of European society. One effect of this is that people are more anxious about their status and believe that they can change that status by getting rich. De Tocqueville offers an ambivalent evaluation of such a supremely capitalist society. He explores its propensity toward individualism and materialism, and the countervailing influence of republican institutions and religion. He explains how short-sighted self-interest is transformed into what he called “self-interest rightly understood.”

Outline

I. Alexis de Tocqueville’s *Democracy in America* is not typically regarded as a book about capitalism. It is explicitly about democracy, but much of the book has to do with capitalism, at least with the forms it was taking in the United States.
   A. It provides an ambiguous portrait, one that reflects de Tocqueville’s own ambivalence about democracy in general, and American democracy in particular.
   B. De Tocqueville came from a background that was the antithesis of American democracy.
   C. As a young apprentice judge, de Tocqueville arranged for himself and a friend to be sent to the United States to study the American penitentiary system.
   D. He arrived in May 1831 and spent the next nine months traveling across the country, meeting simple people and people of note.
   E. His observations and analysis were informed by his reading of Rousseau, Adam Smith, Edmund Burke, Thomas Jefferson, and Alexander Hamilton.

II. De Tocqueville was a liberal and believed in the idea of equality before the law. That, above all, is what he meant by “democracy.”
   A. De Tocqueville thought that democracy in that sense was the wave of the future in France as well.
   B. The portrait of democracy that emerges is informed not only by de Tocqueville’s hopes for the future, but by his attempt to provide a sober analysis of American democracy, with its inherent advantages and flaws.
   C. De Tocqueville offers an ambivalent evaluation of such a supremely capitalist society.
   D. He thought that the great advantage of democratic government compared to aristocratic regimes was that there was no inherent divergence of interest between the governors and the governed.

III. American society, as de Tocqueville saw it, was characterized above all by the search for well-being, understood largely as material wealth.
   A. That is because in the United States (and in every democratic society, insofar as it is democratic) inherited status doesn’t matter, so most social distinction is determined by wealth.
   B. One effect of the lack of inherited status in America is that people are more anxious about their status and believe that they can change that status by getting rich.
   C. One effect of this is to make Americans much more active, industrious, and restless in pursuit of bettering their condition.
   D. Americans have a different ethos, a different valuation of character traits. What Europeans chastise as love of gain or immoderate desire for wealth, Americans regard as praiseworthy industriousness.
   E. In America, no one is guaranteed well-being, while at the same time all can imagine it and aspire to it.
   F. This taste for material well-being is coupled with a social state “where neither law nor custom still keeps anyone in his place,” which creates a kind of restlessness of spirit. This restless activity is reflected in both political and commercial life.

IV. The greatest intrinsic danger of this capitalist democracy, de Tocqueville thought, was the propensity to isolate people from each other.
   A. De Tocqueville writes of American society as characterized not by egoism, but by what he calls “individualism.”
Individualism, then, is preferable to egoism because it extends our self-regard beyond our immediate person, to our family and friends, and has an element of cool prudence, of calculation, which is lacking in egoism.

Individualism on the personal level leads to loneliness, and on the collective level it leads to a lack of concern for the common good and away from political involvement.

Yet de Tocqueville’s portrait of America is one in which the intrinsic dangers of individualism are counteracted in a number of ways.

First is through the ideology of self-interest rightly understood.

In a society where everyone thinks in terms of self-interest, the question, de Tocqueville says, is how people will interpret what “self-interest” means.

He thinks this sort of thinking in terms of self-interest is the wave of the future in Europe as well. The question for him is whether there, too, moralists will find a way of linking people’s understanding of self-interest with something more than pure individualism.

De Tocqueville thought that this kind of self-interest rightly understood creates virtuous habits, the kinds of habits of commercial society that had been described by Adam Smith: not great virtues, but small ones.

De Tocqueville describes how self-interest rightly understood leads people to learn to combine their own advantage with that of others. This development occurs through political involvement, in the first instance through participation in local affairs.

Individualism is also counteracted by religion. It turns people away from short-term materialism by turning attention to more long-range considerations (of salvation). By preaching duties toward others, it reminds people that there is more to life than egoism and individualism.

The great advantage of the Americans, de Tocqueville thought, is their propensity to form associations.

This ability to associate is the “mother of all knowledge” needed in democratic societies.

The habit of association is mutually reinforcing in politics and market: Business association leads to becoming familiar with associating with others, facilitating political association; political association also teaches people habits of cooperation, which leads them to associate more often in joint business ventures.

De Tocqueville is often portrayed as a prophet of what has come to be called “civil society” (i.e., voluntary associations outside of market relations), but we see that by “civil associations” he means both nonbusiness associations and business associations.

Toward the end of his book, de Tocqueville expresses his fear that the development of industry in the United States could lead toward a new sort of aristocracy.

He describes how the division of labor in the factory creates a worker who is more dependent and intellectually degraded, while the masters are intellectually elevated, in that they need to know about a wide range of matters to succeed.

De Tocqueville was concerned that this could lead to a new social polarization, one that was at odds with democracy and its promise of social mobility.

Suggested Reading:
De Tocqueville, Democracy in America.
Schleifer, The Making of Tocqueville’s Democracy in America.
Welch, The Cambridge Companion to Tocqueville.

Questions to Consider:
1. In what ways does de Tocqueville’s portrait of the United States still ring true, and in what respects is it outdated?
2. How do self-interested market relations lead to political association?
Lecture Sixteen
Marx and Engels—The Communist Manifesto

Scope: Karl Marx (1818–1883) and Friedrich Engels (1820–1895) were to become the most influential critics of capitalism. Marx drew upon the stigmatization of moneylending in the Christian tradition, attributing to capitalism all the negative characteristics traditionally attributed to usury and to Jews. Marx and Engels formulated their ideas in the 1840s, at a time when the new industrial capitalism of western Europe was in crisis, not least because population was growing more quickly than the availability of new jobs. Marx and Engels concluded that industrial capitalism profited only the wealthy (the capitalists), while leading to the material and moral degradation of the great mass of the population. Nevertheless, in The Communist Manifesto (1848) they also recognized that capitalism had vastly expanded human productivity, created a permanent dynamism of social and cultural relations, and offered the possibility of a more cosmopolitan culture and identity.

Outline

I. Karl Marx and his collaborator Friedrich Engels are usually regarded as the leading theorists of socialism and communism.
   A. They were major influences on the socialist movement, especially in continental Europe.
   B. Yet, socialism for Marx was mainly the solution to the problem of capitalism.
   C. In the course of the 20th century, socialism as a political movement would split into democratic and totalitarian branches.

II. From its earliest days, Marxism has exercised diverse appeals.
   A. One source was grounded in sympathy for an industrial working class forced into material privation, which Marx explained as an inevitable and irreversible outcome of capitalism.
   B. He connected that present suffering to a redemptive future.
   C. This argument was to diminish in appeal whenever the economic condition of the working class improved, as it eventually did almost everywhere.

III. Alongside that argument was a set of cultural critiques of capitalism that permeated the work of Marx and Engels.
   A. Marx and Engels portrayed the competition inherent in the market as morally abhorrent, and they insisted that self-interest was morally intolerable.
   B. In its place, they held out the vision of a society in which there would be no distinction between public and private interest.
   C. Marx expressed the discontent of those who, though not materially impoverished by capitalism, felt anguish at the need to fit themselves into the vocational grooves of the market economy.
   D. Marx is frequently regarded as a disciple of Hegel, but his critique is a direct continuation of the romantic conception of the self and its place in society that Hegel had rejected in his mature work.
   E. Similarly, Marx’s abhorrence of market competition harked back to modes of thought that preceded Hegel and the fundamental assumptions of the Enlightenment.
   F. In his depiction of capitalism as alienation, Marx expressed a notion that many felt implicitly.

IV. Marx’s roots were in German philosophy, and his moral and cultural critiques of capitalism were closely interwoven with his economic analysis.
   A. He was influenced by romanticism, and he saw that individuals’ potentials were thwarted in contemporary society by the division of labor.
   B. Marx suffered from the need to suppress his multifacetedness and creativity in order to make a living. Engels, too, felt constrained by his family’s insistence that he devote himself to making a living.
   C. Other aspects of Marx’s background and personality also help account for fundamental elements of his social theory.
   D. Behind his vision of the socialist future lay the new romantic cultural ideal of personal expression through creativity and all-aroundness.

V. A milestone in the development of Marx’s critique of capitalism is his essay “On the Jewish Question,” published early in 1844.
   A. It was a contribution to a controversy among German liberal and radical writers about whether Jews should be granted equal citizenship.
B. Marx argued that Jews should be granted equal citizenship, because by getting citizenship in a capitalist society they would become part of a society in which everybody was made to become egoistic and self-interested, engage in commerce, and be concerned with money.

C. Marx’s strategy was to endorse every negative characterization of commerce that Christians associated with Jews and insist that those qualities had now come to characterize society as a whole.

VI. Marx went to Paris and was influenced by French socialist writers who aspired to create a society in which the means of production, planned by the government, were owned by all.

A. A key socialist idea, and one that Marx adopted, was that only that which is planned is rational; the market, which works without a plan, is irrational and wasteful.

B. Marx and Engels thought that capitalism was demonstrably making the mass of the population worse off.

VII. Marx’s theory of history focused on economic forces as leading to a conflict of classes, and ultimately revolution toward a society in which there would be no gap between self-interest and the general interest and where work would be fulfilling and uncoerced.

A. For Marx, the group in society that represented the general interest was the industrial working class.

B. Marx’s prediction that under capitalism the working class would remain propertyless was plausible in the 1840s.

C. This was a period of economic hardship in western and central Europe, as population growth outstripped economic growth, unemployment increased, and bad harvests led to riots and eventually revolutions in Paris and elsewhere in continental Europe.

VIII. *The Communist Manifesto* was a summary of Marx’s previous thought.

A. His claim was that revolution would eventually become necessary because economic conditions would force the proletariat to recognize it had nothing to gain from capitalist society.

B. It also includes some very striking observations about the positive effects of capitalism, including the remarkable growth of production due to capitalism.

C. Regarding his remarks about capitalism, he stressed that capitalism entails the constant revolutionizing of relations of production, and with them the class structure of society.

D. Regarding the spread of capitalism, he said that capitalists, in their quest for profit, spread capitalism around the globe, leading to a cosmopolitan culture and the decline of particular identities.

E. The vision of the near future in *The Communist Manifesto* is one of social polarization of a small group of capitalists and an ever-increasing group of proletarians.

F. Marx discusses briefly the role of ideologists of bourgeois origin, which is to organize the proletariat into trade unions and then political parties to take over the state.

IX. Marx presented no blueprint for how socialism would actually function.

A. He asserted that socialism would work, but he never explained how.

B. For Marx, socialism was a promise of a world without alienation—in that sense, it was utopian.

Suggested Reading:
Kolakowski, *Main Currents of Marxism*, vol. 1 (*The Founders*).

Questions to Consider:
*The Communist Manifesto* includes many striking contentions that even non-Marxists have found compelling. Consider these two:

1. “The bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionizing of production, uninterrupted disturbance of all social conditions, and everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones.”
2. “The bourgeoisie has, through its exploitation of the world market, given a cosmopolitan character to production and consumption in every country. To the great chagrin of reactionaries, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures, there arises a world literature.”
Lecture Seventeen

Marx’s *Capital* and the Degradation of Work

**Scope:** Marx spent most of the decades between the publication of *The Communist Manifesto* in 1848 and his death in 1883 working on *Capital*, a comprehensive analysis of the history and direction of the capitalist economy, which he never completed. The book was premised on the labor theory of value, treated capitalism as exploitative by nature, and set out to explain why it would necessarily result in the ongoing poverty and misery of the industrial working class (the “proletariat”). Drawing selectively on government reports, the book provides a searing portrait of the degradation of labor in the industrial factory. But Marx overlooked the trends that counteracted his theory.

**Outline**

I. Karl Marx spent most of the decades between the publication of *The Communist Manifesto* in 1848 and his death in 1883 working on a comprehensive analysis of the history and direction of the capitalist economy, *Capital*.
   A. The first volume, the only volume published in Marx’s lifetime, was published in 1867.
   B. Two other volumes were left incomplete because Marx didn’t know how to finish them in a way that would demonstrate scientifically that capitalism was doomed.

II. In his concept of capitalism as “exploitation,” Marx returns to the idea that money is fundamentally unproductive, and therefore not only interest, but profit itself, is always ill-gotten.
   A. *Capital* is based on the labor theory of value, and Marx conveys the underlying moral theme of injustice.
   B. The premise is that the price of goods exchanged in the market can be explained by the amount of labor that goes into them.
   C. According to Marx, because the capitalist makes more from selling the commodity than he pays the workers who have produced it, his relationship to them is one of exploitation.
   D. Marx says that capital is itself a result of past labor accumulated by not paying the workers the full value of their labor.
   E. So profit is exploitation by definition, and capital is the result of past exploitation.

III. Marx’s presentation of the nature of work under capitalism argues that the freedom and legal equality between the capitalist and the worker is illusory.
   A. Marx’s argument is tied to his key assumption that it is only labor of the workers that creates an increase in wealth.
   B. For Marx, there is no legitimate reward for risking one’s capital; nor for supervising the process of production; nor for creating new means of production, organization, or distribution.
   C. Under capitalism, Marx maintained, human work, like everything else, becomes a commodity, with a price determined by supply and demand.
   D. The level of wages will go down to the bare minimum required for workers to live and to procreate, and for children to receive the required degree of education.
   E. This is the most that the capitalist will pay the worker for his work, and he will be able to do so because of “the reserve army of the unemployed,” whose presence will push the cost of labor back down toward subsistence level.

IV. Marx had several theories in his work of why capitalism would lead to crisis.
   A. One was an underconsumptionist theory: Because capitalists pay the workers only the bare minimum that will allow them to survive, there is not enough demand to buy the many goods that capitalism is able to produce.
   B. His main theory of capitalist crisis was due to his notion of the falling rate of profit, a theory derived from the labor theory of value.

V. The focus of *Capital* was on the degradation of work in the industrial factory.
   A. The book draws much of its evidence from reports by British government commissions and inspectors, but Marx makes selective use of the evidence to find support for his theory that capitalism is intrinsically a process of exploitation.
   B. Production in the 19th century was transformed by the Industrial Revolution.
   C. The factory labor described by Marx was mechanized, with a tremendous increase in productivity.
   D. Some of his most brilliant writing and analysis come in his description of the degradation of the work experience in the industrial factory.
VI. *Capital* presents a searing portrait of the costs of capitalist industrialization.
   A. The picture, however, is entirely one-sided and is more like muckraking than balanced analysis.
   B. Marx had no explanation for trends that contradicted his warning that the proletariat could look forward to only further misery under capitalism.
   C. The gloominess of Marx’s portrait of capitalism was relieved only by the prospects of a brighter future made possible by capitalism itself.
   D. The explosion of productivity made possible by capitalist mechanization created the potential for a society in which work was more fulfilling and in which the hours of work could decrease, leaving more time for the flowering of human creativity.
   E. Capitalism, Marx charged, was actually in the process of socializing production.

VII. Marx also had a dialectical view of the family and its fate.
   A. The family was also in the process of transformation.
   B. There, too, the short-term effects were horrendous, but the long-term prospects were encouraging.
   C. Capitalism led to the dissolution of the family, as women and children were forced into the workplace, but this set the stage for the ability of women and children to earn money in the market and shift the balance of power within the family toward greater equality.
   D. Marx thought the influx of women into the workplace would, in the long run, transform the workplace into a more civilized place.

VIII. The attraction of Marxism is that it offers a synthesis that purports to explain everything by a few principals and its promise of universal community, but the revolution failed to come about in western Europe because of factors that Marx overlooked.
   A. The most important factor was the growing ability of the capitalist system to improve the economic condition of the working classes.
   B. Many of the negative trends on which Marx had focused were beginning to turn around: The hours of work decreased, and the work itself was becoming less dangerous.
   C. These were the decades when a professional civil service was being created, which ultimately led to improved standards of health and safety in one industry after another.
   D. The pressure for governmental measures to better the conditions of life for the working classes came in part from the wealthier and educated classes and in part from the growth of trade unions, which began to organize the workers for electoral politics.

Suggested Reading:
Elster, *An Introduction to Karl Marx*.

Questions to Consider:
1. Compare Marx’s description of the condition of the worker in the industrial factory to Smith’s description of the effects on the worker of the division of labor.
2. Does the term “exploitation” have any objective meaning when applied to capitalism?
Lecture Eighteen
Matthew Arnold on Capitalism and Culture

Scope: The British poet and cultural critic Matthew Arnold (1822–1888) was what one might call a “nonalienated intellectual.” He viewed his society as flawed but capable of improvement, not through revolution but through the influence of intellectuals like himself on the various classes of society. Like many of the thinkers we have examined, he was concerned about the hazard of “philistinism” (i.e., spiritual and cultural narrowing in a capitalist society). Arnold was not opposed to capitalism, but to the spillover effect of applying a narrowly utilitarian, market mentality to other areas of life. He looked to cultural institutions—such as schools, universities, and magazines of critical opinion—as a countervailing force that would encourage a broadening of horizons and an ability to think critically about the accepted ideas of the age.

Outline

I. Matthew Arnold was a “nonalienated intellectual.”
   A. He wasn’t opposed to capitalism, but to a kind of capitalist fundamentalism that thought that everything could be solved by the market and was reflexively suspicious of government.
   B. He viewed his society as flawed but capable of improvement, not through revolution but through the influence of intellectuals like himself on the various classes of society.
   C. Like Hegel, Arnold was worried by the spillover effect of the market onto other institutions, and he put forward a vision of education and culture as helping to counteract the potentially harmful effects of the market.
   D. His most famous works of cultural criticism were aimed at disturbing the self-satisfaction of the British middle classes.

II. Arnold first became famous as a poet, but he earned his living as a government inspector of schools.
   A. The schools he inspected were those of the dissenting Protestants, who made up the heart of the British entrepreneurial middle classes.
   B. He was critical of their biblical literalism and was opposed to a kind of religion that thought that religious faith was above all a matter of personal morality.
   C. In Culture and Anarchy, he raised the question of what would bring about a life satisfying to the modern spirit, and he named three different realms: “the growth of a love of industry, trade, and wealth; the growth of a love of the things of the mind; and the growth of a love of beautiful things.”

III. The role of the intellectual, as Arnold saw it, was to be disinterested and to be the educator of the nation.
   A. By conveying the cultural legacy of the past, and diverse perspectives in the present, culture was to give people a certain distance from the received ideas in their society, or in the social class from which they sprang.
   B. Culture, as Arnold thought of it, combined what he called the “scientific passion,” the passion to know things as they really are, with what he called the “passion of doing good.”
   C. The role of the intellectual was to spread culture (a body of knowledge that would allow people to rethink their situation and that of their society) and encourage a search for perfection.
   D. Arnold’s notion of the intellectual as disinterested critic distinguished him from both Marx and Hegel.

IV. In his most famous work of cultural criticism, Culture and Anarchy (1869), Arnold divided the population into four groups: Barbarians (aristocracy), Philistines (middle class), Populace (working class), and Aliens (intellectuals).
   A. Arnold concentrated his fire on the middle class, because he regarded it as dominant for the historical moment.
   B. He lamented that the culture of the British middle classes was focused on the growth of means (what he called “machinery”) rather than consideration of the ends that those means ought to serve.
   C. According to Arnold, they confused the accumulation of means with the ends of life, and the increase of material wealth with moral improvement.
   D. They treated political liberty as a good in itself, instead of asking what purpose that liberty served.
   E. According to Arnold, the aristocracy, the middle classes, and the working masses were ill-fitted to guide the fortunes of the nation.

V. Instead he pointed to the role of intellectuals. He dubbed them “Aliens” because while they came from every class, they had transcended the mental boundaries of their classes of origin.
   A. Arnold was not disparaging political freedom or material affluence.
B. Like Hegel, he thought there was more to collective life than allowing everyone to do as they like. Arnold wanted people to ask whether what they liked doing was worth doing.

C. He objected to the notion that the principles of free trade, industriousness, and self-interest, which fueled the market, ought to be applied to all other areas of life.

VI. A concrete example of how Arnold tried to play the role of the intellectual as social critic concerns Arnold and his critique of a bill sponsored by Robert Lowe.

A. Lowe had distinguished himself in 1856 by shepherding through Parliament the Joint Stock Companies Act.

B. Lowe then turned his hand to education, and he proposed a revision of the method of government funding for schools, based on “payment by results.”

C. Lowe’s reform was intended to make school funding dependent on measurable results in the most basic and practical of skills, and to bring education into accord with his market-oriented principles by linking payment to performance.

D. Arnold attacked the narrow and mechanical conception of education implied by Lowe’s bill.

E. Because many impoverished students would inevitably be absent when the annual test was administered, or would fail the test, he predicted that the net effect of the proposed reform would be to reduce the funding of schools for the poor.

F. Arnold’s argument was that market principles were inappropriate in this realm.

VII. Arnold’s model of the intellectual was not as a booster of capitalism and not as an opponent, but as someone who strengthens modes of thought and feeling that are different from those promoted by business.

A. Arnold thought that there were a number of venues through which intellectuals could exercise that sort of influence: schools, universities, the civil service, and books and magazines read by educated people.

B. He influenced generations of intellectuals (and others) in Britain and the United States.

Suggested Reading:
Collini, *Arnold: Culture and Anarchy and Other Writings*.

Questions to Consider:
1. How would Arnold respond to contemporary governmental initiatives aimed at making teachers more “accountable”?
2. Do any contemporary intellectuals embody the Arnoldian ideal? Is it worth aspiring to?
Lecture Nineteen
Individual and Community—Tönnies vs. Simmel

Scope: In the last third of the 19th century, the newly unified nation of Germany went through a remarkable process of capitalist transformation, which led to an intense intellectual debate about the social, cultural, and political ramifications of capitalism. In his book *Community and Society* (1887), German sociologist Ferdinand Tönnies (1855–1936) argued that under capitalism, “community” (based on solidarity and grounded on shared culture and shared ancestry) is eroded and replaced by a more individualistic “society” (based on the market and the pursuit of self-interest). His colleague Georg Simmel (1858–1918), by contrast, argued that the development of capitalism creates new forms of individuality, but also new, looser forms of community based on common affinities.

Outline

I. In the last third of the 19th century, the newly unified nation of Germany went through a remarkable process of capitalist transformation, which included the rise of the limited liability corporation and the bureaucratic firm.
   A. The need to reduce costs and make use of new technologies led to an increase in the scale and scope of business.
   B. Day-to-day management of the firm increasingly fell into the hands of paid managers, who sat at the top of a hierarchy of salaried employees.
   C. To coordinate the branches of the firm and assure that decisions made above would be carried out below, firms developed their own bureaucracies.
   D. Although the urban, industrial, blue-collar workers whom Marxists called the proletariat were still the largest group in absolute numbers, by the turn of the century (in the most capitalistically advanced nations), white-collar workers were the fastest-growing segment of the workforce.
   E. These developments led to an intense intellectual debate about the social, cultural, and political ramifications of capitalism. Nowhere was that debate more intense than in Germany, where its main protagonists were Ferdinand Tönnies, Georg Simmel, Max Weber, and Werner Sombart.

II. The sharpest formulation of the question of the direction of modern capitalist society came in 1887 with the publication in Germany of Ferdinand Tönnies’s *Gemeinschaft und Gesellschaft* (*Community and Society*).
   A. Tönnies argued that the direction of modern history was from community to society.
   B. The model of community was the family, or extended versions, such as the clan or tribe or guild.
   C. Society, by contrast, is characterized by individual choice and calculation. Its model is the contract, and it is based on the exchange of commodities produced for the market and on wage labor.
   D. In community, most actions are motivated by shared understandings. In society, they’re based on rational calculation.
   E. In community, mental life is governed by religion. In society, it is governed by public opinion (i.e., newspapers and other mass media).
   F. His distinction was intended to be objective, but Tönnies presented a vision of development that was fundamentally pessimistic when he portrayed modern people as advancing into a capitalist society lacking in shared commitments and ideals.

III. Perhaps the most important response to Tönnies came from philosopher and sociologist Georg Simmel. In 1900, Simmel published one of the most fertile works of reflection on capitalism and its cultural ramifications, *The Philosophy of Money*.
   A. In this and other works, Simmel explained how the development of the market economy made for new possibilities of individuality and new forms of community.
   B. Simmel explored the possibilities created by greater social opportunities, and he thought in terms of individuals whose identities were formed by belonging simultaneously to multiple cultural and social circles.

IV. Simmel suggested that modern capitalist society was based on new forms of association. These were looser than traditional, precapitalist forms of community, but they had the advantage of allowing for individuality.
   A. The limited liability corporation was a model for many characteristic forms of association under advanced capitalism, in which individuals cooperate with a limited portion of their lives for common but limited purposes.
   B. As a result, the modern individual can belong to a greater range of groups, but groups that are looser and less encompassing.
C. In contrast to earlier forms of association, modern groups allow for participation without absorption.
D. They make it possible for the individual to develop a variety of interests and to become involved in a wider range of activities than would otherwise be possible.
E. For Simmel, the eclipse of community was not a source of nostalgic lament: It presented new possibilities.
V. In contrast to Marx and Engels, who decried the competitive process so central to capitalism as intrinsically evil, Simmel pointed out that competition could actually draw people toward one another.
A. He pointed out that competition was not only a relationship between those who competed, it was also a struggle for the affection—or money—of a third party.
B. To compete successfully, competitors must devote themselves to discovering the desires of that third party.
C. The competition for customers and consumers had a highly democratic aspect as well.
VI. Simmel was interested in the effect on individuality of the proliferation of cultural creations made possible by capitalism.
A. On the positive side, he pointed out that the availability of a variety of cultural worlds allows us to explore and develop our various potentials in a way that wouldn’t have been the case in the past.
B. The cost of this was what Simmel called the “tragedy of culture.” The division of labor and the increasing complexity of modern life meant that amid an explosion of cultural products, the individual had to become more specialized and one-sided.
C. On the one hand, capitalism may increase individual frustration as we become aware that there is so much that we might have, know, or do, but we will never have the time, energy, and money to accomplish them all.
D. But on the other hand, the multiplication of cultural realms in which we participate allows individuality to develop, by allowing us to select the combination of activities that best suit our personal particularity.
E. The widely diverse culture facilitated by the growth of capitalism makes it more possible for us to be distinct individuals.

Suggested Reading:
Frisby, *Georg Simmel*.
———, *Conflict and the Web of Group-Affiliations*.

Questions to Consider:
1. To what extent do Tönnies and Simmel agree about the nature of capitalist society?
2. Is there a trade-off between community and individuality?
Lecture Twenty
The German Debate over Rationalization
Scope: At the center of German debates about capitalism at the turn of the century were Georg Simmel (1858–1918), Max Weber (1864–1920), and Werner Sombart (1863–1941). All three were interested in the cultural and spiritual effects of the spread of capitalism. Simmel pointed to the growing role of abstraction, calculation, and the weighing of means toward distant ends. He saw the spread of these qualities as contributing toward greater toleration but also threatening the eclipse of ends by means. For Weber, capitalism was based upon a rationality of means, which it shared with other key institutions of modernity. Sombart interpreted the spread of rationalization and calculation as a threat to cultural authenticity and vitality.

Outline

I. Simmel drew attention to the psychological effects of living in an economy in which more and more areas of life could be measured in monetary terms.
   A. Such an economy created a mind-set that was more abstract, because the means of exchange were themselves becoming ever more abstract.
   B. Through constant exposure to an abstract means of exchange, individuals under capitalism are habituated to thinking about the world in a more abstract manner.
   C. They also become more calculating and get more used to weighing factors in making decisions. This numerical, calculating style of thought spills over into more personal decisions. Life becomes more cool and calculated, less impulsive and emotional.
   D. Life in a modern, money economy, Simmel stressed, is characterized by ever greater distances between means and ends. Determining how to attain our ends is a matter of intellect.
   E. Minds ever more oriented to the weighing of means, Simmel tells us, become more tolerant and more conciliatory. This is because when they are focused on means, they are less concerned about the ultimate ends of others.
   F. But this tendency to focus on means leads to a characteristic danger of capitalism, that by becoming so focused on means, we lose sight of our original ends.

II. Simmel’s colleagues took these themes in a variety of directions. Like Simmel, Max Weber was interested in the question of the domination of means over ends.
   A. Simmel, Weber, and Sombart were all well acquainted.
   B. A major impetus behind turn-of-the-century debates on capitalism, and behind Max Weber’s work in particular, was a debate on the legacy of Marx.
   C. Weber respected Marx for putting the study of capitalism on the front burner of scholarly interest, but he thought that Marx was wrong in many respects.
   D. Weber also disagreed with what he saw as Marx’s too exclusive emphasis on material factors in explaining historical development, a disagreement very much apparent in The Protestant Ethic and the “Spirit” of Capitalism (discussed in Lecture Twenty-One).

III. Weber offered a definition of capitalism that has remained influential. According to Weber, modern capitalism is characterized by these factors:
   A. The first factor is the “rational capitalistic organization of free labor.”
   B. The second factor is the “rational, industrial organization, attuned to a regular market, and not to political or irrational speculative opportunities for profit.”
   C. The third factor is the separation of business from the household.
   D. The fourth factor is the systematic calculation of profit and loss, and hence the development of rational bookkeeping.
   E. His emphasis, then, is on the organization of the industrial firm rather than on finance or politically oriented economic activity.

IV. Weber insisted that capitalism was characterized by a higher level of rationality than any previous economic system had offered or that socialism could provide.
   A. By “rationality,” he meant rationality in an instrumental sense: the tendency to calculate as carefully as possible the most efficient means and to carry them out methodically to achieve control over nature, society, and the self.
B. According to Weber, this instrumental rationality of capitalism was shared by other major institutions of the modern world.

C. The modern state was characterized by bureaucratic administration of the rule of the law. Those rules were to be administered impersonally so that their effects would be calculable, regardless of the particular bureaucrat administering the law or the particular characteristics of those to whom the law applied.

D. Weber pointed out that the modern business corporation makes use of the same bureaucratic means.

E. He also says that modern science and technology were premised on observable rational calculation.

F. The result was what Weber famously called the “disenchantment of the world,” which is the displacement of magic and mystery and their replacement by the assumption that all things can (in principle) be explained by causal mechanisms.

G. For Weber, there was no going beyond this—there was no reenchantment of the world that was desirable.

V. Despite his misgivings, Weber embraced a liberal economic agenda.

A. To protect the various elements of German society from competition, Weber wanted a competitive market-oriented economy.

B. This was his priority because he thought that capitalist competition encouraged individual vitality, and by encouraging individual vitality, it provided a partial antidote to the potentially stifling effects of bureaucracy.

C. Like other liberal nationalists, he thought that Germany’s national power depended on its ongoing economic dynamism and ability to compete in the international market.

VI. If Weber and Simmel were ambivalent but predominantly positive about the prospects presented by capitalism, Werner Sombart viewed it with despair. According to him, capitalism meant the decline of culture that was worthy of the name.

A. He portrayed the precapitalist economy of the artisan and peasant as “natural” and the modern capitalist economy as “artificial.”

B. Sombart shared the romantic prejudice that identified the archaic with the authentic.

C. While capitalism marked a quantitative gain, Sombart said it meant a loss in the quality of life, robbing men of inner peace, of their relationship to nature, and of the faith of their fathers.

D. Capitalism, according to Sombart, destroyed the soul and led to the standardization of cultural life, or what he called “massification.”

E. This very different evaluation of capitalism and rationalization helped motivate the debate about the historical origins of capitalism.

Suggested Reading:

Questions to Consider:
1. Simmel, Weber, and Sombart all think that capitalism leads to rationalization. What do they mean by this?
2. Both Weber and Sombart were nationalists, but Weber favored a more liberal (promarket) policy. Should nationalists favor capitalist competition or oppose it?
Lecture Twenty-One

Cultural Sources of Capitalism—Max Weber

Scope: In a series of works published in the first two decades of the 20th century, Werner Sombart and Max Weber explored the cultural sources of capitalism. Weber’s *Protestant Ethic and the “Spirit” of Capitalism* (1904–1905) was the most important intervention in the debate. There Weber presented his theory of how Calvinism had created a frame of mind that inadvertently led to the rise of what he called “the spirit of capitalism,” characterized by “inner-worldly asceticism.” In *The Jews and Modern Capitalism* (1911), Sombart presented an alternate theory that maintained a close connection between Jews and capitalism, which he traced to elements of Judaism itself. His work was dismissed by most scholars on factual and methodological grounds. Together, Weber and Sombart raised important issues about the cultural sources of disparate group success under capitalism.

Outline

I. The role that cultural and religious factors play in explaining the origins and success of capitalism was debated among German social scientists in the decade before World War I.
   A. Werner Sombart began to draw attention to the link between capitalism and the Jews in his book *The German Economy in the Nineteenth Century* (1903).
   B. He said the Jewish mind was characterized by egoism, self-interest, and abstraction: precisely the qualities most suited for capitalism.
   C. His key witness for the affinity between capitalism and Jewish character was Karl Marx, whose work “On the Question of the Jews” he quoted approvingly.
   D. Max Weber’s *The Protestant Ethic and the Spirit of Capitalism* was motivated in part by his disagreements with Sombart.
   E. Weber criticized the widespread belief that modern capitalism is characterized by greater greed, and he calls this “the illusions of modern romanticists.”
   F. He maintained that modern capitalism is motivated by the impulse to continually renewed profit and to the ongoing commitment to one’s professional occupation.
   G. He set out to explain “the origin of this sober bourgeois capitalism with its rational organization of free labor.”

II. Weber was struck by the difference in attainment between Protestants and Catholics and by the different levels of achievement among Protestant denominations.
   A. The significance of Protestantism, Weber argues, is not that it leads to greater hedonism but that it led to asceticism, the renunciation of worldly happiness.
   B. The constant gain of capital comes to be seen as an end in itself in the spirit of capitalism as Weber conceives of it.
   C. Weber thought there was a difference between explaining the origins of capitalism and the ongoing role of religion in providing motivation once capitalism was established.
   D. The problem for Weber is to explain the origins of the ethic toward ongoing acquisition.
   E. Weber sought to explain two elements of modern capitalist life: the fact that systematic rational acquisition has ethical sanction and why so many modern people came to view their work as a vocation.

III. Weber thought he had found the origins of this among 17th-century Calvinists, especially the British Puritans.
   A. Calvinist and Puritan theologians unintentionally and inadvertently aimed at the promotion of the spirit of capitalism through the psychological effects of their religious doctrines.
   B. Weber was interested in the psychological effect of the Calvinist doctrine of predestination, and how Puritan preachers sought to deal with it.
   C. The novelty of Calvinism was in the idea of proving one’s faith in worldly activity.
   D. Calvinism led to what Weber called “inner-worldly asceticism,” which stressed the need for individuals to methodically supervise their own conduct.
   E. Calvinism was also conducive to ongoing acquisition because it stressed the limitation of consumption, which promoted saving over spending.
   F. This combination led to a culture that broke out of economic traditionalism and into a system of ongoing investment and acquisition.
Eventually the religious basis of worldly asceticism died away, but it had legitimated the employer’s business activity as a calling, and it gave birth to the modern idea of rational conduct as expressed in a commitment to one’s vocation.

IV. Weber’s thesis was much debated at the time and has been ever since.
   A. Its factual basis and its methodology have been called into question.
   B. But its great influence was to highlight the role of what we have come to call “cultural capital” (i.e., cultural propensities that make some groups more apt to succeed in capitalist activities than others).

V. In response to Weber’s argument, Sombart wrote *The Jews and Modern Capitalism* (1911).
   A. The rise and fall of commercial centers seemed to coincide with the departure and arrival of the Jews.
   B. Sombart pointed to the frequent presence of Jews in early modern capitalism, especially to their role in international trade, which brought about an expansion of consumption.
   C. He also pointed to their disproportionate role in early modern finance and their role as brokers and investors on the stock exchanges.
   D. Sombart offered a number of individual examples, but his evidence was anecdotal.
   E. Critics pointed out that it was more correct to say that Jews followed the changing centers of trade, not that Jews created them.

VI. Sombart maintained that the Jews were culturally inclined by their religion to the rationalistic and calculative mentality so characteristic of capitalism.
   A. The Jewish religion predisposed Jews toward capitalism, because it was a religion given to abstraction.
   B. Judaism, Sombart claimed, had a commercial conception of sin in which the sole motive of holiness is reward in the world to come.
   C. The more abstract and calculative thinking that Simmel saw as a product of the spread of the money economy was for Sombart a product of Judaism itself.
   D. For Sombart, the role of the Jews in capitalism was a moral mark against them because the abstract, calculative world created by capitalism was destroying the historical, natural, and authentic culture of the German Volk.

VII. What should we make of the Weber-Sombart debate?
   A. For both, a rational, methodical style of life was an essential element of capitalism: Weber emphasized the rational organization of labor, and Sombart stressed the quest for profit through trade and finance.
   B. Sombart placed more emphasis on consumption and its spread, while Weber’s emphasis on the ascetic misses the role of consumption in the history of capitalism.
   C. Together, Weber and Sombart helped to raise an issue of ongoing interest by explaining the cultural and religious sources of disparate group achievement.
   D. For all the crudeness and unwarranted prejudice in his work, Sombart identified the ongoing issue of the role of merchant minorities.

Suggested Reading:

Questions to Consider:
1. Discuss Weber’s argument that “unbridled avarice is not in the least the equivalent of capitalism, still less of its ‘spirit.’ Capitalism may actually amount to the *restraint*, or at least the rational tempering, of this irrational impulse.”
2. Consider Weber’s and Sombart’s arguments about the cultural sources of disparate group achievement. What are alternative explanations, and how convincing are they?
Scope: Joseph Schumpeter (1883–1950), was among the most wide-ranging analysts of capitalism. Schumpeter took from Marx the notion that capitalism was intrinsically dynamic, constantly revolutionizing the means of production. But unlike Marx, and unlike most mainstream economists of his day, Schumpeter focused on the role of entrepreneurs—those who brought about innovations in products, organization, or distribution. Entrepreneurial capitalism was characterized by “creative destruction,” in which new products and forms of distribution and organization displace older forms. But this very dynamism, according to Schumpeter, creates widespread resentment against capitalism.

Outline

I. Joseph Schumpeter was among the most wide-ranging analysts of capitalism.
   A. Schumpeter took from Marx the notion that capitalism was intrinsically dynamic, constantly revolutionizing the means of production.
   B. Unlike Marx and most mainstream economists of his day, Schumpeter focused on the role of entrepreneurs in transforming capitalism.
   C. Schumpeter claimed that entrepreneurial capitalism was characterized by “creative destruction,” in which new products and forms of distribution and organization displace older forms.
   D. The theme that dynamism creates widespread resentment against capitalism, and might eventually bring it to an end, is explored in his book *Capitalism, Socialism and Democracy* (1942).
   E. In this lecture, we’ll discuss his earlier pathbreaking book, *The Theory of Economic Development* (1911).
   F. Schumpeter was a man of broad interests and lived quite a colorful life. His mind was fruitful because he brought together intellectual currents from German and Austrian social science.

II. The role of creative elites in the economic process was the subject of *The Theory of Economic Development*, in which he laid out his theory of entrepreneurship.
   A. Schumpeter argued that the focus of academic economics, since at least the time of Adam Smith, had been on the laws of supply and demand, and that that focus missed its tendency to dynamically transform both supply and demand.
   B. The source of that transformation lay in the entrepreneur, who is characterized by his function, which is the introduction of economic innovation.
   C. Schumpeter distinguished the entrepreneur from the owner of capital, the inventor, and the manager—roles with which the entrepreneur was often confused.
   D. Entrepreneurial innovation took a variety of forms, including introducing new or better versions of commodities, markets, and methods and sources of production and distribution; or new forms of economic organization.

III. The German steel entrepreneur August Thyssen exemplified many of the characteristics that Schumpeter thought typical of the entrepreneur.
   A. He was sober minded, ambitious, and immersed in his work.
   B. Thyssen expanded production and sales, diversified his product line, integrated related products, and moved into distribution.
   C. He introduced new methods of organization to help contain costs, including central accounting control.
   D. Under his leadership, the company went through horizontal and vertical integration, and he moved forward in the supply chain.
   E. Thyssen economized in his personal life as well as in his business life.

IV. The role of the entrepreneur, as Schumpeter conceived it, was to break out of the habitual routine of economic life.
   A. This mold-breaking function of the entrepreneur required a rare and extraordinary mental creativity and energy.
   B. Schumpeter noted that entrepreneurs as people rarely have the heroic personal qualities that we often associate with leadership.
   C. It is the ability of the entrepreneur to focus his mind and his energy on a rather narrow field of endeavor, while ignoring much else that is going on around him, that is an element of his success.
V. In what sense is the entrepreneur a leader?
   A. He leads the means of production into new channels, and when he does so, he draws other producers after him.
   B. A successful innovation creates a temporary monopoly, but eventually, others imitate his innovation.
   C. The entrepreneur who successfully innovates stands to make large profits for himself.
   D. He also creates benefits for society as a whole, blazing a trail and creating a model for others to follow.
   E. Schumpeter thought that the pattern of boom and bust that comprises the business cycle could be explained in good part by the introduction, imitation, and absorption of clusters of entrepreneurial innovations.

VI. For Schumpeter, the entrepreneur not only fulfills an economic function, he represents a psychological type.
   A. Schumpeter thought that the entrepreneur psychology can’t be explained by the scheme of motivations that economists usually use, because they describe economic actors.
   B. The entrepreneur, however, is more typically motivated by a desire to leave his mark in the world, to prove himself superior to others, and by “the joy of creating, of getting things done, or simply of exercising one’s energy and ingenuity.”
   C. It is precisely these nonutilitarian elements of capitalist activity that Schumpeter thought essential in explaining the psychology of the entrepreneur.

VII. Schumpeter thought that it was the reaction to the entrepreneur that explained much of the psychological and political dynamics of capitalist societies.
   A. He argued that it was precisely the dynamism injected into capitalist society by the entrepreneur that made him an object of antipathy.
   B. For the rise of a new entrepreneur—and with him, of new means of production and organization—necessarily meant the relative economic decline of those ensconced in the status quo.
   C. Schumpeter portrayed antientrepreneurial resentment as inherent in capitalist society.
   D. Schumpeter offered a stimulating analysis, not only of the sources of capitalist dynamism but of opposition to capitalism.

Suggested Reading:
McCraw, *Prophet of Innovation*.
Schumpeter, *Essays on Entrepreneurs*.
———, *The Theory of Economic Development*.

Questions to Consider:
1. How does Schumpeter’s conception of the entrepreneur differ from Marx’s conception of the capitalist?
2. Is Schumpeter right about the resentment caused by entrepreneurial innovation?
Lecture Twenty-Three

Lenin’s Critique—Imperialism and War

Scope: In the years after 1900 it became increasingly clear that Marx had got it wrong: The working class was not revolutionary, and the middle classes had not disappeared. Under these circumstances, Russian Bolshevik leader Vladimir Lenin (1870–1924) formulated the notion that the workers did not spontaneously develop a revolutionary consciousness and would only do so under the direction of professional revolutionaries. In 1917, he and his fellow Bolsheviks succeeded in bringing about the first socialist revolution, in Russia. Part of Lenin’s appeal lay in his notion that capitalism caused imperialism, which in turn had led to the great bloodletting of the First World War. We examine the arguments linking capitalism to imperialism, made by British liberal John Hobson, Marxists Rudolf Hilferding and Rosa Luxembourg, and Lenin himself. We then examine the response of Joseph Schumpeter, who in an attempted refutation made the argument that imperialism was best understood as a holdover from the precapitalist era.

Outline

I. Marx had contended that the development of industrial capitalism would create a polarized society, but in the years after 1900 it became increasingly clear that Marx had gotten it wrong.
   A. Observing these developments, Russian Bolshevik leader Vladimir Lenin wrote What Is to Be Done? (1902).
   B. He formulated the notion that the workers would develop a revolutionary consciousness only under the direction of professional revolutionaries.
   C. In 1917, he and his fellow Bolsheviks succeeded in bringing about the first socialist revolution, in Russia.
   D. Part of Lenin’s appeal lay in his notion that capitalism caused imperialism, which in turn had led to the great bloodletting of the First World War.
   E. The background for this lay in the rise of social Darwinist views of international relations and in new imperialism.
   F. The period after 1870 led to the development of Marxist theories and the so-called radical liberal type that maintained that the new imperialism was a response to certain maladjustments within capitalism.
   G. These liberal theories had their origin in the writings of British journalist John Hobson. Lenin’s became the best known of the Marxist theories.

II. In Imperialism (1902), Hobson, a liberal who favored free trade, argued that imperialism was due to the search of British capitalists for profitable investments.
   A. He argued that the domestic market had ceased to be profitable because of a maldistribution of wealth, leading to underconsumption by the working class and the lack of a profitable domestic market.
   B. For Hobson, the renewed impulse toward colonial annexations was part of a global contest to monopolize markets for investment.
   C. If the root cause of underconsumption was maldistributed income, the solution was redistribution of income, away from the capitalists and toward the workers.
   D. As a liberal, Hobson thought this could be done within the framework of capitalism itself.

III. For Marxists, the new imperialism was an essential inherent flaw within capitalism, and they developed various theories on the subject.
   A. The majority Marxist view was largely the product of the Vienna school of socialists, in particular, socialist economist Rudolph Hilferding.
   B. In his book Finance Capital (1910), Hilferding explained imperialism as a product of the desire of capitalists for investment opportunities, though he used a more Marxist logic.
   C. Hilferding didn’t think this would inevitably lead to international conflict, because the capitalist powers might divide up the world among themselves.

IV. A competing Marxist theory was proffered by Rosa Luxemburg in her 1913 book The Accumulation of Capital.
   A. For Luxemburg, the main problem for contemporary capitalism was the lack of effective demand.
   B. Because European workers were exploited, they lacked adequate purchasing power. Therefore the system produced more than it could sell, and that led capitalist powers to a desire for colonies as markets.
V. Lenin's book *Imperialism, the Highest Stage of Capitalism* was published in 1916.
   A. His goal was to help pave the way for socialist revolution by demonstrating that capitalism itself had led to war and would continue to do so in the future unless it was overthrown.
   B. The book's argument depended heavily on Hilferding's theory, but Lenin added his own theory that capitalism uses profits gained through imperialism to buy off the upper levels of the working class (the "labor aristocracy") to prevent revolutionary discontent.
   C. He argued that capitalism was incapable of evolving toward a stable international balance of power because of the inherent characteristic of uneven development.
   D. As a result, any alliances or understandings among them were bound to break down, leading to war.
   E. Lenin's argument exerted tremendous influence at the time and in the interwar period, leading intellectuals to be attracted to what quickly became an international communist movement.

VI. How valid were these theories?
   A. An examination of the empirical validity of the economic explanations that imperialism was caused by the need for markets shows that they do not hold up very well.
   B. The new colonies were relatively unimportant as markets or as outlets for investment capital.
   C. The argument that imperial rivalries in Asia and Africa led to World War I also doesn't hold up very well, because major European powers went to war with one another in the summer of 1914 for strategic reasons and reasons of national prestige.

VII. The refutation of the arguments for a link between capitalism, imperialism, and war came from Joseph Schumpeter's "The Sociology of Imperialism" (1918).
   A. He argued that capitalism tended to promote pacific and pacifistic attitudes and that imperialism was best understood as a holdover of attitudes, emotions, and social classes from the precapitalist era.
   B. For Schumpeter, imperialism was an atavism, a throwback of attitudes from the past.
   C. Contemporary imperialism was due, he thought, to the power of irrational propensities that otherwise had few outlets.

VIII. In November 1917, Lenin and his Bolshevik faction came to control the former Russian Empire.
   A. They suppressed all other parties, established a dictatorship of the Communist Party, and set about trying to create socialism by nationalizing the means of production and eliminating markets.
   B. The turmoil of the First World War, the example of the Bolshevik Revolution in Russia, and then the depression that beset the Western capitalist world beginning in 1929 led to a new round of evaluations of capitalism.

Suggested Reading:
Hobson, *Imperialism*.
Mommsen, *Theories of Imperialism*.

Questions to Consider:
1. Does the ethos of capitalism encourage or discourage war?
2. Why did the new colonies in Africa acquired during the “scramble for Africa” fail to live up to the roles assigned to them by the critics of imperialism?
Lecture Twenty-Four
Fascists on Capitalism—Freyer and Schmitt

Scope: During the interwar period, a number of thinkers on the European radical right offered an analysis of international capitalism as a threat to national power and national culture. Among the most thoughtful expositors of this view were political analyst Carl Schmitt (1888–1985) and sociologist Hans Freyer (1887–1969). Schmitt argued that the political pursuit of class interest in liberal democracy led to a political stalemate that left the government incapable of providing national direction and national defense. Freyer picked up on the arguments by previous thinkers that the cosmopolitan thrust of capitalism was diminishing attachments to particular national cultures by involving individuals in international frameworks of trade and technology. He thought that without a commitment to some collective, national purpose, life was sapped of higher meaning. Freyer and Schmitt therefore advocated a much more powerful and authoritarian state, freed from the shackles of parliamentary politics, and free to subordinate economic interests to national purposes.

Outline

I. In this lecture, we look at political analyst Carl Schmitt and sociologist Hans Freyer, who offered penetrating critiques of the liberal democracy of the Weimar Republic and who were led by those critiques to support national socialism.
   A. Both of these men were deeply affected by the experience of the First World War and the way in which it was interpreted in Germany.
   B. In the books that each of them published in 1931, there are three main themes: capitalism as a culturally homogenizing force, capitalism as leading to the decline of shared collective purposes, and the combination of capitalism and democracy leading to a paralysis of the state.
   C. As a result of all of these factors, liberal capitalism, as Schmitt and Freyer saw it, was leading to a decline of national power.
   D. The key experiences that formed the background of their critiques include the spiritually unsatisfying bourgeois world of pre-1914 Germany that caused them to look for higher meaning.

II. To understand Schmitt and Freyer’s critiques, it helps to situate them in the context of the First World War, Germany’s defeat, and the traumatic history of the Weimar Republic that followed.
   A. At the beginning of the war in Germany, there was a widely shared and hyped experience of national unity and community in the trenches, but the reality turned out to be far different.
   B. The new constitution of 1919 created a parliamentary form of government, along with an elected president who was granted broad emergency powers.
   C. The socialists convinced their voters to remain loyal to democracy, and they sought to prove that the condition of the working class could be improved and many of the goals of socialism reached through democratic means.
   D. This led to the growth of welfare-state measures such as government unemployment insurance, but under unfavorable circumstances of low economic growth.
   E. The Weimar Republic was torn apart by political conflict, much of which had an economic basis.

III. There was a strong relationship between politics and economics in the Weimar political system.
   A. There was a particularly close link between specific political parties and various economic interest groups such as blue-collar unions, agrarian leagues, shopkeepers’ associations, and industrialists’ lobbies.
   B. Economic conflicts in the Weimar Republic tended to be transferred to the state itself.
   C. All of these problems and tensions were exacerbated by the coming of the Depression in 1929, leading to the effective end of parliamentary government in March 1930.
   D. The government, ruling through emergency decrees, tried to balance the budget by cutting back on government spending. This led to the growing electoral support for the parties of the communists and the national socialists under Hitler.

IV. In March 1931, Schmitt published The Protector of the Constitution, which described a neo-Hobbesian dilemma: what to do when the state is not strong enough to perform its necessary tasks of protecting stability and property.
   A. Schmitt analyzed this problem in terms of the interaction of capitalism and democracy.
   B. He argued that when government becomes little more than a mechanism by which social and economic groups in society divide up the spoils, government becomes too weak to accomplish its necessary tasks.
C. The Weimar state, Schmitt argued, had become subordinated to the social and economic interests of society, thus robbing the state of its ability to act effectively, either to stabilize the economy or to conduct an effective foreign policy.

D. Schmitt advocated a more powerful and authoritarian state, freed from the shackles of parliamentary politics, and free to subordinate economic interests to national purposes.

E. Schmitt had felt ambivalently about the Nazis, but early in 1933 he took stock of the new situation, and on May 1 he joined the Nazi Party.

V. Hans Freyer was led to his rejection of capitalist democracy by a different route.

A. Freyer maintained that a sense of individual purpose came from belonging to a larger community. The most important of those communities was the *Volk*.

B. The purpose of the state was to protect the *Volk* and its distinct culture.

C. That cultural distinctiveness, Freyer thought, was being destroyed by capitalism.

D. Capitalism creates all sorts of interests that have nothing to do with the nation and its well-being: class interests and a plethora of cultural choices.

E. The capitalist market creates a world that is increasingly cosmopolitan. It brings commodities from one nation to another.

F. Technology, too, was no respecter of national borders.

G. Thus capitalism left people free to choose, but without a sense of how their choices should fit into a larger whole.

H. The challenge facing his contemporaries, Freyer believed, was to dissolve the connection between technology and capitalism.

VI. To Freyer and nationalists like him, this future was a nightmare—an economized world bereft of meaning and higher purpose.

A. Freyer sought an alternative: the re-creation of collective purpose that would lift people out of their private concerns.

B. That collective purpose was the reassertion of the power of the German *Volk* and the creation of a state powerful enough to make Germany a player on the stage of world history.

C. For Freyer, the rise of the national socialists in the elections of September 1930 offered hope that the German *Volk* was coming to agree with his analysis of the situation.

D. Early in 1931, Freyer published *Revolution from the Right*.

E. It was this pent-up discontent with the inability of capitalism to provide a higher meaning or collective purpose to its members that Freyer saw as the real source of the new revolution of the right.

F. The practice would look rather different, and both Freyer and Schmitt would come to rue their choices.

Suggested Reading:


Muller, *Conservatism*.

Schmitt’s “When Parliament Cannot Be Sovereign.”

Questions to Consider:

1. Why did economic conflicts become a source of political instability during the Weimar Republic?

2. Is Freyer right that capitalism leads to the decline of particular national cultures? If so, is that a good thing or a bad thing?
Lecture Twenty-Five
Mises and Hayek on Irrational Socialism

Scope: Shortly after the victory of the Bolsheviks, the Viennese economist Ludwig von Mises (1881–1973) argued that market prices conveyed widely dispersed information regarding the availability of goods and services. Without a market mechanism, socialism would founder on the problems of information and initiative. This argument was developed further by Friedrich Hayek (1889–1992) in a series of works during the 1930s and 1940s, when the capitalist world was in depression and economic planning was in vogue. Hayek explored the ways in which the market not only coordinates information but also leads to the discovery of new knowledge. In *The Road to Serfdom* (1944), Hayek also presented a theory of fascism as the socialism of the lower middle classes that had lost out in the process of capitalist development, and of anti-Semitism as an expression of the resentment of those groups less adapted to capitalist dynamism.

Outline

I. Friedrich von Hayek became one of the foremost champions of neoliberalism, or “classical liberalism.” His was a conservative brand of liberalism, focused on individual liberty and the restriction of government.
   A. Hayek came to the attention of a broader public with the publication in 1944 of his book *The Road to Serfdom*.
   B. His defense of the market and of a culture of individual achievement was fought against “collectivism,” which came in both left- and right-wing versions.
   C. Though *The Road to Serfdom* was the book that reached the widest audience, more precise presentations of his key ideas are found in essays that he published in the 1930s and 1940s, and in later books that we’ll be exploring in Lecture Twenty-Eight.

II. A formative influence on Hayek’s thought was his mentor Ludwig von Mises (1881–1973), and in particular Mises’s 1920 essay, “Economic Calculation in the Socialist Commonwealth.”
   A. Mises argued that in an economy without private property and markets, it would be impossible to efficiently coordinate economic activity.
   B. Except in abstract models, change is inevitable in economic life, and this gives an element of uncertainty to all economic decisions.
   C. “Where there is no free market, there is no pricing mechanism,” Mises argued. And without a pricing mechanism, there was no way of calculating the most efficient way of achieving any particular economic goal. Thus, “socialism is the abolition of rational economy.”
   D. He argued that only private ownership could provide the self-interested incentives to innovate, to adapt to the ever-changing conditions of economic life, and to take advantage of them by finding out what to produce and the most efficient way to do so.

III. As a young man, Hayek had been inclined toward socialism, but after meeting Mises and reading his essay, Hayek embraced Mises’s ideas as the basis of his economic writings.
   A. In 1931, Hayek came to the London School of Economics. Within a few years he found that many leading intellectuals were concluding that the Depression had revealed the limits of traditional liberalism, and they were searching for alternatives.
   B. Intellectuals and politicians on the left and center right were attracted to the idea of planning, which came into vogue in the mid-1930s.
   C. Observers in Europe and the United States were impressed by the Soviet Five-Year Plans that seemed to be bringing Russia into the industrial age with impressive speed.
   D. To counteract this trend, in 1935 Hayek published *Collectivist Economic Planning*, which pointed out that the Soviet economy exhibited massive inefficiencies and called attention to the broader significance of the debate on socialist planning for the understanding of capitalism.

IV. Hayek called attention to the market as permitting an ever-greater division of knowledge in society, while at the same time coordinating that knowledge through prices.
   A. Knowledge of the availability of resources is widely dispersed in society.
   B. Market prices act as signals of where those resources could be put to their most valuable use.
   C. The profit motive serves as an incentive to bring one’s knowledge to bear in the market.
   D. The efficient use of resources depends on having particular knowledge at a particular time and place.
E. It depends on many people in society having dispersed knowledge and being able to bring it to bear through the market mechanism and the system of prices as a system of signals.

F. It also depends on the ability to perceive opportunities that others miss and to know when to take advantage of them—characteristics associated with the entrepreneur rather than with the bureaucrat.

V. In his subsequent work, Hayek expanded on the role of the market not only in conveying information but also in producing new knowledge.

A. He insisted that the abstract model central to much of modern economics was fundamentally misleading because it treated the market based on perfect competition, for essentially similar services, under conditions of complete information.

B. Hayek argues that much of what happens in the market involves gaining somewhat better information about products or services that are not quite the same and require the experience of comparison.

C. The competitive market also served to create new knowledge about the potential use of resources.

D. Capitalism, as Hayek conceived it, was fundamentally dynamic. That dynamism was due to the discovery of new needs and new ways of fulfilling them by entrepreneurs.

E. Hayek argued that it was the dynamic and resourceful few who forced the less resourceful many to adapt, and this process was bound to be resented by those who preferred the established ways of life.

VI. This brings us to Hayek’s analysis of fascism and national socialism.

A. For Hayek, in a capitalist society everybody becomes in some measure an entrepreneur, on the lookout for the more effective use of resources.

B. Success depends on what Hayek calls “resourcefulness,” but not every group would be equal in its resourcefulness.

C. Hayek regarded fascism and Nazism as the desperate attempt by social losers in the process of capitalist development to regain the rewards denied them in the marketplace through force and ideological special pleading.

D. In The Road to Serfdom, Hayek takes issue with the notion that was then popular among intellectuals, that national socialism should be understood primarily as a form of capitalist defense.

E. For Hayek, there was a close link between anticapitalism and anti-Semitism, not least because the Jews embodied precisely those characteristics that were essential to capitalist progress.

VII. Hayek’s arguments against socialism and fascism were presented in a straightforward style based on an appeal to logical and rational argument.

A. The Road to Serfdom combined a sober analysis of the workings of capitalism, an analysis of the connections between capitalism and a liberal society, and a set of warnings about the pitfalls of socialism.

B. Hayek’s whole presentation was based upon a kind of faith in rationality.

Suggested Reading:
Hayek, Individualism and Economic Order.
Mises, Economic Calculation in the Socialist Commonwealth.

Questions to Consider:
1. Socialists had long criticized capitalism as irrational. What did they mean by this? What, by contrast, did Mises mean when he wrote that “socialism is the abolition of rational economy”?

2. Discuss Hayek’s distinction between the market as conveying information and the market as leading to the creation of new knowledge.
Scope: In *Capitalism, Socialism and Democracy* (1942), Schumpeter set out his own version of the “eroding foundations thesis”—the notion that capitalism sets in tow processes that destroy the institutional foundations on which it rests. He presented an ironic argument that capitalism would give way to socialism not because of capitalism’s failures, but despite its economic successes. He pointed to the growing role of intellectuals who thrived by offering radical criticism, undermining support for capitalism. He contended that the respect for private property was eroding as more and more people worked in large-scale organizations, without direct control and responsibility for their own property. His real message was that socialism would have few of the advantages its advocates expected, while capitalism had many advantages that its critics overlooked.

Outline

I. In *Capitalism, Socialism and Democracy*, Schumpeter set out his own version of what we’ve called the eroding foundations thesis.
   A. He argued that capitalism would give way to socialism despite capitalism’s economic successes.
   B. In 1911, he’d maintained that capitalism is a fundamentally dynamic system—which was the work of entrepreneurs who brought about wave after wave of creative destruction—and that the result was mass resentment aimed at the entrepreneurs.
   C. Schumpeter expanded upon that argument in *Capitalism, Socialism and Democracy*.

II. In 1932, Schumpeter left Germany to settle permanently in the United States, just in time to observe the Roosevelt administration’s handling of the Depression.
   A. The Depression spurred antipathy to business in general, and to big business in particular, and this feeling was shared by the diverse policymakers of the New Deal.
   B. At first, the New Dealers tried to promote stability by limiting competition through the National Recovery Administration (created in 1933).
   C. The National Recovery Act was soon declared illegal by the Supreme Court, and in any case, unemployment remained high.
   D. The failure of the New Deal gave rise to more radical anticapitalists, who believed that the drastic and protracted downturn of the economy seemed to vindicate Marx’s prediction of the ultimate crisis of capitalism.
   E. Schumpeter argued that the Depression had come about as a confluence of long-term cyclical factors in the development of capitalism, together with short-term cycles.
   F. He thought that the United States was actually starting to recover in 1933 but that the beginning of its upswing had been stifled by the policies of the Roosevelt administration.

III. *Capitalism, Socialism and Democracy* was written in an atmosphere in which many intellectuals and nonintellectuals were convinced that the era of capitalism was over.
   A. To try to open their minds to the possibility that capitalism’s best days might still be ahead, Schumpeter resorted to an ironic writing style.
   B. The book’s explicit message was that the opponents of capitalism were right: Capitalism would fade away and be replaced by socialism.
   C. The ironic message was that socialism would have few of the benefits that its advocates believed in, while capitalism had many benefits that its opponents tended to overlook.

IV. Capitalist evolution might destroy capitalist society, but Schumpeter argued that the record of capitalism was one of unprecedented economic growth, which had profited the working classes the most.
   A. He argued that capitalism could continue to bring about economic growth and a rising standard of living, but only if it was freed by New Dealers.
   B. He disposed of then popular arguments that capitalist growth was permanently stalled due to the vanishing of investment opportunities, the exhaustion of natural resources, or the inhibition of innovation by oligopoly.
   C. Schumpeter thought that not only did capitalism lure the able and energetic toward business, but it also kept them focused on economic activity.
D. Because capitalism was characterized by the quest for innovation, those who had achieved success could never be certain that their firms would remain on top for long, and this applied to big business as well.

V. The benefits of capitalism were not only economic.
A. Schumpeter argued that much of what is most characteristic about modernity could be attributed to the spread of capitalism, and to the patterns of thought that it promoted, namely, “rationalistic individualism.”
B. There was a link between widespread participation in the market and the belief in individual autonomy.
C. Market activity, he argued, led to a belief in the need to judge for oneself, based on conclusions derived from worldly experience rather than from tradition or supernatural authority.
D. These habits of mind led in turn to modern trends such as the emancipation of women.
E. The emphasis on individual worldly well-being, and the belief that society was malleable and poverty not an inevitable part of the human condition, led to the development of humanitarianism.

VI. Capitalism might disappear despite its economic triumphs, Schumpeter argued, because of social and cultural processes that capitalism itself sets into motion.
A. By promoting a rationalistic mind-set, capitalism calls into question the political and economic institutions of society.
B. This was particularly dangerous, Schumpeter believed, because the argument in favor of capitalism was too difficult for many people to grasp, so that when most people stopped accepting it on faith, they would misjudge its real merits.
C. In any case, the argument for capitalism was based on long-term collective interest, an argument with little appeal to those left unemployed by the process of creative destruction.
D. Schumpeter also argued that capitalist society owed its stability to precapitalist sources, the power of which it tended to erode.
E. Capitalism might also lose its appeal, Schumpeter asserted, because capitalist activity appears mundane compared to more traditional forms of extraordinary human achievement.

VII. If capitalism creates its own gravediggers, Schumpeter suggested ironically, they are the class of intellectuals.
A. They fashioned the cultural climate of their societies through teaching, through writing, and through their influence upon the governmental bureaucracy.
B. It was the intellectuals who gave form to the grievances created by capitalism, transforming their significance by explaining that the solution lay in the overthrow of capitalism itself.
C. Schumpeter thought that the rise of the intellectual class was itself a product of capitalist development.
D. Schumpeter said that intellectuals are critical of capitalism because criticism sells. Criticism of capitalism was also encouraged by the cyclical overproduction of educated men and women.

VIII. The upshot of all these forces was an anticapitalist resentment that lay behind the hostility of so many people toward capitalism, including intellectuals, and made them virtually impervious to rational argument.
A. This book was rather demanding to read, and it tried to get intellectuals to reexamine their prejudices.
B. What arose out of the turmoil of the 1930s in western Europe and the United States was not socialism, but a new version of capitalism, conjoined to what came to be called the “welfare state.”

Suggested Reading:
McCraw, Prophet of Innovation.
Schumpeter, Capitalism, Socialism and Democracy.

Questions to Consider:
1. Is it true that intellectuals are anticapitalist?
2. Why did things not turn out as Schumpeter predicted; that is, why did capitalism survive?
Lecture Twenty-Seven
The Rise of Welfare-State Capitalism

Scope: This lecture explores the intellectual origins of the welfare state, the notion of “social justice” that legitimated it, the foundation laid during the American New Deal and in postwar Western Europe, the development of the welfare-state consensus during the 1950s, and the varieties of welfare-state capitalism that developed in the postwar decades.

Outline

I. Perhaps the most important transformation of capitalism in the mid-20th century was the development of welfare-state capitalism.
   A. The welfare state had diverse intellectual origins, and it took a variety of forms in various national contexts.
   B. Its common features were the attempt to shield individuals from risk through governmental safety nets, to provide full employment through fiscal measures, and to promote equality of opportunity through economic redistribution.
   C. Another element of welfare-state capitalism as it emerged from the Depression era was the development of governmental institutions that were intended to stabilize the capitalist financial system.
   D. If there was a master slogan behind the welfare state, it was the idea of social justice.

II. The welfare state had several intellectual sources: socialism, Christianity, and the new liberalism.
   A. From socialism came the ideals of equality and solidarity, which socialists had long identified with nationalization.
   B. But by the 1920s and 1930s, a developing strain of socialist thinking sought to manage capitalism and protect people from its negative effects.
   C. They sought to make subsistence independent of the marketplace and guarantee a minimum of support to all.
   D. They also sought to maintain high levels of employment, which increased the power of the working class.

III. The term “social justice” came into broad usage through the influence of Catholic thinkers and activists.
   A. The modern Catholic tradition was articulated in Pope Leo XIII’s 1891 encyclical “On the Condition of Workers” and in Pope Pius XI’s 1931 “On the Reconstruction of the Social Order.”
   B. A key element of that 1931 encyclical was the nexus between the market and the family, and this was the doctrine known as the “family wage.”
   C. The encyclicals were antisocialist, but they were also hostile to free competition.
   D. The notion of a right price at which goods are sold implied an antidynamic view of economic life, and a shared vision of what was appropriate to each group in society.
   E. A related movement within Protestantism, known in the United States as the “social gospel,” also fed into the New Deal.

IV. Another contributor to the welfare state was the strain of liberalism known in Britain as the “new liberalism” and in the United States as “progressivism.”
   A. It advocated liberty in the sense of a limited state but insisted that this had to be complemented by positive liberty.
   B. One of its forerunners was John Hobson, and this new liberalism was the tradition from which John Maynard Keynes came.
   C. Keynes became the most influential economist in the Western world from the 1930s through the 1970s.
   D. In the face of the Depression, Keynes offered a series of critiques of government policies of laissez-faire, culminating in his General Theory of Employment, Interest and Money (1936).
   E. He took aim at the notion of the economy as a self-regulating entity and provided an economic rationale for governments to try to actively combat unemployment, even if it meant running a government deficit.
   F. Keynes wanted to use fiscal and monetary policy to influence demand in order to create a high level of employment and an ongoing profitable economy, without state ownership and without overall state control of the economy.

V. The welfare state in the United States was the product of the New Deal.
   A. Its most important piece of social legislation was the Social Security Act, which created the nation’s first comprehensive system of social insurance.
   B. The Social Security Act set up a federal pension system that enrolled a majority of working Americans. It was funded by required contributions from employers and employees.
C. The system was set up as a contributory scheme (rather than out of general tax revenues) to mirror private insurance.

D. Roosevelt originally wanted to include health insurance in the act, but that was dropped as politically unfeasible in the United States.

E. The most extensive welfare state of the interwar period was developed in Sweden in the 1930s, under the aegis of the Swedish Social Democratic Party.

VI. The term “welfare state” was taken from Britain to denote the social legislation passed by the Labour government in the years 1945–1950.

A. The legislation created universal unemployment insurance, expanded old-age insurance pensions, created the National Health Service, provided universal family allowances, built housing for the working class, and expanded educational opportunities.

B. When the conservatives returned to power in 1951, they preserved most of these welfare-state measures and made them official Conservative Party policy. The Labour Party also altered its doctrine in a more centrist direction.

C. A leading theorist of this change was Anthony Crosland (1918–1977), who articulated it in his 1956 book, *The Future of Socialism*.

D. During the 1950s and 1960s, there developed what came to be called the “welfare-state consensus.”

E. There were differences between nations in the way the welfare state was formulated.

F. From the 1940s through the 1970s, there was an expansion of the welfare state, as parties of the left and right competed for the support of voters, which led to the addition of new programs and higher benefits under existing programs.

VII. There were variations in welfare-state capitalism as it developed from the 1930s through the 1970s, so to make sense of those differences, we can use the three models of welfare regimes developed by Gösta Esping-Andersen.

A. The first model is the liberal welfare state, such as the one in the United States, which tends to minimize the role of the state in keeping with a market-oriented political culture.

B. The second model shows the influence of social democracy, the sort of paradigm that exists in the Nordic countries. It tends to provide comprehensive government coverage of risks, a generous level of benefits, and egalitarian tax policies.

C. The third model is the conservative (or Catholic) model, which shows the influence of Catholic social teaching. It is primarily found in Germany, Italy, and southern Europe and is characterized by familialism.

Suggested Reading:
Crosland, *The Future of Socialism*.

Questions to Consider:
1. What is meant by the “welfare-state consensus”?
2. Imagine a conversation with a libertarian friend who insists that “welfare-state capitalism” is a logical impossibility. How would you respond?
Lecture Twenty-Eight
Pluralism as Limit to Social Justice—Hayek

Scope: Friedrich Hayek developed a liberal critique of the welfare state and its premise that the economy ought to embody social justice. He argued that it was the virtue of liberal capitalism that it embodied few common purposes, but rather allowed individuals and groups the scope to pursue their various goals. He criticized the confusion of “self-interest” with “selfishness.” And he explained why he thought the attempt to create equality of opportunity would lead to an ongoing expansion of the state and a diminution of the freedom of the individual.

Outline

I. In *The Road to Serfdom* and subsequent works, Hayek offered a conception of the links between capitalism and liberalism that called into question many of the premises of those who wanted to use the state to shape society in keeping with their ideas of collective purpose or social justice.
   A. He said that the economy should not be shaped by government to realize some higher conception of human purpose because to do so would violate a major function of the market in a liberal society.
   B. The market was a mechanism that coordinated not only dispersed economic information but also diverse human purposes.
   C. Hayek contended that the market did not merely coordinate economic values, because there is no such thing as “economic values.”
   D. The attempt to plan an economy meant planning all areas of life, because almost every life decision had an important market dimension.

II. The market was also about more than “self-interest,” at least as that term was ordinarily understood.
   A. It was analytically fallacious to separate “self-interest” from “purposes” because whether our conceptions of self-interest are egotistical or altruistic, they are pursued through the market.
   B. Hayek thought that the definition of freedom that had been offered by Adam Smith, and often repeated since, was true but misleading.
   C. The problem was that it inadvertently suggests “a connection of the argument for individual freedom with egotism or selfishness.”
   D. Hayek thought it more accurate to define freedom as “a state in which each can use his knowledge for his purposes.”
   E. Some of those purposes might be self-centered, and some might be materialistic, but they would not necessarily be either.

III. All of this had implications for the relationship between a market-based economy and a liberal society.
   A. Because there was no “economic” realm distinct from politics, religion, and culture, there could be no discrete “economic planning,” which left men otherwise free to pursue their own purposes.
   B. Hayek argued that socialism, even when it was pursued with democratic intentions, tended toward governmental control, which led toward totalitarianism.
   C. For Hayek, modern capitalist society was characterized by the absence of “unity of purpose,” except in times of national crisis.
   D. According to Hayek, liberal democracy could only survive if its citizens accepted the fact that consensus would be limited, and this meant that the purposes for which government could be used had to be limited as well.

   A. Hayek’s criticism of proposals for the welfare state lay not so much with the aims as with the methods of government action.
   B. Hayek thought that the threat to liberty and ongoing progress came from attempts to reshape capitalism to conform to one or another notion of social justice.
   C. Hayek suggested that the quest for “social justice” was a mirage. The concept was not only vague, but also assumed a consensus of values that was impossible in a liberal society because the liberal state and economy are not based on a single shared, coherent vision of common good.
   D. For Hayek, the demand for social justice derives from conceptions of ethical obligation that made sense when confined to small, face-to-face groups but that are now obsolete and even dangerous.
E. Capitalism, Hayek asserted, does not reward merit in some moral sense, and he thought it dangerous for conservatives to argue as if it did.

V. Hayek suggested that there were dangers inherent in trying to use government to bring about equality of opportunity, and he argued that it’s impossible.
   A. Hayek pointed out that one of the major motivations for most people to engage in market activity was to provide advantages to their children by providing funds for housing, education, and other opportunities.
   B. To equalize the opportunities for children by penalizing those of privileged backgrounds or rewarding those of disadvantaged backgrounds was to remove the most fundamental incentive for people to work and exercise their ingenuity in the market.

VI. Coming to terms with the logic of a society coordinated more by the market than by common purposes presents a shock to many traditional moral sensibilities, Hayek recognized.
   A. The price of voluntary cooperation among larger groups of people, however, was limiting the moral claims for assistance that had bound smaller groups together.
   B. Modern capitalist society was based on a revolution in consciousness in which those outside one’s family or cultural groups—foreigners and strangers—were no longer treated as enemies, beyond the bounds of moral obligation.
   C. That also meant that the moral obligation toward others in society could not be as great as had been the case in the precapitalist past.

VII. Hayek’s work contained a number of insights that remain indispensable to thinking about how capitalism works, and about the relationship between the market and a liberal society.
   A. The weakness of Hayek as a thinker comes from his propensity to exaggerate the scope of his insights.
   B. In Hayek, we find an articulate critique from the right of welfare-state capitalism as it was developing in the 1950s and ’60s, but there was also a critique of welfare-state capitalism from the left, particularly the New Left.

Suggested Reading:
Muller, The Mind and the Market, 368–87.

Questions to Consider:
1. Discuss Hayek’s notion that the market coordinates a variety of purposes, whether selfish or unselfish.
2. Hayek insisted that the sentiments and values characteristic of past “tribal” societies were a danger to modern society. Can a liberal society survive without a consensus of values and without sentiments of solidarity that encompass the whole society? Compare Hayek’s views to those of Hegel.
Lecture Twenty-Nine
Herbert Marcuse and the New Left Critique

Scope: During the 1960s, welfare-state capitalism came under critique from the New Left. One of its most important theorists was Herbert Marcuse (1898–1979). Echoing Rousseau, Marcuse argued that men and women in advanced capitalist societies were enchained by affluence. Contemporary capitalism evoked ever new consumer wants—and then fulfilled them. It engaged in psychological manipulation, not least of sexual drives. Yet the superficial satisfaction this engendered prevented most people from thinking about more humane and fulfilling alternatives to competitive capitalism. Marcuse looked to intellectuals and to the burgeoning ranks of students as a source of transformation.

Outline

I. In the 1960s, a challenge to welfare-state capitalism emerged from the New Left.
   A. One of its leading theorists was Herbert Marcuse, a Marxist of German origin who spent most of his adult life in the United States and was influential there as well as in Western Europe.
   B. Marx had focused on the notion of “alienated labor,” but Marxism had turned increasingly to criticism of capitalism’s economic effect on working class.
   C. In the Western capitalist world, economic prosperity and the political incorporation of the working class seemed to foretell the end of Marxism and radicalism.
   D. Marcuse recognized that the capitalism of the postwar era provided affluence as never before. For him, that was part of the problem.
   E. Marcuse’s most influential book was One-Dimensional Man (1964).

II. As a leftist of Jewish origin, Marcuse left Germany in 1933 and became part of the Institute of Social Research (the “Frankfurt School”).
   A. They were a group of independent Marxist intellectuals primarily concerned with using Marxism to offer a critique of modern capitalist society.
   B. They tried to integrate Freudian insights regarding the role of unconscious motivation into Marxist thought in order to account for the nonrevolutionary nature of the working class and for their lack of resistance to national socialism.

III. Marcuse’s critique was based on the premise that modern technology had created the possibility of far greater human satisfaction, but that this was prevented by a capitalist system that kept people enslaved to artificially created needs.
   A. Freud had insisted that the repression of people’s instincts was necessary, and Marcuse agreed but argued that modern society was characterized by “surplus repression.”
   B. Marcuse argued that the erotic instincts, in particular, were being repressed in contemporary capitalist society far more than was actually necessary for social survival.
   C. Greater instinctual fulfillment was possible, he claimed, and that would mean greater human creativity and greater happiness.

IV. All of this raised the question of why there was such a gap between the new possibilities created by technology and the reality of contemporary capitalist society. Why didn’t the population rise up to overturn this system?
   A. The liberal answer would have been that the working class was doing better than ever before.
   B. Marcuse recognized this, but he maintained that the whole population had been the victim of capitalist brainwashing.
   C. He argued that contemporary capitalism was a system for the inculcation of false needs, superimposed upon the individual by economic interests. The result was “euphoria in unhappiness.”
   D. Freedom in such a society is a mirage, for it is merely the freedom to buy one commodity rather than another. This freedom sustains a life of toil and fear (i.e., alienation).

V. One of the most effective ways in which men and women were kept happy and submissive, Marcuse thought, was through “repressive desublimation.”
   A. Unlike in most societies of the past, sexual freedom had become a market value.
   B. For Marcuse, this open recourse to direct sexual stimuli and sexual activity had itself become a tool of mass control. It thus made men and women docile, distracting them from the possibilities of a richer life.
C. For Marcuse, consumer capitalism keeps people “enslaved” by affluence, where slavery is redefined as being prevented from reaching a higher level of cultural creativity, which would be made possible by the need for less work.

D. This system of the inculcation and fulfillment of false needs through affluence was now extended to the working class, making them unrevolutionary.

E. The population of the Western world was subject to its own kind of totalitarianism, according to Marcuse.

VI. Marcuse, however, did hedge his bets about the purported productive superiority of socialism over capitalism by calling into question the very desirability of greater productivity.

A. Characterizing the capitalist societies of the West as “overdeveloped,” he asserted that the future society he envisioned could function at a lower material standard of living, because men and women would no longer have their wants artificially raised by capitalist forces beyond their control.

B. He also envisioned a “reduction in the future population,” which would alleviate the cramped conditions of the present.

C. Population growth, he suggested, was irrational in terms of human happiness and was kept going only by the needs of business (for more customers) and the government (for more soldiers).

VII. Given the ability of capitalism to co-opt the working class, Marcuse needed to look to others for sources of resistance to capitalism.

A. He looked to intellectuals like himself and their ability to influence students, as well as to the underclass of Western society and to third-world communist movements.

B. Some of this was silly or irresponsible: He didn’t seem to notice the extent of the repressiveness of communist movements, the improbability of the Western underclass as the basis of a more cultured society, and students (although a large group) as merely in a passing stage of life.

VIII. Marcuse did have substantial ongoing influence, and he does have messages of ongoing interest to us.

A. His influence came in two very different spheres, universities and the world of business and industry (especially in those industries that valued creativity).

B. One doesn’t have to buy Marcuse’s whole vision and analysis, but there is something to be learned from him: In trying to afford things you don’t need, you may lose time and mental energy that could bring much greater satisfaction if you tried to take control of your own needs and wants.

Suggested Reading:
Jay, *The Dialectical Imagination*.
Marcuse, *One-Dimensional Man*.

Questions to Consider:
1. How valid are Marcuse’s contentions about “repressive desublimation” and the “moronization” of the masses through popular culture?

2. Does Marcuse’s argument that contemporary people are “enslaved” by affluence have any meaning, or is it a misuse of terms?
Lecture Thirty
Contradictions of Postindustrial Society

Scope: In his book *The Coming of Post-Industrial Society* (1973), American sociologist Daniel Bell argued that capitalist society was becoming postindustrial. The service sector was displacing the centrality of manufacturing, just as manufacturing had earlier displaced agriculture. Knowledge, science, and technology were becoming ever more important, with resulting changes in social stratification. In *The Cultural Contradictions of Capitalism* (1976), Bell revived the “eroding foundations” argument in new forms. He argued that contemporary capitalism—based upon advertising, new forms of entertainment, and expanding credit—increasingly promoted hedonism and irresponsibility, undermining the work ethic, frugality, and deferred gratification on which capitalism depends.

Outline

I. Among the most influential analysts of capitalism in the 1970s was American sociologist Daniel Bell, who wrote two books analyzing the transformations of contemporary capitalism.
   A. *The Coming of Post-Industrial Society* (1973) focused on the changing structures of capitalist society.
   B. *The Cultural Contradictions of Capitalism* (1976) was an analysis of the cultural changes of recent decades, their interaction with the capitalist economy, and the crisis that capitalism was being undermined.
   C. When Bell conceived the first book, capitalism seemed to be thriving, but the oil crisis of late 1973 ushered in a period of economic stagnation and inflation.
   D. It seemed to Bell that capitalism was undermining itself, and he put forward a new variation of the eroding foundations thesis.
   E. Before we turn to his arguments, let us quickly look at his background.
   F. He liked to call himself a socialist in economics, a liberal in politics, and a conservative in culture.

II. In *The Coming of Post-Industrial Society*, Bell argued that capitalist society was becoming postindustrial.
   A. There was a much closer link than in the earlier stages of capitalism between scientific knowledge and new technologies.
   B. The growing centrality of technological innovation was leading to changes in the class structure of society, especially the growing percentage of the workforce involved in professional and technical employment.
   C. Just as manufacturing had earlier displaced agriculture as the major source of employment, now manufacturing was being displaced by the service sector.

III. Now the economy was being transformed into one focused on services.
   A. There were older but still vital services such as finance, insurance, and transportation that facilitated the economy of production.
   B. What was striking was the rising importance in the economy of service sectors such as education, health, and social services.
   C. There was an increasing demand for the less tangible social services, such as psychologists and social workers.
   D. It was these expanding “human services” that were making people more productive. Economists in this period came to conceive of education and health as aspects of “human capital.”
   E. In a postindustrial economy, the production of manufactured goods depended much more on technological inputs than on the skills of the workers who actually built and assembled the products.
   F. That meant a relative decline in the numbers and economic value of skilled and semiskilled workers.
   G. The sorts of skills that were valued were scientific and technical knowledge, as well as human skills such as the ability to empathize with others.
   H. This turn away from factory industry and toward human services meant that there were expanding career opportunities for women.
   I. That meant an increasing number of dual-earner families, lessening women’s economic dependence on men.

IV. Bell took a keen interest in Schumpeter’s argument that capitalism might undermine its own social and cultural foundations. In *The Cultural Contradictions of Capitalism* (1976), Bell put forward his own version of this thesis.
   A. He argued that the foundations of capitalism were being undermined because there was a growing contradiction between cultural trends and the requirements of the economic system.
B. The sort of people required by contemporary capitalism were those able to defer gratification, be self-disciplined in pursuit of long-range goals, and adapt themselves to the necessity of working with others in an organization.

C. But contemporary culture spurned this sort of character ideal as bourgeois and promoted immediate satisfaction, self-expression, unreason, and fun, especially entertainment through sex.

D. Instead of following the rules that allowed one to play a role in a larger organization, contemporary culture encouraged antinomianism.

E. Modern artists had long defined themselves in contradistinction to the bourgeois mode of life, and through their exploration of new realms of experience. Now this propensity had filtered down into mass culture.

F. To the extent that it was embraced by more and more people, this counterculture of self-expression and self-gratification made people unfit for productive work in the economy of postindustrial capitalism.

V. A second cultural contradiction, according to Bell, was a more direct product of the development of capitalism itself.

A. The Protestant ethic of asceticism, frugality, and deferred gratification was being undermined in the marketplace.

B. Instead of deferred gratification, contemporary capitalism promoted hedonism, a culture of excitement and fun.

C. To the extent that people embraced this cultural ideal as their own, it would undermine the motivational system of deferred gratification and self-discipline that lay behind capitalism.

D. Bell thought that older character ideals of asceticism, frugality, and deferred gratification were also being undermined by mass consumption and by the promotion of mass consumption through the extension of credit.

E. Thus Bell revived the “eroding foundations” argument in new forms.

VI. What did Bell overlook?

A. He overlooked the fact that people don’t necessarily want to have the same sort of existence in work and outside of work.

B. He overlooked the learning processes in a capitalist society, by which people try new lifestyles and learn by trial and error about their costs and benefits.

C. So too with credit, which doesn’t undermine self-discipline for very long, because one soon learns the cost of not keeping up with payments.

VII. Yet Bell might have been on to something.

A. People whose character is actually formed by capitalist mass culture and by advertising may well turn out as Bell describes.

B. This points us to the role of other social and cultural institutions in counteracting the hedonism and materialism encouraged by the market.

C. Most people learn character traits (or virtues) from other institutions, above all the family, that serve as counterinstitutions to the market.

D. Those who fail to develop such character traits don’t undermine capitalism; in a capitalist society, they fail and remain on the margins.

E. Thus it would be more accurate to speak not of the cultural contradictions but the cultural tensions and cultural hazards of capitalism.

Suggested Reading:
Bell, *The Coming of Post-Industrial Society*.

Questions to Consider:
1. Compare the versions of the “eroding foundations thesis” in Burke, Schumpeter, and Bell.
2. What are the implications of the movement of capitalism from industrial to postindustrial?
Lecture Thirty-One
The Family under Capitalism

Scope: Analysts of capitalism since at least Hegel and de Tocqueville have regarded the family as a potential countervailing influence to the market. The family not only shapes capitalism but has repeatedly been reshaped by it. This lecture examines some of the long-term patterns in the size of the family, the changing ways in which people allocate their time between the market and the household, some of the debates to which these changes gave rise, and useful conceptual frameworks for thinking about the links between capitalism and the family.

Outline

I. The shape of the family has changed several times in modern history, and these changes have been linked with the development of capitalism.
   A. The traditional family pattern, dominant through the late 18th century, was for most people to have many children. From the late 18th century to about the 1860s, there was a growth in population.
   B. Then, almost everywhere in capitalist countries, there was a decline in fertility—what demographers call “the fertility transition.”
   C. There were lower mortality rates for children—so people didn’t need to have a high number of children to get to the desired number.
   D. Industrialization and urbanization reduced the demand for children, who now required higher investment per child.
   E. Fertility increasingly came within the calculus of conscious choice, and the decline occurred first in the most educated classes and then tended to diffuse downward.
   F. This led to a series of movements to try to influence fertility, and to debates among intellectuals about the causes and possible solutions to the perceived problems of fertility decline.

II. In the interwar years and during World War II, fertility decline became a widespread topic of debate among both intellectuals and politicians.
   A. Demographic explanations of the Depression were put forward in the work of Alvin Hansen (U.S.), J. M. Keynes (Britain), and Gunnar Myrdal (Sweden), who saw low fertility and stagnant population as contributing to economic stagnation.
   B. On the right, there was a tendency to interpret fertility decline as a sign of national decadence.
   C. On the left, the claim was made that declining population showed the economic impracticality of capitalism.
   D. One response of the left was the welfare state, first in interwar Sweden, where a key argument of Gunnar Myrdal and his wife Alma was that in order to keep up the level of population, the state had to socialize the costs of child rearing.
   E. In England, the Beveridge Report (1942) recommended maternal welfare provisions and family allowances so that women could reproduce.

III. Schumpeter criticized the notion that the Depression was caused by depopulation, but he was alarmed by the decline of family size on other grounds and had a conservative theory of why this was happening.
   A. Schumpeter regarded declining fertility as due to the spread of rationalization. Under this mentality of calculation of costs and benefits, children seemed increasingly like a greater cost than a benefit.
   B. But Schumpeter thought that people might actually get the costs and benefits wrong because the costs of having children are obvious (in terms of money, privacy, and discretionary time) while the long-term benefits of having children are hard to specify and to measure.
   C. Another factor, he thought, was that capitalism creates alternative uses of time, especially for women.
   D. He suggested that the rechanneling of energies from the family into the economy might be one of the hidden sources of capitalist economic growth.
   E. Schumpeter thought that the decline of the desire for a large family might reduce the psychological incentives to entrepreneurship. For him, this was another example of how capitalism eroded its own foundations.
IV. Much to the surprise of many observers, fertility began to rise again in Western societies in the decade after World War II. Then beginning around 1963, there was a decline of fertility in Western capitalist societies, down below the level of replacement (2.1 children per woman).
   A. This drop coincided with increased demand for female labor, as capitalism moved toward a postindustrial society more geared to services.
   B. This created a rising value of women’s work in the marketplace.
   C. Another important factor here was the birth control pill, which allowed women to control their fertility.

V. In thinking about capitalism and the family in the contemporary era, it is useful to think in terms of the interrelationships of four spheres and two types of labor.
   A. The four spheres are the family or household, the market, the state, and the nonprofit sector.
   B. The two types of labor are paid and unpaid. In addition to the paid labor within the market, there is great deal of unpaid labor, above all in the household.
   C. The family is a site where “human capital” is produced: both in the sense of biological reproduction of people and in the sense that it is where children are socialized and educated.
   D. Part of the problem in evaluating the actual economic situation in modern societies is that the work that’s provided in the household isn’t remunerated and hence doesn’t make it into national income statistics.

VI. A dilemma facing members of families is to what extent they should engage in alternative uses of their time: in paid labor in the market, in unpaid labor related to the household, or in consumption in the household.
   A. To the extent that the market produces commodities that people want to buy, they have to work in the market for wages.
   B. Conversely, to the extent that people spend their time working in the market, they will need to purchase commodities in the market to compensate for the goods and services not being produced in the home.
   C. To the extent that men and women can work, and do work, in the marketplace, this can create a labor shortage in the household itself.
   D. This leads to a sense of a shortage of time, of tension between time spent in the income-generating market versus time spent on family.
   E. It also presents difficult decisions about reasonable substitutions between the services one could do oneself versus the substitutes for them that can be purchased in the market.
   F. Thus there are trade-offs between the household and the market.

VII. There are also trade-offs between the household and the state.
   A. These differ in the social democratic, liberal, and conservative models, as suggested by Gøsta Esping-Andersen.
   B. These trade-offs help account for the different levels of fertility in societies that exemplify the three models.

Suggested Reading:
Degler, At Odds.
Goldin, “The Quiet Revolution.”
Schumpeter, Capitalism, Socialism and Democracy, 156–63.

Questions to Consider:
1. Do people tend to accurately calculate the long-term benefits of having children?
2. Should smaller families be understood as evidence of “decline”?
Lecture Thirty-Two
Tensions with Democracy—Buchanan and Olson

Scope: Most Americans, having lived in a country with a long history of democratic and capitalist institutions, take their compatibility for granted. In some ways, capitalism and democracy are mutually supporting, but they can also be in tension with one another. During the 1970s, it was the prospect of long-term stagnation that led a number of American thinkers to reexamine the tensions between capitalism and democracy. Among the most influential were James M. Buchanan, who offered a critique of Keynesianism based on public choice theory, and Mancur Olson, who offered an explanation of how the logic of collective action could lead to economic stagnation.

Outline

I. Most Americans, having lived in a country with a long history of democratic and capitalist institutions, probably take their compatibility for granted.
   A. But capitalism and democracy can also be in tension with one another.
   B. During the 1970s, the prospect of long-term stagnation led a number of American thinkers to reexamine the tensions between capitalism and democracy.

II. Let us look first at some of the broad issues in the relationship between capitalism and democracy.
   A. We should begin with this empirically derived generalization: While there have been many historical instances of capitalism without liberal democracy, there are no known cases of liberal democracy without capitalism.
   B. Most western European societies became capitalist societies before they became democratic societies.
   C. There was a great deal of concern by 19th-century intellectuals, including liberals such as John Stuart Mill, that with the coming of democracy the newly enfranchised working class would use its political power in a way that would destroy capitalism.

III. In theory, and sometimes in practice, democracy has a number of advantages when it comes to sustaining capitalist economic growth.
   A. First, the fact that people have a voice through elections makes them more accepting of government.
   B. Second, over time, democracy tends to bring about the development of policies that blunt the rough edges of capitalism.
   C. Third, democracy can provide an informational feedback mechanism.

IV. Historically, a rising standard of living, made possible by economic growth, is conducive to democracy.
   A. Modern democracies derive a good deal of their legitimacy from their ability to provide a rising standard of living.
   B. A growing economy also tends to blunt political conflict.
   C. Democracy without economic growth, by contrast, tends to make distributional struggles more painful, because one group can only gain if another loses.
   D. Economic stagnation and decline has often spelled the end of representative democracy, as was so often the case in interwar Europe.

V. The question posed anew by a number of thinkers in the 1970s was whether democratic political processes themselves contribute to economic stagnation or even decline.
   A. The 1970s were a decade of economic slowdown and stagnation.
   B. The combination of slow economic growth and expectations of continuous increases in the provision of government welfare measures led to higher levels of government expenditure, as well as to inflation.
   C. The tools of Keynesian economic policy no longer seemed to work.
   D. Under these circumstances, a number of thinkers turned to the issue of the relationship between capitalism and political representation.

VI. One school of thought that focused on this issue was the “public choice” school, centered on James M. Buchanan, an American economist who was awarded the Nobel Prize in Economics in 1986 for his work.
   A. While much liberal thought was focused on the dysfunctions of the market (market failure), Buchanan and his school focused on government failure.
   B. Buchanan’s key assumption was that politicians running for office also pursued their self-interest: To get votes, they appealed to the voters’ sense of their own self-interest.
C. Buchanan focused his analysis on the unanticipated negative consequences of Keynesianism.

D. Keynes put forward a sophisticated explanation of why, when the capitalist economy was not producing sufficient jobs, it would be legitimate for the government to run a deficit.

E. Buchanan’s critique was that Keynes was naive about democracy, because elected politicians got more support when they spend money that yields some demonstrable benefits to their constituents and less support when they cut back on those benefits.

F. Buchanan argued that contemporary politics had a built-in tendency to run deficits, and governments would have to cover those deficits in one way or another.

VII. Another influential analysis of the tensions between democracy and capitalism came from American economist Mancur Olson.

A. His theory is often referred to by a key term that he coined, “the logic of collective action.”

B. It too begins with the premise that individuals in the political arena can best be understood as self-interested actors.

C. He explained that well-organized small groups actually have an advantage in getting the government to adopt policies that will help them at the expense of everyone else.

D. Each group seeks protection from market competition for the commodity or service it produces. As groups gain protection, the efficiency and productivity of the market decline, and in extreme cases stop altogether.

E. A related theory of the logic of collective action is “rational ignorance.”

F. A telling criticism of the rational ignorance thesis is that it radically overestimates the rationality of individuals as voters.

VIII. By the late 1970s, democratic processes seemed to be leading to an ever-larger government, but one less effective in providing the economic growth that had been the basis of the postwar welfare state.

A. This helps explain why in some countries the problems of inflation and stagnation brought to power leaders committed to reducing the growth of government and enhancing the role of the market.

B. That turn toward the market, as we’ll see, occurred in both the capitalist and communist worlds.

Suggested Reading:
Buchanan, “Keynesian Economics in Democratic Politics.”
———, The Logical Foundations of Constitutional Liberty.
Olson, The Logic of Collective Action.
———, The Rise and Decline of Nations.

Questions to Consider:
1. In what ways does democracy help support capitalism? In what ways does capitalism help support democracy?
2. What are the main tensions between capitalism and democracy?
Lecture Thirty-Three
End of Communism, New Era of Globalization

Scope: The late 1970s marked a watershed in the history of capitalism. It was the beginning of a new era of increased international trade and a greater orientation toward the market in diverse areas of the world. This included Britain, the United States, China, India, and the Soviet bloc (which became the former Soviet bloc with the dissolution of the Soviet Union and its Eastern European empire in the years 1989 to 1991). This lecture explores the origins and nature of this newest era of globalization and puts it in historical perspective.

Outline

I. If by “globalization” we mean the spread of trade, investment, communications, and people across borders and across ever-wider regions of the globe, then in many ways, the process has been going on since the beginnings of capitalism.
   A. But there have been periods of speeded-up globalization, and periods of retrenchment and even decline.
   B. There was an intensification of world trade in the era from 1870 to 1914 due to a number of factors.
   C. As a result of all these factors, world trade more than doubled in the 20 years before World War I, so that by 1914, international trade represented 20 percent of the world’s output.
   D. This globalization included not only mobility of investment capital and of goods, but of people as well, as emigrants left the poorer parts of Europe for the New World.

II. By contrast, the era from World War I through the end of World War II was one of massive retreat from international trade.
   A. The communist regime in the Soviet Union put Russia largely outside of the world capitalist economy.
   B. With the coming of the Depression, liberal capitalist countries moved toward greater protectionism in an attempt to shore up their individual economies.

III. At the end of World War II, American policymakers created the institutional groundwork for expanding international trade.
   A. International trade was encouraged by lowered American tariffs.
   B. It was also facilitated by newly created institutions such as the World Bank, the International Monetary Fund, and the General Agreement on Tariffs and Trade.
   C. As a result, there was an increase of international trade during the 1950s, which facilitated the recovery of Western Europe.
   D. From the 1950s through the 1970s, other countries entered the arena of international trade and created a model of economic modernization through selling into markets abroad.
   E. This strategy of growth, known as “export-oriented industrialization,” was pioneered in Japan during the 1950s and 1960s, and was later adopted, with variations, by what became known as the East Asian tigers.
   F. The era of globalization that began in the later 1970s was characterized by the increased flow of international investment, the increased trade in goods, and above all, the greater number of people and regions of the world involved in the international capitalist economy.

IV. Beginning in the late 1970s, there was a turn toward capitalism in Britain, the United States, China, India, and the erstwhile Soviet bloc, but the last two decades of the 20th century saw the collapse of the major alternative to capitalism, namely communism.
   A. In China, it took the form of the collapse of communist ideology and the development of a more capitalist society under the auspices of a party that called itself communist, but that had ceased to be communist or socialist in any meaningful way.
   B. China’s significance in globalization derived from its size (the largest population in the world), its spectacular rate of growth, and the rapidity with which it moved into the world economy.
   C. In the Soviet Union and Eastern Europe, between 1989 and 1991, nine communist regimes came to an end.
   D. The failure of economic growth in the 1970s and 1980s increasingly led to a declining belief in the legitimacy of communist ideology by the populations of these countries, and also by the leaders of these countries.
   E. There was also a deep corruption of egalitarian ideas.
V. At the same time as the end of communist rule in Russia and Eastern Europe, and the decline of communist ideology and practice in China, came a turn to more market-oriented policies in the Western world heralded by Margaret Thatcher and Ronald Reagan.

A. Those policies included freer trade within each country and also freer international trade and investment.

B. Changes in transportation and in communications made possible a huge increase in the volume of international trade and the flow of international investment.

C. Compared to the era of globalization from 1870 to 1914, however, now there is much less human mobility. In 1913, immigrants made up about 10 percent of the world population. Today, it’s about 3 percent.

VI. The most recent era of globalization has witnessed remarkable economic growth. Adjusted for inflation, the world’s per capita income rose from $5,400 in 1980 to $8,500 in 2005.

A. This growth was fastest and most striking in East Asia and South Asia.

B. Growth was moderate in the United States and Europe, slow in Latin America, and nonexistent in much of Africa.

C. Most striking was the entry of China into the world capitalist economy.

VII. The impact of globalization on the United States is connected with its change from an industrial economy to a postindustrial, or service, economy.

A. Manufacturing remains about 21 percent of the American economy, not much different than it was in 1960, but the percentage of the population active in manufacturing has declined.

B. There was an ongoing loss of jobs in the manufacturing sector, but gains in the service sectors.

C. The effect of technological modernization and of more global trade is to reduce the market value of unskilled and low-skilled work, because these sorts of routine jobs are more likely to be replaced by technology or to be done by workers in parts of the world where wages are lower.

D. New jobs are being created, but they require different sets of skills and talents, either technical skills or social and cultural skills.

Suggested Reading:
Frieden, Global Capitalism.
Friedman, The Lexus and the Olive Tree.
Chang, Bad Samaritans.

Questions to Consider:
1. “The costs of globalization are more readily apparent than its benefits.” Discuss.
2. Is globalization here to stay, or will there be a massive reaction against it, as occurred during the previous round of globalization, reversing the process?
Lecture Thirty-Four
Capitalism and Nationalism—Ernest Gellner

Scope: Ernest Gellner offers an interpretation of modern history that explains how the processes that led to the development of capitalism also led to the development of nationalism. He argues that the very processes that made capitalism possible led to changes in personal identity that made nationalism an attractive ideology and created a world of nation-states out of a world of empires.

Outline

I. There are two major ways of thinking about national identity.
   A. The liberal, or “civic,” conception holds that everyone who lives within the borders of a state is part of the nation, regardless of their ethnic, racial, or religious origin.
   B. The core of the ethnic nationalist idea is that to be part of the nation means to share a common heritage that usually includes common language, faith, and ancestry.
   C. The central tenets of ethnic nationalist belief are that nations exist in this ethnic sense, that each nation ought to have its own state, and that each state should be made up of the members of a single nation.

II. Ernest Gellner called attention to the centrality of nationalism to modern history during a period when relatively few Western social scientists were interested in it.
   A. Gellner knew the power of ethnic nationalism from his own experience.
   B. His major contention in his book *Nations and Nationalism* (1983) was that nationalism was an inevitable by-product of modern industrial society, and he explained why the nation-state became the characteristic political form of modern capitalist society.

III. Here is Gellner’s conception of what happened.
   A. As late as 1914, most of central-eastern and southeastern Europe was made up not of nation-states but of empires.
   B. In these predominantly agrarian societies, social and economic stratification was largely a matter of ethnic stratification.
   C. The transformation from empires to nation-states was set in tow by the attempt of the empires to modernize—that is, to develop into industrial capitalist economies.
   D. Industrial societies, Gellner argues, depend on the exchange of information to a much greater degree than earlier, agrarian societies.
   E. A state that seeks to make its population fit for capitalist industrialization must therefore impose education upon it, and because all parts of the population must be able to communicate with one another, the polity must impose some shared, common, literate culture.
   F. Dynamism is built into the very structure of industrial society. It depends on a changing division of labor and the elimination of permanent barriers of rank.
   G. There is therefore a degree of egalitarianism built into its ideological structure.

IV. But there is a tension between the egalitarian promise of industrial society and its reality. Some groups do better than others, and that provides the motivation for ethnic mobilization.
   A. Under circumstances of growing literacy and growing urbanization, finding a job depends on the language that you speak and read.
   B. Those who have not mastered the dominant language or cultural idiom are at a disadvantage.
   C. People began to identify themselves as members of one or another ethnic group, and to improve the chances for their ethnic group, they insisted that their ethnic group should be regarded as a nation.
   D. In keeping with the tenets of nationalism, they demanded that their nation have a state of its own. In their own nation, they would be the masters.

V. There is also a psychological basis for ethnic nationalism as well.
   A. The modern state and market tend to diminish allegiances to other social groups between the individual and the state.
   B. This leaves an emotional vacuum that is often filled by nationalism.
VI. Gellner distinguishes between several types of nationalism, all of which involve ethnicity.
   A. First, in Western Europe there were the dynastic states along the Atlantic seaboard, in which a politically united, ethnically homogeneous state preceded the rise of industrial society.
   B. Second, there are cases of “unificatory nationalism,” such as Italy and Germany, in which an existing highly literate culture only needed a political roof to unite existing smaller political entities.
   C. Third, there is Eastern, or Balkan, nationalism, in which a previously subordinate (often peasant) culture was transformed into a literate high culture that was to provide the basis of an ethnonational state.

VII. In addition to these three types of nationalism, there is a fourth, which Gellner terms “diaspora nationalism.”
   A. This includes Greeks, Armenians, Parsis, overseas Chinese, Indians, and Ibos in Nigeria. But the paradigmatic, if extreme, case is represented by the Jews.
   B. Diaspora nationalism is a reaction to the rise of the other types of nationalism.
   C. It occurs among groups who in the earlier, agrarian order had a status that combined political powerlessness with occupations such as finance and trade, occupations that were stigmatized but necessary.
   D. As a result, when the legal barriers to competition come down, members of that minority do disproportionately well, and now their economic and cultural success is a source of envy and of danger.
   E. The state now finds that it has more of an interest in buying off the discontent of the wider population by dispossessing and persecuting the envied minority.
   F. That is why so much of the history of 20th-century Europe was one of ethnic separation.

VIII. Several decades of consolidated, ethnically homogeneous nation-states seemed to have sapped some of the emotional power of ethnic nationalism in Europe.
   A. That’s one reason why so many Europeans are now prepared, or even eager, to participate in transnational frameworks like the European Union.
   B. But in much of the world, ethnic nationalism remains a powerful force, creating affinities within some groups and tensions with others.

Suggested Reading:
Anderson, Imagined Communities.
Gellner, Nations and Nationalism.
Muller, “Us and Them.”

Questions to Consider:
1. What are the key differences between liberal nationalism and ethnic nationalism?
2. What are the advantages and disadvantages of states based on liberal nationalism as compared to those based on ethnic nationalism?
Lecture Thirty-Five
The Varieties of Capitalism

Scope: Thinking about capitalism means thinking about what capitalist societies have in common, and also how they differ. In this lecture we examine five types of variety: political structures, types of welfare states, developmental strategies, forms of business, and extent of equality. In considering this variety, we look at what we can learn from other forms of capitalism, and also the limits of institutional convergence. Our thinking about contemporary capitalism changes when we move away from thinking of individual national economies as self-contained units and think more about the complementarities of the international economy.

Outline

I. Both advocates of globalization and its critics often conceive of the global spread of capitalism as a homogenizing force, but in contradistinction to this notion, this lecture focuses on the varieties of contemporary capitalism.
   A. Thinking about capitalism should mean thinking about what capitalist societies have in common, and also what they do not.
   B. In this lecture we examine five types of variety: political structures, welfare states, developmental strategies, forms of business, and the extent of equality.
   C. In considering this variety, we want to ask the following questions: What can we learn from other forms of capitalism? What are the limits of what we can learn from others?

II. First there is the political variable of democracy versus nondemocracy. All liberal democratic polities have had capitalist economies, but not all capitalist economies have been liberal and democratic.
   A. As we saw in a previous lecture, capitalism in Europe developed from the 17th century to the late 19th century in countries that had a limited suffrage, and in that sense were only partly democratic.
   B. Since the 19th century, there have been many regimes that combined a primarily capitalist economy with nondemocratic and antidemocratic political structures. One example would be Nazi Germany.
   C. Later in the last century, there were countries that combined capitalism with authoritarian regimes, and some of these regimes were successful in bringing about capitalist economic growth, which often set the stage for more democratic politics. One example would be China.

III. Regimes that combine capitalism with democracy have all developed into welfare-state capitalism, but those welfare states have taken a variety of forms. One useful way of distinguishing these forms is Gösta Esping-Andersen’s model.
   A. The conservative regime is most often found in Catholic countries and stresses job protection and high wages in order to allow a male breadwinner to be the sole support of his family.
   B. The social democratic regime is found in the Nordic countries and stresses government provision of social services and income supports to create a more egalitarian society and to allow both men and women to work.
   C. The liberal version is found in the United States and, to a lesser degree, in other Anglo-Saxon countries and tries to offer government support for those who can’t work in the job market. It generally has looser labor laws that make it easier to hire and fire people.

IV. There are also a variety of capitalist strategies to bring about national development.
   A. One recurrent strategy is the Smithian one of a competitive, free market economy combined with international free trade.
   B. The second strategy is neo-Hamiltonian, based on the premise that to move from an agricultural to an industrial economy the government must take various measures that are at odds with free trade, such as tariff protection or subsidies.

V. A fourth set of categories for thinking about the varieties of contemporary capitalism focuses on the types of businesses that predominate, and their relationship to government.
   B. State-guided capitalism occurs when government tries to guide the market, often by supporting particular industries it thinks will be important and competitive in the world economy.
   C. The second variety they suggest is oligarchic capitalism, in which the bulk of wealth and power is held by relatively few individuals, families, or clans with close ties to government.
D. The third variety is big-firm capitalism, in which most significant economic activity is carried out by established, giant enterprises.
E. The fourth variety of capitalism is entrepreneurial capitalism, in which a major role is played by small, innovative firms.
F. The United States is characterized by a combination of big-firm and entrepreneurial capitalism. Innovation often occurs in small firms, which are then bought by larger firms.

VI. Another variety concerns the extent of equality or inequality in advanced capitalist societies.
A. One way of measuring inequality is by Gini coefficients, which can easily be misleading because different countries arrive at them in different ways. Yet they do give us a sense of the extent of equality and inequality in various countries.
B. This variation can be explained in part by degrees of ethnic homogeneity, in part by size, and in part by different cultural traditions.
C. These national differences are reflected in the variety of welfare states, each with their own advantages and disadvantages.

VII. There is a widespread belief among social scientists that through social scientific analysis we can demonstrate that some institutional structures work better, and then encourage institutional borrowing and imitation from one society to another.
A. But there are probably limits to such learning and imitation.
B. It may well be that many institutions and practices that work well in one national context are too difficult to reproduce in another national context because of the effects of those hard-to-specify factors of culture and historical experience.
C. Different societies, for example, have different preferences for risk versus security, for mobility versus stability, or for egalitarianism of outcomes versus inequality of achievement.
D. All of these may be difficult to alter by deliberate policy, and probably limit the options available to policymakers seeking to maximize the economic dynamism of their societies.
E. Perhaps we should think less in terms of adopting similar institutions and more in terms of a world division of labor.
F. This in turns raises the issue of how our thinking about contemporary capitalism changes when we move away from thinking of individual national economies as self-contained units and think more about the complementarities of the international economy.

Suggested Reading:
Baumol, Litan, and Schramm, *Good Capitalism, Bad Capitalism*.
Bhidé, *The Venturesome Economy*.

Questions to Consider:
1. What institutions and practices can Americans adopt from other forms of capitalism?
2. What are the barriers to doing so?
Lecture Thirty-Six
Intrinsic Tensions in Capitalism

Scope: Why has capitalism been so productive and innovative, and why has it outlasted its competitors, such as socialism? In this lecture, we look first at recent thinking about the sources of capitalist economic growth in institutions and in human capital. Then we examine some of the intrinsic tensions in capitalism that have been brought to light by the thinkers we’ve examined in this course. These tensions reveal some of the dangers and pitfalls of capitalism but might also help to account for capitalism’s dynamism and historical durability.

Outline

I. Capitalism, as Marx noted, has been characterized by unprecedented economic growth and dynamism. How can we account for the sources of capitalist productivity?
   A. The ability of the system to appeal to self-interest is part of the answer.
   B. Capital, in the traditional sense, is among the least important factors in explaining capitalist economic growth.
   C. Far more important are the quality of government institutions and the various forms of “human capital,” which includes social and cultural capital.

II. Let us turn to ongoing tensions and dilemmas within capitalism. The first concerns the state.
   A. It is the existence of a state capable of enforcing the rule of law that makes capitalism possible, and the effectiveness and efficiency of the state turns out to be a major factor in accounting for economic growth.
   B. A state is inefficient when it has too many rules and regulations that slow down economic life, and it is ineffective when it has too little regulation or is unable to enforce those regulations, because without regulation there are negative externalities that diminish the quality of life.
   C. That is why to have effective capitalism it helps to have an effective civil service, capable of administering the law with neutrality.

III. Another tension has to do with self-interest. As several of our thinkers have reminded us, the notion of “self-interest” is a complicated one.
   A. It can be understood naively as little more than egoism or individualism, or it can be understood in what de Tocqueville called its proper sense, as involving our relations with others.
   B. Hayek maintained that the greatest misconception about liberal capitalist society came from those who equated self-interest with selfishness, and who thought that capitalism meant a society dominated by economic values.
   C. Hayek, by contrast, maintained that there are no economic values: There are a variety of values and purposes that lead people to engage in market activity, and many of those are neither egoistic nor selfish.

IV. Then there are the tensions of capitalism and the individual.
   A. Hegel contended that people who value individuality tend to overlook the role of the market in making individuality possible.
   B. Simmel reminded us that the capitalist market produces things that we use to develop our potentialities.
   C. Yet, Marcuse’s lesson was that the capitalist marketplace consists in good part of people selling you things that you don’t need, forcing you to work sometimes at the expense of your personal creativity.
   D. To this we can add Daniel Bell’s reminder that if you simply respond to the messages of advertising, you’ll never become the sort of self-disciplined person capable of thriving in a capitalist society.
   E. Still we should not overlook Voltaire’s claim, that the capitalist market produces things that you do want.

V. The challenge is how to develop into autonomous people, capable of becoming more than a passive object.
   A. We should recall the importance attached by so many of the thinkers we’ve discussed to countervailing institutions: religion for Burke and de Tocqueville, and cultural institutions for Matthew Arnold.
   B. The function of such institutions is not just to prepare us for the market, but to make us keep asking what we should be looking for in the market, and what we should avoid.
   C. Perhaps the most important of those institutions is the family because, as thinkers from de Tocqueville to Gary Becker have noted, this is where we learn so many of our fundamental character traits.
   D. The tensions between the family and market are an ongoing source of transformation of both institutions.
VI. Then there are the tensions between capitalism and democracy, as expressed in the welfare state.
   A. As we’ve seen, these can lead to governmental paralysis or to economic stagnation.
   B. But as theorists of the welfare state remind us, people don’t want to live in a society where they feel constantly at risk, so one role of government is to try to reduce risks.

VII. Another set of tensions is between capitalism and community.
   A. Since at least the time of Justus Möser in the later 18th century, thinkers have lamented that the spread of the market destroys existing communities.
   B. It would be myopic to deny that this sometimes happens, but it would be equally shortsighted to ignore the fact that capitalism constantly leads to the creation of new communities.
   C. We might keep in mind Georg Simmel’s observation about the fact that the market constantly creates new, looser associations based on shared interests or tastes.

VIII. Another tension in capitalist societies is captured in Schumpeter’s phrase “creative destruction.”
   A. Schumpeter’s image of capitalism as progressing through wave after wave of creative destruction remains useful.
   B. But this metaphor may be misleading, as Amar Bhidé has suggested, because it overlooks the phenomenon of nondestructive creation.
   C. Capitalist dynamism entails not just providing for old wants in new ways, but creating and providing for new wants.

IX. What about the tensions between particular identity and a more universal or cosmopolitan identity?
   A. As we have seen, capitalism helps to bridge cultural, religious, and national boundaries.
   B. The tension here, as we know from Ernest Gellner, is that ethnic solidarity (and its corollary, suspicion of others) has played an ongoing role under capitalism.
   C. As for the purported threat posed by capitalism to national identity, we’ve seen that capitalism has by no means led to the end of particular national cultures.

X. Just as there are a variety of capitalisms, so too are there a remarkable variety of ways to live under capitalism.
   A. A liberal capitalist society is characterized by a greater variety of ways of life than past societies or more authoritarian societies in the present.
   B. This flexibility is part of what gives capitalism its tensile strength.

Suggested Reading:
Bhidé, *The Venturesome Economy*.
Cowen, *Creative Destruction*.

Question to Consider:
1. How do you think differently about capitalism now, compared to the way you thought about it at the beginning of the course?
Timeline

B.C.

384–322 ................................................................. Life of Aristotle.

A.D.

354–430 ................................................................. Life of Augustine of Hippo.
1139 ..................................................................... Usury expressly forbidden by the second Lateran Council.
1225–1286 ............................................................... Life of Thomas Aquinas.
1600 ..................................................................... British East India Company granted royal charter for monopoly on trade with India.
1602 ..................................................................... Founding of the Amsterdam Stock Exchange and of the Dutch East India Company, the first company to issue public stock.
1609 ..................................................................... Bank of Amsterdam founded.
1651 ..................................................................... Thomas Hobbes’s *Leviathan, or the Matter, Forme, and Power of a Common-wealth Ecclesiasticall and Civill*.
1662 ..................................................................... Pieter de la Court’s *The True Interest and Political Maxims of the Republic of Holland*.
1675 ..................................................................... Pierre Nicole’s “Of Charity and Self-Love.”
1689 ..................................................................... John Locke’s *Two Treatises of Government*.
1694 ..................................................................... Bank of England founded, a key development in the financial revolution.
1706 ..................................................................... Bernard Mandeville’s *The Fable of the Bees*.
1707 ..................................................................... Act of Union joins England and Scotland into Great Britain.
1711 ..................................................................... *The Spectator*, the first journal of public opinion, is founded in England with the aim of bringing “philosophy out of closets and libraries, to dwell in clubs and assemblies.”
1734 ..................................................................... Voltaire’s *Letters on England*.
1736 ..................................................................... Voltaire’s “The Worldling.”
1750 ..................................................................... Jean-Jacques Rousseau’s “Discourse on the Arts and Sciences.”
1755 ..................................................................... Jean-Jacques Rousseau’s “Discourse on the Origin and Foundations of Inequality among Men.”
1759 ..................................................................... Adam Smith’s *The Theory of Moral Sentiments*.
1762 ..................................................................... Jean-Jacques Rousseau’s *The Social Contract*.
1765 ..................................................................... Josiah Wedgwood opens first showroom in London, a key development of the consumer revolution of the 18th century.
1769 ..................................................................... Voltaire’s *Philosophical Dictionary*.
1775 ..................................................................... Justus Möser’s *Patriotic Fantasies*.
1776 ..................................................................... James Watt’s steam engine installed for commercial use; Adam Smith’s *An Inquiry into the Nature and Causes of the Wealth of Nations*.
1783 ..................................................................... Edmund Burke’s *Ninth Report of the Select Committee on India*.
1789 ..................................................................... French Revolution begins.
1790 ..................................................................... Edmund Burke’s *Reflections on the Revolution in France*. 

1820..............................................................G. W. F. Hegel’s *The Philosophy of Right*.

1824..............................................................Henry Clay outlines the “American System” of protection.

1827..............................................................Friedrich List’s *Outlines of American Political Economy*.

1828..............................................................Protectionist tariff on import of manufactured goods passed by U.S. Congress, in part due to influence of List’s book, and leading to Southern protest against “The Tariff of Abominations.”

1830..............................................................First British railway built.

1835–1840..................................................Alexis de Tocqueville’s *Democracy in America*.

1845..............................................................Friedrich Engels’s *The Condition of the Working Class in England*.

1847..............................................................Founding of the first Siemens company.

1848..............................................................Karl Marx and Friedrich Engels’s *The Communist Manifesto*; failed revolutions in continental Europe.

1855..............................................................Limited Liability Act (UK).

1863..............................................................Limited liability law adopted in France.

1864..............................................................Founding of International Workingmen’s Association, in which Marx soon became active.

1867..............................................................Karl Marx’s *Capital*, vol. 1.

1870..............................................................Deutsche Bank formed.

1871..............................................................Trade Union Act (UK) gives legal protection to unions; unification of Germany; Thyssen and Co. founded.

1887..............................................................Ferdinand Tönnies’s *Community and Society*.

1900..............................................................Georg Simmel’s *The Philosophy of Money*.

1902..............................................................Werner Sombart’s *Modern Capitalism* (vols. 1 and 2); John A. Hobson’s *Imperialism*; V. I. Lenin’s *What Is to Be Done?*

1903..............................................................Werner Sombart’s *The German Economy in the Nineteenth Century*; Ford Motor Co. established.

1904–1905..................................................Max Weber’s *The Protestant Ethic and the “Spirit” of Capitalism*.

1908..............................................................General Motors founded; Henry Ford introduces the Model T.

1910..............................................................Rudolf Hilferding’s *Finance Capital*.

1911..............................................................Joseph Schumpeter’s *The Theory of Economic Development*.

1913..............................................................Federal Reserve System established in U.S.; Rosa Luxembourg’s *The Accumulation of Capital: A Contribution to an Economic Analysis of Imperialism*.

1914–1918..................................................World War I.

1916..............................................................V. I. Lenin’s *Imperialism: The Highest Stage of Capitalism*.

1917..............................................................Bolshevik Revolution in Russia.

1918..............................................................Joseph Schumpeter’s “The Sociology of Imperialism.”

1918–1919...................................................Abortive communist revolutions in Berlin, Budapest, and Vienna.

1920..............................................................Ludwig von Mises’s *Economic Calculation in the Socialist Commonwealth*. 

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1923 ................................................................. Max Weber’s *Economy and Society*; Carl Schmitt’s *The Crisis of Parliamentary Democracy*.

1924 ................................................................. Ford produces 10 millionth car.

1928 ................................................................. First Soviet Five-Year Plan.

1929 ................................................................. Crash of New York Stock Exchange.

1930 ................................................................. Parliamentary crisis in Germany leads to suspension of parliamentary government; large electoral gains by National Socialists and Communists.

1931 ................................................................. Hans Freyer’s *Revolution from the Right*; Carl Schmitt’s *The Protector of the Constitution*.

1932 ................................................................. Franklin D. Roosevelt elected president in U.S.

1933 ................................................................. National Socialists come to power in Germany; Franklin D. Roosevelt inaugurated in U.S.; National Recovery Administration created.


1939–1945 ............................................................. World War II.

1942 ................................................................. Richard and Kathleen Titmuss’s *Parents Revolt—A Study of Declining Birthrates in Acquisitive Societies*; Sir William Beveridge’s *Report of the Inter-Departmental Committee on Social Insurance and Allied Services*; Jospeh Schumpeter’s *Capitalism, Socialism and Democracy*.

1944 ................................................................. Friedrich von Hayek, *The Road to Serfdom*.

1945 ................................................................. Election of Labour government in Britain.

1947 ................................................................. Beginning of the Marshall Plan (European Recovery Program).

1950 ................................................................. IBM begins producing computers.

1956 ................................................................. C. A. R. Crosland’s *The Future of Socialism*.

1964 ................................................................. Herbert Marcuse’s *One-Dimensional Man*.


1973 ................................................................. Daniel Bell’s *The Coming of Post-Industrial Society: A Venture in Social Forecasting*.

1976 ................................................................. Daniel Bell’s *The Cultural Contradictions of Capitalism*; Friedrich von Hayek’s *The Mirage of Social Justice*.


1979 ................................................................. Margaret Thatcher becomes British prime minister.

1981 ................................................................. IBM personal computer announced.

1983 ................................................................. Ernest Gellner’s *Nations and Nationalism*.

1986 ................................................................. Mikhail Gorbachev initiates policy of perestroika (reform) in U.S.S.R.

1989 ................................................................. Fall of the Berlin Wall; effective end of communism in Europe.

1991 ................................................................. Dissolution of Soviet Union.
**Glossary**

**civil society**: Hegel used the term to refer to the realm between the family and the state, which he saw as characteristic of modernity. Its major institution was the market. More recent thinkers have tended to use the term in a more Tocquevillian sense, to refer to voluntary associations that are not part of the family, market, or state.

**commercial society**: Adam Smith’s term for a society constituted by the market and by government capable of enforcing the rule of law.

**commodification**: The process by which goods previously produced directly are instead purchased.

**commodity**: An item or service that is bought and sold in the market.

**consumer revolution**: The history of capitalism is the history of consumption. While historians have discovered consumer revolutions going back to at least the 17th century, the term is conventionally used for the expansion of consumer goods and marketing in Britain in the second half of the 18th century.

**corporate society** (German: *Ständestaat*): A social and political system, characteristic of much of early modern continental Europe, in which society is organized into a hierarchy of legally recognized corporate groups (estates) with different rights and privileges, such as the clergy, nobility, citizens of towns, and serfs.

**false consciousness**: The Marxist doctrine that workers may fail to pursue their collective self-interest of embracing socialism because they have been conned by some nefarious force.

**fascism**: A 20th-century political ideology that stresses strong hierarchical leadership, a powerful state, and national self-assertion, while eschewing liberalism and democracy.

**guild**: An association of producers of some service or commodity, with a legally recognized monopoly and exclusive criteria of membership. Guilds dominated urban economic life in much of continental Europe until the era of the French Revolution.

**horizontal integration**: The process by which a company expands through developing or acquiring related product lines.

**imperialism**: Properly, the political control of one polity by another. Often extended promiscuously to include the economic domination of one polity over another.

**laissez-faire**: A popular synonym for “free market economics,” drawn from the maxim of the French physiocrats, “*Laissez-faire, laissez-passer*,” (“let it be,” or “leave it alone”), eschewing government interference with trade. Often attributed to Adam Smith, especially by those who haven’t read him.

**limited liability corporation**: The legal restriction of an owner’s loss in a business to the amount of capital he has invested in it. Before legislation permitting such bodies in the second half of the 19th century, in case of bankruptcy, investors could be made liable for full debt of the corporation. The limitation of this liability provided an incentive to invest and radically increased the capital available for investment.

**Marshall Plan** (European Recovery Program): An American government program, begun in 1948, that channeled funds for investment to the capital-deprived nations of Western Europe, which used it to restore infrastructure, import capital goods and jump-start their economies. The Organization for European Economic Cooperation, created to channel the funds, evolved into the Organization of Economic Cooperation and Development (made up of European states, the United States, and Canada), the source of much economic information.

**mercantilism**: Never a formal doctrine, and named only in retrospect by critics such as Adam Smith, a series of policies in early modern Europe that tried to foster domestic economic growth and subordinated trade to the military needs of the state.

**monopoly**: Originally, the legal privilege of having the exclusive right to engage in some economic activity. Often used to denote a market for some commodity dominated by a single firm, which is able to obtain higher prices because of a lack of competition.

**National Recovery Administration**: The NRA allowed industries to create “codes of fair competition,” and industry heads to collectively set minimum prices. These were intended to reduce “destructive competition” and to help workers by setting minimum wages and maximum weekly hours. Adopted by Congress in 1933, it was declared unconstitutional by the Supreme Court in 1935.

**offshoring**: The export of production abroad in search of lower production costs and hence higher profits.

**oligopoly**: A market that is dominated by a few large suppliers.
outsourcing: Purchasing some service or commodity that had once been made within a firm from an external firm, in order to take advantage of the division of labor, lower costs, and increase profits.

pleonexia: Aristotle’s concept of “overreaching” into extremity, wanting ever more, or open-ended desire.

rational ignorance: The theorem of public choice theory that because acquiring the knowledge of government policy required to ascertain the interests of one’s group requires time, money, and attention, for those with a small stake in the outcome, it is not worth their while to obtain the necessary knowledge.

“repressive desublimation”: Marcuse’s contention that contemporary capitalism appeals to direct satisfaction of erotic instincts as a way of controlling the populace and preventing radical change that would bring about a less repressive society.

“self-interest rightly understood”: De Tocqueville’s phrase for the recognition that it is not in one’s self-interest to act egoistically much of the time, leading to the development of habits such as temperance and self-control.

usury: In Catholic thought, the lending of money at (any) interest. In other traditions, the lending of money at excessive interest.

vertical integration: The process by which a company expands by acquiring its suppliers or customers.

welfare state: The term adopted in the United Kingdom to describe the governmental provision of a panoply of social services “from the cradle to the grave.” More loosely, the “safety net” of social services provided by the state alongside the capitalist economy.

zero-sum game: A situation in which one can gain only when another loses. Typical of circumstances in which there is no economic growth, or where the objects of desire are relative to one another.
Biographical Notes

Arnold, Matthew (1822–1888): The son of Thomas Arnold, who was the headmaster of the Rugby School for the instruction of “Christian gentlemen,” Matthew Arnold became a distinguished poet, social critic, educational theorist, and religious thinker. The best known of his poems, “Dover Beach” (published in 1867), explores the consolations of love amid the decline of traditional religious faith. For much of his life, he earned a living as a government inspector of schools run by the dissenting sects—an object of his critique—that formed the backbone of the British commercial classes. His major works of social criticism, which first appeared in syndicated form in the great Victorian journals and did much to create the social role of critic, include “Democracy” (1861), “The Function of Criticism at the Present Time” (1864), Culture and Anarchy (1867–1869), and “Equality” (1878). His volumes of religious thought, which attempted to state the case for a nonsupernatural religion, were highly influential in his day as statements of liberal Christianity, especially Literature and Dogma (1873) and God and the Bible (1874).

Barbon, Nicholas (c. 1640–1698): Born in London, he studied medicine in Holland, then returned to England, where he was entrepreneurially engaged in rebuilding London after the Great Fire of 1666, helped to create fire insurance, and was active in finance and in politics, serving as a member of Parliament. His Discourse of Trade (1690) was among the best-known tracts advocating freedom of trade and exploring the political implications of commerce.

Bell, Daniel (b. 1919): Among the most influential American social scientists of the second half of the 20th century. He began his intellectual life as a journalist, first as managing editor at The New Leader, a social democratic magazine (1941–1945), then as labor editor at Fortune (1948–1958). He was a Professor of Sociology at Columbia from 1959 to 1969, before moving to Harvard. His collection of essays, The End of Ideology (1960; revised edition 1962) explored developments in American society and social thought, as well as the declining plausibility of socialism. In 1965, together with Irving Kristol, he founded The Public Interest, a journal devoted to bridging the gap between the academic social sciences and public policy debates. The Coming of Post-Industrial Society: A Venture in Social Forecasting (1973) analyzed the shift from an industrial to a knowledge- and service-based economy. The Cultural Contradictions of Capitalism (1976) was a work of cultural, social, and political criticism and analysis.

Buchanan, James M. (b. 1919): Among the founders of “public choice theory,” which tries to analyze governmental economic actions based on the assumption that politicians and government officials are self-interested actors and tries to suggest constitutional restraints to improve public welfare. His major works include The Calculus of Consent: Logical Foundations of Constitutional Democracy (1962), which was written with Gordon Tullock. In 1986 he was awarded the Nobel Prize in Economic Science.

Burke, Edmund (1729–1797): Among the most influential intellectuals in 18th-century political life, Burke became one of the founders of conservatism. Born in Dublin to a Catholic mother and Anglican father, he studied law in London but pursued his career as a man of letters. His first book, a satirical critique of the radical Enlightenment à la Rousseau was published under a pseudonym in 1756 as A Vindication of Natural Society: A View of the Miseries and Evils Arising to Mankind. The next year, he published A Philosophical Enquiry into the Origin of Our Ideas of the Sublime and the Beautiful, in which he argued that “a consideration of the rationale of our passions seems to me very necessary for all who would affect them upon solid and sure principles.” In 1758, Burke launched the Annual Register, a survey of the major European political, literary, social, and artistic events of the preceding year. In 1765, he became a member of Parliament, becoming the brain behind the faction of the Whig Party led by his patron, Lord Rockingham. Among the highlights of his parliamentary career were his speeches “On Conciliation with America” (1775), an exploration of American political culture, and “The Nabob of Arcot’s Debts” (1785), part of his decade-long attempt to expose the corruption and corrupting effects of the British East India Company. With the outbreak of the French Revolution, he turned his attention to France, and in late 1790 published Reflections on the Revolution in France, a seminal work of modern conservatism.


De Tocqueville, Alexis: See Tocqueville, Alexis de.

Engels, Friedrich (1820–1895): Became a close collaborator of Karl Marx. Born in the Rhineland in western Germany, Engels came from a family of textile manufacturers, with branches in Germany and England. He studied in Berlin, where he associated with the Young Hegelians and was politically radicalized. In 1842, at his family’s insistence, he took up a managerial post at the family’s business in Manchester, England, then the center of the Industrial Revolution. In 1845 he published his first book, The Condition of the Working Class in England, a radical report and critique of the effects of capitalist industrialization on the working class. Engels’s essay “Outlines of a Critique of Political Economy,” which condemned capitalism on moral grounds as a system founded upon greed, was published by Karl Marx in a short-lived
journal that he edited, and deeply influenced Marx’s own thinking. The two young radicals wrote a number of works together, culminating in The Communist Manifesto. Like Marx, Engels returned to Germany in 1848 to participate in the abortive revolution. Thereafter, he too moved to England, working in the family’s business in Manchester, and using the income he earned to support Marx. In 1870 he retired from the business and moved to London; wrote a number of influential works including his critique of the bourgeois family, The Origin of the Family, Private Property, and the State; and after Marx’s death, edited and published his friend’s posthumous works.

**Freyer, Hans** (1887–1969): A German sociologist, political theorist, and sometime political ideologist. Born to a religious Protestant family, he studied theology and philosophy, participated in the antibourgeois German youth movement, and served as an officer in the First World War. In 1925 he became the first chaired Professor of Sociology at a German university (in Leipzig). Influenced by Hegel, Tönnies, Simmel, Weber, and Oswald Spengler, among others, he developed an antiliberal conception of the state (Der Staat, 1925), an activist conception of sociology (Soziologie als Wirklichkeitswissenschaft, 1930), and a philosophy of history that saw a powerful national state as the new locus of community. In 1931, he published his political booklet, Revolution from the Right, which looked to the nationalist, radical right as the force that would “overcome bourgeois society.” He greeted the National Socialist accession to power with hope and collaborated with the regime before eventually becoming disillusioned with it.

**Gellner, Ernest** (1925–1995): Gellner was raised in a German-speaking Jewish family in Prague. The family emigrated to England in 1939. During the war, Gellner enlisted in the Czech Armoured Brigade, in which capacity he returned briefly to his native city. After studying at Oxford, he went on to a variety of academic posts, first at the London School of Economics, where he taught sociology and philosophy, then in 1984 to Cambridge, where he held the chair in social anthropology. In 1993, he returned to Prague to head the Center for the Study of Nationalism at the Central European University. Gellner’s was a wide-ranging mind, and among his works was a study of the fundamental transformations of human history, Plough, Sword, and Book: The Structure of Human History (1988). His most important books on nationalism are Nations and Nationalism (1983) and Encounters with Nationalism (1994).

**Hamilton, Alexander** (1755–1804): Born on the island of Nevis in the West Indies, to parents who were not legally married. Despite a difficult childhood, his obvious precocity led to his being sent to New Jersey for schooling, and then to King’s College (now Columbia University) in New York City. A supporter of the Revolutionary cause, he joined the army and became a leading aide to General George Washington. In 1782 he was elected to Congress, where he worked to create a revenue base that would provide the federal government with real power. Frustrated by what he saw as the dangerous weakness of the federal government, he returned to New York, began a career in law, and founded the Bank of New York in 1784. Three years later, he was a major force at the Constitutional Convention that drafted the American Constitution, then recruited James Madison and John Jay to join him in writing The Federalist Papers, defending the need for a strong federal government. That document remains the most important work of American political theory. From 1789 to 1795, Hamilton served as the first secretary of the treasury, under President Washington. During his first two years in office, he presented four seminal reports on economic matters, culminating in his Report on the Subject of Manufactures of 1791. Hamilton helped found the United States Mint; helped found the first national bank; and developed a system of duties, tariffs, and excises. In short, he created an apparatus that gave the new government financial stability and gave investors sufficient confidence to invest in government bonds. He died as the result of wounds sustained in a duel with Aaron Burr.

**Hansen, Alvin** (1887–1975): An influential American economist associated with the New Deal. In 1935 he played a role in the creation of the Social Security system. Appointed Professor of Economics at Harvard University in 1937, he was a leading proponent of the notion that without governmental management of the economy, capitalism was doomed to stagnation—an argument laid out in Full Recovery or Stagnation? (1938) and expanded in an article the following year, “Economic Progress and Declining Population Growth.” His 1941 book on fiscal policy and business cycles was the first major work in the United States to entirely support Keynes’s analysis of the causes of the Great Depression, and he used that analysis to support Keynes’s recommendation of the use of deficit spending to stimulate the economy during downturns of the business cycle. Hansen’s stagnationist theories were refuted by Schumpeter in Capitalism, Socialism and Democracy.

**Hayek, Friedrich August von** (1899–1992): Born and raised in Vienna in a family of academics and civil servants. He served in the First World War, flirted with reformist socialism, but (deeply influenced by Ludwig von Mises) embraced classical liberalism. As an economist in Vienna, he wrote a stinging critique of the effect of rent control on the Austrian economy, as well as works on monetary theory. In 1931 he became a Professor of Economics at the London School of Economics and a leading critic of Keynes. Appalled by the vogue for governmental planning of the economy, in 1935 he edited and contributed to the volume Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism. During the Second World War, while living in Cambridge, he wrote his polemical critique of collectivism, The Road to Serfdom (1944). The book made a splash in Britain and even more so in the United States, where an abridged version appeared in the mass-circulation Reader’s Digest. Not long thereafter he published his seminal essay, “The Use of Knowledge in Society” (perhaps his most important contribution to social science). From 1950 to 1962, Hayek taught at the University of Chicago. It was there that he published his critical, though not entirely hostile, exploration of the welfare state,
The Constitution of Liberty (1960), a process he continued in the three volumes of Law, Legislation, and Liberty (1973–1979). In 1974 he was awarded the Nobel Prize for Economics, jointly with the Swedish socialist Gunner Myrdal. In the age of Thatcher and Reagan, and after the fall of communism in the Soviet bloc, the relevance of Hayek’s work on the coordinating function of the market was broadly acknowledged.

Hegel, Georg Wilhelm Friedrich (1770–1831): Born into a family of civil servants and clerics in the Duchy of Württemberg in southwestern Germany. He studied at the Tübinger Stift (a Protestant seminary attached to the university), an institution that incubated many of Germany’s leading 19th-century intellectuals, including Friedrich Nietzsche. As a young man, he was deeply influenced by Kant, followed the progress of the French Revolution with sympathy, and was led to reflect upon the reasons for its descent into terror. In 1807 he published The Phenomenology of Geist (“mind,” or “spirit”), which in a highly abstract manner tried to provide a historical and philosophical account of the development of the human spirit toward an awareness of freedom. In 1818 he was invited by the liberalizing Prussian regime to assume the chair of philosophy at the newly founded University of Berlin. It was there that he published The Philosophy of Right in 1820, a sort of précis of his lecture course on the subject. (Student notes of those lectures, since published, have helped to flesh out the text.) The book reflected, among other sources, his reading of Smith’s Wealth of Nations. Hegel died in the cholera epidemic of 1831.

Hobbes, Thomas (1588–1679): Perhaps the greatest philosopher in the English language, and (together with Spinoza) the progenitor of the Enlightenment. Born to an impecunious family. His intellectual gifts were recognized early, and he was sent to Oxford, where he became a humanist, steeped in the Greek and Latin classics. (In 1629, he published the first translation into English of Thucydides’s History of the Peloponnesian War.) Like other humanists, he earned a living as a private tutor, secretary, and advisor to the great—in his case to the Cavendish family. Trips to the Continent brought him into contact with leading scientists (including Galileo) and critical philosophers. Hobbes wrote on mathematics, physics, and optics, and in 1642 he published On the Citizen, his most important work of political philosophy before Leviathan. He became involved in the polarization between the King and Parliament as a defender of royal authority, and fearing for his life in an era of civil war, he fled to Paris in 1640, where he remained until 1651. It was there that he wrote Leviathan, which includes a materialist metaphysics, an exploration of the passions as motivational factors in human action, and an extended critique of the plausibility of revealed religion, as well as the theory of advantages of leaving the anarchic state of nature by forming a state. His work was debated, reviled, and often tacitly accepted while it was explicitly renounced.

Keynes, John Maynard (1883–1946): The most influential British economist of the 20th century. Trained at Cambridge in mathematics, philosophy, and economics, he taught at Cambridge (where he made a fortune for King’s College by managing its investments), served in the UK Treasury during the First and Second World Wars, and was a noted commentator on public affairs. His 1919 critique of the Versailles Treaty, The Economic Consequences of the Peace, began the process of turning British elite opinion toward greater sympathy with Germany. As a response to ongoing high levels of unemployment in Britain, in 1924 he challenged fiscal orthodoxy by recommending deficit spending on public works to stimulate the sluggish economy in Does Unemployment Need a Drastic Remedy? In A Treatise on Money (1930), he further departed from fiscal orthodoxy by suggesting that there are economic conditions under which savings do not lead to investment, and that in the midst of an economic depression, the correct course of action should be to encourage spending and discourage saving. His greatest contribution to economic science was The General Theory of Employment, Interest and Money, in which he contested the classical economic theory that full employment could always be reached by making wages sufficiently low. Over and above its immediate policy implications, the book suggested fiscal tools for managing the economy and categories of analysis that influenced economic policy and analysis for decades.

Lenin, Vladimir Ilyich (1870–1924): The leader of the Russian Bolsheviks, and of the Soviet Union from its inception in the Bolshevik Revolution of 1917 until his death. When Lenin was 17 years old, his eldest brother, Alexander, was arrested and hanged for participating in a terrorist bomb plot threatening the life of Czar Alexander III. Lenin was radicalized, and while a student of law he immersed himself in Marx’s writings and in political activity. He was arrested in 1895 and exiled to Siberia. After 1900, he traveled widely in western and central Europe and founded the socialist newspaper Iskra (“The spark”). It was there that he published the essays that comprised What Is to Be Done? in 1901–1902. His strategy of a disciplined party of professional revolutionaries led to a split at the 1903 convention of the Russian Social Democratic Party between Lenin’s Bolshevik faction and the more democratically-oriented Menshevik faction. With the outbreak of the World War in 1914, he was appalled at the propensity of socialist parties in Germany and France to support the war efforts of their respective governments. From exile in Switzerland, he urged the transformation of the “imperialist war” into a “class war,” a position buttressed by Imperialism, the Highest Stage of Capitalism in 1916. After the Revolution of February 1917, which deposed the czar and led to a government of liberals and democratic socialists, Lenin returned to Russia. He published State and Revolution, which attacked democratic socialism and demanded a “dictatorship of the proletariat”—effectively, a dictatorship of the Communist Party ruling in the name of the proletariat. With the Bolshevik Revolution of October 1917, he became the leader of the new Soviet state and moved quickly to eliminate his more democratic socialist opponents.
Marcuse, Herbert (1898–1979): Born to a middle class family in Berlin. As a recently demobilized soldier at the end of the First World War, he participated in the abortive Spartacist revolution in Berlin. He studied philosophy and wrote a dissertation on Hegel with Martin Heidegger. As a leftist of Jewish origin, he departed from Germany in 1933 and moved to the United States, where he was associated with the Institute for Social Research, an independent research institution headed by Max Horkheimer that tried to combine insights from Marx and Freud into an analysis of contemporary capitalist societies. During the Second World War, Marcuse served in American intelligence agencies as an analyst of Nazi Germany, and after the war he joined the State Department as an expert on Central Europe. During the 1950s and 1960s, he taught philosophy at a series of American universities, as well as lecturing widely in France and Germany, and was regarded as an intellectual progenitor of the New Left. His book Eros and Civilization: A Philosophical Inquiry into Freud (1955) recast the radical critique of capitalism into the psychoanalytic language favored by American cultural elites of the age. His most influential book, One-Dimensional Man (1964), offered an account and critique of the ability of contemporary capitalism to keep the masses quiescent through the manipulation of their needs.

Marx, Karl (1818–1883): Marx was the son of a lawyer in the Rhineland, who hoped that Karl too would pursue a legal career. Instead Karl switched to philosophy, writing a thesis on Greek philosophy, but focusing his activity on the Young Hegelians, a loose group of thinkers who radicalized Hegel’s thought in a variety of directions. Karl was attracted to atheism and to political radicalism. He moved to Paris in 1843, where he became a socialist and wrote a number of manuscripts (unpublished in his lifetime) exploring the theme of alienation under capitalism. Shortly thereafter he began his collaboration with Friedrich Engels. Together they wrote a series of works that wrestled with contemporary radical and socialist theorists and laid the basis for what became known as “historical materialism.” Their key conclusions were presented in The Communist Manifesto, a summary and rhetorically brilliant statement of their contentions. After participating in the failed revolutions of 1848 in Germany, Marx made his way to London, where he lived for the rest of his life. He produced a steady stream of journalism (largely to aid in supporting his family), wrote a number of uncompleted works analyzing the history and nature of capitalism (including Capital, Volume 1, published in 1867), and founded the International Workingmen’s Association to unite socialists from across Europe. He died in 1883, with most of his manuscripts unfinished. Volumes 2 and 3 of Capital were edited and published by Engels, and other manuscripts would be published in the half century after Marx’s death.

Mises, Ludwig von (1881–1973): Born in the Austro-Hungarian Empire and raised in Vienna. As a student he was deeply influenced by the economists Carl Menger and Eugen von Böhm-Bawerk. From 1909 until his departure from Austria in 1934, he worked as an economic advisor to the Vienna Chamber of Commerce and Industry, which brought him into contact with the leading figures in Austrian commerce and government. Mises published a major work on monetary theory, Theory of Money and Credit, in 1912. Late in 1919, in the wake of the Bolshevik Revolution in Russia and attempts at socialist revolutions in central Europe, he wrote his most influential essay, “Economic Calculation in the Socialist Commonwealth,” and in 1922 published a book-length critique of socialism, followed in 1927 by Liberalism, a defense of laissez-faire liberalism. Of Jewish origin (though not identification), Mises left Austria in 1934 for a post in Geneva, and then in 1940 emigrated to the United States. In 1944 he published a radical critique of virtually all forms of contemporary government, Omnipotent Government: The Rise of the Total State and Total War. He later taught at New York University and became a major influence on American libertarianism.

Myrdal, Gunnar (1898–1987): A prominent social democratic economist, and together with his wife Alva, a key figure in the development of the Swedish welfare state. He was Professor of Economics at the Stockholm School of Economics and simultaneously a Social Democratic member of Parliament. He coauthored with Alva Myrdal Crisis in the Population Question (1934), which argued that the Swedish population would decline without government measures to socialize the costs of child rearing. He is best known in the United States for his influential study of American race relations, An American Dilemma: The Negro Problem and Modern Democracy, originally published in 1944. In 1974, he was the co-winner of the Nobel Prize for Economics, together with his ideological rival Friedrich Hayek.

Olson, Mancur (1932–1998): An American economist who taught at Princeton and then at the University of Maryland. His work lies at the intersection of economics and political science. He made his name with the publication in 1965 of The Logic of Collective Action: Public Goods and the Theory of Groups, which explored the ways in which coalitions of special interests in a democracy can frustrate the efficient provision of public goods, especially competitive markets. He pursued the theme further in The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities (1982).

Rousseau, Jean-Jacques (1712–1778): The most important internal critic of the Enlightenment. That is to say, he agreed with the Enlightenment’s goal of the improvement of earthly happiness but was dubious about whether material, scientific, and technological improvement would actually make people happier. Born in Geneva, he moved to Paris in 1742, where he met Denis Diderot, the editor of the Encyclopedia, to which he contributed articles on music (one of his areas of expertise) and political economy. In 1749, as Rousseau was walking to visit Diderot, he was struck by the insight that remained the premise of his subsequent work—the natural goodness of humanity. The next year he published his “Discourse on the Arts and Sciences,” followed in 1755 by his “Discourse on the Origin and Foundations of Inequality Among Men.” In 1762, he
Among his most important works were a multivolume history of capitalism (1902–1927); a 1906 essay, “Why is There No the founders of sociology in Germany. In 1917 he was appointed to the chair of economics at the University of Berlin.

The Jews and Modern Capitalism

Schmitt, Carl (1888–1985): A German Professor of Law, a political theorist of note, and one of the most distinguished intellectual supporters of the National Socialist regime. During the Weimar Republic, he published a series of works that emphasized the dysfunction of parliamentary government and explored more authoritarian alternatives. In The Crisis of Parliamentary Democracy (1923), he pointed to the gap between the liberal theory of representative government, based on the notion that rational discussion would produce policies in the public interest, and the reality of contemporary parliamentarianism. In The Protector of the Constitution (1931), he argued that parliamentary politics was incapable of providing the unity required by the state and offered as an alternative an authoritarian system headed by an elected president, ruling with the support of the civil service and the army. Though he had not been a supporter of the National Socialists before 1933, Schmitt embraced the new regime after Hitler was appointed chancellor, and provided legal reasoning for some of its most controversial and violent measures. After the Second World War, he continued to produce works of political theory as well as apologetic accounts of his own history.

Schumpeter, Joseph A. (1883–1950): One of the most wide-ranging social scientists of the first half of the 20th century. Schumpeter was born in Moravia, in what was then the Austro-Hungarian Empire, and died in the United States. In 1911, at the age of 28, he published his seminal Theory of Economic Development and was appointed to a Professorship of Economics. During the First World War, he was an advisor to the government of Austria-Hungary and published a refutation of Marxist theories of imperialism, “The Sociology of Imperialism.” When the war ended, he served a brief stint as the finance minister of the new Austrian state, became a bank director, and then returned to academic life in Germany. In 1932, he accepted a position at Harvard University, moving to the United States just as Roosevelt became president. In 1939 he published a massive study, Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process, followed by Capitalism, Socialism and Democracy (1942), which was written for a wider audience. His erudite History of Economic Analysis was published posthumously in 1954.

Simmel, Georg (1858–1918): An academic who ranged freely between philosophy, sociology, economics, history, and religion. Born near the commercial epicenter of Berlin, he lived most of his life in the capital. As an unorthodox academic with an independent income, he was able to transcend disciplinary boundaries and reach a large audience without holding an academic chair. His book The Philosophy of Money began as an 1889 lecture on “The Psychology of Money” and ended as an amalgam of history, philosophy, sociology, and social psychology. Its emphasis on the rationalizing effects of a money economy influenced the subsequent conceptualization of capitalism by Max Weber and Werner Sombart. His Sociology (1908) was a major contribution to the analysis of social structure and influenced American sociology, including Robert K. Merton’s social role theory. Among Simmel’s best-known essays are “The Stranger,” “The Web of Group-Affiliations,” and “The Metropolis and Mental Life.”

Smith, Adam (1723–1790): Smith was born in Kirkcaldy, Scotland, and attended the University of Glasgow and then Oxford University. In 1748 he moved to Edinburgh, where he lectured on the history of belles lettres. In 1751, at the age of 27, he was appointed to a professorship at the University of Glasgow, first in logic and then in moral philosophy. In 1759 he published the first edition of The Theory of Moral Sentiments, one of the great works of Enlightenment thought, which presented an explanation of how conscience is formed by interaction with others and by the mind’s desire for the approval of others and then of self-approval. In the years thereafter, he lectured on political economy until he was hired away by a Scottish nobleman to accompany his stepson on a trip to the Continent. Smith then moved to London, where he wrote The Wealth of Nations, published in 1776. Having long served as an advisor to politicians, he was appointed as a commissioner of customs for Scotland, so he spent most of the years after the publication of his masterwork as a civil servant. He returned to the concerns of his first book, publishing a substantially revised sixth edition of the Theory of Moral Sentiments in 1790, the year of his death. Smith also worked on a treatise on government but never completed it to his satisfaction. Its contents have come down to us through the notes taken by his students at Glasgow and published as the Lectures on Jurisprudence.

Sombart, Werner (1863–1941): Sombart was an economic historian whose works raised provocative questions much superior to the quality of his answers. Like his contemporary Max Weber, he studied law and economics, and he was among the founders of sociology in Germany. In 1917 he was appointed to the chair of economics at the University of Berlin. Among his most important works were a multivolume history of capitalism (1902–1927); a 1906 essay, “Why is There No Socialism in the United States?” which contributed to an ongoing debate about American exceptionalism; and his 1911 book, The Jews and Modern Capitalism. Sombart began as a sympathizer of Marxist socialism, but his increasing nationalism led him to move to the right, and he ended up a somewhat ambivalent supporter of national socialism.
Tocqueville, Alexis de (1805–1859): The scion of a noble French family, de Tocqueville chose a career in law and politics. Believing that democracy was the wave of the future, and that the United States was the purest existing democratic nation, he managed to be sent to America to study its penal system. From April 1831 through February 1832, he traveled across much of the United States, meeting with statesmen as well as more common folk, before returning to France and publishing the first volume of Democracy in America in 1835; the second volume, more speculative in nature, followed five years later. De Tocqueville was active in French political life, and after the fall of the July Monarchy during the February 1848 Revolution, he was elected a member of the Constituent Assembly of 1848, where he became a member of the Commission charged with the drafting of the new Constitution of the Second Republic. With mounting anxiety, he experienced the radicalization of the revolution and supported its repression by General Cavaignac, an experience described in his posthumously published Recollections. An opponent of Louis Bonaparte, who came to power in 1851 and adopted the title of Emperor Napoleon III, de Tocqueville retired to his chateau, where he wrote The Old Regime and the French Revolution (1856), one of the most influential analyses of modern French history.

Tönnies, Friedrich (1855–1936): One of the founders of sociology in Germany. Influenced by Hobbes, Marx, and romantic nationalists such as Paul de Lagarde, Tönnies synthesized their thoughts in Community and Society (1887), a work that set the terms for debates on capitalism in German thought. He later wrote on a wide range of sociological topics, including public opinion and the changing means of communication. In imperial Germany, he was denied a professorship until 1913 because of his leftist sympathies and was later ousted from his post as emeritus professor by the Nazis.

Weber, Max (1864–1920): Weber was trained in the law, but from early on his interests were as much economic, historical, and sociological as legal. His doctoral thesis was on the history of medieval business organizations, and in 1891 he completed the second dissertation required to teach at a German university on Roman agrarian history. In 1896 he became Professor of Political Economy at the University of Heidelberg. While he continued to live in that town for most of his adult life, he retired from active teaching in 1899 because of an emotional disorder that kept him from regular scholarly activity. He marked his recovery with the publication in 1904–1905 of his essay “The Protestant Ethic and the ‘Spirit’ of Capitalism.” The essay set off a controversy about the connections between religion and capitalist economic development that included Werner Sombart, among many others. In an effort to extend the range of his analysis, Weber pursued a number of subsequent studies on the economic ethics of world religions. The relationships between social and economic life were also at the center of Economy and Society, a work published posthumously in 1923.
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**Secondary Works on Particular Thinkers**


Schleifer, James T. *The Making of Tocqueville’s Democracy in America*. 2nd ed. Indianapolis, IN: Liberty Fund, 2000. Explores the intellectual sources from which Tocqueville drew in writing his great work, and the uses he made of them.


**Works on the History of Thinking about the Market**


———. *Rival Views of Market Society and Other Recent Essays*. New York: Viking, 1986. The title essay of this collection is a penetrating schematic analysis of arguments for and against the market. Other included essays related to the theme of the market are “The Concept of Interest: From Euphemism to Tautology” and “Exit and Voice: An Expanding Sphere of Influence.”


**Works on the History of Capitalism**


Landes, David S. *The Unbound Prometheus: Technological Change and Industrial Development in Western Europe from 1750 to the Present*. Cambridge: Cambridge University Press, 1969. A classic account of the history of European industrialization. Its attention to culture and society means that it delivers more than the subtitle promises.


**Some Notable Works of Contemporary Analysis**


developments with a focus on businesses backed by American venture capital. A wide-ranging book dealing with innovation, offshoring and its limits in a service economy, immigration, and the advantages of the international division of labor.

Chang, Ha-Joon. *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism*. New York: Bloomsbury Press, 2008. A bracing critique of the reigning “Washington consensus” on liberalization and globalization. The book argues that historically, countries have successfully integrated into the global economy through various protectionist policies, and that contemporary developing countries ought to do so as well. A one-sided polemical work, but a useful counter to some of the other works listed in this section.


