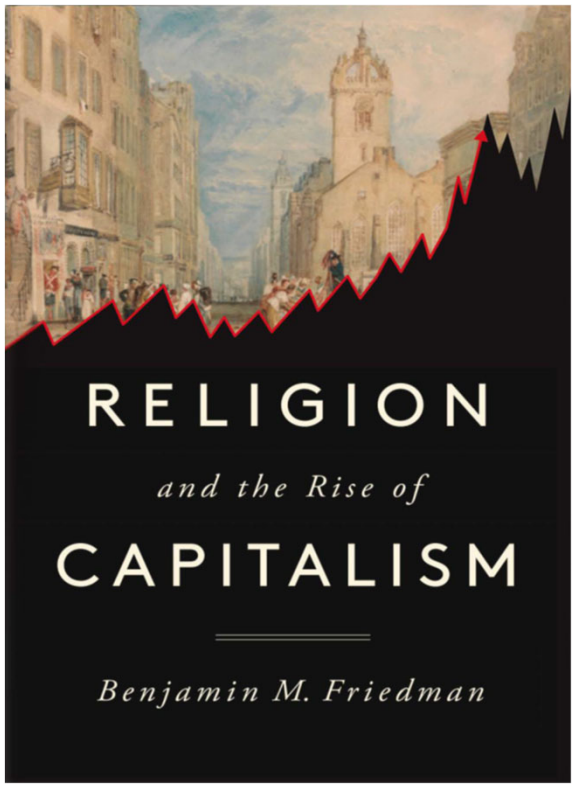
Religion and the Rise of Capitalism



Peterson Institute

O. John Olcay Lecture

February 4, 2021

Benjamin M. Friedman

From the *Acknowledgements*:

One element of sadness, perhaps inevitable in carrying out a project like this over a span of years, is that some of the colleagues and friends who were most supportive and helpful along the way are no longer here to see the final product. It is too late to thank them for their encouragement and their friendship. But I do remember, with gratitude and affection, Daniel Bell, William Hutchison, John Olcay, Francis Schott, and Robert Silvers. I miss them all.

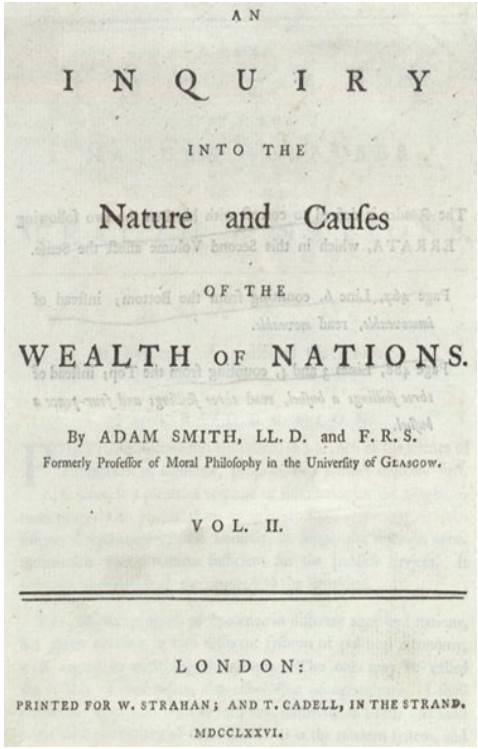
The central question:

- Where did *our* economics come from? And why did it emerge when, and where it did?

- The first fundamental welfare theorem:
  - Individuals, acting in their own self-interest in a competitive market setting, make not just themselves but others better off.

The usual presumptions:

- Adam Smith, *The Wealth of Nations* (1776)
  - "… Smith's *Wealth of Nations*, the fountain-head of classical political economy" (Donald Winch)



AN

INQUIRY

INTO THE

Nature and Cauſes

OF THE

WEALTH OF NATIONS.

By ADAM SMITH, LL. D. and F. R. S.

Formerly Profeſſor of Moral Philoſophy in the Univerſity of GLASGOW.

VOL. II.

LONDON:

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MDCCLXXVI.

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- But also: Smith, and "economics" more generally, were products of the Enlightenment
  - A movement away from God-centered conceptions of the universe, to "secular humanism"
  - Not just the *Wealth of Nations* but Smith's entire project for a modern science of man was "built on the foundations of the Enlightenment's quintessential assault on religion." (Nicholas Phillipson)

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My answer:

- ✓Adam Smith, *The Wealth of Nations* (1776)
  - "… Smith's *Wealth of Nations*, the fountain-head of classical political economy" (Donald Winch)

- ✓The Smithian Revolution was enabled by, among other influences, new *religious* thinking in the English-speaking Protestant world
  - The turn away from predestinarian Calvinism
  - Hence an expanded understanding of the possibilities of human agency

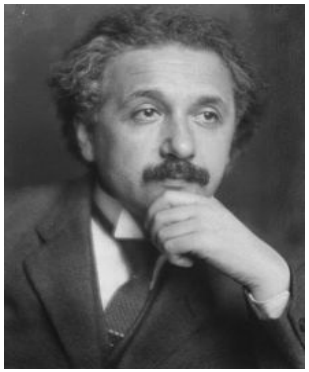
What I am *not* arguing:

- Self-conscious intent by religiously committed individuals

- Hume: a notorious skeptic, if not atheist
  - Church of England bishops: “Retainers to Superstition”
  - “that virtuous heathen” (William Robertson)

- Smith: at best an 18th century deist
  - No professed religious beliefs or known attachment

Instead: the influence of their time and place on their "worldview":



- Einstein: "Scientific thought is a development of pre-scientific thought."

"Man seeks to form for himself, in whatever manner is suitable for him, a simplified and easy-to-survey image of the world (Bild der Welt) and so to overcome the world of experience by striving to replace it to some extent by this image. This is what the painter does, and the poet, the speculative philosopher, the natural scientist, each in his own way."

Einstein, "Principles of Research"

“[any writer] needs a basis which he cannot supply; a tough chaos-deep soil, … and this basis the popular mind supplies.”

“the ideas of the time are in the air, and infect all who breathe it … We learn of our contemporaries what they know without effort, and almost through the pores of our skin.”

Emerson, “Representative Men”

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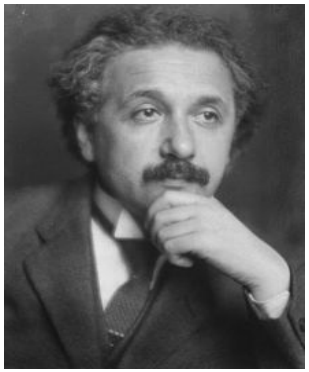
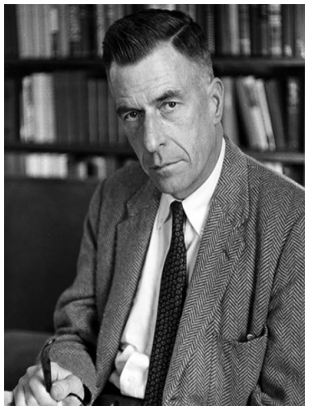


- Einstein: "Scientific thought is a development of pre-scientific thought."

- Schumpeter: "pre-analytic Vision"



- Galbraith: "Economic ideas are always and intimately a product of their own time and place"

“Economic” Thinking as of 1700

- Could individuals correctly perceive their self-interest? Probably not

- Acting on individual self-interest, whether perceived correctly or not, bore no implication of more globally optimal outcomes

- Action motivated by individual self-interest was “vicious” (a “vice”)

"Economic" Thinking as of 1790

- Can individuals correctly perceive their self-interest? Mostly yes when people are acting as producers

- Acting on an individual's self-interest can, and under the right conditions *will*, make others better off as well

- Actions motivated by individual self-interest are not morally opprobrious

Smith *did* have intellectual precursors

- France
  - Pierre Nicole
  - Jean Domat
  - Pierre de Boisguilbert
  - Richard Cantillon

- England
  - Bernard Mandeville
  - Joseph Butler
  - Josiah Tucker

Do *they* deserve the credit instead?

NO: no explanation for how this result came about

- No explicit awareness of the role of markets, or competition, in bringing about this result
- No other economic mechanism either
- Hence no systematic explanation capable of satisfying an era trained to think in Newtonian terms

Smith's argument in the *Wealth of Nations*

- Desire for material gain is an assumed fact
- This desire is morally legitimate
- At the center: the role of competitively set prices and wages – and with a Newtonian interpretation
- Competitive prices and wages as the outcome of interpersonal bargains motivated by self-interest on either side
- Hence competitive markets as an example of the principle of systematic but unintended and unforeseen consequences

- Most important, the *globally* beneficial outcome of the private pursuit of self-interest pursued in competitive markets

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- Hence opposition to potential impediments to the competitive market mechanism
- *But* overall, the astonishing robustness of this result
- And therefore Smith's willingness to accept restrictions on commerce, when he thought they were needed
  - Progressive income taxes
  - Luxury taxes
  - "Sin" taxes
  - Bank regulation

What enabled Smith (and, in a limited way, his predecessors) to reach this insight?

- Training in Newtonian ideas of system and mechanism
- Observation of an increasingly commercial society
- Introspection

- The transition in *religious* thinking, especially in the English-speaking protestant world

The turn away from predestinarian Calvinism

- Human nature

  FROM "utter depravity" of all individuals

  TO inherent goodness of all individuals

- Human destiny:

  FROM "predestination" of who is to be saved (with no determinative role for human choice and action)

  TO *everyone* is potentially eligible to be saved, and human choices and actions matter

- Human purpose:

FROM	the sole reason man exists is the glorification of God
TO	human happiness is also a (the?) divinely intended end

- This transition was hotly contended
  - For example, the English Civil War
- And the debate was at its height in Scotland during Smith and Hume's young to mid adulthood
  - "Moderates" versus "Evangelicals" (both within the CofS)

Why would the religious debate have influenced their worldview/Vision?

- The centrality and multi-dimensional importance of religion in their society
  - Education, patronage, politics,…
- The integration of intellectual life at that time
  - University faculty and curriculum, social and intellectual life

University of Glasgow faculty in Smith's time: listing of professorships

Divinity
Logic
Nat. Philosophy
Anat. & Botany
Pract. Astronomy
Law
Oriental languages
Mathematics
Church Hist.
Moral Phil.
Humanity
Greek
Medicine
Chym. & Mat. Med.

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Original Members of the Select Society

- 15 lawyers
- 5 CofS ministers (including Robertson)
- 4 professors (including Smith)
- 3 physicians
- 2 soldiers
- 1 merchant
- 1 independent writer (Hume)
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- The contentiousness of the religious debate
  - The Elizabethan Settlement, the Thirty Years' War, the English Civil War, ongoing nonviolent resistance to royal authority in both England and Scotland, the Highland Rebellion, …

Most important, a substantive coherence of the new economic ideas with the new religious thinking

The nature of human beings

- Depraved human character
  - inability to tell good from evil, right from wrong, or to act on any perceived difference between them
  - inability to prevent one's own eternal damnation
  - *by extension, also* inability to perceive morally neutral good from bad, including one's own self-interest
  - *and* unlikely to make others better off merely by acting according to one's (depraved) nature

- Inherent human goodness, including reason (Locke's "candle of the Lord")
  - ability to make moral choices and act morally
  - *by extension, also* the ability to perceive secular (including economic) interests accurately
  - *and* ability to act, just by one's inherent nature, in ways that can lead to good outcomes for others

The scope of human agency

- Predestination
  - impossibility of effecting, or even contributing to, one's own salvation
  - *by extension, also* the impossibility of improving one's economic lot
  - *and* inability to contribute to others' well-being

- Free will and choice, by morally conscious agents
  - ability to "cooperate" with God in achieving one's salvation
  - *by extension, also* the ability to improve one's own, and others', economic condition

The human purpose

- God's glorification
  - no religious value attached to human happiness per se
  - *therefore* why would the world be structured so as to foster it ?

- Human happiness
  - potential ability to achieve a moral life, and salvation, as a result of God's benevolence toward humans
  - *therefore also* a world, including human nature as well as social institutions, designed to enable humans to achieve secular aspects of satisfaction

These new religious ideas were part of the worldview/Vision that people of that time brought to thinking about the secular world as well

In effect, Smith and his contemporaries were secularizing the dominant religious thinking of *their* time and place

- a more expansive, and more optimistic view of the possibilities for human choice and human action

And (as in the Weber hypothesis) this religiously motivated economic thinking has survived atrophication of the religious impulse that gave rise to it

- Today economics is still all about human choices and their possibilities
- The first fundamental welfare theorem is still the heart of our analytical apparatus
- Smith's and Hume's more expansive and optimistic view of human agency remains ours as well

In America, this initially religious influence has resonated within Western economics ever since

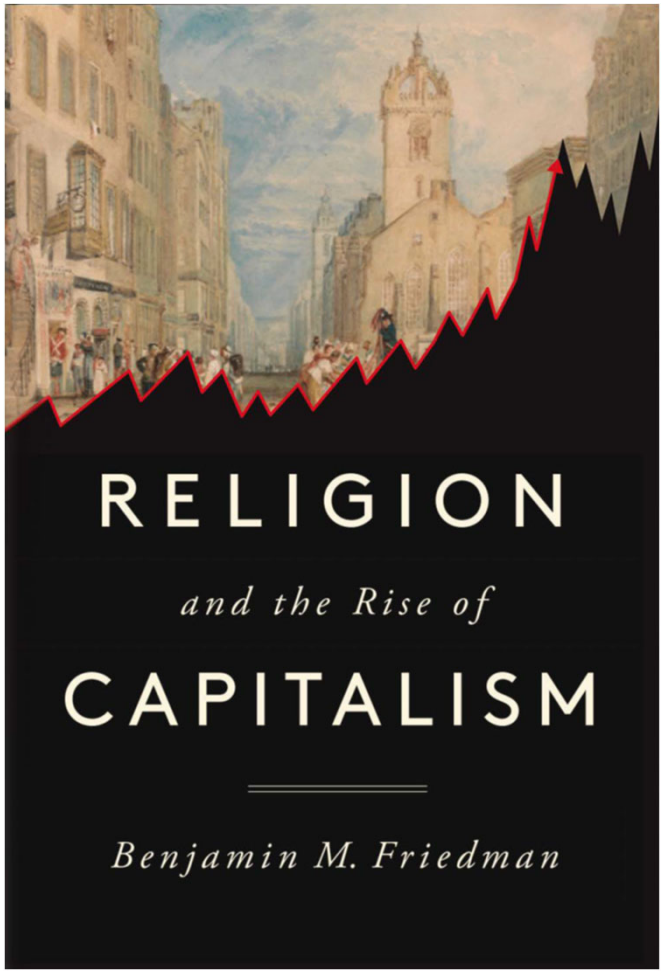
- The debate over free trade versus protectionism early in the 19th century
- Arguments over the role of government later in the 19th c.
- The emergence of economics as an ameliorative, policy-oriented inquiry in the late 19th/early 20th centuries
- Arguments over government activism again in the 20th c.
- Today, the economic *policy* views – and the voting behavior – of countless ordinary Americans

To conclude:

Economics was, and is, a product of the Enlightenment

But the influence of *religious* thinking was, and remains, a central part of that story

And the role of religious thinking continues to be at work today, especially in America in our ongoing debate over economic policy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