

“Bourgeois Towns:
How Capitalism Became Virtuous, 1600-1776”

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My title is that of a book I am writing.

An earlier book, *The Bourgeois Virtues: Ethics for an Age of Capitalism* (2006), argued that a businessperson can be ethical without abandoning her business. The seven primary virtues of any human life – prudence, temperance, justice, courage, faith, hope, and love – also run a business life. Businesspeople are people, too. "Bourgeois

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virtues" is therefore not a contradiction in terms. On the contrary, capitalism works badly without the virtues. And the virtues can be nourished in a market, and often have been.

The peasant of olden times in Europe emphasized love among the virtues. She admired most the medieval saint. By contrast, her lord and master, the aristocrat, emphasized courage, admiring the Homeric or knightly hero. And nowadays the bourgeoisie worldwide emphasizes prudence. We are all nowadays bourgeois, though exactly whom we admire – Ben Franklin or Bill Gates, Jane Austen or Ayn Rand – has not been entirely worked out. We keep being drawn back in our stories and our philosophies into a Christian or an aristocratic ethic, or into the corresponding pre-bourgeois ethic in other societies, such as merchant-despising Confucianism or heroic tales from the Mahabharata. In Europe the old Christian or aristocratic stories, the Sermon on the Mount or the wrath of Achilles, good as they are for elevating the virtues of love or courage, interfere with the bourgeois stories we might properly be telling about the seven virtues in a commercial society.

"Elevating" one virtue among the seven is the problem. A fully human life in a castle, nunnery, or marketplace can't flourish with one virtue alone. In fact, one Christian definition of sin is the exercise of a single virtue without corresponding balance of the others, justice without mercy, faith without hope. A hero who *only* ventures courageously, without justice or temperance, will damage himself and his companions. Witness your reckless Uncle Johan. A saint who *only* intervenes lovingly, without courage or prudence, will damage herself and her loved ones. Witness your

absorbing Aunt Agatha. And so likewise a businessperson who deals in the marketplace prudently, yes, but without justice, temperance, courage, faith, hope, and love, damages herself and her fellows. A false bourgeois ethic of prudence only, "Greed Is Good," such as modern economics came to recommend in the late 20th century, doesn't work. We need---and to some degree have---a true bourgeois ethic of balanced virtues.

So the first book.

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The new book which I sketch here is the second of four planned of a full-scale defense of capitalism, aimed at people like you who think it needs one. The project is an "apology" in the Greek sense of a defense at a trial, and in the theological sense of an open-handed preachment to you-all, the beloved infidels or the misled orthodox. My beloved infidel friends on the left and my likewise-beloved but likewise-misled ultra-orthodox friends on the right have long joined in believing that capitalism is as Marx put it in 1867, "solely the restless stirring for gain. This absolute desire for enrichment, this passionate hunt for value."² Many on the left have been appalled, many on the right have been pleased.

But both of you, I am saying in the four volumes, are mistaken. On the one side we should stop *at once* excusing Enron thieves, and stop accepting their self-interested argument that unjust prudence, organized by Enron thieves, you see, is all the ethics a

² *Das Kapital* 1867, German edition, Band 23, 1962, p. 168. The English translation is misleading in using the ethical word "greed," which does not appear (as *Gier* or any of its derivatives) in the German here or in many other passages in Marx.

businessperson requires. But on the other side we should also stop *at once* encouraging Sierra-Club radicals, and stop accepting their self-interested argument that imprudent justice, organized by Sierra-Club radicals, you see, is all the ethics a society requires. Capitalism has an ethic beyond Greed is Good. It has to have such an ethic to work. And its working makes people ethically better, not just better off.

The first volume, as I said, asked whether a bourgeois life can be ethical. A third volume, *The Treason of the Clerisy*, to appear in 2011, co-authored with John McCloskey, will ask how after 1848 we European artists and intellectuals came to be so very scornful of the bourgeoisie, and how the gradual encroachment of such ideas led to the disasters of the 20th century. The fourth, still highly preliminary in outline, *Defending the Defensible*, will look into the economic arguments against capitalism, such as its alleged dependence on a reserve army of unemployed and its alleged destruction of the environment.

The four are one big argument. The argument is: Markets are not inconsistent with an ethical life, and indeed an ethical change in favor of markets characterizes Europe after 1300 in isolated parts of the European south (Venice, Florence, Barcelona) and after 1400 in the Hansa towns of the north, and after 1600 in larger chunks of the north (Holland, England, Scotland, America, Belgium, France), and then the world. But the artists and the intellectuals – the clerisy---turned against liberal capitalism after 1789 and especially after 1848, leading in the 20th-century to the catastrophes of socialism and nationalism and national socialism, exacerbated by a proud clerisy preaching their scientific theories of history and race. The clerisy's arguments in the century and a half

since 1848, voluble though they have been, have been largely mistaken, a return to pre-capitalist ethics, with a nasty overlay of those “scientific” claims. Bourgeois practice, by contrast, has been on the whole a material and a spiritual success, an idealism of ordinary life. If capitalism continues to be scorned as it has been by many of our opinion makers, we can repeat if we wish the nationalist and socialist horrors of the century past. We can even add for good measure an anti-bourgeois religiosity, as new as 9/11 and as old as the Sermon on the Mount.

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Here is the historical argument in *Bourgeois Towns*. Once upon a time a change unique to Europe happened, especially after 1600 in the lands around the North Sea, and most especially in Holland and then in England and Scotland---though the change was foreshadowed in northern Italy and in the Hansa towns, and tried out a bit in 2nd century B.C.E. Carthage and then in 18th century C.E. Osaka. The change was the coming of a business-dominated civilization.

A hard coming we had of it. But the hardness was ideological and rhetorical, not material. What made the modern world, as many economic historians are realizing, was not trade or empire or the exploitation of the periphery. These were exactly peripheral. Anyway imperialism was routine, in the Athenian Empire or the Abbasid Empire or the Moghul Empire, yet did not make a modern world. Nor was the modern-making a class struggle. Again recent historians have come to see the class struggle as exactly *not* the history of all hitherto existing societies. Nor did a business-

dominated civilization come from any of the splendid engines of conventional economics, limited in horsepower, such as the division of labor or increasing returns or the downward march of transaction costs or the Malthusian pressures on behavior.

Two things happened 1600 to the present. For one thing, the material methods of production were transformed. In the face of a rise of world population by a factor of six the average real consumption of goods and services in the world has increased by a factor of eight-and-a-half. In, say, Finland the factor of change since 1600 has been on the order of twenty. That's 2100 percent.

For another, the social position of the bourgeoisie was raised. The two were connected, as mutual cause and effect. If the social position of the bourgeoisie had not been raised, aristocrats and their governments would have crushed the innovation that caused the factor of eight-and-a-half or twenty, by regulation or by tax, as they had always done. And the *bourgeois gentilhomme* himself would not have turned inventor. If the material methods of production had not therefore been transformed, the social position of the bourgeoisie would not have continued to rise. Without honor to the bourgeoisie, no modern economic growth. (This last is in essence Milton Friedman's Thesis). Without modern economic growth, no honor to the bourgeoisie. (This last is in essence Benjamin Friedman's Thesis.) The two Friedmans capture the essence of freed men, and women and slaves and queers and colonial people and all the others freed by the development of bourgeois virtues. The causes were freedom, the scientific revolution (not in its direct technological effects, by the way, which were postponed largely until the 20th century), and bourgeois virtue.

The usual suspects do not work. Material causes do not work. And so we must recur – as other economic historians like Joel Mokyr are recurring – to spiritual causes. The word “spiritual” is a worry in English. It would be better to use the German, *Geist*, which has not such a smell of incense about it. Thus Max Weber in 1905, *der 'Geist' des Kapitalismus*.

What made the modern world was, proximally, innovation in machines and organizations, such as the spinning jenny and the insurance company, and innovation in politics and society, such as the American constitution and the British middle class. But such innovations of the 18th and 19th centuries in Europe and its offshoots ultimately came out of a *geistlich* change in what the blessed Adam Smith called "moral sentiments." That is, they came out of a change, ultimately, in the *rhetoric* of the economy. Honest invention and hopeful revolution came to be spoken of as honorable, as they had not been before, and the seven principal virtues of pagan and Christian Europe were recycled as bourgeois. The wave of gadgets, material and political, in short, came out of a bourgeois ethical and rhetorical tsunami around 1700 in the North Sea.

That's the argument.

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To say it in a little more detail:

In Dante's time a market was said to be an occasion for sin. Holiness in 1300 was earned by prayers and charitable works, not by buying low and selling high. The

blessed were “poor of the faith,” as the heretical Albigensians in southern France put it, that is, rich people like St. Francis of Assisi who *chose* poverty.³ And still in Shakespeare's time a claim of "virtue" for working in a market was spoken of as flatly ridiculous. Secular gentlemen earned virtue by nobility, not by bargaining. The very name of “gentleman” in 1600 England meant someone who attended the Cadiz Raid or attended Hampden Court, engaging in nothing so demeaning as actual work.

But from 1300 to 1600 in northern Italy and in the Low Countries, and then more broadly down to 1776 and still more broadly to 1848, something changed in the talk of Europe. In England the change in the rhetoric of the economy happened during a concentrated and startling period 1600 to 1776, or even more concentrated and more startling 1689-1720. The change? Capitalism and bourgeois work came to be spoken of as virtuous. In some ways, though not all, capitalism and bourgeois work became to *be* virtuous in fact.

By the very end, by 1848, notoriously, in Holland and England and America and other offshoots and imitators of the northwestern Europeans a businessperson was routinely said to be good, and good for us. Capitalism, from its precursors in the northern Italian city states around 1300 to the first modern bourgeois society on a large scale in Holland around 1600 to a pro-bourgeois ideology around 1776 to a world-making rhetoric around 1848, grew for the first time in history at the level of big states and empires to be acceptable. The point of a place came to be not the flower of its chivalry or the piety of its priests but the enterprise of its businesspeople, and this even

³ Le Roy Ladurie 1978 (1980), p. 337.

in royalist and aristocratic places like 18th-century England. The rise of a business-dominated civilization, which came before the material changes resulting from it, was historically unique. It was a change in ethics, that is, a change in earnest talk about how to be good.

The book moves from the seen-to-be, the "rhetoric" of capitalism, as I put it, to the actual. Thus the ambiguity in my subtitle, "How Capitalism Became Virtuous." Most controversially, to speak of material actualities, the book claims that the rhetorical and ethical change *caused* modern economic growth, which at length freed us from poverty and did not, contrary to the anti-bourgeois rhetoric of the clerisy after 1848, corrupt our souls. People came to accept the creative destruction of the old ways of doing things, and the economy paid the people back with interest. The change was the cause, too, of a liberalism which at length abolished slavery and freed women. People came to expect to have a say in their governments as in their markets, and the polity, too, paid them back with interest.

The industrial revolution and the modern world, I am claiming, arose from a change in the way people talked about business – not from an original accumulation of capital or from an exploitation of the periphery or from imperialistic exploitation or from a rise in the savings rate or from improvement of property rights or from the birth-rate of the capitalistically gifted or from a manufacturing capitalism taking over from commercial capitalism or from any other of the materialist machinery beloved of economists and calculators left and right. The calculations don't work. Rhetoric does.

In characterizing capitalism in 1867 as “solely the restless stirring for gain, this absolute desire for enrichment, this passionate hunt for value” Marx was referring to MacCulloch’s *Principles of Political Economy* (1830): “This inextinguishable passion for gain, the *auri sacra fames* [‘for gold the infamous hunger’], will always lead capitalists” (quoted in *Capital*, Vol. I, p. 171n2). In 1904 Max Weber, writing when the German Romantic notion that medieval society was more sweet and egalitarian than modern capitalism was beginning to crumble in the face of historical research, thundered against such an idea that greed is “in the least identical with capitalism, and still less with its spirit.” “It should be taught in the kindergarten of cultural history that this naïve idea of capitalism must be given up once and for all.” In his *General Economic History* (1923) he writes, “the notion that our rationalistic and capitalistic age is characterized by a stronger economic interest than other periods is childish.”⁴ *Auri sacra fames* is from *The Aeneid*, Book III, line 57, not from Benjamin Franklin or *Advertising Age*. The lust for gold “has been common to all sorts and conditions of men at all times and in all countries of the earth.”⁵

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Readers of the magnificent historical Chapters 25-31 in *Capital*, at any rate those who credit what Marx says there, will find all this hard to believe. Marx's eloquence persuades them that someone writing in 1867, very early in the professionalization of history, nonetheless got the essence of the history right. The history Marx thought he

⁴ Weber 1923 [trans Frank Knight 1927], p. 355.

⁵ Weber, *Protestant Ethic*, 1904-05, p. 17.

perceived went with his logic that capitalism, drawing on an anti-commercial theme as old as commerce, just *is* the same thing as greed. Greed (he does not use the word in his German, by the way) is the engine that powers his "equation" (as he imagined it to be) of $M \rightarrow K \rightarrow M'$. That is, money starting as an amount M gets invested, through thriftiness, in Kapital, which is intrinsically exploitative, generating surplus value appropriated by the capitalist to arrive at a new, higher amount of money, M' . And then again and again and again, "endlessly."⁶ The "endless"/"never-ending" word, by the way, which was echoed during the Dark Ages in rural monkish economic theory and still resonates in Marx-influenced notions of capitalism, originated twenty-four centuries before Marx in the Greek aristocratic disdain for commerce. People of business, declared aristocratic Plato and aristocrat-loving Aristotle, are motivated by *apeiron*, unlimited, greed.

For all Marx's brilliance – anyone who does not think he was the greatest social scientist of the 19th century has not read enough Marx – he got the history almost entirely wrong. Whatever the value of his theories as a way of asking historical questions, on almost no important historical fact can you rely on Marx. This is not some special Marxian fault. The same is true of the other practitioners of merely philosophical history before the facts started arriving in bulk at last, during the 20th century: all of them, Hume, Rousseau, Smith, Hegel, Tönnies, Durkheim, and even, a late instance, on many points Max Weber, and still later Karl Polanyi, got the historical

⁶ E.g. Marx, *Capital*, 1867, Chp. 24, Sec. 1, p. 641; and Chp. 26, p. 784, "We have seen how money is changed into capital; how through capital [a] surplus-value is made, and from surplus value more capital."

facts quite wrong.⁷ The theory of capitalism that educated people still carry around in their heads springs from Marx, St. Benedict, and Aristotle, repeated in the rhetoric of these eloquent men. It is economically mistaken. And the point here is that it is historically mistaken as well.

The myth of *Kapitalismus* is that thrift among the bourgeoisie consists precisely in the absence of a purpose other than accumulation for its own sake, solely the restless stirring for gain. Thus the late Robert Heilbroner: "capitalism has been an expansive system from its earliest days, a system whose driving force has been the effort to accumulate ever larger amounts of capital itself."⁸ Thus Weber, too, in 1904: "the *summum bonum* of this ethic [is] the earning of more and more money. . . . Acquisition . . . [is] the ultimate purpose of life."⁹ Weber here, contrary to the thundering just quoted, retails Marx, money-to-capital-to-money. Declared the man himself in 1867, "Accumulate, accumulate! This is Moses and the prophets!"¹⁰

At the level of individuals there has never been any evidence for the historical change that is supposed to characterize modern forms of greedy thrift. The chief evidence that Weber gives in *The Protestant Ethic and the Spirit of Capitalism* is a humorless reading of Benjamin Franklin's *Autobiography*. Like many other readers of Franklin, especially non-American readers such as D. H. Lawrence, Weber took the

⁷ Santhi Hejeebu and I have laid out the case against Polanyi's economic history in "The Reproving of Karl Polanyi," 2000.

⁸ Heilbroner, *Worldly Philosophers*, 1953 (1996), p. 201. Compare p. 156, "an owner-entrepreneur engaged in an endless race," and so forth.

⁹ Weber, *Protestant Ethic*, 1904-05, p. 53.

¹⁰ Marx, *Capital*, 1867, Chp. 24, p. 652. And "accumulation for accumulation's sake, production for production's sake."

checklist of virtues a young man used for a little while to discipline himself as the man's essence. He failed to note Franklin's actual behavior as a loving and passionate friend and patriot, or his amused ironies about his young self.¹¹ Weber modified the pointlessness of the Marxian impulse to accumulate, accumulate by claiming that "this philosophy of avarice" depends on a transcendent "*duty* of the individual toward the increase of his capital," becoming a "worldly asceticism."¹² But his Franklin, who after all had lost most other traces of his ancestors' Calvinism, whether spiritual or worldly, quite by contrast with his abstemious young friend and enemy John Adams, for example, abandoned at age 43 "endless" accumulation and devoted the rest of his long life to science and public purposes. So much for "ever larger amounts of capital itself" or a "duty toward the increase of capital" or "accumulate, accumulate."

Many fine scholars have taken in with their mother's milk a belief that modern life is unusually devoted to gain, and that thrift is therefore something recent, dirty, and bourgeois, though lamentably profitable, and the engine of the modern world. "The unlimited hope for gain in the market," writes the otherwise admirable political theorist Joan Tronto, "would teach people an unworkable premise for moral conduct, since the very nature of morality seems to dictate that desires must be limited by the need to coexist with others."¹³ But running a business, unlike professing at a university, would

¹¹ Lawrence, *Studies*, 1924. The most well-known of the amused ironies is his comment on a late addition to his list of virtues, Humility: "I cannot boast of much success in acquiring the *reality* of this virtue; but I had a good deal with regard to the *appearance* of it" Claude-Anne Lopez remarked once that Franklin will lack a full biography until someone with a sense of humor attempts it.

¹² Weber, *Protestant Ethic*, 1904-05, p. 51, italics supplied.

¹³ Tronto, *Moral Boundaries*, 1993, p. 29.

teach anyone that gain is limited. Dealing in a market, unlike sitting in the Reading Room of the British Museum writing burning phrases against the market, would teach that desires must be limited by the need to coexist with others. The tuition of a market society in scarcity, other-regarding, and liberal values works as an ethical school. As the historian Thomas Haskell put it in 1985, "contrary to romantic folklore, the marketplace is not a Hobbesian war of all against all. Many holds are barred. Success ordinarily requires not only pugnacity and shrewdness but also restraint," that temperance.¹⁴

Even so fine an historian as Alan Macfarlane believes the Aristotelian /Marxist/ Weberian lore: "the ethic of endless accumulation," he writes, "as an end and not a means, is the central peculiarity of capitalism."¹⁵ If it were, the miser would be a strictly modern figure, and not proverbial in every literature in the world. "In this consists the difference between the character of a miser," wrote Adam Smith in 1759, "and that of a [thrifty] person of exact economy and assiduity. The one is anxious about small matters for their own sake; the other attends to them only in consequence of the scheme of life which he has laid down for himself."¹⁶ Accumulate, accumulate is not a "scheme of life" in the ethical sense that Smith had in mind.

At the level of the society as a whole there *is* "unlimited" accumulation, at any rate if war and rapine and rats do not intervene. Corporations, having legally infinite lives---though in truth one in ten die every year---are to be sure sites of accumulation.

¹⁴ Haskell's remark is quoted in Innis, "Introduction," 1988, p. 39n61.

¹⁵ Macfarlane, *Culture of Capitalism*, 1987, p. 226.

¹⁶ Smith, *Theory of Moral Sentiments*, 1759 1790, III.6.6, p. 173.

The individual economic molecules who make up the river of capitalism may not always want to accumulate beyond age 43, but the river as a whole, it is said, keeps rolling along. True, and to our good. The machines and improved acreage and splendid buildings and so forth inherited from an accumulating past are good for us now.

But there is no historical case for "accumulation, accumulation" being peculiar to capitalism. Old buildings are not novelties. Infinitely lived institutions like families or churches or royal lineages existed before modern capitalism, and were themselves, too, sites of accumulation. Thus improved acreage spread up the hillsides under the pressure of population before the Black Death. Thus the medieval cathedral were raised over centuries. Thus Oxford colleges were built, and endowed with real estate, itself the accumulated investment in drains and fencing and barns.

"The bourgeoisie," wrote Marx and Engels in 1848, "during its rule of scarce one hundred years has created more massive and colossal productive forces than have all the preceding generations together."¹⁷ It was a prescient remark. But the classical economists from Adam Smith to Marx were writing before the upsurge in real wages of British and Belgian and American working people in the last third of the 19th century, and long, long before the explosion of world income in the 20th century. They imagined a moderate rise of income per person, perhaps at the most by a factor of two or three, such as might conceivably be achieved by Scotland's highlands becoming similar to capital-rich Holland (Smith's view) or by manufacturers in Manchester stealing savings

¹⁷ Marx and Engels, *Communist Manifesto*, p. 59.

from their workers (Marx's view) or by the savings generated from globalization being invested in European factories (John Stuart Mill's view). But the classical economists were mistaken.

The prehistory of thrift was revolutionized around 1960 when economists and economic historians realized with a jolt that thriftiness and savings could not explain the industrial revolution. The economists such as Solow and Abramowitz, anticipated 20 years before by the economic historian G. T. Jones, discovered that only a smallish fraction even of recent economic growth can be explained by thrift and accumulation.¹⁸ At the same time the economic historians were bringing the news that in Britain the rise in savings was too small to explain much at all. Simon Kuznets and later Charles Feinstein provided the rigorous accounting of the fact. It was anticipated in the 1950s and 1960s by numerous British economic historians, in detailed studies of banking and manufacturing. Peter Mathias summarized the case in 1973: "considerable revaluation has recently occurred in assessing the role of capital."¹⁹ That is no overstatement.

The classical and mistaken view overturned by the economists and economic historians of the 1950s and 1960s is that thrift implies saving which implies capital accumulation which implies modern economic growth. It lingered in a few works such as Walt Rostow's *The Stages of Economic Growth* (1960), and most unhappily in what William Easterly (2001) has called the "capital fundamentalism" of foreign aid, 1950 to the present. The belief was that if we give Ghana over several decades large amounts of

¹⁸ Jones, *Increasing Returns*, 1933 should be better known among economists. A student of Marshall, he anticipated the mathematics of the "residual." He died young, and his work was forgotten except by economic historians.

¹⁹ Mathias 1973, "Capital, Credit and Enterprise in the Industrial Revolution."

savings, leading to massive capital investments in artificial lakes and Swiss bank accounts, and give Communist China not a penny, Ghana will prosper and Communist China will languish.²⁰

The *marxisant* analysis is that what happened is the "original accumulation of capital." The original or primitive accumulation was according to Marx the seed corn, so to speak, or better the starter in the sourdough, in the growth of capital. We're back to thrift or savings, not by historical fact but by blackboard logic. "The whole movement," Marx reasoned, "seems to turn on a vicious circle, out of which we can only get by supposing a primitive accumulation, . . . an accumulation not the result of the capitalist mode of production, but its starting point."²¹ As the economic historian Alexander Gerschenkron put it in 1957, with characteristic sarcasm, it is "an accumulation of capital continuing over long historical periods—over several centuries—until one day the tocsin of the industrial revolution was to summon it to the battlefields of factory construction."²²

The classical and Marxist idea that capital begets capital, "endlessly," is hard to shake. It has recently revived a little even among economists, in the form of so-called "new growth theory," an attempt to give $M \rightarrow K \rightarrow M'$ a mathematically spiffed-up form. The trouble is that savings and urbanization and state power to expropriate and the other physical-capital accumulations that are supposed to explain modern economic growth have existed on a large scale since the Sumerians. Yet modern economic

²⁰ Rostow, *Stages*, 1960; Easterly, *Elusive Quest*, 2001.

²¹ Marx, *Capital*, 1867, p. 784.

²² Gerschenkron, "Reflections on the Concept of 'Prerequisites,'" 1957, p. 33.

growth, that wholly unprecedented factor of increase in the high teens, is a phenomenon of the past two centuries alone. Something happened in the 18th century that prepared for a temporary but shocking "great divergence" of the European economies from those of the rest of the world.²³

Looking at the thrift necessary for an accumulation in a cheerful way, the starting point was a supposed rise of thriftiness among Dutch or especially English Puritans. Marx characterized such tales as praise for "that queer saint, that knight of the woeful countenance, the capitalist 'abstainer'."²⁴ We can join him for a moment in disbelieving the optimistic tale, noting further, and contrary to his own pessimistic tale, as I have said, that abstention is universal. Saving rates in Catholic Italy or for that matter Confucian China were not much lower, if lower at all, than in Calvinist Massachusetts or Lutheran Germany. According to recent calculations, in fact, British investment in physical capital as a share of national income was strikingly *below* the European norm—only 4% in 1700, as against a norm of 11%, 6% as against 12% in 1760, and 8% against over 12% in 1800.²⁵ Britain's investment, though rising before and then during the industrial revolution, showed less, not more, abstemiousness than in the less advanced countries around it. The evidence suggests, in other words, that saving depends on investment, not the other way around. When in 19th century the rest of Europe started to follow Britain into industrialization, its savings rates rose, too. And its markedly higher rates during the 18th century did not cause it then to awaken from its medieval

²³ Pomeranz, *Great Divergence*, DATE

²⁴ Marx, *Capital*, 1867, Chp. 24, Sec. 3, p. 656.

²⁵ Crafts, Leybourne, and Mills, 1991, Table 7.2, p. 113.

slumbers. Saving was not the constraint. As a great medieval economic historian, M. Postan, put it, it was not "the poor potential for saving" but the "extremely limited" character in pre-19th-century Europe of "opportunities for productive investment."²⁶

Marx's notion in *Capital*, on the contrary, was that an original accumulation was a *sine qua non*, and that there was no saintliness about it. The original accumulation was necessary because (Marx averred, wrongly) masses of savings were necessary, and "conquest, enslavement, robbery, murder, briefly, force, play the greater part."²⁷ He instanced enclosure in England during the 16th century (which has been overturned by historical findings that such enclosure was minor) and in the 18th (which has been overturned by findings that the labor driven off the land was a tiny source of the industrial proletariat, and mainly in the south and east where in fact little industry was going on). He gave a large part then to regulation of wages in making a proletariat in the 16th century (which has been overturned by findings that half of the labor force in England as early as the 13th century already worked for wages). And then to the slave trade: "Liverpool waxed fat on the slave-trade. This was its method of primitive accumulation" (which has been overturned by findings that the alleged profits were no massive fund).²⁸ Later writers have proposed as the source of the original accumulation the exploitation by the core of the periphery (Poland, the New World).²⁹ Or the influx of gold and silver from the New World – strange as it is then that imperial Spain did not

²⁶ Postan is quoted with approval by another great student of the times, Carlo Cipolla in Cipolla 1993, p. 91.

²⁷ *Capital*, p. 785.

²⁸ *Capital*, p. 833.

²⁹ Wallerstein 1974.

industrialize. Or the exploitation of workers themselves during the Industrial Revolution, out of sequence. Or other loot from imperialisms old and new. Or, following on Marx's assertion in the *Manifesto*, even 17th-century piracy.

None of these, it has been found, make very much historical sense. Such findings are in truth not very surprising. After all, conquest, enslavement, robbery, murder, briefly, force has characterized the sad annals of humankind since Cain and Abel. Why didn't earlier and even more thorough expropriations result in an industrial revolution and a factor of eighteen, that nineteen hundred percent increase in the welfare of the average Briton or American or Taiwanese? Something besides thrifty self-discipline or violent expropriation must have been at work in northwestern Europe and its offshoots in the 18th century. Thrifty self-discipline and violent expropriation have been too common in human history to explain a revolution unique to Europe around 1800.

And as a practical matter a pile of physical capital financed from, say, Piet Heyn's seizure of the Spanish treasure fleet in 1628 would by 1800 melt away to nothing. It does *not* accumulate. It depreciates. The confusion is between financial wealth in a bank account, which is merely a claim by this person against that person to the society's real wealth, and the society's real wealth in a house or ship or education. Real wealth is what needs to be available for real investment. You can't build a factory with pound notes, or dig a canal with gold coins. You need bricks and wheelbarrows and skilled people to wield them. Mere financing can hardly be the crux, or else the Roman church in its command of tokens of wealth would have created an industrial society in 1300. Or Philip II—who after all was the principal beneficiary of those

treasure fleets that the English and Dutch privateers preyed on— would have financed an industrial revolution in Spain. So any original accumulation supposed to be useful to any real industrialization must be available in real things. But "what you possess [in real, physical things] will pass, but what is with God will abide" (Koran 16:96). "These lovely [earthly] things" wrote St. Augustine, "go their way and are no more. . . . In them is no repose, because they do not abide."³⁰ A real house made in 1628 out of Piet's profit would be tumbled down by 1800, unless in the meantime its occupants had continued to invest in it. A real educated person of 1628 would be long dead, a real machine would be obsolete, a real book would be eaten by worms. The force of depreciation makes an original accumulation spontaneously disappear.

This is not to say, note well, that conquest, enslavement, robbery, murder play no part in European history. A Panglossian assumption that contract, not force, explains, say, the relation between lord and peasant defaces the recent work on "new" institutionalism, such as that of Douglass North.³¹ But, *pace* Marx, modern economic growth did not and does not and cannot depend on the scraps to be gained by stealing from poor people. Stealing from poor people, when you think about it, could hardly explain enrichment by a factor of eighteen. Would you do well by robbing the homeless people in your neighborhood, or by breaking into the residence of the average factory worker? Does it strike you as plausible that British national income depended much on

³⁰ Augustine, *Confessions*, 398 AD, IV, x.

³¹ See Douglass North's *Under the Process*, 2004, and Ogilvie's devastating empirical inquiry Ogilvie, 2004 into the Panglossian hypothesis.

stealing from an impoverished India? If it did, why did real income per head in Britain go *up* sharply in the decade after Britain "lost" India?

Modern economic growth has not depended on saving, or on stealing to get the saving. Turgot and Smith and Mill and Marx got the story entirely wrong, rather unsurprisingly considering the stately pace at which the economies they were looking at were improving, at least by contrast with the frenetic pace after 1848 and especially after 1948, and then most of all after 1978. "All the authors [who] followed the Turgot-Smith line," wrote Schumpeter as the frenzy was becoming apparent, "[were] at fault in believing that thrift was the all-important (causal) factor."³²

* * * *

If not accumulation, what then explains the modern world?

New thoughts and especially new attitudes, what the economic historian Joel Mokyr calls the "industrial enlightenment." It was ideas of steam engines and light bulbs and computers that made Northwestern Europe and then much of the rest of the world rich, not new accumulations from saving.³³ Accumulation of physical capital is not the heart of modern capitalism 1933. Its heart is innovation. Of course, if you think up a waterpower-driven spinning machine you need some savings to bring the thought to fruition. But another of the discoveries of the 1960s by economic historians was that the savings required in England's heroic age of mechanization were modest indeed, nothing like the massive "original accumulation of capital" that Marxist theory posits.

³² Schumpeter 1954, p. 572n2.

³³ McCloskey, "Industrial Revolution," 1981.

Early cotton factories were not capital-intensive. The source of the industrial investment required was short-term loans on inventories and loans from relatives---not savings ripped in great chunks from other parts of the economy.

The causal factor has depended instead on the invention of entirely new ways of propelling ships or making shoes. And nowadays it depends, if your country is as Gerschenkron put it, "relatively backward," on leaping over the slow early stages of invention and investment by adopting what has already been invented, getting now cell phones instead of laboriously investing in land-lines and then laboriously inventing substitutes. Money creation, or the 50 percent savings rates typical of present-day China, finances the leaping. The money creation in any moderately well run economy is routinely available: it is simply credit, belief in the future, and again that assurance that not everyone will run to the bank today. What was *not* routinely available in the 18th century was the stock of inventions. This is why China and India can now grow at rates inconceivable in the 18th and early 19th centuries, before the inventions were well launched. They can merely take them off the shelf. It is why in the late 19th century Sweden and then Japan in the early 20th century and South Korea in the late 20th century caught up so very quickly. What needs to be explained is not that the Swedes and Chinese could get rich quickly by gaining access to the well-stocked shelves of inventions from the steam engine to the LED screen, but how the shelves got well stocked in the first place.

What did happen in the 17th and 18th centuries, it would appear, is so to speak an original accumulation of inventive people, such as James Watt and Benjamin Franklin.

Such people sought bourgeois and thrifty ways of making and doing things, turning away from the projects of honorable display characteristic of an aristocratic society. By the 18th century they were launched on careers of producing a wave of gadgets that has not yet ceased rolling over us. An original accumulation of habits of free publication and vigorous discussion created, as Mokyr argues in *The Gifts of Athena* (2002), "a world in which 'useful' knowledge was indeed *used* with an aggressiveness and a single-mindedness that no other society had experienced before. . . . It was the unique Western way."³⁴ We do not yet know for sure why this happened in northwestern Europe and did not happen elsewhere until later, and in plain imitation of northwestern Europe, though many economic historians suspect that Europe's political fragmentation leading to comparative freedom for enterprise was important. Yet against this the German lands fragmented entirely up to 1871 were not places of much innovation in machinery, though very much so in music.

Yet neither did the modern world arise from the sort of psycho-social changes that people often think Max Weber posited in 1905. It was not a Protestant ethic or a change in acquisitive desires or a rise of national feeling or a "industrious revolution" or any other change in how people behaved as individuals that initiated the new life of capitalism. These were not trivial, and are surely the flourishing branches of a business-dominated civilization. But they were branches, not the root. People have always been hard working and acquisitive and proud, when circumstances warranted it. Thrift begins with the expulsion from the Garden of Eden. Greed was a sin and prudent self-

³⁴ Mokyr, *Gifts of Athena*, 2002, p. 297.

interest a virtue from the beginning. And as for nationalism, Italian cities in the 13th century, or for that matter Italian parishes anywhere, evinced a nationalism---the Italians still call the local version *campanilismo*, from *campanile*, the church bell tower from which the neighborhood took its time---that would do the average Frenchman of 1914 proud.

After all, many of the differences in “culture” to which we attribute so much can disappear in a generation or two. The grandchildren of Hmong immigrants to the United States differ in many of their values only a little from the grandchildren of British immigrants. If you’re not persuaded, add a “great” to “grandchildren,” or another “great.” What persists, by repetition at a mother’s knee or through stories told in literature high and low, or the rumors of the newspapers and the chatter on the web, are ethical valuations. Consider the high valuation of prudence and hope and courage in American civilization, and a persistent faith in an identity of unrootedness, what the Dutch economist Arjo Klamer has called the American “caravan” society as against the “citadel” society of Europe, the American frontier myth or the Hollywood road movie, the American folk religion that “you can be anything you want to be.” It wipes out in a couple of generations a Northern-European ethic of temperance and justice or an East Asian ethic of prudence and love.

Many people, for example, said in the 1950s and 1960s that India would never develop economically, that Hindu culture was hopelessly otherworldly and would always be hostile to capitalism. For thirty years after Independence such a rhetoric of a Gandhi-cum-London-School-of-Economics socialism held the “Hindu rate of growth”

to 3.2 percent per year, a sad 1 percent a year per capita as the population grew. But at last the anti-market rhetoric from the European 1930s faded. A capitalist rhetoric arose in India, supporting the partial overthrow of the “License Raj.” And so the place commenced, after Ravi Gandhi (no relation) in 1980 and especially after Manmohan Singh in 1991, to increase the production of goods and services to rates shockingly higher, now at fully 9 percent per year. Birth rates are falling, as they do when people get better off. At 9 percent the worst of Indian poverty will disappear in a generation or two, because income per head will have increased then by a factor of as much as 8. Eight. Even at the more moderate rates of 7.3 percent per year assumed in 2007 by Oxford Economics it will have tripled. Tripled. The culture didn’t change 1980-2009, and probably won’t change by 2034. People still give offerings to Lakshmi and the son of Gauri as they did in 1947 and 1991. They still play cricket. In the year 2034, one supposes, the Indians will persist in these bizarre cultural practices. Yet they will have entered the modern world, and the modern *word*, of a business-dominated civilization. And they will be the better for it.

* * * *

What changed in Europe, and then the world, I am claiming, was the rhetoric of capitalism, that is, the way influential people talked about earning a living. The talk mattered because it affected how people valued economic activity and how governments behaved towards it. Max Weber in fact had just such a change in mind, and his instinct to take religious doctrine seriously in accounting for the change

deserves great respect, though not exactly the theory of Protestantism he posited. The change in talk about economic life---which happened in Catholic Spain before it happened in Protestant England, and in Italy before Spain---provided warrants for certain changes in behavior. But the talk was essential. The trade to the East and the New World was not essential, though it got the most press. It was small relative to trade among the Europeans themselves. The character of the European bourgeoisie did not change. Protestantism and nationalism did change---though there is a lively literature nowadays that dates English nationalism from centuries before the Industrial Revolution. But these were side shows in their economic effects. What did change in northwestern Europe was the attitude towards the bourgeois life and the capitalist economy, by the bourgeoisie themselves and by their traditional enemies---who revived after the Reformation in the Spanish and French lands to crush enterprise. The talk was no side show, the main event, and it did change in the 17th and 18th centuries, a lot.

Without a new acceptance of markets and businesspeople and the bourgeoisie the society of northwestern Europe would have continued to bump along in a zero-sum mode, as had every society with fleeting exceptions since the cavemen. No one would have thought to turn a profit by inventing a seed drill for the field or an atmospheric engine for the mine. Why bother, if the Sultan would throw you off a cliff for your trouble, or if the Emperor's noblemen would swoop down to seize your profits? Without a business-dominated civilization the profit from invention would have continued to be seen as ignoble. Buying low and selling high would have been

continued to be seen as unethical. Institutionalized theft would have continued to be seen as aristocratic. Alms and tithes would have continued to be seen as holy.

Not that the aristocrats, or for that matter the priests, hesitated to engage in trade when opportunities appeared for market profit, as when there appeared more violent opportunities for gain. The Cistercian monks were for centuries the cleverest merchant farmers in Europe. The most insistent complaint against what Ronald Stark calls the Church of Power was its single-minded pursuit of wealthy display, “to be well dressed and well shod, in order to ride of horseback and to drink and eat well,” as in the early 13th century one of the “perfects” of the other-worldly Albigensians put it.³⁵ It is not desire for gain that changed. The Middle Ages are not to be viewed as a contentedly poor Merrie Englande starring Errol Flynn. This much we know from a century of revision of the Romantic German theory of medieval virtue. Capitalism is not about the rise of greed. What did change were the articulated ideas about the economy, ideas about the sources of wealth, ideas about a positive sum as against a zero-sum economy, ideas about progress and invention, above all ideas about what sort of calling is admirable. And so a new world was born.

Attributing great historical events to ideas was not popular in professional history for a long time. A hardnosed calculation of interest was supposed to explain all. Men and women of the left were supposed to believe in historical materialism, and many on the right were embarrassed to claim otherwise. The “dream of objectivity,” as Peter Novick called it, hasn’t work very well. Actual interest---as against imagined and

³⁵ Le Roy Ladurie 1978 (1980), p. 340.

often enough fantasized interest---did not cause World War I. The Pals Brigades did not go over the top at the Somme because it was in their prudent interest to do so. Non-slave-holding whites did not constitute most of the Confederate armies for economic reasons. Nor did abolition become a motivating cause because it was good for capitalism. And on and on, back to Achilles and Abraham. Daniel Jonah Goldhagen famously claimed about "Hitler's willing executioners" ---who were he argued the German people as a whole, not just a few bad apples---that "not economic hardship, not the coercive means of a totalitarian state, not psychological pressure, not invariable psychological propensities, but ideas about Jews that were pervasive in Germany, and had been for decades, induced ordinary Germans to kill" (Goldhagen 1996, p. 9). His book "reverses the Marxian dictum, in holding that consciousness determined being" (p. 455). Hitler's Revolution "was, above all, a cognitive-moral revolution" (p. 456). We do well to watch for cognitive-moral revolutions, and not simply assume that Matter Rules, every time.

In 1600 English society, or at any rate the people who ran it, scorned the bourgeoisie and market considerations as much as Russia did in 1988. For example, because of their association with interest-taking and buying low to sell high, not to speak of Christ killing and the drinking of the blood of gentile children during Passover, it scorned Jews, such as the Shylock of fiction and Rodrigo Lopez, the Jewish physician to the queen of England in 1594 of actual fact. Yet by the 1650s some Jews of Amsterdam were readmitted (Jews had been expelled from England entirely in 1290), as Puritans and commercial boosters wished. In 1817 England began to be persuaded by a

Jewish-origin political economist and member of Parliament, David Ricardo, to take market considerations very seriously indeed. By 1868 it was even willing to elect a Jewish-origin prime minister – who, by the way, in keeping with the new times after 1848 on the right and left advised *against* market considerations, and looked back nostalgically in his politics and his novels to the anti-market ethical world of 1600.

A wise economist once said that “the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. . . . I am sure the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.”³⁶ So here.

* * * *

Another historian of ideas and of words, J. G. A. Pocock, put my substantive rhetorical claim about 1300-1600-1776-1848-2008 very well, decades before it had occurred to me: “In every phase of Western tradition, there is a concept of virtue – Aristotelian, Thomist, neo-Machiavellian or Marxian – to which the spread of exchange relations is seen as presenting a threat. In this perspective those thinkers of the seventeenth through nineteenth centuries who argued on individualist, capitalist or liberal premises that the market economy might benefit and transform human existence appear to be the great creative heretics and dissenters.”³⁷

The heretical triumph came about crudely as follows. In the classical Mediterranean world the annoyed rhetorical question was, “Who cares about the

³⁶ Keynes 1936, p. 383.

³⁷ Pocock 1985, p. 104.

economy? That's for slaves and women and metics to deal with, or those awful merchants. What matters is transcendent honor, *timê, fama*." Thus the honor-driven expedition to Syracuse in 415-413 BC or the honor-driven rivalries destroying the Roman Republic. A later and Christian version of the classical Mediterranean world declared, "Who cares about the *economy*? What matters is transcendent soul, *psychê, animus*." Thus Christian asceticism and the first monasteries in the wilderness. In the 13th century the urban monks like St. Thomas of Aquino and St. Francis of Assisi modified the declaration a little: "What does matter, to be sure, is *animus aeternus*. But honest trade in an economy is not wholly corrupting, and can serve transcendent purposes." Two centuries later some of the followers of Luther and Calvin recurred to the earlier themes: "On the contrary: trade can be a terrible corruption. Let us build a communal city of God."

The greater modification, spreading in the 17th century in places like the Netherlands or, later, in England and, still later, in Japan, said "No, no: we *should* care about the economy – if only, you see, for the transcendent honor of king and country." Attention came to be paid, and in the 18th century mercantilism reigned from Paris to Edo.

But the final modification was the greatest, and decisive in that making of the modern world: "Yes," said Locke, Montesquieu, Voltaire, Hume, Smith, Paine, Wollstonecraft, Jefferson, Austen, Macaulay, Manzoni, "we should care about the economy, but not for mercantilist reasons of state. We should care because ordinary people in such a regime" – the egalitarianism of the thought is its most heretical

feature – "will by it flourish in *this* world, benefiting and transforming human existence."

As indeed it did.

My point here is something I have reluctantly concluded after decades of thinking the exact opposite. It is: The alleged materialist causes of the modern world don't work. Or to put it more precisely, they work much too easily, and must therefore at best be enabling conditions, that oxygen, relevant but unhelpfully labeled "causes." Many other countries at many other times have had the material circumstances of Birmingham or Philadelphia or Glasgow. If comparative prosperity and a fully marketized economy sufficed, then parts of India would have industrialized before Britain did. If foreign trade was an engine of growth, then Portugal, a great trading power from the 15th century on, not England, would have manufactured textiles, to be traded *within* Portugal for port wine, in accord with principles of regional comparative advantage that would have been articulated in, say, 1617 by a Portuguese *converso*, rather than in 1817 by a Church-of-England-professing English descendent of Portuguese Jews named David Ricardo. If the decline of feudalism and the rise in numbers of a bourgeoisie sufficed, then Japan would have led the modern world, or Athens and greater Greece would have made the modern world in the 5th century, as it made most other things. If coal were it, China would have made Manchuria into a Rhineland. If an accumulation of surplus value provided an original accumulation of capital for full-blown capitalism, then pharaohs would have erected linen factories rather than pyramids.

And so, I am beginning to conclude, in a struggle against all my thinking and economic training since I began studying the dismal science so long ago, that attitudes, beliefs, the circumstances of conversation, in a word, "ideology," or, in a better word, "rhetoric," or "speech," must be it, the "it" that briefly distinguished northwestern Europe and its offshoots from the rest, and now stands ready to save the poor of the planet.

Bluntly, the coming of a bourgeois rhetoric made possible the modern world. Unless society admires businesspeople, as English society certainly did by 1848, and with less rhetorical clarity did even by 1776, in sharp contrast to France in 1776, or England in 1600, it will not entrust its economic process to the guidance of the private businessperson. No entrusting, no capitalism. No capitalism, no enriching of the world's poor. No enriching of the world's poor, no elevation of the world's spirit. Bourgeois rhetoric was a necessary cause, the match or the gasoline as you wish. Without it, no liberty, no literacy, no liberation of women, no breakdown of taken-for-grantedness, no relief from the poverty and ignorance of our ancestors, yours and mine, who were slaves, all of them, living on less than a dollar a day for tens of millennia. For the first time in the early 19th century, uniquely, and a little earlier in Britain and much earlier in Holland, businesspeople even outside their own ranks, over a large area of a globalized market, came to be a little bit admired. Or at least not crushingly scorned. And European governments were briefly reined in by the same ideology, and later at least by a balance of interests, from scooping out the bourgeois profits for the greater honor of the state.

The present book asks how an explicitly bourgeois ideology emerged 1600-1848 from a highly aristocratic and Christian Europe, a Europe entirely hostile – as some of our clerisy, I note, still are – to the very idea of bourgeois virtues. In 1946 the great student of capitalism, Joseph Schumpeter, declared that "a society is called capitalist if it entrusts its economic process to the guidance of the private businessman" (*Encyc. Brit.* 1946). It's the best short definition of that essentially contested concept, "capitalism." "Entrusting" the economy to businesspeople, Schumpeter explained, entails private property, private profit, and private credit. In such terms you can see the rockiness of the transition to capitalism in Russia, say, where until recently much agricultural land was still not private, and where private profit is still subject to prosecution by the state, the jailing of millionaires, the cutting down of tall poppies. And what Schumpeter leaves aside in the definition, though his life's work embodied it, is that the society – or at any rate the people who run it – must *admire* businesspeople. That is, they must think the bourgeoisie capable of virtue. It's this admiring of the bourgeois virtues that Russia lacks, and always has, whether ruled by boyars or tsars or commissars or, as now, by secret police.

The claim of virtue for merchants and manufacturers was irritating to some people even by 1848. It still is in many circles. People see capitalism through Dickens' later novels, Thomas Nast's cartoons of the Robber Barons, and Jacob Riis' photographs of sweatshops on the Lower East Side, and Sinclair Lewis' account of George Babbitt. But to go on and on and on attacking market society on Marxist or

Christian socialist or nostalgic conservative or haughty aristocratic grounds damages our bodies and our souls.

The bourgeois rhetoric, I am claiming, was a necessary condition, and maybe even a sufficient one, for the industrial revolution and for democracy. That is, it was necessary and maybe sufficient for the modern world. Certainly it is hard to see how an economy can flourish if autocrats, aristocrats, bureaucrats, patrocrats scorn the bourgeoisie, and are able to implement their scorn ("-crat" < *kratos*, "might, force") by putting hooks and chairs in the path of enterprise. Though one must be on the alert, as Adam Smith warned, of *plutocrats*, too, and what they can do via the country club in corrupting politics, the other crats have been uniformly worse for ordinary people. Killing a bourgeois-friendly rhetoric caused otherwise flourishing societies in the past to stagnate, at any rate by comparison with the rising world real income per head by a factor of eight in the face of population growth by a factor of six that bourgeois Europe has led since 1800. Thus Greece in its prime, Rome under the good emperors, China in the Ming dynasty, Japan under the Tokugawa shogunate. Such economies produced lovely vases for the ruling class but scant wheat or rice for the poor, and for the masses no cheap housing, transport, education. In our times an anti-bourgeois ideology has caused the economies of Venezuela under Chavez, Cuba under Castro, China under Mao, and leading them all Russia under Lenin and Stalin and Brezhnev to fail. If under a strictly anti-bourgeois ideology you close down vegetable markets and make home restaurants illegal, as the Cuban government did in the 1990s, you don't get many vegetables or restaurants. You can counterclaim if you wish that socialist economies

failed because of imperialist intervention. I suggest that you are mistaken in your claim. They have failed regularly in the various experiments from New Harmony and the Paris Commune to the Bolsheviks and the British Labour Party not from their stars but from themselves. They would have failed if they had taken place on the nether moon.

No bourgeois virtues, no modern world.

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