

Religion and the Rise of Capitalism*

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His newest book, published in January 2021, is Religion and the Rise of Capitalism – a fundamental reassessment of the foundations of current-day economics, showing how religious thinking has shaped economic thinking ever since the beginnings of modern Western economics and how this influence continues to be relevant today, especially in the United States. This was the central focus of Professor Friedman’s presentation to the Colloquium.

The central question I want to address is where modern Western economics came from, and why it emerged when and where it did. No question of this form is straightforward to answer. The historian Edmund Morgan observed that it is impossible to know why men acted as they did.¹ It is even harder to know why they thought as they did.

The heart of modern Western economics is what economists today call the first fundamental welfare theorem: the proposition that individuals acting merely on their own self-interest, with no altruism or conscious thought for others, can – and, under the right conditions, which we understand to be competition in well-regulated markets, *will* – make not just themselves but other people better off. This is a remarkable proposition, deeply at odds with thousands of years of prior thinking expressing concern with the consequences of human pursuit of individual self-interest. My question today is where it came from, and why it emerged when and where it did.

Two familiar presumptions constitute the conventional answer to this question. The first points to Adam Smith and his great work of 1776, *The Wealth of Nations*.² Donald Winch, the foremost Adam Smith scholar of our generation (alas, no longer with us), hailed Smith's *Wealth of Nations* as ‘the fountainhead of classical political economy.’³ The second standard

* This lecture draws on my recent book *Religion and the Rise of Capitalism* (Knopf, 2021).

presumption is that because Smith and his contemporaries who gave us the beginnings of modern economics were products of the Enlightenment, and we think of the Enlightenment as a movement away from thought oriented around a God-centered universe toward what we in our modern vocabulary call secular humanism, not just the *Wealth of Nations* but the origins of modern economics more generally had nothing to do with religion. This presumption was most recently expressed by Nicholas Phillipson (alas, also no longer with us), a distinguished Scottish intellectual historian and the author of what I consider the best current biographical account of Smith and his work. Phillipson wrote that 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.'⁴ I do not think Phillipson believed that in this he was saying anything unusual; he was merely articulating the conventional view.

I accept proposition #1. The seminal insight that gave us modern economics was Smith's, and he presented it, in detail, in the *Wealth of Nations*.

But I reject proposition #2. To the contrary, I argue that Adam Smith's thinking, indeed the entire Smithian revolution in thinking about what we now call economics, was enabled by what was then a new line of religious thinking in the English-speaking Protestant world – in particular, the turn away from Calvinist notions of depravity and predestination, which took the religious thinking of the English-speaking world beyond the original basis of the Protestant Reformation. I argue that this fundamental change in religious thinking enabled the secular thinking of that time and place to take on the more optimistic view of the human character, and the expanded concept of the possibilities for human agency, that underlie modern Western economics.

To avoid misunderstanding, let me make clear at the outset that I am *not* suggesting that any of this had to do with self-conscious intent on the part of religiously committed individuals seeking to bring their religious beliefs to bear on their secular writings. The men who laid the basis for modern economics were international celebrities within their own lifetimes, and we know a great deal about them. David Hume, for example – Adam Smith's closest friend as well as his intellectual mentor – was a notorious skeptic and an outspoken opponent of any kind of organized religion. Many readers of his work, then and now, thought of him as an atheist. For

this reason, despite his widely accepted pre-eminence among figures of the Scottish Enlightenment, he was never able to secure a university appointment. His great friend William Robertson, the principal (in our modern vocabulary, president) of the University of Edinburgh and also head of the Church of Scotland, referred to him as a ‘heathen,’⁵ and Hume himself referred to Church of England bishops as ‘Retainers to superstition.’⁶ It would be absurd to claim that the influence of the revolution in religious thinking to which I am pointing had anything to do with conscious intent on Hume’s part. Smith was much more private about his personal religious beliefs, but my interpretation is that he was an eighteenth-century deist of the kind we in America associate with, say, Benjamin Franklin, or Thomas Jefferson.

What then, is the causal mechanism at work in the argument I am making? Einstein famously stated that ‘scientific thought is a development of pre-scientific thought.’⁷ He further explained that in order to think usefully about phenomena we would like to understand, we need to form for ourselves what he called a ‘worldview,’ a ‘simplified and easy-to-survey image of the world’ (*Bilt der Welt* in his original German).⁸ The reason we need to do this, he argued, is that the world we inhabit is too complex to analyze as it is. We cannot make progress that way. We have to simplify the world, down to an image of it, in order to make progress analyzing it. Importantly, Einstein thought it was not just physical scientists who proceed this way: ‘This is what the painter does, and the poet, the speculative philosopher, the natural scientist, each in his own way.’⁹

Is it legitimate to ascribe this way of proceeding to economists as well? Two of my Harvard predecessors certainly thought so. Joseph Schumpeter referred to the ‘pre-analytic Vision’ that any economist must have in mind *before* sitting down to think through a problem.¹⁰ And my dear friend Ken Galbraith, whom I miss greatly, observed that ‘economic ideas are always and intimately a product of their own time and place.’¹¹ Adam Smith’s ideas were very much, and in a particular way that we will come to understand, a part of his time and place.

What, then, was Smith’s contribution? As of, say, 1700, thinking about matters that we now call economics (the word did not yet exist with its current meaning) could be compactly summarized in three basic ideas. First, could individuals correctly perceive what was in their self-interest to do in the economic sphere? The answer then was mostly no; and for this reason

it was deemed best to run an economy on a top-down basis. The French had their mercantilist system, developed to its height under Jean-Baptiste Colbert, finance minister to Louis XIV. The English had a complicated system of government-granted monopolies. Other countries had similar top-down economic systems as well. Second, and more centrally for our purposes, even if people could figure out what was in their interest to do in the economic sphere, there was no presumption that their acting on that correctly perceived self-interest bore any implication of making anybody other than themselves better off. And third, for this reason, acting on one's own self-interest in the economic sphere was taken to be morally opprobrious – in the vocabulary of the day, a 'vice.' Such behavior was deemed 'vicious.'

By contrast, as of 1790, the year of Adam Smith's death, something very different had taken the place of each of these ideas. First, can individuals correctly perceive their self-interest? Smith argued, for the most part, yes – when they are acting as producers of goods and services. Smith was scathing about the foolish and misguided choices that many people, especially the rich, make when they act as consumers. But in the mode of a careful mathematician who doesn't want to assume anything more than he actually needs to prove his theorem, Smith understood that assuming correct perceptions of self-interest *for producers* was all he needed in order to establish what he wanted to show. Second, Smith clearly had the substance of the first fundamental welfare theorem. He understood that, under conditions of competitive markets, if people act on their own self-interest they will end up making not just themselves but others better off too. Indeed, explaining this proposition, and the mechanism behind it, was the chief burden of Smith's great book. Third, with this proposition established, by 1790 the moral opprobrium attached to acting on one's self-interest in the economic sphere was gone. The words 'vice' and 'vicious' do appear in the *Wealth of Nations*, but never to refer merely to acting on a person's own self-interest.

Smith did have Intellectual predecessors: in France, such figures as Pierre Nicole, Pierre de Boisguilbert, Richard Cantillon, and Francois Quesnay; and in England, Bernard Mandeville, Joseph Butler, and Josiah Tucker. The French influence is particularly important because Smith was living in Toulouse when he started to write the *Wealth of Nations*, and he spent time in Paris as well and came to know a number of economic thinkers there, especially Quesnay. Smith later said that if Quesnay had still been living when the *Wealth of Nations* was published,

he would have dedicated the book to him.¹² We therefore need to address up front the question of whether these predecessors deserve the credit for this great intellectual contribution, rather than Smith. Should economists instead think of Bernard Mandeville as the father of our discipline? Or perhaps Pierre Nicole?

My answer is a straightforward *no*. Even though some of these earlier thinkers intuited the central idea underlying what we now call the first fundamental welfare theorem, they had no systematic explanation for it – like stating a theorem without being able to prove it. Nor did they understand the mechanism that made it work. Especially for their generation of intellectuals, all of whom were educated in Newtonian concepts of system and mechanism, that kind of intuition without systematic understanding simply was not going to be sufficient. Newton's great book, the *Principia Mathematica*, had been published in 1687. By the time Smith was an undergraduate at the University of Glasgow, in the 1730s, the *Principia* was part of the standard curriculum at every Scottish university, as well as at Cambridge (though not at Oxford -- perhaps why Oxford lagged behind in scientific endeavor for so long). For this generation of Newtonians, systematic explanation, grounded in a clearly stated causal mechanism, was of the essence.

In order to understand Smith's great contribution, therefore, it is useful to be more specific about his argument in the *Wealth of Nations*: To begin, he took it that the human desire for material gain is inborn, and therefore no more morally opprobrious than our need to eat or breathe, or drink water. In one passage Smith wrote that 'the desire of bettering our condition ... comes with us from the womb, and never leaves us till we go into the grave' and in between 'there is scarce perhaps a single instant in which any man is . . . without any wish of alteration or improvement.'¹³ Of course 'bettering our condition' could bear many meanings, but Smith immediately went on to make clear that it is our *economic* condition that most people desire to improve.

Second, like several of his predecessors, Smith understood that when individuals act on this innate desire, *under the right conditions*, they will end up making not just themselves but others better off. But unlike his predecessors who intuited something like the first fundamental welfare theorem, Smith had a systematic explanation for this outcome, he identified the

conditions that allowed it to occur, and he specified the mechanism at work. In the *Wealth of Nations* he made clear that the setting was the market, and the mechanism was competition.

At the center of the mechanism, according to Smith, is the role of competitively set prices and wages. Much of the burden of the *Wealth of Nations* consists of laying out in detail how prices are set and what consequences ensue. Moreover, there is a strongly Newtonian flavor to the explanation he provides. For example, in one passage describing how the price system works (emphasis added),

‘The natural price, therefore, is ... the central price to which the prices of all commodities *are continually gravitating*. Different accidents may sometimes *keep them suspended* a good deal above it, and sometimes *force them down* even somewhat below it. But whatever may be the obstacles which hinder them from *settling* in this center of repose and continuance, they are *constantly tending toward it*.’¹⁴

The language is strikingly Newtonian. Prices are *gravitating* toward what today we would call the market-clearing price (not a phrase that Smith had). Sometimes various forces keep prices *suspended* at the wrong level – a war in Ukraine, for example. Sometimes other forces drive them down. But they nonetheless *settle* at the market-clearing level. From the language, Smith could be talking about planets orbiting the sun. But his argument is about prices determined in competitive markets.

Third, these competitive prices (including wages as the price of labor) are the outcome of interpersonal negotiations motivated by no more than self-interest on each side. No one is consciously looking out for anyone else. Sellers (including workers as the sellers of labor) are merely trying to get the highest price they can, while buyers (including employers) are just trying to get the lowest price. All this is therefore yet one more example of the familiar Enlightenment principle of unintended and unforeseen consequences.

With these three pieces to underpin his argument, Smith had the basis for globally beneficial outcomes following from the private pursuit of self-interest carried out in competitive markets. Such actions are beneficial for the individual in question *and* beneficial for others too. In a

further extension of the argument, Smith showed how they could be beneficial for society as well. The process, based on competition in markets, is what has come down to us as the ‘invisible hand’ – even though Smith placed little emphasis on the metaphor and used it only once in each of his two books.¹⁵ As is well known, it was the basis for Smith’s familiar opposition to potential impediments to the competitive market mechanism.

Importantly, however, what impressed Smith was the robustness of this mechanism. He did not think of the competitive market process as some hothouse flower that needed to be protected at all costs against any and all encroachments. To the contrary, Smith was willing to accept all sorts of restrictions on commerce when he thought they served a worthwhile public purpose. To cite just a few examples, Smith favored progressive income taxes, on straightforwardly redistributive grounds; luxury taxes, levied on expensive carriages (think today’s Mercedeses and BMWs) with the revenue devoted to relief of the poor; building codes, such as the laws requiring firewalls between the row houses in Edinburgh; public education, funded by the state; taxes on whisky, and on distilleries (despite living in Scotland!); more stringent regulation of private banks than anything we have known in our lifetimes; and monopoly powers of central banks. He fully understood that each of these restrictions interfered with the competitive market mechanism of commerce. But he also saw that it accomplished a public purpose, and in his view this made the interference worthwhile.

In 1976, the two hundredth anniversary of the *Wealth of Nations*, George Stigler famously proclaimed that Adam Smith was alive and well and living in Chicago. Today, on the three hundredth anniversary of Adam Smith’s birth, I regret to report that Smith is alive but not doing very well; he is being held prisoner in Chicago. Only a proper understanding of the full import of his contribution – including an appreciation of his willingness to interfere with the market mechanism when there was a valid reason for doing so – will rescue him.

What, then, enabled Smith – and, in a limited way, his predecessors – to reach this remarkable set of insights? Several influences are familiar and well discussed in the scholarly literature. There was Smith’s training in Newtonian ideas of system and mechanism, which he shared with most other educated thinkers of his generation. Smith was also well educated in Stoic philosophy (his favorites were Epictetus and Marcus Aurelius), with its emphasis on natural

harmony in the universe; one person's doing something to make himself better off, and his action's also making others better off at the same time, fits well with the Stoic concept. Smith was a very observant man, and he lived in an increasingly commercial society; he knew merchants in Glasgow, Edinburgh, London, and Paris. He was also a moral philosopher of substantial insight and powerful introspection.

But I believe there was something else at work as well. At just this time, the English-speaking Protestant was undergoing a fundamental transition in religious thinking – specifically, the turn away from predestinarian Calvinism. I argue that it was this shift in *religious* thinking, along with the other familiar influences at work, that enabled Smith to reach the insights that laid the basis for modern Western economics.

The movement away from predestinarian Calvinism in the English-speaking world embodied many elements, but among them three stand out for their bearing on the content of Smith's contribution to what became economics: one concerning our view of human nature; a second, human destiny; and a third, the human purpose.

Calvin, whose thinking had, by the middle of the seventeenth century, come to dominate in those Protestant countries that were not Lutheran, had taught that all humans, without exception, are full of 'depravity and corruption,' to the extent that they are therefore 'destitute and empty of good ... impelled only to evil.'¹⁶ By contrast, the new thinking that now took hold in much of the English-speaking Protestant world, held that each person is born with an inherent goodness; in Locke's famous metaphor, we are each given the 'candle of the Lord' – that is, reason – with which we cannot fail to know what is right.¹⁷

On the ultimate human destiny, Calvin taught that the decision of whether each individual is to be saved or damned was made not only before the person was born but before the world was even created – therefore leaving no room for influence by the person's own choices or actions. By contrast, the English and Scottish post-Calvinists thought *everyone* is potentially eligible to be saved and, moreover, that our choices and actions do matter for this purpose. In sharp contrast to the predestinarian view, John Tillotson, the first Archbishop of Canterbury appointed after the Glorious Revolution of 1688, emphasized 'the necessity of our *co-operating* with the grace of God' in order to achieve salvation.¹⁸

And third, Calvin taught that the sole reason man exists is the glorification of God. In Calvin's famous phrase, the entire universe is a 'theater' of God's glory.¹⁹ The post-Calvinists instead thought that human happiness is a – and perhaps the chief – divinely intended purpose of human existence.

The debate over these new ideas was at its height in Scotland just at the time when Hume and Smith and their contemporaries were coming to young adulthood, and therefore forming what Einstein would have called their 'worldview' – what Schumpeter would have called their 'pre-analytic Vision.' The turn away from predestinarian Calvinism in the English-speaking Protestant world was a rolling phenomenon, beginning in England in the latter half of the seventeenth century, taking hold in Scotland in the middle decades of the eighteenth century, and finally arriving in America in the latter half of the eighteenth century.

Why, however, would this *religious* debate have influenced the worldview, or Vision, of such non-religious intellectuals as Adam Smith and David Hume? One reason is the centrality and multidimensional importance of religion in the society in which they lived. Religion was more important and more pervasively important than anything we know in the Western world today. Especially in the wake of the Act of Union, by which Scotland gave up its independent royal court and parliament to join England and Wales in the United Kingdom, substantially all matters concerning education, politics, patronage and the like were tied up with religion. After 1707, the Church of Scotland was all the Scots had left of their independence.

Second, intellectual and social life at that time was more integrated and unified than anything we know today. When Adam Smith taught at the University of Glasgow, there were fourteen professors, all housed in the same building and all having to deal with one another on matters of curriculum and university administration. Smith was the professor of moral philosophy. One of his faculty colleagues was the professor of theology. Another was the professor of church history. These faculty members were not removed into a separate divinity school, as is the case at most universities in Western countries today. They taught, and lived, alongside Smith.

Similarly, both Glasgow and Edinburgh during the Scottish Enlightenment were famous for the rich intellectual life centered in these cities' many dining clubs. The most distinguished of these was Edinburgh's Select Society, of which Smith and Hume were, as would be expected,

among the original members. Five of the other twenty-nine original members were Church of Scotland ministers. When Smith and Hume dined with their friends, the group included clergy. Moreover, one of the five ministers among the original members of the Select Society was their great friend William Robertson, who was simultaneously the moderator of the Church of Scotland's General Assembly and the principal of the University of Edinburgh (as if the president of my university were simultaneously the chairman of the Central Conference of American Rabbis).

Yet another reason the new religious ideas affected the thinking of non-religious men like Smith and Hume was the extreme contentiousness of the religious debate itself. These were ideas over which men fought, and many died. The Thirty Years' War on the continent in the previous century, between Catholic and Protestant forces, had been as deadly compared to the size of Europe's population as either World War I or II would later prove. The English Civil War – in this instance again between Catholic sympathizers and Protestants, but also between Calvinist and non-Calvinist Protestants – took place during the lifetime of Smith's and Hume's grandfathers; it was similarly deadly. In Scotland the Jacobite rebellion of 1745, which pitted supporters of the exiled Stuart family, many of them Catholics, against the mostly Protestant loyalists to the Hanoverian monarchy, was likewise a bloody affair, and some of the fighting took place right outside of Edinburgh. Adam Smith was twenty-two years old at the time. He could not have helped but pay attention.

Most important, there is a substantive coherence between the more optimistic view of the human character and the more expansive view of human agency embodied in the new religious thinking and the worldview, or Vision, that Smith and his contemporaries brought to their analysis of the secular world, including matters of economics.

The Calvinist notion of human depravity meant that people were not reliably able to tell good from bad, right from wrong, or systematically able to act on whatever differences between them they might perceive. It was not much of an extension to conclude that they were therefore also unable to distinguish whether their actions were good or bad in wider contexts. Responding merely to the dictates of their depraved and corrupted nature, they were hardly likely to act in ways that would systematically render others better off. By contrast, if people are endowed with

reason, and if the human character is one of inherent goodness, then they *are* able both to make moral choices and to act upon them. A natural extension of this more optimistic assessment is that they also have the ability to distinguish secular good from bad, and there is nothing in their inborn nature that prevents them from systematically acting in ways that can, and under the right conditions will, result in outcomes beneficial to other people as well.

The doctrine of predestination meant that it was impossible for individuals to effect, or even contribute to, their salvation. But a person's incapacity to make any choice or take any action to promote his or her ultimate spiritual prospects bears a natural affinity to a parallel inability to make choices or take action to improve one's material well-being. Under this burden a person's systematically acting in ways that made others better off would seem even less likely. The contrary view of humans as morally conscious agents, with free will and choice, instead meant that individuals *are* able to help determine whether or not they are saved. By extension to the secular realm, people not only understand what is in their own interest, they also are able to act on that understanding. And, again under the right conditions, they can act to improve the lives of others too.

Finally, if the sole purpose of creation is to glorify God, then human happiness per se carries no religious value and there is no reason that the world God created should be structured so as to foster it. By contrast, if human happiness is also part of the intent of a benevolent God, then the world in which we live is one in which achieving that end is not just possible but likely. By extension to secular matters, human material needs and abilities are likewise such as to enable happy lives, as are human institutions, like markets.

I believe that Adam Smith and his contemporaries were, in effect, secularizing the dominant religious thinking of their time and place. The more optimistic view of the human character and the more expansive view of the possibilities for human agency embodied in the new religious thinking of their day imparted to them a worldview that enabled Smith in particular to see what good could result from the behavior of individual human beings acting – under the right conditions – on no more than their innate desires and preferences. This essential insight in turn provided the basis for modern Western economics.

We now stand nearly two and a half centuries past Smith's seminal contribution. Over that

span of time, the economy of the Western world has changed profoundly, and the questions economists ask have changed along with it. Moreover, the religious debate that enabled Smith's thinking has faded in importance.

Even so, the essential character of economic thinking stemming from the insights of Adam Smith and his contemporaries remains with us. Economics is still about human choices. The first semester of any introductory course in the subject is about the decisions made by families and firms, and the consequences of those actions. The first fundamental welfare theorem is still the heart of the discipline's analytical apparatus. And if we scratch any economist, we find the same fundamental optimism about the human enterprise, and the same expansive view of human agency and its possibilities, that the discipline took on at the time of Smith and Hume.

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¹ Morgan (2013), 51.

² Smith (1976a).

³ Winch, ‘Introduction,’ in Ricardo (1972), vii.

⁴ Phillipson (2010), 190.

⁵ Robertson (1759), f. 235r.

⁶ For example, Hume, Letter to Adam Smith, April 12, 1759, in Smith (1987), 35.

⁷ Einstein (1954), 275.

⁸ Einstein (1918); translation from Holton (unpublished), 3.

⁹ Ibid.

¹⁰ Schumpeter (1954), 41; upper-case V in the original.

¹¹ Galbraith (1987), 1.

¹² Dugald Stewart, ‘Account of the Life and Writings of Adam Smith,’ (1811-12), cited in Smith (1987), 114, n. 1.

¹³ Smith (1976a), 341.

¹⁴ Smith (1976a), 75

¹⁵ Smith (1976b), 184, and (1976a), 456.

¹⁶ Calvin (1960), 251-252.

¹⁷ Locke, ‘The Reasonableness of Christianity,’ in Locke (1824), v. 6, 133.

¹⁸ Tillotson, ‘Of the Nature of Regeneration,’ in Tillotson (1772), v. 5, 308-309; emphasis added.

¹⁹ Calvin (1856), 69.