

Comments from Forrest Capie

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Professor Capie has written widely on money, banking, trade and commercial policy and recently completed the commissioned history of the Bank of England (Cambridge University Press, 2010). His latest book, Money over Two Centuries, was published by Oxford University Press in 2012.

This is a very big book with big questions. And it roams over many disciplines, some of which I seldom venture into.

I began to wonder if my chief qualification for offering comment was being a Scot – and better still having been born and brought up in Glasgow. That is certainly where a lot of the early action took place.

Calvinism has a big part in the story. I think we thought of ourselves as Calvinists – a product perhaps of the second coming of Calvinism between 1870 and 1940. So revered was Calvin when I was a child that I assumed he was a Scot. Certainly, predestination was a big topic of discussion among my parents and their friends. And the words ‘chosen’ and ‘elect’ were present. But so too were the words ‘forgiveness’ and redemption’, and the possibility of being ‘saved’. We had never heard of Arminius. I’ll come back to Calvin.

The Book

I approached the book with the expectation that it would be the latest contribution to Weber’s thesis which as a recent scholar said, ‘...has been the longest-running debate in modern social science’. (David Zaret in Lehman and Roth, p. 245) Weber, you will recall, said (to keep it brief) that Calvin, or more cautiously the Protestant culture, was an important factor in the emergence of capitalism, and then Tawney suggested that Weber was one-sided and that causation could have gone both ways. And while Friedman would accept a highly modified version of the Weber thesis (though he doesn’t discuss Weber explicitly) there is not much room for Tawney. And there is not a lot of room for capitalism as such, and more for economic thought.

The first half of the book is about how *The Wealth of Nations* came to be written, (in part a product of its time and the prevailing religious thought) and how capitalism was provided with an acceptable moral code and given a boost. The second half is about how the ideas took hold in quite different circumstances and were propelled with great enthusiasm in the United States.

The book is an impressive work of scholarship covering great swathes of the history of economic thought and of the influence of theological thought over long periods, and some social and economic history. It left me unsure or puzzled over two areas, with two main questions. The first is this: Was Calvin's message the pessimistic one painted here? And was it therefore a serious dampener on self-interest being pursued and so of capitalism developing? And if the answer to that is yes, then the next question is: How do we explain the fact that capitalism was thriving in Calvin's time and well established before Smith was born?

First, the Religious Influence

Calvinism was the powerful doctrine that dominated Protestantism after the Reformation. But, Friedman argues, it was a gloomy and pessimistic doctrine with predestination at its core. There was no 'agency'.

I am not in a strong position to comment on what Calvinism laid down but a number of recent scholarly contributions certainly present a different picture and argue that Calvin did not teach that human depravity meant that individuals were not able to make moral choices. And neither was predestination 'central to Calvin's thought, much less its central organising principle' (Backusa and Benedict, p.12). (Was it not rather Theodore Beza, the French theologian and successor to Calvin as the spiritual leader in Geneva, who raised predestination to the position of a central Calvinist principle? And nor did predestination imply fatalism when it came to economic conditions?) But, rather, there was the view of man being created in God's image. That helped to underpin our understanding of dignity and, I would add, that helped promote civil society which included trade regulated by individual and public morality. Calvin respected the dignity of the individual which he believed came from God. It gave cause to be thankful and not pessimistic. And it certainly gave human beings agency.

Samuel Rutherford (another Scot), Principal of St. Andrews University, wrote about the impact of these views of Protestantism on the Scottish and English psyche 100 years before Smith.

And in some support of all this, scholars such as Beza and Rutherford say Calvin worked hard to improve the economic lives of his fellow Genevans.

And neither did many (or perhaps even most) of Calvin's contemporaries take a gloomy interpretation of Calvin. For example, on the idea of the 'chosen', the view seems to have been that God could foresee who would be true believers.

But Friedman says it was the debates that followed that led slowly to a softer version of Calvinism under the influence of Arminius and that version had taken hold by the time of Smith.

Further, Friedman argues that whereas in the past self-interest had been seen as a vice, in the new regime the glorification of God could be achieved by success in improving the world, and that was most obvious in material prosperity. Better still, if the pursuit of wealth turned out to be for the betterment of society more generally, I would be inclined to argue that that was already happening in the previous centuries.

Where Does Capitalism Fit?

Both Marx and Weber set out the principal features of capitalism, and these became the basis for later discussions. For Marx, central were well-developed property rights in land and labour. And there was a move to a fully-monetised system. Then everything could be traded. Weber added some refinements but emphasised that it was the attitudes to money, time, effort, accumulation, and so on that mattered. And more, that there was a point at which these attitudes, '... had become ethically and emotionally attractive', where before they had been unacceptable.

Friedman says the first fundamental theorem of economics (or perhaps of capitalism?) is that '...individuals acting in a self-interested way can under the right conditions of competition within well-regulated markets make not only themselves but others better off'. (It was in a talk he gave to the American Philosophical Society that he added 'well-regulated'.) Can this be taken as his definition of capitalism? He adds that perceiving self-interest was not possible

in 1700. It had become so by 1790. If that were the case, capitalism would have had to wait for the late eighteenth century.

But there is a large literature in economic history showing that capitalism was in place in England/Britain from the Middle Ages. If we accept as a useful working statement that capitalism is, 'the social system in which capital is owned by private persons and work is undertaken under a system of free contract' (Seldon dictionary, p. 89), then there was capitalism from at least the early sixteenth century. Marxist historians seem more than happy with this. Brenner says capitalism arose in Medieval England. Dimmock gives the years 1380-1530: '... [E]conomic change in later medieval England was grounded in commercialisation, rural industrialisation' (and so on). Others such as Tawney wrote of the economic revolution of the time when 'streams of bullion flowed from silver mines in Germany' and 'prosperous peasants undermined the Manorial system' and there was 'an outburst of capitalist enterprise in mining and textiles' (pp.77-80), and of the 'expanding capitalism of the later middle ages'.

Historians have generally strengthened this case and even pushed the date back. For example, Britnell has written of, 'The proliferation of markets in England 1200-1349' (EHR 81) and, 'The commercialisation of English society 1000-1500' (1996). And Clarkson has written of the manufacture of textiles, leather goods, metal wares etc., combined with farming, and that in every market town there were scores of craftsmen producing clothing, household goods, saddlery, pots and pans for the local market. The goods produced had to be competitive in national and international markets. Is that not all evidence of self-interest being pursued? Still others (such as D.C. Coleman) insist that England crucially diverged from Europe after 1450.

Alan Macfarlane (both anthropologist and historian) goes further and argues that there was no notable shift in the fifteenth century or the sixteenth and that markets operated relatively freely in the five centuries before the industrial revolution. There were markets in property and obviously in goods of all kinds – and even in labour, though there were still some obstacles in places. He also says that England was different with its focus on the individual. But he stressed that everywhere he had been as an anthropologist and everywhere he looked as an historian, he found that people in general behaved in a self-interested fashion. He concludes that '*Homo economicus*' and the market economy had been present in England for centuries before Smith wrote (MacFarlane, *Origins of English individualism*, p. 199).

And of course there was a financial revolution before Smith was born and an agricultural revolution underway.

In England, where the focus was on the individual, the desire for an English Bible was realised in part in Tyndale's translation of the New Testament, available in England in 1526. 'Coverdale's Bible' (dependent on Tyndale) was published in England in 1535 (Melvyn Bragg). Melvyn Bragg goes on to write about the desire for and the impact of the English Bible: 'It was the Bible in English, both what it said and the way in which it *licensed* its listeners and readers to attempt new thoughts that proved to be the vital catalyst – in the marked cultural shift ...' (and I would add economic shift) that had taken place over the sixteenth and seventeenth centuries.

Capitalism had been around for a long time, and all the pre-conditions for an industrial revolution were in place, before Smith was born. Even the stronger basis of well-defined and better-enforced property rights was well established in the later seventeenth century.

The story that is told today of the beginnings of modern economic growth is of a financial revolution being necessary before rapid industrial change was possible. That was the case in Britain with a financial revolution at the end of the 1600s – fractional reserve banking established in the 1670s/80s; the Bank of England founded in 1694 and with it the beginnings of the National Debt; the reform of the coinage in 1696; and over the next 20 years or so all manner of financial derivatives became available.

(Interestingly, the sophisticated financial markets that became established in London and Edinburgh are often attributed in large part to the trust that existed in concentrated areas and between people of like mind. How big a part of that trust came from religion? Jews and Quakers always get a mention.)

The beginnings of the industrial revolution have been given different dates but over time the start has been pushed back to the first half of the eighteenth century: around 1740 or even earlier. It has also been given a long list of causes and there is frequently a role for religion. For example, Deepak Lal in a wide-ranging book argues that the particular form of individualism that appeared in the West (and more pronounced in England) derived from Judaeo-Christian teaching and was an essential component of modern capitalism. The Harvard historian David Landes posed the question: Why was it that China in the Middle Ages was far in advance of the West in many aspects of technology but the industrial

revolution took place in Europe and not China? He put forward several explanations but they all had one thing in common – the Judaeo-Christian ethic. At any rate, certainly, the industrial revolution, modern economic growth, was well underway before Smith started writing or lecturing on the economy.

The Second Half of the Book

The second half of the book turns to the spread of Smith's ideas in the United States. It is a little different and certainly allows for two-way causality. Whereas Hume and Smith and others like them were not religious (they were cultural Christians in today's terms) the spreaders of the gospel of capitalism in the US certainly were. They tended to be evangelical Protestants who dominated the early colleges such as Columbia, Harvard, Yale and so on - names such as Richard Ely, John Bates Clark, etc.

Not only does Friedman trace this early story out in detail, he explains how beliefs were modified by conditions and shows how new movements emerged according to economic conditions. So, for example, in the depression of the 1880s in the US, when extreme poverty appeared, the disturbed Christians saw the problem as too big for private charity and appealed to government to intervene, and so was born the Social Gospel movement and the first steps to socialism.

Conclusion

In brief summary, there can hardly be any doubt that over the long run and before Smith wrote, religion had exerted a strong influence on the economy and that capitalism had been established for a long time before Smith was born. So, to repeat my two questions: How can it be the case that individuals could not pursue their own self-interest before 1700? And if by some definition of self-interest that is true, what explains the thriving market economy in the centuries before Smith?

In the end I wondered if perhaps a more accurate title for Friedman's book might have been: 'Arminianism and the Emergence of Classical Economic Thought', although I can see that might not sell very well.

But I would rather close on a more positive note. It is a fascinating book that is easy to read and I greatly enjoyed reading it. Although it covered appealing and some familiar territory, I learned a great deal.

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