

Chapter 4: A Brief Account of the Historical Origins of Economic Fundamentalism

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness to him, though he derives nothing from it except the pleasure of seeing it.

— Adam Smith¹

Introduction

At the conclusion of Chapter 3, it was argued that the proposition that self-interest was the fundamental ordering principle operating in society could not be sustained. This conclusion is inconsistent with the beliefs of many economists, who claim that the existence of social groups and of social order can be explained by voluntary contracts between individuals who have made the rational calculation that cooperation is in their long-term self-interest. This view begs the question of whether real individuals are capable of determining what is in their long-term self-interest—a question that, in practice, has often been settled in the negative. In contrast, I argue that civilisation requires the suppression of self-interest through social norms and that, in practice, our decisions are deeply affected by socially inculcated values and by our emotions. Consequently, the complex of relationships and institutions that make the division of labour possible cannot be reduced to voluntary transactions between individuals.

I also argued in Chapter 3 that our moral codes and our legal system provide the infrastructure and the institutional basis essential for the social system in general and the economic system in particular. While it has long been recognised that infrastructure is essential to the functioning of the economic system, economists generally have taken that social infrastructure for granted, limiting their consideration to physical things. This limitation involves even a very narrow understanding of the economic concept of ‘capital’—a limited understanding that is breaking down. This has led to recognition among some economists of the importance of ‘human capital’ to the functioning of the economic system. That concept is, however, confined too frequently to embodied marketable knowledge and skills. This is far too narrow a view of the abilities and attributes required for successful human interaction—economic and social. The development of that human capital involves the process of socialisation and moral education, but the content of that socialisation has been invented in the

process of social evolution and involves some vision—or visions—of the ‘good society’.

It is clear that religious and intellectual speculation has played an important part in the development of such visions. This intellectual speculation involves the attempt to see beyond the historical to what—in the rationalist, classical scientific tradition—are conceived of as more radically fundamental, underlying forces, which are seen as fixed natural laws. As such, it incorporates a conception of natural laws as mathematical, eternal and absolute—a reflection of some perfect mathematical form—derived from ancient Greek philosophers Pythagoras (569–500 BC) and Plato, and reinvigorated by the Enlightenment. Such a vision—and its associated speculative reasoning—attempts also to lay down the form that moral justification *should* take. I will critique this tradition in more detail in the next chapter.

As indicated in Chapter 2, these are not new questions. Rather, they are as old as philosophy and its fascination with deductive political and moral stories. Even the idea of the ‘invisible hand’—beloved of economists—was old in 1759 when Smith first used the phrase.² Just how old could come as something of a surprise, even though Smith tells us. In his *Theory of Moral Sentiments*, Smith says:

[T]hat the ancient Stoics were of [the] opinion, that as the world was governed by the all-ruling providence of a wise, powerful, and good God, every single event ought to be regarded, as making a necessary part of the plan of the universe, and as tending to promote the general order and happiness of the whole: that the vices and follies of mankind, therefore, made as necessary a part of this plan as their wisdom or their virtue; and by that eternal art which educes good from ill, were made to tend equally to the prosperity and perfection of the great system of nature.³

The idea could have originated with Hesiod, one of the earliest Greek epic poets, in the seventh century BC—though he might have just been reporting an idea with wide currency within his culture.⁴

In Chapters 2 and 3, I provided an evolutionary account of the emergence of social order along with a brief summary of the various ahistorical theories that have been used to account for social order. These ahistorical approaches have not led to—nor are they likely to lead to—any consensus. Rather, the history of the social sciences has been dominated by three competing opinions:

- society is merely a collection of individuals
- society is an integrated whole; the term ‘society’ stands for a reality
- society is neither a fiction nor a fact; it is an entity ever in the making, a process.⁵

The first view is based on a mechanical, atomistic metaphor. In this view, atoms are conceived of as the solid fundamental particles in nature interacting in a mechanical fashion like billiard balls. Consequently, this view leads to the use of mechanical analogies and to social theories in which supra-individual forces must be explained in terms of individual behaviour. It also sees the social system as an equilibrium system modelled on the equilibrium system of classical mechanics and of Newtonian cosmology. As we will see in the next chapter, this is the fundamental idea—the paradigm, the cosmology—that underpins the Enlightenment. It is this view that underpins neoclassical economics, which models human beings and their interactions as if they were mechanical, equilibrium systems. This perspective, however, in denying the existence of a super-individual entity, still has to account for our understanding of the existence of such entities. To suggest simply that such understandings are mistaken—as Margaret Thatcher did—is inconsistent with that perspective's own methodological individualism. This is because it denies the primacy of the meanings and intentions of individuals when they use the word 'society' to describe a collective entity with a pervasive influence on our lives.⁶ The second view, which is based on an organic metaphor, is the way ancient Greek and medieval philosophers viewed society—the view that was overthrown by the Enlightenment. In this view, society is conceived of as an organism similar to the human body—a view lending itself to biological analogies. Important historically is the view of God as the head and society as the body.

Both of these views exclude essential elements of the social order and cannot, therefore, provide an adequate account. There is a tension between these views and an associated tension between the public and private spheres. These tensions—which remain unresolved to this day—have been central to Western political speculation. The boundaries to be placed between the public and private spheres and the limits on individual liberties are the stuff of day-to-day politics and the defining themes to which I drew attention in the opening paragraphs of Chapter 1. The third view of nature as process—or as evolution—arises primarily out of the relatively recent experience of change in social and economic life within the lifetime of reflective commentators. As a result, change came to be seen as a fundamental factor that had to be explained. This process view better accounts for the integration of the social order and the independence of the individuals that comprise it.⁷

What is clear, however, is that we are heirs to a dominant tradition of moral and social argument, arising out of the Enlightenment and based on atomism and a mechanical, Newtonian metaphor that continues to influence our policy development processes. The broad philosophical and scientific foundations of this tradition in the Enlightenment will be discussed in Chapter 5. For the moment, we will focus on a more detailed account of the origins of the various

social doctrines that flow from this tradition—doctrines that influence contemporary economic and policy thought, including social contract theory.

A Brief History

The city-state—the *polis*—began to emerge as a new form of social and political organisation in Greece in the eighth century BC out of that culture's religious, military and economic history. The *polis* was a complex hierarchical society built on an organic metaphor around the notion of citizenship. The *polis* provided ancient Greece with an intellectual model of how society was constituted.⁸ Only in the *polis* was real human existence conceived of as being possible. Plato and Aristotle agreed that to be a member of a *polis* involved a life of collective involvement, transcending private interests. Plato argued that political power existed to serve the welfare of the *polis* and its citizens and that this required greed and ambition to be constrained by philosopher-kings guided by the power of reason. For Aristotle, politics was the moral consummation of all other levels of human activity and the State expressed the common moral life of the community.⁹

In medieval times, Thomas Aquinas provided the dominant Christianised Aristotelian version of this organic model: a hierarchical cosmos created and maintained by God, in which everything had its ordained place and humans served God's ends.¹⁰ This organic model did not postulate—nor would it have allowed—the strong separation between the public and private spheres that characterises some modern societies. Of course, this account is not intended to endorse the rigid and authoritarian nature of this model. Nor is it intended to excuse the often-exploitative relationships it permitted in practice. Nevertheless, in this model, a set of fundamental principles of justice, based in the cosmic order itself, was seen as the foundation of the social order and of all enacted law. In this view, one should cultivate moral virtues rather than merely keep the moral law. In consequence, people were seen as owing a wide range of duties to God, to the Church, to their feudal lord and to other people. It involved an appreciation of the interdependency of society and of the debt owed to the lower classes. It also involved the consolation of the promise of immortal life to those at the bottom of the hierarchy.¹¹ In addition, the possession of property by the elite involved temporary custodianship, not ownership. Such custodianship carried duties as well as rights. Among other things, it was the duty of those in authority to stamp out usury and to ensure that prices and wages were just.

This hierarchical view played a crucial role in a developing natural-law tradition from John of Salisbury in the twelfth century, St Thomas Aquinas in the thirteenth, Nicholas of Cusa in the fifteenth, the *Vindiciae Contra Tyrannos* (attributed to Philippe Duplessis-Mornay and Hubert Languet) in the sixteenth and Hugo Grotius in the seventeenth.¹²

Calvin provided a later ethical vision of the social world as a holy community of saints participating voluntarily in an unmediated relationship with Christ—the source of transcendent power and authority. This vision drew on the Pauline and Augustinian theological tradition, Calvin's particular theology and a literal reading of the Old and New Testaments. In stressing the sovereignty of God, Calvin and Calvinists sought to remake society in the image of a religious community. In this vision, leadership in church and state fell to men pre-ordained for salvation by God. Importantly, the individual was imbued with a new autonomy while the nature of the social ties between these individuals was redefined. The Reformation had more broadly articulated a new idea of authority within the Church and within society. In particular, it brought with it a new conception of ministry based on consent, collective agreement and the fundamental equality of believers and ministers before God. Furthermore, it sanctified secular life, giving religious legitimisation to secular callings. This Calvinist vision was attractive to the prosperous mercantile classes of the sixteenth and early seventeenth centuries for whom material wealth and business success were signs of God's grace and their membership among the elect. In this way, Calvinism helped create a climate favourable to capitalism. In the US colonies in particular, Puritan settlers attempted to start afresh and organise a Christian commonwealth that would serve as a model for the rest of the world. As a result, the US culture remains Calvinist in some form or other to this day.

All of these theories involved an account of social existence in terms of a vision of an ultimate good or divine purpose. What is particularly important for my account is the fact that the medieval concept of 'man' as a political and social being—necessarily involved in a network of social relations—which was derived from Aristotle—gradually waned. This decline brought with it a need for a new explanation. This waning was associated also with the decline of the moral and secular authority of the Western Christian Church, partly as a result of the struggle for power between religious and secular authorities in medieval Europe, and partly as a result of the Reformation and the religious and political strife that followed.

Progressively, the intellectual climate came to be defined by deism and an associated distancing of God from human affairs.¹³ Under this deist view, while God had actively created the Universe and was the final cause of the physical and social order, He had then turned His back, leaving it to operate automatically by laws built in at the outset. This involved a vision of God different from that of the Judaeo-Christian revelation, that of the Stoics: a God fitting the Enlightenment's new cosmology and the Newtonian mechanical world-view, a clock-maker God who started the cosmic clock and who filled in the gaps between the rapidly expanding natural forms of explanation and social and physical reality. Over time, the Enlightenment rejected Christianity's claim of a historical revelation that was the source of truth and value.¹⁴ It thus progressively brought

into question the idea that the source of social order was to be found outside society. It also progressively disengaged moral discourse from direct theological discourse and in the process strengthened the distinction between the public and private realms. In this disengagement, the magisterium of the Church—its claimed authority to teach on faith and morals on the basis of a commission from God—passed imperceptibly from ecclesiastical authorities and their theologian advisers to natural and moral philosophers, who claimed an authority to teach on social and political arrangements because of their special knowledge of the truth and of natural laws. What remained in deism, as a remnant of God's presence in the world, were the facility of reason and the holiness of rationality.¹⁵ We hear this echo still in our own day in the continued adulation of human rationality. Of course, the growing strength of capitalist market relations—with its distinction between public and private—reinforced this need for a new conception of the social order.

This deist view was still a vision of a benevolent God in which natural laws were seen as having been created to ensure human happiness. Consequently, the discovery of and obedience to such laws was essential to human happiness. It also imputes a purpose to social phenomena. This trend was also directly associated with the development of science and a desire to find a scientific and increasingly more natural explanation of the social order. This established the intellectual climate that determined what was accepted as a valid explanation. In this climate, the transcendent grounding of the social order was no longer seen as providing an adequate explanation. While not yet totally abandoning belief in and a reliance on the benevolence of God, human attributes or 'human nature' were seen increasingly as the ultimate determinants of the regularities and uniformities in social life and the vision of the social good. It was a process that progressively divinised nature and human reason, providing a secular source of meaning and justification as comprehensive and as dogmatic as that provided by the religion it replaced. Clark calls this Enlightenment project 'the Natural Law Outlook'. It was a project with three essential elements: a belief in social physics, naturalism and the derivation of a natural universal moral theory.¹⁶

For example, Hobbes, the first of the major contract theorists, had a strong interest in the new philosophy and in the science of the seventeenth century, having been Francis Bacon's secretary.¹⁷ His was a materialistic, reductionist and mechanistic theory and he used the Newtonian metaphor in his theorising even before Sir Isaac Newton (1643–1727) had put the finishing touches to that paradigm. He aimed to develop a science of politics comprising universal propositions proven conclusively as the propositions of Euclid. This new type of political theorising, which became typical of modernity, incorporated a new and distinctive view of the way in which people should relate to the world. The individual is conceived of as an isolated mind and will with a vocation to bring

the world under the control of reason—a way of thinking that privileges the rational, wilful subject.¹⁸

Hobbes' theory involved a mechanics of the mind and a mechanics of society in which strivings within our bodies determined our actions in our relationships with each other. For Hobbes, the unceasing pursuit of power and pleasure was the sociological counterpart to the concept of gravity. This theme reappeared later in Bentham's utilitarian account of morality. As indicated above, this tradition breaks with Aristotle and Aquinas and their view of humans as inherently social and political animals. Rather, this tradition postulates theories that are highly individualistic and pre-social, and that are voluntaristic, consensual and rationalist.¹⁹ Nevertheless, they are theories with roots in earlier political theorising in which the idea of contract was used to undermine the quasi-divine pretensions of kings and emperors.²⁰

This use of the idea of contract can be traced to the Old Testament, to Roman law and the political practice of medieval Europe, where kings were often elected and ruled in accordance with pre-existing laws and customs.²¹ In particular, among the Germanic peoples, the idea of a *pactum* governing their monarchy was derived from the idea of a covenant, which in turn was derived from the social and religious history of the ancient Middle East as recorded in the Old Testament. In such a covenant, divine authority was invoked as a witness to morally binding agreements. These agreements were often in the form of a suzerain treaty between a stronger political leader and a weaker one, but they also covered mutual pledges between more equal partners. The Old Testament relates how this 'basic, "mutual", oath-bound creation of responsible relationships' is recognised to be a close analogy of the way in which God relates to humanity and a model of how we should relate to each other under God.²² It involves also a revelation of the nature of a just, merciful God who engages directly in the creation and sustaining of righteous living in community.

This progressive secularisation of covenant, through the development of social contract theories, was also associated closely with the religious, social and political developments in the surrounding societies. In particular, contract ideas provided radical Protestants with a means of justifying their political dissent. It also suited the new merchant classes and their allies in challenging the monopoly on political power of the established oligarchies.²³ In particular, these ideas were congenial to Calvinists engaged in struggle against ruling state authorities opposed to their religious beliefs. For example, the *Vindiciae Contra Tyrannos*, which appeared in 1579, attributed the obligations of a ruler to his vocation or divine calling. Consequently, the covenant between ruler and people was not simply between ruler and people, it was between ruler, subjects and God, and expressed the will of God.²⁴ It was the influence of Calvinism, with its propensity to think of obligations in terms of covenants, combined with the importance of Calvinism

in the political conflicts in sixteenth and seventeenth-century Europe, which first raised contract theory to a central position in Western political theory.²⁵

In particular, the popularity of the contractual ideas in seventeenth-century Britain is attributable directly to the influence of Puritanism—the English brand of Calvinism. Contractual ideas were used by politicians and propagandists to justify rebellion during the English Civil War (1642–51)—a war that was provoked by the religious policies of Charles I and by his claims to absolute political power founded on divine will. This Puritan contractualism is reflected also in *The Agreement of the People*, a proposed contract drawn up between 1648 and 1649 by the Levellers, the radical democratic party in the English Civil War, and in their demands for a popular franchise.²⁶

Covenant and social contract ideas—particularly those developed by John Locke—were used to justify the second expulsion of the restored Stuarts in 1688, and became part of the prevailing ideology. Changing ideas about the nature of property rights came to a head at the same time, with the ownership of property tending to become more ‘absolute’. In these struggles, the Whigs also wrested from the Crown a new freedom of property.²⁷ While in medieval times the relationship between the Crown and its tenants combined rent and taxes, the ideas of rent and taxes had gradually become separated. The abolition of feudal tenures in 1660 and the creation of new excise taxes marked this fundamental shift in ideas about land as private property. The great lords ceased to be tenants of the Crown and became owners, while freeholders also began to see themselves as owners. In the process, the rural poor were progressively dispossessed of their customary land rights. As we saw earlier, the England of the period has been described as a property owners’ association with the landless classes excluded from the political process. It was against the landless classes that the property owners sought government protection.²⁸ These changing ideas and the associated theories of Hobbes and Locke were related also to the emerging market society.²⁹ The consequence was that the logic of capitalism, rationalisation and the Enlightenment’s faith in material and moral progress became intertwined.³⁰

Consequently, the propertied elite found it easy to conceive of civil society as based on a social contract, not on socially defined moral obligations backed by divine law.³¹ As a result, the concept of contract gradually replaced custom as the source of law and social obligations, including the obligations associated with commercial contracts. There was an ambiguity in this theorising.³² It is not entirely clear whether Hobbes and Locke were discussing the origins of political society or criteria for judging it. It does seem that both believed that theirs was a historical account. It is now clear that their accounts were not. Subsequent contract theorising—such as that of Immanuel Kant (1724–1804) and John Rawls (1921–2002)—is defended as an analogy in which contract is

used to try to deduce the ideal form of political organisation.³³ As such, they are clearly normative theories. We might note in passing that the standard criticism of such theories is that they presuppose a universal human nature that determines the distinguishing characteristics of the 'state of nature' that lead to a need for a universal contract. Social-contract theorists have not relied on an account of human nature based on empirical evidence, but on an arbitrary, idealised model that assumes that human beings are motivated by self-interest and that they are rational in their pursuit of that self-interest. As we have already seen, these are the assumptions under which neoclassical economics operates; however, the account I gave earlier of the social construction of reality—and of the wide differences in values and practices that have been observed in practice—undermines belief in such a universal human nature.

What was new in this theorising was the idea that contractual relationships were created by the free choice of the individuals involved, not the idea that such relationships involved mutual rights and duties. It followed that for Hobbes, and many later theorists, a price agreed by the parties was a just price merely by virtue of the agreement. Importantly for our account, for Hobbes, the obligation to abide by one's promises—a cornerstone of all social contract theory—is an obligation of natural law corresponding with the self-interest and common interest of all men.³⁴ For Hobbes, men acting freely created civil society, even when it was imposed on them by conquest. The overriding requirement for law meant that rational men would and did assent to surrender their 'natural liberty' even to a conqueror. This aspect of Hobbes' doctrine appears to reflect his commitment to peace—a commitment reflected in his submission to Cromwell in 1651 after the defeat of the Royalists. This aspect of Hobbes' doctrine was, however, unattractive to his English contemporaries as it brought into question the legitimacy of the execution of King Charles I.

Locke's ideas were much more acceptable, as he modified Hobbes' account to provide a justification for resistance to tyrants in the name of individual rights, liberty and property. Locke was associated closely with the Whig cause, being the philosophical spokesman of the great Whig landowners, the landowning classes and the rising bourgeoisie. Locke owed his influence to his defence of their property rights.³⁵ In Locke's state of nature, people are naturally free and equal and are not in a constant state of war. Rather, they are acquiring property. They own their own person and their labour. It was through this labour that the common property of mankind was appropriated to individual use; and it was the hard-working who, Locke claimed, acquired the most property. While in the state of nature there were severe limits to the unequal division of property, the invention of money made it possible for great inequalities of wealth to develop. In using money, people agreed tacitly to such an unequal distribution. In establishing civil society, individuals agreed to surrender some of their right to protect that property. Consequently, for Locke, the principal role of

government was to protect property rights—rights that he claimed predated government itself. Since it is transparently obvious that no one had, in fact, assented to such a contract, Locke relies on the notion of tacit consent to support his contractual views.

This theory drew heavily on the concept of natural law—a law deriving from divine law—to explain, in particular, the limits on the powers of government and the obligation to keep promises and agreements. Locke drew specifically on the work of Anglican theologian Richard Hooker (1554–1600), the creator of the distinctive Anglican theology the *via media*. For Hooker, society did not occur spontaneously but resulted from the deliberate seeking of communion and fellowship in political societies. Government and laws were also the result of agreement.³⁶ For Hooker, the universe was ruled by natural laws appointed by God, governing the physical universe and moral questions. They were discovered by reason and were not to be found solely in scriptures or in church teaching. It is a vision that draws also on the Calvinist vision of a community of individuals under God's dominion in which man is God's workmanship and His property. This provided the necessary transcendental underpinnings for Locke's theory of civil society. This vaguely religious justification of property also helped to make Locke's ideas more attractive to the English governing classes.³⁷ Nevertheless, in time, this concept of natural law came to be stripped of its associations with divine laws and nature ultimately came to denote human appetites.

Locke and Newton were strong influences on the Scottish Enlightenment and on Smith (1723–90), one of its leading figures. Newton, the seminal figure in the science of the seventeenth century, gave this natural-law outlook widespread scientific credibility. Newton emphasised the independence of scientific discoveries from theology and metaphysics, even though the belief in a divine order was central to his beliefs.³⁸ He believed that the rational and the natural were synonymous. Consequently, the structure of nature—God's design—could be discovered by reasoning, particularly mathematical reasoning, applied to observation and experimentation. He also believed that this method was important for moral philosophy and for salvation for that also was part of God's design.

Important to this account is the influence of the dominant Protestant natural-law philosophers, Hugo Grotius (1583–1645) and Samuel Pufendorf (1632–94). It was through these influences that the natural-law outlook was transmitted to Smith. As indicated above, their philosophy involved a continuation and an extension of certain strains in scholasticism and, in particular, the distinction between positive law and natural law. Natural law was seen as the earthly manifestation of divine law, revealed through nature and reason, while humans created positive law.³⁹ Grotius and Pufendorf were also leading contract theorists

in their own right. With Grotius—who was seen as the founder of modern natural-law theory—natural law was founded on reason and rational axioms similar to mathematical axioms that could be intuited by everyone. This marks a major break in the natural-law tradition. Grotius saw that instead of natural law relying on revelation, it was seen as working through a social instinct implanted in humans by God. It was a theme picked up by Smith. Indeed, the tradition of moral philosophy associated with the Scottish Enlightenment and out of which the modern ideas of civil society emerged was steeped in natural-law speculation.⁴⁰

Another influence was Bernard Mandeville's (1670–1733) *Fable of the Bees*, first published in 1714, which argued, amid much scandal, that the pursuit of self-interest—when managed properly within an appropriate institutional framework and under the direction of wise statesmen—could be transformed into public benefits with good consequences. Hume and Smith, leading lights in the Scottish Enlightenment, picked Mandeville's view that vanity motivated people to conform to social norms.⁴¹ The Scottish Enlightenment's idea of civil society was an attempt to develop an individualistic theory of society that could cope with the disparate and contradictory human motivations—which were described usually as altruism and egoism—and with the weaknesses of Locke's account.⁴² What was new in this vision of civil society was its understanding of human interaction as a moral sphere in which moral attributes were derived by reason from the nature of humans themselves, and not from a transcendent reality. The concept of moral affections and natural sympathy now provided the grounding that had previously been provided by God.

As argued above, this interweaving of natural law and Calvinist principles was particularly influential in the seventeenth and eighteenth centuries in the Puritan communities of North America, which saw themselves as a new chosen people, and where there was a conscious effort to establish a new social and political order—a holy commonwealth—based on these principles. Of course, this utopianism had ultimately to accommodate the failure of some members of the new settlements to join the Church and the breakdown of community solidarity as the settlements expanded. This provoked a major crisis in American Puritanism, leading to a redefinition of the normative order. That order, which had been identified with the Church, came to be seen as residing within each individual conscience. As Adam Seligman tells us, the result is that the moral order is seen as resting not on grace but on the personal moral behaviour of the individual.⁴³ The evolution of the American polity involved a confluence of influences connecting the integration of an increasingly secularised Puritan tradition with Lockean political philosophy, a rationalised natural-law tradition and the Enlightenment's belief in the perfectibility of 'mankind'. It was these principles—this civil religion⁴⁴—that the American revolutionaries invoked

in their quest for political independence and they remain central to the unique American understanding of themselves. In Britain and Europe, different traditions militated against the very strong emphasis on individualism, natural rights and anti-statism that characterises America.

In his *Treatise on Human Nature* and again in an essay *Of the Original Contract*, Hume attacked Locke's social-contract ideas.⁴⁵ Nevertheless, he believed in a constant human nature, which history could illuminate and which could provide the basis of a scientific moral philosophy. Hume agreed that, at first, government was founded on contract because men were so equal in physical ability that they could be subject to authority only by their own agreement. Hume, however, rejected the social contract account of legitimate political authority. There was no state of nature. It was a mere philosophical fiction. Nor was society formed by a social contract constituted by promises. Rather, societies evolved and formed gradually. Even if there had been some initial agreement, the subsequent obligations of its citizens were not and could not be derived from any original agreement to which they were not parties, or from any renewed agreement of their own. Similarly, he rejected the notion of tacit consent.

For Hume, the duty of allegiance owed to a state and the obligation to perform contracts were based on self-interest and neither was derived from the other. Similarly, Hume rejected the idea that society was founded to protect property rights. The concept of a property right is itself an artificial concept depending on morality and justice and these are notions created and recognised by society. Property rights cannot pre-date society. For Hume, the whole contractual edifice of political theory was unnecessary. Justice in general, rights of property in particular and the obligation to perform a promise derive from convention in the same way that the use of money or language is derived. Nevertheless, for Hume, the stability of possessions, their transfer by consent and the performance of promises are fundamental to the working of society. These rules are not, however, rooted in any historical, mythical, logical or transcendental status.⁴⁶

What was to stop this individualistic, self-interested society from degenerating into a Hobbesian war of all on all?⁴⁷ Hume thought it was enlightened self-interest—not unbridled licence—that would do the trick. Hume assumed that most of the educated population would realise that it was in their interests not to pursue short-term advantage at the expense of longer-term interest. Those who did not would be dealt with by the law and would adjust their behaviour. Obligations that originated from self-interest came to be generalised until they were seen as general moral obligation, independent of particular cases.

A second answer is associated with Smith and his attempt to create a science of morals and society. Contrary to popular belief, Smith was no admirer of mere selfishness:

The wise and virtuous man is at all times willing that his own private interests should be sacrificed to the public interest of his own particular order or society. He is at all times willing too, that the interest of this order or society should be sacrificed to the greater interest of the state or sovereignty, of which it is only a subordinate part. He should, therefore, be equally willing that all those inferior interests should be sacrificed to the greater interest of the universe, to the interest of that great society of all sensible and intelligent beings, of which God Himself is the immediate administrator and director.⁴⁸

Consequently, it is clear that Smith did not believe that society was based simply on selfishness and greed. On the contrary, in *The Theory of Moral Sentiments*, Smith discussed the basis of moral feelings or sentiments and their relationship with justice. Smith argues that though men have natural sympathy for each other—and are led by that sympathy to act with benevolence—these motives are insufficient to curb men's natural propensity to act in their own interests. Thus, for Smith, justice is the supreme virtue as it counteracts human selfishness. Importantly, for Smith, the 'invisible hand' was a consequence of divine design, of a benevolent providence that had so arranged human nature as to produce this outcome.

Smith further elaborated his views on economic affairs in *The Wealth of Nations*. In the process, he also drew on the natural-law outlook described above to provide what he thought were constant universal natural laws. For Smith, moral sentiment balanced any attempt to describe rational self-interest in terms of reason disengaged from the 'passions' or from the self freed from the eyes of others. In particular, for Smith, the motivating force of economic activity was the desire for recognition by others. Therefore, the individual self could never be totally disengaged from society, nor could reasoned self-interest be abstracted from those passions, which, through the moral sentiment, rooted man in society.⁴⁹ Consequently, Smith recognised the interdependence of individuals and the social embedding of individual existence. Furthermore, this civil-society tradition was inconsistent with any restriction of reason to what we would now call instrumental rationality.

Despite his popular identification with *laissez-faire* ideas, Smith took no crude minimal view of the functions of government. In his view, the State had three principal purposes: to protect citizens from external enemies; to protect citizens from force and fraud; and to erect public works and institutions that were in the public interest but were too costly to be carried out by individuals. Importantly for this account, Smith also rejected any dogmatic prohibition on state interference with contracts:

Such regulations may, no doubt, be considered as in some respect a violation of natural liberty. But those exertions of the natural liberty of

a few individuals, which might endanger the security of the whole, are, and ought to be restrained by the laws of all governments...The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade here proposed.⁵⁰

As Seligman points out, Hume's undermining of the unity of reason and moral sentiments ultimately subverted the Scottish Enlightenment's civil society ideas and encouraged still further the growth of liberal individualism while further undermining the concept of a common good. Kant tried to rebuild that link, claiming the existence of universal natural laws of human action and a determined plan of nature.⁵¹ In doing so, he reasserted the Enlightenment ambition drawing on the idea of moral personhood, the tradition of ascetic Protestantism and the transcendental qualities of universal reason, which he saw as creating a secular version of the autonomous individual conscience. Thus, in Kant, reason replaced God as the source of universal values and moral injunctions. With Kant, however, the State is no longer viewed as coterminous with civil society, and morality is now separated from legality and privatised so as to reside within the conscience only of the morally and economically autonomous individual. This individualistic moral and political theorising involved a further erosion of the idea of citizenship and the communal nature of political life, undermining still further the status of the public sphere and the idea of a common good.

In the early nineteenth century, the desire to create a science of morals and politics became centred on utilitarianism—a development of elements of Hume's thought.⁵² By attributing to human beings certain universal, constant, fundamental and opposed natural inclinations, the search for pleasure and the avoidance of pain, utilitarians claimed to have given morals and politics an empirical scientific foundation. These tendencies provided a substitute for the fictional natural rights on which Locke and some earlier theorists had relied. In the process, utilitarians claim to provide an ahistorical, universal and allegedly scientific account of moral and political theory based on a form of social physics and a mechanical Newtonian model in a somewhat similar way to Locke. Importantly, Bentham aspired to be the Newton of the moral world and thought he had found in the above the single unifying principle akin to gravity that regulates the social world.⁵³ Bentham starts from his particular view of human nature and deduces all institutions and legal arrangements from these properties. While Bentham made random use of historical examples to bolster his claims, it was doubtful that utilitarian theorists provided an account of the process by which society was formed.⁵⁴ This utilitarianism was attached pragmatically to classical political economy and subsequently formed the basis for neoclassical economics and its particular failed attempt at Newtonian scientific theorising about human beings and their economic activities.

Bentham provided an alternative legal philosophy to social contractualism, though he did not extricate himself from the natural-law outlook. In particular, he used the idea of a state of nature in a similar way to Locke and retained his individualism. There was, however, a change of emphasis because, for Bentham, it was the role of the lawmaker to create and adjust laws to create an artificial harmony of interests between individual action and the public good. Of course, there was great dissatisfaction with the initial utilitarian account. In particular, support for utilitarianism was undermined by a refusal to accept that pleasure and pain were the only sources of human action—a belief that contradicted everyday experience. Nor can it explain why people find pleasure in different things.⁵⁵ Nevertheless, Mill was a utilitarian continuing the Enlightenment's search for a science of society.

While he tried to broaden Bentham's understanding of happiness in terms of pleasure and pain, Mill never shook off his utilitarian beliefs. In *Utilitarianism*, Mill argues that there is no natural harmony of interests between individuals and that it is the lawmaker's role to create such harmony.⁵⁶ For Mill, the principles of justice are principles of long-term expediency. This view was mirrored in the growth of legal positivism whereby law was not the result of a social contract but of a hierarchical power relationship. The source of authority was customary obedience. It reflected also a growing scepticism with universal principles of human nature—a scepticism many contemporary economists seem to have overlooked. Mill had an exceptionally strong belief in freedom combined with the possibility of progress, particularly in terms of his positive conception of freedom.⁵⁷

Mill thought that progress was to do with self-realisation or self-improvement—living in accordance with an ideal chosen by the individual, with virtue—rather than the growth of happiness, as with Bentham. Like Locke and Bentham, Mill was an individualist in that all ends were individual ends and the function of government was to facilitate the attainment of those ends. For Mill, however, civilised society helped those individuals to form those ends. Consequently, he believed in education and voluntary cooperation in self-government as a means of moral improvement. Despite his basic utilitarian beliefs, Mill nevertheless saw morality as a product of social life composed of such things as love, fear, self-esteem and religious emotions. As John Plamenatz tells us, Mill believed that we could not live for ourselves alone.⁵⁸ Somewhat inconsistently, he also held that virtue became a good in itself.

Mill went on to support representative government because it improved the quality of life of those who enjoyed it, rather than because it created a harmony of selfish interests. Nevertheless, he did not believe that it was suited to all people all of the time because people were made fit for such freedom only by social discipline. While a strong supporter of the market economy, Mill was

unhappy with the practical consequences of that system for the poor of his day and he sought moral and political limits to its operation.⁵⁹ He saw that the poor had no opportunity to enjoy freedom as he conceived it and he saw excessive wealth as inimical to that liberty. Consequently, he supported such things as inheritance tax, guaranteed minimum incomes and industrial democracy .

At this point, we reach a major cleavage in this tradition, between political economy increasingly conceived of as a positive, deductive science and political and moral philosophy, which continues with its rationalist speculation about political and moral principles but which gradually shed its claims to be a scientific enterprise. We will resume our examination of the scientific claims of economics in subsequent chapters, concentrating for the moment on the continued development of political speculation.

Peter Self (1919–99) describes a further major cleavage opening up within the liberal tradition between positive and negative liberals after Mill—a cleavage remaining to this day—with economic fundamentalists and most libertarians members of the negative school. In contrast, the positive liberals such as Thomas Green, John Hobson and Leonard Hobhouse were strong supporters of social reform to improve the lot of the poor and, along with the socialists, they were highly influential in the growth of social legislation in the late nineteenth century. Their successors in Australia are the small ‘l’ liberals and many on the left of politics.

The negative ‘liberals’ were opposed to the growth of social legislation, holding that freedom meant merely the absence of government coercion. Of course, in conceiving of government action solely in terms of coercion—rather than in terms of communal decision making and coordination—the negative liberals take a very narrow view of the nature of governmental action and its contribution to welfare. Within the negative school, the social evolutionists sought to provide an alternative account that was scientific and historical while remaining staunchly individualistic. In the process, they abandoned the psychological reductionism that had characterised Hobbes and Locke and many subsequent theorists. For Spencer, the leading social evolutionist,⁶⁰ the principle of utility was no rule but the articulation of the problem to be solved.⁶¹ The theory of evolution undermined the notion of a universal human nature on which deductive utilitarianism depended. Spencer drew on the increasingly secularised natural-law tradition—a secularisation that reflected the increasing rejection of earlier religious certainties. For Spencer, therefore, the universality of natural causation provided a substitute for the Puritanism of his childhood, with progress a substitute for the eschatological promises of Christianity. In fact, in much nineteenth-century thought, the uniformity of nature had acquired a logical status and a numinous aura that made it a substitute for the idea of God. In the process, moral qualities were bestowed on the universe.

Spencer saw the idea of evolution from the simple to the complex as a process deriving from the fundamental laws of matter and motion, to manifestations of force. Only classical mechanics—the Newtonian metaphor—provided an adequate scientific understanding of reality. In this, Spencer was typical of his age—the age immediately before the rise of relativity and quantum mechanics in physics. He attempted to apply evolution to all phenomena in the universe, particularly to the social world. Consequently, he was an evolutionary determinist who believed that progress occurred through inevitable stages according to inflexible laws: ‘Either society has laws, or it has not. If it has not, there can be no order, no certainty, no system in its phenomena. If it has, then, are they like the other laws of the universe—sure, inflexible, ever active, and having no exceptions?’⁶²

He saw social life as a struggle similar to the struggle for survival in the natural world. Consequently, he saw social competition as part of the process of evolution. Importantly, nothing could be done in the long term to stop the process of competition and the attempt to do so—to alleviate social conditions—merely assured the short-term survival of the unfit. This doctrine had much in common with Malthus’s belief that the poor were redundant.⁶³ The survival of the fittest was justified as if it were a natural scientific law. This elevation of competition served to justify Spencer’s strong opposition to social legislation—a function it continues to serve. In this view, a lack of success is associated with a lack of virtue. There was some ambiguity, however, as to whether the fittest meant the best, or merely an adaptation to existing circumstances. Of course, this ambiguity goes to the heart of the difficulty with this type of theorising: if it is the best, why? The answer to that question adds another layer of moral theorising. If it is merely adaptation to existing circumstances, why is that adaptation moral?

Freedom of contract was a necessary part of Spencer’s theory. It was the supreme mechanism for maintaining social order with the absolute minimum of compulsion and coercion. Spencer’s views can therefore be seen as an extreme version of contractualism in which the State is nothing more than a large partnership.⁶⁴ Restriction on the freedom of contract interfered with the natural order of things and enabled the unfit to survive longer than they would otherwise. Importantly, Spencer regarded the claims of social institutions other than economic institutions as alien to the human personality, from which they would ultimately free themselves. Consequently, Spencer opposed a wide range of social reforms on the ground that it constituted an interference with the freedom of contract. Surprisingly, Spencer saw his views as being consistent with the utilitarian formulae of the greatest happiness of the greatest number. This pseudo-science was not particularly influential in England. It was, however, very popular in the United States for a long time and had a formidable influence on American thinking and law.⁶⁵ As John Murphy writes,

Spencer's influence on American thought in the second half of the nineteenth century was particularly strong. He formulated his *laissez-faire* philosophy in such a way that it appealed 'at once to the traditional individualism and the acquisitive instincts of Americans, who were able without too great inconsistency to regard whatever they did, individually, as in harmony with evolution and whatever government or society did, collectively, as contrary to natural law'.⁶⁶

Vestiges of this doctrine remain in some extreme justifications of the market system and of its social inequality that are met in economic fundamentalism.

Hayek, the author of *The Road to Serfdom*, a polemical defence of *laissez-faire*, was similarly a social evolutionist. To a large extent, the whole of Hayek's work was a reaction to the rise of Nazi tyranny, with its adulation of the State and the 'will to power'. This led to his obsessive focus on 'negative freedom'—the avoidance of government coercion—and the neglect of other meanings of the term 'freedom'. It followed that he was a strong critic of Keynes and his counter-cyclical policy prescriptions. Similarly, he was opposed to social security legislation, which he saw as special provision for the needy, arguing that the pursuit of social justice was a mirage.⁶⁷ For Hayek, the economic system was a self-regulating system too complex to understand fully and consequently there were limits to what reason and economics could achieve. In particular, he was opposed to any government interference in price signals, which he saw as a mechanism for conveying information arising out of a spontaneous, decentralised market process that was too complex to be understood by the social planner, and too dangerous to interfere with. Consequently, he was also a vehement critic of socialist central planning. Indeed, he felt that the economics profession more broadly had made a mess of things as a result of its attempt to imitate the procedures of the physical sciences.⁶⁸ Hayek's view ignores the imperfect nature of price signals as an information source and the fact that the social institutions on which the market system rests are themselves human creations built over many centuries and subject to constant change on the basis of experience. Hayek's own economic work was neglected in the enthusiasm for Keynes' work and, from the 1950s onwards, Hayek concentrated on philosophy, politics and psychology. It follows that while Hayek could give some comfort to the economic fundamentalists in his opposition to government, in the cause of his understanding of freedom he gives no comfort to the contemporary neoclassical economist.

Summary

We saw with Hobbes and Locke the beginnings of a new type of political and moral theorising, which sought its grounding in the natural world, individualism and the so-called scientific perspective. While the various theories that have

been recounted do not, of necessity, make a coherent whole, they nevertheless reflect the same Enlightenment ambition to produce a secular, naturalist and rational justification for our moral allegiances and social arrangements. As such, they represent a tradition of thought sharing certain presuppositions and ways of conceptualising, and in which the participants frame their thoughts in relationship to earlier thinkers in the same tradition.⁶⁹ This Enlightenment ambition has failed for reasons that will be explored shortly.⁷⁰

This tradition, nevertheless, constitutes the complex of ideas—the background mood—on which market ideology and economic fundamentalism rely. With Locke, therefore, we have a view of property rights as being prior to society—a natural right, but one based on divine law. We also see the contract metaphor used to explain the existence of society. With such theorists as Mandeville, Hume and Smith, we see the gradual transformation of self-interest from being a source of moral failure to a source of public good, albeit moderated by competition and by a dash of sympathy for others. In the process, the divine, deistic underpinnings were removed gradually and replaced with nature and reason—concepts that were increasingly deified or reified. Through the alchemy of the Newtonian metaphor, these naturalist justifications of self-interest are turned into a formal moral theory in the form of utilitarianism. Of course, it is this utilitarianism that underlies much economic theory. With Spencer, the moderation—which was in Smith—was removed and instead the attempt was made to justify naked self-interest under the rubric of the survival of the fittest. They all share what Richard Rorty (1931–2007) calls Locke’s unfortunate desire to privilege the language of natural science over other vocabularies.⁷¹ While Hayek wished to avoid that privilege, in seeing the market as a self-regulating system, he was ruling out government coordination and social risk sharing on a priori grounds; and it was reasoning that would enslave us to the economic system.

More recently, we have seen a major revival in contract thought as a consequence of Rawls’ *A Theory of Justice*.⁷² Interestingly, Rawls’ idea of a reflective equilibrium as a way of evaluating our sense of justice—and as a theory of moral sentiments—is a deliberate echo of Smith.⁷³ It has already been argued that the concept of social relationships as contractual is taken for granted by economic fundamentalists and by economists generally and this is probably one reason why Rawls’ ideas have been so attractive. Indeed, David Gauthier claims that such a view lies at the core of the ideology of Western capitalism.⁷⁴ This ideology—this metaphor, this claim to conceptual priority—is now part of the deep, pre-reflective tacit structure of self-consciousness and the symbolic universe, the way in which we conceive of ourselves as human, the way we relate to each other, to structures and institutions and to the natural world. In this view, society is conceived of as merely instrumental, meeting no fundamental

human need.⁷⁵ It also involves a view of ourselves as insatiable appropriators engaged in a competitive search for power, with rationality understood as being related instrumentally to the satisfaction of individual interests. Gauthier sums up the historical development of this ideology in the following terms:

What is to be appropriated is first thought of as real property, land or real estate. The distinction between land and other forms of property is then denied, and what is to be appropriated becomes the universal measure of property, money. Finally, in a triumph of abstraction, money as a particular object is replaced by the purely formal notion of utility, an object conveniently divested of all content. The rational man is...simply the man who seeks *more*. Thus it follows that not only the individualistic instrumental conception of rationality, but more precisely the individualistic utility-maximising conception, is part of the ideology of the social contract.⁷⁶

The maximising conception of rationality entailed by contractualism and the natural-law outlook precludes the very possibility of rational agreement, because it undercuts the internal constraints necessary to maintain contractual relationships. In the past, radical self-interest was usually considered a primary threat to society, to be repressed by religion, law, morality and tradition. As has been argued in Chapter 3, the contractual tradition, contemporary economics and more especially economic fundamentalism have failed to understand the extent to which the social, political and economic orders have been sustained by motives different from those contained in the contractual conception of human nature. The faith that is placed in this contract tradition, and this form of theorising, cannot be sustained.

This chapter has provided a historical account of the intellectual tradition on which economic fundamentalism rests. Along the way, it has provided some criticism of this tradition, pointing in particular to the way in which it initially served the interests of wealthy British landowners. In the next chapter, I will deepen this critique by relating this tradition to the Enlightenment and criticising the intellectual arrogance that has flowed from that project.

ENDNOTES

¹ Smith 1757.

² The phrase was used only once in Adam Smith's *Wealth of Nations* and is usually misquoted by leaving out its social context:

As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. (Smith 1776, Chapter II of Book IV)

³ Smith 1757, p. 36.

⁴ Passmore, John 1994, personal communication.

⁵ Stark 1962.

⁶ Frisby and Sayer 1986.

⁷ Stark 1962.

⁸ Seligman 1992. The account in this chapter draws in particular on this reference and on Clark (1992).

⁹ Loy 2002.

¹⁰ Ibid.

¹¹ Botton 2004.

¹² Seligman 1992.

¹³ Ibid.

¹⁴ Gascoigne 1994b.

¹⁵ Seligman 1992.

¹⁶ Clark 1992.

¹⁷ Lessnoff 1986.

¹⁸ White 1991.

¹⁹ Lessnoff 1986.

²⁰ Ibid.

²¹ Gough 1936. Gough points to the possible influence of the sophists of ancient Greece among whom social -contract views—which were highly individualistic and made use of the concept of a state of nature—had some currency. Gough tells us that much of the political philosophy of Plato and Aristotle was concerned to combat these subversive views. For Plato, therefore, every man has his station and duties, while for Aristotle man is by nature a political animal. The State for Aristotle is not a mere living together in one place for mutual protection and economic exchange but a moral association to develop man's highest faculties and enable him to live the good life.

²² Stackhouse 1999a.

²³ Gorski 2002.

²⁴ Lessnoff 1986.

²⁵ Ibid.

²⁶ Gough 1936.

²⁷ Atiyah 1979.

²⁸ Ibid.

²⁹ Macpherson 1964.

³⁰ White 1991.

³¹ The relationships between the rulers and the ruled and between the people themselves were treated under the general heading of the social contract.

³² Burrow 1966.

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- ³³ Lessnoff 1986.
- ³⁴ Ibid.
- ³⁵ Ibid.
- ³⁶ Gough 1936.
- ³⁷ Atiyah 1979.
- ³⁸ Clark 1992.
- ³⁹ Ibid.
- ⁴⁰ Seligman 1992.
- ⁴¹ Voorhoeve 2003.
- ⁴² Seligman 1992, p. 26.
- ⁴³ Ibid.
- ⁴⁴ See Bellah 1967 and 1975.
- ⁴⁵ See Hume 1878 and 1980.
- ⁴⁶ Seligman 1992, p. 38.
- ⁴⁷ Atiyah 1979.
- ⁴⁸ Heilbroner 1986, p. 141.
- ⁴⁹ Seligman 1992.
- ⁵⁰ Smith (1776, Book II, Chapter II), cited in Atiyah 1979, p. 303.
- ⁵¹ Clark 1992.
- ⁵² Burrow 1966.
- ⁵³ Clark 1992.
- ⁵⁴ Burrow 1966, pp. 62–3.
- ⁵⁵ Ibid., p. 70.
- ⁵⁶ Atiyah 1979, p. 328.
- ⁵⁷ Plamenatz 1963.
- ⁵⁸ Ibid.
- ⁵⁹ Self 1999.
- ⁶⁰ Bannister insists that many so-called social Darwinists such as Spencer were not Darwinists. He cites with approval Howard Gruber, who argues that it is in harmony with Darwin's thinking that the struggle for survival must enhance cooperation and rational long-term planning for collective ends rather than short-sighted individualistic efforts for private gain. He goes on to say that there seems to be little grounds for assuming that Darwinism gives support to unbridled individualism, unregulated competition and *laissez-faire* or brutality and force in social affairs. (Bannister 1979, pp. 15–33.)
- ⁶¹ Burrow 1966, p. 216.
- ⁶² Ibid., p. 208.
- ⁶³ Atiyah 1979. Indeed, Malthus had written his *Essay* in opposition to William Godwin's advocacy of an egalitarian society and his view that poverty was caused by the maldistribution of society's wealth.
- ⁶⁴ Gough 1936.
- ⁶⁵ Atiyah 1979, p. 285.
- ⁶⁶ Murphy 1990, p. 17.
- ⁶⁷ Self 1999.
- ⁶⁸ Hayek 1974.
- ⁶⁹ MacIntyre 1988.
- ⁷⁰ MacIntyre 1981.
- ⁷¹ Murphy 1990.
- ⁷² Rawls 1971.
- ⁷³ Rengger 1995.
- ⁷⁴ Gauthier 1977.
- ⁷⁵ Ibid.
- ⁷⁶ Ibid., p. 152.