

The Roots of Capitalism

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The cuneiform inscription that serves as the design motif for our endpapers is the earliest-known written appearance of the word “freedom” (*amagi*), or “liberty.” It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

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For the late Gareth Garrett, who provided the lead;
and for Claude Robinson, who provided the impetus.

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Preface

For many years the system we call capitalism was on the defensive. It existed in the here-and-now, and its imperfections, whether inherent or not, were plainly apparent to everybody. Socialism, on the other hand, was something to be attained in the future, a thing of shining colors wrapped in the gossamer tissue of a dream. Its imperfections, if there were to be such, were still concealed in the womb of time.

When contrasted with a dream of perfection, capitalism was manifestly at a disadvantage. But with the advent of socialist economies (Communist Russia, China) and the semisocialist, or “mixed,” systems of Scandinavia, Britain and New Deal America (to say nothing of the “national” socialisms of Nazi Germany and Fascist Italy), capitalism no longer requires apologists. Under any comparative audit of systems it comes out very well indeed. It may have its islands of poverty, its “contradictions,” but it does not murder people as a matter of policy or shut them up in concentration camps. It does not force men and women to accept uncongenial occupations or goods that are subjected to the approval of a small “planning” bureaucracy.

It does not reduce life to a continual round of abject permissiveness.

The title of this book, then, parades itself unashamedly: capitalism is a word for a system that can stand on its own attainments. As for the plan of the book, the effort has been to explain the categories and institutions of economics in terms of their origins, the men (whether originators or not) who first made them famous, and the times which brought them to fruition. The exposition of categories and institutions has been accompanied by a running critique. Most histories of economic thought are, to me, unbearably eclectic. They have their virtues—but economics is, after all, a subject with its pluses and minuses, if not its rights and wrongs. Ever since the beginnings of social life men have swung between extremes of freedom and coercion, of voluntary association and community compulsion, of family “mutualism” and state-imposed “order.” Men can live under any combination of the two extremes. But it seems to me obvious that they can only live creatively when cooperation is a matter of free election, of the voluntary approach. The running critique in this book is based on what is, to the writer, a mature preference for the uncoerced man.

Professional economists may consider the book an indefensible mixture of theory and technology. No apologies will be offered for the mixture. The writer has spent ten years of his working life doing corporation and industry studies for *Fortune* magazine, for *Barron's National Financial Weekly*, and for the *Wall Street Journal*. The experience left him with the ineradicable impression that economists in general have overlooked the importance of the “x” of invention and the “y” of technological improvement in

their equations. In my years as a writer of economic topics I have never once caught the capitalist system at a moment of "equilibrium." This is not to say that equilibrium models are not useful for purposes of illustration and analysis. But an economic model, to be a true reflection, should allow for disruption. And the pace, the incidence, of disruption must remain a largely unknown quantity unless the economist can isolate the causes of invention, of creativity, itself.

This book was written before I had a chance to read *The Sources of Invention* by John Jewkes, David Sawers, and Richard Stillerman. But I find justification for my combination of theory and technology in the Jewkes-Sawers-Stillerman statement that "future historians of economic thought will doubtless find it remarkable that so little systematic attention was given in the first half of this century to the causes and consequences of industrial innovation. Material progress, it had long been taken for granted, was bound up with technical advance and technical advance in turn, with change, variety and novelty; but whence this novelty, how closely it was related to rising standards of living, whether and how it might be stimulated or stifled: all this ground remained largely untrodden by the economic historian or the economic theorist."

We have, as Professor John Kenneth Galbraith has said, an "affluent society." But it is affluent because it has been free. Its freedom has been hammered out by theoreticians, by pragmatic experiment in shop and marketplace, and on political barricades and hustings from Magna Charta on. Because of the many sources of the economic freedom which makes for affluence, this book inevitably presents a mixture of political theory, economic theory and the practical accomplishments of business and shop innovators such

as Robert Owen, Eli Whitney, Frederick W. Taylor and Henry Ford. I hope the logic of the mixture is apparent—but that is for the reader to decide.

Thanks are due to the editors of *Fortune*, the *Wall Street Journal*, *National Review* and *The Freeman* for permission to use pieces of this discussion which have appeared in their publications.

JOHN CHAMBERLAIN

Cheshire, Connecticut
January 1959

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Prologue

Time, Place, Principles, Beginners

In 1776 Adam Smith's *The Wealth of Nations*, an economic treatise which had grown out of its Scots author's preoccupation with the wider problems of free choice as a foundation of moral philosophy, was first published. That same year Thomas Jefferson, a man whose predilection for free choices had endowed him with many accomplishments (he could "calculate an eclipse, survey an estate, tie an artery, plan an edifice, try a cause, break a horse, dance a minuet and play the violin"), retired for seventeen days to an upstairs room in a bricklayer's house in Philadelphia and produced the Declaration of Independence.

Between the two events there was more than the casual relationship of coincidence. Each document was the summary of an epoch, the distillation of what hundreds of people had been thinking and saying, usually with considerably less felicity. Each had come out of the same "forcing house"; the period of the fifteen years that stretched between the end of the Seven Years War—or the French and Indian War, as the conflict was known in America—and open defiance of the efforts of a "planning" king, George III, to remake the world in a mercantile planner's

image. Each, in different ways, carried to completion the thinking of John Locke, the libertarian philosopher of the English Revolution of 1688. But the truly important connection between the two documents lay in the future, not in the past. The one was a prophetic economic blueprint, not without its flaws, for the vast outpouring of human energy which was to create the modern world; the other was a simple guarantee that the blueprint could be made palpable within the physical growing space of a new continent.

When Adam Smith, a mild, professorial, inquisitive and absentminded man, was expanding his classroom lectures into a book between 1759 and 1776, he was sanguine for the future, both of his own fledgling science of political economy and of what were still the British colonies of North America. Writing in the spring of 1776, he spoke of the “late” disturbances across the water as if they were shortly to be settled. Despite the “planning” predilections of George III, the British Constitution, as amended in various grants of liberties through the centuries, seemed to stand eternal guardian of the immemorial rights of Englishmen. Speculating on the moral and mental causes of “opulence” or decay in different societies, Smith had said: “The difference between the genius of the British Constitution which protects and governs North America, and that of the mercantile company which oppresses and domineers in the East Indies, cannot perhaps be better illustrated than by the different state of those countries.”

Yet even as Smith was writing, the attempted counter-revolution from the top against English liberties was gathering increased momentum. The counterrevolution was embodied in that worst of menaces to the human spirit, a

political executive with a “let me do it” complex. (It is of such people that the Chinese say: “A great man is a public calamity.”) King George III, the first of the Hanoverian line of monarchs to be born on British soil, came to the throne at the close of the midcentury French wars with his mother’s famous “George be a king” resounding in his ears. Young (he was only twenty-two), handsome, moral and proper, with a taste for upright country life (he raised turnips), he had resolved from the outset to do his people nothing but good, even if it were to kill them.

Such purism was an attempt to revive the spirit of the Stuart kings, and England had long since had enough of that. For a generation the realm had been governed by the great Whig landowners, who believed in a wise laxness. The Whigs were close to the soil of the shires, but they were also interested in their alliances with all the new forces that were compact of the liberating energies of scientists, tinkerers, shopkeepers, commercial chance-takers and overseas adventurers. The Whigs were not above corrupting Parliament to get their way, but it was creation, not coercion, for which they wished to clear the road. Meanwhile the first two Hanoverian Georges let the English world wag, preferring to take their ease in their ancestral lands in Germany to reigning on the spot in London. Under the Whigs, England prospered, the standard of life rose, and the nation won its battles. But George III, a perfectionist, had read his Bolingbroke and absorbed the idea that a king should be above faction and party—which, in an England that depended on Parliament, meant corrupting or browbeating a majority to royal whim. During George III’s reign the attempt was made, by way of a shift in the Poor Law, to legislate a basic free income for every

man or woman, whether able-bodied or not, with no tests required. The result was to divide England, not into Disraeli's "two nations" of rich and poor, but into workers and drones.

Prior to George III's assumption of authority, England had paid lip service to the mercantilist theory that a state prospers by gathering gold, not goods, and by licensing a few favorites to do overseas business with an eye to the personal aggrandizement of a court circle. But, as a popular gag has phrased it, England was not so much a mercantilist state as "a piece of land entirely surrounded by smugglers." Even the ministers of the Crown, though they were sworn to uphold the laws, were not above smuggling: when he was chancellor of the Exchequer, Sir Robert Walpole, the leader of the Whigs, had bought contraband lace from Holland; and, as a younger place-holder, he had boldly used an Admiralty launch to slip wines past the customs. Indeed, Sir Robert had his pet smuggler, a rough sea captain who waited periodically at the doors of Houghton, the Walpole country estate, for settlement of his bills.

The North American colonies, too, had raised smuggling to a fine art. The colonists ignored the Molasses Acts, lured British coast-guard ships into shoal waters where they grounded, and traded in and out of the Caribbean for rum and sugar quite as they pleased. The standard of life rose in North America every time a king's agent was bilked, a tax avoided. Wages were high in New York, money earned good interest, yet the necessities of life were cheap. Said Adam Smith in 1776: "The price of provisions is everywhere in North America much lower than in England. A dearth has never been known there." America was doing

very well, thank you, without any Benevolent or Enlightened Despot's Five-Year Plan, and once the menace of the French had been removed by British and colonial successes in Canada during the French and Indian War, there seemed less reason than ever to put up with any nonsense that violated the immemorial rights of Englishmen on North American shores.

It was at this point, as we are sometimes reminded on July 4, that George III grew particularly stuffy about his relations to overseas Englishmen. There was, first, the Stamp Tax, a slight impost on colonial legal documents designed to raise money for keeping British troops in America. Though the Stamp Tax was a mere nothing, the colonists rioted over it, for it was the same "taxation without representation" which had set their forefathers against the Stuarts and helped cause the settlement of New England in the first place. The tax was repealed, but there were even more obnoxious laws—the tea tax, for instance—to come. When the colonists finally rose in resistance, then in rebellion, Horace Walpole expressed his fear that if King George III were to win a victory in his American war the sequel would be chains on Englishmen at home. Sir Edmund Burke, the elder Pitt, and the other great Whigs more or less openly took the part of the Americans; not without reason they felt that the colonists, in rebelling, were defending the liberties of Englishmen in London, Leeds, Sheffield—and everywhere else.

George III failed in his mania to revive benevolent despotism in England. He failed largely because he was defeated by the colonists in America. The common energies of his age, as expressed by the rising tide of individual self-sufficiency, were against him. It was not without struggle,

however, that Adam Smith's "natural liberty"—or Edmund Burke's "natural society"—prevailed and the bonds of mercantilist caution were broken in England. And it was only after considerable travail that Thomas Jefferson's Declaration of Independence—that "all men are created equal, that they are endowed with certain unalienable Rights"—was transmuted into the American constitution, which says that Life, Liberty and Property shall not be touched without due process of law.

Smith had to wait upon the slow processes of technology, the diversionary effects of the Napoleonic wars, and the collapse of markets after the wars, before the energies for which he had designed his blueprint could roll up and force the issue of freedom in the economic realm. And his revolution could hardly take place in a day in a North American colonial world devoted mainly to agriculture. But the physical space was there in America; there were no inhibiting feudal laws and institutions preventing the free transfer of property; and, thanks to the Founders, the requisite freedom-in-federation was soon to come.

The categories, the institutions, of capitalism, which is the economic expression of the morality which says a man must be free to choose between alternatives of good and evil if his life is to have Christian meaning, were all present in *The Wealth of Nations*. In the America of Thomas Jefferson's Declaration these categories and institutions were to have the opportunity which they were never fully to achieve in their constricted English home.

Chapter One

The Freely Choosing Man

Adam Smith, so it is said, once fell into a tannery pit while he was absorbed in explaining the division of labor to his friend and patron, the Right Honorable Charles Townshend, who is famous in history for having given King George III the bad tax advice which resulted in the American Revolution. An absentminded man who could roll bread and butter around in his fingers and stick the mess into a pot under the delusion that he was making tea, Smith plunged into the subject of economics almost as inadvertently as he fell into the tannery pool. He was led into political economy, a new subject in his time, when, as part of his lecturing kit on the science of jurisprudence, he found himself dealing with the policeman's duty to provide cleanliness, safety and *cheapness or plenty* to the population of a city or a state.

On the subject of cleanliness and safety, there wasn't much to be said beyond stipulating their necessity to economics if the energies of man are to be protected against disruption by marauders, fires, accidents and diseases. But cheapness—or “opulence,” as Smith preferred to put it—was quite another matter. How could cheapness best be

brought about? In the world of the eighteenth century the authorities had set ideas on the subject. For instance, they believed that plenty was a prerogative of the few, to be conferred upon the many only within the bounds of a certain discretion.

In the early Middle Ages, when a distinctive European society was being forged in the face of Moslem beleaguering from the East and the breakdown of Roman law within, discretion dictated a subordination of the very notion of plenty to the safety of the manor. It is an old story, not to be repeated here, that the free yeoman gladly turned in his titles to freedom in order to gain the protection of costly armor and the well-trained horseman-knight. When Adam Smith began his lectures on the "moral sentiments" in the mid-eighteenth century, the need for the chivalric order within the boundaries of any West European nation-state had long since passed. But the institutional hangover had not: despite the revolution of the seventeenth century in the arts of government, despite the rise of towns, the thought of plenty as a product of the uninhibited flow of energy had not really penetrated.

True, it had begun to bubble and seethe in unlikely places. In France, where the Bourbons assumed a God-given right to absorb, seize, dictate or stop anything, the Physiocrats, led by a physician named Quesnay, were preparing their famous *Tableau Economique*, a chart which endeavored to explain the circulation of wealth as something analogous to the circulation of blood. Wealth could not get around in a system which exalted the tourniquet of government control over the free pumping of the heart. The Physiocrats had the queer notion that agriculture was the one truly productive branch of economic activity, the

source of all value-blood in the circulatory system. Nevertheless, despite their patent animus against industrial production—or “value added by manufacture”—as “sterile,” the Physiocrats had achieved an important insight: the “policeman” could best confer plenty on the many by leaving the producer alone.

Adam Smith knew the Physiocrats. He talked with them during his sojourn on the continent as a tutor to the young Duke of Buccleugh from 1764 to 1766. In particular he had many meetings with Turgot, the French minister who persuaded Louis XIV to abolish forced labor and various restraints on the grain trade. But it was not Turgot or his Physiocratic brethren, with their ideas which resulted in the slogan of “*laissez passer, laissez faire*,” who had originally set Smith’s mind to racing—it was a simple predilection for freedom which he had picked up at a far earlier age from his old instructor at the University of Glasgow, Dr. Francis Hutcheson.

Hutcheson, an Ulster Scot, had a passion for “natural liberty and justice,” those hallmarks of an ideal society, which he communicated to his students by lecturing to them in English instead of the Latin which had hitherto been the prescribed language of the schools. As part of “moral philosophy,” the concept of “natural liberty” clicks easily into place. Man, as an ethical integer, is either free to choose between good and bad courses within the limits of his circumstances, or he is not. If he is not free, if he can only accept what is handed to him from above (by fate, or by decree of the human agents of fate), then there is not much use in talking about morality or ethics. To make any sense of the idea of morality, it must be presumed that the human being is responsible for his ac-

tions—and responsibility cannot be understood apart from the presumption of freedom of choice.

As with the Physiocrats, economics with Adam Smith began as part of a wider science of choice; only secondarily was it a science of wealth. Smith saw clearly that man, as a choosing animal, was a self-starter, one who could best add to the sum total of human wealth if he were permitted to act without waiting for a command from above. Natural liberty, he was to say in *The Wealth of Nations*, was good because it discharged the sovereign, the “police,” from the “duty of superintending the industry of private people and of directing it towards the employments most suitable to the interests of the society.”

After a century or more of describing economics as the study of wealth, the economists have finally returned to the idea that their subject is merely a subdivision of a greater and more encompassing science, the science of human choices. “Choosing,” says the fertile Ludwig von Mises in his *Human Action*, “determines all human decisions. In making his choice man chooses not only between various material things and services. All human values are offered for option.” In other words, the saint who elects to abstain from consumption affects a sales curve or an energy-disposition curve as much as the gourmand who overdoes things; every choice, whether narrowly economic or not, affects every other choice. But there can be no inhibition on choices within the orbit of any individual’s rights without demeaning man as a moral integer, one who has the moral duty to make up his own mind between good and evil alternatives.

Thus the economic wheel, with the von Mises school, has come full circle: what began as an almost inadvertent