

The Inhuman Alienation of Capitalism

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Milton Friedman once said that every time capitalism has been tried, it has succeeded; whereas every time socialism has been tried, it has failed. And yet, what do people call for? More socialism. This is rather remarkable. Since 1800, the world's population has increased six-fold, and yet, despite this enormous increase, real income per person has increased approximately *sixteen*-fold.¹ Take a step back and view that objectively: It is a truly amazing achievement. Can there any longer be doubt that that increased prosperity is due principally to the complex of institutions we now call “capitalism”? For the only thing that changed between 200 years ago and the previous hundred thousand years of human history was the introduction and embrace of “capitalist” institutions—political, economic, and cultural. One central promise of capitalism has always been that it will deliver the goods: It will lead to increasing supplies of goods and services, to increasing material prosperity. And at this it has succeeded beyond anyone's wildest imaginations. And yet, people remain suspicious of capitalism. More than just suspicious: we seem ready to blame capitalism for many of the economic and social problems we face. Why? In this short essay, I would like to propose an answer.

¹ See Deirdre McCloskey's *Bourgeois Dignity* (Chicago, 2010), chap. 6.

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Explaining the Increase in Wealth

In 1755, over a decade before the publication of his *Wealth of Nations*, Adam Smith wrote:

Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force things into another channel, or which endeavour to arrest the progress of society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical.²

That statement is packed with ideas, not all of them working the way in which Smith seems to think. Smith says, for example, that “little else is required”: well, *what* else, exactly? He relies on the “natural course of things,” contrasting that with governments that are “unnatural” when they try to “thwart this natural course.” What exactly is the “natural course of things”? Does being “natural” mean that it is good? Smith seems to believe it does, but I think in fact that capitalism is, in some important ways, quite *unnatural*. Capitalism relies on an understanding of the world, and of our place in it, that is strange, awkward, and contrary to some of our fundamentally natural ways of thinking, behaving, and relating to each other. It is *so* strange and unnatural, in fact, that even when it succeeds—indeed, sometimes *because* it succeeds—at increasing material prosperity for all, it cannot overcome our instinctive suspicion and distrust of it. The deep-seated animus we seem to have toward

² Reprinted in Adam Smith, *Essays on Philosophical Subjects*, W. P. D. Wightman, ed. (Liberty Press, 1982), 322.

capitalism, I submit, is a result of its being contrary to some of our natural inclinations, of its requiring us to act in ways we would not naturally do. Anyone proposing to defend capitalism—including Adam Smith—must face these facts squarely. I suggest that doing so forces us to come to terms with abiding difficulties inherent in capitalism, and that these difficulties change, or at least should change, our understanding of capitalism's relation to human nature.

Let us begin with one of the most difficult and central questions in the history of economics: Why did wealth begin increasing so rapidly around 1800, leading to levels today that are entirely unprecedented in the history of humankind? Smith's *Wealth of Nations* was an early attempt to answer this question—along with the closely allied question of why some nations were wealthier than others—and in the last 50 years or so there has been intense study and scrutiny of this issue. We want to know what happened about two hundred years ago in Britain. More than that, we *need* to know: Although hundreds of millions of people have been raised from grinding poverty in the intervening centuries, hundreds of millions remain there today. Our coming to a proper understanding of what went on back then might literally mean the difference between life and death for millions of people. So we had better get it right.

Smith's answer, it seems, is that once we get certain public institutions right, things will take care of themselves. That is, once we get an “exact administration of justice,” once we are protected from both international and domestic aggression, and once a scant few public services (roads, canals, grade-school-level education) are put in place, stand back: The “invisible hand”—motivated by people's tireless desire to better their own condition, and guided by the freedom to exploit their local knowledge and the responsibility of facing the consequences of their decisions—will lead us to prosperity, to a “general plenty” and to “universal opulence” (*Wealth of Nations*, I.i.10). Note the terms “general” and “universal”: Smith is confident that the increasing prosperity that these institutions enable will not benefit only the rich, but, rather, will benefit all classes. We might not all get rich at the same rate or to the same extent, but we will all get rich. This is an audacious promise, and the fact that it has actually come true for those places in the world that have enjoyed Smithian institutions over the last two centuries is truly a tremendous blessing for those people fortunate enough to live there.

But Smith's answer cannot be the whole story. There have been other periods of human history where the institutions Smith indicates were largely in place, including at times in the Middle East, in the Far East, and earlier in European history³—and yet the kind of prosperity that began in Britain

around 1800 and that has now risen to unprecedented levels did not ensue. Why not? What was the difference?

Deirdre McCloskey has argued that a crucial fact is the relatively sudden acceptance in northern Europe around 1800 of what she calls “bourgeois virtues” as virtues, rather than as suspicious or indeed base motives.⁴ So: punctuality, word-keeping, fair dealing, good-faith negotiating, industriousness, and even entrepreneurship came, around that time and in that part of the world, first to be accepted, then encouraged and even celebrated. This cultural shift, along with the relevant institutional structures, is what, according to McCloskey, made the difference for eighteenth-century Britain. In other words, the missing element from the so-called institutional explanation is *culture*: people need to have the right beliefs, in particular the right beliefs about what constitutes an acceptable, if not noble life, what the virtues and what the vices are, what kinds of behavior are supererogatory, what are optional, and what are obligatory. And those that are obligatory must be internalized—not, that is, merely enforced from without, but demanded by one's own force of character. I think McCloskey has put her finger on a crucial matter, even if I do not think she has yet adequately explained *why* the culture changed in the way it did when it did, or indeed what factors are even involved in determining or substantially affecting culture. Why, for example, did Franklin's 1793 *Autobiography* resonate the way it did? And why would it not have resonated in other countries or in other eras? There is a Nobel Prize waiting there for the person who can answer those questions. But another question faces us: Why does Franklin's *Autobiography* seem to be resonating increasingly less with *us*?

Human Survival and Economic Life

Here is my hypothesis.⁵ Human beings are a small-group species. Those of our ancestors who survived the gauntlet of a nature red in tooth and claw did so because they were able to create small, extremely close-knit bands of people who were willing to sacrifice for one another if, and when, it was required. Long-term survival of individuals was not at issue: By their early 30s people's teeth fell out anyway. What mattered instead was the survival of the band, most of whom were one's blood relations and with whom one had lived since birth. For the band to survive, each member had to believe with certainty that he could rely on all of the others: Everyone did his job, whatever it was, in the service of the

³ See, for example, Gregory Clark's *Farewell to Alms* (Princeton, 2008), McCloskey's *Bourgeois Dignity*, and Kenneth Pomeranz's *The Great Divergence*, rev. ed. (Princeton, 2001).

⁴ In her *Bourgeois Dignity*.

⁵ I have benefitted enormously from conversations with David Rose. See also Rose's excellent new book, *The Moral Foundations of Economics* (Oxford, 2011).

band's survival, and when necessity required it each was ready to sacrifice for others. Any hint or signal that a member of the band was not up to the band's demands was taken as a threat to the entire band, and it was disapproved of as required. Moreover, any individual's success (or luck), and any individual's failure (or misfortune), were felt to be those of the entire community, not just of the individual. So if you were successful in, say, a hunt, you were expected to share; and if you fell into misfortune, everyone was expected to do what they could to help. The band rose or fell as a united community; we were all in it together.

Thus far I have said nothing terribly controversial (or original, for that matter). But let us extend the story just a bit. As we now know from multiple sources,⁶ the level of wealth human beings enjoyed throughout almost all of their history, and certainly during their evolutionary periods, was both extremely low and extremely consistent: about \$1 per day in constant purchasing power parity per person. Consider a few implications of that fact. First, everyone was constantly on the brink of death. They were undernourished, typically weak and often sick, and they did not ingest enough calories to engage in very much activity. Moreover, they did not have enough wealth to allow for capital investment or for substantial improvements of any kind. Even if someone invented some new technology, they typically had neither the wealth nor the peace nor the leisure to build on it. Second, their precarious position made them suspicious of all who were not in their own band, because one principal and regular way for other bands to survive was by killing the males and stealing the females and possessions of other bands. If you came across someone you did not know, often the prudent choice was rather to kill him than to spend time trying to find out whether he might be friendly. Third, this meant that markets were extremely limited. Trading did occur, but it had to be based on personal knowledge, personal bonds, and personal encouragements and threats of retribution for renegeing. And because the fear of predation was ever present, there was a significant pressure against accumulating anything worth stealing.

Consider now one more aspect of this dynamic: If anyone in your small, close-knit community did begin to accumulate possessions or tokens of wealth that were greater than what everyone else had—or if any household/family had more than what the other households/families had—the obvious and likeliest explanation was that this person or family was cheating. Either they were stealing it from the other members of your community, or they were cavorting treasonously with members of another community. There simply were no other ways to accumulate more than others within your own group. Because of how close the group

always was to starving, anything they killed, captured, or discovered they shared within very small margins. It might not have been exactly equal sharing—the best hunter might have gotten a tad more, or the first serving, for example—but the differences in absolute terms were negligible. And: everyone knew why anyone who got more got more. There were no secrets. So if you started accumulating a bit too much, it must have been because: you had found a secret cache of something and were not sharing, you were taking more than your share of the communal bounty, or you were getting subsidized by someone outside the community. Remember that because markets, opportunities for capital investment, and capital itself was so limited, transactions tended to be zero-sum: I, or we, gain only by taking something either from you or from the commons. Thus my increasing wealth is a result, in one way or another, of my impoverishing others. These constituted direct and fundamental threats to the unity and hence the survival of the community. Thus everyone would have been on the alert for any signs of such treachery, and any discovery of it would have been punished swiftly, usually mercilessly. It could not be tolerated. To spool the narrative forward through time, then, we can infer that those communities that survived were those that were marginally better at maintaining community unity and a sense of individual sacrifice for the community, and at detecting and punishing threats to that unity.

I suggest that we today are the inheritors of those psychological instincts, and that that fact helps explain why we seem to be so quickly, so instinctively, so persistently hostile to many of the institutions, and particularly to some of the results, of capitalism. Capitalism requires, first of all, a willingness to deal with and even trust complete strangers. We trade and exchange with people who look, speak, and live entirely differently from us, people with whom we have no chance of developing any kind of personal knowledge, bond, or affection.⁷ Moreover—and this, I think, is the real sticking point—it allows and even encourages inequalities *that are entirely innocent*. This goes against every instinctual bone in our body. In a capitalist society, people around us might have more, much more, than we do: and they did nothing wrong in acquiring it. Every one of the transactions they engaged in to generate and achieve their status might have been entirely voluntary, based on informed negotiations that were beneficial to all the parties to them. Indeed, as a theory and a set of institutional prescriptions, capitalism *requires* that all transactions be voluntary, informed, and mutually beneficial (at least as perceived by the parties to the transaction at the time of transaction). Because people's talents, skills, and values vary, and because people's desires

⁶ See, for example, the work of Brad DeLong, Eric Jones, or Angus Maddison.

⁷ See Paul Seabright's *The Company of Strangers*, rev. ed. (Princeton, 2010).

and preferences vary, some people will be able to generate more wealth through these voluntary transactions than others will: inequality will result. Yet such transactions are not zero-sum, in which there is a loser for every gainer, but are instead positive-sum, in which everyone wins. We are thus all better off for the existence and repeated iterations of such transactions, even those transactions in which we ourselves played no direct role. This is Smith's "invisible hand" at work. Finally, capitalism requires a background internalized ethic of "bourgeois virtues" that function not because people are making cost/benefit analyses at each opportunity—for there would be far, far too many individual opportunities in which renegeing would benefit the individual,⁸ and this would erode the confidence in the entire moral edifice that is necessary for it to work. Instead the bourgeois virtue must function as internalized nonnegotiable precepts of "the right thing to do," period.

So let us take stock. My argument is that capitalism can succeed only when two separate kinds of things are in place: first, a set of political and economic institutions approximating what Smith articulated in the passage with which we began. Second, an internalized moral code that is open to and trusts strangers, that does not automatically suspect inequality, and that sees people's successes and failures—and their schedules of values and worldviews—as being their own and not others' business. This, I submit, is an unnatural way of viewing the world for human beings constructed as we are. It goes against central and enduring aspects of our psychological instincts, and, even if it has its advantages (indeed, even enormous advantages), it must ever contend against the recurring suspicions triggered by the instincts our species developed through hundreds of thousands of years of hard-won evolutionary selection.⁹ When Marx argued that capitalism was an 'alienating' force wrenching people from their natural 'species-being,' he therefore had it exactly right.¹⁰ Capitalism *is* alienating: you trade, interact, and come to rely on people outside your band, outside your community, even on the other side of the world. Moreover, capitalism contravenes our 'species-being': it allows the development of *individual* goals, values, and ends, and it has the temerity to recommend that we not enforce small-group or communal conformity but instead respect individual diversity.

⁸ Robert Frank calls these "golden opportunities." See his *Passions within Reason* (Norton, 1988).

⁹ Friedrich Hayek makes a somewhat similar claim, though with important differences, in his "The Atavism of Social Justice," *New Studies in Philosophy, Politics, Economics, and the History of Ideas* (Chicago: University of Chicago Press, 1978).

¹⁰ See, for example, Marx's essay "Alienated Labor" contained in his 1844 *Economic and Philosophic Manuscripts*, in Lawrence H. Simon, ed., *Karl Marx: Selected Writings* (Indianapolis: Hackett, 1994), 58–68.

Capitalism and Human Nature

I should not overstate my claim. Smith also wrote that the "division of labour, from which so many advantages are derived" is "the necessary, though very slow and gradual consequence of a certain propensity in human nature [... namely] the propensity to truck, barter, and exchange one thing for another" (*Wealth of Nations*, I.ii.1). He wrote later of the natural "higgling and bargaining of the market" (*ibid.*, I.v.4), and we might perhaps connect this principle with that articulated by Smith in his *Theory of Moral Sentiments* that the "desire for mutual sympathy of sentiments" is not only one of our most fundamental desires but also one that maintains our natural sociability.¹¹ Thus some aspects of capitalism—trading, negotiating, deal-making—seem to comport with, rather than contradict, some aspects of our nature. Moreover, if Smith is right that human ingenuity is one of the hallmark characteristics of commercial society,¹² then perhaps the entrepreneurship for which capitalism calls would also give license to a natural impulse in humankind. My argument would hold, then, that certain important features of capitalism conflict with some deep aspects of human psychology, while other features comport with and even summon other aspects. That might explain why our attitude toward capitalism is not entirely and always negative. Perhaps the best way to put it is that our attitude toward capitalism is deeply ambivalent, and often, though not always, hostile.

On my view, one of the greatest political difficulties in today's world of global communication and trade is trying to ensure that our small-group species will tolerate and even embrace large-group exchange. It just seems wrong to us on so many levels. We naturally like the idea of small groups; we feel safer and more secure when we personally know everyone we deal with and when we have a single, clear leader who determines the direction the entire community takes; and the simple, traditional lifestyle of yesteryear—or, at least, our romantic images of such a life—continues to call to us like a siren song. How we were able to break free from those deep-seated psychological strictures in northern Europe around 1800 is therefore a real puzzle, all the more puzzling if it constituted as stark a break as I have suggested. It vividly reveals just how fragile what we call "civilization" really is, just how anomalous it has been in human history—and just how easy it would be to destroy it utterly and return to the nasty, poor, brutish, and short status quo ante of human life. But the benefits that that break enabled were and are enormous and cannot be gainsaid—

¹¹ See *Theory of Moral Sentiments*, I.i.1–2.

¹² See, for example, *Wealth of Nations*, Introduction.4, I.i.8, and *passim*.

again, they have meant the difference between life and death for literally millions of people.

Those of us who appreciate these benefits, and want rather to extend them than to curtail them, face, therefore, a considerable challenge. We must first of all do what we can to shoulder our part of the burden of liberal civilization, which includes encouraging people to see the world and wealth and other people differently from the way they are naturally inclined to do. But we must also understand that markets, globalization, limited government, tolerance for genuine diversity, individualism—the hallmarks, in other words, of “capitalism”—are exactly what Marx called them: inhuman and alienating. If, then, we are to encourage and

support them nonetheless—and I believe we are under a moral obligation to do so—we must first understand the enduring challenge we face.

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