

The Market and The State:

The Debate Over Laissez Faire in American Political Thought, 1880-1914

by

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ABSTRACT

This dissertation examines the intellectual debate over the concept of laissez faire in American political thought, which took place between 1880 and 1914. It presents an account of how the concept of laissez faire rose to prominence in American political thought during the Gilded Age as well as an account of how critics responded. The Gilded Age was a period of revolutionary economic change which prompted a renewed debate over the proper role of government. Much of the existing scholarship devoted to this period takes the form of historical overview or extensive focus on a particular thinker. My own analysis focuses on the specific arguments of three particular thinkers: Henry Demarest Lloyd, Thorstein Veblen, and Herbert Croly.

In order to explain the various features of this intellectual debate, I present a conceptual analysis of laissez faire and identify its key components. I also provide a critical comparison of the competing economic visions of Thomas Jefferson and Alexander Hamilton to illustrate the relationship between laissez faire thinking and the American Founding. I then present the laissez faire arguments of nineteenth-century thinkers, particularly the Social Darwinists. Finally, I critically appraise the arguments presented by Lloyd, Veblen, and Croly in order to show how the prevailing notions about the proper role of government were changing.

In this research, I show that the debate over laissez faire was about more than identifying the appropriate economic policy for the United States. It centered upon competing theories of society, human nature, and economic progress. In criticizing laissez faire, Lloyd, Veblen, and Croly also challenged the traditional American

commitment to individualism, and in so doing, they laid the intellectual groundwork for a more affirmative government and the emergence of the welfare state in the twentieth century.

For Leslie, my first teacher

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CHAPTER 1 — INTRODUCTION

Laissez-faire, instead of being what it appears to be in most of the current discussions, cuts to the very bottom of the morals, the politics, and the political economy of the most important public questions of our time.

— William Graham Sumner, “Democracy and Plutocracy”

In the latter half of the nineteenth century the United States economy underwent a revolutionary change. The country experienced rapid economic expansion, but the expansion was uneven, inequitable, unpredictable, and largely uncontrollable. Enormous concentrations of wealth, widespread poverty, and violent clashes between the forces of labor and capital were all exacerbated by an economy that grew in fits and starts. This drastic economic change presented a host of new problems that prompted social scientists, popular writers, and public officials to reconsider the proper role of government. As thinkers debated the responsibilities of the government in relation to the economy, the concept of *laissez faire*¹ became a central feature of that debate.

Advocates for a policy of hands-off government, such as Herbert Spencer, William Graham Sumner, and Andrew Carnegie, argued that the government should

¹ The thinkers included in this dissertation the term “*laissez faire*” in a number of different ways. Some italicize it, some hyphenate it, and some do both. For the sake of consistency, I will use the non-italicized and non-hyphenated version, unless I am directly quoting from the source.

interfere as little as possible with the economic decisions of private individuals and corporations. These thinkers adopted the tradition of laissez faire, which dated back to eighteenth-century France and the writings of the Physiocrats. However, they presented a modernized vision of laissez faire that was suited to an industrial society, and they used this laissez faire doctrine to portray the competitive economic order as a motor of progress. When one examines the writing of these modern proponents of laissez faire, it is clear that they deployed the doctrine reactively rather than proactively. These thinkers were defending a policy of laissez faire from a number of critics who had begun to challenge the wisdom of restricting governmental involvement in economic matters. The rapid industrialization antecedent to the Civil War effectively galvanized the opposing viewpoints about the proper role of government, and this occasioned a lively debate over the wisdom and relevance of laissez faire.

Reform-minded thinkers also seized upon the doctrine of laissez faire, and many came to view the tradition of laissez faire thinking as the primary obstacle to a more democratic and equitable society. Critics of laissez faire, such as Henry Demarest Lloyd, Thorstein Veblen, and Herbert Croly, considered this policy to be untenable in the face of the new economic realities of industrial production and economic inequality. The question for these thinkers was not whether the government should play an active role in the market economy, but what role it should play and on what basis.

After the dawn of the twentieth century, the shift away from laissez faire was readily apparent. In 1907, Irving Fisher delivered his vice-presidential address to the

meeting of the American Association for the advancement of Science in New York.² His address presents two crucial observations about the doctrine of *laissez faire*—that it had been influential in the latter half of the nineteenth century and that its influence had waned by the beginning of the twentieth century.

Perhaps the most remarkable change which economic opinion has undergone during the last fifty years has been the change from the extreme *laissez faire* doctrines of the classical economists to the modern doctrines of governmental regulation and social control.³

At the time of Fisher’s speech, these “modern doctrines,” which would come to support the development of the welfare state, were still in their developmental stages even though they had begun to take shape two decades before.

TOPIC AND PURPOSE

In this dissertation, I focus on how the doctrine of *laissez faire* came to occupy such an influential position in American thought and how critics responded to this influence. I examine the manner in which *laissez faire* thinking fits into the tradition of American political thought, but my primary focus is upon how critics challenged *laissez faire* thinking in pursuit of political and economic reform. Critics of *laissez faire* abounded during the “age of reform,” especially the period between 1880 and 1914.⁴ I have chosen three of these critics to illustrate some of the important ways in which

² See Fisher, “Why Has the Doctrine of Laissez Faire Been Abandoned?”

³ *Ibid.*, 18.

⁴ Hostadter identifies the “age of reform” as the period between 1890 and 1944. It was preceded by a period of “political conservatism” that lasted roughly from the Civil War until 1890. *The Age of Reform*, 3.

reformers reconceptualized the proper role of the government in supervising and regulating economic activity. Henry Demarest Lloyd, Thorstein Veblen, and Herbert Croly each took a unique approach in criticizing the doctrine of laissez faire. By examining these criticisms, I hope to provide some insight into how the popular conceptions about the proper role of government changed during this tumultuous period.

Why should we be concerned with this decline in laissez faire and the development of alternative theories of governmental responsibilities? Simply stated, this period witnessed a profound crisis in the United States in regards to political and economic thinking. Economic changes revived the century-old debate between Alexander Hamilton and Thomas Jefferson concerning the proper role of government in economic matters. It also forced economists, political thinkers and public officials to consider new ideas for a new type of economy. This intellectual current in American political thought is a site of interplay between concepts and policies or between ideas and actions. Such a relationship between ideas and practice represent what Sheldon Wolin has called “the subtle, complex interplay between political experience and thought.”⁵ “Political understanding,” he continues, is dependent upon an appreciation for the “complexities” of politics and the theoretical responses that political thinkers have mounted in order to deal with political “predicaments.”⁶ The complex interplay of ideas and practice as it relates to my research is driven by the focus on a certain problem—the inability of laissez faire to address massive poverty and the social consequences of such inequity. The collapse of laissez faire and the intellectual vacuum that resulted represents a case study

⁵ Wolin, “Political Theory as a Vocation,” 1077.

⁶ *Ibid.*

in the interplay of ideas and practice. Furthermore, it is a clear case in which political thinkers and other writers addressed an “immediate problem.”⁷ This time of historical and theoretical flux was in part an ideological battle within liberalism concerning equality of opportunity and limited government. Such concepts were undergoing revision at the turn of the century. This indicates that some of the “core concepts” of liberalism were being contested from many quarters.⁸ The definitive concepts of liberalism had become “sore concepts”—those which lead to “ideological debates” and “conceptual change.”⁹

The criticisms of and alternatives to laissez faire that were becoming increasingly salient in American politics were themselves an intellectual effort to solve political problems. Criticism itself is a form of political action, and like all political actions, it has consequences.¹⁰ One such consequence is a fundamental change in the meaning and usage of important concepts. In one sense, conceptual change is the “imaginative consequence of actors attempting to solve their problems and to resolve the contradictions they criticize.”¹¹ Given the significant problem posed by the inadequacy of laissez faire in American thought, the “imaginative consequences” of this criticism are themselves part of a new political language that was emerging to solve real problems and address changing circumstances.

⁷ Vincent, "Ideology and the community of politics," 405-6.

⁸ Ball, "From 'core' to 'sore' concepts: Ideological innovation and conceptual change," 391-2.

⁹ *Ibid*, 394.

¹⁰ Farr, “Understanding Conceptual Change Politically,” 35.

¹¹ *Ibid*, 38.

There are a number of reasons that the period between 1880 and 1914 is an appropriate site for an examination of conceptual change. First, it was a period of political change, social upheaval, and economic dislocation. Changing political and economic circumstances created new problems that a policy of laissez faire could not address. Second, it is a period when the economics discipline was in flux. Young, German-educated economists founded the American Economic Association (AEA) specifically to challenge the doctrine of laissez faire.¹² This challenge left the economics discipline divided until after the turn of the century.¹³ Finally, this period spans the lead-up to and arrival of the Progressive era. There is considerable debate as to the coherence of Progressive political thought, but it was clearly a period of “particular political fluidity” in which political and economic reform were of central importance.¹⁴ For my purposes, I am more concerned with the ways in which a few specific thinkers were attempting to reform political and economic concepts than with trying to identify a characteristic political and economic philosophy of Progressivism.

An understanding of this theoretical realignment is valuable because political theorists have not provided a systematic account of how American thinkers reconceptualized the relations between the state and the market during the progressive era. Much of the research concerning political and economic ideas formulated during the

¹² Bateman, “Bringing in the State? The Life and Times of Laissez-Faire in the Nineteenth-Century United States,” 176.

¹³ *Ibid.*, 194-5.

¹⁴ Rodgers, “In Search of Progressivism,” 117.

Progressive era has centered upon particular thinkers.¹⁵ My research, on the other hand, will include a range of thinkers with specific attention paid to their critiques of laissez faire. By examining these thinkers in detail, I hope to provide a better understanding of how political and economic ideas and concepts were changing from the doctrines of laissez faire to a more positive conception of government responsibility.

The focus on political and economic change during the progressive era is not a new enterprise by any means, but most previous writing on the subject has come from historians.¹⁶ While there are some excellent historical analyses of the progressive era that are indispensable for anyone examining the period, historians tend to focus on events and ideas in general rather than a specific conceptual or theoretical change.¹⁷ I wish to focus on the intellectual response to the changing historical circumstances that historians study. There is indeed a disjunction between what historians do and what political theorists do. According to Wolin, the aim of the political theorist is “the cultivation of political understanding” and “an appreciation of the historical dimension of politics.”¹⁸ The

¹⁵ See, for example, Stettner, *Shaping Modern Liberalism: Herbert Croly and Progressive Thought*; O'Leary, "Herbert Croly and Progressive Democracy;" Destler, *Henry Demarest Lloyd and the Empire of Reform*; Spindler, *Veblen and Modern America*.

¹⁶ See, for example, Hofstadter, *The Age of Reform: From Bryan to F.D.R.*; Wiebe, *The Search for Order: 1877-1920*; Lears, *Rebirth of a Nation: The Making of Modern America, 1877-1920*; Rodgers, "In Search of Progressivism."

¹⁷ The competing studies of the progressive era by Richard Hofstadter and Robert H. Wiebe provide an excellent example of this. Both attempt to provide an historical account of the origins of progressivism and the form that progressive reforms took in practice. Hofstadter does incorporate the change in intellectual ideas into his study, but he mostly focuses on the effect these ideas had on progressive political movements. See *The Age of Reform*, 105-8, 141-2, 148-55, 186-98, 200-2, and 246-8.

¹⁸ Wolin, "Political Theory as a Vocation," 1077.

political theorist seeks to build “historical knowledge” about political ideas by highlighting the “complex interplay between political experience and thought” and “the agonizing efforts of intellect to restate the possibilities and threats posed by political dilemmas of the past.”¹⁹ The “mode of understanding” for political theorists is historical, but the historical focus is upon how theoreticians have dealt with political problems.²⁰ In this research, I am seeking a better understanding of how theorists dealt with the crisis of laissez faire and how this changed the intellectual discussion over the proper role of government in terms of economic policy.

This period in American history has been written about extensively, but none of the existing works provide a detailed account of how Lloyd, Veblen, and Croly treated the subject of laissez faire. Morton White’s highly influential *Social Thought in America* presents an excellent account of how Veblen, John Dewey, Charles Beard, and others contributed to the changing intellectual and moral attitudes during this period. White’s work is insightful but much broader and more ambitious than what I propose here. Richard Hofstadter’s *Social Darwinism in American Thought* is a classic treatment of how the influence of Darwin in the United States occasioned the rise of Social Darwinism. His analysis of Spencer and Sumner is invaluable, but he does not offer detailed analysis of the thinkers that I propose to examine. The most important source on the topic of laissez faire during this period is Sydney Fine’s *Laissez Faire and the General-Welfare State*. His approach is mostly historical in nature, but he does an excellent job of describing how laissez faire fits into the tradition of American political

¹⁹ *Ibid.*

²⁰ *Ibid.*

thought. I cannot hope to match Fine’s breadth, but my research provides more depth into the specific criticisms presented by Lloyd, Veblen, and Croly.

The task remains for me to explain why this research is an important contribution to our understanding of political theory. The concepts and the period that I analyze constitute the beginning stages of an ongoing debate about the role of the government in economic matters. The depression of the 1890’s exposed the dangers of an unregulated free market as well as the sharp “class divide” in America’s population.²¹ Also, during this period, Americans began to see government as an entity that placed business interests above those of the larger public.²² The failure of laissez faire ideals represented a public crisis as well as an intellectual dilemma. Such periods of public crisis provide fertile ground for new ideas and justifications for new action. Without a clear understanding of how theorists mounted an intellectual challenge to laissez faire around the turn of the century we are in danger of neglecting the uniquely American response to economic crises. Given the ongoing and contentious debate about the government’s role in the economy, I believe that it is essential to understand the early challenges to laissez faire in America. Contemporary supporters of a laissez faire policy echo their nineteenth century forebears when they cast laissez faire as a protection against “socialism” or “a culture of dependency.” Spencer and Sumner provided justifications of laissez faire that are strikingly similar to those that we hear today.

²¹ Lears, *Rebirth of a Nation*, 174-82. In fact, the government had been violating the laissez faire creed for years by subsidizing business. 167-169.

²² Trachtenberg, *The Incorporation of America: Culture and Society in the Guilded Age*, 180-181. Trachtenberg notes that the government supported monopolies and even provided armed guards to protect private property.

INTERPRETIVE METHOD AND OUTLINE

The approach that I will adopt in order to examine these texts is what Terence Ball has called a “problem-driven” approach.²³ This type of approach does not center upon a specific thinker, but upon a certain “puzzle or problem” that is significant or interesting.²⁴ In my research, I examine the problem of competing visions of state and market relations that emerged near the beginning of the 20th century as a response to the crisis in laissez faire economics. As Ball explains, this approach provides considerable leeway in choosing a problem.²⁵ In this instance, I believe that my problem is interesting given the current reappraisal and fierce debate over economic regulation and the role of government in economic matters. The challenge mounted against laissez faire during the progressive era shows that this debate is not new in American discourse and that economic concerns are inextricably linked to political action.

In terms of my interpretive approach in this problem, I will pay special attention to the historical context of any texts under examination. I am not simply concerned with the logic of the arguments, but their rhetorical value as well. I am in agreement with Skinner that political ideas are rhetorical; they are responses to particular circumstances and are meant to persuade.²⁶ I will attempt to contextualize all of the arguments and texts that I examine, and I think this is compatible with a question that has historical significance at the present time.

²³ Ball, "History and the Interpretation of Texts," 28.

²⁴ *Ibid.*

²⁵ *Ibid.*

²⁶ Skinner, *Visions of Politics*, Vol. 1, 80-6.

The investigation that I undertake in this dissertation crosses traditional disciplinary boundaries. The ideas that make up the intellectual challenge to laissez faire come from economists, social scientists, political thinkers, and muckraking journalists. Perhaps this response from diverse quarters attests to the saliency of the issue at the time. To analyze and understand the changing concepts related to political economy, I will focus my investigation on the three influential thinkers previously mentioned, who all mounted well-developed critiques of laissez faire. However, before I analyze the criticism presented by these thinkers, I must define the concept of laissez faire and account for its emergence in American political thought in the late nineteenth century.

I will proceed in the following manner. In chapter 2, I define and clarify the concept of laissez faire while identifying the key features of laissez faire thinking. I also provide a brief overview of classical economic theory, particularly that of the Physiocrats and Adam Smith. This overview is meant to explain how the Physiocrats and Smith provided the initial economic justification of a laissez faire policy, but I also show that their recommendations of laissez faire presupposed the existence of a strong political authority. The Physiocrats, in particular, fully supported the French monarchy, which attests to the fact that the very first proponents of laissez faire were hardly advocates for small government.

In chapter 3, I examine the relationship between laissez faire and the American Founders. I conduct this examination by focusing on the competing economic viewpoints of Alexander Hamilton and Thomas Jefferson. Both thinkers presented arguments that were consistent with some of the main precepts of laissez faire, but both also rejected

some of those precepts as well. In his advocacy of an agrarian republic, Jefferson envisioned an economy constituted by small farmers, whom he expected to be virtuous, public-spirited citizens. Hamilton, on the other hand, supported a commercial economy that was regulated by a strong central government and that harnessed the force of private self-interest to advance the public good.

In chapter 4, I continue my examination of laissez faire in American thought by turning my focus to the nineteenth century, particularly the late nineteenth century when defenses of laissez faire reached a fevered pitch. I offer a critical examination of the most vociferous proponents of laissez faire, the Social Darwinists Herbert Spencer and William Graham Sumner. Spencer and Sumner presented an updated version of laissez faire that leveraged the findings of evolutionary biology to justify a competitive economic order. I also analyze Andrew Carnegie's "Gospel of Wealth," which presents a laissez faire justification of industrial combinations by echoing many of the teachings of Social Darwinism. This chapter provides the intellectual context for the remaining three chapters by identifying the key features of laissez faire thinking during the Gilded Age.

Chapter 5 presents Henry Demarest Lloyd's critique of laissez faire, which he saw as a source of destructive selfishness and moral corruption. Lloyd challenged the tenets of laissez faire by drawing attention to the moral consequences of individualism and self-interest. His preferred method was journalistic exposure in which he documented the ways that a laissez faire economic system results in misery and exploitation. Laissez faire, for Lloyd, was the primary obstacle to his vision of moral reform and the establishment of a cooperative commonwealth.

In chapter 6, I turn to Thorstein Veblen's economic critique of laissez faire. He believed that the economic approach that undergirds the policy of laissez faire presents an inaccurate description of economic reality in a modern industrial society. He identified a number of concepts that inform the classical economic worldview and offered a critical appraisal of these concepts based on their usefulness for making sense of economic phenomena. His primary criticism is that economic theorists, from the Physiocrats to his contemporaries, favor an abstract approach that involves identifying timeless economic laws that hold across historical epochs and apply generally to all economic behavior. He rejected this approach in favor of his own institutional focus. Veblen believed that economic behavior is mostly dependent upon existing "institutions"—the complex arrangement of beliefs, habits, and practices that influence economic activity. I will explain how Veblen's institutional approach challenges many of the basic tenets of laissez faire. He considered the social and historical effects of these economic institutions to be the most important subject for economic investigation. The economist, according to Veblen, should try to understand and explain how these institutions evolve and change rather than rely upon abstract models that produce general laws.

Chapter 7 presents Herbert Croly's criticism of laissez faire, which he attributed to the American political tradition rather than classical economic theory. What distinguishes Croly from Lloyd and, especially, Veblen is his realization that laissez faire is intertwined with American history and tradition. His historical analysis reads like an archeology of American ideas about individualism and economic opportunity. I will discuss Croly's criticism of this tradition of individualism and laissez faire as well as his

proposed solution. He believed a laissez faire approach to government leaves the country without a definitive purpose and with no means of responsible political action. He argued that the Jeffersonian tradition of individualism and democracy had left the United States political system under the control of a rigid constitutional architecture that offers no avenues for public responsibility. He viewed Hamilton's vision for a positive responsible government as a corrective to Jefferson's negative view.

I conclude with a consideration of how the debate over laissez faire is relevant today. The criticisms of laissez faire presented here are applicable to the ongoing debate over the proper role of government. Indeed, the drama of Gilded Age may be replaying itself as corporate profits grow while wages stagnate and economic equality is reaching levels not seen since the nineteenth century. The issue of laissez faire is still relevant in American politics today as we witness, what some call, a "new Gilded Age."

CHAPTER 2 — LAISSEZ FAIRE: DEFINITION OF THE CONCEPT

The latter half of the nineteenth century was a period of drastic change in the United States. Industrialization revolutionized economic relations between increasingly wealthy business owners and increasingly destitute laborers. The country also endured numerous and frequent panics and depressions starting in 1873 and lasting well into the 1890's. Socialists, anarchists, populists, and later progressives represented a growing movement of reformers who challenged the status quo. Reform-minded thinkers such as Henry Demarest Lloyd, Thorstein Veblen, and Herbert Croly began to scrutinize the ideas that supported and defended this status quo. Those ideas were embodied in the thinking of laissez faire. During this same time Herbert Spencer, William Graham Sumner, and others sought to justify laissez faire in an effort to oppose calls for government regulation of economic activities. Spencer and Sumner were presenting a modern, purified version of laissez faire, which they applied to industrial society. However, critics recognized that laissez faire represented a long series of ideas dating back to the eighteenth century and rooted in classical political economy. If one is to fully appreciate the importance of these criticisms, one must first understand the origin and evolution of laissez faire thinking as well as how it fits into American political thought.

Like any concept, laissez faire has changed and evolved over time. The very first proponents, the Physiocrats, fully supported the French absolutist monarchy; whereas Spencer and more recent proponents favored a much more limited political structure

sometimes verging on anarchy. Nonetheless, it is essential to define the concept as clearly as possible for the purpose of exploring its history. In this chapter, I define the concept of laissez faire and discuss four key features of laissez faire thinking. I then explain the historical origin of laissez faire in the theories of classical economics. These early proponents of laissez faire based their economic thinking upon the assumption that a strong and responsible political authority was a necessary prerequisite for a system of free competition. I pay special attention to the economic thought of the Physiocrats and Adam Smith because each developed a theoretical economic system that was based upon the assumption that economic prosperity would be maximized if individuals were free to pursue their own self-interest.

THE CONCEPT OF LAISSEZ FAIRE

Laissez faire is a general policy prescription that urges governments to interfere as little as possible in commercial activity. It is an imperative directed at executives and legislators commanding them to allow the market in goods and services to operate freely. The appropriate course of action on the part of the government in relation to the market is to “let it be, to leave it alone.” This imperative rests upon the belief that the community and individuals will be best served by an economy that is driven by the free interactions of self-interested individuals as opposed to an economy that is regulated, controlled, or actively overseen by a central political authority.

Laissez faire is not the foundation of a tradition of thought; it is the conclusion drawn from a tradition of thought. Many thinkers in this tradition never actually used the

phrase “laissez faire,” although, they were clearly arguing for more limited activity on the part of the government. The policy of laissez faire is fairly easy to understand, but the tradition of thinking that supported it is more complex. It is this tradition of thought that I will focus upon here because the matter at hand is the history of political thought rather than the history of economic policy.

Many proponents of laissez faire thinking developed elaborate systemic descriptions of the economy and society, and the features of these systems vary considerably. Despite this variation, there are four identifiable themes that are present in all defenses of laissez faire that were presented in the eighteenth and nineteenth centuries. The first theme that is characteristic of laissez faire thinking is the belief in a “natural order” to which human communities conform. Classical political economists along with Social Darwinists argue that economic and social phenomena are determined by a system of natural laws that operate independently of political intentions. Defenders of laissez faire hold that the “natural order” is an unavoidable fact, and any attempts reform or improve the workings of that order can only be disruptive. Laissez faire proponents consider the natural order to produce harmonious relations between individuals if it is allowed to operate freely without interference from government.

Second, defenders of laissez faire focus on the self-interested individual as the defining feature of the “natural order.” They consider self-interest to be a natural characteristic of human beings. The order of nature that they posit is based upon the voluntary actions of self-interested individuals; therefore, individual self-interest is the

driving force of the harmonious “natural order.” This belief leads them to focus mostly on the interests of the individual as opposed to the interest of the community at large.

A third common theme in the tradition of laissez faire thought is the belief that liberty, associated mainly with property rights, is a moral good and a guarantor of prosperity. Individual liberty, in the tradition of laissez faire, indicates the freedom to own private property and to employ it as one sees fit. This vision of liberty fits nicely into the “natural order” of society, which is comprised of self-interested individuals. Besides for being a moral good, individual liberty is a means to prosperity. Thinkers from Adam Smith to Andrew Carnegie argued that free competition among individuals produced an abundance of goods at more affordable prices. If the government were to curtail property rights through excessive regulation or by favoring certain enterprises at the expense of others, the result would be higher prices for consumers and a decrease in national output.

Fourth, laissez faire theorists tend to depict competition as a meritocratic process that produces fair outcomes for individuals. They consider the distribution of wealth to be based upon individual initiative. Classical political economists such as Smith and the Physiocrats, argued that each individual is responsible for procuring the necessities of life in the form of property. As individuals differ in their talents and abilities, the amount of property they own will vary. This belief was indicative of an agrarian conception of the economy in which many people earned their living by laboring on the land, but it equally justified the property rights of the wealthy who derived most of their wealth from rents. Social Darwinists, writing after the dawn of industrialization in the United States, placed extra emphasis on this belief that wealth is distributed based upon merit. They applied the

logic of evolutionary biology to society and developed a justification of wealth and poverty based upon individual characteristics or different degrees of “fitness.” Because wealth is distributed according to individual skills and virtues, it is unfair for the government to redistribute wealth from the “fittest” individuals to the “unfittest.” Laissez faire proponents argue that the workings of the “natural order” produce a fair distribution of resources based upon individual merit. If the government interferes with this process, it is essentially engaging in special treatment of certain groups. Laissez faire ensures that the fair, natural workings of the market economy take precedence over the favoritism and arbitrary practices of the state.

These four themes form an ideological defense of limited government by positing a “natural order” that operates on the free interactions of self-interested individuals who have the liberty to use their property as they see fit in a meritocratic environment. Each of these components of laissez faire thinking serves as an argument against government involvement in market processes.

MERCANTILISM

The concept of laissez faire, like classical political economy, originated in the context of a modernizing European economy. During the 16th and 17th centuries, a variety of thinkers became preoccupied with understanding an emerging market system that fundamentally changed the way goods were exchanged, and consequently, the ways in which nations earned and maintained their economic positions in relation to other

nations.¹ Observers realized that the “problem of survival was henceforth to be solved neither by custom or command, but by the free action of profit-seeking men bound together only by the market itself.”² The thinkers known as mercantilists generally advocated some state-based control of commerce especially in the arena of foreign trade. Most mercantilist thinkers were not dispassionate academics but “pamphleteers” who tied to influence state policy.³ They were preoccupied with the issues of national wealth and national defense; their writings characteristically focused on creating a favorable balance of trade and increasing gold reserves. Although there is no really coherent “school” of mercantilist thought, all mercantilists viewed politics and economics as inseparable.⁴ Indeed, the term “political economy” was an invention of French mercantilists to distinguish it from “household economy.”⁵ This conception of political economy cast the state as a monarchical household to be managed actively in the manner of ordinary household management. Political economy, as originally conceived in France, was a way to improve the “state administration of economic affairs.”⁶ It was the beginning of economic investigation, but that investigation had a decidedly political goal and the means to achieve it were political as well. Thus, the first intellectual reaction to the

¹ Deanne, *The Evolution of Economic Ideas*, 1-2.

² Heilbroner, *The Worldly Philosophers*, 35.

³ Deanne, *The Evolution of Economic Ideas*, 3.

⁴ McNally, *Political Economy and the Rise of Capitalism*, 22-3.

⁵ *Ibid.*, 69.

⁶ *Ibid.*

emergence of a market economy was an attempt to establish political control over growing mercantile exchanges.

PHYSIOCRACY

Mercantilism was the first identifiable tradition of economic thought, and it formed the intellectual backdrop of classical political economy. A very influential, albeit short-lived, philosophical movement in France challenged the mercantilist idea of economics as a form of household management writ large. Physiocracy was the first true “systematic formulation” of economic thinking ushering in the modern period of economics.⁷ Physiocracy—drawn from the Greek *physis*, literally “the rule of nature”—was an intellectual movement closely associated with the French Enlightenment, claiming such adherents as Diderot, d’Alambert, and to some extent Adam Smith.⁸ As the name implies, Physiocracy was based upon the Enlightenment belief that there was a “natural order,” discoverable by human reason, which guided human actions and events.⁹ The Physiocrats rejected the mercantilist understanding of wealth, which was based upon the actual gold reserves of the state. They argued that the basis of wealth is production,

⁷ *Ibid.*, 85. Deanne locates the origin of “modern economics” in the thinking of the Physiocrats and Adam Smith, who unlike the mercantilists, were systematic in their investigations. See *The Evolution of Economic Ideas*, 1-5.

⁸ McNally, *Political Economy and the Rise of Capitalism*, 100.

⁹ During the time of their writing in the late eighteenth century, the Physiocrats were known only as “*économistes*.” Although Quesnay is credited with inventing the term, it was not applied to this group of thinkers until the 19th century. See Albaum, “The Moral Defenses of the Physiocrats’ Laissez-Faire,” 179.

commerce, and consumption rather than the actual money holdings of the state coffers.¹⁰ Physiocracy was an attempt to account for the natural laws that governed production and consumption, and thus, to discover the best policies for increasing national wealth. This new conception of wealth necessitated a new conception of the economic system that focused on domestic production and consumption rather than foreign trade and mercantile exchanges. The Physiocrats' main contribution to economic thought was their "conception of the economy as a *whole*—as an organic totality in which production, exchange, expenditure, and consumption were inextricably linked."¹¹ Ultimately, the Physiocrats envisioned this "organic totality" as adhering to a "natural order" of economic life with individual self-interest regulating the production of wealth.

Although the Physiocrats are usually credited with inventing the maxim "*laissez faire, laissez passer*," the phrase was used in many different forms before the writings of the Physiocrats.¹² The earliest known usage of the idea comes from a French merchant, François Le Gendre. In a conversation dated around the year 1680, Le Gendre responded to a query from the French Minister of Finances Jean-Baptiste Colbert with the phrase "laissez nous faire."¹³ The Physiocrat Vincent de Gournay, an early proponent of free trade, echoed Le Gendre's preference and spread the doctrine among his fellow

¹⁰ McNally, *Political Economy and the Rise of Capitalism*, 78-81.

¹¹ *Ibid.*, 85. Emphasis in original.

¹² Fine, *Laissez Faire and the General Welfare State*, 5-6.

¹³ "Laissez-Faire, Laissez-Passer, History of a Maxim," in *Dictionary of Political Economy II*, edited by R.H.I. Palgrave, 534-535 (New York: Macmillan Press, 1912), 534.

Physiocrats.¹⁴ It was then left to Pierre Samuel Dupont de Nemours, a follower of Quesnay, to reformulate Gournay's preference for a trade policy based upon "liberty" rather than "protection" to the imperative "*laissez-faire, laissez-passer*."¹⁵ Given the prevalence of mercantilist practices, *laissez faire* was originally related specifically to trade policy and the issue of protection. Nevertheless, the phrase was never employed by Quesnay or Adam Smith in their treatises rejecting protectionism.¹⁶ It was ultimately Marquis d' Argenson who gave a specific endorsement to *laissez faire* as a policy to guide public officials, but Gournay was most responsible for its widespread dissemination among the Physiocrats.¹⁷

The Physiocrats were not only the first modern economic theorists; they were the first to provide a theoretical structure of society and politics that justified *laissez faire*. There are two interrelated theoretical aspects of Physiocratic thought that supported the policy of *laissez faire*. First, the Physiocrats based their economic theory upon a natural law paradigm that adopted a rationalist approach to knowledge. They thought that knowledge should be formulated in terms of abstract natural law. Second, they followed Locke in identifying the individual as the source of productivity and the basis of property. The Physiocratic prescription of *laissez faire* was based upon the assumption that the individual should be left to secure his or her own needs in a society that is governed by natural laws.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

¹⁶ *Ibid.*

¹⁷ *Ibid.*

Physiocracy, with its reliance on abstract reasoning and natural law, was a school of thought that epitomized the Enlightenment. The Physiocrats followed Newton and other natural scientists in the pursuit of laws, inherent in nature itself, that are abstract, universal, and discoverable by human reason.¹⁸ Insofar as classical economics was an attempt to come to grips with an increasingly prevalent market, the Physiocrats framed the market as a natural phenomenon that would behave according to identifiable laws. In other words, they viewed the market as a feature of the social order, which conformed to natural laws. Such a naturalistic conception of the market does not necessarily entail a policy recommendation of laissez faire, but the Physiocrats also believed that the laws of the market tended to lead to a society that is well-ordered and progressive. “Thus, the main function of the state was to establish and preserve a framework in which natural law and distributive justice could be realized via the self-equilibrating mechanism of the market.”¹⁹ One must realize, however, that “the state” to which the Physiocrats referred was not a limited government, but the French absolute monarchy. Hence, the physiocrats advocated a highly structured laissez faire policy that presupposed a strong, authoritative—even authoritarian—political entity. They described the function of government as “legal despotism”—a far cry from the limited government that would come to be associated with laissez faire.²⁰ This endorsement of a muscular political

¹⁸ Albaum, “The Moral Defenses of the Physiocrats’ Laissez-Faire,” 181.

¹⁹ McNally, *Political Economy and the Rise of Capitalism*, 81.

²⁰ Viner, “The Intellectual History of Laissez Faire,” 59. McNally identifies a “paradox” in Physiocratic thinking formed by their dual commitment to a “private property and laissez-faire” as well as a “strong, centralized monarchy that could direct

authority shows that the Physiocrats believed that, although politics should be separated from the workings of the market, the state did have an essential role in supporting the social order. In the sphere of economics, the advisable technique for the political authority to maintain the social order was *laissez faire*.

The second feature of Physiocratic thought that supported a policy of *laissez faire* was their focus on the individual satisfaction as a moral good and an insistence on private property as a necessary condition for that satisfaction. Martin Albaum argues that the Physiocratic notion of a market that operates according to a “natural order” led the Physiocrats to characterize individual consumption as a foundation of economic policy.²¹ Unlike Locke, the Physiocrats did not base the right of private property on labor, but on physical necessity. Locke had argued that labor was the means by which individuals acquire just title to the necessities of life, but the Physiocrats did not seek to justify the right to private property by identifying the natural laws of a pre-social state of nature. The Physiocrats posited an idealized agrarian social order in which individuals had to procure the necessities of life. They assumed that private property was the exclusive means for individual survival in this social order, and this assumption rested upon a vision of a society that was both competitive and agrarian. As Albaum observes, “the theory of natural order had established material satisfaction in private property as the moral basis of society.”²² Given the kind of ordered society depicted by the Physiocrats, an individual

social and economic development.” See *Political Economy and the Rise of Capitalism*, 87.

²¹ Albaum, “The Moral Defenses of the Physiocrats’ *Laissez Faire*,” 185.

²² *Ibid.*, 195.

right to private property and the corresponding right of self-preservation were ethically justified by the fact of the individual struggle for survival.

The central role for private property in the Physiocrats' social order was buttressed by their "ethical individualism"—the belief that "it was the duty of the individual ... to work effectively for his own private gain."²³ The Physiocrats rejected any communal or cooperative schemes of agricultural production. They insisted that production should be based upon individual initiative as the surest way to a harmonious social order.²⁴ Indeed, the Physiocrats' social order is dependent upon harmonious economic relations. A competitive economic market does not supplant the order of society; it supports the social order by conforming to the natural laws of society. This is why Albaum describes the Physiocrats as advocates, not of "social atomism," but "social naturalism" in which the individual stands in a necessary and natural relationship to society at large.²⁵ Such a stance illustrates that the Physiocrats were not interested in looking outside of society to some pre-social basis of the laws of the social order. Instead, the Physiocrats situated the individual in an abstract and idealized agrarian society, not a primitive state of nature. Of course, one prevalent feature of such a society, based upon property rights and free competition, is economic inequality. "For the Physiocrats, it followed that since private property was derived from the individual struggling to master

²³ *Ibid.*, 190-1.

²⁴ Viner argues that the Physiocrats and Smith were both influenced by Bishop Richard Cumberland's argument that "there was an essential harmony between rational self-interest and the common good." See "The Intellectual History of Laissez faire," 59.

²⁵ Albaum, 190.

his environment, economic inequality was both inevitable and just.”²⁶ In a line of argument that would reappear numerous times in the writings of laissez faire’s supporters, the Physiocrats argued that government intervention meant to address this natural phenomenon of inequality will only disrupt the harmonious workings of the market while simultaneously discouraging individual initiative.

In developing the first systematic explanation of economic growth, the Physiocrats had also established a link between liberty and prosperity that would remain a touchstone of laissez faire. Adam Smith referred to the Physiocratic system as “the nearest approximation to the truth that has yet been published on the subject of political oeconomy.”²⁷ The truth that Smith attributes to the Physiocrats is “in representing the wealth of nations as consisting, not in the unconsumable riches of money, but in the consumable goods annually reproduced by the labor of society; *and in representing perfect liberty as the only effectual expedient for rendering this annual reproduction the greatest possible.*”²⁸ The Physiocrats explained a link between consumption and prosperity, and they proposed a laissez faire government policy to increase both.

Physiocracy was rendered obsolete by an emerging industrial economy. They famously held that agricultural production was the only true source of economic productivity. This “agricultural bias” led them to conclude that manufacturing and commercial sectors of the economy were “sterile,” meaning that they contributed to the circulation of wealth and capital, but they did not create wealth as the agricultural sector

²⁶ *Ibid.*, 189.

²⁷ Smith, *The Wealth of Nations*, p. 396.

²⁸ *Ibid*, pp. 396-7. Emphasis added.

did.²⁹ This somewhat nostalgic view of a harmonious agricultural society was in accordance with the republican ideas of Thomas Jefferson and Benjamin Franklin, but even they realized that the Physiocratic insistence on the sterility of manufacturing and commerce was untenable. Even as sympathetic an observer of the Physiocratic economics as Adam Smith recognized these serious flaws. Smith showed quite clearly and succinctly that the Physiocrats were wrong in concluding that manufacturing and commerce were unproductive. He argued that labor employed in manufacturing and commerce clearly increased the quantity of consumable goods, and therefore, noticeably increased the wealth of the nation.³⁰ It would be left to Smith to expand upon the line of thought initiated by the Physiocrats. He would adapt their free-market principles to a modernizing industrial economy.

ADAM SMITH

In seeking to discover the laws that governed economic growth and wealth creation, Adam Smith constructed a simple and persuasive justification of laissez faire. He constructed an imaginary economic system that incorporated the disparate features of economic thinking into one coherent whole, which displayed an “order of nature”³¹ Furthermore, Smith imputed a “benign” or “beneficent” character to this order so that the outcome of this natural process would tend to increase and enhance human happiness and

²⁹ Heilbroner, *The Worldly Philosophers*, p. 47.

³⁰ Smith, *Wealth of Nations*, pp. 393-6.

³¹ Viner, “Adam Smith and Laissez Faire,” pp. 198-201.

well-being.³² In short, the economy operated according to a natural and progressive ordering, which generally benefited the society at large. Like the Physiocrats, Smith argued that self-regarding individuals acting to further their own interests were the force behind this ordered system of wealth creation. Again, following the Physiocrats, Smith argued that the most effective way to maximize economic growth and productivity was to allow these individuals to operate freely in “perfect liberty.”³³ If the government were to infringe upon this “perfect liberty” by unnecessarily restricting the free exchange of goods and services, it could only do so by diminishing the overall productivity of the economy. Having associated individual liberty with national prosperity, Smith restricted the appropriate functions of government to defense, administration of justice, and providing public works. This limited scope of government activity would ensure that the system of “perfect liberty” would prevail. Thus, the “natural order” tended to produce the greatest economic productivity when the government followed a policy of laissez faire.

Adam Smith was first and foremost a moral philosopher, and in his seminal work, *The Theory of Moral Sentiments*, he posited a natural ordering of society. Smith held that society exhibited a “beneficent order,” perhaps divine in origin, which tended to progressively increase human happiness and well-being.³⁴ In *The Wealth of Nations*, Smith applied this moral philosophy to the special case of economics, and he developed a more specific formulation of this natural order to relate it to economic phenomena. Smith

³² *Ibid.*, pp. 202-3.

³³ Smith, *Wealth of Nations*, p. 397.

³⁴ Viner, “Adam Smith and Laissez Faire,” p. 202. See also, Deane, *The Evolution of Economic Ideas*, p. 7-8.

recognized that the increasing prevalence for the “division of labour” had resulted in dramatic improvements in “productive powers” and an increase in the quality and quantity of material goods.³⁵ Smith describes the division of labor as a naturally occurring phenomenon, which originates in human nature. “This division of labour . . . is not originally the effect of human wisdom, which foresees and intends that general opulence for which it gives occasion. It is the necessary . . . consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.”³⁶ This “propensity” to engage in economic exchange is the organizing principle of Smith’s economic theory, and he identifies it as the primary economic sentiment. He writes, “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest.”³⁷ Self-interest is the relevant sentiment that accompanies economic exchange, and the prosperity occasioned by the division of labor has its roots in this self-interest.³⁸

³⁵ Smith, *Wealth of Nations*, p. 3-4.

³⁶ *Ibid.*, p. 11.

³⁷ *Ibid.*, p. 12.

³⁸ I must stress the point that Smith did not consider human nature to be reducible to wholly selfish motivations. In *The Theory of Moral Sentiments* he rejects Bernard Mandeville’s argument that the free play of selfish interests inevitably produces public benefits. “It is the great fallacy of Dr. Mandeville’s book [*The Fable of the Bees*] to represent every passion as wholly virtuous, which is so in any degree and in any direction. . . . and it is by means of this sophistry that he establishes his favorite conclusion, that private vices are public benefits.” See *The Theory of Moral Sentiments*, part VII, section 2, chapter 4.

Thus, the market of exchange for goods and services is based upon the this “propensity in human nature” to act in accordance with their own self-interest. Like the Physiocrats, Smith argued that allowing these individuals to pursue their self-interest would lead to a harmonious and ordered system of exchange.

Every individual, therefore, endeavors 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 labors to render the annual revenue of 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 directing that industry in such a manner as its produce may be of the greatest value, he intends only his 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.³⁹

Smith’s famous postulation of an “invisible hand” is an illustration of his tendency to find a beneficent order in nature. Given that self-interest is a crucial component of this “natural order,” Smith attempted to establish a rationale for economic policy that would be conducive to this beneficent “natural order.”

Smith concluded that the appropriate economic environment should be a system of “perfect liberty” where individuals are free to exchange goods and services without interference from governmental restrictions.⁴⁰ The direct result of government intrusion into this system of “perfect liberty” is an increase in the costs of consumable goods, a phenomenon that Smith was consciously trying to counteract. However, he also provided a moral justification for this system of “perfect liberty” by defending property rights. Like the Physiocrats and future proponents of laissez faire, Smith identifies liberty with

³⁹ *Ibid.*, p. 300.

⁴⁰ *Ibid.*, 45-52.

property rights, and he mounts a vigorous moral defense of property rights.. He writes, “The property which every man has in his own labor, as it is the original foundation of all other property, so it is the most sacred and inviolable. . . . to hinder him from employing his strength and dexterity in what manner he thinks proper without injury to his neighbor, is a plain violation of this most sacred property.”⁴¹ For Smith, “perfect liberty,” defined as a market economy where individuals are free to exchange goods as they wish, was both an economic and a moral good.⁴²

In his defense of “perfect liberty,” Smith reinforced a line of thought established by the Physiocrats and repeated by latter day proponents of laissez faire. Nearly all defenders of laissez faire equate liberty with prosperity. Furthermore, they identify liberty as pertaining primarily to individual property rights. Defenders of laissez faire uniformly argue that governments are not competent to oversee economic affairs; political interference can only make the market less efficient and slow the march of prosperity. Because a free market is conducive to prosperity, laissez faire is justified in terms of the greater good. But Smith argued that there is a moral issue at hand as well because the property of the individual is “sacred and inviolable.”⁴³ According to Smith, government interference with individual property was not only unwise economically, it was wrong morally and contrary to the very purpose of government.⁴⁴ Smith held that individual

⁴¹ *Ibid.*, 105.

⁴² See Viner, “The Intellectual History of Laissez Faire,” p. 60.

⁴³ *Ibid.*

⁴⁴ Taking a cue from David Hume, Smith argued that government originated out of a need to protect property. See, McNally, *Political Economy and the Rise of Capitalism*, 201.

liberty and economic prosperity are mutually reinforcing under his system of “perfect liberty.”⁴⁵

Although Smith provided one of the most systematic, thorough, and lucid defenses of laissez faire, one must consider the practical realities that Smith faced when formulating his theory. Jacob Viner argues that Smith was convinced of the appropriateness of limited government interference not because of his adherence to an abstract notion of a “natural order,” but because of his practical experience with incompetent governments. “The English government of his day was in the hands of an aristocratic clique, the place-jobbing, corrupt cynical, and class-biased flower of the British gentry, who clung to the traditional mercantilism . . . because they did not know anything else to do.”⁴⁶ The administration of the English government was indicative of nepotism, incompetence, and political favoritism. It is anachronistic to portray Smith as an opponent of “big government” defined as a bureaucracy of professionally trained experts, since the reality that he faced was much different.

Smith believed that government does have a very definite role to play in society, but he limits that role to the areas in which he deemed it most competent and essential. Smith’s conception of a “system of natural liberty” is supported by his conception of the proper functions of government:

⁴⁵ Deanne argues that Smith displayed an “ideological bias” for policies that decreased interference by the church and the state in economic matters. This bias, she argues, “has lasted virtually intact in some schools of thought right down to the modern neo-classical orthodoxy.” See, *The Evolution of Economic Ideas*, 14-16.

⁴⁶ Viner, “Adam Smith and Laissez Faire,” 221.

All systems of either preference or restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself on its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interests of society. According to the system of natural liberty, the sovereign has only three duties to attend to ... first, the duty of protecting the society from the violence and invasion of other independent societies; second, the duty of protecting, as far as possible, every member of society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and thirdly, the duty of erecting and maintaining certain public works and certain public institutions.⁴⁷

Ironically, nineteenth century defenders of laissez faire would place far greater emphasis on the first two duties of government and challenge the wisdom of publically funded institutions. Smith himself argues that these public works facilitate commerce without conferring a profit to the owner.⁴⁸ Because of this, the government has a duty to maintain them for the benefit of all. Smith understood that his “system of perfect liberty” relied upon a political structure to set rules and provide an infrastructure to assist commerce.

Many of the proponents of laissez faire that rose to the fore during the nineteenth century stripped Smith’s economic theory of much of its nuance. Even contemporary supporters of laissez faire point to Smith as prophet of limited government in service of free competition. However, Smith devotes the entirety of his final chapter in *Wealth of Nations* to discussing the essential duties of the government. These duties go far beyond

⁴⁷ Smith, *Wealth of Nations*, 399.

⁴⁸ *Ibid.*, 408-11.

the strictly negative or protective functions of national defense and enforcement of justice. Smith outlines positive duties for the sovereign such as maintaining public infrastructure, the establishment of a national bank, the collection of taxes for public revenue, and even a provision for public borrowing. This goes to show that Smith's "system of perfect liberty" was meant to be confined within the economic sphere. Despite his contributions to the tradition of laissez faire, Smith ultimately thought that such a policy would only be beneficial if it was supported by a responsible government.

CONCLUSION

Having considered the economic theories put forward by the Physiocrats and Smith in their relation laissez faire, one conclusion is apparent. Both theories presuppose a strong political authority that is responsible for the public well-being, rather than a limited government that surrenders public interests to private interests. They advocate a limited government as it relates to individual economic activity, but they were by no means in favor of dismantling the central political authority. They understood that the government needed to supply a legal and institutional framework for economic competition. In this sense, their arguments in favor of laissez faire were presented as not only a case for limiting the role of government, but an equally powerful case in favor of a responsible government.

Nevertheless, the Physiocrats and Smith presented the earliest systematic justifications for a policy of laissez faire. They presented the first abstract theoretical models that joined various economic phenomena into one harmonious system. They also

posited individual self-interest as the motivating force behind that economic system. As I will discuss in my treatment of Veblen, this abstract approach to the subject of economics had a lasting impact on economic thinking. Economists in the nineteenth century adopted an increasingly abstract approach to economic phenomena which culminated in the “marginal revolution” where economists became preoccupied with sophisticated mathematical equilibriums and “marginal utility” analyses.⁴⁹ Both Veblen and Lloyd would seize upon this abstract character of economic thought as a way of undermining laissez faire.

⁴⁹ Deane argues that this “revolution,” ushered in by William Stanley Jevons, Leon Walras, and Carl Menger, led economists to neglect economic realities due to their preoccupation with abstract mathematical theories. “As economics became more professionalized and more academic, its innovating theorists tended more and more to focus on abstract theoretical problems and to abstract their models from the real world. *The Evolution of Economic Ideas*, 94-99.

CHAPTER 3 — LAISSEZ FAIRE IN THE FOUNDING PERIOD

The Creator would indeed have been a bungling artist, had he intended man for a social animal, without planting in him social dispositions.

—Thomas Jefferson to Thomas Law, June 13, 1814

My aim in this brief chapter is to analyze how the various elements of the laissez faire doctrine related to the economic thinking and policies of the Framers. I will conduct this analysis by way of focusing on the competing economic viewpoints of Thomas Jefferson and Alexander Hamilton. This is by no means a complete analysis of economic thinking during the Founding period.¹ Rather, it is an overview of how the debate between Jefferson and Hamilton reveals a complicated relationship between American political thought and the doctrine of laissez faire. Many of the terms of this debate are still prevalent in the American political discourse today. The debate over whether the government should assist economic development and regulate economic activity is as old as the republic itself.

LAISSEZ FAIRE IN THE EARLY REPUBLIC

In the very same year that Adam Smith published *The Wealth of Nations*, the United States of America declared its independence from Great Britain. Like Smith, the

¹ There are numerous historical accounts concerning the significance of political economy during the Founding period. See, for example, McDonald, *Novus Ordo Seclorum*; Sklansky, *The Soul's Economy*; McCoy, *The Elusive Republic*.

American revolutionaries sought both liberty and prosperity, but unlike Smith, they had no conception of a grand system in which liberty led inexorably to prosperity. Forrest McDonald helpfully points out that economic thought in America was something of a mystery. “The whole subject [of political economy] was a new one; indeed the whole mode of thought was a new one.”² Because of this, the American Framers held widely divergent views on the subject of economics. John Adams held the pessimistic view that “economic activity was a zero-sum game” in which wealth could not be created, but only transferred from one agent to another.³ Others, including Jefferson and Franklin, were somewhat receptive to Physiocratic thinking. Smith’s *Wealth of Nations* also created a “sensation” in which “most public men in America acquired at least a passing acquaintance with the work.”⁴ Many of the Framers, such as Hamilton, agreed that individual self-interest could be a force for prosperity and social order.⁵ The republic that Hamilton envisioned was one that thrived on commerce and industry. However, Jefferson and other “agrarian republicans” viewed self-interest as an anti-social sentiment, which threatens to corrupt the citizenry. Jefferson thought that a lasting republic would require an active, virtuous citizenry consisting mostly of farmers.

Despite the best efforts of laissez faire defenders to prove otherwise, the United States was not founded upon the principles of laissez faire. Frank Bourgin has

² McDonald, *Novus Ordo Seclorum*, 98-9.

³ *Ibid*, 99-100.

⁴ *Ibid*, 128.

⁵ Albert Hirschman argues that Hamilton follows Hume in his belief that self-interest is a “countervailing passion,” which supplants more destructive passions such as love of pleasure. See *The Passions and the Interest*, 26-31.

demonstrated that the Framers were attempting to create a more affirmative state than the one established in the Articles of Confederation.⁶ There would be no full-throated defenses of laissez faire in the United States until the late nineteenth century. However, it is possible to identify a number of ideas presented during the Founding period that would become elements in laissez faire thinking in the United States. In his exhaustive treatment of laissez faire in American thought, Sydney Fine identifies three features of early American thinking that supported a “hostility to government.”⁷ One of these features is “the doctrine of natural rights” in which the individual is possessed of inalienable rights that the government cannot abridge.⁸ This places a limit on the legitimate use of government power and even casts government in a “negative” light where its main task is to protect these rights. The second feature of early American thinking that reinforced this hostility to government was “the faith of Americans in the self-sufficiency of the individual.”⁹ Their belief in self-sufficiency was in part due to “unusually favorable economic conditions” that created more opportunities for individual initiative than in Europe.¹⁰ Americans witnessed an economy where individual initiative was rewarded with prosperity, and this contributed to the belief that individuals could support themselves without help from the government. Finally, the “teachings of classical political economy” supported the idea of a “negative state” charged with protecting

⁶ Bourgin, *The Great Challenge: The Myth of Laissez-Faire in the Early Republic*.

⁷ Fine, *Laissez Faire and the General Welfare State*, 3.

⁸ *Ibid.*, 3-4.

⁹ *Ibid.*, 5.

¹⁰ *Ibid.*

property rights but with little to no involvement in economic matters.¹¹ At the time of the Founding, classical political economy did not exert as strong an influence as the doctrine of natural rights or the belief in individual self-sufficiency. Nevertheless, Hamilton, Madison, Jefferson, and Franklin were all familiar with the writings of Adam Smith and the Physiocrats. None of these thinkers fully adopted the laissez faire prescriptions of the Physiocrats and Smith; however, they all incorporated elements of classical economic thinking into their visions for the new American Republic. To illustrate how the Framers selectively incorporated some of the disparate elements of laissez faire into their thinking, I will compare the competing economic visions of Jefferson and Hamilton.

THOMAS JEFFERSON'S AGRARIAN REPUBLIC

Thomas Jefferson serves as a fount of wisdom for those who argue that the United States embodies a laissez faire vision of the state. Indeed, there are four identifiable elements in Jefferson's thinking that allegedly lend support to a laissez faire policy: a belief that natural processes should be accommodated; a defense of private property; a belief in the self-sufficient individual, especially the yeoman farmer; and an opposition to "energetic government." I will discuss these four elements below, but I would first like to emphasize that Jefferson was first and foremost an "agrarian republican" with practical goals. His support of property rights, individual initiative, and limited government were all in service to his goal of establishing a long-lasting republic. Jefferson, along with Benjamin Franklin, believed that the economy of a successful republic should be based

¹¹ *Ibid.*, 5-9.

on agriculture and an open exchange of agricultural goods.¹² For this reason they were both amenable to the teachings of Physiocracy, especially its focus on agriculture as the sole productive force in the economy. This “romantic attachment to the rural life” was a widespread sentiment in America, and one that was sincerely held by Franklin and Jefferson even before they were aware of the Physiocratic system.¹³ Jefferson had a brief association with members of the Physiocratic school when he was in Paris in 1786, but by that time, Physiocracy had fallen out of favor, and Jefferson began to look to Adam Smith as an alternative to the muscular central government advocated by Hamilton.

Considering the similarities between Physiocratic thinking and Jefferson’s own views, it is unsurprising that he was initially drawn to the theory and its laissez faire implications. As a product of the Enlightenment, Jefferson was amenable to “natural” solutions and “optimistic” pronouncements.¹⁴ This naturalistic orientation is the first identifiable feature of Jefferson’s thinking that comports with laissez faire. Richard Hofstadter argues that these inclinations led Jefferson to a laissez faire stance: “Like other theorists of the ‘natural law’ era, Jefferson was quite ready to believe that ‘natural’ operations of the system of self-seeking private enterprise were intrinsically beneficent and should not normally be distributed by the government.”¹⁵ The Physiocratic notion of an “order of nature” was an idea that appealed to Jefferson, and the belief in such an

¹² See McCoy, “Benjamin Franklin’s Vision of a Republican Political Economy for America,” 628.

¹³ Hofstadter, “Parrington and the Jeffersonian Tradition,” 392-3.

¹⁴ See Appleby and Ball, “Introduction,” in *Jefferson: Political Writings*, xxii-xxvi.

¹⁵ Hofstadter, *The American Political Tradition*, p. 48.

order implies that economic relations should be left to private individuals without interference from the government. The prescription, therefore, is for the government to let nature take its course. As President, Jefferson did not follow this prescription.¹⁶

Jefferson also vigorously defended the right of property, which is a constant feature of laissez faire. However, he was adamantly opposed to concentration of property (especially landed property) in very few hands. His primary reasoning for this was his belief in the strong relationship between property ownership and a virtuous citizenry.¹⁷ Property gives citizens a greater stake in the community, so ideally, the community would consist of a large number of small property owners engaged in agrarian pursuits. “The small land holders,” he writes, “are the most precious part of a state.”¹⁸ In a letter to Reverend James Madison, Jefferson laments the fact that property is unequally distributed in America, and he even offers a cautious suggestion of a progressive tax on property as a “means of silently lessening the inequality of property.”¹⁹ Jefferson was torn between his aversion to drastic governmental action and his belief that property ownership should be widespread. He speculates that legislative action could “subdivide”

¹⁶ Bourgin documents the proclivity that Jefferson had for “national planning” by highlighting his role in expanding national territory with the Louisiana Purchase of 1803. Bourgin also documents Jefferson’s push for “public improvements” during his second term in office. Jefferson was particularly concerned with using the government to support “education, science and useful knowledge, and transportation.” See *The Great Challenge*, 115-156.

¹⁷ Hofstadter, *The American Political Tradition*, p. 36. “He believed deeply that rural living and rural people are the wellspring of civic virtue and individual vitality, that farmers are the best social base of a democratic republic.”

¹⁸ Jefferson, “Letter to Rev. James Madison” 107.

¹⁹ *Ibid.*

property that has been concentrated too extensively, but he cautions legislators to take “care to let their subdivisions go hand in hand with the natural affections of the human mind.”²⁰ One can see that Jefferson had decidedly laissez faire inclinations, but he was willing to deviate from them in pursuit of a republic populated by virtuous land owners. Jefferson was confronting the realization that masses of laboring poor would result from an increasing unequal distribution of property. “But it is not too soon,” he writes to Reverend Madison, “to provide by every possible means that as few as possible shall be without a little portion of land.”²¹

Jefferson’s justification of the Louisiana Purchase was based upon his belief that an agrarian republic must have ample land to support a vast citizenry of yeoman farmers.

I think our governments will remain virtuous for many centuries; as long as they are chiefly agricultural; and this will be as long as there are vacant lands in any part of America. When they get piled upon one another in large cities, they will become corrupt as in Europe.²²

When Jefferson’s Federalist opponents became aware of the Louisiana Purchase, they praised Jefferson for securing access to the Mississippi River through the purchase of New Orleans, but they chided him for purchasing such a “vast wilderness” with little apparent use.²³ However, Jefferson believed that he had provided the nation with ample farmland that would support an agrarian citizenry and secure his vision of an agrarian

²⁰ *Ibid.*

²¹ *Ibid.*

²² Jefferson, “To James Madison, December, 20, 1787,” 363.

²³ McCoy, *The Elusive Republic*, 199.

republic.²⁴ As Drew McCoy has shown, Jefferson was also familiar with Malthus's writing, and he shared Malthus's worry that population growth threatened to outstrip available resources.²⁵ The Louisiana Purchase, which nearly doubled the size of the United States territory, largely rescued the new nation from Malthus's dire prediction.

Along with his belief in an "order of nature" and his defense of private property, Jefferson had an almost boundless faith in the self-sufficient individual, especially the yeoman farmer. Jefferson carried on the republican belief that the farmer "was the central source of civic virtue."²⁶ The independent yeoman farmer is an asset to the republic because he relies only on his own abilities to earn a living. Urban laborers, by contrast, are dependent upon merchants and industrialists to earn their keep. The independent farmer is also essential to the republic because his ownership of a small amount of land gives him an interest in the greater community.²⁷ The situation of the yeoman farmer led Jefferson and many others to consider him "the best and most reliable sort of citizen."²⁸ Jefferson tended to view the central government as an obstacle to this ideal of the self-sufficient individual, and this allowed him to cast the central government in a negative light as he did in his "First Inaugural Address:"

Still one thing more, fellow citizens – a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from

²⁴ *Ibid.*, 200-201.

²⁵ *Ibid.*, 192-195.

²⁶ Hofstadter, *The Age of Reform*, 24-5.

²⁷ Wood, *The Radicalism of the American Revolution*, 178-179.

²⁸ *Ibid.*, 25.

the mouth of labor the bread it has earned.²⁹

He believed that individual initiative thrived in the absence of government interference.

A final aspect of Jefferson's thought that comports with laissez faire is his opposition to "energetic government." In a letter to Madison, he expresses his concern that the members of the Constitutional Convention had overreacted to Shays's Rebellion in Massachusetts. "I own that I am not a friend to a very energetic government. It is always oppressive."³⁰ This passage is sometimes given as evidence for Jefferson's laissez faire inclinations, but he is specifically referring to the role of the government in quashing revolutions. After all, the militaristic occupation of the colonies by British forces was one of the central "abuses and usurpations" that Jefferson pointed out in the Declaration of Independence. He was generally opposed to any government involvement in economic matters, but his opposition to energetic government was mainly about military oppression rather than economic regulation.

Jefferson's motivation for objecting to government interference was quite similar to Adam Smith's. They both thought that government interference and regulation would benefit the wealthy and powerful at the expense of the poor farmer or entrepreneur.³¹ Smith and Jefferson both equated government intervention with special treatment. Their

²⁹ Jefferson, "First Inaugural Address," 175.

³⁰ Jefferson, "To James Madison, December 20, 1787," 362.

³¹ Hofstadter adds some crucial historical context here: "Where modern liberals have looked to government interference as a means of helping the poor, Jefferson, in common with other eighteenth-century liberals, thought of it chiefly as an unfair means of helping the rich through interest-bearing debts, taxation, tariffs, banks, privileges, and bounties. He concluded that the only necessary remedy under republican government would be to deprive the rich of these devices and restore freedom and equality through 'natural' economic forces." *The American Political Tradition*, 50.

laissez faire inclinations were based upon a desire to create fair opportunities for small entrepreneurs. In this sense, Jefferson's laissez faire orientation marched hand in hand with his vision of an agrarian republic because limited government was on the side of the yeoman farmer. Sumner would make a similar argument almost a century later, but he replaced the image of the yeoman farmer with that of the "forgotten man" who was the victim of overzealous government interference.

Jefferson evaluated Hamilton's plan for government assistance and protection of industry in much the same way that Smith evaluated British mercantilism. He thought protectionist measures and a national bank would favor industry at the expense of agriculture. Jefferson looked at Hamilton's prescriptions for government assistance to industry and saw an emerging system for helping the wealthy, urban industrialist by placing the poor, rural farmer at his mercy. Hamilton's idea of an active federal government would seem to be the antithesis to Jefferson's laissez faire vision of government, but just as Jefferson did not totally embrace laissez faire, Hamilton did not totally reject it.

ALEXANDER HAMILTON'S COMMERCIAL REPUBLIC

Alexander Hamilton is unique among the Framers because he is the only one to make an original and significant contribution to the emerging science of political economy. Furthermore, his insistence on a strong central government that is responsible for protecting domestic industry would seem to place him in opposition to both Jefferson and Smith. Nevertheless, it would be a mistake to portray Hamilton as an unqualified

opponent of laissez faire. Taken as a whole, he is in favor of the type of “energetic government” opposed by Jefferson and the protectionist measures opposed by Smith, but Hamilton was also a believer in private enterprise and a competitive market economy, with some qualifications. He did favor protectionism, but he also laid the intellectual and institutional groundwork for the emergence of industrial capitalism in the United States.

Hamilton was very familiar with Adam Smith’s *Wealth of Nations*, and he cites it extensively in his “Report on Manufactures.” It is clear that Hamilton considered Smith’s “system of perfect liberty” to be impractical: “Most general theories, however, admit of numerous exceptions, and there are few, if any, of the political kind, which do not blend a considerable portion of error, with the truths they inculcate.”³² Hamilton was not writing as a moral philosopher, but as a policy-maker in a newly-independent nation, and his practical concerns stood opposed to Smith’s abstract theories. He saw a world that was dramatically different from the one envisioned by Smith. Perhaps a laissez faire approach would be appropriate “if a system of perfect liberty to industry and commerce were the prevailing system among nations but the system which has been mentioned, is far from characterizing the general policy of nations. The prevalent one has been regulated by an opposite spirit.”³³ Hamilton was developing an economic system that would support the new nation through protection of domestic industries. His goal was to “establish *substantial and permanent order*” of economic production in the newly independent United States.³⁴ One of his predominant concerns in developing this system

³² Hamilton, “Report on Manufactures,” 649.

³³ *Ibid.*, 667-8.

³⁴ *Ibid.*, 695. Emphasis in the original.

was national defense, and this preoccupation is similar to that of mercantilists. But Hamilton also agreed with the Physiocrats and Adam Smith that individual liberty was a moral good that was consistent with a competitive market economy based on private enterprise.³⁵ Private enterprise and a market economy have the moral benefit of “the enlargement of the scope of human freedom and the enrichment of opportunities for human endeavor.”³⁶

Hamilton thought that the wisdom of any economic policy depends upon its usefulness to the nation as a whole. He believed that private enterprise was useful as a force that improved one’s character and increased one’s chance at happiness. A society can “cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise.”³⁷ Unlike Smith, who argued that there was a natural propensity for humans to “truck, barter, and exchange,” Hamilton believed that economic behavior was primarily habitual, and this implies that government has a role to play in shaping these habits.³⁸ He wanted to create more avenues for private enterprise than already existed in the United States. “The spirit of enterprise, useful and prolific as it is, must necessarily be contracted or expanded in proportion to the simplicity of variety of the occupations and productions, which are to be found in a Society.”³⁹ Private enterprise, according to Hamilton, was useful for habituating the citizenry to productive activity, and the habits that are formed

³⁵ McDonald, *Hamilton*, 235.

³⁶ *Ibid.*

³⁷ Hamilton, “Report on Manufactures,” 663.

³⁸ McDonald, *Novus Ordo Seclorum*, 137.

³⁹ Hamilton, “Report on Manufactures” 664.

by engaging in enterprise can be fostered by government. Thus, a government can, by encouraging manufacturing and industry, expand the “spirit of enterprise” to a much greater degree than by following a laissez faire approach.

Hamilton understood that economic activity in the United States depended upon a sound economic system that made provisions for public credit and a reliable currency. His proposal for establishing public credit and a national bank were designed to provide the necessary economic infrastructure for the newly independent United States. Hamilton recognized that a vibrant economy and a strong national defense went hand in hand. His argument for establishing public credit was based upon his belief that the government had an active role to play in both national defense and commercial relations.

To justify and preserve their confidence; to promote the increasing respectability of the American name; to answer the calls of justice; to restore landed property to its due value; to furnish new resources both to agriculture and commerce; to cement more closely the union of states; to add to security against foreign attack; to establish public order on the basis of an upright and liberal policy. These are the great and invaluable ends to be secured by a proper and adequate provision, at the present period, for the support of public credit.⁴⁰

One can see that Hamilton did not distinguish between economic and political needs, and he thought there were political as well as economic reasons for establishing credit. In order for the government to engage in active support of industry and commerce, it would have to be able to borrow money.

The manner in which Hamilton sought to establish public credit gives us further insight into his economic thinking by way of clarifying his views on contracts. He argues that public credit is maintained “by good faith, by a punctual performance of contracts. States, like individuals, who observe their engagements, are respected and trusted: while

⁴⁰ Hamilton, “Report on Public Credit,” 534.

the reverse is the fate of those, who pursue an opposite conduct.”⁴¹ When Hamilton delivered his “Report on Public Credit,” the main “public creditors” were the “states individually.”⁴² The individual states had incurred debts during the Revolutionary War, and the state of public credit depended upon their ability—or, as was frequently the case, their inability—to repay those debts. Hamilton proposed to centralize and unify the fiscal powers of the United States through “an assumption of the debts of the particular states by the union.”⁴³ This transference of public debt from the state to the federal government also came with the reassurance that the federal government would be able to reliably honor those debts.

One particularly controversial aspect of Hamilton’s plan for establishing public credit was the status of war bonds or public securities that were sold by the state governments to fund the Revolutionary War. As the financial situation of the states worsened after the War, many of the original purchasers sold those bonds to investors and speculators for considerably less than the original value. Hamilton’s plan for assumption of the state debts recommended that the present owners of those securities to be paid the full original value of those securities. Critics of this proposal raised the question of “whether a discrimination ought not to be made between original holders of public securities, and present possessors, by purchase.”⁴⁴ The charge that these critics leveled at Hamilton’s plan was one of injustice. After all, how is it just to reward

⁴¹ *Ibid.*, 532.

⁴² *Ibid.*, 542.

⁴³ *Ibid.*

⁴⁴ *Ibid.*, 537.

speculators who capitalized on destitute bondholders who had sold their securities for cents on the dollar? Hamilton countered that any discrimination against the present owners of the securities would itself be unjust. “It is inconsistent with justice, because in the first place, it is a breach of contract; in violation of the rights of the fair purchaser.”⁴⁵ He recognized that credit, in its most basic sense, is based on trust, and trust is maintained by fulfilling contracts. It may be odious to witness a wealthy speculator earn a profit by buying securities cheaply from patriotic citizens who bought those securities to assist in the war effort, but this sale is still based on a voluntary agreement. The only way to ensure good public credit is for the public creditor to fully honor all debts so that future borrowers trust that their own debts will be honored. Once again, we see that Hamilton’s justification for economic arrangements is based upon what is useful. He argues for honoring contracts because it is a necessary practice for any credit-worthy institution, not, for example, because it is consistent with the natural right of property.

Hamilton’s provision for public credit was meant to be accompanied by a national bank. The fundamental purpose of the national bank was “to provide a large, stable, but flexible national money supply for the financing of ordinary business and general economic development.”⁴⁶ The shortage of capital in the United States after the Revolutionary War had left the only three commercial banks in the country with a shortage of actual capital, which was necessary collateral for issuing loans. Hamilton observed that too many American businesses were holding their money in their own

⁴⁵ *Ibid.*, 538.

⁴⁶ McDonald, *Alexander Hamilton: A Biography*, 195.

“chests” rather than depositing that money in banks.⁴⁷ However, if people were to deposit that money into a trustworthy bank, which was supported by the United States government, the bank could then issue loans backed by those deposits. Hamilton’s belief was that a reliable bank would encourage more people to deposit their money and thus transform a great deal of the idle capital of the country into “active or productive capital.”⁴⁸ He also proposed that the United States government make an initial deposit of \$2 million to provide the capital necessary for the bank to begin issuing loans.⁴⁹ The bank thus “augment[s] . . . the active capital of the country,” and in so doing, it “generates employment” and “animates and expands labor and industry.”⁵⁰

Hamilton justified his proposed national bank on the grounds of public utility. Once again, his economic thinking is informed by his sense of what is useful to the nation. However, he also argued that the Bank should be run by group of private individuals who are pursuing private profit rather than the public good. “It shall be run under a *private* not a *public* Direction, under the guidance of *individual interest* not of *public policy*.”⁵¹ His justification for this is his belief that government officials will be tempted to raid the coffers of the bank in order to provide revenue for the government. He believes the bank will ensure greater confidence under private direction because those private directors will protect “the prosperity of the institution” out of “their own self-

⁴⁷ Hamilton, “Report on a National Bank,” 576.

⁴⁸ *Ibid.*, 576.

⁴⁹ McDonald, *Hamilton: A Biography*, 193-4.

⁵⁰ Hamilton, “Report on a National Bank,” 587.

⁵¹ *Ibid.*, 601. Emphasis in the original.

interest.”⁵² The bank, according to Hamilton, is best able to achieve its public purpose if it relies upon the self-interest of bankers to maintain the profitability of the bank. “Public utility is more truly the object of public Banks, than private profit.”⁵³

Hamilton was not willing to leave industrial development in the United States “under the direction of private interests.”⁵⁴ He thought that “the independence and security” of the United States depended upon the “prosperity of manufactures”—a necessary condition for supplying a nation with “*Subsistence habitation clothing and defense*.”⁵⁵ The greatest obstacle facing the underdeveloped United States manufactures was the protectionist measures implemented by other nations to support their own manufactures.

Hence the undertakers of a new manufacture have to contend not only with the natural disadvantages of a new undertaking, but with the gratuities and remuneration which other governments bestow. To be enabled to contend with success, it is evident, that the interference and aid of their own government are indispensable.⁵⁶

Hamilton was completely in favor of using private interest in the service of the public good, but the state of manufactures in the United States was such that public assistance was needed to put American manufactures on an even footing. It should also be noted that Hamilton’s stance on protectionism was not a rejection of competition as such, but an acknowledgement that other nations were engaged in protectionism as well. It would

⁵² *Ibid.*, 602.

⁵³ *Ibid.*, 595.

⁵⁴ Hamilton, “Report on the Subject of Manufactures,” 672.

⁵⁵ *Ibid.*, 691-2.

⁵⁶ *Ibid.*, 672.

be folly to let American industry operate at a competitive disadvantage all in the name of “general theories” which recommend that governments “leave industry to itself.”⁵⁷

Although he is sometimes portrayed as an advocate of autarky, Hamilton thought that protectionism should be a temporary expedient to assist new enterprises, especially those that were essential for national defense.⁵⁸ His fundamental concern in supporting American manufactures was to establish an economic system that would support an independent and prosperous nation. “It is the interest of a community with a view to eventual and permanent oeconomy, to encourage the growth of manufactures.”⁵⁹ Hamilton’s economic system was meant to satisfy the interest of the community by providing public credit, a sound currency, and protection for industry. His entire system was based on a mixture of private motivations and the public interests, and his standard for justifying the various components of that system was public utility. In his efforts to construct a useful economic system, Hamilton provided the rationale for a positive central government that would promote business interests. In this sense, he was essential to the development of industrial capitalism in the United States.

CONCLUSION

The Framers were only partially influenced by the laissez faire political economy of the Physiocrats and Smith. I have shown that both Jefferson and Hamilton employed

⁵⁷ *Ibid.*, 648-9.

⁵⁸ Harlen, “A Reappraisal of Classical Economic Nationalism,” 741.

⁵⁹ Hamilton, “Report on the Subject of Manufactures,” 688.

some features of laissez faire thinking, but neither fully embraced a free market economy organized only by the natural play of self-interested individuals. Both demonstrated concern for the larger community, and neither held an atomistic view of society. Indeed, both thinkers were actively involved in shaping policies that were directly opposed to laissez faire, such as Jefferson's Louisiana Purchase and Hamilton's protection of industry.

I have attempted to show that many of the particular components of laissez faire thinking were present in the thinking of Jefferson and Hamilton. Jefferson's opposition to "energetic government" and Hamilton's belief that private enterprise and self-interest played a crucial role in economic prosperity are both consistent with laissez faire. However, each thinker also had deep-seated convictions that led him to reject certain key features of the laissez faire doctrine. Jefferson could never accept the argument that self-interest should be encouraged in support of the public good.⁶⁰ For his part, Hamilton was never willing to surrender the public good to the free play of individual interests, but was quite ready to take advantage of self-interest whenever it was useful, as he saw it, for the nation as a whole. If one were to selectively choose the particular aspects of Jefferson's and Hamilton's thinking that conform to laissez faire, it would surely be possible to identify most of the key components. However, such an attempt would be misguided because it would overlook the fact that both thinkers had firm convictions that led them to oppose a strict policy of laissez faire.

⁶⁰ "Self-love, therefore, is no part of morality. Indeed it is exactly its counterpart. It is the sole antagonist of virtue, leading us constantly by our propensities to self-gratification in violation of our moral duties to others. . . . Take a man from his selfish propensities and he can have nothing to seduce him from the practice of virtue." Jefferson, "To Thomas Law, June 13, 1814," 286-287.

CHAPTER 4 — LAISSEZ FAIRE AND INDUSTRIAL CAPITALISM IN NINETEENTH-CENTURY AMERICA

“And, I say now, I happen to have a superfluity in my pocket, and I’ll just—”

“—Act the part of brother to that unfortunate man?”

“Let the unfortunate man be his own brother. What are you dragging him in for all the time? One would think you didn’t care to register any transfers, or dispose of any stock—mind running on something else. I say I will invest.”

—Herman Melville, *The Confidence Man*

THE EMERGENCE OF LAISSEZ FAIRE IN THE NINETEENTH CENTURY

At the beginning of the 19th century, the federal government was quite active in promoting and regulating economic activity.¹ The federal government built roads, surveyed land, “improved rivers and harbors,” and supported the United States shipping industry through a combination of tariffs and subsidies.² Many of these efforts, however, were scaled back under the Democratic supervision of Jackson and his followers. Between 1820 and 1860, the Democrats reduced or eliminated tariffs and subsidies, curtailed “internal improvements” by allowing the states to assume control of “the National Road,” and famously allowed the Second Bank of the United States to perish.³ All of this signaled a retreat by the federal government from the Hamiltonian vision of an

¹ Fine, *Laissez Faire and the General Welfare State*, 12-14.

² *Ibid.*, 19.

³ *Ibid.*, 20.

active state used in support of essential industry. There was also a growing chorus of businessmen who emerged in the two decades before the Civil war who advocated “restricting the functions of the state and were beginning to challenge state actions which, in their view, interfered with property rights.”⁴ Over the first half of the nineteenth century, the federal government largely scaled back its support of enterprise and its program of national improvements.

The period between the Civil War and the beginning of the twentieth century witnessed the most intense and sustained defense of laissez faire in American history. Laissez faire thinking in America before the Civil War was a collage of scattered influences ranging from political economy to “cultural” beliefs in the self-sufficient individual and “the accepted principle of American liberty.”⁵ But in the decades after the Civil War, a group of proponents reinterpreted the laissez faire thinking of the classical economists and adapted it to suit the modern industrial economy that was emerging in the United States after the Civil War. Industrialization was accompanied by massive concentrations of wealth, scores of urban laboring poor, and a fear that large combinations in business were placing small independent entrepreneurs at a competitive disadvantage. One observer states “never before had wealth been so flagrant, or poverty so widespread and so unavoidably appalling.”⁶

⁴ *Ibid.*, 23.

⁵ Bateman, “Bringing in the State? The Life and Times of Laissez-Faire in the Nineteenth-Century United States,” 181; Michael Les Benedict, “Laissez-Faire and Liberty: A Re-evaluation of the Meaning and Origin of Laissez-Faire Constitutionalism, 298.

⁶ Lears, *Rebirth of a Nation*, 71.

Critics of this new industrialized economy called for legislation to improve the conditions of labor, and to regulate the anti-competitive practices of monopolistic firms. It was largely due to this criticism that laissez faire thinking in the United States became a prominent and coherent defense of limited government.⁷ Laissez faire thinkers in the nineteenth century were facing an entirely different problem than that faced by the Physiocrats and Smith. Laissez faire thinkers in the eighteenth century were combatting mercantilism. Laissez faire was an argument against using government to favor powerful merchants. Nineteenth century proponents of laissez faire were combatting reformers who exhibited an increasing concern for the social welfare of the laboring poor. This growing reform movement presented a new problem as the image of the “worthy, working poor” began to gain traction in the consciousness of the middle class.⁸ Responding to demands that the government take a role in assisting the less fortunate, laissez faire thinkers sought to demonstrate that poverty was yet another component of the “natural order.” This new generation of laissez faire adherents continued to posit a “natural order,” but they altered its character from the largely agrarian order described by classical economists to a modern industrial order.

Laissez faire thinking really rose to prominence in the United States based upon the thinking of Herbert Spencer and fellow Social Darwinist William Graham Sumner. These thinkers reconceptualized the “natural order” of the classical economists by basing it on modern scientific theories and applying it to an industrial economy. Social

⁷ Spencer was, of course British, and much of his writing is directed at the British Parliament, but because his writing was so influential in the United States, I include him in the tradition of American Political Thought.

⁸ Lears, *Rebirth of a Nation*, 71.

Darwinists argued that the “natural order” was akin to a biological struggle for survival between individuals competing for scarce resources. The “natural order” they described was a combination of Malthus’s law of population and the findings of evolutionary biology.⁹ To put it simply, scarce resources lead to a competition for survival in which the fittest individuals survive and reproduce. Social Darwinists argue that this struggle gives individuals an incentive to employ their talents productively, and any attempt to abrogate this harsh reality is an obstacle to progress. This biological view of the “natural order” also allowed them to portray the apparent problems posed by industrialization as necessary parts of the “natural order.” Social Darwinists were able to unite, under one system, wealth concentration, poverty, self-interest, and harsh competition.

It is fair to say that the early proponents of laissez faire were concerned primarily with the creation of wealth by increasing domestic consumption. The principle of free competition was a means to this end. Herbert Spencer and William Graham Sumner, along with the industrialist Andrew Carnegie, saw the competitive market economy as a hallmark of modern civilization, a motor of progress, and a standard for assessing the moral dimensions of wealth distribution. Adam Smith’s famous “system of perfect liberty” was no mere practical expedient; it was a singular achievement in the annals of human history.

The principle of free competition provided two social forces that Social Darwinists praised. On the one hand, they followed classical political economists in affirming the competitive market as an efficient and effective force for maximizing economic output. On the other hand, they came to see the competitive market economy as

⁹ *Ibid.*, 87.

an essential mechanism of social selection. The free market, they argued, would effectively evaluate the worth of each individual by rewarding industriousness and punishing idleness. The competitive market presents individuals with harsh realities, and just like animals in a natural environment, these individuals can adapt to these hardships and thrive or fail to adapt and perish. Social Darwinists depicted progress as a process of continual adaptation to an increasingly competitive market economy. In this updated vision of free competition, Social Darwinists “supplied a sense of growth and collective improvement that progress-minded Americans had missed in Smith and his followers.”¹⁰

The various arguments in support of laissez faire have justified individual property rights, and the distribution of property and wealth, as a moral issue. The real moral value at the heart of property distribution is one of fairness. For the Physiocrats, Smith, and Jefferson, the government was not justified in curtailing property rights because the owners of the property had, to some degree, deserved it based upon the talents applied to acquire that capital. In other words, the moral justification for property rights, and thus accumulation of wealth, was based upon talents and abilities applied in the past. This is a meritocratic logic, and it tragically overlooks the vast importance of inherited wealth in these highly agricultural societies.¹¹ Nevertheless, the early adherents to laissez faire tended to accept the unequal distribution of wealth as a natural byproduct of a competitive economy.

¹⁰ Wiebe, *The Search for Order: 1877-1920*, 136.

¹¹ Jefferson’s own economic position nicely illustrates the cognitive dissonance here. A man who inherited some 600 slaves audaciously called for “a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned.” See “First Inaugural Address.”

In the remainder of this chapter, I will examine three important advocates of laissez faire who sought to justify a competitive industrial economy in the late nineteenth century. Herbert Spencer, William Graham Sumner, and Andrew Carnegie all staunchly defended a laissez faire theory of the government, although Carnegie's own industry benefited from government assistance. The modern version of laissez faire presented by these thinkers is the version that critics like Lloyd, Veblen, and Croly had in mind when they presented their own analyses of laissez faire.

HERBERT SPENCER ON LAISSEZ FAIRE AND SOCIAL PROGRESS

Herbert Spencer extended the meritocratic logic of earlier laissez faire proponents by arguing that concentrated wealth was a force for future progress, rather than simply the just reward for one's talents and abilities. Spencer argued that the wealthy were indeed "the fittest" members of society, and he believed progress depended upon their ability to employ their wealth as they saw fit.

Spencer was one of the most original and influential defenders of laissez faire in American thought. He defended his vision of extremely limited government, not by building upon classical economic theory, but by constructing a comprehensive system that incorporated physics, biology, and sociology. Although he did not base his system on the economic doctrines of the Physiocrats and Smith, he did share their belief in a harmonious "order of nature." Spencer expanded this purported order to a "comprehensive world-view, uniting under one generalization everything in nature from

protozoa to politics.”¹² My purpose here is not to analyze Spencer’s grand evolutionary theory, but to show how such a theory relates to his defense of laissez faire. Spencer posited a natural process of evolution that applied to physical and biological phenomena. The general thrust of this evolution was a progressive transformation of things from a “homogeneous” chaos to “heterogeneous” order.¹³ The “natural order” of the Physiocrats and Smith was beneficent, but for Spencer the order itself was progressive and evolving as well.¹⁴ As things grow continuously heterogeneous, the social order will become more orderly and coherent.

The belief in an underlying “order of nature,” specifically one that exercises influence on human society, is a hallmark of laissez faire thinking. This is a logical and persuasive starting point for a laissez faire stance. If the government is to abstain from establishing order (economic or otherwise) in a positive manner, it is reassuring to think that a natural process of ordering will take its place. This is precisely why Spencer advocates laissez faire.

No; they know, or they ought to know, that the laws of society are of such a character, that natural evils will rectify themselves; that there is in society, as in

¹² Hofstadter, *Social Darwinism in American Thought*, 31.

¹³ *Ibid.*, 37. In Hofstadter’s words, “This progress from homogeneity to heterogeneity . . . is the principle at work in everything man can know.”

¹⁴ As a point of clarification, I must emphasize that Spencer is not “progressive” in a political sense. His progressivism is entirely scientific and biological. In political terms, Spencer has a conservative mindset, which cautions against social engineering on the part of legislators. He defends laissez faire, primarily, as a way of letting the natural progress of society advance without interference. Spencer’s notion of progress suggests a conservative stance toward social issues. This complicated relationship is nicely summarized by Hofstadter: “We may wonder whether, in the entire history of thought, there was ever a conservatism so utterly progressive as this.” *Ibid.*, 8.

every part of creation, that beautiful self-adjusting principle, which will keep all its elements in equilibrium; and moreover, that as the interference of man in external nature often destroys the just balance, and produces greater evils than those to be remedied, so the attempt to regulate all the actions of a community by legislation will entail little else but misery and confusion.¹⁵

One will notice that Spencer's "self-adjusting principle" is strikingly similar to Smith's "invisible hand." The crucial difference is that Spencer extrapolates beyond the economic sphere to the social and political as well. His "natural order," an abstract and self-regulating process that benefits humankind, is itself a justification of laissez faire. But the characteristics of that order establish Spencer as one of the staunchest and most uncompromising defenders of limited government.

Spencer describes society in terms of evolutionary biology, and he contrasts the accuracy of evolutionary science with the "superstitions" that legislators advance.¹⁶ Spencer believes that the fundamental fact of human society is the same as the fundamental fact in nature—organisms must struggle against each other for survival. He bolstered this evolutionary view by incorporating Parson Malthus's dire view of a population that was rapidly outpacing its ability to provide for itself.¹⁷ Spencer accepted Malthus's depiction of society, but he rejected his pessimistic conclusion that the result

¹⁵ Spencer, *The Proper Sphere of Government*, 6.

¹⁶ Although he sided with Lamarck over Darwin his entire life, he frequently appealed to "the arguments of Mr. Darwin" to show the increasing acceptance of evolutionary theory. See Spencer, *The Man versus The State*, 131, 141. Hofstadter argues that Lamarck's "theory of inheritance of acquired characteristics" was more progressive than Darwin's theory of random genetic variation. Spencer favored Lamarck's version of "evolutionary optimism . . . even when scientific opinion turned overwhelmingly against it." *Social Darwinism in American Thought*, 39.

¹⁷ *Ibid.*

would be crisis and upheaval. Spencer believed that such hardship was conducive to progress:

The demands upon his powers by everyday wants—by the endeavor to overcome difficulty or avoid dangers, and by the desire to secure a comfortable provision for the decline of life, are so many natural and salutary incentives to the exercise of those powers. Imperious necessity is the grand stimulus to man’s physical and mental endowments, and without it he would sink into a state of hopeless torpidity.”¹⁸

For Spencer, Malthus’s prediction of resource scarcity relative to the population was a progressive force because it allowed individuals to exercise their industriousness.

However, the real progressive force behind “imperious necessity” for Spencer was the belief that some individuals are better equipped to survive than others.

Spencer speaks of the conditions of humans in society in strikingly cold biological terms. “Placed in competition with members of its own species and in antagonism with members of other species, it dwindles and gets killed off, or thrives and propagates, according as it is ill-endowed or well-endowed.”¹⁹ Society naturally selects “superior units” for survival while not allowing the “innately unworthy” to “multiply.”²⁰ He does not specify the exact mechanism by which this selection should take place, but his language suggests that the proper course of action is to let these “innately unworthy” individuals fend for themselves. This is not cruelty, but a sober understanding of how natural processes work. Spencer coined the phrase “survival of the fittest” to describe this

¹⁸ Spencer, *The Proper Sphere of Government*, 49.

¹⁹ Spencer, *The Man versus The State*, 127.

²⁰ *Ibid.*, 128

“beneficent working” of the natural laws of society.²¹ This notion of “survival of the fittest” privileges the natural laws of society over the artificial reforms advanced by legislators. By attempting to help those who cannot provide for themselves, legislators “are doing all they can to further survival of the unfittest.”²²

Spencer argued that “survival of the fittest” distributes rewards and punishment according to individual merit. “Each adult gets benefit in proportion to merit—reward in proportion to desert: merit and desert in each case being understood as ability to fulfill the requirements of life—to get food, to secure shelter, to escape enemies.”²³ This system of meritocratic rewards and punishments is the force of progress by which human society advances. Spencer’s advocacy of the “survival of the fittest” and the laissez faire policies that conform to it is based upon both his naturalistic and meritocratic arguments. On one hand, “survival of the fittest” is a natural process—an extension of the natural struggle for existence to human society. Given the increasing population and the scarcity of resources, the “struggle for existence” is unavoidable.²⁴ On the other hand, the “survival of the fittest” rewards virtue and punishes vice. “Survival of the fittest” spurs on human progress by allocating resources on the basis of merit. Instead of legislative reform to assist the poor, Spencer calls for survival of the fittest, a natural process in which individuals get the degree of success they deserve.

²¹ *Ibid.*, 131.

²² *Ibid.*

²³ *Ibid.*, 127.

²⁴ *Ibid.*, 134.

Spencer's praise of the "survival of the fittest" is very individualistic in its focus. He shares the "ethical individualism" of the Physiocrats, which emphasized the responsibility each individual has to provide for himself or herself. Spencer writes of the "undeniable truth . . . that there are no phenomena which a society presents but what have their origins in the phenomena of individual human life."²⁵ He dismisses any claims made by society against the individual as "superstition" due to a failure to recognize the proper relationship between the individual and society.²⁶ Spencer thinks any legitimate scientific approach to understanding human relations must start by focusing on the individual as a biological organism existing alongside other individuals. Unlike classical political economists, Spencer does not offer a psychological description of human nature. Adam Smith identified the human proclivity to "truck barter and exchange" as a natural force that encouraged competition. Spencer's version of human nature is based upon biological necessities, which he sees as constant across time and place. Natural rights, for example, are based upon the recognition of these necessities. "The alleged creating of rights was nothing else than giving formal sanction and better definitions to those assertions of claims and recognitions of claims which *naturally originate* from the individual desires of men who have to live in the presence of others."²⁷ The competitive economic order, for Spencer, conforms to biological realities.

Spencer's theory of society is quite atomistic, but he does acknowledge social realities that require cooperation among individuals. He identifies an "ethical character"

²⁵ *Ibid*, 138.

²⁶ *Ibid.*, 140-4.

²⁷ *Ibid.*, 154. Emphasis added.

of society of coexisting individuals where “mutual limitation is necessitated.”²⁸ Spencer’s theory of society is not one in which the individual stands alone against the forces of nature; rather, individuals must coexist and cooperate. In his view of social progress, primitive societies rely upon coercion to force individuals to cooperate, but as societies advance, there will be less need for coercive governments. He gives the example of “industrial organization” as an example of this social progress because such organization relies upon “voluntary co-operation” among individuals.²⁹ The essence of this voluntary cooperation under an industrialized society is contractual. Breaking from the labor theory of value advanced by earlier laissez faire proponents, Spencer argues that the fulfillment of contracts is the true productive force in the economy.³⁰ A government cannot abridge an individual’s right to freely enter a contract without violating “rights to free action,” which are essential for voluntary cooperation.³¹ One rather severe implication of Spencer’s focus on the inviolability of contracts is that contracts must be enforced even if it seriously disadvantages one party to the contract. In this case, Spencer’s notion of “survival of the fittest” comes into play by rewarding those who enter contracts wisely and punishing those who are apparently less discerning.³²

²⁸ *Ibid.*, 158. Fine argues that this “law of equal freedom” is implied by Spencer’s belief in the “survival of the fittest.” If there is to be a practice of individuals freely pursuing their desires and interests, there must also be a mutual limit to individual action. See *Laissez Faire and the General Welfare State*, 34.

²⁹ Spencer, *The Man versus The State*, 161.

³⁰ *Ibid.*, 161-3.

³¹ *Ibid.*, 163.

³² This debate between free labor and freedom of contract was very important in American thought between 1860 and 1900. Lincoln and the Republican Party famously

My discussion of Spencer's thought up to this point has emphasized that his vision of human progress is one in which individuals are free to act in a competitive environment where they are punished or rewarded based upon merit. Spencer's claim is that this will result in "survival of the fittest," but he is equally concerned with justifying the bleak situation of the "unfittest." Spencer was reacting against a growing welfare movement in Great Britain, in which assistance to the poor was justified, in his thinking, by the belief that the poor were victims of a cruel society rather than "good-for-nothings, who in some way live off the good-for-somethings."³³ Once again, Spencer believes that the degree of success that one attains in the struggle for existence is based upon individual merit. Of the "numerous cases of distress and destitution," he writes, "in nine cases out of ten, such miseries result from the transgressions of the individual or his parents."³⁴ Spencer argues that the Poor Law interferes with the allocation of resources based upon merit replacing "survival of the fittest" with a paternalistic scheme that provides "subsistence without labor."³⁵ This figure of the "good-for-nothing" allowed Spencer to defend laissez faire against a growing chorus of legislators calling for

supported a free labor position that identified labor as the source of value. The implication here is that labor is entitled to a just share of the profits from enterprise. A major upshot of this free labor ideology is that slavery is unjust due to the fact that slaves are completely deprived of the value of their labor. Spencer represents the opposing view of freedom of contract. Under this view, the value of labor is based on a prior agreement between the employer and employee. Spencer and others argued that this was a voluntary arrangement in which the laborers forfeited the right to claim any share of profits beyond the agreed upon wage. See Cohen, *The Reconstruction of American Liberalism: 1865-1914*, 29, 34-38.

³³ Spencer, *The Man versus The State*, 80.

³⁴ Spencer, *The Proper Sphere of Government*, 17.

³⁵ *Ibid.*

assistance to the poor. One of Spencer's objections to welfare assistance was his belief that the natural workings of society should be left alone to produce "survival of the fittest," but one should not underestimate the influence of his argument that the poor are victims of their own "improvidence."³⁶

All of these features of Spencer's thought—the abstract and comprehensive scheme of grand evolutionary progress, the notion of a "natural order" with natural laws, the struggle for existence and "survival of the fittest," the individualism, and the belief that poverty is natural and necessary—were used to support his laissez faire vision of the state. Spencer believed that the state should engage in no positive actions that would interfere with the "natural order" of society. Instead, the sole function of the government is "simply to defend the natural rights of man—to protect persons and property—to prevent aggressions of the powerful upon the weak—in a word, to administer justice."³⁷ Spencer argued that justice is primarily about enforcing property rights and protecting individuals from aggression. By limiting itself to administering justice, the state places

³⁶ Spencer, *The Man versus The State*, 90. Contemporary defenders of laissez faire share Spencer's concern that the government will unfairly take resources from the industrious and prudent individuals and give those resources to individuals who are lazy or unwise. One will recall Rick Santelli's famous "rant" on the floor of the Chicago Board of Trade that marked the beginning of the Tea Party movement. Santelli's primary complaint was that the government would help distressed homeowners at the expense of the hard-working taxpayers. Specifically, "He lambasted the Obama administration . . . for 'promoting bad behavior' by buying up bad mortgages, which he said was merely rewarding 'losers.'" This echoes Spencer's own belief that the government should allow individuals to succeed or fail based upon their own decisions and actions. See Ed Pilkington, "US Elections: The Tea Party Phenomenon: Legendary Anger, or Midterm Bickering Over Taxes?," *The Guardian*, October 9, 2010.

³⁷ Spencer, *The Proper Sphere of Gov't*, 7.

itself into “harmony with the original wants of society.”³⁸ He argued that governments have historically overstepped their limited duties because they were ignorant of the natural laws of society. Spencer was attempting to prove that government intervention was contrary to nature itself.

Spencer’s writing betrays the urgency of a man who perceives himself to be swimming against the current. He lamented the increasing popularity of reform legislation evidenced by Poor Laws, public health regulations, “communistic theories,” and “the numerous socialistic changes made by Act of Parliament.”³⁹ Anticipating a concern of modern conservatives, he complains that these mistaken beliefs are strengthened by “press-advocacy” as journalists “speak of *laissez faire* as an exploded doctrine.”⁴⁰ Spencer believed that legislators had moved far beyond the original and natural function of government to a more expansive version of justice that ignored the natural laws of society. He notes that even “Liberalism” has moved beyond its original position as advocating “greater freedom from restraint, especially in political institutions,” in favor of “positive coercion” that serves “class interest.”⁴¹

As mentioned above, Spencer believed that government interference with the struggle for existence only inhibits the natural progress that would result from “survival of the fittest.” Besides for this, government assistance to the “unfittest” upsets the natural distribution of rewards and punishments on the basis of merit. Spencer believed that

³⁸ *Ibid*, 8.

³⁹ *Ibid.*, 46-8; *The Man versus The State*, 80, 93, and 95.

⁴⁰ *Ibid.*, 94.

⁴¹ *Ibid.*, 77-8.

legislators violate the “natural order” of society because they overestimate the ability of the government to change the natural workings of society. The Physiocrats and Smith deployed a very similar critique, although their idea of a “natural order” was not as expansive and deterministic as Spencer’s. But Spencer argues that legislators also underestimate the dangers of expanded governmental authority. “Every extension of the regulative policy involves an addition of regulative agents—a further growth of officialdom and an increasing power of the organization formed of officials.”⁴² Spencer believed that this “army of civil officials” will become increasingly coercive and consolidate more power until “the coming slavery” of “State-Socialism” results.⁴³ The ultimate result of this is that society takes priority over the individual, and government administration takes over private enterprise. In short, the individual “becomes a slave to society.”⁴⁴

Spencer clearly believed that “the coming slavery” of socialism has a cumulative effect—once programs and offices are created, they begin to furnish their own defense.⁴⁵ For this reason, he opposes any positive actions on the part of the government, especially those actions that seek to interfere with economic relations. He opposes a national plan for public education because “the salaried state-teacher” would impose uniformity of opinion and close off the “promise of future perfection” that is afforded by “the principle

⁴² *Ibid.*, 90.

⁴³ *Ibid.*, 95, 104

⁴⁴ *Ibid.*, 96.

⁴⁵ Spencer notices an uncontrollable growth “in the bureaucracies of the Continent” once they reach a certain size. *Ibid.*, 91.

of honourable competition.”⁴⁶ Similarly, public health programs would create a “monopoly” controlled by a bureaucracy of medical officials.⁴⁷ He argues against public works on the grounds that public ownership of transportation infrastructure would provide “good precedents for extending [the State’s] function to retail distribution.”⁴⁸ This is further evidence of how different Spencer’s vision of laissez faire is from the economic system of Adam Smith. Smith thought that public infrastructure was essential for his “system of perfect liberty,” but Spencer tended to view any positive action on the part of the government as a potential violation of individual liberty. All of these reasons led Spencer to a very rigid and dogmatic vision of laissez faire in which he saw any positive actions on the part of the government as step toward socialism.

In conclusion, Spencer’s argument for laissez faire rests upon three interrelated criticisms of positive government. An interventionist government is unnatural, regressive, and despotic. An active government is unnatural because it interferes with the natural workings of society. Overactive government results from lawmakers who do not understand the “natural order” of society. This line of thought is consistent with the Physiocrats and Smith, but Spencer goes further in his defense of laissez faire. He also considers an active government to be regressive because it softens the “struggle for survival.” Spencer argues that this competitive struggle between individuals serves as a selection mechanism by differentiating the “fittest” from the “unfittest.” Progress, for Spencer, results from increasing the proportion of industrious individuals in relation to

⁴⁶ Spencer, *The Proper Sphere of Government*, 36-7.

⁴⁷ *Ibid.*, 44-6.

⁴⁸ Spencer, *The Man versus The State*, 100.

individuals who are less industrious. Finally an active government becomes increasingly despotic by assuming more and more duties, employing more officials, and collecting more revenue. This criticism anticipates the argument presented by twentieth-century laissez faire advocates, specifically F. A. Hayek's *Road to Serfdom*. Spencer considered limited government to be the only alternative to centralized state-socialism. Laissez faire solved all of these issues for Spencer. Under a severely limited government, society will be allowed to operate according to a natural competitive order that ensures progress. At the same time, limited government allows individuals to act freely in their own self-interest and avoids the temptation to assign more and more responsibility to the state. Spencer clearly had these concerns in mind when he wrote a series of essays in 1884 to denounce the growing reform movement in the United Kingdom. He collected these essays into a book with a title that neatly summarized his view of society—*The Man versus The State*.

WILLIAM GRAHAM SUMNER: LAISSEZ FAIRE AND THE SOCIAL ORDER

William Graham Sumner's defense of laissez faire is more nuanced and less rigid than Spencer's. Originally an admirer of Spencer, he came to reject Spencer's totalizing system and focused instead on sociology. Sumner was attempting to formulate a "science of society" by discovering the natural laws underlying social reality. His writing is more academic and less rhetorical than Spencer's. He dispenses with Spencer's appeal to natural rights and other "metaphysical" beliefs in favor of what he considers to be a more scientific approach based upon observable social laws. Sumner's work was not nearly as popular or influential as Spencer's, especially among businessmen, many of whom

distrusted his academic approach and “independence.”⁴⁹ He broke with conservatives by acknowledging the legitimacy of labor organization and by opposing the Spanish American War. However, his sociology presented a vigorous defense of laissez faire.

The Social Order and Natural Laws

Much like Spencer, Sumner believed in a “natural order” that was discoverable by scientific investigation. Also like Spencer, he believed that government officials and reformers rejected laissez faire because of their failure to recognize this natural order. Sumner argues that the “social thinker” mistakenly believes “there are no laws to the social order, no science of society; no limits, in fact, to the possibilities of manipulation by ‘the State.’”⁵⁰ Such “manipulation” by the state is a direct result of ignorance concerning the complex workings of society. Sumner’s “science of society” is an attempt to clarify the workings of the social order so that lawmakers and reformers would realize the wisdom of laissez faire.

Sumner’s theory of society presupposes law-like generalities that can be applied to human society. He writes, “The social order is fixed by laws of nature precisely analogous to those of the physical order. The most a man can do is by ignorance and self-deceit to mar the operation of social laws.”⁵¹ As we saw in the Physiocrats, Smith, and

⁴⁹ Hofstadter, *Social Darwinism in American Thought*, 63-4. Hofstadter insists that Sumner “was not a business hireling” but a man of science who was committed to his principles. Critics portrayed him as an apologist for the status quo, but “he was doctrinaire because his ideas were bred in his bones.”

⁵⁰ Sumner, “Democracy and Plutocracy,” 138.

⁵¹ Sumner, “Socialism,” 172.

Spencer, Sumner's defense of laissez faire rests upon the presumption of a "natural order" that operates best when left alone. While Spencer's defense of laissez faire was largely rooted in biology and physics, "Sumner's version of laissez faire was grounded in classical political economy and sociology."⁵² Sumner actually makes clear that biology and sociology deal with separate phenomena. Both sciences deal with the human "struggle for existence," but biology deals with this struggle in terms of "competition with other forms of life;" whereas, sociology deals with aggregates of humans who "are carrying on this struggle side by side."⁵³ The social order is completely distinct from the biological and physical order giving rise to a new "social forces" that are poorly understood.⁵⁴ Sumner's sociology is an attempt to understand these social forces in a concrete way without resorting to "metaphysics" or ungrounded speculation.⁵⁵

Sumner's sociological investigations begin with a phenomenon that he considers a natural and elemental fact of human life—the "struggle for existence."⁵⁶ Sumner employed Malthus's "law of population," much like Spencer had, as a basic fact of

⁵² Fine, *Laissez Faire and the General Welfare State*, 80.

⁵³ Sumner, "Sociology," 187.

⁵⁴ *Ibid.*

⁵⁵ Sumner, "Sociology," 183. Hofstadter argues that Sumner was attempting to counteract the American adherence to the "dogmas of the Enlightenment" and "set himself the task of deflating the philosophical speculation of the eighteenth century with the science of the nineteenth." See, *Social Darwinism in American Political Thought*, 65-6.

⁵⁶ Sumner, "Sociology," 187.

human society that leads to an inevitable competition for scarce resources.⁵⁷ He also joins Spencer in drawing optimistic conclusions from Malthus's dire scenario.

The laws of population and diminishing return, in their combination, are the iron spur which has driven the race on to all which it has ever achieved, and the fact that the population ever advances . . . is the guarantee that the task of civilization will never be ended, but that the need for more energy, more intelligence, and more virtue will never cease while the race lasts.⁵⁸

As it is in Spencer's view of the "social order," scarcity of resources is the fact that leads to human progress. Scarcity logically entails a struggle for resources, and it rescues the human race from complacency.

Sumner is not concerned with the biological struggle for existence in a state of nature, but the social struggle for existence which he defines as "the competition of man with man in the effort to win a limited supply [of subsistence]."⁵⁹ Sumner sees this competition among individuals as the starting point for sociological investigation. This individualistic focus is consistent with the history of laissez faire thinking, and Sumner considers it essential. "The relation, therefore, between each man's needs and each man's energy, or 'individualism,' is the first fact of human life."⁶⁰ Individualism, for Sumner, involves the notion that individuals are responsible for their degree of success in the struggle for existence. This is the same meritocratic logic advanced by Spencer in which

⁵⁷ *Ibid.*, 188-9.

⁵⁸ *Ibid.*, 189.

⁵⁹ *Ibid.* It is interesting that Marx similarly identifies the need for subsistence as the starting point of his investigation, but Sumner suggests that this need will always take place in an environment of scarce resources characterized by competition between individuals.

⁶⁰ Sumner, "Socialism," 159.

success or failure—better yet, survival or misery—is a result of individual character and initiative.

Sumner treated resource scarcity as an empirical fact and a firm basis for his scientific investigation of society. He united this fact with the notion that people earn resources in proportion to their individual character or merit. The result of these preliminary facts is the law of “survival of the fittest.” Sumner carefully pointed out that this is not a “moral” doctrine, but a “scientific” one.⁶¹ He believed that the “fittest” are those who best adapt to the realities of society. The fittest are not better in some absolute sense, but best equipped to compete in the specific circumstance of “modern civilized and industrial society.”⁶² Given the fact that resources are scarce, the distribution of resources is a zero-sum game between those who are “fittest” and “unfittest.” Echoing Spencer, he wrote, “if we do not like the survival of the fittest, we can only substitute the survival of the unfittest.”⁶³

Sumner is especially concerned with the individual characteristics that foster industrial progress such as “industry, self-denial, and temperance.”⁶⁴ Progress is a very slow process “won in minute stages” by individuals, not by government implemented reforms.⁶⁵ If the various “social pressures” are allowed to operate freely, society will advance “by improvement in the arts, in science, in morals, in political institutions, to

⁶¹ Sumner, “Survival of the Fittest,” 223.

⁶² *Ibid.*, 224.

⁶³ *Ibid.*, 224.

⁶⁴ Sumner, “Socialism,” 181.

⁶⁵ *Ibid.*

widen and strengthen the power of man over nature.”⁶⁶ Survival of the fittest leads to progress by allowing industrious individuals to employ their talents in the way they choose, but this process also has a harsh prescription for those who are not fit for competition in an industrial society.

Sumner believes that each individual or family is responsible for its own survival in the industrial society. Simply put, the rewards of the responsible should not be taken and redistributed to the irresponsible. “Poverty and misery will exist in society as long as vice exists in human nature.”⁶⁷ Indeed, Sumner argues that the struggle for existence would continue even if the government did adopt a laissez faire stance.⁶⁸ Society will never progress to a point where the unfittest can enjoy the fruits of industry without consequence. Sumner has no patience with “sentimentalists” who depict the poor as victims.⁶⁹ He writes, “But the weak who constantly arouse the pity of humanitarians and philanthropists are the shiftless, the imprudent, the negligent, the impractical, the inefficient, or they are the idle, the intemperate, the extravagant, and the vicious.”⁷⁰ Mercifully, he opposes any attempt to “kill off certain classes of troublesome and burdensome people,” but he does concede that “it would have been better for society, and would involve no pain to them if they had never been born.”⁷¹ These “burdensome

⁶⁶ Sumner, “Sociology,” 195.

⁶⁷ Sumner, “Socialism, 168.

⁶⁸ *Ibid.*, 172.

⁶⁹ Sumner, “The Forgotten Man,” 220-1.

⁷⁰ *Ibid.*, 208.

⁷¹ Sumner, “Sociology,” 196

people” provide no benefits to the society, but reformers insist that they should be assisted. In a striking passage, Sumner reveals that nature has a way of eliminating these burdens: “A drunkard in the gutter is just where he ought to be. Nature is working away at him to get him out of the way, just as she sets up her process of dissolution to remove whatever is a failure in its line.”⁷² Sumner applauds this process as a natural alternative to government regulation and assistance to the poor.

To reiterate, Sumner believed that sociology is completely distinct from biology, but as the forgoing discussion reveals, he applied the biological concept of evolution to society itself. Sumner was attempting to uncover social phenomena, but evolutionary biology provided him with a basis for his “science of society.” The “social forces” that he identifies are strikingly similar to the natural forces that operate in evolutionary biology. An environment characterized by scarce resources, competition among individuals for subsistence, and selection based on those best adapted to survive are all characteristics that apply to Sumner’s society as well as Darwin’s Galapagos.⁷³ The paradigm of evolutionary biology also helped Sumner in his attempt to rescue sociology from the relativistic theories based upon “authority, tradition, arbitrary invention, or poetic imagination.”⁷⁴ Sumner argued that such ungrounded speculation about social

⁷² Sumner, “The Forgotten Man,” 212.

⁷³ There is some debate as to whether “Social Darwinist” is an accurate description of Sumner’s thought. Hofstadter argues that Darwinism was very influential in American thought in the latter decades of the nineteenth century, but much of this was due to Spencer. Sumner’s own application of evolutionary theory to social phenomena is an extension of Spencer’s philosophy more than Darwin’s theory of natural selection. See *Social Darwinism in American Thought*, 20-21.

⁷⁴ Sumner, “Sociology,” 184.

phenomena was a main source of opposition to laissez faire. Socialists and other reformers consider society to be “artificially organized,” and therefore, subject to human control.⁷⁵ Sumner combatted this conception of society by depicting society as a natural phenomenon that operates according to natural laws. His “social determinism” convinced him that the conditions of society are immutable and largely impervious to human guidance.⁷⁶ One essential fact of modern society, according to Sumner, is that “economic forces such as competition and self-interest” are non-negotiable.⁷⁷

The Proper Role of the State

There are numerous similarities between Sumner and Spencer in regards to their view of a “social order” that operates according to natural laws, but Sumner’s view of the state is decidedly less radical than Spencer’s. Spencer argues that the State is founded on “aggression” and the “ethics of war;” whereas, “social development” arises from individuals’ “private activities and their spontaneous co-operations.”⁷⁸ He refers to the “social structure” in an abstract manner, but portrays government institutions as a force that counteracts voluntary cooperation. Sumner, on the other hand, has a more complicated view of the “social order” due to the importance he attributes to civil and political institutions. His sociology is meant to provide a more concrete understanding of

⁷⁵ Sumner, “Socialism,” 172.

⁷⁶ See Hofstadter, *Social Darwinism in American Political Thought*, 60, and Fine, *Laissez Faire and the General Welfare State*, 84.

⁷⁷ Fine, *Laissez Faire and the General Welfare State*, 84.

⁷⁸ Spencer, *The Man versus The State*, 106-107, and 125.

society so that these institutions can be used wisely. Sumner challenges us to “struggle with the problems offered by social pressure . . . by improvements in the arts, in science, in morals, in political institutions, to widen and strengthen the power of man over nature.”⁷⁹

Sumner also rejected the idea of natural rights, which marks another departure from Spencer. For Sumner, natural rights are the remnants of an antiquated sophistry.

The notion of natural rights is destitute of sense, but it is captivating It lends itself to the most vicious kind of social dogmatism, for if a man has rights, then the reasoning is clear up to the finished socialist doctrine that a man has a natural right to whatever he needs.⁸⁰

This is the reason that Sumner rejects the natural right of property and favors a positive legal basis for property rights and individual liberty. Sumner is averse to the abstract and ahistorical visions of natural liberty and natural rights because he believes that these concepts “must be defined at any moment of time by the constitution, laws, and institutions of the community.”⁸¹ He rejects “the doctrine of natural liberty,” which depicts the individual in “a condition of complete non-restraint” before the State is established.⁸² This was Spencer’s view of natural liberty. For Sumner, this abstract notion of natural liberty implies “liberty without responsibility.”⁸³ He supports instead the idea of “civil liberty,” which is “guaranteed by law and civil institutions” and allows the

⁷⁹ Sumner, “Sociology,” 195.

⁸⁰ Sumner, “Socialism,” 170.

⁸¹ Sumner, “Liberty,” 241.

⁸² *Ibid.*, 238-9.

⁸³ *Ibid.*, 239.

individual “exclusive employment of his own powers for his own welfare.”⁸⁴ Sumner considers liberty to be an historical achievement rather than a natural condition. Civil liberty must be supported by institutions in which “liberty and responsibility are made equal and co-ordinate.”⁸⁵

Despite Sumner’s insistence on the importance of institutions, he still has a very restrictive view of the role of the state, especially in matters of economics. His concept of civil liberty involves allowing individuals to use their property as they see fit, and the state is in violation of civil liberty if it interferes with property rights. Sumner defends private property on the grounds that it is an institution that directly conforms to a natural law of competition. By protecting private property, civil liberty transforms “the competition of man with man from violence and brute force into an industrial competition under which men vie with one another for the acquisition of material goods by industry, energy, skill, frugality, prudence, temperance, and other individual virtues.”⁸⁶ The establishment of civil liberty allows the struggle for survival to continue in a non-violent form because it protects private property. Liberty, therefore, is “the complete and regular action of the force of competition.”⁸⁷

Although Sumner is careful to distinguish his idea of civil liberty from the supposed natural right of liberty, the implications for the state are mostly the same. Civil liberty leaves individuals free to exercise control over their private property, and this

⁸⁴ Sumner, “The Forgotten Man,” 206.

⁸⁵ *Ibid.*, 239.

⁸⁶ Sumner, “Socialism,” 165.

⁸⁷ *Ibid.*, 163.

ensures a competitive society. The primary role of the state is to prevent aggression and enforce property rights with well-designed institutions. “Civil institutions are constructed to protect, either directly or indirectly, the property of men and the honor of women against the vices and passions of human nature.”⁸⁸ The state is charged with administering the rule of law so that the natural forces of competition can insure “survival of the fittest.”

Sumner supports his vision of limited government by deploying three distinct but related arguments based upon his study of sociology. Sumner’s first argument against government interference is that the laws of society are immutable. A favorite tactic of Sumner is to juxtapose his own “science of society” with the relativistic and fanciful notions of reformers. “Utopians and socialists . . . revolting against the social order, take upon themselves the task of creating a new and better world.”⁸⁹ Sumner criticizes this by identifying laws of society that cannot be abridged, such as Malthus’s law of population, the struggle for existence, competition between individuals, and “survival of the fittest.”⁹⁰ Sumner’s sociology is based upon this foundation of social forces that obey natural laws. The job for institutions is not to abrogate these laws, but to conform to them and allow these social forces operate freely. Government sponsored reform is usually an attempt to counteract the forces of competition and survival of the fittest. Reform, therefore, is the product of ignorance. Sumner believes that “socialism” and “sentimental philosophy” arises from the belief that society is a human invention that can be altered rather than a

⁸⁸ Sumner, “The Forgotten Man,” 217.

⁸⁹ Sumner, “Sociology,” 184.

⁹⁰ See, Sumner, “Sociology,” 187, 188-9, and “Socialism,” 163-4.

natural phenomenon that is “fixed by laws of nature.”⁹¹ The socialist attempt to eliminate hardship and misery “is therefore as impossible, from the outset, as a plan for changing the physical order.”⁹²

The second conclusion that Sumner draws from his sociology is that the natural force of competition can only lead to progress when it is unrestricted in its operation. Sumner clearly sees a role for political institutions in protecting private property, but he argues that most existing institutions are paternalistic and regressive. Sumner’s view of social progress is based upon a competitive struggle between individuals that ensures “survival of the fittest.” This notion of progress is lost on proponents of reform who see progress as a force for greater equality. Sumner sees inequality as a fact of social life based upon the differing abilities of individuals. Given this reality, attempts to “take the rewards from those who have done better and give them to those who have done worse . . . carries society downwards and favors all its worst members.”⁹³ Society progresses by selecting the fittest members for survival, not by promoting equality.

The third conclusion that Sumner derives from his sociology is that government interference with the social order produces unintended consequences. The “social thinker” does not understand that all parts of society are complex and interrelated, and it is impossible to change one part of society without affecting others.⁹⁴ To illustrate the unintended consequences of social reform, Sumner presents the figure of “the forgotten

⁹¹ Sumner, “Socialism,” 172.

⁹² *Ibid.* 173.

⁹³ *Ibid.*, 164-5.

⁹⁴ Sumner, “Democracy and Plutocracy,” 138-9.

man.” “He is the simple, honest laborer, ready to earn his living by productive work.”⁹⁵ Through his prudence, sobriety, and virtue, the forgotten man has proved himself fit to survive. He is the direct opposite of the “weak who constantly arouse the pity of humanitarians and philanthropists.”⁹⁶ Sumner shifts the focus of pity by portraying the “independent and productive laborer” as the “real victim” of social welfare programs.⁹⁷ Sumner portrays the forgotten man as a person who does not require government assistance, but bears the burden of paying for it. Whether the state engages in poor relief, regulation of industry, or hiring police officers to save a drowning man, the costs falls primarily upon the forgotten man.⁹⁸ The forgotten man serves the same function as the small merchant did for Smith and as the small farmer did for Jefferson. It illustrates that the true victim of government intervention in the economy is the hard working individual of modest means rather than the wealthy businessman. This is yet another aspect of Sumner’s sociology that prescribes a policy of *laissez faire*.

Sumner’s Definition of Laissez Faire

Much like Spencer, Sumner realized that *laissez faire* was increasingly coming under attack. In 1886 Sumner penned an essay to clarify the concept of *laissez faire*. He wished to rescue the concept from caricature, to defend it by means of clarification, and to distinguish it from dogma or metaphysics. He complained that “professional socialists”

⁹⁵ Sumner, “The Forgotten Man,” 209.

⁹⁶ *Ibid.*, 208.

⁹⁷ *Ibid.*, 208-9.

⁹⁸ *Ibid.*, 211-12.

and other would-be reformers had mischaracterized laissez faire as “meaning the unrestrained action of nature without any intelligent interference by man.”⁹⁹ Sumner counters that laissez faire entails “the only rational application of human intelligence *to the assistance of natural development.*”¹⁰⁰ In its fundamental sense, laissez faire is an imperative, applicable to statesmen and legislators, based upon scientific knowledge of the laws of society. Sumner writes, “*Laissez-faire* is a maxim of policy. It is not a rule of science.”¹⁰¹ He likens a prudent statesman to a gardener who takes his cues from natural processes in an attempt to “aid nature in that course of development which fits the interests and purposes of man.”¹⁰² Sumner believes that there are laws of society, which set the boundaries of possibility, and failure to recognize these laws is at the bottom of all idealistic attempts to reform society. Indeed, his recommendation is conservative in nature. “*Laissez-faire* means: Do not meddle; wait and observe. Do not regulate; study. Do not give orders; be teachable. Do not enter upon any rash experiments; be patient until you see how things will work out.”¹⁰³

Sumner follows classical economic theory by opposing protectionism, but the striking feature of his thought is his attempt to extend the logic of non-interference beyond economics to society in general. It is true that he considers economic forces to be the primary basis of human society, but his advocacy of laissez faire is based upon

⁹⁹ Sumner, “*Laissez-Faire*,” 228.

¹⁰⁰ *Ibid.* Emphasis added.

¹⁰¹ *Ibid.*, 232.

¹⁰² *Ibid.*, 228.

¹⁰³ *Ibid.*, 230.

sociological rather than economic reasoning. He defends concentrated wealth as essential to industrial progress, but his defense of laissez faire focuses on how “non-interference” aids social development.¹⁰⁴ Sumner’s singular contribution to laissez faire thinking was his attempt to identify the natural laws of society by confining his examination to society only. Spencer’s “natural order” was founded upon physical and biological realities. The features of his “social order” are an extension of the laws of the natural sciences. Sumner insists that society has laws of its own that are independent and separate from the laws of physics and biology. He does argue that social laws are immutable in the way physical laws are, but these laws stand on their own and originate in society. For Sumner, these social laws demonstrate a “natural order” consisting of self-interested individuals who earn their living according to personal merit under a system of civil liberty which protects property rights. If legislators were to accept Sumner’s sociological conclusions, the only viable policy option is laissez faire.

ANDREW CARNEGIE AND THE INDUSTRIAL STATUS QUO

The process of industrialization that took place in the United States after the Civil War dramatically changed the ways in which Americans understood business and commerce. In the decade before the Civil War, successful businessmen were seen as upwardly mobile individuals who had often “begun their working lives as craftsmen, mechanics with a knack for invention.”¹⁰⁵ The self-made businessman had built his

¹⁰⁴ Sumner, “*Laissez-Faire*,” 230.

¹⁰⁵ Trachtenberg, *The Incorporation of America*, 53-4.

wealth and success upon a foundation of individual virtue and productive skills. This idea of the “inventor-entrepreneur” came to represent “proof of the republican principle that self-taught men of skill and ingenuity might rise to wealth and social position.”¹⁰⁶ In the decades after the Civil War industrial production increased dramatically in scale, and this image of the inventor gave way to the image of the captain of industry. This “new breed of business leaders” did not exhibit talents for invention, but skills in “finance,” “market manipulation,” and “corporate organization.”¹⁰⁷ This new industrial businessman was not an inventor, but a manager. With industrial growth and mechanization of production, there was also an increasing reliance on unskilled labor. The new industrial labor force was constituted by “operators and machine tenders, with little hope of significant social improvement through their own talents and efforts.”¹⁰⁸ Anyone seeking to defend this new industrial status quo would have to justify this new role of businessman as corporate manager. This is precisely what Andrew Carnegie attempted to do in his *Gospel of Wealth*.

Carnegie argues that the effects of industrialization are overwhelmingly positive. He credits industrial advances for increasing the stock of material goods and for making them more accessible. “The poor enjoy what the rich could not before afford The laborer has now more comforts than the farmer had a few generations ago.”¹⁰⁹ He argues

¹⁰⁶ *Ibid.*, 54.

¹⁰⁷ *Ibid.* Jeffrey Sklansky provides an illuminating account of how the American ideal of an independent and “self-employed farmer or artisan” was outdated after “the corporation finally replaced the household as the main owner of productive resources” in the American economy. *The Soul’s Economy*, 3-6.

¹⁰⁸ Trachtenberg, *The Incorporation of America*, 54.

¹⁰⁹ Carnegie, “The Gospel of Wealth,” 2.

that industrial combination and competition lead to ever-increasing efficiency in production. The consequence of this system is an abundance of high quality goods at more affordable prices. Carnegie believes that this process of industrial advancement is based upon “the law of competition” and a free market for exchange¹¹⁰ Such a system allows those individuals of special talents to administer capital and streamline production. Because of competition and industrialization, the poor laborer in the late nineteenth century has greater access to material goods than the middle-class professional had in the late eighteenth century.

On Carnegie’s telling, the poor are better off in an absolute sense, but not in a relative sense. They may be better off than the poor of the distant past, but they are clearly worse off than the wealthy in the present. Carnegie considers this a necessary consequence of the law of competition. “We accept and welcome, therefore, as conditions to which we must accommodate ourselves, great inequality of environment, the concentration of business, industrial and commercial, in the hands of a few, and the law of competition between these, as being not only beneficial, but essential for the future progress of the race.”¹¹¹ Like Spencer, he considers competition essential “because it ensures survival of the fittest.”¹¹² Carnegie considers inequality to be a fact of modern industrial civilization. If we are to accept the abundance afforded to us by virtue of a competitive economy, we must accept the inequalities of wealth that result.

¹¹⁰ *Ibid.*, 3.

¹¹¹ *Ibid.*, 3.

¹¹² *Ibid.*

Carnegie, like both Spencer and Sumner, considers any intrusion in the right of private property to be a sign of coming socialism. Capitalism, for Carnegie, is the way forward for the human race. The only alternative to this is “primitive communism” that disregards the benefits of “Individualism.”¹¹³ He believes that modern civilization rests upon individualism and the right of private property, but communistic reforms would require “the total overthrow of our civilization.”¹¹⁴ Carnegie’s deployment of “communism” as the only possible alternative to a capitalist economy reveals his dogmatic adherence to the philosophy of Spencer, especially the doctrine of “survival of the fittest.” However, Spencer was arguing against what he took to be the *status quo* of legislative reform. Carnegie is arguing in favor of the *status quo*, but his argument rests upon the assumption that human civilization has advanced “to a condition of affairs under which the best interests of the race are promoted.”¹¹⁵ Carnegie’s focus in “The Gospel of Wealth” is to establish private charity as a better alternative to public assistance, but his cursory defense of the existing economic conditions is necessary to justify the massive accumulations of wealth that he himself epitomized. After only four short pages of defending industrial capitalism, he issues the almost-biblical pronouncement: “Thus far, accepting conditions as they exist, the situation can be surveyed and pronounced good.”¹¹⁶

¹¹³ *Ibid.*, 4.

¹¹⁴ *Ibid.*, 8.

¹¹⁵ *Ibid.*, 5.

¹¹⁶ *Ibid.*

Carnegie also applies Spencer's idea of "survival of the fittest" to the American condition of industrial capitalism, and in so doing, identifies a specific talent that applies to the fittest individuals. In an age of combination, the fittest will be those possessed of "special ability . . . to conduct affairs on a great scale."¹¹⁷ He argues that only rare individuals will possess "this talent for organization and management," and under the conditions of laissez faire, these individuals "must of necessity soon be in receipt of more revenue than can be judiciously expended upon themselves."¹¹⁸ The captains of industry, according to Carnegie, are successful because of their talent for industrial administration—their ability to marshal large amounts of capital, labor, and equipment in service to industrial production. He considers the vast accumulations of wealth to be a necessary consequence of individualism and competition.

For Carnegie, legitimizing the concentration of wealth in the hands of a relative few is not the end, but the beginning of his project. His defense of capitalism is entirely utilitarian. He does not discuss a "natural order" as previous defenders of laissez faire were wont to do. His argument rests entirely upon the supposition that material abundance is the result of competition. His defense of private property is very similar: "there is nothing sacred about individual ownership except as man has established it as the system under which progress can be made."¹¹⁹ This consequentialist defense of individual ownership allows Carnegie to dispense with the traditional laissez faire defense of private property as strictly a result of individual initiative. He allows that some

¹¹⁷ *Ibid.*, 3.

¹¹⁸ *Ibid.*, 3-4.

¹¹⁹ Carnegie, "The Gospel of Wealth II," 57.

“fortunes,” especially those made up of real-estate holdings, are the result of “purely communal growth” rather than “individual effort and ability.”¹²⁰ While defending individualism and private property, Carnegie insists that the wealthy still have a responsibility to care for the community that contributed to these fortunes. His aim in “The Gospel of Wealth” is to convince the wealthy that they do indeed have a duty to support the community. “As wealth comes mainly from the community, it should be administered as a sacred trust, by the temporary recipient, for the public good.”¹²¹ The imperative here is private charity on the part of the wealthy. One curious result of Carnegie’s “Gospel of Wealth” is that, by establishing the fact that the wealthy owe a debt to the community, he adds additional moral justification of vast inequalities of wealth, which result from a policy of *laissez faire*.

Carnegie’s “Gospel of Wealth” may impose duties on the captain of industry, but he tempers this with a flattering depiction of the wealthy industrialist. “The man of wealth thus becoming the mere agent and trustee of his poor brethren, bringing to their service his superior wisdom, experience, and ability to administer, doing for them better than they would or could do for themselves.”¹²² His attitude is paternalistic, but he casts the industrialist rather than the state in the role of parent. The talent for administration that allows the “fittest” to amass their fortunes also makes them uniquely qualified to administer their wealth in charitable pursuits.

¹²⁰ *Ibid.*, 58-9.

¹²¹ *Ibid.*, 66.

¹²² Carnegie, “The Gospel of Wealth,” 10.

We shall have an ideal state, in which the surplus wealth of the few will become, in the best sense, the property of the many, because [it is] administered for the common good, and this wealth, passing through the hands of the few, can be made a much more potent force for the elevation of the race than if it had been distributed in small sums to people themselves.¹²³

Carnegie's "antidote" for unequal distribution of wealth is to allow competition and accumulation to continue with the understanding that the wealthy will best administer it in service to the community.¹²⁴

By portraying the wealthy as gifted administrators, Carnegie is able to establish vast accumulations of wealth as not only tolerable, but desirable. Amassing a fortune is the preliminary step for public service.

It becomes the duty of the millionaire to increase his revenues. The struggle for more is completely changed from selfish or ambitious taint to a noble pursuit. Then he labours not for the self, but for others; not to hoard, but to spend. The more he makes, the more the public gets.¹²⁵

Carnegie is quite sincere in presenting this moral prescription. He calls for the wealthy to deploy all of their "surplus wealth" in service to the public good before they die.¹²⁶ One will notice that the state plays no role in Carnegie's solution for unequal distribution of wealth. He does support a severe estate tax, but this is because it creates an incentive for the wealthy to spend their fortunes before they die, not because he believes the tax

¹²³ *Ibid.*, 8.

¹²⁴ *Ibid.*, 8.

¹²⁵ Carnegie, "The Advantages of Poverty," 50.

¹²⁶ "Gospel of Wealth," 5-8. Carnegie is very critical of those who pass on fortunes to their descendants. He also rejects the idea of leaving a designated amount of money to a public trust to be administered after death. He insists that the wealthy must use their particular talents to administer their wealth in service to the community *during* their life.

revenue can be put to good public use.¹²⁷ The role of the state is to allow individualism and competition to operate freely so that the wealthy can amass great fortunes that will be put to public use.

By focusing on the necessity of public investment, Carnegie acknowledges that there is a need for such investment to provide for the communal goods that private enterprise does not provide. The purpose of charity is to increase the avenues of individual initiative. “The best means of benefitting the community is to place within its reach the ladders upon which the aspiring can rise.”¹²⁸ Carnegie calls for the wealthy to eschew “indiscriminate giving” in favor of establishing long-lasting institutions such as universities, public parks, libraries, art museums, music halls, and churches.¹²⁹ All of these institutions are designed to increase the opportunities for individuals who are willing to work hard. They foster individualism, and individualism is the engine of progress.

Carnegie’s model of charity is designed to preserve the competitive market economy and ensure “survival of the fittest.” As we saw with Spencer and Sumner, the doctrine of “survival of the fittest” entails the figure of the social scapegoat—the very opposite of the fittest. “For one of the serious obstacles to the improvement of our race is indiscriminate charity. It were better for mankind that the millions of the rich were thrown into the sea than so spent as to encourage the slothful, the drunken, the

¹²⁷ Carnegie, “The Gospel of Wealth II,” 57-67.

¹²⁸ Carnegie, “The Gospel of Wealth,” 12.

¹²⁹ Carnegie, “The Best Fields for Philanthropy,” 17-26.

unworthy.”¹³⁰ He considers such charity to be “selfish” because it indulges one’s immediate sympathies without requiring careful consideration of the greater good.¹³¹ The role of charity is to assist the deserving poor, who wish to help themselves, rather than the undeserving poor, who seek help from others. Indiscriminate charity rescues the undeserving poor from the competitive struggle for survival and creates “a spirit of dependence upon alms.”¹³² Carnegie supports charitable contributions in the form of public institutions because it encourages individualism; he opposes direct assistance to the poor because it produces a culture of dependency.

Nevertheless, Carnegie does concede that the state is minimally responsible for caring for the indigent. He concedes that “common humanity” dictates that we prevent the poor from dying of hunger or exposure.¹³³ However, Carnegie is equally concerned with containing the disease of dependence so that it does not infect the deserving poor. He calls for “social lepers” to be placed “under the care of the State in workhouses.”¹³⁴ Dependency is like a disease calling for quarantine: “Every drunken vagabond or lazy idler supported by alms bestowed by wealthy people is a source of moral infection to a neighborhood.”¹³⁵ He does not share Spencer’s belief that such people should be left to fend for themselves, but he fears that their improvident habits will influence other

¹³⁰ Carnegie, “The Gospel of Wealth,” 11.

¹³¹ *Ibid.*

¹³² Carnegie, “The Best Fields for Philanthropy,” 17.

¹³³ Carnegie, “The Advantages of Poverty,” 46.

¹³⁴ *Ibid.*, 47.

¹³⁵ *Ibid.*

members of the working class. Curiously, Carnegie does not countenance the possibility of this influence going in the opposite direction. Separating the “social lepers” from the industrious poor precludes any redeeming influence that the latter may have on the former. He gives no explanation for why this influence can only be negative, but it is safe to assume that the logic of “survival of the fittest,” which he borrowed from Spencer, led him to view the unfittest as obstacles to progress.

Carnegie’s “Gospel of Wealth” essays were published in the widely circulated *North American Review* and directed towards a popular audience. He sought to justify the status quo of extreme concentration of wealth by giving wealth a noble moral purpose. On his telling, the wealthy are temporary trustees of their fortunes, which they are to administer for the good of the community. It is this focus on communal goods that distinguishes Carnegie’s thinking from that of Spencer and Sumner. He shares their criticism of paternalistic government, but his solution to this problem is the paternalism of the market. He clearly believes in large scale assistance to aid community development, but he expects the market to produce the wealthy benefactors who are responsible for this public investment. Carnegie envisions a new aristocracy of wealthy benefactors that will provide the community with the public resources that it needs. Considering this prescription, one wonders if the “fittest”—being forged in the fires of individualistic competition and accumulating wealth with complete abandon—will abandon their own self-interest and fulfill their duty to the community as Carnegie suggests.

CONCLUSION

In less than a century after its appearance, laissez faire had gone from a revolutionary and slightly subversive doctrine to a concept that was deployed to defend the status quo. The Physiocrats and Adam Smith argued that laissez faire would benefit the common consumer by dismantling the political favoritism that led to wasteful monopolies. However, in the United States, as early as 1840, businessmen began to argue that laissez faire was the best way to ensure prosperity, and they looked to the Constitution as the guarantor of property rights.¹³⁶ By the 1880's, laissez faire had been largely sanctioned by the US Supreme Court, which used the "due process clause" of the Fourteenth Amendment to strike down numerous legislative proposals aimed at regulating and controlling large corporations and trusts on the grounds that such proposals violated property rights.¹³⁷ Legal scholars identify the period between 1880 and 1930 as the "era of laissez-faire constitutionalism."¹³⁸ In the famous case of *Lochner v. New York* the Supreme Court struck down a New York state law that restricted the number of hours that a bakers were allowed to work. The court viewed this as a form of favoritism of employees over employers: "Liberty of contract relating to labor includes both parties to it; the one has as much right to purchase as the other to sell labor."¹³⁹ This reasoning was so similar to Spencer's own defense of freedom of contract that Oliver

¹³⁶ Goldman, *Rendezvous With Destiny*, 87.

¹³⁷ Benedict, "Laissez-Faire and Liberty," 294.

¹³⁸ *Ibid.*, 295-6. Benedict points out that even conservative Justices like William Rehnquist considered this application of laissez faire to Supreme Court decisions during this period to be an example of "judicial activism."

¹³⁹ *Lochner v. New York*, 198 U.S. 45 (1906).

Wendell Holmes responded in his dissent: “The Fourteenth Amendment does not enact Mr. Herbert Spencer’s *Social Statics*.”¹⁴⁰

A strict policy of *laissez faire* was never adopted by the United States Congress during the Gilded Age, despite the dire warnings issued by Spencer, Sumner, and Carnegie. *Laissez faire* had its most potent impact in the courts. Critical observers, most noticeably Henry Demarest Lloyd, saw the teachings of *laissez faire* being used as a lens through which to interpret the law of the land. The proper role of government was now more than an academic question because *laissez faire* thinking was deployed by the Supreme Court to strike down legislative reforms.

Proponents of reform and critics of *laissez faire* were on the losing side of the battle during this period of *laissez faire* constitutionalism. Fine notes that during this time “the *laissez faire* views of academic and popular theorists and of practical businessmen were translated from theory into practice.”¹⁴¹ In remaining chapters, I will examine the ways *laissez faire* critics challenged the theoretical foundation of *laissez faire*. They rejected the idea of a natural order by pointing to evidence that economic relations were not necessarily harmonious or beneficent. They also revisited the idea of individual self-interest and questioned its applicability to an economy based upon industrial cooperation. Many critics emphasized the other features of human psychology and character, which accompany self-interest. Smith had similarly identified an array of “sentiments” that tempered the sentiment of self-interest. Critics also questioned the notion of individual liberty defined as security of property rights. There was a growing sense that this vision

¹⁴⁰ *Ibid.*, 75

¹⁴¹ Fine, *Laissez Faire and the General Welfare State*, 126.

of liberty unfairly advantaged people who owned the most property and afforded little benefit to those who owned little. Finally, reformers challenged the belief that the distribution of wealth was a fair outcome of a meritocratic process. Competition, they argued, was not a fair contest between honest individuals, but a ruthless environment where wealthy combinations dominated small entrepreneurs.

CHAPTER 5 — HENRY DEMAREST LLOYD: CRITIC, POLEMICIST, REFORMER

The reformer of to-day is simply he who, with quicker ear, detecting that another change of heart is going on, goes before.

— Henry Demarest Lloyd, *Wealth Against Commonwealth*

Although he was an original thinker who made an important contribution to political and social thought in the United States, Henry Demarest Lloyd was more a journalist-cum-social theorist than an academic. Academic economists who belonged to the reform-minded American Economics Association as well as political scientists criticized his most accomplished work, *Wealth Against Commonwealth*, as “unscholarly.”¹ In fact, Lloyd was not a neutral or dispassionate observer of events. His writing is glaringly polemical and moralistic. Yet, herein lies Lloyd’s true significance as a critic of laissez faire. He was not primarily concerned with formulating a scholarly economic critique of capitalism and laissez faire; the task to which Lloyd set himself was much more ambitious. Lloyd wanted to use his writing to effect a moral regeneration in the United States. He believed that the moral outlook of most Americans was shaped by the selfish, individualistic ethic of laissez faire capitalism, and he considered this to be an antiquated moral system. Lloyd argued that the American industrial community was more suited to an ethic of cooperation and mutual concern rather than self-interest and mutual suspicion.

¹ Destler, *Empire of Reform*, 307.

Lloyd was quite familiar with the teachings of classical political economy, and he used this familiarity to full effect in his attempt to undermine the intellectual basis of laissez faire. While attending Columbia College, he was supportive of the “Manchester School” with its emphasis on laissez faire and free trade.² After his graduation from Columbia Law School in 1869, he went to work for the “Free Trade League”—an organization “advancing the interests of New York’s importing and shipping businesses” by opposing Horace Greely’s protectionist program.³ He wrote articles in the League’s publication, *The Free Trader*, supporting the principles of orthodox political economy, and he gave a series of lectures criticizing protectionism.⁴ His affiliation with the League was short-lived, and he took a position at the *Chicago Tribune* in 1872, making a name for himself by writing literary criticism.⁵ Having been appointed to the position of financial editor in 1873 during a drastic post-war economic downturn, he became acquainted with questionable business practices, and by 1877, he began to question the teachings of orthodox political economy.⁶ From that point on, he would maintain that the teachings of classical political economy were largely responsible for unethical business practices, concentrated wealth, and widespread poverty. Due to his familiarity with

² *Ibid.*, 27.

³ Turner, “Henry Demarest Lloyd and Business Ethics,” 55.

⁴ Destler, “Empire of Reform,” 29-43. During a 1870 lecture, Lloyd claimed that Adam Smith’s writing was more important for the development of mankind than the Declaration of Independence.

⁵ *Ibid.*, 75.

⁶ *Ibid.*, 93-8.

economic science and actual business practices, Lloyd was ideally placed to assess the effects of laissez faire.

Lloyd argues that the science of political economy is ill-suited to deal with the most important economic problems of the day.

We feel ourselves caught in a whirl of new forces, and flung forward every day a step farther into the future dim with portents of struggle between Titans reared on steam, electricity and credit. It is an unfortunate moment for the breakdown of the science that claimed to be able to reconcile self-interest with the harmony of interests.⁷

The new phenomenon of industrial production is accompanied by a host of new and unprecedented problems. Lloyd argues that the science of political economy, and the laissez faire policy that it recommends, has lost its relevance considering the host of new problems that emerged during the Gilded Age. “Laissez-faire theories of politics and political economy are useless in the treatment of the labor question, in the regulation of railroads, sanitary and educational government, and a multitude of similar questions.”⁸ His writing seeks to expose the inadequacies of laissez faire in respect to the new industrial economy, and in so doing, to chart a path for a more appropriate and serviceable moral outlook to match the modern industrial economy.

My aim in this chapter is to present and explicate Lloyd’s criticism of laissez faire and his proposed alternative for moral revival. The analysis begins with Lloyd’s critical appraisal of classical economic theory, which constitutes the intellectual edifice of laissez faire. He challenges nearly every feature of the “natural order” advanced by classical economic theory. Lloyd calls into question the accuracy of an economic model that is

⁷ Lloyd, “The Political Economy of Seventy-Three Million Dollars,” 51.

⁸ *Ibid.*, 64.

largely abstract and that he believes does not apply to actual economic practices. Equally important, Lloyd highlights the moral implications of this theoretical model, which emphasizes self-interest, competition, and acquisitiveness. His extensive focus on the theory that undergirds laissez faire is prompted by his belief that ideas have an independent influence on events. He invariably roots his criticisms of the current economic order in the thinking of philosophers and economists to show that prevailing beliefs and practices are a product of the tradition of ideas that we inherit. Lloyd sought to reform these beliefs and practices by way of criticizing the theory that supports them.

Following Lloyd's overall critique of classical economic theory, I present his concerns that laissez faire capitalism results in political problems such as social unrest and government corruption. He fears that the increasing destitution of the wage-earners will result in social unrest and upheaval as employers pursue their own interests at the expense of their employees. Lloyd also believes that the policy of laissez faire gives the forces of wealth and big business excessive influence and control over the political system. Some industries are so large and influential that they have effectively escaped public control and oversight. Lloyd argues that a policy of laissez faire in the era of industrial combinations essentially surrenders the public interest to the private interests of a very small minority.

I conclude with an examination of Lloyd's proposal for moral and political reform. He sketches an alternative vision of human nature and society that serves as the basis for his recommended moral reform. This vision is one of a reciprocal relationship between the individual and society that replaces the atomistic theory of society, which

characterizes laissez faire. He also constructs a moral alternative to the “ethical individualism” of laissez faire, which he calls the “new conscience.” The “new conscience” is Lloyd’s idea of a moral alternative to laissez faire that is better suited to the cooperative nature of the industrial economy. He also proposes to extend the teachings of this “new conscience” to the political arena so that the public can reclaim the power of government from the forces of wealth and to institute a cooperative commonwealth.

LLOYD’S CRITIQUE OF LAISSEZ FAIRE IN POLITICAL ECONOMY

Lloyd has a reputation as a muckraker—an investigator who illustrates and exposes the harsh realities of the working poor.⁹ His writing is a combination of carefully documented reporting to expose the damaging effects of industrial capitalism and soaring rhetoric containing optimistic solutions and promises of future progress. In respect to the former, Lloyd’s journalistic approach led him to base his investigations on the facts of economic relations. His exposés display an impressive array of evidence spanning court proceedings, records of corporate meetings, private correspondence, earnings reports, and testimony from figures on the sides of labor and management. When he released his most famous work, *Wealth Against Commonwealth*, documenting the efforts of Standard Oil to stifle competition and establish a monopoly, Standard Oil hired investigative writers in an

⁹ Destler, *Empire of Reform*, 354. Destler argues that Lloyd’s “pioneering journalism” of the 1880’s set the stage for the muckraking journalists who rose to prominence around the turn of the century. For an excellent description of how the frenzy for muckraking “revolutionized” journalism between 1900 and 1912, see: Hofstadter, *The Age of Reform*, 186-198

unsuccessful attempt to identify the factual errors in his reporting.¹⁰ This effort failed as John D. Rockefeller refused to meet Lloyd in person and defend himself against the charges.¹¹

Lloyd used this journalistic, fact-based approach as a distinct alternative to the abstract approach adopted by supporters of laissez faire. He objected to the ease with which political economists and other academics resorted to abstract naturalistic laws to address real social and economic problems. Laissez faire defenders such as William Graham Sumner and academic economists “are suffering for facts” and rely instead upon assumptions and the hypotheses derived from these assumptions.¹² Lloyd believes this approach severely limits the scope of economic investigation. Political economy, with its deductive and abstract approach, tends toward a reductionist account of society.

They begin with the highly “scientific” method of “isolation,” and discuss society as only an economic organism—of self-interest—eliminating its other forces and facts of the moment. Next, they forget that the elimination was only a logical device setting aside part of the facts to concentrate attention on the other, and finally they end by denying altogether that these eliminated forces have any part to play in the mechanism.¹³

His description of political economy emphasizes the abstract rationalistic approach to knowledge that has existed since the Physiocrats and Adam Smith based their own investigations upon an “order of nature” which conformed to abstract laws. He considers

¹⁰ *Ibid.*, 324.

¹¹ *Ibid.*

¹² Lloyd, “The Political Economy of Seventy-Three Million Dollars,” 52.

¹³ Lloyd, “Mere Contact making for a Spiritual Union,” 64.

this self-contained, abstract theoretical approach to be “a structure reared with syllogistic brick on imaginary foundations.”¹⁴

Lloyd is dismayed that political economy is not suited to explain the workings of the modern industrial capitalism. He draws a connection between the abstract character of economic theory and its inability to countenance novel phenomena. Political economy is not treated as “an investigation to be pursued in the laboratory of facts, but as a body of settled truths, revealed by teachers, and to be applied as a universal solvent.”¹⁵ Lloyd seems to provide a caricature of political economy by suggesting that students fail to move beyond the stale doctrines of their former teachers. This conception leads him to dismiss political economy as an “apostolic science” rather than a useful science that can help us understand economic reality.¹⁶ As an alternative, he points to the historical and empirical approach of German economists, whom he considers more nuanced and independent than their American counterparts. “Germany has a school called the political economists of the chair. America has the political economist of the pigeon-hole.”¹⁷

Lloyd scrutinizes political economists because he considers their support of laissez faire to be based upon scientific pretensions and moral ambivalence. “They claimed to be teachers of science, that is, of things that are. They turned out to be teachers both of what is not and ought not to be. They are neither scientific nor moral.”¹⁸ By

¹⁴ *Ibid.*

¹⁵ *Ibid.*, 51.

¹⁶ *Ibid.*

¹⁷ Lloyd, “The Uses and Abuses of Corporations,” 190.

¹⁸ Lloyd, “The Political Economy of Seventy-Three Million Dollars,” 62

clinging to the notion of an abstract natural order, political economists close themselves off from the moral significance of free competition. With characteristic hyperbole, Lloyd describes the laws of political economy as “murderous” in some instances, and he complains that these laws are nevertheless treated as benign by political economists.¹⁹ Besides simply being amoral, the laws of political economy are ahistorical as well. Lloyd argues that the laws pertaining to economic relations change and evolve along with the habits and attitudes of people.²⁰ Defenders of laissez faire tend to argue that government intervention upsets the natural working of economic laws. Lloyd rejects this impersonal and abstract depiction of “laws” that explain human behavior. Political economists did not discover these laws, according to Lloyd, they *created* them. “In social science the ‘laws’ that rule men are the laws that men make.”²¹ He believes these laws are outdated and useless. They serve only to shackle communities to policies of laissez faire by positing a “natural order” that is permanent and unchanging. Lloyd also believes that these laws militate against reform efforts and new modes of investigation. “When the alarm was raised by a few scouts who thought it better political economy to record new facts than to thresh over old theories, the public was given the soothing syrup of the let-alone philosophers.”²²

¹⁹ *Ibid.*

²⁰ Lloyd, “A New Political Economy Predicting a New Wealth,” 220-221.

²¹ *Ibid.*, 220.

²² Lloyd, “The Uses and Abuses of Corporations,” 182.

Scarcity or Abundance?

One prevalent feature of the abstract “natural order” advanced by political economists is the idea of scarce resources as a constant feature of human existence. Parson Malthus provided a theory of population growth in which resources become increasingly scarce in relation to the overall population. David Ricardo argued, along similar lines, that the population of agricultural laborers would outgrow the amount of available land, leading to ever-increasing rent charged by landowners.²³ Taken together, Malthus and Ricardo had established a theoretical relationship in which resources would become increasingly scarce relative to a growing population. Laissez faire proponents such as Spencer and Sumner deployed Malthus’s “law” to establish resource scarcity as a permanent condition of society itself. Spencer and Sumner argued that resource scarcity actually benefits human society because it forces individuals to compete. By placing the emphasis on scarcity of resources, Spencer and Sumner dismissed social legislation and poor laws as a waste of resources on individuals who were not fit to compete. However, if the defining characteristic of industrial capitalism is abundance, rather than scarcity, the logical basis of the competitive struggle for existence posited by Spencer and Sumner is at best problematic, and at worst, completely false.

Like many other reform-minded thinkers of the time, Lloyd thought that industrialization had made resources abundant. The influential antebellum political economist and social theorist Henry Carey had rejected the pessimistic assessments of Ricardo and Malthus, in which population growth would eclipse economic productivity

²³ See Heilbroner, *The Worldly Philosophers*, 94-5.

leaving the population to compete for an increasingly small surplus of goods.²⁴ Henry George, the author of the widely read *Progress and Poverty*, similarly argued that the notion of “natural scarcity” did not comport with facts. George argued that the industrial revolution had made the availability of farmland and natural resources less important because cooperative markets for exchange had replaced agriculture as the primary force of production.²⁵ George viewed industrial production as a “social resource” relying on cooperative association in the marketplace to produce an abundance of material goods.²⁶ By conceptualizing land as a space for establishing commerce and markets, rather than strictly a site for agricultural production and a store of natural resources, George called into question the thesis that scarce natural resources and restricted availability to land was the cause of poverty.

Although Lloyd vehemently rejected Carey’s doctrine of the “harmony of interests” as well as George’s proposal for a “single tax” on rent, he agreed that abundance, rather than scarcity, was the result of social evolution. He credits the “unsuffering labours of machinery” with advances in productive abilities that far outstrip pre-industrial societies.²⁷ For this reason, he believed that abundant resources characterized society in the Gilded Age. “The world, enriched by thousands of generations of toilers and thinkers, has reached a fertility which can give every human

²⁴ Sklansky, *The Soul’s Economy*, 78-84.

²⁵ See Goldman, *Rendezvous with Destiny*, 98, and Sklansky, *The Soul’s Economy*, 120-123.

²⁶ *Ibid.*, 122.

²⁷ Lloyd, “Social Love Creating New Forms of Social Life,” 84.

being a plenty undreamed of even in the Utopias.”²⁸ Lloyd’s challenge was to demonstrate how and why so many large sections of the population did not share in this abundance. He states this emphatically at the outset in *Wealth Against Commonwealth*: “Nature is rich; but everywhere man, the heir of nature, is poor.”²⁹ Lloyd believes that scarcity is not a result of our limited ability to extract resources from nature, but of an artificial process in which large businesses restrict the supply of goods to turn greater profits.

Lloyd argues that industries have gained such control over the productive and distributive forces on the economy that they are able to control the flow of goods and services so that there is always a condition of scarcity. Industries limit production to artificially inflate the price of goods in order to generate greater profits. Lloyd argues that industrial combinations “declare war against plenty,” and by conspiring to limit production, “they imitate the policy of scarcity.”³⁰ Rather than competing to flood the market with cheap goods, large industries conspire, collude, and combine to ensure that prices and profits remain high. “In a society which has the wherewithal to cover, fatten, and cheer everyone, Lords of Industry are acquiring the power to pool the profits of scarcity and decree famine.”³¹ In one of his earliest pieces of journalistic exposure, “The Story of a Great Monopoly,” Lloyd describes, in vivid imagery, farmers with vast stores of wheat that they are unable to sell because of manipulation by futures markets and

²⁸ Lloyd, *Wealth Against Commonwealth*, 1.

²⁹ *Ibid.*

³⁰ Lloyd, “Lords of Industry,” 143, and *Wealth Against Commonwealth*, 153.

³¹ Lloyd, “Lords of Industry,” 142.

conspiratorial control of railroad shipping rates.³² Production is actually abundant, but many sellers are unable to bring their goods to market because of the various attempts by syndicates to “corner” the market for certain goods.³³ This once again shows how Lloyd resorted to factual reporting to show that abstract theories, like Malthus’s Law, are divorced from the reality of economic relations. Spencer and Sumner lauded the benefits of resource scarcity because it ensured competition and survival of the fittest. On Lloyd’s telling, industrialists discovered that they could subvert competition and maintain a situation of scarce resources even when natural resources are abundant.

Lloyd documents numerous cases of industries engaging in anti-competitive practices by underselling smaller competitors. The most famous case of such practices was Standard Oil’s attempt to monopolize oil production throughout the United States. Lloyd argues that oil was abundant and inexpensive in the period between 1850 and 1870 with “numerous independent producers and refiners.”³⁴ Displaying his prowess for detailed journalistic exposure, Lloyd, along with Ida Tarbell, documents Standard Oil’s systematic attempt to undermine and co-opt all of these smaller producers. Once they had gained sufficient control over the supply and distribution, “they made oil poor, scarce, and dear.”³⁵

³² See Lloyd, “The Story of a Great Monopoly,” 38. “Chicago was filled up, and word had to be sent back along the railroads to take no more grain for shipment. The roadside elevators filled up, and the farmers found their market gone.”

³³ Lloyd, “Making Bread Dear,” 92-102.

³⁴ Lloyd, *Wealth Against Commonwealth*,” 40.

³⁵ *Ibid.*, 464.

The issue of scarcity is relevant to any debate over laissez faire especially because of the importance placed upon it by Spencer and Sumner. Both thinkers argued that scarcity logically entailed competition between and among individuals and that competition is the engine of progress. Lloyd's argument is that resource scarcity is not a factual assessment of resource availability or productive capabilities. Instead, Spencer and Sumner look at the competitive practices of individuals abstractly and remotely through the lens of Malthus's pessimistic analysis. In their attempt to find natural laws that are applicable to economics and society, they overlook the possibility that scarcity is artificial rather than natural. Lloyd's criticism of Malthusian logic also undermines the social Darwinists' argument that competition is the natural and necessary result of resource scarcity. By showing that scarcity in a modern industrial economy is man-made, not natural, Lloyd opens the possibility that competition between individuals is not necessary and unavoidable as social Darwinists suggest.

Competition and Combination

Lloyd, having been a member of the Free Trade League as a young man, possessed a firm understanding of classical political economy, and he was especially attentive to the importance of free competition as a feature of the abstract "natural order" that underlies their theories. "All the machinery of the abstract political economist is driven by the force of competition."³⁶ He argues that political economists are so fixated on competition as an essential feature of their abstract theoretical models, they are unable

³⁶ Lloyd, "The Political Economy Seventy-Three Million Dollars," 57.

to account for other economic forces that are anti-competitive. Instead, they portray the state as the main threat to free competition, and they suggest laissez faire as the policy that ensures a competitive market. Lloyd argues that competition has been supplanted by new economic forces like combination, speculation, and high finance. “We go on repeating, as if we were back in the days of Adam Smith, the formulas of competition, as the protector of society and the individual. We cry Competition, Competition! But there is no competition.”³⁷ He places most of the blame for this mistaken belief in competition on political economists who are so devoted to the policy of laissez faire that they cannot account for new disruptive forces in the market. “By neglecting the other forces, from sympathy to monopoly the abstract political economist deduces principles which fit no realities and has to neglect those realities for which we need principles most.”³⁸ Lloyd focuses on two specific modern economic forces that act counter to the force of competition: combination and speculation.

The economic phenomenon to which Lloyd devoted the most attention was combination or monopoly. His early writings, which revealed the extent of monopolistic practices in industry, established him as a leading critic of industrial capitalism, and his seminal work, *Wealth Against Commonwealth*, acquainted a generation of public officials with the problem of monopoly.³⁹ Lloyd argues repeatedly that competition, as an

³⁷ Lloyd, “The Uses and Abuses of Corporations,” 190-1.

³⁸ Lloyd, “The Political Economy of Seventy-Three Million Dollars,” 64.

³⁹ Destler argues that Lloyd’s work was well received by progressive-minded lawyers and judges, which helped to break the judiciary from its adherence to laissez faire. Louis D. Brandeis, for one, was “profoundly impressed” with *Wealth Against Commonwealth*. See *Empire of Reform*, 309.

economic force, is being increasingly displaced by combination. “The change from competition to combination is nothing less than one of those revolutions which march through history with giant strides.”⁴⁰ He treats competition as an historical phenomenon that was a temporary stage in the evolution of society. Competition had once taken the place of “mediaeval contrivances and regulations,” and combination is now taking the place of competition.⁴¹ In the modern industrial economy, the size and scale of some industries, their ability to combine and consolidate, allows them to smother smaller competitors.

Surveying the economic terrain of the Gilded Age, Lloyd noticed that most industries were entering pools, syndicates, and conspiracies in order to fix prices, limit supply, and control production. None of this was countenanced by political economists who insisted on competition as permanent feature of the economy. Lloyd argues that Standard Oil has not achieved unprecedented success by virtue of their “great business capacity” but by “conspiracy with the railroads” and an overall “genius for monopoly.”⁴² “This corporation has driven into bankruptcy or out of business, or into union with itself, all of the petroleum refineries of the country except five in New York, and a few of little consequence in Western Pennsylvania.”⁴³ He also cites the example of railroad “pools,” conspiratorial agreements between companies to fix prices, as examples of “combinations

⁴⁰ Lloyd, “Lords of Industry,” 143.

⁴¹ Lloyd, “The Uses and Abuses of Corporations,” 199.

⁴² Lloyd, “The Story of a Great Monopoly,” 13, 32.

⁴³ *Ibid.*, 12-13.

to prevent competition.”⁴⁴ Any small or independent oil producers cannot meaningfully compete against monopolies such as Standard oil, which controls a large portion of oil refineries and has conspiratorial agreements with railroad pools to restrict distribution. “The Standard,” as Lloyd dubiously refers to the oil giant, “produces only one fiftieth or sixtieth of our petroleum, but dictates the price of all and refines nine tenths.”⁴⁵

Consumers stand on the losing side as Standard oil prevents competitors from bringing their products to market and eliminates the competitive need to provide high-quality products at low prices.

By arguing that combination rather than competition was the primary means for economic success, Lloyd develops a critique of the Spencer’s doctrine of “survival of the fittest.” Spencer depicted the competitive market as a meritocratic environment in which the most industrious and prudent individuals gain a greater share of available resources than those who are indolent and improvident. Lloyd argues that, since competition has given way to combination as the greatest economic force, success is not indicative of one’s skills in individual competition. “The ‘fittest’ in the trade world are those who have learned the magic art of the manufacture of prices.”⁴⁶ Although Carnegie would object to Lloyd’s characterization of wealthy industrialists as “criminal rich,” he does admit that this new breed of industrialists has a talent for administration that is distinct from the talents of individual entrepreneurs.⁴⁷ Lloyd also highlights the fact that the success of

⁴⁴ *Ibid.*, 39.

⁴⁵ *Ibid.*, 12.

⁴⁶ Lloyd, “Making Bread Dear,” 87.

⁴⁷ *Ibid.*

large industries is also in part due to political contacts and connections, a fact that Carnegie conveniently overlooks when extolling the virtues of the “law of competition.” In order to show that survival of the fittest is not based strictly on individual talents, Lloyd points to the fact that some large producers get rebates from railroads due to their political influence. “Many other men had thrift, sobriety, industry, but only these [large producers] had the rebate, and so only these are the ‘fittest in the struggle for existence.’”⁴⁸ By Lloyd’s telling, economic success is not a product of individual competitive skills operating in a meritocratic market; it is a product of administrative skills operating in a faux market that shows favoritism to large and powerful entities.

Along with combination, Lloyd identifies speculation as a new force that overpowers honest competition. Speculation had been widespread and controversial in the United States since the colonial period. Speculators bought large swaths of land on the expanding western frontier, and this speculative boom revealed a class division between independent yeoman farmers and wealthy “absentee landholders.”⁴⁹ “Eastern speculators consolidated control over larger and larger tracts of the most fertile western land, while hardscrabble settlers faced increasing destitution.”⁵⁰ Speculators also bought large quantities of Revolutionary War bonds that had been issued by the states and sold to citizens. As it appeared that the states would be unable to honor these debts, bondholders sold their holdings to speculators for a fraction of the original value. When Treasury Secretary Hamilton suggested that the Federal government assume all state debts and

⁴⁸ Lloyd, *Wealth Against Commonwealth*, 489.

⁴⁹ Sklansky, *The Soul’s Economy*, 28-29.

⁵⁰ *Ibid.*

repay all bondholders in full, Jefferson and other skeptical observers noted that this amounted to a windfall for speculators who had exploited a dire fiscal crisis brought on by the war for independence.⁵¹ Americans were also loath to consider speculation as a noble or even legitimate enterprise because speculation is not based upon labor or production. Sklansky has shown that Americans during the Revolutionary period thought economic value and private property were based upon productive labor.⁵² From this perspective, speculation is suspect because it requires no actual productive labor. In the case of war bonds, speculators were actually reaping a profit by buying bonds that had been purchased by farmers and other productive laborers. To gain a profit from speculation, one does not need to employ labor or produce anything; one only needs capital and good timing.

Lloyd argues that by the 1880's speculation had taken on a new importance as speculative exchanges like the Chicago Board of Trade (CBT) allowed investors to buy "futures" in a vast array of commodities. Lloyd points out that Adam Smith predicted that agricultural products such as wheat could not become monopolized or totally controlled by wealthy merchants because "its owners can never be collected in one place."⁵³ The CBT created a market for speculators and opened the possibility that wealthy capitalists could in effect gather in one place and thus exert control over the market price for commodities. Speculative exchanges like the CBT, in Lloyd's view, allow wealthy

⁵¹ McDonald, *Hamilton*, 152-7.

⁵² Sklansky, *The Soul's Economy*, 19-20.

⁵³ Lloyd, "Making Bread Dear," 90. Lloyd argues that Adam Smith could not have foreseen "that within a century trading food would be carried on with this absolute license in markets of this power and finish." *Ibid.*, 108.

investors to control prices and manipulate supply without controlling the means of production and distribution as Standard Oil and other industrial monopolies have done. The ultimate effect of this development is that consumers end up paying higher prices for goods as speculators buy the futures cheap and sell the products dear. “As wheat rises, flour rises; and when flour becomes dear, through manipulation, it is the blood of the poor that flows into the treasury of the syndicate.”⁵⁴

Lloyd argues that “the dance of speculation” that characterizes the CBT has taken over the productive process as the determinate of the value of goods.⁵⁵ His argument is that these elusive, intangible, and largely inaccessible exchanges have gained more importance than the tangible process of production by which independent producers earn their living. “The prices of the speculative wheat and the spectral hog of the Board fix those of real wheat and the actual hog of the field.”⁵⁶ Such a relationship between futures and actual market goods is mysterious, but not necessarily exploitative. However, Lloyd argues that the futures market allows speculators to “corner” the market for certain commodities and manipulate prices. The CBT “can put the combination of rich men in instant possession of the crop that is in market and of contract for all that is to come.”⁵⁷ Once these speculators successfully corner a commodity they are able to dictate when and where it is to be sold in order to maximize their return. On Lloyd’s telling, there is no longer a competitive market for agricultural commodities in which farmers compete with

⁵⁴ *Ibid.*, 112.

⁵⁵ *Ibid.*, 83-4.

⁵⁶ *Ibid.*, 85.

⁵⁷ *Ibid.*, 92.

one another. This market has been surmounted by “the criminal rich . . . who are to-day degrading competition into a rivalry of adulteration and seizing upon them for speculative purposes.”⁵⁸

By way of criticism, Lloyd showed how these amorphous and abstract exchanges affect actual people who are producing and selling these commodities.

These corners put prices down when the farmers want to sell, and put them up when the miller needs to buy. They exaggerate gambling by intensifying the fluctuations in price and they cripple legitimate business.”⁵⁹

So great is the influence of wealth, according to Lloyd, that actual farmers and husbandmen are beholden to speculative agreements forged among participants in the CBT, who will never observe the process of production or actually handle the commodities that they have purchased. In a striking instance from *Wealth Against Commonwealth*, Lloyd relates the attempt by the city of Toledo to finance and develop their own natural gas infrastructure rather than sell all rights to Standard Oil. When the city issued “natural gas bonds” to finance a pipeline, “the agents of the Standard Oil Company” used their extensive reach in the financial sector to discourage any investors from buying the bonds.⁶⁰ “The officials of this free city [were] compelled to sneak around in the open money market under cover . . . seeking buyers for its bonds as if they were stolen goods!”⁶¹ Lloyd uses this case as yet another example of how the laws of political economy and the regulating force of competition do not match reality. “What a picture of

⁵⁸ *Ibid.*, 87.

⁵⁹ *Ibid.*, 101-102.

⁶⁰ Lloyd, *Wealth Against Commonwealth*, 334-336.

⁶¹ *Ibid.*, 335.

‘high finance,’ of the ‘beneficent interplay of the forces of supply and demand,’ of the ‘marvelous perfection’ with which capital moves under ‘natural laws’ to carry its fertilizing influences where they are most needed!”⁶² In this instance, Standard Oil was able to gain an advantage over the municipality of Toledo, not through honest competition, but through a conspiracy to restrict financing of their own oil resources.

Individualism and Self-interest

Lloyd also believes that the “natural order” of classical political economy is based upon a misunderstanding of the relationship between the individual and society. He argues that the teachings of classical political economy place undue emphasis on the autonomous individual at the expense of society as a whole. Lloyd thinks that individuals actualize their true potential only in social relationships of interdependence. “Men in juxtaposition must associate. A multitude must always become a society, a collection of friends, or—separate, in anarchy or despotism—decay.”⁶³ His concern is that an opposing spirit of atomism and unbridled self-interest is working against this natural tendency for association.

But the new power, the new temptation, the new immunity of the new world of wealth where men and women and children have been thrown together pell mell, have waked the sleeping furies. In this new crowd the restraints of the home spirit and the community spirit are thrown off. All are strangers. Everyone is to take what he can get. The motto is *Laissez Faire, Laissez Aller*. Do what you will. Go where you will.⁶⁴

⁶² *Ibid.*

⁶³ Lloyd, “Mere Contact Making for Spiritual Union,” 50.

⁶⁴ Lloyd, “Social Love Creating New Forms of Social Life,” 93.

Although he offers a generous translation the famous maxim, Lloyd correctly identifies laissez faire as the popular expression of this atomistic conception of society. His extends the logic of laissez faire to what he takes to be an individual ethic of “do what you will,” and this ethic treats all individuals as “strangers.”

For Lloyd, this focus on the individual is not completely unrealistic, but it is only half of the picture. He frequently argues in favor of a society that supports and encourages individuality, but he believes we must always evaluate individuality from the perspective of the overall community. This is especially true in economic relations because the effects of economic activities vary among individuals, and the effects on individuals are different from the effects on the overall community. Lloyd argues that “the point of view of the whole society” is “the only true economic point of view.”⁶⁵ Only from the perspective of society as a whole does one appreciate that some individual benefits such as a wider variety of inexpensive goods come “at the cost of want, bankruptcy, and loss of hopes to others.”⁶⁶ Lloyd insists that our conception of the individual must be related to a social setting in which the needs and hopes of other individuals are in play. “The perfect self-interest of the perfect individual is an admirable conception, but it is still individual, and the world is social.”⁶⁷ Lloyd tends to laud the forces that connect individuals to others, such as love, and he criticizes the forces that separate individuals from one another, such as self-interest. His posthumously published

⁶⁵ Lloyd, “The Uses and Abuses of Corporations,” 193.

⁶⁶ *Ibid.*

⁶⁷ Lloyd, *Wealth Against Commonwealth*, 496.

collection of essays, *Man, The Social Creator*, is an elaborate attempt to establish social love and cooperation as forces of human progress and to characterize self-interest as a regressive force.

It is not merely the atomism and individualistic focus of classical political economists that draws Lloyd's ire. He challenges their model of human nature in which self-interest is the primary, if not the exclusive, explanation of economic behavior. "The political economist thinks he has made the world simple by throwing away sympathy. But he has only made it impossible."⁶⁸ True to their abstract theoretical approach, political economists reduce human nature to convenient assumptions. Lloyd has no patience for "deductive economists" who "waste good lives elaborating hypotheses assuming the supremacy of self-interest and competition."⁶⁹ Lloyd does not deny the existence of self-interest; what he objects to is that political economists reduce human nature to this one instinct and imply that pursuit of self-interest is an ethical imperative for the individual. This imperative goes back to the "ethical individualism" first developed by the Physiocrats.

Classical political economists also lend credence to the policy of laissez faire by positing self-interest as a harmonizing productive force in the economic order. "The main doctrine of industry since Adam Smith has been the fallacy that the self-interest of the individual was a sufficient guide to the welfare of the individual and society."⁷⁰ Lloyd's tactic for refuting Smith's theory is not to dismiss it, but to historicize it. He views

⁶⁸ Lloyd, "A New Political Economy Predicting a New Wealth," 228.

⁶⁹ Lloyd, "The Political Economy Seventy-Three Million Dollars," 48.

⁷⁰ Lloyd, *Wealth Against Commonwealth*, 494.

Smith's theory as "a temporary formula for a passing problem" rather than a timeless law.⁷¹ Industrialization has created a novel economic situation in which self-interest can be destructive and even contrary to Smith's "system of perfect liberty." Lloyd believes that the most common expression of self-interest in the industrial economy is monopoly. "Business motivated by the self-interest of the individual runs into monopoly at every point it touches social life Monopoly is business at the end of its journey."⁷² Living in an age of combination and consolidation, Lloyd realized that would-be competitors, no matter how great their degree of self-interest, could not meaningfully compete with industrial monopolies. Monopolies such as Standard Oil reveal that self-interest can lead powerful industries to disrupt production and distribution, arbitrarily raise prices, and bankrupt competitors in efforts to ensure higher profits.

Even though Lloyd rejects the "old self-interest" of Adam Smith, he relies upon Smith to demonstrate that his successors have stripped away the nuanced portrait that he painted of human psychology. "Their master, Adam Smith, grasped both sides of social science and wrote a theory of moral sentiment to add the philosophy sympathy to that of self-interest in his 'Wealth of Nations.'"⁷³ Lloyd believes that the exclusive focus on self-interest diminishes the importance of the competing aspects of human psychology, and in so doing, it encourages people to pursue their own self-interest and eschew sympathy for others. It is striking how Lloyd, writing mostly about the actual economic practices and beliefs of his contemporaries, places the blame on intellectuals and philosophers for

⁷¹ *Ibid.*

⁷² *Ibid.*, 512.

⁷³ Lloyd, "Mere Contact Making for Spiritual Union," 65.

mistaken beliefs and untoward business practices. “The capitalist who says that business is business merely puts into action the mistake of the philosopher who first isolated, then forgot, and at last denied, the existence of the sympathetic forces of political economy.”⁷⁴ In Lloyd’s view, self-interest is accompanied by the force of sympathy which he alternatively refers to as “love,” “altruism,” “self-sacrifice,” or “conscience.”⁷⁵ Human behavior is influenced by both of these sentiments, but laissez faire proponents treat self-interest as the only relevant sentiment.

It is clear that Lloyd thought the classical economic model of human nature was incorrect from a scientific standpoint, but he also considered it to be morally problematic as well. “The whole basis of modern industrial society, and that is to say the whole social basis, rests upon the cynical skepticism that conscience and business cannot be reconciled.”⁷⁶ Businessmen are encouraged to sublimate their sympathetic tendencies to an amoral, hedonistic rationality. Lloyd believes this attitude exacerbates the atomistic detachment of individuals from their fellow citizens. Business ethics is informed by the “false theory that men cease to be brothers when they buy and sell.”⁷⁷ By asserting the primacy of self-interest in economic affairs, laissez faire theorists have established the market as an amoral meeting place for self-interested individuals. For Lloyd, amoral behavior is a gateway to positively immoral business practices.

⁷⁴ *Ibid.*, 64.

⁷⁵ See, *ibid.*, 53, 63, 65, and 68.

⁷⁶ Lloyd, “A New Political Economy Predicting a New Wealth,” 208.

⁷⁷ Lloyd, “The New Conscience,” 112.

Lloyd also laments the fact that self-interest is applauded and that wealthy industrialists are treated as celebrities with special talents. Spencer, Sumner and Carnegie all argued that the competitive economic struggle was a fair environment and that the uneven distribution of wealth was a result of “survival of the fittest.” Much like Veblen, Lloyd recognized that the “fittest” possessed a specific quality that was particular to their environment.

It means that among the cruel, the cruelest; among the mean, the meanest; among the greedy, the greediest; among the selfish, the most selfish will survive. The phrase and the doctrine it covers leave unchallenged the power of man to change the social environment so that a better kind of fittest shall survive.⁷⁸

Lloyd points out that this use of the term “fittest” is anything but a moral assessment—a point which is conceded by Sumner.⁷⁹ Lloyd argues that many of the “fittest” in terms of wealth would be “equally eminent as leaders in good works” if they found themselves in an environment that encouraged selflessness or altruism.⁸⁰ One will recall that Carnegie conflated these two types of fitness as he maintained that the skills for industrial organization were the same set of skills that qualified the wealthy for administering their wealth for public purposes. Lloyd does not argue that the wealthy are incapable of engaging in “good works.” His point is that the type of “fitness” they demonstrate in a selfish environment is antithetical the type of selfless behavior that encourages us to help the less fortunate.

⁷⁸ Lloyd, “A New Political Economy Predicting a New Wealth,” 218.

⁷⁹ See, Sumner, “Survival of the Fittest.” Sumner is careful to point out that fittest does not mean “best” in a normative sense, but merely fittest to survive in a specific environment.

⁸⁰ Lloyd, “The Church of the Deed,” 251.

Lloyd also credited the prevalence of self-interest with oppressive and dishonest business practices. He considers the rapid advances in industry and finance to constitute a revolution, “and the gospel of the revolution is the doctrine that you can do anything with your fellow man provided you do it in the market.”⁸¹ By removing moral concerns from the market interactions and characterizing economic agents as strictly self-interested, laissez faire theorists have provided businessmen with justification for questionable practices. Lloyd believes that laissez faire thinking lends itself to “belligerent selfishness” in which large entities engage in coercive practices.⁸² He describes the relationship between selfishness and business practices as such:

Syndicates, by one stroke, get the power of selling dear, on one side, and producing cheap on the other. Thus they keep themselves happy, prices high, and the people hungry. . . . The Syndicate has but to turn its screw and every neck begins to break. Prices paid to such interceptors are not an exchange of service; they are ransom paid by the people for their lives.⁸³

This type of market manipulation and exploitation of the powerless, according to Lloyd is the ultimate consequence of a system that relies upon only self-interest to provide benefits for all.

Charles Destler, one of Lloyd’s most thorough and admiring observers, takes note of Lloyd’s “keen appreciation of historical continuity and development,” which he may have derived from his familiarity with German philosophy and social thought, particularly the historical dialectic of Hegel.⁸⁴ Indeed, Lloyd does treat the concepts and

⁸¹ Lloyd, “The New Conscience,” 119.

⁸² Lloyd, “Social Love Creating New Forms of Social Life,” 85-6.

⁸³ Lloyd, *Wealth Against Commonwealth*, 502.

⁸⁴ Destler, *Empire of Reform*, 239.

“laws” of classical political economy as historical phenomena rather than timeless truths. He argues that the classical political economists saw primitive societies in which everyone was “scurrying about to get what he could,” and they assumed that self-interest was a permanent feature of human nature.⁸⁵ He argues that the “principle” of self-interest put forth by “old fashion politics and political economy will go down in the records as one of the historic mistakes of humanity.”⁸⁶ Lloyd actually concedes that such a view of human society as competitive and self-interested at all costs was appropriate at certain points in the past, but they are no longer applicable or useful in the modern industrial economy. Situating the “philosophy of self-interest” in its proper historical setting, he writes, “these were frontier morals” more suited to settlers taming the frontier than citizens in a modern industrial society.⁸⁷ Lloyd clearly believes that historical progress involves greater cooperation. “The scrambling of mankind over each other for property is but a passing phase of the moon.”⁸⁸

Lloyd’s solution to this reductive view of human nature is to acknowledge that human beings are self-interested but also to present competing sentiments that must be brought into harmony with self-interest. He identifies in human nature a tension, perhaps dialectical, between the sentiments of self-interest and sympathy: “Selfishness and

⁸⁵ Lloyd, *Wealth Against Commonwealth*, 495. C.B. Macpherson presents a very similar criticism of Hobbes and Locke. They observed the “possessive individualism” of their contemporaries and assumed that it must be a constant feature of human nature. See *The Political Theory of Possessive Individualism*.

⁸⁶ Lloyd, *Wealth Against Commonwealth*, 494.

⁸⁷ Lloyd, “Social Love Creating New Forms of Social Life,” 83.

⁸⁸ Lloyd, “The New Conscience in Industry,” 136.

altruism, competition and socialism, will persist as long as the other persists. Progress is made up of their successive harmonizations.”⁸⁹ One proposal for such “harmonization” is to break self-interest of its moorings to the individual by elevating it to the level of the community. Lloyd calls for replacing the primitive notion of individual self-interest with the more modern and civilized “self-interest of the whole.”⁹⁰ Such “enlightened self-interest” suggests that “when the individual has progressed to a perfect self-interest, there will be over and against it, acting and reacting with it, a corresponding perfect self-interest of the community.”⁹¹ Lloyd believed that individual self-interest run amok acts against the interest of the community at large. Traditional laissez faire theorists assert the primacy of self-interest, and in some extreme cases they completely deny the existence of communal or societal interests. According to Lloyd, “the true *laissez-faire* is, let the individual do what the individual can do best, and let the community do what the community can do best.”⁹² This depiction of laissez faire is so dramatically different from the version presented by supporters that Lloyd seems to have misappropriated the phrase to suit his own purposes. Nevertheless, his insistence that self-interest must be tempered by selflessness and common concern for others is clearly an attempt to move beyond the model of “economic man” as rational creature motivated solely by self-interest.

⁸⁹ Lloyd, “A New Political Economy Predicting a New Wealth,” 231.

⁹⁰ Lloyd, “Mere Contact Making for Spiritual Union,” 63.

⁹¹ Lloyd, *Wealth Against Commonwealth*, 496.

⁹² *Ibid.*, 497.

Market Order and Market Chaos

The forgoing discussion of Lloyd's criticism of the abstract constructions of classical political economy demonstrates that he found the concepts and theories of economic thought to be both erroneous and harmful. The final aspect of this abstract intellectual edifice to come under Lloyd's critical gaze is the concept of the market itself as an orderly and efficient environment which produces positive benefits for the overall community. He thinks that laissez faire is based upon the naïve and idealistic belief in the stabilizing force of the market. "In abstract political economy, wealth is the subject, desire of wealth the motive, competition the regulator, supply and demand the law, freedom of contract the condition, and equalization of rent wages and profits the result."⁹³ For classical political economists and laissez faire proponents the market is part of the "natural order," and the free play of self-interest and competition will maintain this order and maximize production.

Lloyd rejects this view of the market as nostalgic hope packaged in a simplistic and normalizing theory. He contends that the modern market under industrial capitalism is a new phenomenon which is accompanied by unforeseen problems.

The concentration of news, capital, and middle-men in a focus; steam, electricity, and credit; the specially modern means of finding out the "statistical situation"; the development of the corporation; the multiplication of huge private fortunes and their union in syndicates; and the lupine standard of business morality, make the modern market a thing new in development if not in kind.⁹⁴

⁹³ Lloyd, "The Political Economy of Seventy-Three Million Dollars," 54.

⁹⁴ Lloyd, "Making Bread Dear," 86.

For Lloyd, the defining feature of this modern market is chaos rather than order. These new features of the market such as concentrated wealth and consolidation of industry produce unpredictable fluctuations in rents, wages and profits.

Employing his usual empirical approach to combat the abstract teachings of political economy, Lloyd documents the economic panics and labor unrest that result from the chaotic market. He writes of “the wrecks of panics and militant competition, the unemployed, the pauperised, the idle land, the shut-down machinery, the concentrated wealth, the luxury” that result from a policy of laissez faire.⁹⁵ In *Wealth Against Commonwealth* he documents the disruptive effects of industrial combinations such as the South Improvement Company—a predecessor to market behemoths like Standard oil—which began monopolizing refining and distribution of oil as early as 1865.⁹⁶ Less powerful independent producers grew increasingly worried as “the market for oil . . . began to move erratically, by incalculable influences.”⁹⁷ Entrepreneurs, acting out of self-interest and relying upon fair competition, found themselves at a severe disadvantage as the South Improvement Company conspired to corner the market. “There were panics in oil speculation, bank failures, defalcations. Many committed suicide. Hundreds were driven into bankruptcy and insane asylums.”⁹⁸ With such examples, Lloyd was conveying to his audience that these panics, which occurred with alarming frequency between 1873

⁹⁵ Lloyd, “The Church of the Deed,” 244-5.

⁹⁶ Lloyd, *Wealth Against Commonwealth*, 42-45.

⁹⁷ *Ibid.*, 42.

⁹⁸ *Ibid.*, 43-44.

and 1893 in the United States, had a real human cost that was not countenanced by the abstract theories of political economists.

By documenting such cases of market manipulation, Lloyd advances the idea that economic disruptions and panics have a tangible immediate cause. Economic disturbances are not the result of abstract workings of the “natural order;” they are based upon the actions of individuals and companies who conspire to subvert competition. By 1894, Lloyd had finally concluded that competition had all but disappeared. “There is no longer the fact of competition. The protection of the public as laborers, producers, and consumers by competition has come to an end.”⁹⁹ The “beneficent” order of nature lauded by the Physiocrats and Adam Smith had given way to a chaotic and disordered market economy where powerful entities manipulated supply and demand until there was little to no regularity left. Lloyd, in characteristic optimism, believes the vicissitudes of economic instability will spur a change in thinking.

Politically, we are civilized; industrially, not yet. Our century, given to this *laissez-faire*—‘leave the individual alone; he will do what is best for himself, and what is best for him is best for all’—has done one good: it has put society at the mercy of its own ideals, and has produced an actual anarchy in business which is horrifying us into a change of doctrines.¹⁰⁰

Given this belief, it is fitting that Lloyd set himself the task of exposing the horrific results of an economy that is unregulated and unsupervised. His hope was that such exposure would pave the way for reform.

The prescription of *laissez faire* is tied to this notion that the market works best when the forces of self-interest and competition are allowed to operate freely without

⁹⁹ Lloyd, “The Uses and Abuses of Corporations,” 182-183.

¹⁰⁰ Lloyd, *Wealth Against Commonwealth*, 496-7.

oversight. If the order of the market has broken down, as Lloyd suggests, laissez faire can offer no solutions for how to control it or reinstate order and regularity. The defender of laissez faire can only watch as companies and corporations combine to form increasingly powerful monopolies. “Power can never halt itself. Market power stands today unchecked by mediaeval regulation or modern competition. It has become an arbitrary power, with all the progressive appetite for everything in sight that arbitrary power has always shown.”¹⁰¹ Lloyd portrays these economic combinations as a new form of despotism as the “arbitrary power” of various industries is used to control the market. He also claims that these new capitalists have attained a power greater than monarchs ever possessed, but unlike monarchs they exercise it “without restraints of culture, experience, the pride, or even the inherited caution of class or rank.”¹⁰² According to Lloyd, Americans had overthrown the arbitrary rule of the British monarchy only to witness, within the span of a single century, the crowning of a new despotic power that was even less restrained.

Given that Lloyd believes that the unregulated market is chaotic—if not positively despotic—and without the means to regulate and police itself, the only viable solution is to impose regulation on the market from without. His criticism of the abstract theoretical system of classical economic thought reveals that he identifies no purely economic phenomena that can effectively ensure fairness or even competition. Lloyd calls upon the community to “civilize industry” in order “to make men fellow-citizens, brothers, lovers

¹⁰¹ Lloyd, “The Uses and Abuses of Corporations,” 204.

¹⁰² Lloyd, *Wealth Against Commonwealth*, 510.

in industry, as it has done with them in government and family.”¹⁰³ He inverts the hierarchy presented by social Darwinists, in which the market or private sector, is meant to be efficient, ordered, and progressive. Lloyd believes precisely the opposite. He believes that our political theories and institutions, especially the notion of the republic or commonwealth, are a mark of our advanced civilization. Economic thought and business practices, by contrast, are arbitrary and amoral. Lloyd believes the only way in which the “chaos” and “anarchy of business” can be “civilized” is by bringing the market under “the rule of the people” in the same way republicanism brought the state under the rule of the people.¹⁰⁴ Having examined the industrial economy, Lloyd concluded that political control and regulation were necessary in order for the economy to best serve the good of all.

LAISSEZ FAIRE AND POLITICAL PROBLEMS

Much of Lloyd’s criticism of laissez faire focused on economics, and he paid particularly close attention to the relationship between classical economic theory and actual economic practice. The thrust of Lloyd’s criticism was that the classical economic model, which forms the basis of laissez faire, had proved to be outdated in the face of industrialization. The theory was based upon the assumption of free competition, and the presumed result was widely distributed prosperity. The economic reality, according to Lloyd, was combination, inequality, and market manipulation that led to disruptions. He

¹⁰³ *Ibid.*, 526.

¹⁰⁴ Lloyd, “New Conscience in Industry,” 140.

also tried to demonstrate that these new economic phenomena and new economic problems posed political problems as well. Lloyd highlighted two political problems that emanated from a laissez faire economic policy, and both were related to severe inequality in the distribution of wealth. First, Lloyd feared that widespread poverty and misery posed the threat of social unrest and possible revolution. Second, Lloyd argued that the overall political community was becoming increasingly beholden to the interests of the wealthy and that the American Republic was giving way to plutocracy.

Social Unrest and the Danger of Revolution

Lloyd believed that the chaos and disorder in the economy would manifest itself in social chaos and disorder. He was keenly aware of the social and political unrest that arose in response to the economic hardship of the Gilded Age. He and other “middle class” reformers were fearful of the revolutionary implications of widespread poverty.¹⁰⁵ Lloyd was prone to radicalism, but he was not a revolutionary. He treats revolution as a real danger to the American society, and he places the blame for this unrest at the feet of the harsh economic climate. Lloyd sees a continuation of the policy of laissez faire as a sure recipe for social upheaval. The radicalism that he exhibited in pursuit of reform was motivated by a desire to stave off a revolution, not to start one.

As the preceding section demonstrated, Lloyd believed that laissez faire policies, and the theories of classical political economy which support and legitimize it, cannot adequately address the problem of poverty and severe inequalities in the distribution of wealth. A common tactic of laissez faire supporters is to characterize poverty as a feature

¹⁰⁵ Destler, *Empire of Reform*, 223 and McGerr, *A Fierce Discontent*, 71-74.

of the natural economic order, but Lloyd considers this to be an intellectual slight of hand: “These doctrines of the desire of wealth, of exclusive regulation by competition, and of the irresistible laws of trade have been a royal road for shifting the responsibility for injustice and legal selfishness from human shoulders upon the back of Nature.”¹⁰⁶

Lloyd believes that laissez faire theorists rely upon this concept of an alleged natural order as a rhetorical prop. It allows them to explain away the consequences of human ideas and institutions as part of some larger natural process that escapes our control.

Lloyd went to great lengths to show that the industrial revolution was accompanied by widespread misery. The economic consequences of the policy of laissez faire were widespread destitution and misery among large portions of the population. He depicts the destructive effects that poverty has on a society as similar to a military conquest.

The distresses of the industrial world are like those of a country ravaged by foreign invasion and domestic insurrection. Millions are without work; millions who are making daily bread do not get daily bread; hardly anyone knows what to count upon as to certainty of employment or subsistence; the people create property only to see it pass to others; there is famine; families are torn apart; there is, in the unnecessary death rates, a greater mortality than that of battles, and a greater maiming of limb by the machinery of peace than by that of war; and cyclones of passion tear across the surface of society. This is war.¹⁰⁷

Such is Lloyd’s assessment of poverty. He argues that poverty has replaced war as “the great terror that blackens the sky of the people to-day.”¹⁰⁸ He believes that the terror of poverty will continue to tear away at the fabric of society unless some solution can be

¹⁰⁶ Lloyd, “The Political Economy of Seventy-Three Million Dollars,” 61.

¹⁰⁷ Lloyd, “The New Conscience in Industry,” 150.

¹⁰⁸ *Ibid.*

found. “War slays its thousands, but poverty its tens of thousands. War draws our blood once in a while, but poverty never lets go its killing hand.”¹⁰⁹ By likening poverty to war, Lloyd is also making the point that poverty is not strictly a natural phenomenon; it is a product of human agency.

For Lloyd, the economic system of laissez faire capitalism has deleterious ethical implications, especially because it recommends unerring pursuit of individual self-interest. One example of this ethic is the collection of speculative “corners” and price fixing—documented by Lloyd in “Making Bread Dear”—in which large combinations of wealth conspire to raise the price of consumer goods. Such practices effectively place the poor at greater hazard as the cost of bare subsistence increases. This manipulation of prices is further compounded by the poor treatment of workers that also follows from the ethic of self-interest. Lloyd argues that this ethic of self-interest has the dehumanizing effect of characterizing our fellow citizens as mere economic competitors. “Businessmen and their college professors will easily prove to you that you are not a man but merely a seller in the market, and that your labor is not your life, only a commodity.”¹¹⁰ Once again, Lloyd argues that the intellectual edifice of laissez faire leads to an ethic of self-interested behavior in which the pursuit of profit outweighs other social relationships. He notices that the tendency to view the labor force as a “commodity” is strikingly similar to the way plantation owners viewed slaves.¹¹¹ “The central doctrine of the money power is

¹⁰⁹ *Ibid.*

¹¹⁰ Lloyd, “The New Conscience,” 109.

¹¹¹ *Ibid.*, 107. Lloyd argues that the institution of slavery treated human beings as “things,” who could be used for labor, but “the new theory” of industrial production treats

that labour is merely merchandise.”¹¹²In his view, this gives capitalists license to treat workers as they would any other merchandise.

One of Lloyd’s great contributions to the intellectual critique of laissez faire was his attempt to connect the poor condition of industrial labor to business practices, and, more importantly he connects those business practices to the teachings of laissez faire and classical political economy. He dismisses the argument that workers choose voluntarily to submit to the harsh conditions of industrial labor. “They are kept down by force, by the force of competition instead of conquest, by the strategy of the generals of supply and demand. Once it was the force of the warrior, now it is the force of the capitalist.”¹¹³ Proponents of laissez faire, most notably Spencer and Sumner, stressed the importance of “freedom of contract” as the typical arrangement between capital and labor. Workers, they argued, choose voluntarily to work for certain employers, and if they were dissatisfied, they were free to find employment elsewhere. For Lloyd, this argument mischaracterizes the nature of these contracts and seeks to absolve employers of the charge that they mistreat their workers. “They are devoid of the essential attributes of contracts. They will be simply servitudes imposed by wealth on poverty, by strength on weakness, by knowledge on ignorance, and by plutocracy on the people.”¹¹⁴ Industrial monopolies are able to manipulate wages in a manner similar to their control of prices of

his “labour as a thing” to be bought and sold. He writes, “The Ancients bought and sold men; we buy and sell the heartbeats only.”

¹¹² *Ibid.*, 106.

¹¹³ *Ibid.*, 105.

¹¹⁴ Lloyd, “Servitude Not Contracts,” 158.

consumer goods, according to Lloyd. He gives the example of the Reading Railroad, which gained control of a large swath of Pennsylvania coal mines to show how “freedom of contract” applied to coal miners. “These companies flood coal country with helpless laborers . . . in order to create a condition of ‘supply and demand’ in which wages steadily tend downward.”¹¹⁵ An actual miner has no meaningful choice in this environment; his vocation is mining coal, and all of the coal mines are controlled by the Reading Railroad.

This adversarial relationship between capital and labor poses the unavoidable political problem of social unrest as labor unions clash with the forces of industry. Lloyd argues that labor organizations are “a measure of self-defense forced on the men who saw their rights to life, liberty, and the pursuit of happiness being taken away one by one.”¹¹⁶ He sees labor organization as a necessary reaction to the combinations and monopolies established by the forces of organized capital. Nevertheless, employers treat labor organizations as illegal and illegitimate. “American rich men say to American poor men: Union is right for us; it is wrong for you.”¹¹⁷ Rather than acknowledge the poor conditions and insufficient compensation for the labor force, these employers employ various methods to frustrate efforts to organize and keep workers “divided so that they may be conquered.”¹¹⁸ This adversarial relationship, according to Lloyd, is at the heart of the labor unrest that was so prevalent in the United States between 1870 and 1900. That

¹¹⁵ *Ibid.*, 151.

¹¹⁶ *Ibid.*, 156.

¹¹⁷ *Ibid.*, 158.

¹¹⁸ *Ibid.*, 156.

is not to say that he apportions blame equally to these two entities; rather, Lloyd believes the mistreatment of workers by employers stems from the teachings of classical political economy and laissez faire.

Although he is very supportive of the labor movement on the whole, Lloyd argues that labor unrest is a symptom of a larger social and political problem. He documents a series of railroad strikes that took place in 1877, which he refers to as “the greatest labor disturbance on record” or “an American reign of terror.”¹¹⁹ The “terror” to which Lloyd refers came not from below, but from above. “In the actual physical violence with which railroads have taken their rights of way through more than one American city, and in the railroad strikes of 1876 and 1877, with the anarchy that came with them, there are social disorders we hoped never to see in America.”¹²⁰ He sees such labor disturbances as an example of economic relations spilling the banks of the market and entering the political arena. Lloyd considers labor disturbances a warning sign that “popular anger” is growing as a response to inequality in wealth and poor treatment of workers.¹²¹

Lloyd was fearful that such popular resentment would lead to full-scale revolution unless the economic and political structure of industrial capitalism could be reformed. Historians have noted that Lloyd shared the widespread fear among the American middle class that a violent revolution would result from the increasingly desperate condition of the poor.¹²² Lloyd understood that the economic system in America was based upon a

¹¹⁹ Lloyd, “The Story of a Great Monopoly,” 4.

¹²⁰ *Ibid.*, 3.

¹²¹ Lloyd, “The Uses and Abuses of Corporations,” 208.

¹²² Destler, *Empire of Reform*, 223 and McGerr, *A Fierce Discontent*, 71-74.

legal framework, but he argued that the framework was based upon the laissez faire assumption of free competition.¹²³ As he repeatedly notes, Lloyd believes that “the ossification of competition into consolidation” has rendered this framework obsolete.¹²⁴

Lloyd saw reform as the force that would prevent revolution, and he understood that political reform would be necessary to establish control over unwieldy economic forces. Laissez faire offers no political solutions inasmuch as it recommends that the state refrain from economic intervention, regulation, or supervision. Lloyd believes the “railroad problem” illustrates the disconnect between our political ideals and our economic practices. “These incidents in railroad history show most of the points where we fail, as between man and man, employer and employed, the public and the corporation, the state and the citizen, to maintain the equities of ‘government’—and employment—‘of the people, by the people, and for the people.’”¹²⁵ As early as 1881, Lloyd had argued that the future of the United States democracy hinged on how it handled large combinations like the railroads.¹²⁶ If the political arm of the United States could not alleviate the tensions between capital and labor or wealth and poverty, Lloyd feared that America would witness violent revolutionary movements not unlike the “Paris commune.”¹²⁷ However, in the realm of politics, Lloyd did not believe lawmakers and elected officials understood the dangers of revolution and the necessity of reform. In fact,

¹²³ Lloyd, “The Uses and Abuses of Corporations,” 182-3.

¹²⁴ *Ibid.*, 201.

¹²⁵ Lloyd, “The Story of a Great Monopoly,” 3.

¹²⁶ *Ibid.*

¹²⁷ Lloyd, “The Political Economy of Seventy-Three Million Dollars,” 80.

government officials moved in the opposite direction. Lloyd saw that legislatures and courts had abandoned laissez faire, not in favor of reform, but in favor of plutocracy.

Plutocracy

Lloyd goes to great lengths to demonstrate to his readers that wealth translates rather quickly into political power. The foregoing discussion shows that he considered the economic power of concentrated wealth to be a danger to the social order. In this sense, the unprecedented economic advantage of large combinations led to increasing poverty and social unrest. The economic process by which wealth is concentrated in the hands of a small minority has produced the political problem of social protest and the danger of revolution. But Lloyd also believed that wealth is a type of power, and he repeatedly demonstrates to his readers the ways in which the forces of wealth coopt political power. This occurs in two ways. First, the massive concentration of wealth and the size and scope of some industries are beyond the control of the political authorities. The unprecedented size and reach of these combinations outstrips the ability of the federal government, and especially the state governments, to impose meaningful regulation or oversight. Second, government has ceased to be an impartial arbitrator between competing interests, as the wealthy exercise undue influence on the political process. Lloyd documents countless cases of industrial combinations being afforded government assistance in the form of tariffs, favorable legislation, and even police and military protection to counteract labor protests. The organizing idea of his seminal work, *Wealth Against Commonwealth*, is that private wealth gains such a degree of power that it

supplants democratic control over the American political system. The issue at hand for Lloyd was democracy versus plutocracy.

Lloyd was concerned that the concentration of wealth on an unprecedented scale created a new type of power that was beyond the control of the American community. “In any age where uncontrolled power is, there is crisis. In our times it is in the market that uncontrolled power has arisen—and there is our crisis.”¹²⁸ He considers “concentrated wealth” to be “the greatest sovereign in the modern world.”¹²⁹ In other words, the power of wealth has outstripped the power of the larger democratic community. Furthermore, if the distribution of political power mirrors the distribution of wealth, this is profoundly undemocratic as it represents rule by a new aristocracy of wealth. “In all ages wealth, like all power, has found that it must rule all or nothing. Its destiny is rule or ruin, and rule is but a slower ruin.”¹³⁰ Lloyd encourages Americans to consider whether this unchecked power of wealth is acceptable—whether it is consistent with the American ideal of democracy. In *Wealth Against Commonwealth*, he presents a well-documented argument that the power of private wealth threatens the overall community’s ability to act in its own interests. He is clearly in favor of meeting this rising power of wealth head-on. This is evident in his strategy for controlling industrial monopolies such as Standard Oil. “In either case, it must be confronted by a power greater than itself. There is only one such power.”¹³¹ The power to which he refers is “the body of citizens” represented in “the

¹²⁸ Lloyd, “The Uses and Abuses of Corporations,” 198.

¹²⁹ Lloyd, *Wealth Against Commonwealth*, 134.

¹³⁰ *Ibid.*, 298.

¹³¹ Lloyd, “The Story of a Great Monopoly,” 44.

corporate sovereign at Washington.”¹³² Lloyd sees the state as the only viable power that can confront the power of concentrated wealth. The problem with this solution, according to Lloyd, is that the prevailing legal and political institutions are still beholden to the laissez faire idea that the state should refrain from interfering with commerce and the free market.

Rather than exercise its regulatory power to check the influence of wealth and industrial combinations, the state, in Lloyd’s view, actually cedes political responsibility to large companies. The railroads have been granted the power to control the transportation system and impose taxes—functions that even Adam Smith said should be left to the government.

The railway officials are, in the world of the highway, the government. They hold their supreme power to tax commerce, and to open and close the highways, solely and altogether by grant of the State, and under the law of the common carrier.¹³³

Lloyd argues that monopolistic industries have assumed the regulatory functions that should be democratically controlled by the people. The implication here is that large combinations in industry, being left alone as laissez faire recommends, do not use their freedom of action to compete, but to stifle completion and to amass ever more power and influence. A particularly striking example of the power of industrial combinations is the use of “agents” or “spies” by Standard Oil to gain information about competitors, such as the quantities of oil being produced and shipped, so that they may gain a competitive advantage.¹³⁴ Lloyd considers this practice to be a form of despotism that has no place in

¹³² *Ibid.*, 46.

¹³³ Lloyd, *Wealth Against Commonwealth*, 97.

¹³⁴ *Ibid.*, 212.

a modern democratic society. “Modern liberty has put an end to the use of spies in its government only to see it reappear in its business.”¹³⁵ Yet again, the influence of wealth runs counter to the ideal of a government by and for the people.

One of Lloyd’s primary concerns is that large combinations will become uncontrollable as they gain ever more influence over the industrial economy. He clearly thinks that the state governments are ill-equipped to control these large combinations which operate on a national level. He points to the labor unrest of 1877 as an example of how state governments cannot effectively manage “the struggle between these giant forces within society.”¹³⁶ As a matter of fact, Lloyd believes that wealth and industry exercise control over the political process. Economically, certain industrial combinations have amassed “unchecked power,” but they still feel the need “control everything by which it could be attacked—Congress, the judges, presidents and governors, newspapers, schools and colleges, social leadership.”¹³⁷ For Lloyd, this influence is exercised in precisely the wrong direction as wealth coopts political power when the desirable arrangement would be one in which the political arm of the country exercises control over industry.

This ability of the wealthy to influence the political system brings me to the second political problem that arises from concentrated wealth. Lloyd argues that the federal and state governments have ceased to serve as impartial representatives of the whole community. Instead, they have tended to grant special favors to the wealthy and to

¹³⁵ *Ibid.*

¹³⁶ Lloyd, “The Story of a Great Monopoly,” 3-9.

¹³⁷ Lloyd, “The Uses and Abuses of Corporations,” 204.

large industrial combinations. According to Lloyd, the political authorities have surrendered the public interest to private interests.

The real governors of the Government of this country are neither the people nor their official representatives, but the agents of private interests which, through their “legal representatives” and their lobbyists, prepare the tariffs, subsidies, contracts, grants, exemptions, appointments for office, and see to their enactment and confirmation.¹³⁸

It should be noted that such governmental favoritism toward large industries is not consistent with the policy of laissez faire; indeed, it is not even consistent with Hamilton’s program for protecting “infant industries,” given that these industries were well established and very prosperous. Lloyd seems to think that the underlying logic of laissez faire has brought the country to this impasse. With its emphasis on individual self-interest, the intellectual defense of laissez faire presupposed that this self-interest would be exercised primarily in the market. Lloyd points out that the same force of self-interest led the wealthy to assert control over the government to further their own private interests. Such a situation is more akin to the favoritism—or, in a more modern idiom, “crony capitalism”—that characterized mercantilism rather than the impartial government favored by Adam Smith and other proponents of laissez faire.

Lloyd surveyed the economic system and its political framework and concluded that the government was systematically violating the policy of laissez faire, but not in order to assist the poor or encourage fair competition; rather, the government was actively assisting industrial combinations. The government helps large combinations “transfer . . . business from the many to the few” by providing numerous subsidies to

¹³⁸ Lloyd, “New Conscience Transforming Party Politics,” 159.

combinations while imposing punitive taxes on smaller competitors.¹³⁹ He notes the hypocrisy of business interests who profess the policy of laissez faire while collecting government assistance. “It is the business class who talk of ‘not looking to government,’ who extol ‘self-help’ while they are continually hunting for government franchises and privileges and buying them by bribes from traitorous representatives of the people.”¹⁴⁰ The prevailing system was socialism for the rich and capitalism for the poor. Lloyd notes that if the same assistance was afforded to ordinary people, it would be dismissed as “socialism.”¹⁴¹ In *Wealth Against Commonwealth*, he argues repeatedly that the state and federal governments provided “subsidies” to the Standard Oil and various railroads which effectively made it impossible for smaller businesses to compete.¹⁴² Because of their reach and influence, large industrial combinations were able to secure government protection for their own businesses, and they used this advantage to eliminate competitors.

According to Lloyd, government support for industry has become so essential that political influence has overtaken individual initiative as the path to economic success. Concerted political influence has become a “condition of survival” for American companies.¹⁴³ The ultimate result of this is that government, rather than promote the good

¹³⁹ Lloyd, “Lords of Industry,” 130.

¹⁴⁰ Lloyd, “New Conscience Transforming Party Politics,” 176.

¹⁴¹ Lloyd, *Wealth Against Commonwealth*, 397.

¹⁴² *Ibid.*, 48, 389-397.

¹⁴³ *Ibid.*, 242.

of the whole community, becomes a tool for the advancement of special interests, particularly the interests of the wealthy.

Government is being used as an active partner by great business interests. Meanwhile any effort of the people to use their own forces through government to better their condition . . . is sung to sleep with the lullaby about government best, government least.¹⁴⁴

More often than not, this “partnership” between business and government is used to grant large companies an even greater advantage over smaller competitors. For example, when independent oil producers sought government help against the monopolistic practices of Standard oil, their protests fell on deaf ears. “The plundered found that the courts, the governor, and the legislature of their State, and the Congress of the United States were tools of the plunderers.”¹⁴⁵

In *Wealth Against Commonwealth*, along with his many articles of investigative journalistic exposure, Lloyd documents the myriad of ways that business interests use governmental institutions to serve their own purposes. One prevalent way in which they are able to influence government officials is through lobbying. The ideal of government by the people has been replaced with “government by lobby,” which is to say government by special interest.¹⁴⁶ The people have no “bulwark . . . against the Washington lobby of these combined syndicates.”¹⁴⁷ Lobbyists, according to Lloyd, had unprecedented access to representatives, which the common people did not. Lloyd describes this influence in

¹⁴⁴ *Ibid.*, 216-217.

¹⁴⁵ Lloyd, “The Story of a Great Monopoly,” 34.

¹⁴⁶ Lloyd, “New Conscience Transforming Party Politics,” 163.

¹⁴⁷ Lloyd, *Wealth Against Commonwealth*, 397-8.

his typical colorful language: “These beggars on horseback . . . are forever at the elbows of the secretaries, representatives, [and] senators.”¹⁴⁸ This shows that Lloyd believed that the business lobby was exerting private influence on the government representative who were supposed uphold the public interest, or at the very least, not grant special favors to private interests. Additionally, Lloyd believes that the representatives themselves are technically chosen, not by the people, but by the agents of big business. “Its lobbyists force the nomination of judges who will construe the laws as Power desires, and of senators who will get passed such laws as it wants for its judges to construe.”¹⁴⁹ The fact that this is allowed to happen, in Lloyd’s view, demonstrates a moral failing on the part of the government officials who have succumbed to their own self-interest, and see more benefit from an alliance with business rather than from advancement of the public good.

With such a strong foothold in the halls of government, the business lobby is able to promote and pass laws that are actively hostile to competitors. They promote “special legislation” meant to benefit only the small minority of business owners.¹⁵⁰ Such special legislation takes the form of tariffs and onerous inspections imposed on competitors, rebates on transportation costs, grants of exclusive contracts, and direct subsidies for industries that are already quite prosperous. “The few men who are the beneficiaries of

¹⁴⁸ *Ibid.*, 398.

¹⁴⁹ *Ibid.*, 298.

¹⁵⁰ *Ibid.*, 216. Benedict has argued that the idea of special legislation—laws designed to help a specific group or class at the expense of others—was inimical to the American political tradition. Their vehement opposition to special legislation, he argues, is the primary explanation for why the Supreme Court adopted a *laissez faire* interpretation of the Constitution. They struck down labor laws, for example, on the grounds that such legislation was meant to promote the interests of labor at the expense of business. See “Laissez-Faire and Liberty,” 305-326.

taxes paid by the many will be powerful and shrewd enough to get other dispensations and benefits, . . . and with this help from the taxpayer they can do business at a figure which, . . . will drive the unaided citizen competitor out of business.”¹⁵¹ When these citizen competitors attempt to pass countermeasures such as national regulation of the railroads, they find Congress unreceptive. Small oil producers, “fighting for self-preservation” by urging Congress to curtail the unfair practices of the Standard oil monopoly, realized just how powerless they were as “the money of the Standard was more powerful than the petition of business men who asked only for a fair chance.”¹⁵² In Lloyd’s view, the power of the big business lobby shows how the legal framework of the country does not provide an impartial political structure to support free and fair competition.

Lloyd argues that the favoritism that the legislatures show toward large businesses is compounded by a judiciary that also sides with combinations. In “Making Bread Dear,” he points to “an unbroken line of decisions by the Supreme Court of Illinois” that effectively established the “sovereignty” of the Chicago Board of Trade.¹⁵³ When smaller producers appealed to the Supreme Court that the CBT had effectively conspired to stifle competition and fix prices, they found the court unwilling to interfere with the exchange. “The monotonous response of the judges has been that the Board was a voluntary

¹⁵¹ Lloyd, *Wealth Against Commonwealth*, 394.

¹⁵² Lloyd, “The Story of a Great Monopoly,” 33-34. Lloyd is reported to have said: “Standard oil did everything to the Pennsylvania legislature except refine it.” See Wiebe, *The Search for Order*, 28.

¹⁵³ Lloyd, “Making Bread Dear,” 104.

association, and that it was not amenable to the court.”¹⁵⁴ The court applied the logic of freedom of contract to the appeal—so long as agreements and contracts were entered voluntarily, the government had no right to abrogate the terms of the contract. For Lloyd, this is evidence of the Court acting as an “ally” of the conspiratorial forces that dominated the CBT.¹⁵⁵ This laissez faire stance of the Supreme Court allowed the CBT to set up its own adjudicative body to settle disputes. Lloyd argues that these “summary tribunals” were staffed with allies of business interests. “The members who are ‘the judges’ of these tribunals are men preoccupied with their own business. They are ignorant of the law and the rules of evidence.”¹⁵⁶ Left by the Supreme Court to regulate itself, the CBT established what Lloyd considered to be groups of business hirelings that sided with the syndicates and corners. This lack of proper judicial oversight does not merely render these exchanges unfair, it actually makes them less efficient as they become “paralyzed by manipulation.”¹⁵⁷ Lloyd believes that the practical solution to this is “the establishment of tribunals, of competent and disinterested men, to settle the disputes that arise in the course of business and cannot wait for the courts.”¹⁵⁸ Such a solution is impeded both by the self-interest of those who control the exchange and by the insistence on the part of the courts that freedom of contract is absolute.

¹⁵⁴ *Ibid.*, 104-5.

¹⁵⁵ *Ibid.*, 107.

¹⁵⁶ *Ibid.*, 109.

¹⁵⁷ *Ibid.*, 111.

¹⁵⁸ *Ibid.*

All of these political problems—social disorder, the uncontrollable power of industrial combinations, and the failure of the government to regulate these combinations—led Lloyd to the conclusion that private wealth is incompatible with commonwealth. Lloyd does not think wealth is synonymous with private property. “Wealth is not the home, farm, shop or savings of the poor man; it is riches, excess. It is an unfair share of the general product which was made by the co-operation of all.”¹⁵⁹ The wealth to which Lloyd refers is the surplus extracted from the common effort by well-positioned individuals. Commonwealth, by contrast, is a cooperative arrangement whereby “that which is the source of real power, wealth, and delight shall also be the ruler of it.”¹⁶⁰ Lloyd thought the transition from wealth to commonwealth would require a revision of the prevailing moral outlook of the country. If the power of wealth was to be brought under the control of the commonwealth, Americans needed a moral alternative to the selfish individualism of laissez faire.

A VISION OF REFORM: MOVING BEYOND LAISSEZ FAIRE

Historians generally acknowledge that Lloyd was more accomplished and influential as a critic of the existing system than as a proponent of workable solutions. Michael Turner notes that “he was better at exposing and condemning than formulating practical reform programmes.”¹⁶¹ This was partially due to the fact that he never settled

¹⁵⁹ Lloyd, “The Religion of Labor,” 268.

¹⁶⁰ Lloyd, *Wealth Against Commonwealth*, 516.

¹⁶¹ Turner, “Henry Demarest Lloyd and Business Ethics,” 61.

on a definitive reform movement. As he became affiliated with populism, Christian socialism, collectivism, and the labor movement, and became disenchanted with each in turn, his beliefs about the appropriate way forward evolved. Nevertheless, throughout his writings Lloyd points to the necessity of challenging popular ideas. His efforts to link real economic hardship with the intellectual edifice of laissez faire demonstrates the importance that he attributes to prevailing ideas in shaping our social and political institutions. Lloyd believed that the prevailing norms of behavior, particularly economic behavior, were based upon an incorrect and inaccurate conception of human society. Toward the end of his life, Lloyd collected his ideas for an alternative view of human society in the collection *Man, the Social Creator*.

Lloyd's Alternative to the "Natural Order" of Laissez Faire

To say that Lloyd was not a systematic thinker is to risk understatement. He approaches ideas circuitously in the manner of Emerson rather than directly and analytically in the manner of Sumner. Nevertheless, Lloyd does present a discernible theory of human nature and social progress that forms an alternative to the natural order of classical political economics. Lloyd considers the standard concept of economic man as inherently and unavoidably self-interested to be an "atheistical doctrine" that only gives license to the "wickedness and cruelties" that are present in society.¹⁶² He agrees with Adam Smith that human nature is more complex and nuanced; self-interest is accompanied by social sentiments that connect us to other individuals. Of course, Lloyd

¹⁶² Lloyd, "A New Political Economy Predicting a New Wealth," 208.

even rejects Smith's assertion that self-interest is the most relevant sentiment in terms of economic relations. Lloyd believes that the laissez faire conception of human nature overlooks the most characteristic of human sentiments—he calls this sentiment “love.” “Man is not to *be* a loving animal; but *is* one.”¹⁶³ His view of human nature is optimistic, perhaps “romantic,” and he rejects the Calvinist insistence on the frailty of human nature and instead emphasizes the potential for goodness and cooperation.¹⁶⁴ “There are two human natures—the human nature of Christ and of Judas; and Christ prevails.”¹⁶⁵ He does not argue for the eradication of self-interest, which he actually believes is “sacred,” but he does believe it should be placed under the guidance of love.¹⁶⁶ “Love is that which makes us do for others; self-interest is that which makes us do for ourselves.”¹⁶⁷ The laissez faire conception of human nature as merely self-interested, for Lloyd, emphasizes the component of human nature that makes it more difficult for us to get along in society.

I have mentioned previously that Lloyd rejected the atomistic conception of society that is exhibited in the natural order of classical political economy. However, his alternative version of human nature led him to develop an alternative set of “laws” that apply to social relations and social progress. By extending his conception of human

¹⁶³ Lloyd, “The Discovery of Social Love,” 11. Emphasis in the original.

¹⁶⁴ Turner, “Henry Demarest Lloyd and Business Ethics,” 74

¹⁶⁵ Lloyd, *Wealth Against Commonwealth*, 526. Destler argues that Lloyd became acquainted with the writing of T.H. Green in the late 1880's. His reading of Green led him to abandon the Emersonian individualism, which he subscribed to in his youth, in favor of a more complex appreciation of “the interaction of individualism and social organization.” See *The Empire of Reform*, 184.

¹⁶⁶ Lloyd, “The Uses and Abuses of Corporations,” 209.

¹⁶⁷ Lloyd, “Mere Contact Making for Spiritual Union,” 63.

nature to the social setting, Lloyd argues that individuals in “contact” naturally form cohesive groups or “associations”¹⁶⁸ “The fusion of men into families and multitudes is the work of a natural force. The force is called Love.”¹⁶⁹ Love, for Lloyd, is the force behind all human associations, and he presents it as a natural force of society in the same way that Sumner presented the “struggle for existence” as a naturally occurring force amenable to scientific laws. He also follows Sumner by trying to establish love as a scientifically verifiable social phenomenon. Love is “one of the natural forces” that operates in “the world of life as gravitation and electricity have theirs in the world of matter.”¹⁷⁰ The metaphor of gravitation is more apt in Lloyd’s case than it is in Sumner’s because Lloyd considered love to be a force of attraction. “Every page of domestic or international history has its specimen facts to illustrate the law that men always seek contact; contact tends to union and multitudes grow into societies.”¹⁷¹ This preternatural attractive force of love, according to Lloyd, is the force of social progress.

Lloyd depicts social progress as an evolution in human associations from primitive societies to larger collective communities that afford more fulfilling forms of social life. His theory of social progress reads like a folksy Hegelianism: “The factory has been an advance on the cottage, the corporation an advance on the individual, the corporation of corporations an advance on the corporation, and the combination of all citizens in the greatest corporation of all—the whole people—will be the longest step

¹⁶⁸ *Ibid.*, 50.

¹⁶⁹ Lloyd, “The Discovery of Social Love,” 5.

¹⁷⁰ *Ibid.*

¹⁷¹ Lloyd, “Mere Contact Making for Spiritual Union,” 52.

forward of all.”¹⁷² The industrial revolution, by creating unprecedented combination in industry, has had the progressive effect of bringing more individuals into contact. Once individuals are brought together, the force of love counteracts the force of self-interest and brings men from atomistic “contact” to collective “association.”¹⁷³ He argues that the very fact of individuals in contact leads to a spontaneous effusion of love. “Contact produces love; love makes more contact.”¹⁷⁴ Love, being elemental in human nature, naturally leads people to cooperative association, and the concentration of industrial production brings more and more individuals together to create ever more inclusive associations.

Having identified love as “a primal social force . . . which underlies all social institutions,” Lloyd derives a set of laws to explain how this force operates.¹⁷⁵ The most powerful and universal law of society is the Golden Rule. Lloyd treats the Golden Rule as a positive expression of love that goes beyond the maxim “of doing as you would be done by.”

We need not kiss all our fellow-men, but we must do for them all we ask them to do for us—nothing less than the fullest performance of every power. To love our neighbor is to submit to the discipline and arrangement which make his life reach its best, and so do we best love ourselves.¹⁷⁶

¹⁷² Lloyd, “Social Love Creating New Forms of Social Life,” 88.

¹⁷³ Lloyd, “Mere Contact Making for Spiritual Union,” 50.

¹⁷⁴ *Ibid.*, 53.

¹⁷⁵ Lloyd, “The Discovery of Social Love,” 9.

¹⁷⁶ Lloyd, *Wealth Against Commonwealth*, 522.

Lloyd treats the Golden Rule as both objective and normative much the same as Spencer and Sumner treated the notion of “survival of the fittest”—it is both a factual description of how society works, and an ethical ideal.

The Golden Rule is a description of a social process, put into the form of an exhortation for the guidance of conduct, and generalized out of myriads of experimental observations, which prove that for some reason men tend to do unto others as they would that others should do to them.¹⁷⁷

In terms of the objective status of the Golden Rule as a social law, Lloyd believes it is at the heart of social progress. Society evolves and advances due to “self-sacrifice” rather than self-interest.¹⁷⁸ He also treats the Golden Rule as a law that is progressively expanding throughout history, and his program of reform is based upon the need to extend this law to yet more human arenas, particularly economics. “The persistence of the Golden Rule in its progress toward supreme jurisdiction can now be regarded as a verified scientific fact in the political history of the race.”¹⁷⁹

Regardless of the seeming similarities to Sumner’s sociology, and his framing of social forces as conforming to natural laws, Lloyd had a drastically different view of the ways in which the individual and society interact. Spencer and Sumner both treated society as a more or less fixed “environment” that encourages and rewards self-interested behavior. Lloyd too believed that individuals responded to environmental factors, but he also adopted the Aristotelian notion that human beings have an identifiable purpose or *telos* and that institutions of society should allow individuals to pursue and actualize

¹⁷⁷ Lloyd, “Mere Contact Making for Spiritual Union,” 71.

¹⁷⁸ *Ibid.*, 68.

¹⁷⁹ Lloyd, “New Conscience Transforming Party Politics,” 153.

this purpose. His “telic environmentalism” is clearly evident in *Man, the Social Creator*.¹⁸⁰ He believes that individuals are a product of their environment, but they are also in a position to shape and alter their environment so that this influence is constructive. “The whole theory of true reform is to set free the ‘inward perfecting principle within the individual and society,’ to use Aristotle’s words, which when released from interceptions and oppressions can easily be guided to move to its proper ends.”¹⁸¹ The selection process of “survival of the fittest” promotes the worst aspects of human nature, but Lloyd does not think this is necessary. “There is a power in society of social selection which can create a new environment and make over again men and communities.”¹⁸²

By presenting this new vision of the social order, Lloyd replaced the pessimistic and deterministic natural order of laissez faire proponents with the progressive and malleable social order that lends itself to reform. In a clear expression of his social theory he writes, “Earth is rich, man is good, love is the law.”¹⁸³ This is the antithesis of Sumner’s “science of society” which implied that the earth is poor, man is selfish, and survival of the fittest is the law. However, Lloyd was not primarily concerned with

¹⁸⁰ Destler, *Empire of Reform*, 183. The phrase “telic environmentalism” is an apt description of Lloyd’s view of society, but he inexplicably misspells “telic.” Lloyd’s “telic environmentalism” is very similar to Veblen’s institutional analysis. Veblen called for the development of “serviceable institutions,” which encourage productive and cooperative habits and customs, as opposed to “wasteful” institutions that encourage selfishness and the pursuit of social recognition.

¹⁸¹ Lloyd, “The New Conscience Manifesting Itself in Educational Methods and Actions,” 179.

¹⁸² Lloyd, “A New Political Economy Predicting a New Wealth,” 218.

¹⁸³ Lloyd, “Social Love Creating New Forms of Social Life,” 84.

formulating an alternative to Sumner's sociology. Lloyd believed that the revolution in economic production in the United States, represented by industrialization and combination, was not accompanied by a necessary evolution of moral ideas and political institutions. The new facts of the economic production were collective and cooperative relations, but the country still exhibited the moral outlook that characterized laissez faire individualism and competition. Lloyd's optimistic view was that moral and political reform would eventually catch up to the new economic realities, but as a reformer, he saw it as his duty to aid in an intellectual and moral regeneration that would replace the prevailing ethic of laissez faire.

Moral Reform and the New Conscience

Lloyd recognized the necessity of a moral regeneration in America as early as 1884, nearly two decades before he gathered his ideas for moral reform into the collection, *Man, the Social Creator*.

In the presence of great combinations in all departments of life, the moralist and patriot have work to do of a significance never before approached during the itinerant phases of our civilization. It may be that the coming age of combination will issue nobler and fuller liberty for the individual than has yet been seen, but that consummation will be possible, not in a day of competitive trade, but in one of competitive morals.¹⁸⁴

For Lloyd, the moral framework of the country had to be updated to reflect new economic and social realities. "The New Conscience" is the name that Lloyd gave to the new system of morals and ethics that were needed to make proper sense of the unprecedented contact that individuals experienced in industrial society. Lloyd believed

¹⁸⁴ Lloyd, "Lords of Industry," 147.

that industrialization constituted a step in economic progress, but the “money power,” with the help of economists and intellectuals, shaped the social consciousness of the population so that they came to accept the atomistic conception of society advanced by laissez faire supporters.¹⁸⁵ Lloyd sought to provide an alternative moral outlook for the American community that would supplant selfish, individualistic morality of laissez faire and “establish a new order based upon the general welfare and social virtue.”¹⁸⁶

Lloyd’s ideas concerning moral reform are eclectic, but the unifying moral principle of his new conscience is the Golden Rule. The Golden Rule is not strictly a Christian doctrine according to Lloyd, but a widespread if not universally accepted ethic. “The exhortations of Confucius and Buddha are so close to [the Golden Rule] that it may be correctly described as the chosen ideal of the vast majority of mankind.”¹⁸⁷ Lloyd notices that the ethical individualism of laissez faire is inconsistent with this ideal, so his proposal is to extend the ethic of the Golden Rule to society, politics, and economics. As industrialization produces new forms of contact, the Golden Rule must be extended to new areas and new relationships. “The sudden and vast expansion of modern business has made the co-operative commonwealth physical fact. Now comes the next expansion—that which will make the co-operative commonwealth a moral fact.”¹⁸⁸

¹⁸⁵ Lloyd, “The New Conscience,” 113, 119.

¹⁸⁶ Destler, *Empire of Reform*, 196. Destler notes the various influences that informed Lloyd’s new conscience such as “social justice . . . Emersonian transcendentalism, Positivist humanism and altruism, the Kantian categorical imperative . . . and romanticism’s evaluation of humanity.”

¹⁸⁷ Lloyd, “New Conscience Transforming Party Politics,” 153.

¹⁸⁸ Lloyd, “Social Love Creating New Forms of Social Life,” 77.

Lloyd thought that the “new conscience” could help establish a new economic ethic that would replace the selfish and predatory ethic of laissez faire. This new ethic values cooperation and public concern rather than competition and self-interest. “The remedy is the new conscience, which says simply that a man shall never be so much of a buyer or seller as to cease to be a brother, and that labor shall not be made a thing.”¹⁸⁹ Lloyd wants to reform business ethics so that large corporations do not use their market resources coercively—a practice that leads to social unrest and possible revolution. “The Golden Rule is conservative, not radical. . . . It is practical, not ideal.”¹⁹⁰ Lloyd believes that extending the Golden Rule to business practices is merely a matter of moral beliefs and ethical practices catching up to our current economic organization.

Lloyd’s new conscience does not seek to dismiss individual needs or interests, but to establish “harmony” between the individual and the community.¹⁹¹ The supposed conflict between individual interests and communal interests will be subsumed under various “reciprocities” between individuals and the collective.¹⁹² Lloyd actually believes that individuality is enhanced and enriched by its reciprocal relationship to social groups.

All the great, beautiful and brilliant ones have their roots in that deep mother soil of humanity, and draw from the common source that which makes them different for the moment from commonality. It is not from themselves but from all that they get their distinction. They are the efflorescence of common genius. All that they have they owe.¹⁹³

¹⁸⁹ Lloyd, “The New Conscience,” 119.

¹⁹⁰ Lloyd, “New Conscience in Industry,” 146.

¹⁹¹ Lloyd, “Mere Contact Making for Spiritual Union,” 64.

¹⁹² *Ibid.*, 54-6.

¹⁹³ Lloyd, “The Discovery of Social Love,” 12-13.

The individualism of laissez faire prioritizes the individual distinction that would not be possible without the larger community. Furthermore, this individualism—with its focus on competition—is particularly ill-suited to an industrial economy in which the vast majority of individuals are working cooperatively in factories, assembly lines, mines, and railroads. These increasingly cooperative enterprises require a “reconciliation of individual love and social love with each other, of individual self-interest and social self-interest.”¹⁹⁴ Such a realization of the “new conscience,” an extension of the Golden Rule to economic practices, would be an essential component of the moral regeneration that Lloyd was trying to facilitate.

For all of the problems that Lloyd sees in the economic system and its intellectual support structure, he remained an optimist. As he became involved in various reform movements and travelled the world, he observed instances of his new conscience emerging. He considered the labor movement to be one manifestation of the new conscience that was leading the way for an extension of the Golden Rule. This is due to their ability “to group and to organize themselves on the lines of mutual respect, equal justice, reciprocal profit and social love.”¹⁹⁵ Labor had become such a prevalent form of association that “the toiling millions” were in a position to extend the ethic of cooperation by acknowledging their roles as “co-creators.”¹⁹⁶ One aspect of the labor movement that was particularly attractive to Lloyd was that it was a practical movement with

¹⁹⁴ Lloyd, “A New Political Economy,” 228.

¹⁹⁵ Lloyd, “Social Love Creating New Forms of Social Life,” 99.

¹⁹⁶ Lloyd, “A New Political Economy,” 205; Lloyd, “Social Progress is Always Religious,” 49.

demonstrated results. He contrasted the labor movement with “Utopias” such as Edward Bellamy’s Nationalism and favored the former because it “grows itself outdoors” rather than in the comfort of stylish drawing rooms.¹⁹⁷ The labor movement, for Lloyd, represented a practical application of the new conscience and a real world expression of the Golden Rule.

Lloyd also looks to the variety of cooperative movements and communities as beacons of the new conscience. He points to the existence of “seventy-two communistic societies” in the United States as early as 1875 to serve as evidence that the ethic of cooperation is taking hold.¹⁹⁸ He refers to these communes as “pioneers” for a new system of political economy; they represent the experimentation that is necessary to actualize a more cooperative society.¹⁹⁹ Lloyd also observed cooperative movements in Europe, and Australasia when travelling abroad. He has high praise for the local and municipal cooperatives in Great Britain because its members have the necessary political experience to institute a larger cooperative community. “These men have had the practical success and the actual experience which would qualify them to officer and administer a Cooperative Commonwealth, if by some lucky accident it should come to England tomorrow.”²⁰⁰ These movements are social and political experiments that serve as examples to guide us in the direction of needed moral and political reform. This is the source of reform for Lloyd. It does not come primarily from intellectuals, but from

¹⁹⁷ Lloyd, “New Conscience in Industry,” 140.

¹⁹⁸ Lloyd, “A New Political Economy,” 222.

¹⁹⁹ *Ibid.*, 225.

²⁰⁰ Lloyd, “The Church of the Deed,” 235.

ordinary people who are trying different ways to live and work together. “The martyrs, the Socialists, the labor agitators, the strikers, the anarchists, the profit sharers, the co-operators, who are teaching us the industrial conscience, are the precursors of the joys and properties of the co-operative commonwealth.”²⁰¹

Political Reform: From Wealth to Commonwealth

Lloyd believed that moral reform would have to be accompanied by political reform so that the political institutions of the United States would reflect the realities of industrial production. His program for political reform is based upon a progressive evolution of institutions so that they adapt to the principle of social love and the ethic of the Golden Rule. The specifics of Lloyd’s proposals for political reform changed throughout his life. Nevertheless, Lloyd clearly saw the need to wrest control of the state from the influence of wealth in order to give the people democratic control over society. He calls for “reorganization of the state on lines more nearly parallel with those of human and social development.”²⁰² This is another aspect of Lloyd’s telic environmentalism because he sees reform as an effort to alter our social environment so that human beings can actualize their true potential as loving and cooperative social beings.

As I have discussed above, Lloyd thought that the most powerful entities in American society were the forces of concentrated wealth. After the Civil War, the power

²⁰¹ Lloyd, “A New Political Economy,” 215.

²⁰² Lloyd, “Mere Contact Making for Spiritual Union,” 70.

of wealth had grown so great that the federal government was the only organization powerful enough to control it.

There is nobody richer than Vanderbilt except the body of citizens; no corporation more powerful than the transcontinental railroad except the corporate sovereign at Washington. . . . The States have failed. The United States must succeed or the people will perish.²⁰³

Lloyd called for the people to use the government in a positive manner to create a society for the benefit of all rather than for the benefit of wealth. “The greatest social instrument at hand to use in developing society is the government.”²⁰⁴ The policy of laissez faire suggests that this “instrument” should only be used negatively to protect property rights and provide a legal framework for a competitive market economy. But Lloyd argues that this negative conception of the state simply allows the power of wealth free reign over society. A policy of laissez faire is tantamount to surrendering public influence over society to private influence.

Lloyd was not in favor of using the power of the state to dismantle industrial combinations. He considered combination to be efficient in terms of material production and beneficial in terms of bringing more individuals together in cooperative enterprises. The real problem posed by these combinations was that they were beholden to the influence of private wealth and beyond the control of the public. Lloyd’s solution to his was oversight, regulation, and public control of combinations. “If the tendency to combination is irresistible, control of it is imperative.”²⁰⁵ This is what Lloyd means by

²⁰³ Lloyd, “The Story of a Great Monopoly,” 46.

²⁰⁴ Lloyd, “Social Love Creating New Forms of Social Life,” 95

²⁰⁵ Lloyd, “Lords of Industry,” 146.

the term commonwealth. It is not merely the synonym for a republic; it is a community that puts its wealth and resources to public use. He points to Australia and New Zealand as examples of political communities that have come to understand that industry “must be administered for the common benefit” according to “the intelligence of all.”²⁰⁶ “The Australasians have gone beyond negative interference with wealth into the field of positive creation of commonwealth by the use of common resources.”

Lloyd, much like Marx, considered industrialization to be a progressive step in the evolution of human society and, therefore, something that should be preserved rather than undone. Despite all of his careful documentation of the abuses perpetrated by industrial combinations and monopolies, Lloyd was not in favor of breaking up combinations. He was critical of the American tendency to challenge monopolies with anti-trust measures and boycotts, and he praised the German “national economists” who called for “state monopoly” to replace private monopoly.²⁰⁷ The problem was not combination itself but the undemocratic result of an antiquated moral and political system, which gave these combinations undue influence. Lloyd sees these industrial combinations as public goods that should not be allowed to serve private interests. “The commonwealth the world over is manifestly now preparing to take up from the monopolists all such public utilities as gas, light, water and transportation monopolies, just as they have already taken up the roads, which were not long ago private property.”²⁰⁸

²⁰⁶ Lloyd, “The Church of the Deed,” 246, 251.

²⁰⁷ Lloyd, *Wealth Against Commonwealth*, 438-440.

²⁰⁸ Lloyd, “The Church of the Deed,” 253.

Lloyd also takes an optimistic stance towards the “social problem,” the existence of widespread poverty. He does not propose any specific programs for poor relief but he lauds the “Poor laws” of Great Britain as evidence of social progress that can “at last put poverty into the Museum of Antiques.”²⁰⁹ These were the very same Poor laws that Spencer rejected as ill-considered hand-outs to “good-for-nothings.” Lloyd tended to approach the problem of poverty from a moral standpoint rather than from a policy standpoint. He frequently ties the existence of poverty to the unethical practices of business and mistreatment of labor, but he shies away from any specific proposals for direct assistance to the poor. His assumption is that the poor are willing and able to work, but they lack opportunities to get ahead in an economy where most of the economic benefits accrue in the hands of the few. Carnegie and other captains of industry propose private charity as a way of increasing these opportunities, but Lloyd sees this as a half-measure that does nothing to change the underlying economic privilege afforded to the industrialists. “Charity as we practice it is but the insolvency of brotherhood, paying back one cent where it received a dollar.”²¹⁰ Private charity, according to Lloyd, comes from the same force that contributes to poverty, the power wealth and the system that supports it. He argues that there must be some measure of “security of subsistence” in any viable commonwealth so that the people have the freedom and independence to achieve their true potential.²¹¹ This task of securing subsistence for the population is too onerous for private charity as well. “Aristocratic benevolence spends but a shrunken stream in

²⁰⁹ Lloyd, “Social Love Creating New Forms of Social Life,” 90.

²¹⁰ Lloyd, “New Conscience in Industry,” 132.

²¹¹ Lloyd, “New Conscience Transforming Party Politics,” 176.

comparison with democratic benevolence.”²¹² Such democratic benevolence is an application of Lloyd’s new conscience to political communities and a recommendation for a policy based upon the Golden Rule.

CONCLUSION

Lloyd was never able to find a reform movement to embody his vision of moral regeneration. Turner notes that the fluidity of reform movements during the 1890’s left Lloyd with “no vehicle for effective action.”²¹³ He attempted to formulate an alliance between organized labor and the Populist movement between 1893 and 1896, but was frustrated by the inability of labor to unite behind common cause and its tendency to form radical and disagreeing factions.²¹⁴ He also broke with the Populist movement after they adopted a “free silver” platform in 1896 calling for monetizing silver to expand the money supply.²¹⁵ Lloyd always took a holistic and eclectic approach to reform, which explains why he rejected the free silver platform of the Populists and the single tax proposal of Henry George. His “new conscience” did not put forward these types of specific proposals. Instead, it pointed to a needed change in moral ideas that was not addressed by the free silver or the single tax movement. Lloyd also rejected Bellamy’s Nationalism, which he considered idealistic and untested.²¹⁶ He tended to look to actual

²¹² Lloyd, *Wealth Against Commonwealth*, 502.

²¹³ Turner, “Henry Demarest Lloyd and Business Ethics,” 72.

²¹⁴ Destler, *Empire of Reform*, 282-4.

²¹⁵ *Ibid.*, 285-288.

²¹⁶ *Ibid.*, 186.

social movements such as organized labor and cooperative movements for inspiration and guidance in pursuit of practical and realistic reform. Lloyd thought cooperatives had the best chance of bringing the Golden Rule into practice and to institutionalize it in business practices.

After his break from the Populist movement in 1896, Lloyd ended his involvement with third party politics, and much of the radical fervor was seized by the radical socialist firebrand Eugene V. Debs. Around this time, Lloyd and his wife began to entertain a variety of practical and intellectual reformers at his residences the Watch House and the Wayside. These gatherings allowed Lloyd to learn of the current developments in various reform movements in which his guests were involved and to disseminate his own ideas for a new conscience.²¹⁷ By the turn of the century, Lloyd had gained the reputation as “dean of American Reform,” an acknowledgement of the influence he had on the reform minded thinkers.²¹⁸

One serious shortcoming of Lloyd’s critique of laissez faire was his tendency to conflate the policy of laissez faire with the set of principles that justified that policy. As he thoroughly documents in *Wealth Against Commonwealth*, the prevailing economic policy in the United States during the Gilded Age was government favoritism or “crony capitalism” rather than laissez faire. Andrew Carnegie and other apologists for industrial combinations espoused the rhetoric of laissez faire while receiving assistance and

²¹⁷ *Ibid.*, 215-223. The guests received by the Lloyd’s included: “ethical leaders, socialites, slum-dwellers, clergy, businessmen, liberal and radical politicians, enlightened lawyers, labor leaders, Socialists, Single-Taxers, Bellamy’s lieutenants, Hull-House residents, college presidents and professors, newspaper editors, British Fabians and Liberals, and Negro leaders.”

²¹⁸ *Ibid.*, 451.

protection from the government. Lloyd mistook this rhetorical commitment to laissez faire for a deeper ideological commitment, and he thought that he could advance the cause of reform by presenting a criticism of that ideology. Carnegie's flailing attempt to justify inequality and competition in *The Gospel of Wealth* is one clear example of a "lord of industry" who used the rhetoric of laissez faire to justify his own interests while displaying a cursory and informal understanding of the economic and social theory behind it. Perhaps due to his own familiarity with the doctrines of classical political economy, and his own acceptance of those doctrines as a young man, Lloyd treated industrial capitalists as unqualified adherents to those doctrines. In reality, wealthy industrialists were more pragmatic than doctrinaire, and they were quite willing to use the rhetoric of laissez faire to promote and protect their own interests, while simultaneously lobbying the government for special treatment.

Critics of Lloyd point to his polemics as evidence that he was not a serious and careful observer. He took a heavy-handed approach when criticizing business combinations, and he tended to portray smaller independent businesses as innocent victims, although they were similarly focused on pursuit of self-interests. It is true that Lloyd's sympathies resided with the disadvantaged. Given the choice between supporting the powerful or the powerless, Lloyd invariably chose the powerless, and he frequently attributed malicious intentions to the powerful for good measure. Robert Wiebe, for one, characterizes Lloyd as nostalgic for "the life of the town"—a tradition of communalism in American life that changed as more and more Americans left rural communities for

economic opportunity in the urban centers.²¹⁹ However, if one takes Lloyd at his word, this is precisely the opposite of what he set out to achieve. “Man knows himself to be a progressive animal; it is heaven for him to go forward; hell to go back.”²²⁰ In his heart, Lloyd was progressive, not nostalgic. He welcomed industrialization and the increased connectivity of individuals as a possible site for a new type of morality and human association.

Admirers will point to his indefatigable hope that the American community could aspire to a higher form of economic, social, and political organization. Even Lloyd’s scathing criticisms of the existing economic and political system were informed by his ultimately positive and hopeful vision for the United States. His criticism was based upon a genuine moral belief that human beings were social, loving, and cooperative. In this sense, Lloyd actually epitomized the moralistic approach to social and economic problems that Sumner so vehemently opposed. Lloyd never saw the need to separate his moral concerns from his social commentary. Indeed, his moralism is encyclopedic and universalist. He supports his own moral vision of cooperation and love by referencing a range of moral teachers from Kropotkin to Confucius, and from Mazzini to Christ. He argues that all of these moral visionaries, himself included, have been informed by the very same moral idea—that human beings fundamentally love one another and that any human association must be a living embodiment of the Golden Rule.

²¹⁹ Wiebe, *The Search for Order*, 138-139.

²²⁰ Lloyd, “Social Progress is Always Religious,” 31.

CHAPTER 6 — THORSTEIN VEBLÉN'S CHALLENGE TO LAISSEZ FAIRE ECONOMIC THEORY

It becomes incumbent on the advocate of *laissez-faire* to “prove his minor premise.” It is no longer self-evident that: “Interests left to themselves tend to harmonious combinations, and to progressive preponderance of the general good.”

—Thorstein Veblen, “The Preconceptions of Economic Science III”

As the Gilded Age was coming to a close at the turn of the nineteenth century, Thorstein Veblen was one voice among many that challenged the dominant imperative of classical economics—*laissez faire*. Before the turn of the century, academic economics in America was dominated by “neo-classical economics.”¹ Supporters of *laissez faire*, such as William Graham Sumner, adopted this school of thought—developed by Smith, Riccardo and others—to justify a competitive market economy.² Although Veblen studied under Sumner at Yale, he would build his academic career on a profound rejection of his former teacher’s economic theory.³ He was a non-conformist his entire life, and his approach to economics was characteristic of this. He had trouble holding on to any academic position from his departure from Chicago in 1899 until his affiliation with The New School in 1919, although this was mostly a consequence of his hopelessly

¹ Spindler, *Veblen and Modern America*, 9-12.

² *Ibid.*, 10.

³ *Ibid.*, 12.

complicated married life.⁴ Nevertheless, Veblen's caustic insights into economic life gave his intellectual efforts an unmistakable originality that mirrored his famously eccentric persona.

Although he is a much-appreciated satirist and social critic, Veblen's polemical assessment of Gilded Age consumerism is rooted in a systematic and all-encompassing economic theory. He repeatedly grounds his somewhat inflammatory social criticisms in what he sees as a solid economic foundation. Veblen treats it as self-evident that a modern society with an industrial base of production has an objective interest in cooperative production. Based on this simple fact, he reconsiders the dominant beliefs and practices of American society in light of whether they facilitate or hinder cooperative relations of industrial production. Veblen's approach to economics is based upon a rejection of the laissez faire assumption that free competition is necessarily the most efficient way to produce and allocate the goods that are necessary for human life.

Along with his insistence that modern societies have an economic interest in cooperation rather than competition, Veblen challenges the mainstays of laissez faire economic theory. He rejects the fixed hedonistic model of human nature along with the tendency among economists to identify abstract laws of a supposedly unchanging economic reality. Rather, Veblen describes economic phenomena as historically contingent and constantly in flux. Furthermore, economic behavior and social practices do not always develop in a progressive manner. There are habits and norms that can inhibit the economic community's ability to produce things that are materially necessary

⁴ Jorgensen and Jorgensen, *Thorstein Veblen: Victorian Firebrand*, 122,136, and 160.

and to allocate these necessities to the population. Behaviors such as conspicuous consumption—a concept that Veblen famously identified—do nothing to further the economic interest of the community as a whole. Classical economists and adherents to laissez faire tend to normalize such economic practices as a “natural” outcome of a competitive market economy, but they do not challenge the value of such practices.

Veblen’s approach to economics involves a critical appraisal of the habits of economic life, which he refers to as economic institutions. Economic institutions are the complex array of beliefs, habits, practices, and behavioral norms that influence economic behavior. Institutions are social and historical, and they have a direct bearing on the economic system. Veblen focuses on these institutions in terms of their economic value. He accounts for how they originate, how they change, and how they affect economic production and distribution. More often than not, Veblen argues, the dominant institutions in society form obstacles to economic progress. Institutions such as private property, religious doctrines, and conspicuous consumption tend to reinforce selfish competitive habits. These institutions tend to conserve such undesirable traits; whereas, Veblen believes that economic progress involved the adoption of cooperative practices that facilitate collective production in an industrial setting.

Because of the fact that economic life is largely influenced by social and institutional factors, Veblen argues that the appropriate focus of the economist is to critically appraise these institutions in terms of their economic value. In this chapter, I investigate this critical appraisal in terms of its challenge to some of the important concepts of laissez faire. I begin by explaining Veblen’s theory of economic development

and considering how it differs from the classical model that forms the basis of laissez faire. Veblen's theory of economic progress rejects the classical notion of a fixed human nature, replacing it with an evolving institutional explanation of economic motivations. I then assess the ways in which Veblen challenges the classical approach to economic theory. He believes that classical economic theory is based upon a set of erroneous assumptions about economic life, and he offers an alternative approach that is evolutionary and accounts for changing norms and practices. Finally, I consider the criteria that Veblen uses to critically assess these institutions and the ethical implications that these standards have for economists. Because of his argument that many institutions are wasteful, the economist has an ethical obligation to challenge them and to identify ways to make them more amenable to cooperative industrial production. Overall, Veblen provides not only a strikingly new model of economic development but also a new vision of what economics is as a discipline of study. For Veblen, an economist should not be a mere passive observer of timeless economic processes, but a critic of these very processes. An economist must also be an agent of change.

VEBLEN'S THEORY OF ECONOMIC DEVELOPMENT

Veblen considered the discipline of economics, as he found it, ill-suited to account for significant changes in economic life. Classical economists, he argued, could not account for the emergence of economic institutions—the habits, beliefs, and practices that relate to economic life. These institutions shape economic life in ways that the classical school of economists cannot account for. Veblen believes that any satisfactory

economic theory should be able to explain the process by which these institutions evolve. Because these institutions are the product of social and historical forces, the abstract and normalizing approach of classical economics tends to overlook these historical particularities in favor of timeless laws that hold across all historical epochs. Classical economists treat human nature and competition as permanent and static features of economic life.

Veblen's alternative to the static view of economics is his own theory of the development of economic institutions. His model of economic development posits an interactive relationship between social norms and economic practices. Although he is attentive to human instincts and material conditions, Veblen's primary focus is on the changing nature of institutions. Institutions are the stimuli that condition most of economic life; therefore, they are the most appropriate focus of economics. Veblen's theory of economic progress is as vague as it is sweeping, and he does not present it in a straightforwardly analytical or explanatory manner. One is compelled to piece together his evolutionary theory of economic development from the scattered explanations presented in his essays and treatises. In the section that follows, I will explicate Veblen's economic model, including his view of human nature (or human instincts), his concept of institutions, and his explanation of how institutions evolve.

Economic Interest, Material Means, and Production

Veblen's project, as he sees it, is to develop a theory of cultural evolution based upon the economic beliefs and behavior of human beings. In contrast to Marx, for

example, Veblen is not trying to construct an all-encompassing theory of history rooted in the material facts of economic production.⁵ Rather, he is interested in cultural phenomena that are created and shaped by man's "economic interest"—"interest in the material means of life."⁶ Veblen refers to these cultural phenomena or "habits of thought" as "economic institutions," which include things like private property, technological processes, and conspicuous consumption. Economists, Veblen believes, should compare the objective economic interests of the community with the cultural expression of that economic interest in the form of institutions. Relying upon this economic appraisal of cultural norms and practices, Veblen criticizes institutions that are seemingly trivial. He deems religion, sports, fashion, and even higher education to be arcane relics that are a result of a more primitive culture. Veblen attempts to account for the emergence and development of these institutions to show that they do not further the economic interests of a modern industrial community.

If there is a solid foundation to Veblen's theory, it is the "economic interest" of human beings that has existed throughout history—the "economic life process."⁷ "The economic life history of any community is its life history in so far as it is shaped by

⁵ Veblen, "Industrial and Pecuniary Employments," 225-6. Indeed, Veblen criticizes Marx's "Materialistic Conception of History" on the grounds that it seeks to explain "the growth of culture" in terms of "selfish, calculating class interest." Veblen thinks that class interest is an essential component of cultural growth, but he challenges the notion that economic institutions evolve rationally and predictably according to class interest alone.

⁶ Veblen, "Why is Economics not an Evolutionary Science," 392.

⁷ *Ibid.*

men's interest in the material means of life.”⁸ The types of action that emerge from this economic interest are oriented towards an end or goal. “Economic action is teleological, in the sense that men always and everywhere seek to do something.”⁹ That is not to say that the goal of economic activity is constant; rather, every cultural expression of the economic interest will be teleological in its own particular way. Veblen argues that this drive to accomplish a useful or productive goal is largely instinctual.¹⁰ He terms this “taste for effective work, and ... distaste for futile effort” the “instinct of workmanship,” and it forms the “psychological ground” of his theory of economic development.¹¹

This instinctual and teleological economic interest will compel human communities to interact with their material environment in order to procure subsistence at the very least. But Veblen does not treat the changes in the material facts of life as determinative: “The physical properties of the materials accessible to man are constants: it is the human agent that changes,—his insight and his appreciation of what things can be used for is what develops.”¹² Veblen considers the material and technological situation of a society to “stand in a system of interdependence” with social customs and habits. It is not simply an “exogenous” force that is unaffected by the process of societal

⁸ *Ibid.*

⁹ *Ibid.*, 391.

¹⁰ For an excellent presentation of Veblen's “instinct psychology,” See Morton White, *Social Thought in America*, 85-9.

¹¹ Veblen, *Theory of the Leisure Class*, 13.

¹² *Ibid.*, 387.

evolution.¹³ The economic interest develops progressively throughout history, but it is a social change, rather than a change in material facts. Veblen characterizes technology itself as a social, rather than material development. “The changes that take place in the mechanical contrivances are an expression of changes in the human factor. Changes in the material facts breed further changes only through the human factor.”¹⁴ In short, humans are goal-oriented creatures with material needs, and in pursuit of those goals economic agents affect the way the whole community thinks and acts. This is “the economic life process.”

Veblen thinks that economic production, the pursuit of the material means of life, is inherently communal or social. He writes,

Production takes place only in society—only through the cooperation of an industrial community The isolated individual is not a productive agent. What he can do at best is live from season to season, as the non-gregarious animals do.¹⁵

This is, of course, a challenge to the natural rights justification for private property, but Veblen is also trying to establish the economic interest as communal phenomenon. The collective knowledge of the community is necessary for any production beyond the mere subsistence minimum. Communal institutions such as “traditions, tools, [and] technical knowledge” are necessary to produce useful goods “since there is no individual production and no individual productivity.”¹⁶ An isolated individual may be able to

¹³ Brett, “Veblen’s Theory of Institutional Change,” 467-8.

¹⁴ Veblen, *Theory of the Leisure Class*, 388.

¹⁵ Veblen, “Beginnings of Ownership,” 353.

¹⁶ *Ibid.*, 353-4.

procure a degree of subsistence, but without the technical and cultural knowledge of the community he or she cannot produce useful goods.

Human Nature and Human Development

Veblen's conception of human development offers very little in terms of a psychological model for human nature or economic behavior. Human beings obviously must provide for themselves, and Veblen does suggest that this is a constant feature of human life. He does not identify any permanent features of human psychology other than basic human impulses such as "the economic interest" and the "instinct of workmanship." However, one cannot predict the type of cultural expression that will result from these impulses. He argues that economists who resort to a static model of human nature assume what they are obliged to prove—that there is a permanent human impulse that explains why we act or how we make decisions. When Adam Smith, for example, argues that the instinct to barter is a result of "a direct propensity in human nature," Veblen observes that Smith relies upon this feature of human nature "without any attempt at further explanation of how man has come by it."¹⁷ This is one reason that Veblen criticizes economics as a "taxonomic" rather than an "evolutionary" science.¹⁸

¹⁷ Veblen, "Preconceptions of Economic Science (II)," 399.

¹⁸ See Veblen, "Why is Economics not an Evolutionary Science." Veblen is clearly using "taxonomic" as a pejorative description of scientific research to indicate that it cannot account for developmental processes and must confine itself to identifying concepts in a taxonomic fashion.

Veblen wants to reconceptualize human nature by focusing on habits and character rather than innate psychological propensities. Such a fixed conception of human nature prevents economists from accounting for human development.

The economists have accepted the hedonistic preconception concerning human nature and human action, and the conception of economic interest which a hedonist psychology gives does not afford material for a theory of the development of human nature.¹⁹

Veblen not only believes that this fixed model of human nature is inaccurate, it removes the human subject, in all its complexities, from the universe of economic theory. Such a simplistic view of human nature means “the element of human nature may be fairly eliminated from the problem, with great gain in simplicity and expedition.”²⁰ Economic theory, in Veblen’s view, was not suffering from a want of simplicity.

In Veblen’s theory, economic agents do not have a fixed and permanent nature; they have an adaptable character that is in flux and subject to a myriad of social influences. “He is not simply a bundle of desires . . . but a rather coherent structure of propensities and habits which seeks realization and expression in an unfolding activity.”²¹ Veblen puts forward an alternative to the psychologized notion of human nature that was so common in classical and neo-classical economic theory. He acknowledges that human evolution has a biological and material aspect, but “taken in the aggregate or average, this

¹⁹ *Ibid.*, 394. Although the idea of changing and developing “human nature” is logically problematic, Veblen himself uses the term “human nature” to denote an area that requires theorization.

²⁰ Veblen, “Preconceptions of Economic Science (II),” 423.

²¹ Veblen, “Why is Economics not an Evolutionary Science,” 390.

human subject is more or less variable.”²² What is more, this variation in the human subject should be the primary focus of economics. “It is in the human material that the continuity of development is to be looked for; and it is here, therefore, that the motor forces of the process of economic development must be studied.”²³ Veblen sees social evolution as primarily an evolution in what classical economists call human nature.

Of course, it is not nature that evolves and changes, but the ways in which individuals think and behave. For Veblen, economic behavior is based upon the economic interest of mankind expressing itself based upon inherited practices and customs. The individual has “circumstances of temperament” that are “products of his hereditary traits and his past experience, cumulatively wrought out under a given body of traditions, conventionalities, and material circumstances.”²⁴ The economic motives of an individual are historical and cultural rather than natural or psychological, which makes the individual, to a certain degree, malleable.²⁵ Veblen believes that individuals tend to gravitate towards conventional methods of thinking and habits that are shaped by society in general. “Each individual is but a single complex of habits of thought.”²⁶ For Veblen, these “habits of thought”—their formation, evolution, and effects—are the most appropriate focus for economic investigation.

²² Veblen, *Theory of the Leisure Class*, 139.

²³ Veblen, “Why is Economics not an Evolutionary Science,” 388.

²⁴ *Ibid.*, 390.

²⁵ For a clear and concise description of Veblen’s theory of history, see Suto, “Some Neglected Aspects of Veblen’s Social Thought,” 443-9.

²⁶ Veblen, “Preconceptions of Economic Science (I),” 143.

The Crucial Role of Institutions in Veblen's Theory of Development

Veblen's concept of institutions is quite broad and goes beyond the traditional view of institutions as formal structures that are religious, legal, or political. Veblen uses the word "institution" interchangeably with "habits of thought, points of view, [and] mental attitudes and aptitudes."²⁷ These institutions are constitutive of human nature. They shape our very consciousness and form the basis of economic practices and behaviors. Institutions are "circumstances of temperament" manifested in the individual; they "are the products of his hereditary traits and his past experience, cumulatively wrought out under a given body of traditions, conventionalities, and material circumstances."²⁸ Institutions are the ever-changing constellation of habits, moral systems, technological processes, norms and attitudes that account for the way an economic community behaves. If economists are to construct a theory of economic development, Veblen believes, they must frame that theory in terms of the change of institutions.²⁹

One will notice that Veblen's concept of institutions, the broad array of human habits and attitudes, goes far behind the confines of economics, but Veblen is careful to point out that his interest is restricted to only economic institutions. That is, "comprising those institutions in which the economic interest most immediately and consistently finds

²⁷ Veblen, *Theory of the Leisure Class*, 140.

²⁸ Veblen, "Why is Economics not an Evolutionary Science," 390.

²⁹ As Olivier Brette has shown, institutions are both a cause and effect in Veblen's theory of economic change. See, "Veblen's Theory of Institutional Change," 463-4.

expression and which most immediately . . . are of an economic bearing.”³⁰ Again, Veblen frames the subject of economics in terms of this “economic interest,” interest in “the material means of life.”³¹ But this is hardly the only interest that drives human behavior. The economic interest exists alongside “aesthetic, sexual, humanitarian, [and] devotional interests.”³² This means that no human action is reducible to economic motivations alone, but it also means that virtually all cultural institutions are connected in some way to the economic interest of mankind. This does a great deal to explain why Veblen, as an economist, became such a trenchant critic of American culture. The economic interest is so pervasive that it opens a myriad of new avenues for Veblen’s economic critique. To illustrate how expansive this institutional focus can be, I will describe two very different economic institutions that come under Veblen’s critical gaze, the ownership of property and religious observance.

The neoclassical view of property—championed by Spencer and Sumner—is based upon the belief that society has progressed from a “regime of status to one of contract.”³³ These theorists argue that private property emerged under this “regime of contract” as a way of exchanging productive labor for scarce resources.³⁴ Veblen maintains that the institution of ownership is a convention, reinforced by habit and

³⁰ Veblen, “Why is Economics not an Evolutionary Science,” 393.

³¹ *Ibid.*, 392-3.

³² *Ibid.*, 393.

³³ Prasch, “Veblen on the Origins and Meaning of Private Property,” 21-2.

³⁴ *Ibid.*, 21-3

tradition, whose origin is predation and “the practice of plundering.”³⁵ For Veblen, the institution of ownership is an institution that arose in a more primitive stage of human culture that was marked by violence and exploitation. Property, according to Veblen, originated in the need for men to establish their status in a primitive community.

Ownership is not a progressive feature of a modern industrial economy: it is a cultural relic that is best suited to a “barbarian culture” that was defined by “exploit, coercion, and seizure.”³⁶ Veblen questions the very utility of ownership in a modern society, and he does this by accounting for the development of ownership as an institution that grew out of the economic interest at an earlier stage in history.

It is clear enough that such an institution as ownership is relevant for the purposes of economic investigation, but Veblen’s analysis also moves away from the traditional foci of economists to cultural phenomena such as religious observance. Never one to mince words, Veblen argues that the human proclivity for these “anthropomorphic cults” is based on a habitual tendency to identify “the presence of a pervasive extraphysical and arbitrary force or propensity in things or situations.”³⁷ As irrelevant as it may seem for the purposes of economic theory, religious observance gives Veblen two points of entry from an economic front. First, the “animistic standpoint” which leads people to participate in religious observance is an earlier expression of the economic interest from a “predatory stage” of human culture.³⁸ Religious observance can be explained in part by

³⁵ Veblen, “Beginnings of Ownership,” 362.

³⁶ *Ibid.*, 360-1.

³⁷ Veblen, *Theory of the Leisure Class*, 214-6.

³⁸ *Ibid.*, 220.

accounting for the remnants of an earlier and more savage culture. Second, Veblen argues that the economic utility of this “animistic standpoint” is negative in so far as it contravenes “the matter-of-fact temper that recognizes the value of material facts as opaque items in a mechanical sequence.”³⁹ The latter attitude is conducive to economic efficiency in a modern industrial community; the former is a hindrance. Veblen questions the economic value of religious observance because of the habit of mind that influences it and because of its uselessness from a purely economic standpoint in an industrial community.⁴⁰

Using his institutional focus, Veblen questions the economic usefulness of both ownership and religion. Both are the products of an earlier cultural form of the economic interest. They are the institutional relics of a more primitive culture from a distant past. Based upon this assessment, Veblen believes both of these institutions are ill-suited for a modern industrial community.

The Evolution of Economic Institutions

Veblen was very critical of Social Darwinism, almost to the point of being dismissive, but this did not lead him to reject Darwinism or even the evolutionary terminology that accompanied it. Indeed, Veblen considered the discipline of economics to be somewhat antiquated because of its inability to transition to “an evolutionary

³⁹ *Ibid.*, 222.

⁴⁰ See *ibid.*, 214-5. Veblen is very careful to point out that he is evaluating such institutions only on the basis of their economic utility. He does not question that such institutions may have spiritual or moral value for those who adhere to them.

science.”⁴¹ Veblen wanted economics to account for the evolution of economic institutions, not to classify the laws of economic reality based on a supposed struggle for survival among rational individuals. Veblen challenged Social Darwinism, not for employing evolutionary concepts, but for not being evolutionary at all.⁴²

In his writing about economic institutions, Veblen constantly resorts to biological imagery. He conceives these institutions as organic complexes of norms, practices, and attitudes that are continuously evolving to meet changing circumstances. He describes the process as follows:

The progress which has been and is being made in human institutions and in human character may be set down, broadly, to a natural selection of the fittest habits of thought and to a process of enforced adaptation of individuals to an environment that has progressively changed with the growth of the community and with the changing institutions under which men have lived.⁴³

One will notice that Veblen’s description of institutional progress is shot through with biological and evolutionary imagery. Employing terms like “natural selection,” “fittest habits,” “adaptation,” and “environment,” Veblen reveals an inclination to apply evolutionary theory to human society. He goes on to say that institutional change is “a process of selective adaptation” or “of the nature of a response to stimulus.”⁴⁴ Veblen

⁴¹ See Veblen, “Why is Economics not an Evolutionary Science.”

⁴² Eric Goldman draws a very helpful distinction between the “Conservative Darwinism” of Spencer and Sumner and the “Reform Darwinism” of Henry George and Veblen. He writes, “Conservative Darwinism had recognized evolution up to the present, and then, for all practical purposes, called a halt.” See *Rendezvous With Destiny*, 93-117.

⁴³ Veblen, *Theory of the Leisure Class*, 138.

⁴⁴ *Ibid.*, 140-1.

uses the paradigm of evolutionary biology to describe human social evolution as a series of adaptations to a social, rather than a natural, environment.

Veblen clearly states that life in human society is a “struggle for existence and therefore it is a process of selective adaptation.”⁴⁵ But Veblen does not think that this selection is based upon natural or biological abilities, the likes of which are found in natural environments. Rather, “the evolution of the social structure has been a process of natural selection of institutions,” that is, “a natural selection of the fittest habits of thought.”⁴⁶ Veblen believes this selective process discriminates between different types of character and habits that are more or less suited to the society at large. The characteristic nature of this process of institutional adaptation is stimulus and response. “Institutions must change with changing circumstances since they are of the nature of an habitual method of responding to the stimuli which these changing circumstances afford.”⁴⁷ The biological imagery here is unmistakable.

What distinguishes Veblen’s theory of social evolution from biological evolution is that the “stimuli” to which economic institutions respond are not natural and constant, but historical and progressive. Institutions themselves come to form the environment in which humans find themselves. Institutions are both cause and effect of human adaptation and behavior. These institutions constitute the social environment in which we

⁴⁵ *Ibid.*, 138

⁴⁶ *Ibid.* It is curious that Veblen describes this process as “natural selection” since the “environment” that he describes is a social and cultural landscape that influences our habits and thinking. He may have mistakenly appropriated this phrase from evolutionary biology to support his own vision of evolutionary economics.

⁴⁷ *Ibid.*, 139.

live, and consequently they form new stimuli that require further responses and adaptations. Veblen describes this interdependent relationship thusly,

Changing institutions in their turn make for further selection of individuals endowed with the fittest temperament, and a further adaptation of individual temperament and habits to the changing environment through the formation of new institutions.⁴⁸

Stating economic theory in terms of natural selection, Veblen presents a novel approach to economics in which individuals, constituted mostly by habits, attitudes, and character, continuously change and adapt to the complex array of institutions that are themselves in flux.

One important implication of Veblen's institutional and evolutionary approach to economics is that any "laws" posited by economists will be contingent upon a specific assemblage of institutions. Once these institutions change, the "laws" will no longer be applicable. From this perspective, classical economists are left to classify and identify the effects of institutions that they cannot account for. Veblen argues that this misguided approach to economics is based upon a series of erroneous assumptions that have been uncritically accepted by economists from the Physiocrats to the Utilitarians. His attempt to dislodge these assumptions amounts to a serious challenge to the foundations of laissez faire economics.

INSTITUTIONAL ECONOMICS, EVOLUTION, AND LAISSEZ FAIRE

Before discussing the ways in which institutions contribute to and hinder human progress, a crucial aspect of Veblen's critique of laissez faire, I must explain the ways in

⁴⁸ *Ibid.*, 138.

which Veblen's theory of institutions challenges the foundations of classical economic theory. Primarily, Veblen's institutional focus seriously undermines the laissez faire conception of the economic agent as a rational, self-interested actor with a constant human nature. Veblen's approach also questions the "laws," which are posited by classical economists. He argues that classical economists assume that there is some permanent "order of nature" and that such an order lends itself to fixed and discoverable "natural law."⁴⁹ Veblen also postulates an underlying worldview or metaphysical belief that classical economists unwittingly adopt. Classical economics originated during the Enlightenment and was heavily connected to the idea of natural law. This led economists to adopt an "animistic preconception" in which economic events are expected to conform to a permanent order of nature. Veblen believes that this focus on an abstract law of nature has lead economists to focus on taxonomy, the classification of economic phenomena that are part of an unchanging economic process. Veblen believes that the most important task for the economist is to break from taxonomy and account for how the economic process changes along with the evolution of institutions.

Animism and the Classical Economic Worldview

Veblen's approach to economic knowledge is largely sociological. He believes that economic knowledge will be bound up with and determined by the dominant attitudes that exist historically at the time a theory is formulated. There are "preconceptions" held by economists that explain, to some extent, their approach to

⁴⁹ See Veblen, "Preconceptions of Economic Science (I)."

economic truth. He writes, “The spiritual attitude of a given generation of economists is therefore in good part a special outgrowth of the ideals and preconceptions current in the world around them.”⁵⁰ In his three-part essay, “The Preconceptions of Economic Science,” Veblen presents a genealogy of these preconceptions and “spiritual attitudes” in order to explain the origins and assumptions of classical economics, which he believes are still holding the discipline back. The discipline of economics itself is shaped and influenced by the existing institutions of society, institutions that shape the “spiritual attitude” of the economists themselves. The “canons of economic reality . . . are of the nature of habits of thought.”⁵¹ The ways in which economists approach the world are determined by these preconceptions and habits.

Veblen repeatedly criticizes the discipline of economics for not being evolutionary in its approach to knowledge. He challenges the laissez faire mission to deduce absolute laws from a supposed fixed economic order. His institutional focus is an attempt to account for the evolving nature of economic life and get beyond the classical focus on identifying laws of economics that are universal. The propensity for economists to look for abstract universal laws, Veblen believes, can be traced back to the first proponents of laissez faire, the Physiocrats. The Physiocrats were the inheritors of “the doctrines of Natural Rights and the Order of Nature,” which were prevalent in the enlightenment.⁵² Veblen is surprisingly lenient on the actual figures of the Physiocratic school. His focus instead is the intellectual structure that transmitted these preconceptions

⁵⁰ *Ibid.*, 125.

⁵¹ Veblen, “Preconceptions of Economic Science (III),” 240.

⁵² Veblen, “Preconceptions of Economic Science (I),” 134.

and “spiritual attitudes.” “Physiocratic economics is a theory of the working-out of the Law of Nature (*loi naturelle*) in its economic bearing, and this Law of Nature is a very simple matter.”⁵³ Physiocratic economics, it seems, was a product of the times, but their incorporation of natural law into economic theory would have lasting consequences.

Because of this natural law preconception, the Physiocrats assumed that the laws of economics would have the same character as the laws of nature. That is, legitimate economic laws would have to be “immutable and unerring” just like the laws governing nature itself.⁵⁴ Veblen writes, “The great law of the order of nature is of the character of a propensity working to an end, to the accomplishment of a purpose.”⁵⁵ The Physiocrats believed that nature was purposeful and progressive. They were intent upon working out in economic terms “the propensity imminent in nature to establish the highest well-being of mankind.”⁵⁶ This “propensity” for progress was taken for granted by the Physiocrats as something that did not require explanation. Consequently, “the conclusions reached, when these laws and order are known, are therefore expressions of absolute truth.”⁵⁷ Veblen believes that the natural law preconception of the Physiocrats led them to conclude that the nature of economic reality was fixed and ordered, lending itself to laws that are based on this permanent ordering of economic life. Economic laws, like natural

⁵³ *Ibid.*, 126.

⁵⁴ *Ibid.*, 127.

⁵⁵ *Ibid.*

⁵⁶ *Ibid.*, 128.

⁵⁷ *Ibid.*, 128-9.

law would have to be abstract and universal to fit the preconceived notion of an economic reality as a uniform and natural order of economic life.

Such a focus on universal laws as a criterion for economic knowledge has been a mainstay of classical economic theory dominating the economic theories of Veblen's contemporaries and persisting to the present time. But there is a more pervasive preconception that grew out of natural law. Veblen observes that the natural law preconception led the Physiocrats, and future economists from Adam Smith to John Stuart Mill, to attribute to economic phenomena "a quasi-spiritual or animistic character."⁵⁸ This means that economists tend to imbue inanimate facts of economic reality with a purposeful, animistic character. Rather than deal with the factual basis of economic life, Physiocratic "canons of knowledge are cast in the animistic mould and converge to a ground of absolute truth, and this absolute truth is of a ceremonial nature. Its subject matter is reality regardless of fact."⁵⁹ This type of animistic preconception is very similar to religious belief in that it is assumed that there is a purported absolute and intelligent order of things. From its very beginning, the discipline of economics adopted this animistic attitude from "natural theology, natural rights, moral philosophy, and natural law."⁶⁰ This attitude is an obstacle to the dispassionate observation of facts that Veblen advocates as an approach to economic knowledge.

⁵⁸ *Ibid.*, 128.

⁵⁹ *Ibid.*, 147.

⁶⁰ *Ibid.*

Veblen identifies two lasting features of this animistic preconception that have formed the “metaphysics of political economy.”⁶¹ The first feature is a treatment of the human agent as fundamentally hedonistic and part of a larger natural process.⁶² The animistic preconception of economic life, the proclivity to attribute living properties to economic events and processes, leads economists to accept a reductionist conception of the economic agent as a fixed site of hedonistic impulses. They naturalize the human agent so that the complexities of human behavior are eliminated in order to fit the human into a preconceived model of economic reality. “The motives and movements of men are normalized to fit the requirements of a hedonistically conceived order of nature.”⁶³ Veblen argues that this very conception of an “order of nature” is another holdover from the natural law and animistic preconceptions that the Physiocrats established. They have personified the very process of economic life treating it as a divinely ordered system with a predetermined end.

The second feature of the animistic preconception that runs through classical economics is the belief in a progressive and “benign order of nature” that will lend itself to natural laws.⁶⁴ This preconception was originally accepted as a religious truth. “With Adam Smith the ultimate ground of economic reality is the design of God, the teleological order.”⁶⁵ Smith’s animistic conception of economic life led him to attribute a

⁶¹ Veblen, “Preconceptions of Economic Science (II),” 412.

⁶² *Ibid.*, 397-8; Veblen, “Preconceptions of Economic Science (III),” 242-3.

⁶³ Veblen, “Preconceptions of Economic Science (II),” 409.

⁶⁴ Veblen, “Preconceptions of Economic Science (III),” 246.

⁶⁵ Veblen, “Preconceptions of Economic Science (II),” 412.

purposeful order to events and to interpret these events as inevitable and progressive. Veblen argued that this preconception of a benign and ordered nature was also a dominant feature of utilitarian economics that arose near the middle of the nineteenth century—specifically the economic writing of John Stuart Mill. These economists held “an uncritical conviction that there is a meliorative trend in the course of events, apart from the conscious ends of the individual members of the community.”⁶⁶ They dispensed with the theological undergirding of this “order of nature” and replaced it with “a belief in the organic or quasi-organic . . . life process on the part of the economic community.”⁶⁷ Regardless of their explanation, utilitarian economists hold to the same preconception that economic life is ordered, progressive, and teleological. Veblen argues that this belief is yet another legacy of the “animistic preconception” that accompanied economic science since its inception.

Economic Theory, the Lineage of Natural Law, and the Animistic Preconception

Veblen believes that this animistic preconception exhibited in economic theory has contributed to two major deficiencies in the discipline of economics. One such deficiency is the focus on the economic life as an ongoing and unchanging process rather than a focus on how these processes originate, change, and end. Veblen argues that this focus on economic process began with Adam Smith’s “preconception of a productive

⁶⁶ Veblen, “Preconceptions of Economic Science (III),” 242.

⁶⁷ *Ibid.*, 242.

natural process as the basis of his economic theory.”⁶⁸ Veblen does not object to economists seeking to focus on the process of economic life; what he rejects is the purposeful teleological character of this process that results from animistic preconceptions. Smith, he argues, does not include the entire process of economic life into his theory. Instead he simplifies the process by “normalizing the chief causal factor in the process.”⁶⁹ Smith normalizes the human agent so that he or she will fit neatly into an ordered teleological economic process. Subsequent theorists of laissez faire would renew their focus on the “process of economic life,” but Veblen argues that their focus on process is informed by a “metaphysics of normality” in which they attempt to categorize and normalize aspects of a changing economic process.⁷⁰ Veblen argues that this leaves economic theorists with the task of classifying and explaining aspects and outcome of a certain economic process, but they fail to provide “a theory of the process as such.”⁷¹ The preoccupation with a normalized process of economic life is an obstacle to an accurate understanding of how these processes actually work and change.

A second deficiency in economic theory that results from the animistic preconception is the tendency to frame economic theories in terms of abstract concepts rather than focus on empirical facts. Veblen’s insight is especially valuable here because so much of economic theory is based upon assumptions that simplify economic reality. He traces this feature of economic theory back to the animistic preconceptions of the

⁶⁸ Veblen, “Preconceptions of Economic Science (II),” 403.

⁶⁹ *Ibid.*, 409-10.

⁷⁰ Veblen, “Preconceptions of Economic Science (III),” 255.

⁷¹ *Ibid.*, 256.

Physiocrats and their desire to discover abstract natural laws. Animism, as a basis of scientific knowledge, is conducive to a presentation of knowledge on “a ground of absolute truth.”⁷² Veblen clearly states that this animistic frame of reference aims at an abstract form of knowledge: “Its subject matter is a reality regardless of facts.”⁷³ Adam Smith, for example, moves away from “unconstrued observation” of economic phenomena to “normalization of data” in which phenomena fit into a nicely ordered teleological process.⁷⁴ In Smith’s case, the preconceived notion of an abstract and ordered economic process takes precedence over the actual facts of the economic process. Veblen observes that this obsession with normalizing facts so that they fit into an abstract framework reached a fevered pitch during the middle of the nineteenth century. “The [economic] science is, therefore, a theory of the normal case, a discussion of the concrete facts of life in respect of their degree of approximation to the normal case.”⁷⁵ Economics is beholden to a “metaphysics of normality” in which economic truth is judged according to an abstract hypothetical model of reality rather than “coincidence with matter-of-fact events.”⁷⁶

These two consequences of this animistic preconception, a focus on economic processes and an application of abstract laws to such a process, are closely

⁷² Veblen, “Preconceptions of Economic Science (I),” 146-7.

⁷³ *Ibid.*

⁷⁴ Veblen, “Preconceptions of Economic Science (II),” 404.

⁷⁵ Veblen, “Preconceptions of Economic Science (III),” 255.

⁷⁶ *Ibid.*

related. If an economist conceives economic life as a fairly constant process, abstract descriptions of that process will seem appropriate. The economic process is assumed to be constant, and the laws pertaining to that process are assumed to be universal. Such a vision of economic life is why Veblen protested that economics was not evolutionary. An abstract assessment of a supposedly constant process leaves no room for a theory of how the process itself may change. Veblen's insight here is that the intellectual grounding of this universal process came from outside the process itself.⁷⁷ Veblen believes that the economic process was complex; the working out of the process historically will inevitably alter the process, primarily through evolution of institutions. Any credible explanation of an economic process will have to account for how the economic institutions affect, and are affected by, the process itself. Classical economists use natural law and the animistic preconception unwittingly as a referent to ground their belief in a constant, predictable economic process.

The preoccupation with economic process that Veblen identifies among classical economics lends itself to an abstract approach to knowledge. The process itself is an abstract concept; it is a useful fiction in which elements of the economic process are "normalized" to fit along with a consistent abstract standard. Given the abstract nature of the process, economists tend to favor abstract explanations for the workings of the economic process. The laws of supply and demand, competitive advantage, and marginal utility all present abstract explanations of the economic process and its possible outcomes. Again, Veblen challenges this approach based on evolutionary criteria. Veblen thinks that the process of economic life does not lend itself to abstract laws in the manner

⁷⁷ *Ibid.*, 256.

of the natural sciences. This is because the process of economic life goes through various phases of development as institutions change and evolve. From Veblen's perspective, abstract and universal laws, are inappropriate because they are based upon a hypostatized view of the economic process. Classical economists rely upon an abstract model of the economic process and proceed to formulate abstract laws that would predict and explain the outcome of that process.

Veblen looks at the economic process empirically rather than abstractly. He treats economic life as something that is factual and adaptable. Indeed, much of Veblen's research is devoted to an assessment of how various institutions have shaped the economic process. Such an approach to the economic process excludes the possibility of abstract universal laws of economics. Veblen's model of the economic process as a constant evolution of institutions implies that abstract laws will only hold in certain situations, and as institutions change and progress, those laws will cease to be applicable. Therefore, the most important task for an economist is to investigate the evolution of economic institutions and consider how useful they are for the community at large. Most economists treat the economic process as static, and they seek to classify and identify the workings of the economy in an abstract manner. This is the reason that Veblen considers economics to be more "taxonomic" than "evolutionary."⁷⁸ Economists are left to supply a taxonomic classification of economic life similar to a naturalist identifying organisms in the wilderness. Veblen wants economists to consider, like Darwin, where those organisms came from and how they change.

⁷⁸ See Veblen, "Why is Economics Not an Evolutionary Science."

INSTITUTIONS, PROGRESS, AND CONSERVATISM

Having explained Veblen's model of economic development as well as his criticism of the intellectual roots of classical economics, I now turn to Veblen's own approach to economic phenomena. According to Veblen's model of economic development, economic institutions are the most important focus for economic investigation. Human instincts and material reality are undoubtedly part of the model that Veblen presents, but he argues that the most important explanatory factors for economic theory are the habits and attitudes that supervene upon the economic agent. In Veblen's view, an accurate appraisal of economic institutions explains much more about economic life than any static theory of human nature. However, Veblen also believes that the classical approach to economics is incapable of accounting for institutional evolution in any meaningful way. The classical approach is to formulate abstract theories relating to a supposedly unchanging economic process. Veblen believes that this process is constantly changing. The processes of economic life are influenced at every turn by institutional dynamics. Veblen wants economists to account for this influence by critically assessing economic institutions. For this reason, Veblen's own economic investigations take the form of institutional critique.

Serviceability and Waste

Veblen recognizes a certain theoretical complacency among economists, and one instance of this complacency is the "tacitly accepted law of equivalence between

productive service and remuneration.”⁷⁹ According to classic economic theory, the explanation for the distribution of wealth is related to productivity. Classical economists tend to justify the income of “captains of industry” by arguing that capital itself is productive and necessary to industrial production. If this doctrine of equivalency is correct, Veblen wonders why the theory does not obtain in reality:

Why do we, now and again, have hard times and unemployment in the midst of excellent resources, high efficiency and plenty of unmet wants? Why is one-half our consumable product contrived for consumption that yields no material benefit? . . . Why are large and increasing portions of the community penniless in spite of a scale of remuneration which is very appreciably above the subsistence minimum?⁸⁰

These questions pose a problem for proponents of the “law of equivalency.” Can an economist honestly argue that the vast inequalities in wealth are based solely upon the difference in productive abilities? Veblen argues that the unequal distribution of wealth is conventional and contingent rather than natural and necessary. He supports his argument by showing that not all economic activities are productive, and some activities that are quite lucrative are actually wasteful. In fact, Veblen is skeptical that ownership itself serves a useful function in an industrial community, and he rejects the idea that capital is necessarily productive. But according to Veblen’s conception of economic reality, ownership and wealth are not naturally occurring phenomena; they are institutions that grew from human contrivance. By characterizing wealth as an institution, as a habit of thinking that evolved in a complex environment, Veblen is able to assess its value to the

⁷⁹ Veblen, “Industrial and Pecuniary Employments,” p. 200.

⁸⁰ *Ibid.*, 224.

economic community as a whole. It is from the perspective of the whole community that Veblen evaluates institutions.

Veblen's focus on institutions as the primary site of human development affords him a novel perspective on mainstays of culture that were all too familiar to some. One observer commented that Veblen approached the world as if everything were strange to him and nothing was familiar.⁸¹ His institutional analysis surely facilitates this. Veblen levels razor sharp criticism at various cultural practices, but his criticism is always based upon economic value. Veblen assesses institutions such as ownership, religion, higher education, and conspicuous consumption according to their usefulness to the modern economic community. He believes that these institutions should be analyzed from an economic standpoint. From such a vantage institutions are "gauged and graded with regard to their immediate economic bearing on the on the facility of the economic life process."⁸² The institutions of society, the habits, attitudes, and character of individuals, Veblen thinks, should be conducive to the cooperative nature of modern industrial production. In other words, Veblen has a normative prescription for how institutions should develop.

Veblen ultimately judges the value of an institution based upon its economic "serviceability" or its "importance to the economic life process."⁸³ Institutional features such as norms, attitudes, and practices will ultimately find their expression in the character and actions of individuals. It is here that Veblen thinks that there should be a

⁸¹ Heilbroner, *The Worldly Philosophers*, 215, 218.

⁸² Veblen, *Theory of the Leisure Class*, 193.

⁸³ *Ibid.*, 153.

“discussion of their economic bearing on the serviceability of the individual as an economic factor, and especially as an industrial agent.”⁸⁴ From an economic standpoint, an individual can have character traits and habits that are more or less “serviceable” for the purposes of industrial production. Veblen considers the modern economic process to be industrial and cooperative: “The collective interest of any modern community centre in industrial efficiency.”⁸⁵ Therefore, those traits and institutions that lead to cooperative productive relations are to be preferred over those that lead to competitive and wasteful behavior. Industrial serviceability is the standard by which Veblen evaluates economic institutions.

By framing individual beliefs and dispositions as a product of cultural norms, Veblen has identified a mechanism that links cultural influences with individual productivity. From an economic standpoint, there are numerous institutions that render the individual less serviceable for industrial purposes. The economic interest in society is a “collective interest [that] is best served by honesty, diligence, peacefulness, good will, an absence of self-seeking, and an habitual recognition and apprehension of causal sequence.”⁸⁶ Veblen does not simply level his criticism at selfishness as a character trait; he attempts to identify the very determinants of this type of human attitude by examining certain aspects of culture, which he calls “institutions.” His analysis presents the self-interested economic individual as neither natural nor desirable.

⁸⁴ *Ibid.*, 205.

⁸⁵ *Ibid.*, 166.

⁸⁶ *Ibid.*

If serviceability is the quality that renders institutions useful, waste is the quality that renders them less useful and even detrimental. Waste is an “expenditure that does not serve human life or human well-being on the whole.”⁸⁷ Waste in this sense does not refer simply to wasteful expenditures on the part of individual consumers. Waste is an institutional quality. Wasteful expenditures arise from habits of thought that are reinforced by society and customs. One such habit of thought that Veblen continuously refers to is “pecuniary emulation” or “invidious pecuniary comparison.”⁸⁸ The human propensity to compete in terms of accumulation of consumable goods does nothing to further the interest of the entire human community. This characterization of competition, accumulation, and consumption as wasteful stands contrary to the Social Darwinists’ claim that competition for consumable goods is the motor of economic progress. Veblen considers the institutional grounding of this desire for accumulation to be unserviceable and wasteful. The pursuit of wealth is not grounded in the desire to increase the well being of the human community, but to distinguish members of the community from each other on the basis of their skills for accumulation.

Progress, Ownership, and Capital

If there is one consistent standard by which laissez faire theorists measure economic progress, it is the creation of wealth. Hence the contemporary characterization

⁸⁷ *Ibid.*, 73.

⁸⁸ *Ibid.*, 75. Veblen does not refer to Jean Jacques Rousseau, but his concept of “pecuniary emulation” is very similar to Rousseau’s concept of *amour propre*, which involves basing one’s self-worth on the opinions of others.

of the wealthy in the United States as “job-creators.” The basis of wealth is ownership and the institution of private property. Veblen is critical of the institution of ownership or private property because it reinforces habits of jealousy and competition. He considers ownership to be a wasteful institution because the institution of ownership is not directly related to subsistence or industrial production. It is based instead on “pecuniary emulation” or the desire to have more than others.

Ownership began and grew into a human institution on grounds unrelated to the subsistence minimum. The dominant incentive was from the outset the invidious distinction attaching to wealth, and, save temporarily and by exception no other motive has usurped the primacy at any later stage of development.⁸⁹

Veblen does not consider ownership to be directly useful to the industrial process in terms of production, only in terms of acquisition or pecuniary gain. “The motive that lies at the root of ownership is emulation.”⁹⁰ The institution of ownership, the complex of habits and conventions that reinforce the norms of private property, is based upon human jealousy and the desire to compare oneself to others.

Ownership also tends to divert precious resources to frivolous luxury goods that serve to display one’s status in society. Veblen famously observed that ownership often manifests itself in “conspicuous consumption” and even “conspicuous waste” rather than as a means to procure necessities. Therefore, the competition or struggle for wealth is not a struggle for survival, but a struggle for status. “Under modern conditions the struggle for subsistence has, in very appreciable degree, been transformed into a struggle to keep

⁸⁹ Veblen, *Theory of the Leisure Class*, 21.

⁹⁰ *Ibid.*

up appearances.”⁹¹ Veblen argued that this struggle to emulate others and the consumption that results from this emulative motive requires much more labor than would be necessary to provide for subsistence of the community.⁹² The ownership of private property is not a means to procure subsistence but an institution based upon the human desire to have more than others. Wealth, in other words, is meant for “invidious distinction” rather than subsistence or consumption of useful goods.

Classical economic theory sees ownership as a means to subsistence. There is an implicit assumption here that more wealth will lead to greater ease of subsistence, and this would represent progress. Such an approach would characterize “captains of industry” and wealthy people in general as drivers of progress. Veblen rejects this view. He argues that classical economists make the mistake of characterizing the competition for wealth as a “struggle for subsistence” in which the “end of acquisition and accumulation is conventionally held to be the consumption of the goods accumulated.”⁹³ Classical economists imply that ownership has a positive utility in regards to subsistence. In other words, an increase in wealth indicates an increase in consumable goods and therefore greater access to the necessities of life. To use Veblen’s own terminology, classical economists characterize ownership and wealth accumulation as a serviceable institution, which leads them to view captains of industry as forces of progress.

Classical economists also assume that wealth will automatically be distributed in a fair and efficient way. They assume that wealth is a reward for those who contribute the

⁹¹ Veblen, “Some Neglected Points in the Theory of Socialism,” 355.

⁹² *Ibid*, 355.

⁹³ Veblen, *Theory of the Leisure Class*, 20.

most to economic progress. Veblen refers to this as the “law of equivalency” or the “natural-economic law of equivalence and equity.”⁹⁴ This assumes that the proportion of wealth that a person possesses is equivalent to their overall contribution to the economy in general. “In terms of serviceability, then, if not in terms of productive force, the individual agent . . . normally gets as much as he contributes and contributes as much as he gets.”⁹⁵ But Veblen challenges this theory of distribution by drawing a distinction between enterprises that produce useful goods for the community as a whole from those that are concerned only with producing more wealth without promoting industrial production.

Veblen draws a distinction between “industrial employments” that produce materially necessary goods and “pecuniary employments” that do not directly contribute to the industrial productive process. Industrial employments relate directly to material production rather than market exchange.

Their proximate aim and effect is the shaping and guiding of material things and processes. Broadly, they may be said to be primarily occupied with the phenomena of material serviceability rather than with those of exchange value.⁹⁶

If the “law of equivalency” were to hold true, the individuals involved in these productive enterprises would earn a large portion of society’s wealth, but in reality wealth tends to accumulate in the hands of those who engage in pecuniary employments.

Pecuniary employments have no direct relation to the production of goods. These employments, epitomized by “the modern captain of industry,” are “lucrative without

⁹⁴ Veblen, “Industrial and Pecuniary Employments,” 191-4.

⁹⁵ *Ibid.*, 195.

⁹⁶ *Ibid.*, 205.

necessarily being serviceable to the community.”⁹⁷ Distinguishing this type of economic activity from industrial production, Veblen refers to pecuniary employments as “business” to distinguish it from “industry.”⁹⁸ The ultimate goal of business enterprises is pecuniary gain, not an increase in the material well being of the community. This is even true of the businessman who owns a productive industry. “His superintendence is a superintendence of the pecuniary affairs of the concern, rather than of the industrial plant.”⁹⁹ The man of business, according to Veblen earns an “income” but never contributes to the “mechanical processes” or the “production of goods.”¹⁰⁰ This does not mean that the capital investments of the businessman are inconsequential—application of capital to industrial production necessarily increases the output of consumable goods. The truly wasteful consequence of pecuniary enterprises taking precedence over industrial enterprises is that industry is directed towards the pecuniary ends of wealth accumulation rather than the industrial objective of producing useful goods. “Industry must be conducted to suit the business man in his quest for gain; which is not the same as saying that it must be conducted to suit the needs of the community at large.”¹⁰¹ In other words, the needs of the modern industrial community are, at best, indirectly satisfied by the captain of industry.

⁹⁷ *Ibid.*, 203-4.

⁹⁸ *Ibid.*

⁹⁹ *Ibid.*, 203.

¹⁰⁰ *Ibid.*, 204-5.

¹⁰¹ *Ibid.*, 209.

Similarly Veblen reassesses the serviceability of wealth in the form of capital to be invested. He distinguishes between capital that is pecuniary and capital that is industrial. Veblen defines pecuniary capital as capital that is employed mainly for financial gain rather than industrial production.¹⁰² Pecuniary capital may be used to fund industry in some circumstances, but this is merely an incidental effect. The end of pecuniary capital is profit, and it has “no immediate relation” to industrial production.¹⁰³ Industrial capital, by contrast, is capital that may “be turned to account, materially, for industrial effect.”¹⁰⁴ Veblen argues “the function of industrial capital in the service of the community at large, stands in no necessary or consistent relation to the gainfulness of capital in the pecuniary respect.”¹⁰⁵ Industrial capital is wealth put to good effect for the purpose of producing usable goods. It is clear that Veblen thinks capital could be useful in terms of industrial production, but industrial production is usually a secondary concern. He observes a considerable “disparity” of capital investment in which pecuniary capital made up the largest share of available capital and investment.¹⁰⁶ Most of the capital that is invested, according to Veblen, is dedicated to pecuniary gain with very

¹⁰² *Ibid.*, 219-20.

¹⁰³ *Ibid.*, 219-20. Veblen does not treat these categories as mutually exclusive. Pecuniary capital can be used for the purposes of industrial production, and industrial capital is often employed under “pecuniary exigencies” in the hope of generating a profit. The distinction lies in the way in which wealth is “turned into account.” Industrial capital is applied to material production in industry, and pecuniary capital is devoted primarily to financial gain.

¹⁰⁴ *Ibid.*, 220.

¹⁰⁵ *Ibid.*, 222.

¹⁰⁶ *Ibid.*, 223-4.

little being devoted to industrial production. Furthermore, pecuniary capital need not contribute to the production of useful goods at all; whereas, industrial capital must operate under the “pecuniary exigencies” of the investor even when it is used “in the service of the community at large.”¹⁰⁷ The investor does not always expect increased production as a result of investment, but the investor always expects to make a profit on the investment. Any increase in productivity is incidental to the capitalists’ quest for financial gain.

According to Veblen’s criteria, institutions are serviceable to the extent that they contribute to the well being of the industrial community. But the ownership of wealth, in and of itself, is not related to industrial production. “Ownership directly touches the results of industry, and only indirectly the methods and processes of industry.”¹⁰⁸ Most capital is employed for pecuniary purposes, which means that most wealth is not productive, and therefore, not serviceable. Indeed, Veblen considers the wealthy classes of society to stand in a “pecuniary relation” to industrial production because their relation to the process is one of “acquisition, not production; of exploitation, not of serviceability.”¹⁰⁹ Seen from the standpoint of the entire community, even the so-called captains of industry are a hindrance to the material welfare of the community. “Their office is of a parasitic character, and their interest is to divert what substance they may to

¹⁰⁷ *Ibid.*, 219-22.

¹⁰⁸ *Ibid.*, 207.

¹⁰⁹ Veblen, *Theory of the Leisure Class*, 153.

their own use, and to retain what is under their hand.”¹¹⁰ Because the wealthy capitalists stand in a pecuniary relation to the process of industrial production, their activities are not directed at “serviceability” but “vendibility.”¹¹¹ This means that the wealthy devote their resources primarily to the exchange of goods rather than the productive process. That is not to say that capital set to pecuniary purposes will never contribute to industrial production. Rather, the true purpose of pecuniary capital is to turn a profit, and any effects on production will be merely incidental from the standpoint of the wealthy investor. It is quite clear that Veblen would prefer an institutional structure in which capital was mostly, if not exclusively, devoted to increasing production.

In a direct challenge to classical economic doctrines, Veblen expends considerable effort to demonstrate that the creation of wealth is not necessarily progressive or useful. Of course, this skeptical view of wealth also implies a different appraisal of the people who hold that wealth. As previously mentioned, Veblen identifies the “law of equivalency” as a crucial assumption of classical economic theory. Classical economists take it for granted that wealth tended to accrue to the members of the community that were most productive, and, in this sense, the wealthy actually earn their wealth because of their value to the community. Similarly, Social Darwinists justified the unequal distribution of wealth as the consequence of success in a competitive

¹¹⁰ *Ibid.*, 153. Veblen introduced this analysis with the qualification that “it is by no means here intended to deprecate the economic function of the propertied class or of the captains of industry.” This is a standard tactic in Veblen’s polemics in which he proclaimed objectivity from an economic standpoint and then proceeded to use incendiary terms like “parasitic” and “exploitation” to explain the economic function of those engaged in pecuniary enterprises.

¹¹¹ Veblen, “Industrial and Pecuniary Employments,” 220.

environment. But Veblen points out that the captains of industry are not especially adept in the competition for survival, but in their “fitness for acquisition.”¹¹² Even this arrangement, in which those who are successful in pecuniary employments get a larger portion of a community’s wealth, could be justified on Veblen’s terms if the wealth were put to productive uses, but this is clearly not the case. The investment capital of the wealthy is not devoted to the process of production, but to financial gain.

Furthermore, the wealthy squander their resources on “conspicuous consumption” and “conspicuous waste.”¹¹³ Veblen argued that the wealthy classes do not spend money in order to consume goods, but to display them. The goal of acquisition is not consumption but “invidious comparison” to others in which wasteful spending becomes fashionable. This means that the large concentrations of wealth that manifest themselves in the leisure class are not being used in service to the community. This also violates the “law of equivalency” because the people who possess this wealth are not productive, and their behavior is quite wasteful. In this way, Veblen has turned the classical theory of distribution on its head. He thinks that the unequal distribution of wealth, concentrated among the wealthy class, has no justification in terms of the productive value to the community. In fact, the concentration of wealth among the wealthy class can hinder progress by diverting resources to wasteful consumption. In his reassessment, the wealthy are not the motor of progress; they are the obstacle of progress.¹¹⁴

¹¹² Veblen, *Theory of the Leisure Class*, 176.

¹¹³ See *Ibid.*, 57, 65-6, and 86.

¹¹⁴ It is worth noting that this classical theory of distribution still has purchase in the American political discourse today. For example, a common refrain from the Republican camp in the 2012 election campaign was that the wealthy were “job creators,”

Environmental Immunity

Veblen's model of economic institutions that continuously evolve is quite complex, but he does identify a reason that less serviceable institutions survive the evolutionary process. Although Veblen thinks institutions constantly evolve as they react to various stimuli, he does not argue that institutions will evolve progressively. Quite the contrary, he thinks that less serviceable institutions have a lasting effect because they tend to be removed from the perils of the economic environment. Habits of thought such as competition for acquisition, disdain for productive labor, and conspicuous consumption do not survive because they further the interest of the human community but because the proponents of these habits are sheltered from the harsh winds of the competitive economic environment. Institutions react and evolve according to stimuli present in the economy. Wasteful institutions are able to survive because they do not come into contact with these stimuli, and they do not have to adapt and become more serviceable.

Veblen's model of economic life, although it is evolutionary, is not based upon a strict struggle for survival. This is partially due to the fact that industrial production is very efficient in producing necessary goods so that scarcity of production does not necessarily encourage people to form competitive habits. In contrast to Social Darwinists, Veblen does not see economic life as a struggle between competitive individuals for scarce resources. Rather, "the evolution of the social structure has been a process of natural selection of institutions" in which "changing institutions in their turn make for a

and an increased tax burden on the wealthy would "penalize success" and hinder the productivity of the economy.

further selection of individuals endowed with the fittest temperament.”¹¹⁵ This means that the “efficient factors of selection” will be the institutions that make up the social environment rather than the brute facts of the physical environment.¹¹⁶

The complex of institutions that make up society can also have the curious effect of sheltering certain classes from the very pressures that would induce habits to change. For example, “the leisure class is in great measure sheltered from the stress of those economic exigencies which prevail in any modern, highly organized industrial community.”¹¹⁷ This means that the behavior of the leisure class is not conditioned by the need for industrial production; they have no incentive to make industrial production more efficient. According to Veblen, “the members of the wealthy class do not yield to the demand for innovation as readily as other men because they are not constrained to do so.”¹¹⁸ A modern industrial society will face new material realities that require a change in the institutions that interact with that environment. “An advance in the technical methods, in population, or in industrial organisation will require at least some of the members of the community to change their habits of life.”¹¹⁹ In other words, the interaction between society and the material environment will necessitate continual adaptation, but the wealthy are largely immune from this pressure to adapt.

¹¹⁵ Veblen, *Theory of the Leisure Class*, 138.

¹¹⁶ *Ibid.*, 138.

¹¹⁷ *Ibid.*, 145.

¹¹⁸ *Ibid.*, 146.

¹¹⁹ *Ibid.*, 143.

Such immunity from the industrial process allows for the maintenance of institutions that are objectively wasteful from the standpoint of furthering the collective interests of the community as a whole. Once a society reaches a certain stage these institutions can exert social pressures on habits and behavior that outweigh the objective facts of material necessity. Because of this, institutions can take on a life of their own and evolve independently of the struggle for survival. The methods of managing the industrial process, for example, are determined by pecuniary interests rather than industrial interests, according to Veblen. “The ground of survival [of any industrial endeavor] in the selective process is fitness for pecuniary gain, not fitness for serviceability at large.”¹²⁰ Unlike natural selection, which tends to directly select for survival based upon material necessities, Veblen’s theory of institutional selection tends to select for pecuniary gain, which is only indirectly related to the “material welfare of the community” and industrial production.¹²¹

Veblen’s description of institutional evolution in which whole sections of the population can be sheltered from the environment offers a new evolutionary mechanism by which to view economic life. Veblen’s evolutionary theory provides an explanation of how progress can be derailed and diverted even in an evolutionary scheme. His notion of evolution that is not necessarily, and most often is not, progressive stands in stark contrast to the Social Darwinist position that evolution or “survival of the fittest” in economic life is the motor of progress. Veblen sees no such natural trend in the direction

¹²⁰ *Ibid.*

¹²¹ *Ibid.*, 210.

of progress. Instead, Veblen believes that “retrogression” to past habits is more likely than progress to new more serviceable institutions.

Institutional Conservatism and the Role of the Economist

Veblen’s notion of progress is one in which institutions and habits evolve from a primitive form to meet the changing needs of society. “Social advance, especially seen from the point of view of economic theory, consists in a continued progressive approach to an approximately exact ‘adjustment of inner relation to outer relations.’”¹²² This involves “a change in men’s views as to what is good and right,” and such change will be “in the direction of divergence from the archaic position” of what is good and right to a habit of mind that is more suited to a changing economic reality.¹²³ Ideally, one would observe a steady progression or evolution in the institutions of society in which they adapt to the realities of industrial production. But Veblen argues that the dominant tendency in an industrial society is for institutions to resist this change. “Retrogression, reapproach to a standpoint to which the race has long been habituated in the past, is easier.”¹²⁴ Institutions tend to be more conservative than progressive in nature.

Institutions in general are conservative because they are habitual responses to recurring past situations. There is always a lag between a changing economic environment and a new set of institutions that are adapted to fit that environment. “This

¹²² *Ibid.*, 141

¹²³ *Ibid.*, 143-4.

¹²⁴ *Ibid.*, 144.

process of selective adaptation can never catch up with the progressively changing situation in which the community finds itself at any given time.”¹²⁵ Veblen argues that these habits of thought have a tenacity to resist change; he refers to this tenacity as “social inertia” or “psychological inertia.”¹²⁶ He bases this conclusion on a rather pessimistic belief that people will be reluctant to adopt new habits and practices due to the “bother of making the readjustment.”¹²⁷ This complacent attitude dominates even among the poor, and Veblen does not think the poor are motivated by some revolutionary zeal to change things in their favor. Even the people who have a material interest in changing the dominant institutions tend to be complacent.¹²⁸ Veblen recognized that this “solidarity of human institutions” made it very difficult for a society to change its habitual ways of life.¹²⁹ All things being equal, institutions tend to resist change.¹³⁰ This is one reason that institutions have a conservative rather than a progressive character.

¹²⁵ *Ibid.*, 140

¹²⁶ *Ibid.*, 141.

¹²⁷ *Ibid.*, 148-9.

¹²⁸ Like Marx, Veblen believes that the dominant ideas of the wealthy class are internalized by the poor, and this in part explains their conservatism. But Veblen did not advocate revolutionary activity, and he considered socialism to be a very real danger. However, he argued the threat of socialism would remain present as long as the institution of private property remained in place. See, “Some Neglected Points in the Theory of Socialism,” 354-6.

¹²⁹ Veblen, *Theory of the Leisure Class*, 149.

¹³⁰ Considering that Veblen considers institutions to be made up largely of habits, this is the equivalent of saying that “habits tend to resist change.”

Because of this conservative nature of economic institutions, progress in institutional development will generally be slow, but Veblen notices yet another factor that contributes to this conservatism of institutions.

If any portion of society is sheltered from the action of the environment in any essential respect, that portion of the community, or that class, will adapt its views and its scheme of life more tardily to the altered general situation; it will in so far retard the process of social transformation.¹³¹

As mentioned earlier, the wealthy classes do not feel the same pressures to adapt to changing economic circumstances, but Veblen argues that they will also actively resist change in the institutional structure of society. According to Veblen, “the leisure class has also a material interest in leaving things as they are.”¹³² But the conservative influences of the leisure class are not solely based upon the material interests of the leisure class. There is also a cultural influence adopted by the leisure class in which innovation is seen as a trait of the poor while conservatism is seen as a mark of distinction and “respectability.”¹³³ The leisure class has an enormous influence on the tastes and preferences of the society at large, and because of this, “the wealthier class comes to exert a retarding influence upon social development far in excess of that which the simple numerical strength of the class would assign it.”¹³⁴ The wealthy class, it seems, has an undue influence on the culture to accompany an undue proportion of the wealth in relation to the whole community. The conservative views of the wealthy classes

¹³¹ Veblen, *Theory of the Leisure Class*, 141-2.

¹³² *Ibid.*, 150-1.

¹³³ *Ibid.*, 146-7.

¹³⁴ *Ibid.*, 147.

tend to permeate society as a whole, and this transmission of conservative attitudes further impedes the process of social change.

The logical consequence of Veblen's analysis is for a critical approach to economics especially the economics of laissez faire. He describes a society dominated by wasteful institutions where the poor are arbitrarily denied access to the abundance of goods produced in the modern industrial community. Faced with such a reality, a laissez faire approach would amount to resignation in the face of institutions that are clearly a hindrance to the collective well being of the community. Considering the fact that institutions have a conservative nature, which is reinforced by the wealthy and supported by the lower classes, the only voice in favor of progress would be that of the economist. Veblen's own jaundiced view of society is reflective of this critical approach to economics.

Veblen's analysis serves as a justification for his new approach to economics. Embedded within his criticism of existing institutions is a justification for why such criticism is necessary. The abstract and normalizing approach of classical economics cannot account for institutions that are wasteful and counterproductive. This is the very reason that he calls for an evolutionary approach to economic life that is critical and realistic. The point upon which Veblen's theory hinges is the mismatch between economic theory and the realities of the industrial world. He expends considerable effort to expose the foundation of classical economics because he believed it to be fundamentally ill-suited to the actual industrial economy. Under classical economic theory, the institutions that Veblen considered wasteful are explained away or normalized

because they do not comport to the animistic view of economic life as benign and progressive.

CONCLUSION

In conclusion, Veblen's intellectual efforts amount to a sustained, systematic, and profound critique of laissez faire. In the preceding discussion, I have shown that Veblen mounts this critique in three specific ways. First, he offers an alternative model of economic development that focuses on the vital importance of institutions in shaping economic life. He believes that economic life has a cultural and social aspect in which institutions explain changes in the economic process. His argument that institutions are the appropriate cite for economic investigation leads him into his second manner of critique, a theoretical criticism of classical economic theory. Veblen must explain why classical economics has overlooked the vital importance of institutions, and he does this by demonstrating that the foundational assumptions of classical economics make it impossible for the theory to account for a changing economic process that is shaped by institutional evolution. This effectively casts classical economists as defenders of the competitive market economy and apologists for the status quo. Finally, Veblen demonstrates that the economist has an ethical responsibility to challenge and criticize the dominant institutions in society rather than normalize them or explain them away. His *Theory of the Leisure Class* is an example of this approach. Veblen shows how numerous societal features are wasteful from an objective economic standpoint, and he also argues that institutions have a conservative nature that tends to resist change. This leaves the

economist, equipped with Veblen's critical approach to institutional evolution, to explain why some institutions are problematic.

Veblen's radical approach to human development, his identification of institutional influences, and his realization that classical economic theory could not account for institutional factors, imply a new role for the academic economist. Veblen introduced American economics to the sphere of social critique and in the process influenced "a generation of liberals and radicals who also saw the social good as basic, and who would have called anything that did not serve human life or human well-being on the whole, morally bad."¹³⁵ Veblen provided a paradigm of social criticism based upon a sophisticated and novel economic theory.

Sophisticated though it may be, Veblen's economic theory omits a crucial explanatory factor, politics. A charitable explanation of this oversight would be that Veblen has left political influences out of his developmental model for the sake of parsimony, but this would surely be out of character with his overall approach, which is anything but parsimonious. Regardless of his reasoning, Veblen's model of economic development commits the same error that is committed by classical economists. He cannot account for political influences that shape economic life. Indeed, Veblen displays a disdain for political life as simply another leisure class profession. He characterizes government service as one of the many "predatory" professions that are exclusive to the leisure class along with hunting and other sports.¹³⁶ For Veblen, the political system in the modern industrial community is only one wasteful occupation that results from

¹³⁵ White, *Social Thought in America*, 92.

¹³⁶ Veblen, *Theory of the Leisure Class*, 60.

leisure. Rather than politics, Veblen constantly looks to cultural explanations for institutional change to such an extent that he has been labeled a “cultural determinist.”¹³⁷ Suffice it to say that Veblen includes numerous complex political factors in his explanation of culture. Governments, laws, and political activities are merely one aspect of a larger cultural structure that Veblen chooses to focus upon.

Veblen does not offer a specific solution to the pervasive waste present in the economy. He offers only a method for critically assessing that waste. But perhaps it is unfair to expect more from Veblen than criticism. The criticism that he mounts of the laissez faire system paves the way for his unmistakably political idea that human beings, in their most efficient economic relations, are cooperative. This idea amounts to a fundamental rejection of laissez faire.

¹³⁷ Brette, “Veblen’s Theory of Institutional Change,” 464.

CHAPTER 7 — HERBERT CROLY: THE LAISSEZ FAIRE TRADITION AND NATIONAL PURPOSE

The sailors are quarrelling with one another about steering the ship, each of them is thinking that he should be the captain, even though he's never learned the art of navigation, cannot point to anyone who taught it to him, or to a time when he learned it. Indeed they claim that it isn't teachable and are ready to cut to pieces anyone who says that it is.

Plato, *Republic* 488b

Herbert Croly was one of the most influential political thinkers of the Progressive era, and his ideas were instrumental in shaping liberal thinking in the twentieth century.¹ He is most recognized for his synthesis of Jeffersonian individualism and Hamiltonian nationalism. By showing that a strong national government was not only compatible with America's democratic future but essential for it, he laid the intellectual groundwork for liberal reforms such as Franklin Roosevelt's "New Deal" and Lyndon Johnson's "Great Society." However, before he could construct this intellectual synthesis, he had to explain why the existing tradition of American political thinking was inadequate. His vision of reform would have to overcome what he saw as a traditional American commitment to laissez faire.

Croly's criticism of laissez faire is distinctive because he situates laissez faire thinking firmly within the American political and historical tradition. This is not to say

¹ For an excellent appraisal of Croly's influence on the reform movement, see Goldman, *Rendezvous With Destiny*, 188-207. Goldman notes that Croly's *Promise of American Life* was especially influential. "The *Promise* has often been called one of the few genuinely important political studies written by an American in the early twentieth century." *Ibid.*, 192.

that he saw laissez faire as the only part of that tradition, but he did consider it to be a prominent feature. Veblen and Lloyd focused on classical economic theory as the intellectual foundation of laissez faire, and they treated the Social Darwinists of the late nineteenth century as the modern vessels for those earlier economic teachings. Croly makes very little mention of either economic theory or Social Darwinism because he thought laissez faire was deeply rooted in the unique historical experience of early America. This is the reason that his criticism of laissez faire is directed at political figures such as Thomas Jefferson and Andrew Jackson rather than economic and social theorists such as Adam Smith and Herbert Spencer.

Although he is operating in the medium of political ideas, Croly devotes most of his attention to policy makers and political leaders. He thinks traditions of thought are influenced primarily by political experience and specific historical circumstances rather than intellectual arguments. The existence of the American wilderness, for example, did more to convince Americans of the benefits of individual self-interest than the teachings of classical political economy.² Croly examined the ways in which American political life contributed to a tradition of laissez faire, and he attempted to rearrange the elements of that tradition into a specifically American vision for reform. He referred to his project as a “critical reconstruction” of American political ideas, and his preferred method was to synthesize ideas that were seemingly irreconcilable. His synthesis of Jefferson’s individualism and Hamilton’s nationalism is a testament to his creativity, but the really clever aspect of Croly’s thinking is his overall strategy for presenting his reformist vision

² As I will discuss, Croly largely adopted the “frontier thesis” of Frederick Jackson Turner, which associated the frontier with self-interest and individualism rather than interdependence and communalism.

to Americans. This strategy was based upon a synthesis of tradition and progress. In order to create a more progressive democratic society, Americans did not have to search for new ideas; they simply had to revisit and reinterpret their own political tradition.

My focus in this chapter is not Croly's proposal for reform, but his criticism of laissez faire, which was a necessary first step for that reform proposal. I begin by explaining Croly's interpretation of laissez faire in American thought and practice. He identifies a number of traditional beliefs that, taken together, have made Americans skeptical of an active national government. As economic circumstance changed, this laissez faire attitude, and the legal institutions that supported them, left Americans without a tradition of constructive governmental action in the public interest. After explicating his appraisal of the American laissez faire tradition, I consider the economic and political problems that the United States encountered as industrialization revolutionized American society. Croly believed the climate of harsh competition and economic inequality created class divisions in society, and the laissez faire reliance on individual self-interest offered no method of healing these divisions or uniting the community behind a common purpose. I conclude with a brief description of Croly's attempt to construct an appropriate purpose for American political life. His belief that such a constructive purpose was necessary was the animating force behind his criticism of laissez faire.

LAISSEZ FAIRE AND THE AMERICAN POLITICAL TRADITION

Croly never uses the actual term "laissez faire" in his critical appraisal of American political ideas, but the tradition of thought that he criticizes conforms to laissez

faire in all but name. He uses the phrase “policy of drift” as a synonym for the policy of laissez faire.³ The metaphor of “drift” aptly captures Croly’s criticism of laissez faire because he considers such a policy to be irresponsible and optimistic. A policy of laissez faire allows the ship of state, once constructed and set to sail, to drift without responsible oversight. This policy is irresponsible because the passengers aboard the ship do not take an active part in navigating. Unlike Plato, Croly thought the ship of state should be placed under democratic control. Similarly, a policy of laissez faire is optimistic because it assumes that ship will drift to its promised destination without encountering unexpected obstacles, which will require a change of heading or at least a revision of traditional navigational methods. He believes that American political thought contains a tradition of thinking that lends support to a laissez faire policy, and that tradition stands in the way of reform and a responsible democratic government.

Croly identifies four features of American political thought that support a policy of laissez faire. First, he identifies a tradition of optimism in which Americans expect the future to be an inevitable improvement on past conditions. What makes this optimism especially pernicious for Croly is that it characterizes progress as something that America is destined for without the need for purposeful guidance. In *The Promise of American Life*, Croly notes a divergence between expectations and reality. The “Promise” had always held the opportunity for economic prosperity and independence. However, “ugly

³ Walter Lippmann followed up on Croly’s notion of drift in his own *Drift and Mastery* (1914), which was published five years after Croly’s *Promise of American Life* (1909). Lippmann was quite impressed with Croly’s *Promise of American Life*, and he believed it had secured Croly’s stature as “the first important political philosopher who appeared in America in the twentieth century.” Quoted in Stettner, *Shaping Modern Liberalism*, 33.

obstacles” have emerged in the economic sphere, and the optimism characteristic of Americans will not be sufficient to overcome them.⁴ Second, Croly argues that this tradition of optimism is wedded to a strong sense of individualism. Americans tend to trust their hopeful destiny to the free play of individual interests with the assumption that such an arrangement will advance the public interest. Third, he argues that Americans have traditionally viewed the state in negative terms, meaning that its primary function is to protect individual rights and refrain from engaging in any positive social programs. Finally, the rigid legal structure of the Constitution prevents the democratic majority from assuming responsibility for the public welfare. Thus, it reinforces the negative conception of the state by giving more responsibility and authority to the legal system than to the citizens themselves.

Croly finds a hopeful, progressive disposition in the American political tradition, but he believes Americans have displayed a troubling tendency to treat progress as an inevitable result from a policy of *laissez faire*. He thinks real progress is something that has to be achieved by purposeful and responsible action. For this reason, he seeks to reorient the tradition of American optimism from “national destiny” to “national purpose.”⁵

Optimism

Croly argues that optimism is a defining feature of the American psyche. To be an American is to believe that the future will be better than the past. “From the beginning

⁴ Croly, *The Promise of American Life*, 18.

⁵ *Ibid.*, 24.

Americans have been anticipating and projecting a better future. From the beginning, the Land of Democracy has been figured as the Land of Promise.”⁶ When he speaks of the “Promise” of American life, Croly is referring to the tradition of optimism that runs through American history. But this tradition of optimism has produced dubious results in American political life. Croly thinks the forward-looking tendency of Americans is amenable to a progressive, purposeful democracy, but he thinks this optimism has remained general and formless.

They still believe that somehow and sometime something better will happen to good Americans than has happened to men in any other country; and this belief, vague innocent, and uninformed though it may be, is the expression of an essential constituent of our national ideal.⁷

Croly wanted to anchor his own progressive reform program in the tradition of American life. By this clever tactic, Croly characterized his vision of progressive reform as a movement that embodied the American tradition because it conforms to “the imaginative projection of a better future” that has traditionally characterized Americans.⁸ “In cherishing the Promise of a better national future the American is fulfilling rather than imperiling the substance of the national tradition.”⁹ In so far as there is an identifiable tradition in the American psyche, Croly identifies that tradition as optimism and the belief in a better future.

⁶ *Ibid.*, 3.

⁷ *Ibid.*

⁸ *Ibid.*

⁹ *Ibid.*

Croly follows in the footsteps of J. Hector St. John de Crèvecoeur by attributing American optimism to the unique characteristics of America. Crèvecoeur described America to an audience of curious and somewhat envious Europeans as a land of abundant resources, ample opportunity, and new avenues for thinking.

The American is a new man, who acts upon new principles; he must therefore entertain new ideas and form new opinions. From involuntary idleness, servile dependence, penury and useless labour, he has passed to toils of a very different nature, rewarded by ample subsistence. This is an American.¹⁰

For Crèvecoeur, Americans had been freed from the constraints of the Europe, including the political tradition of monarchy as well as economic hardship due to overcrowding and limited availability of land and resources. Croly believes the favorable economic and political conditions noted by Crèvecoeur helped to establish the tradition of optimism in America. “The implication was, and still is, that by virtue of the more comfortable and less trammled lives which Americans were enabled to lead, they would constitute a better society and would become in general a worthier set of men.”¹¹ However, Croly argues that Americans came to focus much more on the economic opportunities than the political opportunities that Crèvecoeur described.

Throughout his writing, Croly refers to the abundance of available land that distinguished America from Europe. “The land was unoccupied, and its settlement offered an unprecedented area and abundance of economic opportunity.”¹² Because of

¹⁰ Crèvecoeur, “What is an American?” 70.

¹¹ Croly, *Promise of American Life*, 12.

¹² *Ibid.*, 8. One glaring fact of American history that Croly conveniently overlooks is that this land was occupied by Native Americans who were systematically displaced by military conquest. He makes no mention of this as he discusses the “unoccupied” lands of the frontier.

this abundance, America held out the promise of economic independence to any European who wanted to “enjoy the fruits of his own labour.”¹³ Croly argued that the population of Europe had outpaced resources to such an extent that the majority of the population had become dependent on the wealthy few. By contrast, “American citizens could earn a substantial share of the fruits of the country’s economic development.”¹⁴ The new American was able to master his own economic destiny by virtue of individual initiative, and this newfound mastery presented the promise of economic prosperity as a defining feature of American life. Croly notes that even his early twentieth-century contemporaries maintained this mostly economic vision of the American promise “as fundamentally a future in which economic prosperity will be still more abundant than it has yet been here or abroad.”¹⁵

According to Croly, Americans took it for granted that economic prosperity was a permanent feature of American life. They did not appreciate the degree to which their prosperity owed to the unique circumstances of a wide continent with large swaths of undeveloped land. “All the conditions of American life have tended to encourage an easy,

¹³ *Ibid.*, 9. Alexis de Tocqueville similarly credited the abundant space of the American continent for establishing a hopeful attitude among Americans. “The chief circumstance which has favored the establishment and the maintenance of a democratic republic in the United States, is the nature of the territory which the Americans inhabit. Their ancestors gave them the love of equality and freedom; but God himself gave them the means of remaining equal and free, by placing them upon a boundless continent.” *Democracy in America*, 371-372.

¹⁴ Croly, *Progressive Democracy*, 58.

¹⁵ Croly, *The Promise of American Life*, 10.

generous, and irresponsible optimism.”¹⁶ It is this type of optimism that Croly associates with laissez faire. Americans had come to believe that the prosperity to which they were accustomed would continue without the need to revise the economic methods and institutions that were in use. Croly argues that any attempts at reform will have to confront this “traditional American optimistic fatalism,” by which Americans have come to expect that economic prosperity results from the free play of individual interests.¹⁷ “The fault in the vision of our national future. . . . consists . . . in the expectation that the familiar benefits will continue to accumulate automatically.”¹⁸ Such optimistic expectations make responsible government oversight seem unnecessary and even counter productive.

Individualism

Croly believed that this “irresponsible optimism” contributed to and reinforced a strong sense of individualism in American thinking. Individuals in early America, especially those occupying the Western frontier, were able to apply their own talents in an environment where land and space were abundant. The frontier allowed Americans a wide berth of individual action, and because space was abundant there was little crowding. Croly argues that the frontier allowed individuals to pursue their own interests

¹⁶ *Ibid.*, 7. Although he makes no mention of Frederick Jackson Turner’s “frontier thesis,” Croly clearly agrees that the frontier was instrumental in transforming the European settler into a self-sufficient American individual. He follows Turner in arguing that the experience of frontier life has contributed to the individualistic character of American citizens. See Hofstadter, *The Progressive Historians*, 50-52.

¹⁷ *Ibid.*, 21.

¹⁸ *Ibid.*, 17.

without experiencing the conflicts that were so prevalent in more densely populated areas. Due to these favorable circumstances, Americans had come to believe that a “beneficent result followed inevitably from the action of wholly selfish motives.”¹⁹ Therefore, the economic optimism that characterized the frontier was not simply focused on ever increasing prosperity, but on the individual pursuit of self-interest as the means for securing that prosperity.

For Croly, Thomas Jefferson epitomized this optimistic individualism. “Jefferson was filled with a sincere, indiscriminate, and unlimited faith in the American people.”²⁰ Croly argues that such an optimistic viewpoint led Jefferson to a position of “extreme individualism.”²¹

He conceived a democratic society to be composed of a collection of individuals, fundamentally alike in their abilities and deserts; and in organizing such a society, politically, the prime object was to provide for the greatest satisfaction of its individual members. . . . Its individual members needed merely to be protected against privileges and to be let alone, whereafter the native goodness of human nature would accomplish the perfect consummation.²²

Croly believes that this Jeffersonian tradition of individualism was carried on by Andrew Jackson and “Western Democrats” who occupied the frontier.²³ Pioneers enjoyed a considerable degree of “individual independence,” but Croly maintains that this was

¹⁹ *Ibid.*, 22.

²⁰ *Ibid.*, 42.

²¹ *Ibid.*, 43.

²² *Ibid.*

²³ *Ibid.*, 52-3. Croly uses the phrases “Western Democrats,” “Western pioneer Democracy,” and “pioneer Democracy” to describe not only Jackson’s supporters, but also the Americans who embodied the individualistic character that Jackson represented.

mostly due to “temporary economic conditions” such as an open frontier.²⁴ Nevertheless, they came to cherish this individual independence so much that they elevated it to the level of abstract principle.

Croly thought that extreme individualism and socialism were too doctrinaire and inflexible to form a practical basis for democracy. Individualism is an expression of “a rigid abstract and partial ideal” that is based upon a rationalistic approach to social knowledge, which characterized eighteenth century thinking.²⁵ According to Croly, the American belief in a better future, while originally conceived as belief in a better society, became condensed into a narrow articulation of individual rights. He argues that this “ideal” of a better social future “has been obscured by a specific formulation of individual rights.”²⁶ Croly tends to treat ideas such as individual rights as expressions of historical practices that communities come to accept as essential. Such was the case with the “Western Democrats” whose experience of individual independence led them to accept individualism as an ideal. For Croly, “this specific formulation of individual rights, while its immediate origin was historical, was reinforced by its identification with an abstract system of natural law.”²⁷ Unlike Lloyd and Veblen, who both argued that the abstract focus of natural law exerted an independent influence on social beliefs and practices, Croly thinks these abstract and rigid ideas are used to support beliefs and practices that are already routine.

²⁴ *Ibid.*, 63.

²⁵ *Ibid.*, 315, and *Progressive Democracy*, 175.

²⁶ *Ibid.*, 174.

²⁷ *Ibid.*

Croly also points to economic theory as a body of knowledge based upon abstract principles that is used in support of individualistic practices. He argues that the nineteenth century ushered in a new attempt to identify the laws of social behavior, but “the new group of economic laws resulted in much the same practical policy as did the political and social rationalism of the eighteenth century.”²⁸ These economic laws further discounted the interests of society, and increased the focus on individual interests. This individualistic focus resulted from “the assumption of earlier economists, who anticipated admirable social results from the enlightened selfishness of individuals.”²⁹ Croly does not give a detailed description of economic theory as do so many other critics of laissez faire. He treats economic theory as an extension of an abstract, naturalistic approach to social knowledge, and the result is “a dogmatic economic determinism.”³⁰ Nevertheless, he does appreciate the relationship between American optimism, individualism, economic theory, and laissez faire.

In so far as the individual economic interest was really enlightened, social welfare could be trusted to its unrestricted action. Social progress resulted automatically from conformity to economic law.³¹

According to Croly, the paradigm of abstract natural law and the economic laws that reflect this approach to social knowledge assume away the problems and conflicts that arise between individual interests and the interests of the public. “The foundation of both of them was an individualistic conception of society, which assumed an essential

²⁸ *Ibid.*, 175.

²⁹ *Ibid.*

³⁰ *Ibid.*, 176.

³¹ *Ibid.*

automatic harmony between individual and social interests.”³² This assumption of “automatic” harmony which leads to social progress ultimately supports the laissez faire belief that the problems of society will take care of themselves without any popular oversight of individual economic practices.

Croly thinks this optimistic belief in individual independence as the guarantor of individual and social prosperity has evolved into “a species of vigorous, licensed, and purified selfishness.”³³ The individualism of Jefferson was primarily based upon independence and self-sufficiency, but this soon gave way to a more acquisitive and destructive individualism. “The test of American national success was the comfort and prosperity of the individual; and the means to that end,—a system of unrestricted individual aggrandizement and collective irresponsibility.”³⁴ Individuals developed a sense of entitlement in which they should be given free rein to pursue their own economic interests without interference from the government. Croly thinks this type of strictly economic individualism, where individual interest is associated solely with making money, actually impairs individual development. It leads to a type of conformity as individuals become wholly devoted to economic gain and fail to distinguish themselves in other ways.³⁵

³² *Ibid.*, 175.

³³ Croly, *The Promise of American Life*, 49.

³⁴ *Ibid.*, 49-50.

³⁵ *Ibid.*, 414-415. Once again, this tendency was identified by de Tocqueville. “As prosperity is the sole aim of exertion, it is excellently well attained; nature and men are turned to the best pecuniary advantage; and society is dexterously made to contribute to the welfare of each of its members, whilst individual selfishness is the source of general happiness.” *Democracy in America*, 508.

This narrow conception of individualism, according to Croly, led to an atomistic view of society. “It was inferred . . . that society resulted from the mere accretion or combination of individuals and that if individuals were to be socialized, the chief agency of socialization must be external restraint.”³⁶ To the extent that there was some social ideal or norm for behavior it was one of “live-and-let-live.” “The underlying assumption of live-and-let-live is an ultimate individualism, which limits the power of one human being to help another.”³⁷ This philosophy of live-and-let-live is the same form of “ethical individualism” put forth by the Physiocrats and articulated by Jefferson. The primary duty of the individual is to act out of self interest, and presumably this would automatically fulfill the interests of society. This ethic of live-and-let-live also produced a general opposition to any attempts to curtail individual activity in the name of social reform.

In so far as the social interest was asserted against the individual, it necessarily assumed the form of imposing restraints on his actions; and thus the power whereby the government attempted to promote a specific social interest became known by the utterly perverted name of this police power.³⁸

The consequence of this individualism was ultimately a negative conception of government which advised placing maximum responsibility in the hands of the individual and limiting the responsibility of the government.

³⁶ Croly, *Progressive Democracy*, 195.

³⁷ *Ibid.*, 426.

³⁸ *Ibid.*, 175.

Negative Conception of the State

Croly also identifies a tradition in American thought that supports a negative view of the state. According to this traditional view, any regulative action by the state threatens the freedom of the individual. “Such a conception derives from the early nineteenth century principles of an essential opposition between the state and the individual.”³⁹ Because of this perceived antagonism between the individual and the state, Americans have been reluctant to grant any responsibility to the government beyond protection of person and property. “The responsibilities of the government were negative; those of the individual were positive.”⁴⁰ A negative conception of government fit nicely with the tradition of individualism, which emphasized the importance of minimizing government interference with individual actions.

Croly places most of the blame for this traditional conception of a negative state at the feet of Thomas Jefferson. He thinks the negative conception of the state is linked to Jefferson’s individualistic focus.

It consents to use the machinery of government only for a negative or destructive object. Such must always be the case as long as it remains true to its fundamental principle. That principle defines the social interest merely in terms of an indiscriminate individualism—which is the one kind of individualism murderous to both the essential individual and the essential social interest.⁴¹

Croly argues that Jefferson’s “conception of democracy” involved mainly eliminating “special privileges” so that individuals would have “equal opportunities” to pursue their

³⁹ Croly, *The Promise of American Life*, 414.

⁴⁰ *Ibid.*, 49.

⁴¹ *Ibid.*, 188-189.

own interests.⁴² Jefferson thought the government should play a role in ensuring an egalitarian society, but beyond that, “the motto of a democratic government should simply be ‘Hands Off.’”⁴³ According to Croly, Jefferson’s negative conception of the state is also a reflection of his faith in ordinary people and individual responsibility. “There should be as little government as possible, because persistent governmental interference implied distrust in popular efficiency and good-will.”⁴⁴ Croly is very critical of Jefferson, unfairly so in some instances, but he acknowledges that Jefferson did not promote individualism simply because he discounted the importance of the public interest. Rather, he argues that Jefferson assumed that the interest of the community would be best served if individuals were left alone. “Thus Jefferson sought an essentially equalitarian and even socialistic result by means of an essentially individualistic machinery.”⁴⁵

Croly believes that this negative conception of the state really rose to the fore between 1825 and 1850—an era that Croly refers to as “the middle period.” He points to the fact that Jefferson, once President, did come to approve of some positive responsibilities by the federal government, but he still characterizes Jefferson’s governing philosophy as one of *laissez faire*. The next two generations came to rely on Jefferson’s example whereby “good government, particularly on the part of Federal officials,

⁴² *Ibid.*, 43. The term “republic” or “republican” is conspicuously absent from Croly’s discussion of the Founding period. He characterizes Jefferson as a radical “democrat” as opposed to his more common characterization as an agrarian republican.

⁴³ *Ibid.*

⁴⁴ *Ibid.*

⁴⁵ *Ibid.*

consisted, apart from routine business, in letting things alone.”⁴⁶ By Croly’s telling, Jacksonian Democrats won both the war of ideas and the battle for political control during this period. Whig leaders Henry Clay and Daniel Webster stood for a stronger central government, but this view was eclipsed by the “political dominance” of the Democratic Party.⁴⁷ “The great organ of democracy was the partisan association of good Democrats, which was wrought chiefly for the purposes of negatively controlling the official government rather than for the purpose of using it, after possession had been obtained, for any positive purpose.”⁴⁸ Croly argues that the Jacksonian Democrats actively thwarted the administrative activities of the federal government.

Legislative action was submitted to a constantly increasing burden of specific and general restrictions. The exercise of the police power was made subject to the scrupulous supervision of the courts. The executive veto was strengthened. On the other hand, the executive authority itself was disintegrated by being distributed among a number of elected officials.⁴⁹

One particular institution that Jackson and his followers successfully dismantled was the National Bank, which helped to maintain a stable currency. The Bank was a visible and powerful entity in the American economic system, and Jackson successfully portrayed it as a source of favoritism and “special economic privileges.”⁵⁰ Jacksonian Democrats

⁴⁶ *Ibid.*, 49.

⁴⁷ Croly, *Progressive Democracy*, 67.

⁴⁸ *Ibid.*, 68.

⁴⁹ *Ibid.*, 68-9.

⁵⁰ *Ibid.*, 58. Hofstadter argues that the National Bank was indeed a powerful force when Jackson took office. “As a fiscal agency it was comparable in magnitude to the government itself. It issued about one fourth of the country’s bank paper; because of its power over the discounts of innumerable smaller banks, especially in the West and South,

were so skeptical of positive government that they came to oppose any efficient administrative action on the part of the government. “Thus a negative do-nothing Democracy inevitably became inimical to the administrative aspects of government.”⁵¹ A government without administrative capabilities, would be less likely to interfere with individuals in pursuit of economic gain, a central concern of the “Western Democrats” that Jackson represented.

Croly also argues that Americans have traditionally opposed centralized political power because they saw it as an obstacle to their economic interests.

What a desirable political system meant to a substantial majority of the American citizens at the beginning of the nineteenth century was deliverance from interference in the cultivation of their own gardens and protection in enjoyment of the fruits. Both in its democratic and undemocratic aspects it was the expression of dominant local and individual economic interests.⁵²

The individualism of Americans is buttressed by a type of localism that opposes centralized political authority. This focus on local economic interests is another line of thinking that contributes to a negative conception of the state. Croly points to “the tradition of an individualist and provincial democracy” that resists “any change in the direction of increased centralization.”⁵³ He admits that Americans are willing to allow a minimal degree of centralization as long as it does not threaten their individual interests. “They are accustomed to some measure of political centralization, to a larger measure of

it was the only instrument in the United States that could affect the volume of credit.”
The American Political Tradition, 76-77.

⁵¹ Croly, *The Promise of American Life*, 73.

⁵² *Ibid.*, 57.

⁵³ Croly, *The Promise of American Life*, 276-277.

local government responsibility, to a still larger measure of individual economic freedom.”⁵⁴ The general disposition of Americans, most particularly Jacksonian Democrats, was to trust themselves first, their local governments second, and the central government last, if at all.

Croly believes Jacksonian Democrats acted on this fear of centralized political authority during the “middle period” by weakening the administrative functions of the federal government and by relegating more responsibility to the state governments. “The Federal government was tamed by the local Democracy, if not entirely subdued.”⁵⁵ However, Croly thinks the state governments were also used primarily for negative purposes due to an inadequate institutional framework. He argues that the “state constitutions” place too many “restrictions” on the actions of legislators, preventing them from acting in the name of the public interest.⁵⁶

Local American legislative organization has courted failure. Both the system of representation and the functions of the representative body have been admirably calculated to debase the quality of the representatives and to nullify the value of their work.⁵⁷

Croly devoted considerable time to developing alternative ways to organize the institutional structure of state governments. In fact, the only academic paper that he published was a proposal for reorganizing state governments, which he presented to the American Political Science Association in 1912. In his proposal, he looked to instruments

⁵⁴ *Ibid.*, 268.

⁵⁵ Croly, *Progressive Democracy*, 71.

⁵⁶ Croly, *The Promise of American Life*, 321.

⁵⁷ *Ibid.*

of direct democracy such as the initiative and referendum to combat the rigid constitutional restrictions of the state governments.⁵⁸ His fundamental criticism of the state governments is that they are administratively and legislatively inefficient and, therefore, incapable of engaging in positive action on behalf of the community. This criticism echoes Hamilton's own criticism of the Articles of Confederation based upon its lack of a centralized political authority.

For Croly, a decentralized political structure with an excessive reliance on the state governments is inadequate for dealing with problems that are national in scope. "The state governments, either individually or by any practicable methods of cooperation, are not competent to deal effectively in the national interest."⁵⁹ For example, state governments cannot effectively regulate interstate commerce. In the absence of federal regulation, railroads and other large enterprises "took advantage of these legal conditions and political ideas to organize an industrial machinery which cannot be effectively reached by local statutes and officials."⁶⁰ As industry grew larger and expanded across state lines, state based control and oversight became increasingly impractical. Croly believes this development has worked in favor of business interests. "In the past the large corporations have, on the whole, rather preferred state to centralized regulation, because of the necessary inefficiency of the former."⁶¹ Big business opposed centralized power because the limited reach of the state governments would allow them to effectively

⁵⁸ See Croly, "State Political Reorganization."

⁵⁹ Croly, *The Promise of American Life*, 275.

⁶⁰ *Ibid.*, 116.

⁶¹ *Ibid.*, 352.

escape regulative control. In short, under a system of state-based regulation, business was more likely to be left alone.

Croly generally believes that political ideas are rooted primarily in practice. The idea of the negative state was one that the American people came to accept based upon their experience with individual independence. Croly argues that the vision of a negative state manifested itself in a policy of *laissez faire*, which he refers to as the “policy of drift.” He employs the metaphor of the ship of state to indicate that the negative conception of the state leaves the ship without any specific heading, or even a purposeful navigator to avoid obstacles. Such a negative conception of the state “implied that society and individuals could be made better without actually planning the improvement or building up an organization for the purpose.”⁶² Croly considers the policy alternatives of active planning or of drift to constitute “the deepest lying difference between Hamilton and Jefferson.”⁶³ “Jefferson’s policy was at bottom the old fatal policy of drift. . . . Hamilton’s policy was one of energetic and intelligent assertion of the national good.”⁶⁴ Jefferson’s policy of drift is based upon a combination of optimism, individualism, and the negative conception of the state. Croly tends to use Jefferson as a foil for his criticism of a *laissez faire*, and he uses Hamilton as a corrective to a hands-off approach that he attributes to Jefferson.

Croly argues that Jefferson’s policy of drift was the standard during the “middle period” when the Jacksonian Democrats were in power. During this period, the country

⁶² *Ibid.*, 45.

⁶³ *Ibid.*

⁶⁴ *Ibid.*

was “entirely possessed by a system of individual aggrandizement, national drift, and mental torpor.”⁶⁵ This changed, however, as the Civil War necessitated an active use of the federal government on an unprecedented scale. The result of the Civil War was a federal government that was centralized and considerably more active in terms of national planning and economic oversight. By the beginning of the twentieth century, Croly believes American reformers were leading the way in challenging the policy of drift in favor of a more active supervision over economic activity.

The reformers have come partly to realize that the Jeffersonian policy of drift must be abandoned. They no longer expect the American ship of state by virtue of its own righteous framework to sail away to a safe harbor in the Promised Land. They understand that there must be a vigorous and conscious assertion of the public as opposed to private and special interests, and that the American people must to a greater extent than they have in the past subordinate the latter to the former. They behave as if the American ship of state will hereafter require careful steering.⁶⁶

To extend Croly’s metaphor, he did not believe that the “American ship of state” was completely rudderless. Rather, he thought the ship builders—represented by the Framers of the Constitution—fixed the rudder in place because they did not trust the passengers to steer it.

Legalism and the Constitution

Croly is also highly critical of the Constitution of the United States because he thinks its legal structure has supported the policy of drift and served the interests of the propertied class. This criticism is much more pronounced in *Progressive Democracy* than

⁶⁵ *Ibid.*, 71.

⁶⁶ *Ibid.*, 152-153.

in *The Promise of American Life*. When writing *The Promise of American Life*, Croly saw individualism as the primary obstacle to responsible political action, but in *Progressive Democracy*, he focused upon the rigidity of the Constitution and the numerous obstacles it created for popular expression.⁶⁷ *Progressive Democracy* stands in stark contrast to *The Promise of American Life* in style of presentation. The former is clear, restrained and succinct; the latter convoluted, effusive, and meandering. *Progressive Democracy* is the work of a more careful and mature writer.

One of the cornerstones of laissez faire thinking is the belief that private property must be secure. Critics of laissez faire frequently seize on this issue and point out that property rights are far more beneficial to the wealthy than to the overall community. Croly argues that the Constitution was drafted in accordance with the interests of the wealthy minority, which sought legal protections for private property. He refers to Charles Beard whose *Economic Interpretation of the Constitution* reinforced his belief that “the Constitution was framed chiefly by owners of property and their representatives.”⁶⁸ Croly has a somewhat simplistic view of the Federalists, who supported ratification of the Constitution, and the Anti-Federalists, who opposed ratification.⁶⁹ He tends to reduce the competing sides to interest groups. “The interest

⁶⁷ For an excellent description of how Croly’s thinking evolved from *The Promise of American Life* to *Progressive Democracy*, see Noble, “Herbert Croly and American Progressive Thought.”

⁶⁸ Croly, *Progressive Democracy*, 48.

⁶⁹ David K. Nichols argues that Croly conveniently overlooked aspects of Anti-Federalist thinking that were not supportive of his own interpretation. Particularly, “he failed to respond to the Anti-Federalists’ argument that participation and community were possible only in a small territory.” See “The Promise of Progressivism,” 37.

which lay behind Federalism was that of well-to-do citizens . . . and this interest aroused them to favor and seek some form of political organization that was capable of protecting their property and promoting its interest.”⁷⁰ According to Croly, the Federalists supported a strong central government because they saw it as the best guarantor of private property. “The Federalists sought to surround private property, freedom of contract, and personal liberty with an impregnable legal fortress.”⁷¹ Croly believes this “legal fortress” was designed to prevent a democratic majority from placing restrictions on property rights.

Croly believes that, in addition to constructing legal protections for property rights, the Constitution was drafted for the purpose of limiting popular sovereignty and democratic expression. He argues that the Framers associated popular sovereignty with “discontent and revolution,” which made them reluctant to create avenues for popular expression.⁷² Croly considers the Constitution to be a legal expression of the belief that “a political system based on unrestricted popular sovereignty resulted inevitably in an alternation between mob rule and mob violence and martial law.”⁷³ He believes this fear of majoritarian tyranny led to a legal framework that divided and limited the interests of the majority. One example of this framework is Madison’s system of representation. “The particular function of representation by law in the traditional American system was to tie the hands of the majority and to reduce it to insignificance in the management of public

⁷⁰ Croly, *The Promise of American Life*, 30.

⁷¹ *Ibid.*, 35.

⁷² Croly, *Progressive Democracy*, 223.

⁷³ *Ibid.*

affairs.”⁷⁴ Curiously, Croly makes no mention of Madison’s *Federalist No. 10*, where he clearly states that the purpose of representation is to protect minority rights, particularly property rights, from a majority faction consisting of those without property.⁷⁵ Croly believes the Constitution effectively deprived the majority of democratic responsibility for their own political community. “It did not provide a sound and candid method of making popular political responsibility real and effective.”⁷⁶ In his reform efforts, Croly formulated proposals for ballot initiatives and referenda to create avenues for democratic expression. Ultimately, he believed the public should have greater sovereign power and more responsibility than had been afforded to them in the Constitutional system.

Croly believes the Constitution was designed according to the belief that a strong legal framework was necessary to divert responsibility from the people to the legal system. “It was an organization of obstacles and precautions—based at bottom on a profound suspicion of human nature.”⁷⁷ He argues that the Framers avoided the perils of both authoritarianism and democratic despotism by establishing a paternalistic legal system. The Constitution established the law itself as the ultimate authority in the United States. Croly refers to this rigid legal system as “legalism,” but he is also given to more

⁷⁴ *Ibid.*, 309.

⁷⁵ Madison, *The Federalist No. 10*. Madison draws attention to three “improper or wicked project[s]” that result from majority rule: “a rage for paper money, for an abolition of debts, for an equal division of property.” Madison’s suspicion was not abstract, but based upon the political reality of increasingly radical state legislatures and popular uprisings such as Shay’s Rebellion. See Wood, *The Creation of the American Republic*, 403-413.

⁷⁶ Croly, *Progressive Democracy*, 152.

⁷⁷ *Ibid.*, 40.

inflammatory descriptions such as: “monarchy of the Law,” or “worship of the Word.”⁷⁸

He considers the United States legal system to be paternalistic in nature. Social

Darwinists were quick to characterize social legislation as paternalistic because its effect was to prevent people from making their own choices and accepting the consequences.

Croly effectively reverses this relationship by looking at paternalism from the perspective of the community rather than the individual. He sees social legislation as a form of democratic expression, but he believes the Constitution effectively deprived the people of the ability to implement such reforms out of fear of democratic control.

Croly views the system of “legalism” as inflexible and undemocratic. He thinks it reinforces the negative conception of the state because it prevents the majority from using the government for any positive functions.

The domination of the Law came to mean in practice a system in which the discretionary discriminating purposive action of the human will in politics, whether collective or individual, was suspect and should be reduced to the lowest practicable terms. The active government was divided, weakened, confined and deprived of integrity and effective responsibility.⁷⁹

Croly presents his vision of progressive democracy as way of restoring this democratic responsibility so that the people can use the government to actively deal with problems that could not have been foreseen by the Framers of the Constitution. Progressive democracy must favor “decisive action” over “obedience to rules.”⁸⁰ Legalism ensures that this “obedience to rules” takes precedence over active democratic control, and thus ensures that the government will primarily serve a negative protective function.

⁷⁸ *Ibid.*, 76, 253.

⁷⁹ *Ibid.*, 41.

⁸⁰ *Ibid.*, 244.

The primary reason that Croly sees the Constitution as undemocratic is that he believes governing and political authority are fundamentally about responsibility. He did not support democracy primarily because it lends itself to positive use of the government, but because it gives the people responsibility for their own political future. John Adams famously favored “an empire of laws,” but Croly favors precisely the opposite. “A thoroughly representative government is essentially government by men rather than Law.”⁸¹ True democracy, for Croly, involves placing political responsibility in the hands of the majority. Under a system of legalism, the law controls the government, but under a democracy, the people control the government and the government controls the law. For this reason, Croly concludes that “democracy and legalism are incompatible.”⁸²

Croly believes that the difficulty of amending the Constitution serves as evidence of its legalistic and undemocratic nature.

The machinery of amendment provided by the Constitution did more than anything else to emancipate that instrument from popular control. Its revision required such an emphatic preponderance of approving public opinion that no proposed amendment could be carried by any one political group.⁸³

He believes the Framers had created protections for individual rights and private property, and they reinforced these protections by making the Constitution practically “unmodifiable.”⁸⁴ Croly supported efforts to reform the amendment process as he came to believe that the difficulty in amending the Constitution created a serious obstacle to the

⁸¹ *Ibid.*, 274.

⁸² *Ibid.*, 253.

⁸³ *Ibid.*, 130.

⁸⁴ Croly, *The Promise of American Life*, 35-6.

progressive democratic reform he supported.⁸⁵ “Difficult as it may be to escape from the legal framework defined in the Constitution, that body of law in theory remains an instrument which was made for the people and which if necessary can and will be modified.”⁸⁶

Croly noticed that the most conservative voices in American politics displayed the most ardent support for the Constitution. He saw the main obstacle to the Progressive movement as “constitutional conservatism,” which favored a “negative do-nothing government” that was meant to “work harmoniously with an inaccessible and autocratic body of Law.”⁸⁷ Conservatives relied on the Constitution to oppose Progressive attempts to increase democratic control of the government and to use it for more active and positive purposes. Croly argues that this conservative disposition reflects the fear of popular sovereignty expressed by the Framers. The fear of majoritarian tyranny and popular despotism is “a mere political bogie, born of the hallucinations of men who confuse the haunted castle of feudalism and monarchism for the well-lighted mansion of the American democracy.”⁸⁸ Nevertheless, Croly believes this fear of popular sovereignty

⁸⁵ Croly, *Progressive Democracy*, 230-1. Croly specifically favored a proposal by Senator Robert La Follette, in which proposed amendments to the Constitution would require only approval of a majority of the national electorate rather than the approval of three-fourths of the state legislatures.

⁸⁶ Croly, *The Promise of American Life*, 178.

⁸⁷ Croly, *Progressive Democracy*, 101-102.

⁸⁸ *Ibid.*, 223.

“forms the major premise upon which contemporary American constitutional conservatism rests.”⁸⁹

Croly also recognized a tendency among conservatives to revere the Constitution as a source of principled wisdom rather than a practical framework for government. It is worth noting that this remains a prevalent feature of American conservatism a full century after Croly recognized it. He believes constitutional conservatism amounts to “superstitious worship of the Constitution.”⁹⁰ Croly argues that the Constitution was based upon a legalistic sense of “social righteousness” that constitutional conservatives came to cherish as a timeless ideal.⁹¹ “In framing the traditional political system the Fathers believed they could guarantee the righteous expression of the popular will by a permanent definition of the fundamental principles of right.”⁹² Croly believes his conservative opponents have internalized the principled righteousness of the Framers and imbued the Constitution with a “peculiarly sacred character.”⁹³

Thus the peculiar justification of our traditional constitutional government does not consist in its past and present serviceability or in its nice adaptation to our special political needs and customs, but rather in its quality of embodying the permanent principles of righteous and reasonable political action.⁹⁴

⁸⁹ *Ibid.*

⁹⁰ *Ibid.*, 22.

⁹¹ *Ibid.*, 209.

⁹² *Ibid.*, 210.

⁹³ *Ibid.*, 22.

⁹⁴ *Ibid.*, 21.

This belief that the Constitution is justified based on permanent principles leads conservatives to support a rigid legal structure that reinforces the individual right to property and a negative conception of the state.

By the time he wrote *Progressive Democracy*, Croly had come to view the Constitution as the legal instantiation of the individualism and optimism that he criticized in *The Promise of American Life*. He viewed the Constitution as the institutional expression of propertied interests with protections against democratic control. He also thought it reflected the irresponsible optimism which featured so prevalently in the American political tradition. The Framers may have been pessimistic about human nature, an attitude that distinguishes them from Jefferson, but they were optimistic about the future of the political structure due to their confidence in the political principles upon which the Constitution was based.

ECONOMIC CHANGE AND THE PROBLEM OF DRIFT

Croly believes the rigid legalistic structure of the US government left the American ship of state drifting in a hostile sea of economic change. The American economy underwent a dramatic change in the middle of the nineteenth century as industrialization eclipsed agriculture as the basis of economic productivity. “An industrial community, which was, comparatively speaking, well-organized and well-furnished with machinery, was taking the place of the agricultural community of 1830-1840, which was incoherent and scattered.”⁹⁵ Croly notices two parallel developments that contributed to

⁹⁵ Croly, *The Promise of American Life*, 101.

this change. First, the material abundance and open spaces of the frontier began to diminish as the population increased. The favorable economic conditions of America, particularly the available land touted by Crèvecoeur, proved to be temporary as “the virgin wilderness” eventually “disappeared.”⁹⁶ As the available land on the Western frontier became increasingly scarce, Americans found fewer opportunities for employment in agriculture and began to seek employment in industry. Thus the workforce itself changed in character as the number of independent farmers decreased giving way to a growing population of “wage-earners.”

The second development that contributed to the shift from an agrarian to an industrial economy was the rapid increase in industrial activity and efficiency following the Civil War. Croly argues that after the Civil War, Americans turned their attentions from political matters and started to focus more exclusively on business.

A lively, even frenzied, outburst of industrial, commercial, and speculative activity followed hard upon the restoration of peace. This activity and its effects have been the most important fact in American life during the forty years which have supervened; and it has assumed very different characteristics from those which it has assumed previous to the war.⁹⁷

According to Croly, the government took an active role in promoting private enterprise, which led to unprecedented prosperity. “Wealth was created and accumulated more quickly than ever before. The public domain was appropriated at an accelerated rate. Industries multiplied throughout the east and the middle west.”⁹⁸ However, this

⁹⁶ *Ibid.*, 18.

⁹⁷ *Ibid.*, 101.

⁹⁸ Croly, *Progressive Democracy*, 92.

prosperity was not put to public use. The wealth that was created in the process of industrialization was accumulated by a small minority of Americans.

This process of economic change presented Americans with a host of new problems, but the tradition of laissez faire in American politics offered no ready solution. The result was a cacophony of business activity in a market of severe and unchecked competition. “The absorption of Americans in business affairs, and the free hand which the structures and ideals of American life granted them, had made business competition a fierce and merciless affair.”⁹⁹ Croly argues that this harsh competitive market also made people less economically secure than they had been previously as “the fluid nature of American economic conditions made success very precarious.”¹⁰⁰ Success was indeed precarious during this period, and Croly worried that the massive economic inequality that resulted would prevent Americans from uniting behind a constructive social purpose. Economic inequality threatened to turn the United States into a collection of special interests and class interests rather than a united democratic community.

Croly noticed that the post-Civil War United States economy had heightened the stakes of economic competition. The successful saw greater rewards, and the unsuccessful saw greater misery than they had before the War. This reality conflicted with the tradition of optimism and individualism that Croly identified in American thought. Americans had entertained the hopeful belief that the free play of individual self-interest would produce a “beneficent result,” but instead, it produced “a morally and

⁹⁹ Croly, *The Promise of American Life*, 111.

¹⁰⁰ *Ibid.*

socially undesirable distribution of wealth.”¹⁰¹ Due to favorable economic conditions before the Civil War, Americans expected economic prosperity to continue “automatically” by virtue of a negative state that protected individual property rights.¹⁰² These hopeful expectations were confronted with a grim reality as the benefits of that prosperity accrued in very few hands. “Concentration of wealth,” Croly argues, “is the inevitable outcome of the chaotic individualism of our political and economic organization.”¹⁰³ The concentration of wealth and glaring economic inequality that resulted from a traditional policy of *laissez faire* was the most serious economic and social problem facing the country.

The concentration of wealth in America coincided with a process of combination in industry as corporations grew larger and more efficient. Croly applauded this increased efficiency, and he thought industrial combinations should be preserved due to their efficiency rather than divided into smaller, less efficient enterprises. His objection was that the owners of these industrial combinations were receiving a degree of remuneration that far outweighed the benefit that they provided to the community. He acknowledges that J.P. Morgan, Andrew Carnegie, and other so-called captains of industry “have in the course of their business careers contributed enormously to American economic efficiency,” but ultimately, “they have been overpaid for their services.”¹⁰⁴ Croly is not in favor of an equal distribution of wealth, and he argues that there should be room for

¹⁰¹ *Ibid.*, 22.

¹⁰² *Ibid.*, 17.

¹⁰³ *Ibid.*, 23.

¹⁰⁴ *Ibid.*, 202.

individual economic distinction, but he believes individuals should not be allowed to earn a share of the community's wealth that outweighs the benefits provided to the community in terms of efficiency. However, this is precisely what happened as the government, following a policy of laissez faire, allowed capitalists to "appropriate an unusually large share of the fruits of American economic development."¹⁰⁵ The resulting inequality established a class of wealthy individuals who were detached from the overall community.

The other side of this economic inequality was, of course, widespread poverty as a corresponding class of working poor struggled for economic security. For Croly, the true significance of poverty in America is that it signifies a loss of independence. He identified independence and self-reliance as a feature of the traditional American pioneer outlook.

For many years millions of Americans of much the same pattern were rewarded for their democratic virtue in an approximately similar manner. Of course some people were poor, and some were rich; but there was no class of the very rich, and the poverty of the poor was generally their own fault. Opportunity knocked at the door of every man, and the poor man of to-day was the prosperous householder of to-morrow. For a long time American social and economic conditions were not merely fluid, but consistent and homogeneous, and the vision of the pioneer was fulfilled.¹⁰⁶

Croly characterized the pioneer as the American everyman, and he was fundamentally an individual possessed of diverse talents. However, the growing industrial economy required individuals with specialized skills necessary for industrial production. The nature of labor itself changed from primarily agricultural and unskilled to industrial and

¹⁰⁵ *Ibid.*, 105.

¹⁰⁶ *Ibid.*, 104.

specialized. Moreover, industrial wage laborers were more dependent upon their employers because their specialized skills had a narrow application. The “economic opportunities” of the pioneer farmer, on the other hand, “consisted chiefly in the appropriation and improvement of uncultivated land,” which afforded ample independence to an individual with the diverse skills suited to the task.¹⁰⁷

Croly draws a distinction between “wage-earners” and “property owners,” and he believes the ranks of the former have grown more quickly than the ranks of the latter.¹⁰⁸ He is concerned that wage-earners do not have the economic independence that was formerly enjoyed by the pioneer farmer. “The truth is that the wage-system in its existing form creates a class of essential economic dependents.”¹⁰⁹ The wage-earner owns no property and can only earn a living by selling his or her labor to those who own property.

Their employer is literally their master. He supplies the opportunity of work, determines its conditions to a large extent, and is responsible for its success or failure. They are often free to change their employer, but a new employer is only a new master.¹¹⁰

Wage-earners are wholly dependent upon property owners for work, and as a consequence, individual initiative is no longer a sufficient condition for economic security. Because of this change from independence to dependence the individual right of private property took on a new character. “With the advent of comparative economic and social maturity, the exercise of certain legal rights became substantially an exercise of

¹⁰⁷ *Ibid.*, 106.

¹⁰⁸ Croly, *Progressive Democracy*, 380.

¹⁰⁹ *Ibid.*, 382.

¹¹⁰ *Ibid.*, 383.

privilege; and if equality of opportunity was to be maintained, it could not be done by virtue of non-interference.”¹¹¹

The Social Problem: Divisions in Society

Croly’s criticism of concentrated wealth and economic inequality does not hinge on fairness or equity, but on social solidarity. Croly believes that the essential condition for a progressive democracy is a cohesive community with a definite purpose. Economic inequality effectively divides the community along class lines and interests and thereby prevents the social solidarity that he deems essential for a well-functioning democracy. Reformers of the nineteenth century had drawn attention to the “social problem,” which referred to “the problem of poverty” with a focus on the misery of the poor.¹¹² Croly argued that the existence of widespread poverty posed a more serious problem for the overall community. “The grave inequalities of wealth are merely the most dangerous and distressing expression of fundamental differences among the members of society of interest and of intellectual and moral standards.”¹¹³ Economic inequality divides the community into classes with different outlooks. Therefore, the fundamental nature of the social problem is “preventing such divisions from dissolving the society into which they enter—of keeping such a highly differentiated society fundamentally sound and

¹¹¹ Croly, *The Promise of American Life*, 182-3.

¹¹² *Ibid.*, 139.

¹¹³ *Ibid.*

whole.”¹¹⁴ For Croly, the social problem is not strictly about addressing poverty, it is about addressing class divisions in society.¹¹⁵

Croly argues that the laissez faire approach to economic activity has allowed the wealthy a measure of power that is fundamentally at odds with democracy. “The great freedom which the individual property-owner has enjoyed has tended to create a powerful but limited class whose chief object is to hold and increase the power which they have gained.”¹¹⁶ Croly believes that the existence of this class “has presented the American democracy with the most difficult and radical of its problems.”¹¹⁷ The sheer power of this new economic class has given them a privileged position in society that resembles the social gradations of an aristocracy rather than the egalitarianism of a democracy. “Gross inequalities in wealth, wholly divorced from economic efficiency on the part of the rich, as effectively loosen the social bond as do gross inequalities of political and social standing.”¹¹⁸ This “aristocracy of money,” according to Croly, is no better suited for a democratic society than an aristocracy of social and political distinction.¹¹⁹

¹¹⁴ *Ibid.*

¹¹⁵ Edward Stettner explains that Croly did not share the typical Progressive inclination to take the side of the disadvantaged. “He was not a defender of the poor or the oppressed, despite his emphasis on democracy.” See *Shaping Modern Liberalism*, 50.

¹¹⁶ *Ibid.*, 202

¹¹⁷ *Ibid.*

¹¹⁸ *Ibid.*, 204.

¹¹⁹ *Ibid.*, 202.

To make matters worse, this “aristocracy of money” did not distinguish itself by using its wealth responsibly. Croly believes that the wealthy show little restraint as they engage in “ostentatious waste and conspicuous leisure.”¹²⁰ Employing Veblen’s terminology, Croly echoes his argument that the wealthy have developed extravagant practices that are contrary to the interests of the overall community. Such extravagance is exacerbated by the practice of inheritance. Croly believes that inherited wealth results in “the creation of a class of economic parasites” who have contributed nothing to economic production but enjoy a degree of comfort unimaginable to the working poor.¹²¹ Once again, Croly’s focus is not strictly upon the fairness of the existing distribution of wealth, but upon how such a distribution divides society along class lines. “The inheritance of vast fortunes . . . breed[s] class envy on the one side and class contempt on the other; and the community is . . . divided irredeemably by differences of interest and outlook.”¹²² As Veblen so effectively argued, the extremely wealthy are detached from the actual process of production and the vicissitudes of economic competition. They live in a cloistered world of leisure and comfort that effectively separates them from the majority of the community.

The extravagance of the wealthy also leads to popular resentment among the labor force as they come to realize that the economic system works primarily for the benefit of those who own property. “A system which had intended to scatter the benefits of special

¹²⁰ Croly, *Progressive Democracy*, 419. Croly does not refer to Veblen, but these terms are clearly his.

¹²¹ Croly, *The Promise of American Life*, 383.

¹²² *Ibid.*, 204.

economic privileges over the whole surface of society, had resulted in piling up of those benefits on certain limited areas.”¹²³ Workers came to realize that the economic system was not equitable, so they began to focus increasingly on their own class interests by forming labor associations. Croly’s opinion of labor unions changed considerably in the short time between the publication of *The Promise of American Life* in 1909 and *Progressive Democracy* in 1914. In the earlier work, his evaluation of labor unions bordered on contempt. He referred to the union member as a “militant,” “a bad citizen,” and even “an inhuman animal” due to his supposed fanatical devotion to his union and his willingness to express that devotion in the most drastic ways.¹²⁴ However, in *Progressive Democracy*, he treats organized labor as an understandable response to the abuses perpetrated by property owners, and he entertains the hope that some forward thinking labor movements can pave the way for “industrial self-government” by workers.¹²⁵ Nevertheless, Croly believes that unions reflect and reinforce the class consciousness of the working poor and form an obstacle to social solidarity. Even as he came to accept organized labor as a form of necessary self-defense for the labor force, he still considered it to be a reflection of class interest instead of public interest. Unions came to represent “a restricted and interested program, which converted work into a kind of class property.”¹²⁶ Croly ultimately believes that labor organizations are a mirror

¹²³ Croly, *Progressive Democracy*, 98.

¹²⁴ Croly, *The Promise of American Life*, 127-128.

¹²⁵ Croly, *Progressive Democracy*, 387-390.

¹²⁶ *Ibid.*, 388.

image of wealthy property owners in that they are primarily focused on securing their own particular interest rather than the public interest.

Overall, Croly believes that these economic challenges and class divisions revealed the inadequacies of the traditional American outlook.

The traditional American theory was that the individual should have a free hand . . . whereof the result would be a happy combination of individual prosperity and public weal. But this expectation, as we have seen, has proven erroneous. . . . The plain fact is that the individual in freely and energetically pursuing his own private purposes has not been the inevitable public benefactor assumed by the traditional American interpretation of democracy.¹²⁷

The “promise” of prosperity and independence that Americans had come to accept was based upon the assumption of harmony between individual interests and public interests. Croly argues that the favorable economic conditions in early America allowed individuals to pursue their own interests without any major conflict with the public interest. These conditions led Americans to accept “an individualistic conception of society, which assumed an essentially automatic harmony between individual and social interests.”¹²⁸ However, new economic conditions such as industrialization and the closing of the frontier revealed that a laissez faire economic policy resulted in conflict rather than harmony. “These underlying social and economic conditions are themselves changing, in such a wise that hereafter the ideal Promise, instead of being automatically fulfilled, may be automatically stifled.”¹²⁹

¹²⁷ Croly, *The Promise of American Life*, 106.

¹²⁸ Croly, *Progressive Democracy*, 175.

¹²⁹ Croly, *The Promise of American Life*, 17.

Political Challenges

The radical change in economic conditions following the Civil War also revealed flaws and inadequacies in the political system and in the tradition of thinking that supported it. Croly described the traditional political outlook of Americans as optimistic, individualistic, and legalistic with an implicit belief that the public good would be best secured if individuals were given a free hand and afforded legal protections for their pursuit and ownership of private property. However, the government largely abandoned its minimalist, laissez faire policy after the Civil War for a more decidedly pro-business policy. But Croly argued that this very shift to active support of business was a predictable consequence of the prevailing tradition of laissez faire thinking.

Croly thought that the laissez faire approach to governing, in which the government assumed a primarily negative role of protecting property, left the community with no way to effectively adjudicate between competing public and private interests. The negative state equates the “social interest” with “indiscriminate individualism,” which was originally designed to eliminate privilege and favoritism.¹³⁰ However, the result of this was economic inequality as the wealthy were allowed to enhance their position absent government intervention. Croly believes that the focus on equal protection of property rights, embodied in the conception of the negative state, was meant to be “indiscriminate,” but in reality, this practice has led to “discriminations advantageous to a minority.”¹³¹ He considers an indiscriminate government to actually represent discrimination in favor of private interests due to the absence of any advocate

¹³⁰ *Ibid.*, 189.

¹³¹ *Ibid.*, 194-5.

for the public interest. “A well-governed state will use its power to promote edifying and desirable discriminations.”¹³² By acting in accordance with intelligent discrimination between private interests and the interest of the public, Croly believes that the American political community can move beyond the tradition of “optimistic fatalism” and the practice of non-interference in favor of a more responsible and active policy. “The practice of non-interference . . . means merely that the nation is willing to accept the results of natural selection instead of preferring to substitute the results of artificial selection.”¹³³ For Croly, the inability or unwillingness of the government to violate the strictures of non-interference amounts to surrendering the responsibility of governing to private interests and to depriving the public of any political responsibility at all.

The laissez faire policy of non-interference effectively meant that any responsibility for economic matters would be left in the hands of private individuals, but Croly thought a vibrant democratic government was based upon the community assuming greater responsibility in government. The power of concentrated wealth formed an obstacle to a responsible democracy, as the wealthy began to break from the traditional American belief in the harmony of individual and public interests. Croly describes this new type of businessman as follows:

He was still reflected in the mirror of his own mind as a patriotic and public-spirited citizen; but at the same time his ambition was to conquer, and he did not scruple to sacrifice both law and the public weal to his own prosperity. All unknowingly he began to testify to a growing and a decisive division between the two primary interests of American life,—between the interest of the individual business man and the interest of the body politic; and he became a living

¹³² *Ibid.*

¹³³ *Ibid.*, 190-191.

refutation of the amiable theories of the Jacksonian Democrat that the two must substantially coincide.¹³⁴

In the era of industrialization, businesses were no longer content to be “let alone” and actively sought assistance from the government to advance their own private interests with little to no concern for the public interests. The “industrial leader . . . saw an opportunity to turn to his own account the individualistic ‘freedom’ of American politics and industry.”¹³⁵ It is important to note that, according to Croly’s telling, business interests were not advocating a policy of laissez faire, but one of an activist government that would support business interests. Free market capitalism was being replaced by crony capitalism. Nevertheless, it was a tradition of laissez faire in American political thought that allowed this development. Business leaders, then as now, used the language of laissez faire rhetorically and ideologically to justify or legitimize a system of active government assistance to large enterprises. Croly believes that the wealthy were “enabled by the character of our political traditions to obtain an amount of power which the originators of those political ideas never anticipated.”¹³⁶

The practice of non-interference had allowed private interests to gain unprecedented power in the form of wealth, but they were also able to gain sway over governmental institutions, which began to actively support business interests. This transformation began soon after the Civil War as “Republicans had converted the earlier negative policy of emancipating economic production into a positive policy of

¹³⁴ *Ibid.*, 117.

¹³⁵ *Ibid.*, 123.

¹³⁶ *Ibid.*, 123.

comprehensive stimulation.”¹³⁷ By way of example, Croly argues that politicians and land developers joined forces to appropriate the remaining unoccupied land of the western frontier. He describes an “alliance” between politicians and developers that was forged “for the sake of occupying as much fertile territory as possible . . . and of dividing the fruits of that occupation.”¹³⁸ As the government assisted in rapid appropriation of the remaining wilderness into fewer private hands, it became complicit in eliminating an essential condition for the American Promise—the wide open spaces on the Western frontier where the independent farmer could find economic security by virtue of his individual efforts.

Croly believes that this alliance between business and government deprives the public of any effective responsibility for economic developments, and this has serious implications for the future of the American democracy. For Croly, any form of government is defined, not by whose interests are promoted and protected, but by who has political responsibility. His criticism of the Constitution was based upon his belief that its legalistic structure did not allow any vehicle for popular democratic expression.¹³⁹ As he notes frequently, the Constitution established a government that protected equal rights in the name of giving individuals freedom to presumably control their own destiny. According to Croly, “Individual freedom is important, but more important still is the freedom of the whole people to dispose of its own destiny.”¹⁴⁰ Similarly, the “vicious

¹³⁷ Croly, *Progressive Democracy*, 93.

¹³⁸ *Ibid.*, 94.

¹³⁹ *Ibid.*, 152.

¹⁴⁰ Croly, *The Promise of American Life*, 178.

cycle of private interests” that characterized the latter half of the nineteenth century placed political responsibility in the hands of private business interests and their allies in government and left little room for popular democratic responsibility.¹⁴¹ This is the true significance of laissez faire thinking for Croly. By assuming that the free play of private interests will ensure the public interest, the traditional optimistic American political theory supports a policy that “deprives the whole people of that ultimate responsibility for their own welfare, without which democracy is meaningless.”¹⁴²

REFORM: RECONSTRUCTING THE AMERICAN PROMISE

Croly’s primary focus as a reformer and a critic was the tradition of political ideas that I have outlined above—a tradition that is best described as laissez faire. In presenting a vision of reform, he was primarily concerned with establishing an alternative set of ideas that would supplant this laissez faire tradition. David K. Nichols attributes Croly’s lasting influence to the fact that he “was less concerned with specific reforms than he was with establishing an intellectual context for reform.”¹⁴³ He did believe that political and legal institutions needed to be updated to create a more democratic community, but he fundamentally believed that lasting reform would have to be based upon ideas rather than institutions.

¹⁴¹ *Ibid.*, 112.

¹⁴² *Ibid.*, 200.

¹⁴³ Nichols, “The Promise of Progressivism,” 27.

Croly criticized the tradition of individualism in American political thought primarily because he thought it characterized individual interests as standing opposed to the interests of society. Like most of his contemporary reformers, he rejected the atomistic conception of society, with its exclusive focus on individuals, in favor of a more communalist focus. In *The Promise of American Life*, Croly treated individualism as the primary obstacle to the cohesive democratic community that he favored, but he had not developed a clear alternative to the atomistic view of society. He focused instead on rediscovering and reconstructing a sense of national purpose, which he attributed to Hamilton, and the implication was that such purpose would lead Americans away from the atomistic individualism that developed during the “middle period.”¹⁴⁴ However, when he approached the subject in *Progressive Democracy*, his thinking about the relationship between the individual and society revealed a degree of nuance and specificity that was not present in his earlier work.

Croly presents a vision of society and the individual, which relies heavily on the philosophical teachings of pragmatism, especially those of John Dewey. He abandons fixed concepts such as “individual” and “society” in terms of a process-oriented description of human relations.

Society is the process of socializing. Individuality is the process of individualizing. Neither of these processes is a matter of monotonous repetition. Both of them are consummations and fulfillments, which carry with them the risk of failure as well as the chance for success.¹⁴⁵

¹⁴⁴ Hamilton was in no way opposed to the pursuit of individual economic interest, but Croly tends to overlook this in his praise of Hamilton’s national focus.

¹⁴⁵ Croly, *Progressive Democracy*, 195.

Croly thinks that an individualistic outlook misconstrues the way in which these “processes” relate to each other. “Individuals and societies are not natural facts. They are wilful [sic] processes—moral creations.”¹⁴⁶ Because the “individual” and “society” are ongoing experimental processes, they do not lend themselves to abstract naturalistic laws. Instead, Croly believes that “moral or social knowledge” is a type of continuous learning that emanates from these processes and can never arrive at a fixed and permanent understanding of human relations.¹⁴⁷ The “process of socializing” involves acquiring and implementing “practical knowledge” to make the process of social life more fulfilling.¹⁴⁸

Croly argues that the failure to understand the true nature of individual and social processes leads social thinkers to treat the two as antagonistic. “If both or one can be conceived as finished products, the result is a tendency either to sacrifice the individual to society or society to the individual.”¹⁴⁹ The proper way to characterize the relationship between the individual and society is one of “interdependence;” otherwise, there is a tendency to treat one as dependent upon the other and to value the needs of one at the expense of the other.¹⁵⁰ The tendency in American political thought has been to sacrifice the interests of society to those of the individual, or to assume that individual interests will create an automatic harmony with the public interest. Croly’s view is that “society is

¹⁴⁶ *Ibid.*, 194.

¹⁴⁷ *Ibid.*

¹⁴⁸ *Ibid.*

¹⁴⁹ *Ibid.*, 198.

¹⁵⁰ *Ibid.*, 199.

not merely a result of the harmony or conflict of individual interests or wills. It is an end in itself, as is the individual, and correlative with the individual.”¹⁵¹

By depicting the relationship between the individual and society as interdependent, Croly is presenting what he sees as a workable compromise, but he is careful to point out that this relationship of interdependence must be complimented with a positive direction or purpose. It is purpose that transforms a mere group of individuals into a society.

Men and women become associated together for the accomplishing of an infinitely large number and various number of purposes, and each of these different associations constitutes a society, whose reality is determined by the tenacity and the scope of the purposes which have prompted the association.¹⁵²

Purpose is the force that guides the process of socialization, and in pursuing a specific purpose, communities learn by doing. They develop practical knowledge as they come to “seek some form of mutual accommodation and adjustment” and “acquire joint responsibilities.”¹⁵³ As the process of socialization goes on, “a social ideal gradually emerges,” and “society comes to be conceived as a whole, with certain permanent interests and needs.”¹⁵⁴ Croly thought that a “social ideal” was especially important in a democratic community where the people have the ultimate responsibility for their well-being and future. He believed the future of American democracy depended upon the ability to restore a social ideal that was lost.

¹⁵¹ *Ibid.*

¹⁵² *Ibid.*, 197.

¹⁵³ *Ibid.*

¹⁵⁴ *Ibid.*

An American Social Ideal

Croly believed that any meaningful reform in American political institutions and practices would have to rely upon a clearly defined national purpose. His criticism of the American tradition of laissez faire thinking was based upon what he saw as the idealistic belief that social progress would automatically result from individual freedom. He saw it as his duty to help transform the “American national destiny into a national purpose,” and he noticed that reformers were starting to welcome this change.¹⁵⁵

Now the tendency is to conceive the social welfare, not as an end which cannot be left to the happy harmonizing of individual interests, but as an end which must be consciously willed by society and efficiently realized. Society, that is, has become a moral ideal, not independent of the individual but supplementary to him, an ideal that must be pursued less by regulating individual excesses than by active conscious encouragement of socializing tendencies.¹⁵⁶

The challenge would be to find a national purpose that would fit into the tradition of American political thought.

Croly believes that the purpose of any “national association” is particular to each nation and based upon their “interests, institutions, and traditions.”¹⁵⁷ The United States is unique in this respect because “the American nation is committed to a purpose which is not merely of historical manufacture.”¹⁵⁸ European nations, for example, are wedded to historical traditions of nationality, but Americans had severed themselves from these traditional affiliations in the name of a future oriented purpose. “[The American Nation]

¹⁵⁵ Croly, *The Promise of American Life*, 24.

¹⁵⁶ Croly, *Progressive Democracy*, 148-9.

¹⁵⁷ Croly, *The Promise of American Life*, 229.

¹⁵⁸ *Ibid.*, 6.

is committed to the realization of the democratic ideal; and if its Promise is to be fulfilled, it must be prepared to follow whithersoever that ideal may lead.”¹⁵⁹ The central problem with the American political tradition, according to Croly, was that Americans adopted the mindset of laissez faire and assumed that an individualistic, legalistic, and decentralized political organization would be the best way to secure the democratic ideal.

Croly, by contrast, wanted to construct a coherent national purpose that would serve as a guide for the American democracy. His strategy for achieving this was a “critical reconstruction of American political ideas” to give a more affirmative and specific formulation of the American “Promise.”¹⁶⁰ The most important source of political ideas for his reconstruction was Alexander Hamilton. It was Hamilton who exhibited a belief that the nation itself must have a definite purpose, and that the government must have the necessary means to pursue that purpose.

Croly does not conceal his admiration for Hamilton, and he freely admits that his “own preferences are on the side of Hamilton rather than of Jefferson.”¹⁶¹ Fundamentally, he believes that Hamilton espouses two very important ideas. First, Hamilton realized that the nation existed for a purpose and that there was a national interest that extended beyond simply preserving the existing government. “The central government is to be used, not merely to maintain the Constitution, but to promote the national interest and to consolidate the national organization.”¹⁶² Second, Hamilton knew that this national

¹⁵⁹ *Ibid.*

¹⁶⁰ *Ibid.*, 176.

¹⁶¹ *Ibid.*, 29.

¹⁶² *Ibid.*, 39.

purpose would not emerge spontaneously and would have to be nurtured and advanced by a “positive policy.”¹⁶³ Croly believed that a national purpose and an active government were mutually reinforcing, and this is the reason that he admires Hamilton’s approach to government. “Hamilton’s policy was one of energetic and intelligent assertion of the national good.”¹⁶⁴ Croly thought that Hamilton’s active policy in support of the national interest represented an alternative to Jeffersonian individualism and the aimless democracy it represented. Hamilton had shown Americans that the community could be unified in the active pursuit of a national purpose.

The fundamental flaw in Hamilton’s approach, according to Croly, was that he identified and supported the wrong purpose. Although he understood the importance of political ideas as they relate to a national purpose, Hamilton was so fearful of popular upheaval that “he did not seek a sufficiently broad, popular basis for the realization of those ideas.”¹⁶⁵ Instead, he entrusted the national interests to “the interested motives of a minority of well-to-do citizens.”¹⁶⁶ Hamilton viewed the national interests as separate from and even opposed to democratic expression, and this led him to identify the interests of the wealthy with the overall national interest. “He conceived the Constitution and the Union as a valley of peace and plenty which had to be fortified against the marauders by the heavy ramparts of borrowed money and the big guns of propertied interest.”¹⁶⁷ By

¹⁶³ *Ibid.*, 40.

¹⁶⁴ *Ibid.*, 45.

¹⁶⁵ *Ibid.*, 40.

¹⁶⁶ *Ibid.*, 41.

¹⁶⁷ *Ibid.*

forging an alliance between propertied interests and the national interest, Hamilton stoked resentment among the democratic majority who could not identify with his national program. “He failed to understand that the permanent support of the American national organization could not be found in anything less than the whole American democracy.”¹⁶⁸ Croly argues that the true value of a national purpose is its ability to unite the community behind a common ideal, but Hamilton’s national program only alienated the majority of Americans from this national ideal because they saw him as a spokesman for special interests.

Croly looked to Jefferson as a corrective to Hamilton’s anti-democratic nationalism. Jefferson’s faith in the ability of people to govern themselves marks a democratic contrast to Hamilton’s somewhat elitist conception of national purpose. In short, Jefferson had faith in the people, and Hamilton had faith in the national government. Croly wanted to unite these two ideals so that the democratic majority could actualize their sovereign will through positive policy. By adding Hamilton’s idea of positive government action in pursuit of a national purpose, the Jeffersonian “democracy of indiscriminate individualism” would be imbued with “a sense of joint responsibility for the success of their political and social ideal.”¹⁶⁹ Croly admits that this union of Jefferson’s democracy and Hamilton’s nationalism will “necessarily do more harm to the Jeffersonian group of political ideas than it will to Hamilton.”¹⁷⁰ The primary reason for this is that he thinks Jefferson’s individualism has had a more dominant presence in the

¹⁶⁸ *Ibid.*

¹⁶⁹ 214.

¹⁷⁰ *Ibid.*

American political tradition; therefore, the reintroduction of Hamilton's nationalism will have a more noticeable impact.

[The United States] must become, that is, a democracy devoted to the welfare of the whole people by means of a conscious labor of individual and social improvement; and this is precisely the sort of democracy which demands for its realization the aid of the Hamiltonian nationalistic organization and principle.¹⁷¹

Croly also believes that Hamilton's idea of a positive government organized for the purpose of promoting the national interest would provide the people with political experience and education as long as there is an avenue for democratic participation. Like Aristotle, Croly thinks politics is something people learn by doing.

Croly believes that the Jeffersonian vision of democracy has a stupefying effect on the people. It requires very little from them in terms of political responsibility, so they focus on individual interests as the legalistic political system allows the community to drift without purpose or direction. But Croly thought that such a purpose was something that the community acquired through practice by engaging in purposeful political action; it was not simply an abstract ideal that could be imposed from without. In *The Promise of American Life*, he recommends an "educational theory of democracy" in which the people engage in a series of "constructive experiments" to gain practical experience.¹⁷²

Interestingly, his proposal is very similar to Jefferson's own proposal for "ward republics," which was intended to give all citizens "a part in the administration of public affairs."¹⁷³ Croly's focus is not on what these "experiments" achieve, but what they teach

¹⁷¹ *Ibid.*

¹⁷² *Ibid.*, 406.

¹⁷³ Jefferson, "Letter to Samuel Kercheval," 213-214.

the people about democratic responsibility and national purpose. “The fundamental process of American education consists and must continue to consist precisely in the risks and experiments which the American nation will make in the service of its national ideal.”¹⁷⁴ His reform was aimed at replacing the negative “do-nothing democracy,” which he attributes to Jefferson, into an educative do-something democracy.

Positive Responsible Government and Political Education

The foregoing discussion demonstrates that Croly believed that the tradition of laissez faire thinking has prevented the United States from engaging in positive democratic reform.

Reform is both meaningless and powerless unless the Jeffersonian principle of non-interference is abandoned. The experience of the last generation plainly shows that the American economic and social system cannot be allowed to take care of itself, and the automatic harmony of the individual and the public interest, which is the essence of the Jeffersonian democratic creed, has proven to be an illusion. Interference with the natural course of individual popular action there must be in the public interest; and such interference must at least be sufficient to accomplish its purpose.¹⁷⁵

Croly was not interested in formulating permanent political reforms; after all, he criticized the Framers of the Constitution for attempting to establish a permanent and inflexible framework. He thought that citizens are influenced by and learn from their political institutions. If these institutions leave them to their own individual pursuits, they will learn very little by way of public participation. On the other hand, if these institutions demand more of citizens and afford them more responsibility, they will be

¹⁷⁴ *Ibid.*, 405.

¹⁷⁵ *Ibid.*, 152.

required to revise their traditional exclusive focus on individual interests and embrace a sense of mutual dependence and public responsibility.

Croly thinks that the tradition of individualism and the legalistic Constitutional system have effectively deprived the majority of Americans of political responsibility. The Framers of the Constitution placed legal safeguards against “popular despotism” which resulted in a system where sovereign power resided in a body of law that mostly catered to propertied interests. But Croly argued that the only legitimate type of sovereignty in a democracy is popular sovereignty. “There is point of fact no logical escape from popular Sovereignty—once the theory of divinely appointed Sovereignty is rejected.”¹⁷⁶ Given that political responsibility must reside with someone, democracy can mean nothing less than giving the public the responsibility of governing even though they may use that responsibility in unanticipated ways. “The fallibility of human nature being what it is, the practical application of this theory will have its grave dangers; but these dangers are only evaded and postponed by a failure to place ultimate political responsibility where it belongs.”¹⁷⁷ Croly was willing to accept any potential “dangers” that would result from greater democratic responsibility in exchange for the educative benefits of democratic participation.

Croly believed that the democratic community would secure the public interest by engaging in responsible oversight over social and economic affairs. In this sense, popular sovereignty was the antidote to the attitude of “live-and-let-live” and “the policy of drift.” He admits that the experimental attempts to assert the public interest may commit

¹⁷⁶ *Ibid.*, 177.

¹⁷⁷ *Ibid.*, 178.

“serious and perhaps enduring mistakes,” but similar mistakes have been made in the name of the laissez faire tradition to the extent that “inaction and irresponsibility are more costly and dangerous than intelligent and responsible interference.”¹⁷⁸

The reason that Croly favors action over inaction and positive responsibility over obedience to rules is that he believes that there is no such thing as an impartial or indiscriminate government. The American legal system, which aimed for impartiality by protecting property rights, resulted in class divisions and a certain degree of economic privilege among the wealthy. This shows that “the practice of non-interference is just as selective as the practice of state interference.”¹⁷⁹ Croly also challenges the belief that the legal system prevents discrimination because it represents a predetermined system of discrimination in favor of property owners. “Even if enjoyed with some equality in the beginning, they do not continue to be enjoyed equally enjoyed, but make towards discriminations advantageous to a minority.”¹⁸⁰ This is precisely what Croly means by the policy of drift. As circumstances change, institutions and practices that were fair and equitable become sources of privilege and class division. To combat the policy of drift, the government must be able to engage in “responsible discriminations” so that no class or interest group gains too much power or influence.¹⁸¹

Croly believed that the central government was the best vehicle for responsible democratic government. “The modern national state is at bottom the most intelligent and

¹⁷⁸ *Ibid.*, 190.

¹⁷⁹ *Ibid.*

¹⁸⁰ *Ibid.*, 195.

¹⁸¹ *Ibid.*

successful attempt which has yet been made to create a comparatively stable, efficient, and responsible type of political association.”¹⁸² He considers the federal government to be the best hope for unifying the community behind a common purpose. He developed a number of specific reform proposals to address various political and economic problems, but they were all based on his belief that purposeful political action educates and unites the community.

An organization of the executive and legislative powers, which will give increased energy to both of them and which is adjusted to their cooperation both one with another and with a sufficient measure of direct government, is what is needed and must be contrived. The new organization will be intended first, last and always to promote political education.¹⁸³

It is worth noting that Croly did not believe that a permanent organizational structure would establish a democratic system once and for all. Rather, he thought democratic expression must be embodied in temporary and experimental programs, whose primary function is educational. Participatory democracy, Croly believed, would teach citizens that they could contribute to political reform in the name of the public interest. It would also foster a greater sense of inclusiveness and cohesiveness among the community as they took active control of the ship of state and substituted intelligent collective navigation for the “hands-off” approach and the policy of drift.

One of Croly’s most important contributions to American political thought is his argument that a strong, efficient, and centralized government is not a hindrance to democracy, but a necessary complement. “A strong government with an affirmative policy and effective popular control are supplementary rather than hostile to each

¹⁸² *Ibid.*, 216.

¹⁸³ Croly, *Progressive Democracy*, 283.

other.”¹⁸⁴ A democratic community needs a strong active government to create meaningful avenues for responsible democratic action. It gives the citizens effective responsibility and serves as an educational institution that allows them to take a more active role in promoting the public interest. Similarly, a strong and efficient national government must be based upon democratic support, or it threatens to create divisions in society, and the government becomes beholden to special interests.

CONCLUSION

In Croly we have an example of a thinker who was influential despite, not because of, his style of presentation. He has a penchant for baffling metaphors and puzzling sentence construction. He also has an abominable tendency to refer to thinkers and intellectual traditions indirectly rather than to identify specific thinkers or theories. He is less interested in accuracy of interpretation and more interested in fitting them into his overall assessment of the American Promise or tradition. This approach is most evident in his somewhat careless treatment of Jefferson. He depicts Jefferson as an indiscriminate egalitarian who was averse to any type of individual distinction. He devotes considerable effort in *The Promise of American Life* to the argument that Jefferson’s focus on equal rights produces a society of mediocre individuals who reject any type of individual expertise and are focused solely on economic gain. This argument completely overlooks Jefferson’s belief in a “natural aristocracy” of distinguished

¹⁸⁴ *Ibid.*, 272.

individuals and the necessity of civic virtue, which is formed by public participation.¹⁸⁵

Had he not been so quick to reject Jefferson as a spokesman for irresponsible individualism, Croly might have found a similarity between Jefferson's devotion to political education and his own belief in an educational democracy. Moreover, Jefferson's support of experiments in local self-government, most noticeably his ward system, as a means of political education is very similar to Croly's belief that experimental programs were necessary for democratic education.

Croly also overemphasizes, or at least simplifies, the tradition of individualism in American political thought due to his excessive focus on Andrew Jackson and the pioneer way of life. Reading his description of the "middle period," one could be forgiven for believing that the whole of American political life took place on the Western frontier and that nearly all Americans accepted the rugged individualism of Jackson's Democrats. The tradition of individualism that he identified is rural and agrarian, but it was ultimately the urban industrialists who turned this individualistic system to their advantage. True to his Hamiltonian inclinations, he tends to associate industrial development with the national interest, while simultaneously associating agricultural pursuits with self-interest.

Despite his shortcomings, Croly's criticism of laissez faire as a defining feature of the American political tradition shows how various elements of American life, such as traditions, institutions, and practices have contributed to a laissez faire outlook. The result was a legalistic political system and a "policy of drift." Croly saw reform as the antidote to the drift, and he sought to convince Americans that they should take an active part in

¹⁸⁵ Stettner, *Shaping Modern Liberalism*, 43. Stettner argues that Croly's mischaracterization of Jefferson may have been due to his conflation of Jefferson's thinking with the crude egalitarianism of Jackson.

navigating. Plato famously used the metaphor of the ship of state to make the case that philosophical expertise was preferable to democratic control. He worried that the sailors were oblivious to the science of navigation and took to “crowding around the shipowner, begging him and doing everything possible to get him to turn the rudder over to them.”¹⁸⁶ Croly saw his challenge as a matter of identifying a destination and then convincing the people to take the rudder themselves.

¹⁸⁶ Plato, *Republic*, 488b-c.

CHAPTER 8 — CONCLUSION: A NEW GILDED AGE?

Having considered this debate over laissez faire in American thought that took place in the late nineteenth and early twentieth century, one question becomes apparent. Why were writers of such wildly different viewpoints, such as Carnegie and Lloyd, preoccupied with the doctrine of laissez faire at a time when the government was actively assisting enterprises. One reason for this is that defenders of laissez faire in the late nineteenth century presented it mostly as a doctrine that opposed social legislation or assistance to the poor. Laissez faire was originally concerned with trade policy and commerce, but Spencer, Sumner, and Carnegie turned it into a justification for economic inequality by applying the logic of laissez faire to social legislation. Sumner is the only one of these three thinkers to consider the possible negative consequences of concentrated wealth. He worried that wealthy corporations would effectively influence the political system to secure government favors for their own enterprises. This development is not only a violation of laissez faire, but it is also an artificial attempt to influence the social order—the very same criticism he directed at socialism.

Lloyd, Veblen, and Croly similarly treated laissez faire as if it were the prevailing economic policy during the Gilded Age. However, for each of these thinkers, laissez faire stood for something more than simply a policy of hands-off government. For Lloyd, laissez faire was a source of moral corruption that reinforced selfish habits and unethical business practices. Veblen thought that laissez faire represented a tendency among economists to accept uncritically norms and practices that are detrimental to the interest of the industrial community. For Croly, laissez faire represented a tradition of

individualism in America, as well as a tradition of “hands-off,” “do-nothing” government, which gives the people no effective sovereign responsibility. They all realized that the reasoning and rhetoric of laissez faire exerts an influence on American thinking even if the government is not following a strict policy of laissez faire.

Of all the thinkers presented in this dissertation, Sumner has the clearest and most accurate appreciation for what laissez faire actually represents. Lloyd, Croly, and Veblen all tended to use the concept of laissez faire as a general representation of the set of ideas that they found problematic. They all believed that the advent of an industrial economy in the United States required a change in ideas. Lloyd focused on changing the moral outlook of Americans; Veblen focused upon economic institutions that he saw as obstacles to progress; Croly focused on reconstructing our political tradition and identifying a national purpose.

In America today, we face a similar situation. The federal government actively assists large corporations through tax loopholes, tax credits, direct subsidies, and, in some cases, tariffs on imports. At the same time, business leaders and free market advocates call for smaller government and less regulation while extolling the virtues of self-help and personal responsibility to undermine social programs. Economic observers as diverse as Niall Ferguson and Robert Reich argue that the United States is witnessing a “new Gilded Age” in which nearly all of the rewards of economic growth accrue to the wealthy while wages remain stagnant.¹ A policy of laissez faire, rather than the current policy of state-assisted capitalism, would have no effective way of assuaging this inequality.

¹ Robert Reich, “Mitt Romney and the New Gilded Age,” *The Nation*, July 16/23, 2012; Niall Ferguson, “Wall Street’s New Gilded Age,” *Newsweek*, vol. 154, no. 12, September 21, 2009.

Furthermore, there is new evidence showing that this disparity between wages and profits will continue to increase. Thomas Piketty's magisterial *Capital in the Twenty-First Century* presents a very persuasive case that, over the course of history, returns on investments have grown in value much more quickly than growth in wages.² To use Veblen's terminology, those engaged in "pecuniary employment" earn much greater rewards than those engaged in productive "industrial employment." Picketty argues that the disparity between income earned from investment and income earned from labor is reaching levels that have not obtained since the late nineteenth century.³ Like Lloyd, he worries that increasing concentration of wealth posed a threat to democracy in the form of violent revolution due to rampant poverty.

If we are living in a "new Gilded Age," we would be well-advised to revisit the debate over laissez faire that arose during the original Gilded Age. Spencer and Sumner present a meritocratic view of economic success based upon free competition, and their vehement opposition to social legislation is repeated today—albeit, in less Darwinian language—in calls to cut government spending, especially assistance to the poor. We may ask, as Lloyd did, whether the doctrine of laissez faire encourages selfish individualism and whether this influence is detrimental to the American community. We may follow Veblen in questioning whether the wealthy actually contribute to material production as we witness the rise of increasingly sophisticated financial instruments, hedge funds, and venture capital firms—all of which seek profit even at the cost of disrupting production. We may also revisit Croly's criticism of laissez faire and ask

² See Picketty, *Capital in the Twenty-First Century*.

³ *Ibid.*, 164-198.

whether individualism and pursuit of economic prosperity distract us from, what he sees as our national purpose—the establishment of a progressive democratic society in which the people have an active role in determining the best ways to use the institutions of government to advance the interest of the community. Regardless, the debate over laissez faire rages on. I hope this dissertation has provided some insight into how this debate characterized American political thought at an earlier juncture so that we can better understand how the contemporary debate relates to the history of political thought in the United States.

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