Lecture 3, Part 1: Classical Liberalism, Ethics, and Commerce in the Eighteenth Century

Montesquieu's birth place, the Chateau de la Brede (Charles-Louis de Secondat became Baron of Le Brede and Montesquieu)

Setting the Stage for the 18th century

- The seventeenth century was a period in which significant new ideas were worked out, and some “liberalization” of life took place in the Netherlands, the English colonies of North America, and in England itself.
- But for the most part the medieval order continued—albeit now with more Christian religious organizations than before and somewhat greater toleration for controversies in religion, science, politics and ethics.
- Still larger changes occurred in the eighteenth century as major innovations in economics, political science, and ethics emerged and as market and politic systems became more open and competitive.

Montesquieu and his theory of the law and governance

- Charles-Louis Secondat (1689-1755) was borne into a noble family, educated in law, and as the oldest male child inherited the family titles (through his mother and uncle) and became the Baron of Brede and Montesquieu—the latter being the name he is remember as.
- This allowed him to retire from the law in 1716 at the age of 27 and devote himself to running his baronies (estates), local politics, science and scholarship.
- It is the latter that brings him to our attention, specifically his magnus opus the *Spirit of the Law* (1748) which analyses the origins of a nation's law and government. (A case can be made that this is where social science begins.)
- He is most famous for his work on political theory, and it is in that part of his book that he addresses the role of ethics in markets and governance.

Montesquieu and the role of ethics and markets in governance (1)

- He argues that the ethical support is required for democracies to achieve good results, and this need tends to be greater in democracies than for other forms of government:
- There is no great share of probity necessary to support a monarchical or despotic government. The force of laws in one, and the prince's arm in the other, are sufficient to direct and maintain the whole. But **in a popular state**, **one spring more is necessary, namely, virtue**. (*The Spirit of Laws*, KL 496–98)
- [I]ndeed**, in a well-regulated democracy, where people's expenses should extend only to what is necessary**, everyone ought to have it; for how should their wants be otherwise supplied? (*The Spirit of Laws*, KL 903–05)

Montesquieu and the role of ethics and markets in governance (2)

- He also argues that democracies are more robust when a nation's leaders are also actively engaged in commerce.

- True is it that **when a democracy is founded on commerce, private people may acquire vast riches without a corruption of morals.** This is because the spirit of commerce is naturally attended with that of **frugality, economy, moderation, labor, prudence, tranquility, order, and rule**. So long as this spirit subsists, the riches it produces have no bad effect.
- **The mischief is, when excessive wealth destroys the spirit of commerce**, then it is that the inconveniences of inequality begin to be felt.
- **In order to support this spirit, commerce should be carried on by the principal citizens; this should be their sole aim and study;** this the chief object of the laws. (*The Spirit of Laws*, KL 891–97)

Montesquieu and the role of ethics and markets in governance (3)

- As true of Aristotle and La Court, Montesquieu believed that laws can support or undermine virtues such as industry. An example is inheritance laws.
- It is an excellent law in a trading republic to make an equal division of the paternal estate among the children. The consequence of this is that however great a fortune the father has made, his children, being not so rich as he, are induced to **avoid luxury, and to work as he has done**. I speak here only of **trading republics**; as to those that have no commerce, the legislator must pursue quite different measures. (*The Spirit of Laws*, KL 898–901)

Montesquieu on markets and ethics (4)

- **Commerce is a cure for the most destructive prejudices; for it is almost a general rule that wherever we find agreeable manners, there commerce flourishes**; and that wherever there is commerce, there we meet with agreeable manners. **Let us not be astonished, then, if our manners are now less savage than formerly**. Commerce has everywhere diffused a knowledge of the manners of all nations: **these are compared one with another, and from this comparison arise the greatest advantages**. (*The Spirit of Laws*, KL 5120-5123).
- If **the spirit of commerce unites nations**, it **does not in the same manner unite individuals**. We see that in countries **where the people move only by the spirit of commerce**, **they make a traffic of all the humane, all the moral virtues;** the most trifling things, those which humanity would demand, **are there done, or there given, only for money.**
- [T}he **spirit of trade produces in the mind of a man a certain sense of exact justice**, **opposite**, on the one hand, to robbery, and on the other **to those moral virtues which forbid our always adhering rigidly to the rules of private interest,** and suffer us to neglect this for the advantage of others. (*The Spirit of Laws*, KL 5127–32)

Benjamin Franklin (1706–1790) and the Spirit of Capitalism (1)

- Among the many notable "Americans" of the eighteenth century was a self-made man, printer, scientist, politician, and philosopher by the name of Benjamin Franklin. Benjamin Franklin was the son of an emigrant to Boston. He attended school to the age of 10, learned the printing and newspaper trade from his brother, and taught himself to read, write, and argue well. Franklin read widely as a young man, including works by Aristotle, Plato, Locke, and Mandeville among many others. (In his teens he became a Deist, and believed that all was preordained—thus concluded for a time that rules of conduct were unimportant.)
- In his late teens, he moved from Boston to Philadelphia, another major city in the territory that a few decades later became the United States. In Philadelphia, Franklin became a successful printer and publisher, a civic leader and politician, an innovative scientist and inventor, and subsequently, a national statesman.
- His scientific contributions included demonstrating that lightning was electricity (rather than a miracle), and charting and naming the Gulf Stream of the Atlantic Ocean. Later in life, he served the governor of Pennsylvania, as ambassador to France, and participated in writing the Declaration of Independence and the U.S. Constitution.

Benjamin Franklin and His Ethics (2)

- Franklin's recommendations for day-to-day ethics provide an excellent window into colonial attitudes toward life, wealth, and markets. His readership was mainly in the English colonies along the Atlantic coast of North America. Regarding ethics, Franklin states that:
- I grew convinced that **truth, sincerity and integrity in dealings between man and man were of the utmost importance to the felicity of life**; and I formed written resolutions, which still remain in my journal book, to practice them ever while I lived.
- **Revelation had indeed no weight with me, as such;** but I entertained an opinion that, though certain actions might not be bad because they were forbidden by it, or good because it commanded them, **yet probably these actions might be forbidden because they were bad for us, or commanded because they were beneficial to us**, in their own natures, all the circumstances of things considered. (*Autobiography of Benjamin Franklin*, KL 829–33)

Benjamin Franklin and the Way to Wealth (3)

- ADVICE TO A YOUNG WORKER. **Remember that time is money.** He that can earn ten shillings a day by his labor, and **sits idle one half** of that day, though he spends but sixpence during his diversion ought not to reckon that the only expense; **he has really thrown away five shillings besides**...
- The **most trifling actions that affect a man's credit are to be regarded carefully**. **The sound of your hammer at five in the morning or nine at night, heard by a creditor**, makes him easy six months longer. But if he sees you at a billiard table or **hears your voice in a tavern** when you should be at work, he sends for his money the next day. **Creditors are a kind of people that have the sharpest eyes and ears, as well as the best memories of any in the world**...

Benjamin Franklin and the Way to Wealth (4)

- In short, **the way to wealth**, if you desire it, is as plain as the way to market. It **depends chiefly on two words: industry and frugality.** Waste neither time nor money, but make the best use of both. **He that gets all he can honestly, and saves all he can, will certainly become rich.** (*The Way to Wealth*, KL 184–200)
- INDUSTRY. Friends, said [Poor Richard], **the taxes are indeed very heavy, and if those laid on by the government were the only ones we had to pay we might more easily discharge them**; but we have many others, and much more grievous to some of us.
- **We are taxed twice as much by our idleness, three times as much by our pride, and four times as much by our folly**; and from these taxes the commissioners cannot ease or deliver us by allowing an abatement.

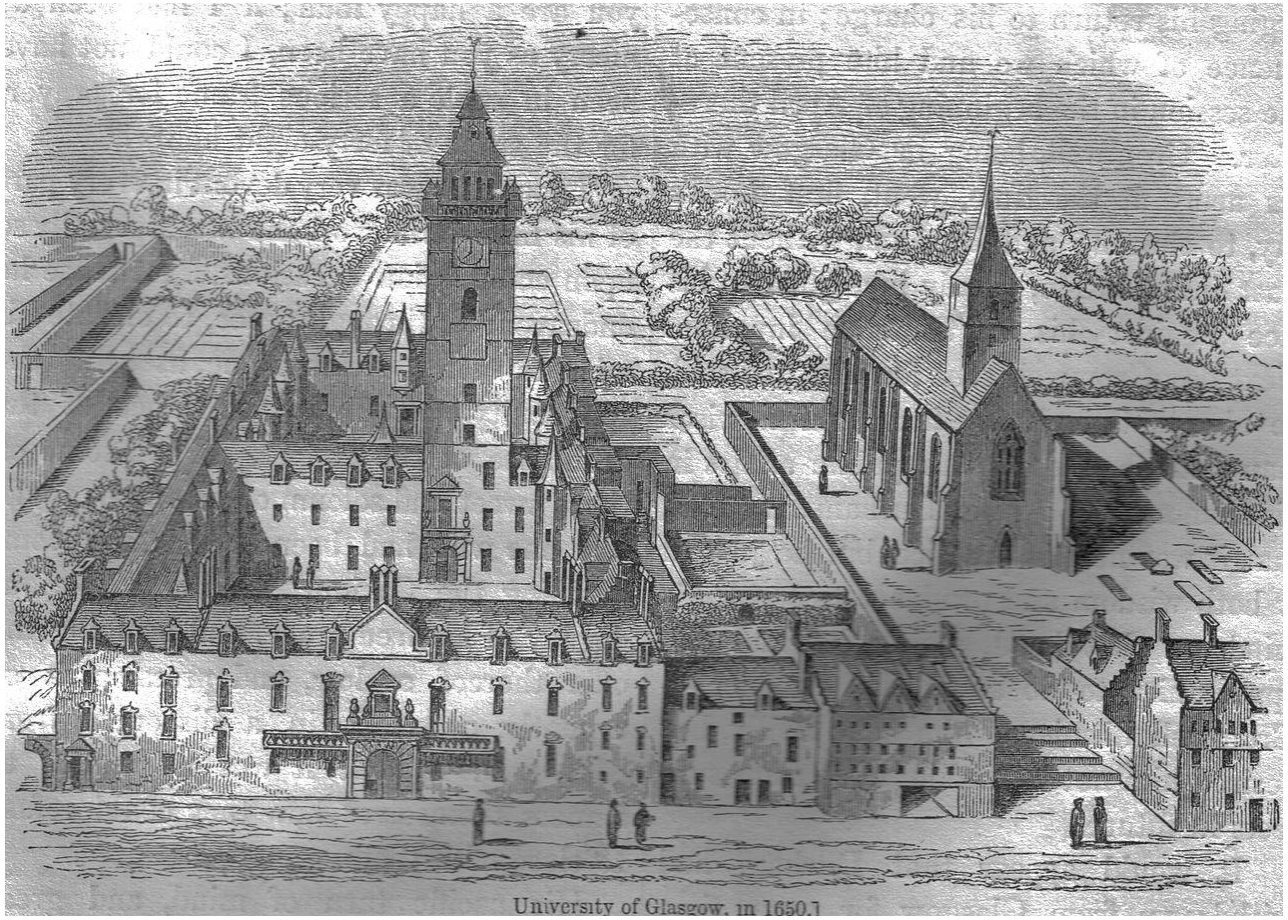
Benjamin Franklin and the Way to Wealth (5)

- **Drive thy business, let not that drive thee**; and Early to bed, and early to rise, makes a man healthy, wealthy, and wise, Poor Richard says. (*The Way to Wealth*, KL 54–58, 70–71).
- There are a great **many retailers who falsely imagine that being historical (the modern phrase for lying)** is much for their advantage; and some of them have a saying, that it is a pity lying is a sin, it is so useful in trade;
- If they would examine into **the reason why a number of shopkeepers raise considerable estates**, while others who have set out with better fortunes have become bankrupts, **they would find that the former made up with truth, diligence, and probity**, what they were deficient of in stock; while the latter have been found guilty of imposing on such customers as they found had no skill in the quality of their goods. (“On Truth and Falsehood,” *Memoirs of Benjamin Franklin*, Volume II, KL 704–709)

Benjamin Franklin and Ethics (6)

- **If to a certain man idle diversions have nothing in them that is tempting, and, therefore, he never relaxes his application to business for their sake, is he not an industrious man?** Or has he not the **virtue of industry**?
- I might in like manner instance in all the rest of the virtues; but, to make the thing short, as it is certain that **the more we strive against the temptation to any vice, and practice the contrary virtue, the weaker will that temptation be**, and the stronger will be that habit, till at length the temptation has no force or entirely vanishes**.**
- **Does it follow from thence that, in our endeavours to overcome vice, we grow continually less and less virtuous, till at length we have no virtue at all?** ("Self-Denial Is Not the Essence of Virtue," *Memoirs of Benjamin Franklin; Volume II*, KL 401–406)
- (*note the echos of Aristotle here, again*)

Lecture 3, Part 2: Classical Liberalism Continued



University of Glasgow in 1650, the University where Adam Smith began his studies at the age of 14 in 1737, about a century after this drawing was finished.

Adam Smith (1723-90) The Moral Sentiments and the Wealth of Nations

- Adam Smith was raised in an upper middleclass family in Kirkaldy Scotland, attended college at U Glasgow and later Oxford, and taught at U Glasgow (in moral philosophy) for 13 years after which he became a tutor for a nobleman's step son, followed by a period as an independent scholar during which he wrote the *Wealth of Nations*.
- Smith is important for this course for several reasons.
- First, he wrote extensively on both moral theory and economics.
- Second, both his major books were widely read and highly influential during his lifetime (and continue to be so).
- Third, his work in each field was empirically grounded, and so provide a very useful and detailed window in the Scottish and English society during the time in which he wrote.

Adam Smith and the Moral Sentiments (1)

- Smith develops a new psychologically based of the origins of virtue in his *Moral Sentiments (1759).* **It begins with the 3 observations about human nature:** first, that each person's happiness is to some degree affected by the joys and sorrows of persons around them, and second, that each person has a desired to be praised and to avoid its opposite (chastised).
- How selfish soever man may be supposed, there are evidently **some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.** (*Moral Sentiments*, KL 12–13).
- Mankind, though naturally sympathetic, never conceive for what has befallen another that degree of passion which naturally animates the person principally concerned. That **imaginary change of situation**, upon which their sympathy is founded, is but momentary. (*Moral Sentiments*, KL 256–57).

Adam Smith and the Moral Sentiments (2)

- In addition—and somewhat later in the text—he argues that individuals desire praise from other people and seek to avoid blame or disapprobation from others.
- [Mankind] **desires, not only praise, but praiseworthiness;** or **to be that thing which, though it should be praised** by nobody, is, however, the natural and proper object of praise.
- He dreads, not only blame, but blame-worthiness; or to be that thing which, though it should be blamed by nobody, is, however, the natural and proper object of blame. (*Theory of Moral Sentiments*, KL 1911–13)
- The quest for praise and praiseworthiness, together with both sympathy and empathy, induces individuals to assess their own behavior and how it looks to others.

Adam Smith and the Moral Sentiments (2)

- **We suppose ourselves the spectators of our own behavior, and endeavor to imagine what effect it would, in this light, produce upon us.** This is the only looking-glass by which we can, in some measure, **with the eyes of other people, scrutinize the propriety of our own conduct….**
- When I endeavor to examine my own conduct, when I endeavor to pass sentence upon it, and either to approve or condemn it, it is evident that, in all such cases, **I divide myself, as it were, into two persons;** and that I, **the examiner and judge,** represent a different character from that **other I**, the person whose conduct is examined into and judged of.
- The **first is the spectator,** whose sentiments with regard to my own conduct I endeavor to enter into, by placing myself in his situation, and by considering how it would appear to me, when seen from that particular point of view. **The second is the agent, the person whom I properly call myself**. (*Theory of Moral Sentiments*, KL 1890–1900).

Adam Smith and the Impartial Spectator (3)

- **We are pleased to think that we have rendered ourselves the natural objects of approbation**, though no approbation should ever actually be bestowed upon us....
- **When he views [his behavior] in the light in which the impartial spectator would view it,** he thoroughly enters into all the motives which influenced it. He looks back upon every part of it with pleasure and approbation, and though mankind should never be acquainted with what he has done, he regards himself, **not so much according to the light in which they actually regard him, as according to that in which they would regard him if they were better informed**. (*Theory of Moral Sentiments*, KL 1947–54).

Adam Smith and the Virtues (4)

- **The man who acts according to the rules of perfect prudence, of strict justice, and of proper benevolence, may be said to be perfectly virtuous**. But the most perfect knowledge of those rules will not alone enable him to act in this manner ...
- **The most perfect knowledge, if it is not supported by the most perfect self-command, will not always enable him to do his duty.** (*Theory of Moral Sentiments*, KL 4131–35).
- **The care of the health, of the fortune, of the rank and reputation of the individual,** the objects upon which his comfort and happiness in this life are supposed principally to depend, is considered as **the proper business of** that virtue which is commonly called **Prudence.** (*Theory of Moral Sentiments.* (KL 3670–71).

Adam Smith and the Rewards of Virtue (6)

- **If we consider the general rules by which external prosperity and adversity are commonly distributed in this life**, we shall find, that notwithstanding the disorder in which all things appear to be in this world, yet even here **every virtue naturally meets with its proper reward**, **with the recompense which is most fit to encourage and promote it;** and this too so surely, that it requires a very extraordinary concurrence of circumstances entirely to disappoint it.
- **What is the reward most proper for encouraging industry, prudence, and circumspection? Success in every sort of business**. (*The Theory of Moral Sentiments*, KL 2818–22)
- **Our rank and credit** among our equals, too, **depend very much upon what a virtuous man would wish them to depend** entirely, **our character and conduct**, or upon the confidence, esteem, and good will, which these naturally excite in the people we live with. (*Theory of Moral Sentiments*, KL 3668–69)

Adam Smith, Wealth, and Prosperity (7)

- **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 interest**. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages . **Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens**. [*Wealth of Nations* (pp. 7–8)]
- [C]apital has been silently and gradually accumulated by the **private frugality and good conduct of individuals**, by their **universal, continual, and uninterrupted effort to better their own condition**.
- It is this effort, protected by law, and allowed by liberty to exert itself in the manner that is most advantageous, **which has maintained the progress of England towards opulence and improvement in almost all former times,** and which, it is to be hoped, will do so in all future times. (*The Wealth of Nations*, KL 5178–82).

Adam Smith and the Invisible Hand(8)

- [B]y directing that industry in such a manner as its produce may be of the greatest value, [an individual] intends only his own gain, and **he is in this, as in many other cases, led by an invisible hand to promote an end** which was no part of his intention. (*The Wealth of Nations*: KL 6709)
- **By pursuing his own interest** [within markets]**, he frequently promotes that of the society more effectually than when he really intends to promote it**. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it. (*The Wealth of Nations*: KL 6709).

Immanuel Kant (1724–1804): Duty and Universal Law

- Kant was raised in a middle-class religious family and showed much talent as a youth and went off to university. Kant, like Smith, became a lifelong academic.
- He spent essentially his adult life teaching at the University of Königsberg in what was then in north-western Prussia, a leading kingdom in the Holy Roman Empire.
- Kant's philosophical interests were broader and more abstract than those of Smith, and had impacts across contemporary philosophy, most of which are neglected in this short overview of his theory of moral action and assessments of commerce.
- The main focus is again on the intersection of his ideas about ethics and commerce.

Kant and the Categorical Imperative (1)

- The **categorical imperative** only expresses generally what constitutes **obligation**. It may be rendered by the following formula: '**Act according to a maxim which can be adopted at the same time as a universal law**.' ... the test, by calling upon the agent to think of himself in connection with it as at the same time laying down a universal law, and **to consider whether his action is so qualified as to be fit for entering into such a universal legislation.** *(Introduction to the Metaphysics of Morals*, KL 1098–1103).
- The **supreme principle** of the science of morals accordingly is this: "Act according to a maxim which can likewise be valid as a universal law." Every maxim which is not qualified according to this condition is contrary to morality. (*Introduction to the Metaphysics of Morals*, KL 1117–18).

Kant: Morality and Self-Interest are fundamentally different (2)

- [M]orality is in itself practical, being **the totality of unconditionally mandatory laws according to which we ought to act.** It would obviously be absurd, after granting authority to the concept of duty, to pretend that we cannot do our duty. (*Perpetual Peace*. KL 519–21)
- The **direct opposite of the principle of morality is, when the principle of private happiness** is made the determining principle of the will. (*Critique of Practical Reason,* KL 10528–29).
- [A]ll **the morality of actions may be placed in the necessity of acting from duty** and from respect for the [universal] law, not from love and inclination for that which the actions are to produce. (*Critique of Practical Reason,* KL 11273–74).

Kant on Morality and Economics (3)

- For example, **it is always a matter of duty that a dealer should not over charge an inexperienced purchaser**; and **wherever there is much commerce the prudent tradesman does not overcharge**, but **keeps a fixed price for everyone**, so that a child buys of him as well as any other**. Men are thus honestly served;** but **this is not enough** to make us believe that the tradesman has so acted from duty and from principles of honesty. (*Fundamental Principles of the Metaphysic of Morals,* KL 13082–85)
- [I]n such a case **an action of this kind, however proper, however amiable it may be, has nevertheless no true moral worth,** but is on a level with other inclinations, e.g., the inclination to honor, which, if it is happily directed to that which is in fact of public utility and accordant with duty and consequently honorable, **deserves praise and encouragement,** but not esteem. For **the maxim lacks the moral import, namely, that such actions be done from duty**, not from inclination. (*Fundamental Principles of the Metaphysics of Morals,* KL 13095–98)

Kant on Morality and Economics (4)

- **The spirit of commerce, which is incompatible with war, sooner or later gains the upper hand in every state**. As the power of money is perhaps the most dependable of all the powers (means) included under the state power**, states see themselves forced, without any moral urge, to promote honorable peace.** [*Perpetual Peace.* (KL 440–42)]
- Summary: Kant created another analytical device for discovering moral rules. It is an alternative to both Smith's impartial spectator and Bentham's aggregate utility-increasing principle (taken up in the next chapter), which were the chief rivals at his time.
- That Kant's theories continue to be taught in virtually every philosophy department in the world suggests that the categorical imperative has been broadly accepted by philosophers as a useful method for evaluating ethical propositions. Indeed, parents often chide their children with comments of the "what if everyone did that" variety.

Claude F. Bastiat (1801–50): On the Harmony among Markets and Ethical Systems

- Bastiat, like Montesquieu, was from a relatively wealthy French family and inherited great wealth at an early age, although not a noble title. This allowed him to devote himself to writing and politics.
- Bastiat exemplifies the politically active liberal of the nineteenth century.
- He was not an academic but rather a businessman and politician who served in local and national offices for much of his life. He was elected to local political offices in the 1830s and to the French National Assembly in 1848. His writing was largely a persuasive exercise aimed to increase his support from French voters and so provides a useful window into French liberalism during the mid-nineteenth century.
- His political economy is largely a synthesis of elements from Locke, Rousseau, Say, and Smith, which is why it belongs in this chapter.
- However, as a popularizer and politician, he sharpens and extends their arguments in much the same manner that Thomas Paine's widely read pamphlets published at the time of the American and French revolutions did for Locke and Montesquieu. He often wrote in parables, stories that illustrate principles.

Bastiat on the Harmony between Ethical and Market Systems (1)

- Mondor and his brother Aristus, after dividing the parental inheritance, have each an income of 50,000 francs.
- Mondor practices the fashionable philanthropy. **He is what is called a squanderer of money. He renews his furniture several times a year; changes his carriages every month**. People talk of his ingenious contrivances to bring them sooner to an end: in short, he surpasses the extravagant lives of Balzac and Alexander Dumas.
- Aristus has adopted a very different plan of life. If he is not an egotist, he is, at any rate, an individualist, for **he considers expense, seeks only moderate and reasonable enjoyments, thinks of his children's prospects, and, in fact, he economizes.**
- But things have been so admirably arranged by the Divine inventor of social order that **in this, as in everything else, political economy and morality, far from clashing, agree.**
- **The wisdom of Aristus is not only more dignified, but still more profitable**, than the folly of Mondor. And when I say profitable, **I do not mean only profitable to Aristus, or even to society in general, but more profitable to the workmen themselves—to the trade of the time.** To prove it, it is only necessary to turn the mind's eye to those **hidden consequences of human actions**, which the bodily eye does not see. (*That Which is Seen, and That Which is Note Seen*, pp. 42–43)

Bastiat on the Harmony between Ethical and Market Systems (2)

- I willingly grant that **when wealth is acquired by means that are immoral, it has an immoral influence**, as among the Romans. I also allow that when it is developed in a very unequal manner, creating a great gulf between classes, it has an immoral influence, and gives rise to revolutionary passions.
- **But does the same thing hold when wealth is the fruit of honest industry and free transactions, and is uniformly distributed over all classes?** That would be a doctrine impossible to maintain. (*Harmonies of Political Economy*, p. 627)
- [O]ne can scarcely conceive anything more easily reduced to practice than this—to **allow men to labor, to exchange, to learn, to associate, to act and react on each other**—for, according to the laws of Providence, **nothing can result from their intelligent spontaneity but order, harmony, progress, good, and better still**; **better ad infinitum**. (*Harmonies of Political Economy*, p. 442)

Some Conclusion about 18th Century Classical Liberalism

- The eighteenth century was a period of progress in our understanding of social systems, the roles that ethics play in them, and in theoretical explanations for the existence of and nature of ethical dispositions. Innovations in political, economic, and ethical theories deepened understandings of the many interdependencies between political, economic, and ethical systems.
- In general, ethical and consequentialist support for markets deepened and reservations diminished, in part because of a clearer understanding of the effects of competitive markets and in part because of shifts in ethical theories.
  - Smith's economics provided a more sophisticated and integrated understanding of the effects of specialization and competition than previous generations had, in part because markets were becoming more extensive and competitive.
  - The logic of the invisible hand overturned centuries of mercantilist arguments that markets needed active regulation to flourish. Smith argued that markets were mostly self-regulating.
  - Montesquieu, Smith, and Bastiat noted that a nation's laws can simultaneously encourage commercial and ethical development.
- As advantages of trade and specialization became better understood, consequentialist ethical theories tended to increase their support for commerce.
- Prosperity had become a goal worthy of support rather than a temptation to avoid.

Class Discussion

- (1) What specifically did Montesquieu believe about the ethics supported by commerce that tended to make democracy (popular governance) more sustainable?
- (2) Several of the scholars reviewed argued that there were temptations associated with commerce that should be avoided and that such temptations might be avoided if one had either or both a long term perspective and had internalized the “right” ethical disposition. Provide a few examples of this reasoning.
- (3) In what ways could classical liberals be said to have extended and deepened the arguments of the Aristos scholars reviewed in the previous chapter (e.g. the enlightenment scholars)?