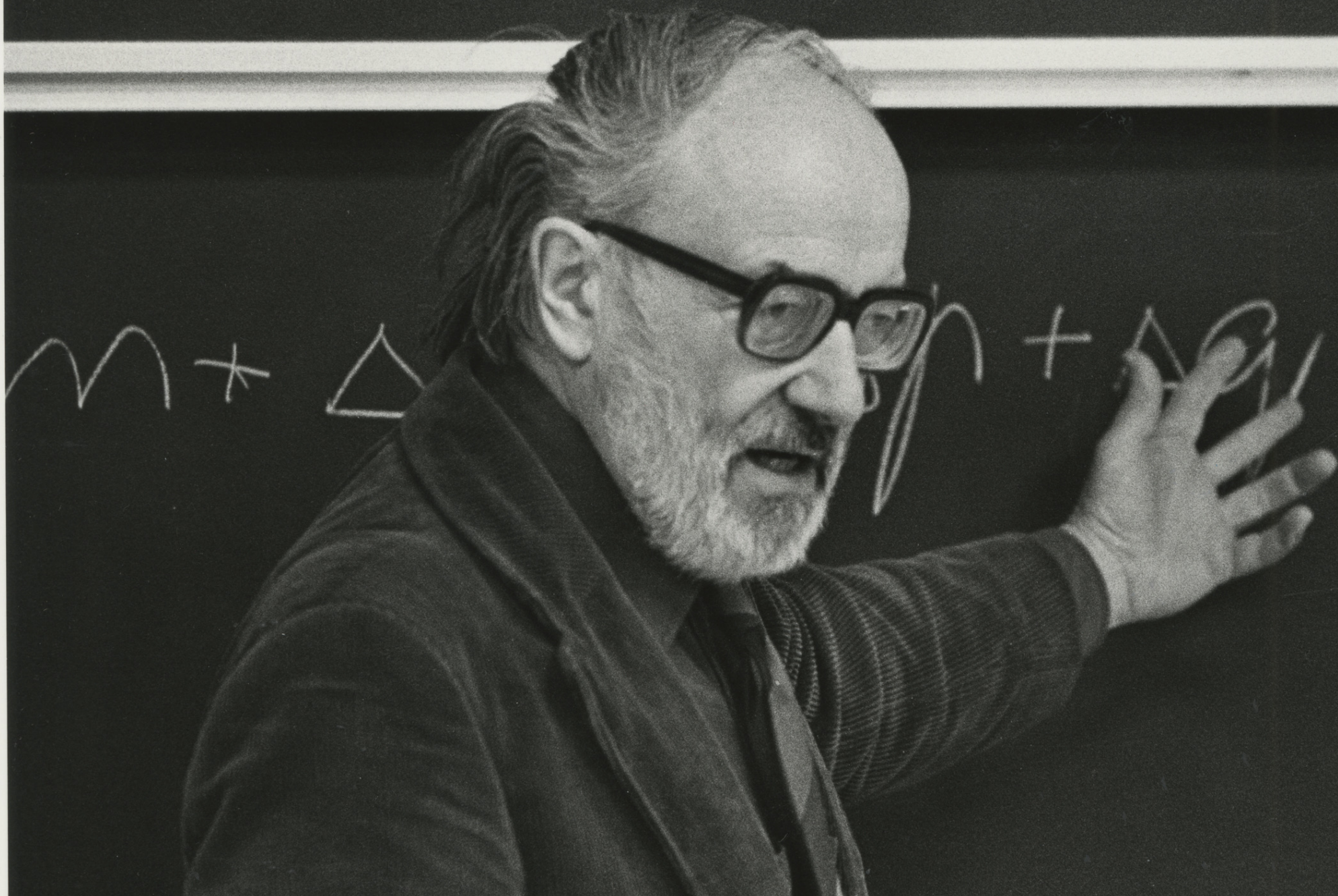

The Influence of Religious Thinking on Economic Thinking: The Origins of Modern Economics

Benjamin M. Friedman

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Harvard University





RELIGION

and the Rise of

CAPITALISM

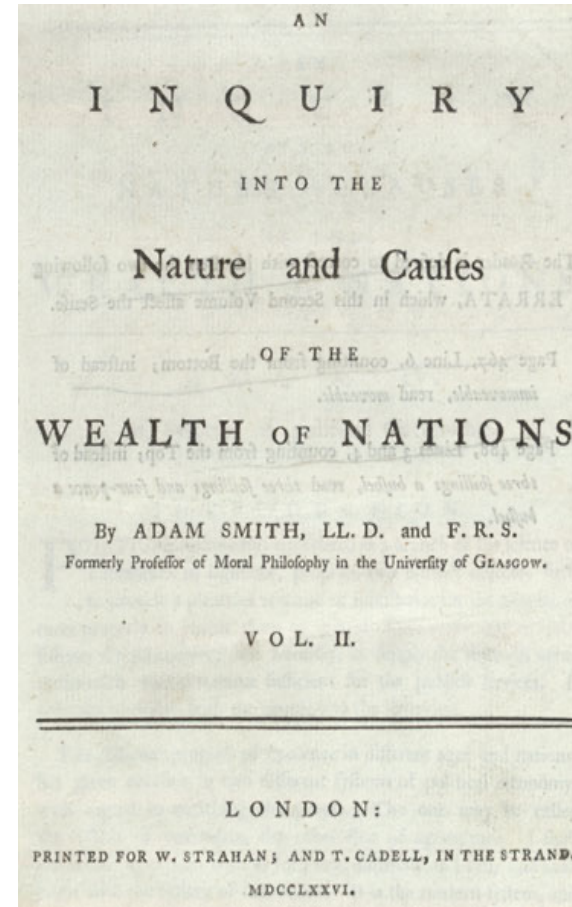
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The central question:

- Where did the thinking behind modern Western economics come from? And why did it emerge when, and where, it did?
- The first fundamental welfare theorem of economics:
 - Individuals, acting in their own self-interest in a competitive market setting, make not just themselves but others better off.

The usual presumptions:

- Adam Smith, *The Wealth of Nations* (1776)
 - “... Smith’s *Wealth of Nations*, the fountain-head of classical political economy” (Donald Winch)



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 - A movement away from God-centered conceptions of the universe, to “secular humanism”
 - Not just the *Wealth of Nations* but Smith’s entire project for a modern science of man was “built on the foundations of the Enlightenment’s quintessential assault on religion.” (Nicholas Phillipson)

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My answer:

- ✓ Adam Smith, *The Wealth of Nations* (1776)
 - “... Smith’s *Wealth of Nations*, the fountain-head of classical political economy” (Donald Winch)
- ✓ The Smithian Revolution was enabled by, among other influences, new *religious* thinking in the English-speaking Protestant world in which Smith lived
 - Still firmly Protestant
 - But moving beyond key elements of the Reformation



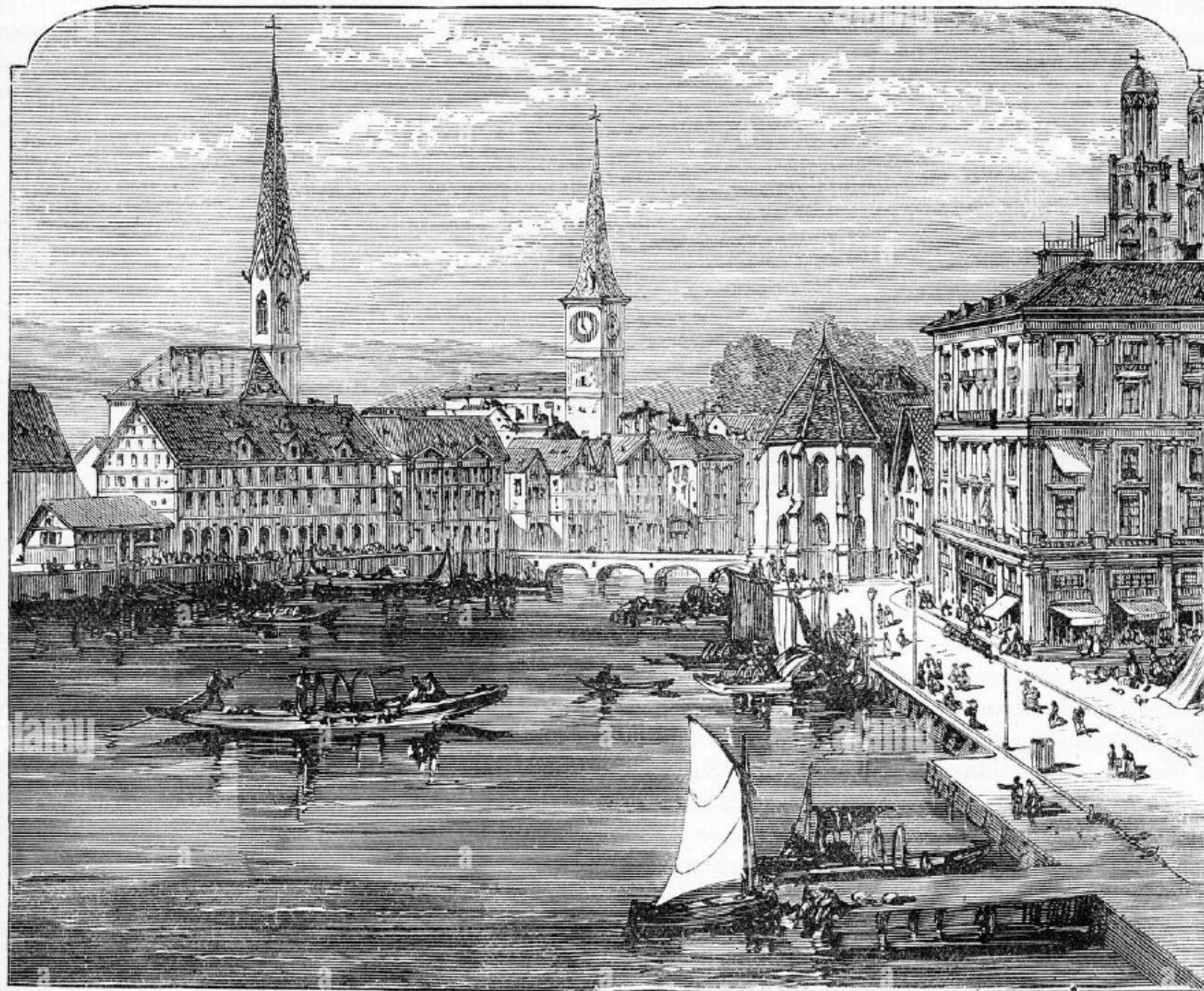
Martin Luther
Wittenberg
1483-1546



Huldrych Zwingli
Zurich
1484-1531



John Calvin
Geneva
1509-1564





Vin br 35



Die gånge Bibel
 der ursprüngliche Hebraischen
 vnd Griechischen waarheyt
 nach auff alle Teütle
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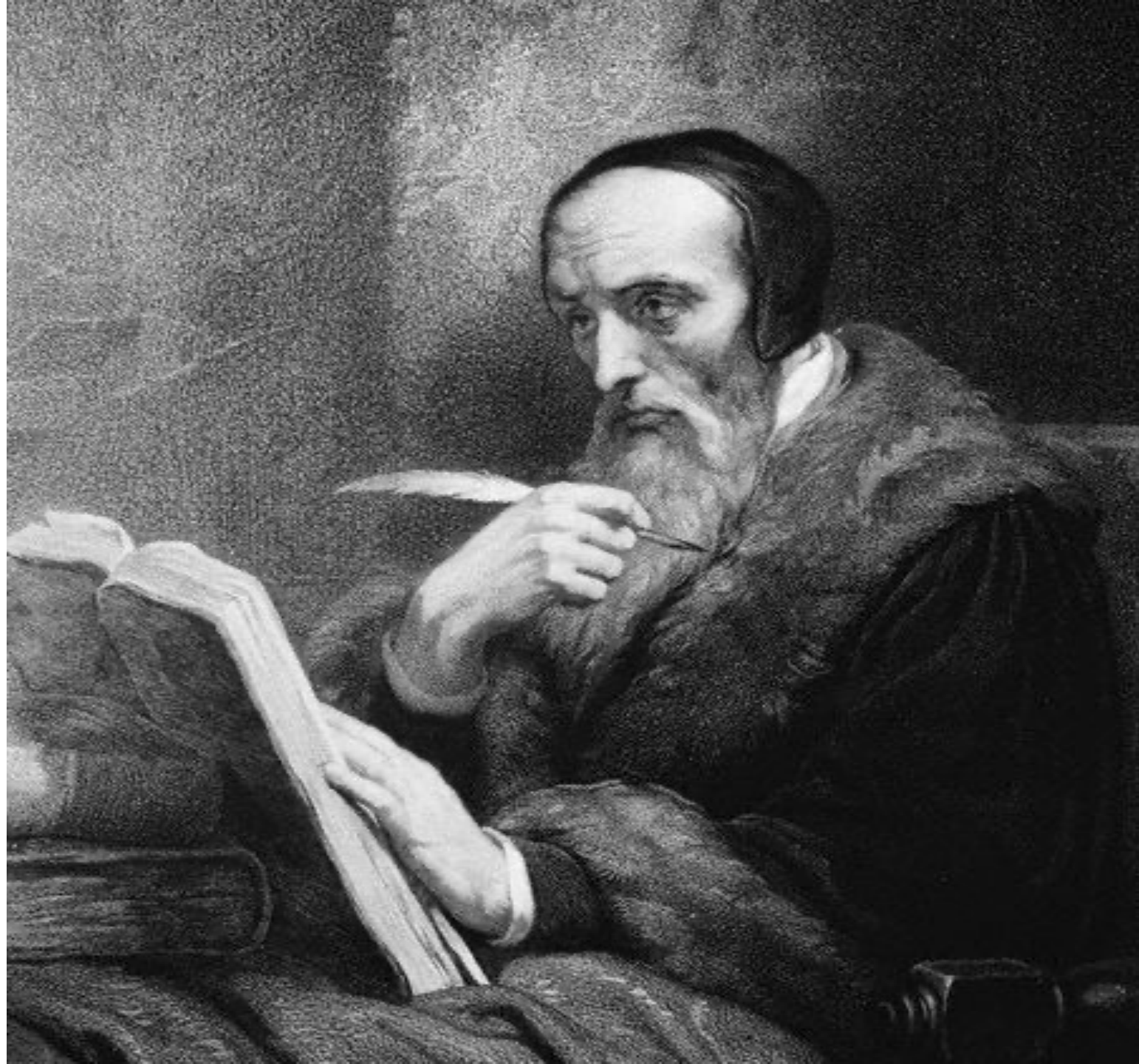








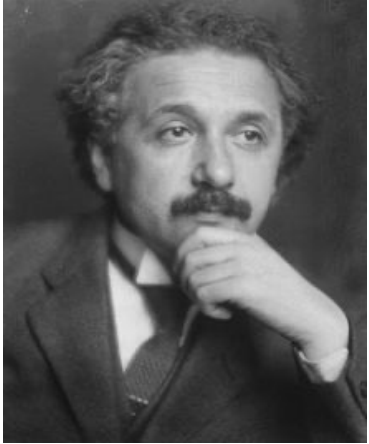
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What I am *not* suggesting:

- Self-conscious intent by religiously committed individuals
- Hume: a notorious skeptic, if not atheist
 - Church of England bishops: “Retainers to Superstition”
 - “that virtuous heathen” (William Robertson)
- Smith: at best an 18th century deist
 - No professed religious beliefs or known attachment

Instead: the influence of their time and place on their “worldview”:

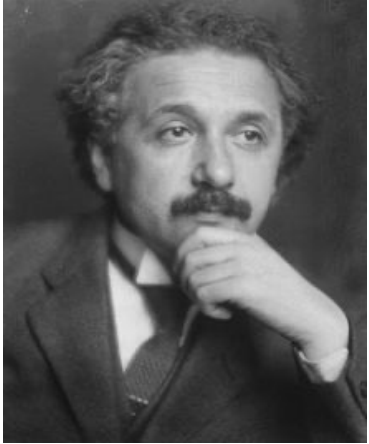


- Einstein: “Scientific thought is a development of pre-scientific thought.”

“Man seeks to form for himself, in whatever manner is suitable for him, a simplified and easy-to-survey image of the world (Bild der Welt) and so to overcome the world of experience by striving to replace it to some extent by this image. This is what the painter does, and the poet, the speculative philosopher, the natural scientist, each in his own way.”

Einstein, “Principles of Research”

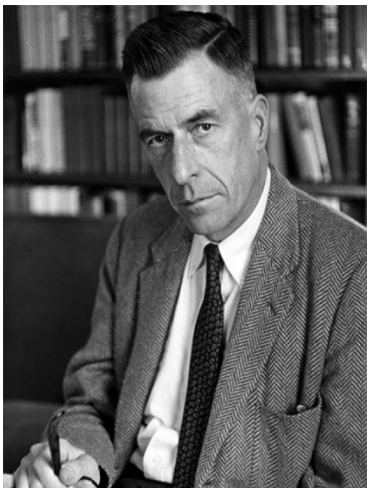
Instead: the influence of their time and place on their “worldview”:



- Einstein: “Scientific thought is a development of pre-scientific thought.”



- Schumpeter: “pre-analytic Vision”



- Galbraith: “Economic ideas are always and intimately a product of their own time and place”

“Economic” Thinking as of 1700

- Could individuals correctly perceive their self-interest?
Probably not
- Acting on individual self-interest, whether perceived correctly or not, bore no implication of more globally optimal outcomes
- Action motivated by individual self-interest was “vicious” (a “vice”)

“Economic” Thinking as of 1790

- Can individuals correctly perceive their self-interest?
Mostly yes when people are acting as producers
- Acting on an individual’s self-interest can, and under the right conditions *will*, make others better off as well
- Actions motivated by individual self-interest are not morally opprobrious

Smith *did* have intellectual precursors

- France
 - Pierre Nicole
 - Pierre de Boisguilbert
 - Richard Cantillon
 - Francois Quesnay
- England
 - Bernard Mandeville
 - Joseph Butler
 - Josiah Tucker

Do *they* deserve the credit instead?

NO: no explanation for how this result came about

- No explicit awareness of the role of markets, or competition, in bringing about this result
- No other economic mechanism either
- Hence no systematic explanation capable of satisfying an era trained to think in Newtonian terms

Smith's argument in the *Wealth of Nations*

- Desire for material gain is inborn – and therefore morally legitimate
- At the center: the role of competitively set prices and wages – and with a Newtonian interpretation

“The natural price, therefore, is ... the central price to which the prices of all commodities are continually gravitating. Different accidents may sometimes keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this center of repose and continuance, they are constantly tending toward it.”

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- Desire for material gain is inborn – and therefore morally legitimate
- At the center: the role of competitively set prices and wages – and with a Newtonian interpretation
- Competitive prices and wages as the outcome of interpersonal bargains motivated by self-interest on either side
- Hence competitive markets as an example of the principle of systematic but unintended and unforeseen consequences

- Most important, the *globally* beneficial outcome of the private pursuit of self-interest pursued in competitive markets
 - Beneficial for other individuals
 - Beneficial for society
 - The “Invisible Hand”
- Hence opposition to potential impediments to the competitive market mechanism
- ***But overall, the astonishing robustness of this result***

- And therefore Smith's willingness to accept restrictions on commerce, when he thought they were needed
 - Monopoly power of central banks
 - Regulation of private banks
 - Progressive income taxes
 - Luxury taxes
 - Taxes on whisky

What enabled Smith (and, in a limited way, his predecessors) to reach this insight?

- Training in Newtonian ideas of system and mechanism
 - Stoic philosophy: natural harmony in the universe
 - Observation of an increasingly commercial society
 - Introspection – Smith as a moral philosopher
-
- The transition in *religious* thinking, especially in the English-speaking Protestant world

The turn away from predestinarian Calvinism

- Human nature
- Human destiny
- Human purpose

Human nature

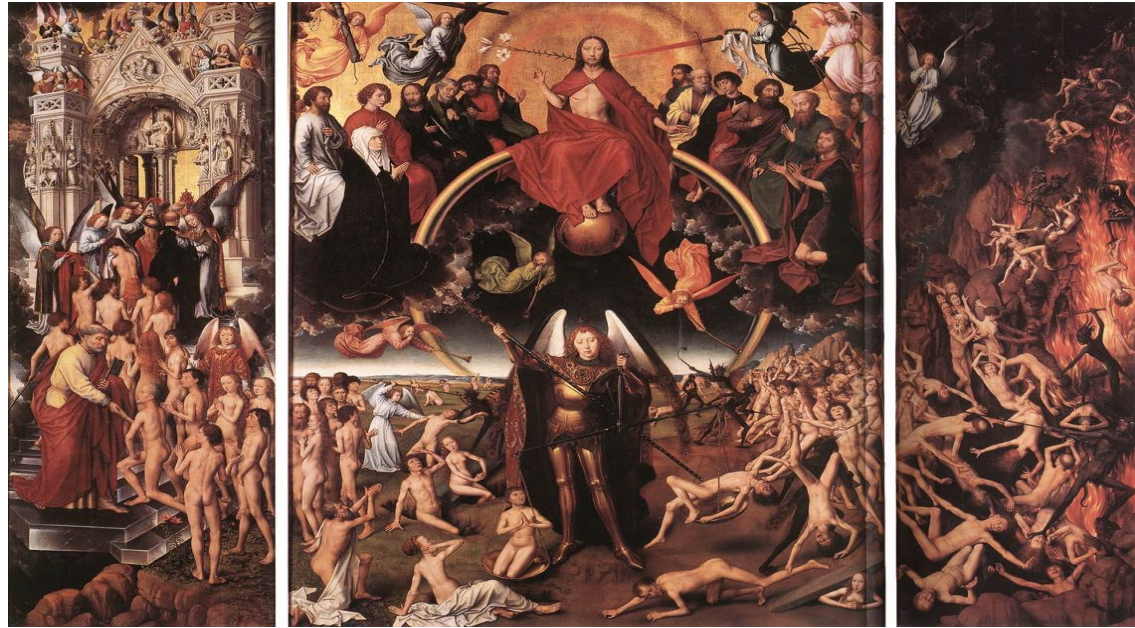
FROM “total depravity” of all individuals

TO inherent goodness of all individuals



Human destiny

FROM “predestination” of who is to be saved (with no determinative role for human choice and action)



TO *everyone* is potentially eligible to be saved, and human choices and actions matter

Human purpose

FROM the sole reason man exists is the glorification of God



TO human happiness is also a (the?) divinely intended end

This debate was at its height in Scotland during Smith and Hume's young to mid adulthood

England: latter half of the 17th c.

Scotland: mid 18th c.

America: latter half of the 18th c.

Why would this *religious* debate have influenced their worldview/Vision?

- The centrality and multi-dimensional importance of religion in their society
 - Education, patronage, politics,...
- The integration of intellectual life at that time
 - University faculty and curriculum, social and intellectual life

University of Glasgow faculty in Smith's time: listing of professorships

Divinity

Logic

Nat. Philosophy

Anat. & Botany

Pract. Astronomy

Law

Oriental languages

Mathematics

Church Hist.

Moral Phil.

Humanity

Greek

Medicine

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Original Members of the Select Society

- 15 lawyers
- 5 CofS ministers (including Robertson)
- 4 professors (including Smith)
- 3 physicians
- 2 soldiers
- 1 merchant
- 1 independent writer (Hume)
- 1 painter

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 - Education, patronage, politics,...
- The integration of intellectual life at that time
 - University faculty and curriculum, social and intellectual life, ...
- The contentiousness of the religious debate
 - The Thirty Years' War, the English Civil War, ongoing resistance to royal authority in both England and Scotland, the Highland Rebellion, ...



Most important, a substantive coherence between the new economic ideas – the intellectual foundations of capitalism – and the new religious thinking of that time and place

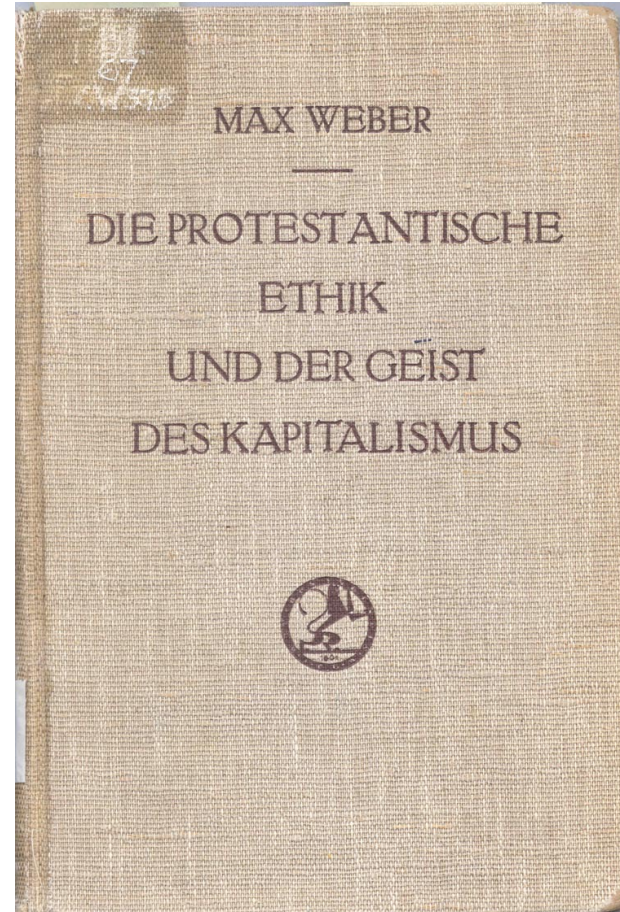
These new religious ideas were part of the worldview/Vision that people of that time brought to thinking about the secular world as well

In effect, Smith and his contemporaries were secularizing the dominant religious thinking of *their* time and place

- A more benign view of the human character
- A more expansive and more optimistic view of the possibilities for human choice and human action

Hence the *moral* legitimacy of capitalism

What's the relation to the Weber Hypothesis?



Two strong parallels

- Religious thinking has consequences for secular matters – in particular, economics
- Those consequences survive the passing of the original religious impulse
 - over time the consequences become secularized
 - eventually most people even become unaware of the initial religious origins

But also important differences

- The driving religious impulse
 - Weber: *belief in* predestinarian Calvinism
 - Smith and Hume: the movement *away from* belief in predestination

Was Weber therefore wrong?

Was Weber therefore wrong?

NO: two further differences

- The time period of the religious impulse is different
 - Weber: 17th century
 - Smith and Hume: mid 18th century
- What about economics is being influenced?
 - Weber: in the first instance, economic *behavior*
 - Smith and Hume: economic *thinking*

As in Weber, this religiously motivated economic thinking that Smith and Hume produced has survived the passing of the religious impulse that gave rise to it

And it has resonated within Western economics ever since

- The debate over free trade versus protectionism early in the 19th century
- The discovery of ongoing, technologically driven, economic growth – also early in the 19th c.
- Arguments over the role of government later in the 19th c.
- The emergence of economics as an ameliorative, policy-oriented inquiry in the late 19th/early 20th centuries
- Arguments over government activism again in the 20th c.
- Especially in America today, the ongoing public conversation about economics and debate over economic policy

And it continues to characterize modern Western economics today

- Today economics is still all about human choices and their possibilities
- The first fundamental welfare theorem is still the heart of our analytical apparatus
- Smith's and Hume's more expansive and optimistic view of human agency remains ours as well
- We still have a capitalist economic system

To conclude:

Economics was, and is, a product of the Enlightenment

But the influence of *religious* thinking was, and remains, a central part of that story

And the role of religious thinking continues to be at work today