

## **THE SYSTEMIC ANTI-CULTURE OF CAPITALISM<sup>1</sup>**

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Much of Max Weber's *The Protestant Ethic and the Spirit of Capitalism* can be read as an account of the culture of capitalism, indeed the Protestant culture of capitalism. Although Weber seems to license it, I think that such a reading is a distortion of what he actually claims in his strongest arguments. What Weber gives us is rather an account of the rise of capitalism in northern Europe and not of the content or culture of it once it is underway. Once it is underway, firms are driven by their need for profitability if they are to survive in the competitive world of capitalism. Profitability depends in part on a firm's own incentive structures as defined by their effects on the interests of the personnel of the firm. Profits and interests can generally be defined as money, which can readily be measured and compared. Protestants might have been driven to create capitalist enterprises in a past era, but the drive for corporate profits is not itself a Protestant drive. Indeed, it is a systemic drive and not strictly an individual drive at all. The systemic drive is survival, which requires profitability. It is a mistake therefore to focus on capitalists and their motivations rather than on capitalism and what it forces firms and their personnel to do if the firms are to survive.

Weber's conception of capitalism is spelled out against the supposition, which he rightly thinks is erroneous, that it is based in and driven by greed. Greed is an individual, not a systemic matter ([1904-05] 1958, 17):

The impulse to acquisition, pursuit of gain, of money, of the greatest possible amount of money, has in itself nothing to do with capitalism. This impulse exists and has existed among waiters, physicians, coachmen, artists, prostitutes, dishonest officials,

soldiers, nobles, crusaders, gamblers, and beggars. One may say that it has been common to all sorts and conditions of men at all times and in all countries of the earth, wherever the objective possibility of it is or has been given... Unlimited greed for gain is not in the least identical with capitalism, and is still less its spirit... But capitalism is identical with the pursuit of profit, and forever *renewed* profit, by means of continuous, rational, capitalistic enterprise. For it must be so: in a wholly capitalistic order of society, an individual capitalistic enterprise which did not take advantage of its opportunities for profit-making would be doomed to extinction.

Weber's view is a forerunner of Joseph Schumpeter's ([1942] 1950, 81-86) argument that capitalism leads to creative destruction. Unprofitable firms die and leave the field to those that are profitable. A firm can fail because it fails to compete with others in its industry or it can fail because its whole industry is in decline, for example, as a result of changing technology. Schumpeter says that "This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in" (83). Capitalism "is by nature a form or method of economic change and not only never is but never can be stationary" (82). Capitalism is to be understood at the system level, not the individual level. This is true even though it is also true that economic results are the product of individual actions. System-level results and the system itself are generally unintended consequences of those individual actions. Indeed, Schumpeter says, Karl Marx's economic interpretation of history does not require that people act from economic motives and Weber's arguments in *The Protestant Ethic* fit perfectly into Marx's account (10-11).

On this account, capitalism is abstract and therefore it is a system that is unmoored in any particular culture, although it might radically affect any culture that is under its sway. Just as

greed can be trans-cultural, so too capitalism can be and by definition is. Some cultures might entail, say, asceticism that would work against both greed and capitalism. But the commitments to greed and capitalism are not themselves inherently aspects of any particular culture. They are potentially universal. The Protestant ethic is not the necessary spirit of capitalism, although it seems to have been consistent with the rise of capitalism in northern Europe and North America and it may have supported capitalism's rise there. On Weber's account Protestantism contributed to savings and accumulation that non-consuming Protestants invested. Such accumulation is necessary for capitalism. But capitalism has risen later in many other places, such as many nations of east Asia, that are not and have never been significantly grounded in the Protestant ethic and it seems to be on its way to the conquest of the Chinese economy at an astonishingly fast pace. One could be a capitalist out of strong commitment to the welfare of oneself, one's family, or one's ethnic group, or even out of a commitment to perfectionism in production.

Note in passing that Weber's claim that capitalism is not about greed fits recent scandals in which greed has destroyed capitalist enterprises. A capitalist enterprise might enable one to act on one's greed in perhaps new and destructive ways, but it cannot withstand the full-blown attack of the massively greedy that destroyed Enron and numerous other capitalist corporations in the United States around the turn of the current century.

Against any too easy association of capitalism with a particular culture, note that one can be a capitalist in a society in which few others are capitalists. Indeed, probably *all capitalists are themselves unusual in their own societies*. The vast majority of any society's population or workforce are not capitalists. It would therefore be very odd to say that it is the culture of a particular society that leads people to be capitalists, although there could be a culture that militates against the commitments of capitalism and there are probably cultures that are more

nearly enabling for capitalists than are some other cultures. But clearly any cultural claim here must be finely nuanced or it must be trivially false. The impact of a relatively small percentage of capitalists in a society causes us to label the society and its economy capitalist. That is an extraordinary testimony to the great impact of even those few capitalists. They set the tone for the whole society economically. Even agriculture, which in most times and places has primarily been for subsistence and little more, is driven to be capitalist despite the false and irrelevant ideology of the small family farm in North America and Europe.

### **Interests As Money**

Before going further in the argument here, I should clarify the use of the term interests. There is a massive literature debating the meaning of interests. Much of this literature argues that interests are largely defined by culture. Much of it defines interests as Aristotle might, as ends rather than as means. I will use the term here exclusively to refer to means or resources for doing things we want to do. I will not be concerned with what anyone wants to do — the list of things is long and complex, and culture might tell us a lot about what people in different societies want. I will only be concerned with enabling them to do those things and not with the choices of things to do. To a large extent, such enabling comes from resources, which can often be summarized as money. Georg Simmel ([1900] 1978 219) notes that the “German language very subtly terms those who own a considerable amount of money *bemittelt*, that is, equipped with means.”

“Interests” is one of a triumvirate of terms that capture the sense of benefits to people. The other terms are consumptions and welfare. Interests enable me to consume things and the consumption of those things adds to my welfare (see further, Hardin 2001). We do not need an

elaborate discussion of these terms in order to make sense of the main issues here. It is merely clear that interests, seen as resources and means, is a very simple term. It does not have the qualities that could be lumped under the term to cover for the fact that the things that you would think improve your life are possibly different from the things that would improve someone else's life. For example, you want wonderfully complex gourmet food while another wants an ascetic and supposedly healthful diet. The differences in this case are differences in consumptions rather than in simple interests seen as resources.

Money has the enormous value for capitalism that it allows a measure of the success of any change in production. That measure is of two different things: the reduced costs of producing something and the increased profits from selling it. The “forever *renewed* profit” that Weber mentions in the quote above gets its meaning and its measure from money. Money is the ultimate abstraction of the notion of interests. It generally has no value in its own right. It has value only in what it can help us consume or do. Strangely, however, in the context of a reasonably stable world it makes sense to say that the value of money is objective or abstract whereas the values of the things that it purchases are subjective. The values of these things are subjective because they have their value only from the fact that we want them. If we stop wanting them, they stop having value to us. We do not want money in the same way. We want it only as a means in order to supply our other, subjective wants. As long as we want *any* other things, we will not stop wanting money and it will not cease to have its value.

Here culture can come in very strongly in our evaluations of the things we might consume, but it has little role otherwise in setting the value of money. Money therefore crosses cultural boundaries with great ease, while many commodities lose much of their value at relevant borders. Those commodities that have the character of resources, such as energy, have more in

common with money than with ordinary consumer goods. They are abstractly valuable and they have no cultural valence. Some goods that are strictly consumer goods cross borders almost as readily as money and energy and they may finally affect cultural commitments. For example, blue jeans have become nearly universal and gender-neutral in their appeal even though they do not fit easily within the culture of Islam or of other traditional societies in which clothing is strongly associated with identity and with gender.

Incidentally, the role of money was unstable through most of history because its availability was fraught with difficulties. When the US greenback was introduced as a Federally backed currency in 1863, merchants were enabled to deal very differently with their customers. Before all paper money was the same greenbacks rather than the variously valued notes of many banks, face values were not reliable. Notes were discounted according to the financial stability of the issuing banks, which might go bankrupt at any time. Under such circumstances, you cannot safely accept retailers' claims that they will let you return goods they have sold you for a full refund, because they might repay you in less valuable notes than those you used to buy the goods originally. Having a uniform currency makes our dealings strategically clearer.

## **Capitalism**

Weber sang the praises of capitalism even while romantic criticism of it was the norm in his time. It "has been the unequivocal criterion of economic modernization since the Middle Ages," Weber (1994, 145) insists. He says some people childishly want a romantic communal economy to counter capitalism. (In the United States, the main counters to capitalism in Weber's time were progressivism to put the state in charge of capitalism and anti-monopoly sentiments that often generalized into demands for state management of the economy.)<sup>2</sup> He dismisses them

as profoundly ignorant of the nature of capitalism because they wrongly focus on momentary and opportunistic corruption, which they wrongly see as the core motivation of capitalism. The particular corruption they see at the time of Weber's writing is the greed of various business leaders in gaining contracts from the state during wartime. Again, he insists that the true core of capitalism is the calculation of profitability (which, as Simmel might insist, is easier if there is money as a measure). The "robber capitalists" who are tied entirely to politics are no different from greedy scavengers in all eras, while bourgeois capitalism is the product of modern Europe and is a progressive force (Weber 1994, 89). Indeed, it is moral in ways that greed clearly is not. The profitability of capitalism is grounded in an understanding of the maxim "honesty is the best policy" (a phrase that Weber renders in English [90; see further Mueller 1999]), a maxim that the executives at Enron scorned.

Among the romantic critics of capitalism were many of those who supported or welcomed the coming of World War I, in which vast numbers of them died. Arthur Conan Doyle has Sherlock Holmes express his praise of the coming war. In "His Last Bow," set in 1914, Holmes says to Watson, "There's an east wind coming . . ., such a wind as never blew on England yet. It will be cold and bitter, Watson, and a good many of us may wither before its blast. But it's God's own wind none the less, and a cleaner, better, stronger land will lie in the sunshine when the storm has cleared" (Doyle [1914] 1986, 803). Rupert Brooke, who died horribly, wrote, "Now, God be thanked Who has matched us with His hour." As Adam Gopnik (2004, 82) says, these intellectuals did not want the "moral equivalent of war; they wanted war as a way of driving out moral equivalence — ending [the] familiar evils of a shopping and pleasure-seeking society." They wanted war, politics, and states to take control of economies, not to communize society but to re-communalize it, as though escaping the tethers of traditional communities

through economic progress had been a bad thing, a great loss. Their romanticism was finally murderous beyond imagination.

Before the era of totalitarian state control, Weber insisted that the end toward which these romantic ideas would lead is the elimination of private capitalism and rule by the state alone, without any countervailing force, giving the state's rationalizing tendencies free reign. Thus, the romantic populists would find themselves not freer but less free before an all-powerful, uncontested, pervasively hierarchical state. "The situation would resemble that of ancient Egypt, but in an incomparably more rational and hence more inescapable form" (Weber 1994, 157-8). He seems to have got the twentieth-century possibilities entirely right. There were two contending forces: the state and the capitalist economy. Where the latter was subjugated to the state, individuals were commonly brutalized and their hopes for economic progress were stymied. In at least one instance, India, there was only economic harm without massive direct attacks on individual liberties. Nevertheless, history has so far been much too kind to Nehru and his crippling leadership (Das 2001).<sup>3</sup> Economic growth in India after economic liberalization in 1991 surpasses all the growth for the previous four decades (while much east Asia boomed), when economic growth rates did not differ substantially from population growth rates, an appalling fact that suggests the numbers in poverty grew steadily throughout the vaunted era of Nehru and his Congress Party successors. Growth rates in India now rival those of China.<sup>4</sup> Education, however, still lags and India has extraordinarily high levels of illiteracy in comparison to east Asian norms. And agriculture, which supports two-thirds of the population in 2004, is still under government control.<sup>5</sup>

In one of the great ironies of social theory, capitalism is a liberalizing force just because large capitalist enterprises can stand against the state. Jennifer Nedelsky (1990) argues

that private property has this role of countervailing power under the US constitution, although later politics has undercut its power. But private property in the form, say, of gigantic estates has little force to offer against government. When James Madison extolled private property, he presumably had in mind almost only large landed estates such as those of southern plantations and the estates of the Anti-Federalists of upstate New York. They are essentially gone and they play no real role in politics today. But capitalist property, which is inherently put to use in production, plays a massive role.

Weber's insight here seems more compelling than Madison's or Nedelsky's because private capitalism may be equal to government in many ways. Sweeping the economy under government control would likely kill the entrepreneurial spirit of capitalism. Without private capitalism, individualism, freedom, and democracy would all be at greater risk. But politics and government would also suffer. As Charles Lindblom (1977) argues, not only can capitalists be a countervailing force against the state but the state must turn to them to provide what government needs: production and income for workers. In a market society, business is therefore not merely another among many interest groups. It has power and resources far beyond what such groups have; it is the necessary partner of government, and where government intrudes too heavily in controlling it, government loses. Moreover, capitalism has greater possibilities for spontaneity than government has. "In market systems, tiny minorities of one can innovate, but they cannot veto" (Lindblom 1977, 348). Hierarchical government can more readily suppress innovations. "It is extremely rare for a businessman to be so intent on selling what he thinks the public ought to have that he is willing to lose his business rather than sell the public what it wants. Only in politics is there place for the ideologue or the doctrinaire" (218).

To play this countervailing role it is the *regime* of capitalism that matters and not its

particularities in one or another *firm*. Individual capitalists can be greedy enough to try to override the regime in their own particular favor. Weber's commitment to capitalism is in its collective or systemic role, not merely its individual firm's role. Yet it is the incentive structure of capitalist production in general that induces individual firms to act in ways that are collectively supportive of capitalism — *unless* individual firms or industries can mobilize government to intervene to block capitalist moves by others.

Finally, note that capitalism can prosper even when the individual capitalist entrepreneurs are soon replaced by managers of large firms. Adolf Berle and Gardner Means (1932) characterize the development toward managerial capitalism, a development that since their writing has continued, so that many of the best known corporate leaders of our time are in fact managers whose ownership of parts of their firms comes to them as part of their managerial compensation. The developments that Berle and Means chronicle and analyze might lead one to change the discussion to focus on large corporations rather than on capitalism. But many, perhaps most, of the innovative explosions of the recent technological revolution are genuinely exercises in capitalism and not in corporate managerialism. In any case, it is private holdings in productive firms that pose a counter to the power of government. The chief obstacle to keeping the countervailing power of capitalism effective is the one Weber sees in wartime Germany. Corporations seek benefits from government and thereby distort their function and the entire economy. They also often are able to use government to oppose other firms or the potential capitalist development of other firms. The biggest internecine attacks on capitalism by capitalists have arguably been those of the era of gigantic monopolistic trusts and now the era of so-called intellectual property.

## **Culture**

Culture may be seen *de facto* as a body of knowledge, beliefs, and values that is shared by a group of people who are in close interaction with each other. If we are in the same society, we may believe roughly the same things and have roughly the same values in many ways. Constraints and commitments follow from that knowledge and give culture its bite. There need be little system in the development of a group's group-specific knowledge — that knowledge is apt to differ in highly idiosyncratic ways from one group to another. It is the differences in central parts of one group's knowledge and in another group's knowledge that define them as essentially different groups. There need be little system in the development of a group's group-specific knowledge — that knowledge is apt to differ in highly idiosyncratic ways from one group to another. It is the differences in central parts of one group's knowledge and another group's knowledge that define them as essentially different groups.

If we are communally to organize ourselves in a way that maintains particular cultural values and practices, we will generally have to do so spontaneously through interpersonal relations that are not backed by powerful institutions of government. We will need endogenous, spontaneously motivated reasons or incentives for adhering to our culture. Spontaneous organization even for what is generally agreed to be a simple collective benefit is likely to be very difficult (Olson 1965; Hardin 1982). To sustain it over generations seems likely to be nearly impossible if we assume that the individual members of the cultural group must primarily be motivated by personal concern with the collective benefit of the culture. And yet, there are many cultures that seemingly have survived many generations with only modest change over time.

The main obstacle to maintenance of such a strong set of governing beliefs is that they must often run against the immediate short-run interests of many of us in the culture. We

could partially overcome this obstacle if we could develop close, trusting relationships with enough people. To do so is virtually impossible in even a moderately complex society. As Adam Smith remarks, in civilized society the individual “stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons” (Smith [1776] 1976, 26).

The most obviously effective way to counter the incentive to follow contrary individual interests would be to introduce other incentives, including sanctions, that would outweigh the incentives to violate the norms and practices of the culture. What capitalism and globalization do to us is give us new knowledge that counters some of the shared knowledge that we previously had. Some of us may now reject our past knowledge and accept the new knowledge that is in some sense embodied in the new experiences and consumptions that we get from globalization. It is our own preferences that change. Globalization itself is substantially enhanced and aided by capitalism in its Weberian quest for profitability. It does not impose anything on us, but it offers us many things, including new employments and new consumptions, and some of us accept some of those things as now part of our own daily lives. It has to do this or we will not buy or take the jobs.

We may or may not in some stronger sense reject much of the cultural knowledge we previously had, but we now have additional knowledge that might sometimes be contrary to bits of that prior knowledge. The central motor in so-called cultural imperialism may be nothing more than the appeals of openness to new ideas and new consumptions. Such openness goes against the conservatism of maintaining some set of cultural beliefs and practices. It may especially appeal to the young, who have not yet made more or less final epistemological commitments to central tenets of their society’s culture. But a culture’s future depends on the

eventual commitments of the young, so their openness may be death to much of the culture of their forebears. To call this imperialism is odd; it is more nearly adoption. Efforts to block it can succeed only by constraining the next generation. Not even the Ayatollahs of Iran have been able to do that very effectively.

Often, defenders of culture against the impact of economic change seem to mean little more than the preservation of local practices and knowledge that, in the larger scheme of things, have little or no value because there are radically better ways to accomplish what those practices and knowledge do for us. James Scott (1998, chap. 9) deplores the loss of local knowledge in the economic transitions that are affecting much of the world — especially, in Scott's concerns, the third world. If we think of knowledge as essentially useful to us, destruction of some of it may not be a loss if that knowledge can no longer be profitably put to use. Local knowledge does, of course, get destroyed in economic and technological transitions, but much of what is lost is local knowledge that has no value once economic progress comes. Most of us in advanced industrial societies know almost nothing of traditional agricultural practices and we are better off for that lack of knowledge.

Scott extols the rich local knowledge that an Andean potato farmer applies to small bits of poor mountain land to produce a substantial crop of varied potatoes (Scott 1998, 301; see van der Ploeg 1993). In the face of poverty and necessity, as when most of the workforce are in agriculture, that knowledge is valuable. In a better economy in which agriculture is the work of a tiny fraction (currently under 2 percent in the US), however, that knowledge — and possibly those bits of land — would be worthless because the potatoes the knowledge produces cost far too much in human labor and essentially guarantee the poverty of the human laborers who produce them. It would be a good thing if prosperity saved the next generation from needing and

having this bit of local Andean knowledge. Scott seems to agree with this general point in some contexts when he notes that the knowledge how to start a fire with tinder and flint stones is well lost once matches become available (335), as is much of the knowledge of peoples in many places and historical eras who have faced great beneficial change.

Many of the poor whose perspective Scott (1976, 1985) takes face massive economic transitions that supersede old ways of doing things and that relieve the next generations of the grim life of relative poverty. The transitional generation, however, may suffer massively from the transition that makes life better for future generations. One might meaningfully say that they lose their culture. If that is what the opponents of globalization mean, even in part, their objection is misguided because the only way to allay it is to keep many societies in grim subsistence agriculture and poverty.

Often an additional criterion for defining or at least defending culture is the claim that it is morally valued by those who share in it. They think that it is right or good and that it should be maintained therefore because something good would be lost if it faded from our practices (see further, Hardin 1995, chapter 7). Unfortunately, as seemingly attractive as this criterion of the morality of culture might be, it is not finally compelling. Virtually everything that people do as a matter of habit or even merely as a matter of frequency is commonly seen to be good or right through a conservative claim that what is is good or, even worse, what was is good just because it was. We begin to expect you to do what you have generally always done and we judge you as morally blameworthy if you now do otherwise.

Even more forcefully, we might be hostile to changes that de facto force us to give up prior practices, even though the force is a matter of our own preferences as aggregated from our own individual actions. Such reactions to sudden economic changes must be common and must

be strengthened by the fact that accommodating oneself to change, especially to a major transition, is not easy and must be fraught with a sense of insecurity. The result can be great nostalgia for former conditions even though those conditions were not good and even though one would not willingly return to them. There are many chronicles of such unease and nostalgia that sometimes border on morally judgmental criticisms. Changes are so fast in India today that it offers a complex of enjoying the improvements in life with wariness of the changes that are enjoyed (see for example, Traub 2001).

### **Capitalism or Culture?**

Ronald Gilson (1999; more briefly see McMillan 2002, 111-15) argues that entrepreneurs in Silicon Valley in California took leadership in developing the computer era away from entrepreneurs along Route 128 in Massachusetts because of differences in intellectual property law. Massachusetts has an intellectual property law that prohibits employees from taking knowledge gained on the job to other firms. Employees often have to sign a covenant agreeing not to work in a competing firm within some time after leaving a job and such covenants are legally enforceable. The terms typically are for a few years, which is long enough to make one's human capital in the high-tech world obsolete. In California, such covenants are not enforceable and people in Silicon Valley have moved quickly from one firm to another (Gilson 1999, 607-09, 615-18).

Covenants that block employee mobility pose a collective action problem. Sharing ideas benefits the entire industry, making us all more productive. But each instance of sharing an idea might harm one firm relative to others. In Massachusetts, many well-known firms used the background threat of government enforcement on their behalf to kill local capitalist

development, eventually even killing themselves as a consequence of efforts to kill competitors. It is the natural instinct of courts to turn intellectual property into a legal rather than an economic issue and it is the long history of Massachusetts case law that establishes the enforceability of covenants not to compete and that generalizes this principle to job-hopping. The courts have acted against the economic interests of Massachusetts and its high-tech corporations. Hence, although high-tech development started much bigger along Route 128, it stagnated relative to the burst of activity in Silicon Valley. Much of that activity was in start-ups created by employees who left major firms to create their own firms to do particular things that the larger firms were not doing. Such mobility to create start-ups was almost unheard of along Route 128 (Gilson 1999, 592; Saxenian 1994, 63), although there were academics who still started new firms. Academics are presumably not subject to covenants not to compete even in Massachusetts (Gilson 1999, 606-07).

World economic development historically would likely have been grievously obstructed if analogs of Massachusetts law had always governed economic activity.<sup>6</sup> To exaggerate the issue somewhat, imagine a university system in which anyone who leaves one university is barred from working for a competing institution. It seems plausible that the proliferation of great universities in the US has substantially been spurred by its unusually high level of professional mobility. If we were to vote on the rule that would generally benefit everyone, we would most likely vote for easy employee mobility. India currently benefits from the return of many Indians who bring their human capital, which they developed in the US and other nations, to India to help its economic growth, especially in high-tech sectors. The return of ex-patriots is encouraged by the Indian government. The annual income of the twenty million Indians living abroad is 35 percent of India's gross domestic product (Amy Waldman, "India

Harvests Fruits of a Diaspora,” *New York Times*, 12 January 2003, 1.4). Bringing their productivity to India is possibly the fastest way for India to grow economically and to become a competitive force in the world economy.

Anna Lee Saxenian (1994, 111-17) attributes the differences in the growth patterns of Route 128 and Silicon Valley during the several decades after 1965 to differences in the business cultures of the two areas. Silicon Valley supposedly had a culture of mobility and open “architecture” while Route 128 had a culture of career-long employment and vertically integrated firms. In part she uses these features *to explain themselves*, as is commonly done in so-called cultural arguments. Such an explanation is not necessarily wrong; there could be feedback mechanisms that lead to replication of an established pattern of behavior. Gilson (1999, 578 and passim) explains these features as the result of different laws on the enforceability of covenants on employment. Those laws were themselves accidental in a meaningful sense for this comparative history in that they were on the books long before the high-tech explosion occurred and provoked efforts to constrain job-hopping workers.

The supposed cultures of the members of these groups were arguably basically the same in that they were essentially capitalist, they came from all over the US and even, increasingly, the world, and most of them had high-tech educations at more or less the same universities, especially at MIT and Stanford. But they faced different legal constraints. The constraints in Silicon Valley enabled capitalist development through *restraints on employers* that prevented them from blocking job-hopping; the constraints in Route 128 substantially blocked capitalist development through *restraints on employees* that prevented them from job-hopping. One might suppose that the culture argument is so weak that it would not have kept innovative employees along Route 128 from hopping the continent to create start-ups in California. Indeed,

in Gilson's (1999, 588-9) account, Silicon Valley was virtually created by Frederick Terman, whose roots were in both the wartime MIT and the pre-war Stanford engineering communities. He fit very well in both places, neither of which constitutes a culture. Culture is a very weak constraint in the face of capitalist development. Furthermore, there may be no such cultures; there are only behaviors in response to legal provisions and other constraints and enablers. We might look to the apparently huge cultural differences between India and the US and wonder why capitalism in the high-tech sector flourishes in both societies unless we suppose that it is capitalism — along with states that do not interfere too much — that drives the developments and not culture.

Some of those who moved from one firm to another in Silicon Valley must have thought it their moral (and not merely political) right to do so, and many of those who opposed their movement in Massachusetts must have insisted just as forcefully that it was morally wrong, a form of theft, for them to do so. Both these positions are moralistic and likely solipsist. People hold the view that fits their own interests or roles, not that fits an overarching moral principle or theory. Anyone not inherently involved in the debates might stand back and say what is generally beneficial, and they would be hard-pressed to formulate an argument for why either job-hopping or a ban on it is wrong in principle without attention to the larger effects of it. The job-hopping that might soon help lift India into the prosperous world of capitalist development cannot be bad *prima facie*. Indeed, the job-hopping that has made California's Silicon Valley the emblem of economic progress and benefits to vast numbers of people cannot trivially be dismissed as immoral on any account. Both sides evoke libertarian rights to defend their position. The libertarian rights of corporations and their owners to control the fruits of human capital conflict with the libertarian rights of employees to be mobile. Lawyers and courts may often side with

owners; legislators who are concerned with the general welfare of their polities apparently should side with employees. If Gilson's (1999) account of the facts of the Silicon Valley and Route 128 histories are correct, then utilitarians must have an easy time concluding in favor of the California legal position against enforcing covenants on the transfer of human capital.

### **The Division of Labor**

The standard complaint that capitalism bulldozes traditional cultures is probably true, as Scott (1976, 1985) and many others argue convincingly for specific historical cases. Therefore, it is anti-culture. It does this, however, not through an attack on culture, as many opponents of globalization seem to suppose, but rather through the remaking of the values of individuals, most of whom presumably are simply seeking better prospects. Even then, the change in values or preferences comes from little more than being given new choices that were not previously available. Among the most important of these choices is opportunity to participate in the international division of labor. In societies in which subsistence agriculture employs the large majority of all citizens, this opportunity is potentially extremely valuable.

Perhaps the largest part of the anti-culture of capitalism comes through the division of labor that greatly enhances productivity. With many others, including Adam Smith ([1776] 1976, book 5, chap. 1, article 2, pp. 782-8), Marx ([1849] 1977, 225), and Emile Durkheim ([1893] 1933), Simmel notes that "the product is completed at the expense of the development of the producer. The increase in psycho-physical energies and skills, which is the result of specialized activity, is of little value for the total personality, which often even becomes stunted because of the diversion of energies that are indispensable for the harmonious growth of the self" ([1900] 1978, 454). At the same time, however, the producer is rewarded with money, not with cultural

artifacts or bartered goods. The actions of the producer are increasingly abstract and specialized while the rewards to the producer are increasingly abstract and generalized. Craftsmanship and barter both play ever decreasing roles in a developing capitalist world.

Indeed, at the core of capitalism, the technological and managerial drive for enhanced productivity is on a par with the inventive drive to create new goods. Capitalism is primarily a machine for enhanced production. These are the elements of the capitalist enterprise that Weber says must take advantage of its opportunities for profit-making or be doomed to extinction. Along with technological advances in production techniques, refinements in the division of labor allow perhaps the greatest opportunities for making the same goods cheaper and often of better quality.

Location theory in economics and sociology commends putting similar firms near each other just in order to facilitate the transfer of human capital from one firm to another to the benefit of all, as in the example of Silicon Valley discussed above.<sup>7</sup> Alfred Marshall ([1890] 1964, 223) thinks this is part of the development of the division of labor. In the Silicon Valley, with its laws blocking restraints on employment, the density of high-tech firms gives opportunity not merely for the mobility of human capital but for its extremely quick development and for the quick development of industrial capital and capacity.

### **Concluding Remarks**

Weber ([1904-05] 1958, 13-17) remarks on the development of science, geometry, and other intellectual disciplines as having begun their ascent to abstraction from any culture after their virtual invention by the Greeks. It is part of the great appeal and power of these disciplines that they lack any significant residues of the cultures that have in some sense

produced them. Their content is largely independent of culture once they are underway.<sup>8</sup> Cultures can come crashing down on them, as the still Medieval Catholic Church of Galileo's time came crashing down on his abstract science that ran against a science that was little more than the ignorant opinions of Aristotle and as Nazi and Soviet states attempted to crush much of science that was produced by Jews or that ran against the stupid views of Stalin, who thought his political theory must be reified in biological science. But there is no Catholic, Nazi, or Soviet science or mathematics, there is only science and mathematics. Culture may affect what is discovered. It does not substantially affect what is the content of science beyond the moment of discovery, although it can hold up progress, as with the Greek and generally western opposition to the idea of zero (Seife 2000, esp. chap. 2). Similarly, culture does not substantially affect what is the content of capitalism beyond the moment of its creation or rise.

Within the capitalist system, individuals will naturally compete with one another for advantage in ways unrelated to the central core of the system, but the Dennis Kozlowskis (Tyco), Andrew Fastows (Enron), and Scott Sullivans (WorldCom), who greedily plundered their firms, were enabled to do so by their managerial positions and enticed to do so by the wealth of those firms. There was a particularly capitalist form of greed in the era of managerial capitalism, as analyzed by Berle and Means, who actually predicted such abuses in the transformation of capitalism into the corporate form. This form creates "a new set of relationships, giving to the groups in control powers which are absolute and not limited by any implied obligation with respect to their use." Through their absolute control of a corporation the managers "can operate it in their own interests, and can divert a portion of the [corporation's income and assets] to their own uses," and we face the potential for "corporate plundering" (Berle and Means 1932, 354-5).

Moreover, the managers must often view their tenure as relatively brief, so that they

may see themselves as being at end-game. There is no long-run future that will haunt them for their actions now so long as their actions are legal, as Jack Welch's greedy personal profiteering at General Electric may well have been. At end-game, you take what you can and say farewell. The grand entrepreneurial capitalists, such as John D. Rockefeller and Andrew Carnegie, reached end-game only when they died and even then they could often bind their wealth to their own children or to foundations to honor their names, thus extending the lifetime of their enterprises beyond their own lifetimes and extending the concern with profitability.

Managerial capitalism is often constrained by entrepreneurial capitalism at new firms and even new industries, so that some firms, perhaps especially new firms, are a countervailing force against each other just as they are against government. But this check may not be sufficient to block the abuses of managerial capitalism altogether, especially when particular firms manage to infiltrate government.<sup>9</sup> The first few years of the twenty-first century in the US presented an appalling failure of capitalism in its managerial form. Greed can thrive within capitalism, but capitalism does not thrive through greed. The worst problem capitalism presents to us now may well be the corporate abuses that are enabled in managerial capitalism and that were analyzed by Berle and Means (1932) at the height of the US Depression. Keeping open the possibility of the unfettered struggle of entrepreneurs that characterized the early centuries of capitalism may be the best check against managerial abuses. That possibility largely depends on technological innovation that opens opportunity for new entrepreneurs, although a large part of the innovation that we see is hierarchically governed by extant large corporations, such as Toyota and Dupont.

Yet, even in the face of the spectacle of greed at Enron, Tyco, and various other firms, it is still true — “it must be so,” Weber says — that capitalist organization that focuses on corporate profitability must dominate firms in which greed distorts profitability. Plundering is

the right word for the ill that Berle and Means recognize. Plundering is for a city or a firm that has been vanquished, and a firm that is plundered cannot long be part of a thriving economy. The plundering suffered by Enron and various other corporations in recent years wrecked them not merely because it took vast sums of money from them but because it cost them so much that they could no longer compete with other corporations in their industries. Another energy supply company chose not even to buy the shell of Enron because its liabilities were so great that owning its assets would be too costly or at least too risky. That is the correct message of capitalism. Be profitable or die. It is this systemic fact that makes capitalist market economics generally less corrupt and venal than the Enron and other recent cases make it seem. As Weber ([1904-05] 1958 , 57) remarks, “The universal reign of unscrupulousness in the pursuit of selfish interests by the making of money has been a specific characteristic of precisely those countries whose bourgeois-capitalistic development ... has remained backward.”<sup>10</sup>

We could speculatively ask what are the circumstances in which the seeming conservatism of culture that might block or slow capitalism would be overcome. There are two partially separate issues: overcoming it at the individual level and at the societal level. First, for an individual, it is important that others are open and also quest for new knowledge, and that there is feedback from revision of knowledge to show its payoff. The invention of science and the scientific method by Copernicus, Galileo, and others set Europe on the road to constant change from the innovations of individuals. Second, for a society, openness to capitalism is likely a coordination or tipping phenomenon. If enough are open, it is easy and natural to be open. Capitalism is organized for innovation and revisions of our ways of doing things. Capitalist successes in producing basic goods and reducing poverty virtually guarantee that individual innovators will be rewarded so that there is feedback to personal incentives. Capitalism is in

some ways similar to science. Its successes are virtually self-evident and hard to forego once they are available. Culture cannot readily block either science or capitalism unless it gains control of government and its powers of blocking innovations.

Money is emblematic of the nature of capitalism in that it does not embody particular cultural values. It is culturally neutral and universally useful in acquiring other things, including things whose value is defined by their cultural role or roots. The ethic and spirit of capitalism are culturally undefined. They do not include Protestantism or any other values other than the need for profits and change if firms are to survive. And we may want a particular firm to survive merely because it gives us our life style or our resources for doing other things. Science is an engine for discovery and capitalism is an engine for production and for profitability. Jointly they are historically the main engine for economic progress and for increasing welfare. From the time of the rise of capitalism, they have fed each other and they have stood together outside religion and any strong culture, both of which have often opposed both science and capitalism. As has been true also for science, capitalism has often stood against politics, sometimes being subjugated in a particular society, such as the Soviet Union and Nehru's India. Stalin has become reviled for the harms — economic and personal — that he brought onto the Soviet peoples and Nehru may soon enough also begin to be reviled for his arrogant economic harms (Das 2001). Any political regime that wants to prosper and *to bring prosperity to its people* has little choice: It must rely on the powers of capitalism, which is the engine for increasing productivity.

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## Notes

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<sup>1</sup> Prepared for presentation at the conference, The Ethic and Spirit of Capitalism, Cornell University, 8-9 October 2004. I thank Huan Wang for energetic and creative research assistance in writing this paper.

<sup>2</sup> James Chace (2002) argues that the US presidential election of 1912 pitted these three visions in the contest between the trust-buster Theodore Roosevelt, the federal regulator Woodrow Wilson, and the small-government and economic-libertarian William Howard Taft. Taft insisted there are limits to government capacity to make the economy flourish by trying to run it. The total vote implicitly in favor of government intervention swamped the vote for Taft.

<sup>3</sup> Das ([2000] 2001, 175) tells of a meeting at which an industrialist, Rahul Bajaj, is threatened with jail for producing more scooters than his quota allowed. He retorts, “Sir, my grandfather went to jail for my country’s freedom. I stand ready to do the same for producing on behalf of my motherland.”

<sup>4</sup> The compounding effect of these rates is astonishing. At 7 percent growth per year, the Indian economy doubles in size in a decade. India is now in its second decade of such growth and if it continues for two decades it will have grown by a factor of four. “If the United States had begun in 1870 at a real per capita GDP of \$2244 and had then grown at a rate of 0.75 percent per year over the next 120 years, then its real per capita GDP in 1990 would have been \$5519, only 2.5 times the value in 1870 and 30 percent of the actual value in 1990 of \$18,258. Then, instead of ranking first in the world in 1990, the United States would have ranked 37th out of 127 countries with data. To put it another way, if the growth rate had been lower by just 1 percentage point per year, then the US real per capita GDP in 1990 would have been close to that in Mexico and Hungary and would have been about \$1000 less than that in Portugal and Greece” (Barro and Sala-i-Martin 1995, 1).

<sup>5</sup> See Saritha Rai, “India Sets a Fast Pace, Expanding 8.2% in Year,” *New York Times*, 1 July 2004, W.1; Amy Waldman, “In India, Economic Growth and Democracy Do Mix,” *New York Times*, 23 May 2004, 4.3.

<sup>6</sup> Much of the legal concern with employee mobility makes. For example, an insurance agent working for a firm could set up a competing firm by enticing clients from the earlier to the new firm. See further, Gilson 1999, 616-18). The issue in the high-tech industries of the Silicon Valley is much more clearly about human capital than about mere economic

information. Hence, the laws that came into place to deal with taking secrets from one firm to another are not strictly suited to the movements of people with very general skills and knowledge gained on the job. The law could directly penalize the movement of proprietary information, such as names of insurance clients, without going after all cases of job-hopping.

<sup>7</sup> It is partly therefore that the political proposal to spread financial firms around after September 11, rather than having them rebuild to stay concentrated in the southern tip of Manhattan, is probably a bad idea.

<sup>8</sup> This claim is contested, of course. Also, there is a school of epistemologists who argue that social conditions influence what we look for and what we find, but these social epistemologists do not argue that we thereby determine the truth of what we find. See, for example, contributions to Schmitt 1994.

<sup>9</sup> Enron donated campaign funds to so many office-holders who might have been charged with investigating and prosecuting it that US Attorney General John Ashcroft and most of the US attorney's office in Houston, Texas (Enron's headquarters), were forced to recuse themselves from pursuing the case. *New York Times*, "Cleaning Up After the Debacle," editorial page, 20 January 2002, p. 4.12.

<sup>10</sup> On the rise of virtue in retailing, see Mueller 1990, 77-93.