PART IV

The Origins of the Financial Crisis from Nationalism to Neoliberalism

FOURTEEN

Capitalism

NEITHER PROBLEM NOR SOLUTION—BUT TEMPORARY VICTIM OF THE FINANCIAL CRISIS

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I want to respond to the provocative question raised by the editors with regard to the recent financial crisis: "Is capitalism the problem or the solution?" It is neither the problem nor the solution. Instead, capitalism is the temporary victim—in academic discussion, in the United States and some European countries. It is held to be responsible by those who don't know whom to blame. If we are looking for the origin, or the solution, to the financial crisis, we should turn from capitalism to nationalism. Nationalism, not capitalism, is both the creator of the problem and the provider of the solution.

What is capitalism? The term *capitalism* nowadays most commonly designates the modern economic process, as distinguished from traditional economies by its orientation toward and capacity to sustain growth. The principle of capitalism is, as formulated by Marx in *Capital*, "Money > Commodity > More Money," or by Max Weber, "profit and forever renewed profit."

So understood as the power of wealth to beget more wealth, capitalism emerged in sixteenth-century England, which set the example of sustained economic growth for the world. Before England spawned the first modern capitalist economy, economic activity throughout the world was oriented to subsistence. If people accumulated wealth, they did this to live, rather than living to accumulate wealth. As rational economic agents, they worked hard and saved until they felt that they had enough for whatever condition they felt to be comfortable. And when they reached this stage of comfort, they stopped working hard and began to spend their savings.

Of course, the great majority never accumulated wealth at all. Even in better times they had just enough to survive and in the very best days they had enough to raise children, but they had nothing to save. Subsistence economies were cut to size by the "Malthusian scissors." When such economies grew, people produced more children who survived to maturity, so the population grew too; however, the growing population consumed the surplus and ate into the very stock of the economy. As a result, the economy contracted, the population decreased, and the cycle began again.

So it went until the time in England when this traditional orientation toward economic activity was replaced by a very different one—one in which wealth and ever-increasing wealth became the end and human beings the dedicated means to achieve it. The English experiment in capitalism stood on its head the central principle of rational behavior: the pursuit of pleasure and the avoidance of pain. This new orientation was, as Max Weber stressed in his famous attempt to explain it, fundamentally irrational. In fact, as he wrote, the presumed foundation of the capitalist economic ethic—"the earning of more and more money, combined with a strict avoidance of all spontaneous enjoyment of life is completely devoid of any eudemonistic, not to say hedonistic, pleasure. It is thought of so purely as an end in itself, that from the point of view of the happiness of, or the utility to the single individual, it appears entirely transcendental and absolutely irrational. . . . Economic acquisition is no longer subordinated to man as the means of satisfaction of his material needs. This reversal of what we should call the natural relationship, so irrational from a naïve point of view, is, evidently, as definitive and leading a principle of capitalism as it is foreign to all peoples not under the sway of its particular influence."[1] That capitalist behavior is so unlike rational behavior means that it could only be accounted for by the emergence of a new system of values, values that make the accumulation of wealth into a good in its own right and not simply as a means for the achievement of another good, such as life. Capitalist accumulation of wealth, Weber writes, now comes to attach directly to a new supreme and self-standing good rather than being the necessary means to the achievement of the latter.

Weber's book *The Protestant Ethic and the Spirit of Capitalism* was, until recently, the only account of why capitalism emerged when and where it did. Unfortunately, Weber's thesis, that the transformation of values accompanying the Protestant revolution made possible the capitalist valuation of wealth as a good in itself, has not been borne out by empirical evidence.

Following the lead of Weber's logic, I have argued, in my book *The Spirit of Capitalism*,[2] that the new system of values that inspired the reorientation of economic activity toward ever-expanding growth has its origin not in Calvinist Protestantism but in another contemporary development: nationalism. The new capitalist ethic did not result from the change in the religious Christian worldview. Rather, capitalist values have their true foundation in the replacement of a religious worldview by a dramatically different secular image of reality.

Focused on this experiential (empirical) world—a world that it endows with ultimate meaning—nationalism has at its core an image of social reality whose fundamental building blocks are nations—sovereign communities of essentially equal members. The inherent egalitarianism of nationalism and the view of a community of living members as the bearer of supreme authority necessarily elevate the status of every member of the nation. In a nation, all citizens are endowed with the dignity of an elite. As the source of individual dignity lies in one's membership in the nation, it comes to be profoundly associated with the dignity of the nation. In a nationalist period, one's personal dignity necessarily reflects one's nation's position in relation to other nations or international prestige.

Prestige is a relative value that fluctuates with the prestige of the relevant others. The national population in each case is strongly committed to maintaining the prestige of its nation. This makes nationalism a competitive ideology. Any particular nation is likely to choose that sphere of life as an area of competition where it has the best chance to succeed. In every area of national competition (economy, military, education, etc.), the competition is constant—a race with a moving finish line. When a nation decides to compete in the field of economic activity, the result is its reorientation toward the accumulation of ever-increasing wealth and, given that the competitors are capable by definition, economies of sustained growth or capitalism.

My point is that competitive national exertion is what explains the persistence of capitalist activity. As Weber successfully argued, the dedication of an individual life to the accumulation of wealth rather than the other way around is, from the individual point of view, an irrational behavior. But, this irrational behavior is rationalized by nationalism. The accumulation of ever-increasing wealth—the seemingly endless growth—

actually serves an end: the end of national prestige and therefore the dignity of the individual in economically competitive nations.

Nationalism emerged in England in the early sixteenth century and for about two centuries England was the only *nation* in the world, that is, the only society organized on the basis of the inclusive and, for that reason, competitive national image of social reality. It is not surprising that the English *national* economy was the first economy to become competitive, to reorient itself toward growth. Moreover, although the English saw competition everywhere, England remained without any serious competitors for two centuries—because no other economy was as yet nationally, that is, competitively, motivated. It is also not surprising, therefore, that the English, and then the British, economy emerged as the world's preeminent economy and maintained this position well into the twentieth century. The explanation for England's economic power lies in its nationalist competitive motivation, a spur that propelled England to its exalted place. Nationalism, and not any particular advantage in regard to the material ingredients of a strong economy, was the original force that shot England into its capitalist future—for it should be remembered that before it embarked on its road to economic dominance, England enjoyed no such advantages, and its economy, as compared with those of its neighbors in the Netherlands, France, and Spain, was backward and weak.

We must take seriously this too-long overlooked fact: Capitalism was born in England within a generation or two of the emergence of English nationalism, in the middle of the sixteenth century. The emergence of a nationalism-inspired capitalism was signaled by the renaming, in 1564, of the Company of Merchants Adventurers as the Merchants Adventurers of England. The time lapse between the emergence of nationalism and the take-off into sustained economic growth happens to be one or two generations in length in other nations that opted to compete in the economic arena. The first four countries that did so were France, Germany, the United States, and Japan.

Because of its early identification with England, and the identification of England with liberal politics, post-eighteenth-century capitalism—especially as defined by Karl Marx—became associated with political and economic liberalism. The prevailing theory has been that economic liberalism, free trade, free competition, and free markets were necessary for capitalism. Additionally, political liberalism was viewed as a condition for economic liberalism. But the identification of economies of growth—the pursuit of forever renewed profit—with political liberalism is contradicted by at least three out of the four cases of economies entering the race after England: France, Germany, and Japan. During respective periods of great economic growth, each of these countries featured completely authoritarian politics and did not allow free markets to function. Even the economic regimes of England and the United States—both considered politically liberal environments—could be by no means characterized as "liberal" by the economic definition used today. England was the mother of mercantilism, an economic policy consistently inveighed against by Adam Smith in *The Wealth of Nations*. Protectionism was characteristic of England until the late half of the nineteenth century (that is, three centuries into its capitalist history) and similar anti-"capitalist" (antiliberal economics; anti-laissez-faire) policies continued in the United States until after War World II.

The present understanding of capitalism is plagued by numerous misconceptions. Seeing globalization as inherent in capitalism as such is one of them. Globalization is commonly understood in the United States as the increasing integration of the societies of the world into one global community, or "the global village," to use the most accepted metaphor. This integration may be interpreted narrowly as, specifically, an economic integration—the extension of mutually beneficial economic interdependence and the inclusion of an ever-widening circle of societies in one common economic system. Especially in the United States, however, the capitalist economy is considered the foundation of liberal democratic institutions and political culture. The belief that the nature of the economy is tightly connected to the nature of politics expresses an idea of "globalization" interpreted broadly, one connoting the increasing integration of the societies of the globe not only in an economic but also in a political and cultural sense. In this broad, and more common, sense the claim of globalization is obviously false. It is contradicted systematically by everything we see in the empirical life.

But even in the narrow sense of growing economic integration, the claim of globalization outside the European Union is not supported by strong evidence. The concept presupposes a steady trend, a constantly increasing integration of previously independent economies into one common, ultimately global, framework, therefore, an ever-freer flow of capital and labor between previously self-sufficient parts, an ever-larger share of foreign trade in every previously inward-oriented constituent. But there is no such steady trend. In fact, we reached the peak of such interconnectedness of world economies about a century ago and have been oscillating between the pre– and post–World War I levels of interconnectedness ever since.

There is no better example in economic history as to how "globalization"—the *forced* integration of straggling independent economies into a common system by the strong—actually proceeds than that of the "opening to trade" of Tokugawa Japan in the second half of the nineteenth century. For a quarter of a millennium that island country kept itself isolated from the rest of the world. Its government was openly authoritarian (as everywhere else with the exception of England in the beginning of the period—the 1590s—and everywhere with a few exceptions at its end—the 1850s), but it did not intrude in anybody else's affairs, molest foreigners, or bend them to its will; it simply did not allow them in. The country's economy was subsistence oriented, like most of the economies at the time, and nobody in Japan thought that their economy should grow. Then suddenly, in the middle of the nineteenth century, Japan's isolation became a problem for the American whaling industry. For this particular industry to continue growing, the American whaling fleet needed a place to refuel in the part of the Pacific where Japan was located. And so, with some shelling of a coastal city, Japan (which at the time had no firearms and could only defend itself with swords), against its will, was opened to trade.

The intruders, however, came bearing gifts: They introduced nationalism to Japan. The alacrity with which Japan adopted this new, secular, and competitive view of reality was nothing less than astonishing. By the end of the 1850s, national identity was already growing in Japan. As nationalism was presented to the Japanese in an economic package, their nationalism was focused on the economy from the outset. They were moved, in other words, by the spirit of capitalism.

Within a generation, the little country regrouped itself on new principles. By the early decades of the twentieth century, Japan—already a formidable military power with a record of victories over China and Russia—had the fifth strongest world economy after Britain, the United States, Germany, and France. Ironically, Japan's reorientation to international competition and economic growth as a result of its forced opening was the first sign of "globalization" in a very different sense from the one the term usually carries. Capitalism is indeed tightly connected to this particular version of globalization. Globalization in this sense refers to connecting in a competitive relationship vastly different civilizations. These civilizations, notably, do not become integrated into one system.

Instead, they retain their separate and mutually incomprehensible modes of thinking and feeling, but they become relevant to each other and vie for world dominance.

Up to the opening of Japan, the civilization referred to as European, Western, and Judeo-Christian had been enclosed within itself. Its boundaries were defined by the cognitive framework of monotheism and, closely related to it, a logic based on the principle of no contradiction, established 3 and 2.5 millennia ago, respectively. With the emergence of nationalism and competition between nations in this civilization, it came into contact with India and to a very limited extent China, but it did not conceive of them as different civilizations. It conceived of them as *lower* cultures within the same civilization.

Until the twentieth century (and with a striking but lonely exception of Japan until the twentieth-first century) international competition—whether economic, military, or cultural—was limited to a small number of European or European-derived nations. What made Japan's reaction to the West so remarkable was that despite the brutal unceremoniousness of its forced opening to the so-called world economy, it did not repay the West with envy and resentment, the common currencies between the nations within Western civilization. The Japanese perceived no identity between their country and the powers that tried to humiliate them and never developed a sense of inferiority to them. Of course, they recognized the comparative disadvantages that allowed Western powers to violate Japan's sovereignty. In 1853, the West had science, technology, and industrial wealth—all of which Japan lacked. The obvious thing was to acquire similar science, technology, and industrial wealth. The motto Japan adopted was: "Eastern ethics, Western learning." They learned fast and proved that where there is a will there is a way.

Japan is small and poor in resources; the only thing it has had in abundance is motivation. Until very recently it was the second largest economy in the world, trailing only the vast and naturally rich United States. But by the end of the twentieth century, nationalism caught up with China and India. Together, these two colossi contain more than two and a half billion people. They have never lacked anything but motivation between the two of them to dominate the world both economically and militarily. The *Economist,* as you know, predicts that China will be the largest economy of the world by 2020. After five hundred years of competitive economic development—of capitalism—virtually without competitors, the West is finally meeting its match. This is what explains the confusion and panic that made us—Americans—imagine a glitch in the mostly Western financial system (which happened, basically, because of our overevaluation of mathematics and model-building economics) as a crisis comparable in its consequences to the effects of totalitarian regimes in Germany and Russia, which murdered people by the millions and caused suffering on the vastest of scales.

Please, stop worrying, or worry about something else. What explains the panic is the sudden and unexpected-for-us emergence of Asia as claimant for the leadership in the economic race fueled by nationalism. So the West won't be the dominant force in the world anymore. It will bow to China, India, and Japan. The United States will become an equivalent of Switzerland without banks and will be producing cuckoo clocks and milk chocolates for Chinese consumption. Is it that bad? It is only status we are losing after all, not our lives.