

HIS 4670 The History and Ethics of Capitalism
Babson Hall 203, MW 4-5:30 PM
Fall 2021

Prof. James Hoopes
Office: Hollister 321
Office Hours: By appointment

Course Description:

This course deals with the history of capitalism from ancient times to the present. We will study not just the story of capitalist enterprise but also the ethics, cultural mores, and social institutions accompanying capitalism.

Many historians agree with Karl Marx in dating the start of capitalism at the point in time when capitalists became capable of contesting with other leaders such as aristocrats, clergy, and warriors to become the governing class. In the West, this was in the 16th and 17th centuries, coincident with the decline of European feudalism. But we will begin much further back when capitalists were too weak to govern.

We will of course discuss politics, culture, ideology, technology, and many other factors necessary to understand the history and ethics of capitalism. But the basic notion of this course is that capitalism is an economic activity involving the use of capital to create more capital, more wealth.

Learning Objectives:

This course has two goals. The first is to understand the origins and dynamics of the economic, governmental, and ideological system which now governs the work of much of humanity so that we can live with greater awareness and effectiveness.

Our second goal is ethical understanding. The general aim is to understand the moral issues raised by capitalism by studying it not only as a theory but also as the economic practices of real people in history. The particular aim is for you to learn how to reduce the moral risks of capitalism and maximize its moral opportunities.

Course Requirements:

1. Attendance required. There will be no examinations in this course. In order to get the most out of the course and contribute to your fellow students' learning through class participation, you are required to attend class, participate in class discussion, and do the assigned readings. Unexcused absences get a zero for class participation that day. Webex video is required to be on during class.

2. Discussion board. You are required to contribute to conversation about the reading on the Canvas Discussion Board in advance of each class, beginning with the first class on Aug. 30. Deadline for contributions to the discussion board is 3 PM the day of class.

There is a word limit for the discussion board. The first contributor can have 300 words if they want them. Everyone else is limited to 150 words maximum. There is no minimum. A few pithy words can be an acceptable entry if it contributes to others' understanding.

Quality counts more than quantity. Try to support your ideas, including questions, with evidence from the reading. It can be especially useful when people are responding to each other's ideas, not just expressing their own views. But it's also okay to sound off with an idea unconnected to anything anyone else has said.

It's also okay to disagree with another person's idea, not okay to be disagreeable to the other person.

An hour before class I will do my best to read every entry.

3. Course papers. Two course papers are required. Each course paper will go through three drafts. You will have a writing conference with me after each of the first two drafts where we will discuss ways in which the paper can be improved in the next draft.

One course paper will be on the history and ethics of capitalism based on the assigned readings and class discussions.

The second course paper will be about a research topic chosen by you relevant to the history of capitalism such as an individual, a company, an event, a new technology, etc. Topics can be "small" such as a business you have started, a forgotten person in history, your family's business, another family's business, the history of the soda straw, etc. Or they can be "big" such as John D. Rockefeller, Facebook, Elon Musk, Coca Cola, the role of capitalism in a genocide, the impact of the steam engine, etc.

For the first draft, both the history-and-ethics of capitalism paper and your research paper have a limit of 750 words each. For the second draft, each paper has a limit of 1250 words. Students often find it uncomfortable to have a word limit for what they can write, but for the first two drafts we are focused on quality, not quantity. A word limit is not an excuse for lack of quality. Remember Dr. Johnson: "Brevity is the soul of wit!" For the third and final draft there is no word limit.

Your research paper can have as many online sources as you choose. But it must also have some printed sources which are often, but not always, more accurate and reliable than online sources. If the print sources are available online, you can read them online. But to qualify as “print sources” they must also have appeared in print – e.g. a book or journal article. For the first draft you should have at least two print sources, for the second draft 3 print sources, and for the third draft 4 print sources.

Between Aug. 22 and 29 please schedule on the Canvas course calendar an appointment with me to discuss your research topic. It might be good to have 2 or 3 research topics to discuss. But if there’s a topic you’re passionate about and will be disappointed if you can’t do it, we’ll figure out a way you can do it or something close to it.

4. Class presentations. You will also be required two times during the course to serve as a “first discussant” as part of a team of two or three students. The presentation should accomplish two objectives.

First, present some images from Google Images or elsewhere related to the subject of this day’s class. The goal is to use visuals to help your classmates imagine (form an image of) the ideas and events covered in the readings. Your presentation should show signs of significant research over and above the readings assigned for that day. You may use images drawn from assigned readings, but you should also use images your classmates have not likely seen before. Your slides should be mainly images with text occupying no more than 25% of any slide.

Second, do a short summary/reminder of the main ideas of **previous** classes which you think are particularly useful as background/context for this day’s class and suggest how keeping that background in mind helps improve our understanding of the readings assigned for the day. Do NOT summarize the readings. There is no need for such a summary because the students have already done the readings and also because we will be discussing the readings in class. Your job is to add value by using images to help the class understand the readings.

Send a copy of your Power Point slides to me (hoopes@babson.edu) by 6 AM on the day you are scheduled to present.

Grade weights are as follows:

Class Participation 25%

First draft of course paper 10%

Second draft of course paper 20 %

Third draft of course paper 30%

First time first discussant 5%

Second time first discussant 10%

Grading standards for papers, class participation, and first discussants are:

A Profoundly improves the understanding and learning experience of the class (or in the case of a written paper, profoundly improves the understanding of the reader – i.e. me, your instructor);

A- Greatly improves understanding;

B+ Strongly supports understanding;

B Supports understanding;

B- Shows and somewhat supports understanding;

C+ Shows understanding, adding color;

C Shows understanding;

C- Shows understanding but has errors;

D+ Shows minimal understanding while adding some color;

D Shows minimal understanding;

D- Shows minimal understanding but has errors.

Reading assignments and first discussants for each class are in the schedule below.

M Aug. 30 The Ethics of Adam Smith

First discussants:

Reading Assignments:

Everyone talks about Adam Smith (1723-1790), but almost no one reads him. You will be one of the few people who has at least dipped into the pages of his great books, *The Wealth of Nations* and *The Theory of Moral Sentiments*. They are challenging reading, so I will ask you to read only a dozen or so paragraphs. But take the time to get the meaning of those paragraphs. Smith's diction has become antiquated so you may need to use a dictionary such as the one at dictionary.com.

Go to <http://www.gutenberg.org/files/3300/3300-h/3300-h.htm> to find an online copy of *The Wealth of Nations*. Copy the entire book into a word document and save it on your laptop (this is legal because the book is not under copyright). Saving it as a word file will make it easy to search for the passages you are required to read, not only for this assignment but for some of the other assignments in this course.

Go to <https://oll.libertyfund.org/title/theory-of-moral-sentiments-and-essays-on-philosophical-subjects#preview> to find an online copy of *The Theory of Moral Sentiments*. Again, copy the entire book into a word document and save it on your laptop.

In advance of class I will send a copy of the Babson Framework for Ethical Decision Making. Read the first 4 pages of that document to understand the modern Western division of ethics into 3 schools of thought:

1. virtue ethics (which includes ancient Aristotelian ethics and is aimed at becoming a good person)
2. deontological ethics (Kantian ethics which includes the categorical imperative to act by universally applicable principles and to treat other people not just as means to our ends but also as ends in themselves)
3. utilitarian ethics (the greatest good for the greatest number).

This division of Western ethics into 3 camps was in progress during Smith's lifetime (1723-1790). One of our learning goals for today is to understand where Smith would fit in relation to these three schools of ethics.

Now consider the following 5 questions:

- 1) What did Adam Smith think of rich people?

Go to *The Theory of Moral Sentiments* and search for the phrase "This disposition to admire, and almost to worship . . ." Read this paragraph and the next.

Be prepared on the basis of these two paragraphs to discuss what impact Smith thought rich people have on human society and his reasons for thinking that way.

- 2) What did Smith think selfishness was?

People who have never read Adam Smith think his philosophy was about self-interest. Actually, he used the phrase “self-interest” only a few times and much more commonly spoke of “self-love.” The goal of studying the passage below is to figure out what Smith thought was the difference between self-love and selfishness.

Go to *The Theory of Moral Sentiments* and search for the phrase “Virtue, according to Aristotle . . .” Read this paragraph and the next paragraph.

Now click on this link -- <http://classics.mit.edu/Aristotle/nicomachaen.html> -- which will take you to Aristotle’s *Nicomachean Ethics*. Go to Book II and read the first paragraph, paying special attention to Aristotle’s definition of a “moral virtue.”

On the basis of the 2 paragraphs from Smith what do you think Smith thought selfishness was?

On the basis of the paragraph from Aristotle’s *Nicomachean Ethics*, what do you think both Smith and Aristotle would advise you to do to avoid becoming a selfish person?

3) What did Smith think of business corporations?

Go to *The Wealth of Nations* and search for the phrase “corporation spirit” which occurs 4 times in the book. Don’t spend much time on it but look quickly at the four places “corporation spirit” appears in order to decide whether Smith liked or disliked business corporations.

Now search for “The trade of a joint-stock company . . .” and read the entire paragraph. Keep in mind that by “joint-stock company” Smith means what we would call a “corporation” and by “court of directors” he means what we would call the “board of directors.”

Be prepared to discuss in class:

- a) whether Smith thought corporations were good or bad for the economy and why he thought the way he did;
- b) whether he thought business corporations could successfully compete in a free market and why he thought the way he did.

4) Was Smith consistent?

Some people think there is a contradiction between Smith’s praise of virtue in *The Theory of Moral Sentiments* and his advocacy of self-love in *The Wealth of Nations*. They say there is an “Adam Smith Problem.”

Read the following 2 passages and look for apparent contradictions between them:

- a) Go to *The Theory of Moral Sentiments* and search for the words “The wise and virtuous man is”. Read from there to the words “of which God himself is the immediate administrator and director.”
- b) Go to *The Wealth of Nations* and search for the words “By pursuing his own interest, he frequently” and read from there to the end of the paragraph.

If you could speak to Smith and tell him that some people think those two passages are contradictory, what do you think he would say in his own defense? And would you agree or disagree with that defense?

- 5) Was Smith’s view of ethics the same as most capitalists today?
 - a) which one of the 3 Western schools of ethics – virtue (building good character in yourself), deontology (duty to others), or utility (what’s best for the whole community) – do you think was most important to Smith, which was second most important, and which was least important to him;
 - b) which one of those 3 schools of ethics do you think is usually most important to people today who are ideologically committed to capitalism, second most important, and least important.

W Sept. 1 Debts of Honor and the Origin of Money

First discussants:

Humanity originated in Africa. Anthropological studies of some African peoples who, at least until recent times, lived in ways similar to their/our distant ancestors make it possible to understand how some of our social practices originated. Today, we will focus on the origins of money.

For a picture of hunter-gatherer societies (before the existence of planting and herding) go to Horn Library Power Search and look for “The Darker Side of the Original Affluent Society” by David Kaplan. Read pages 312-16.

This article deals with a debate among anthropologists as to whether hunter-gatherers were or were not “affluent.” But that’s not our focus. Our aim is to get some understanding of the way of life of these people – bushmen in the Kalahari desert.

Pay particular attention to the attitudes of the bushmen toward sharing and note that there is no mention of money. Things did change hands but not in a spirit which we today would call “exchange.” Some might say the “currency” was honor, others might say shame which is the

reverse of honor. Can you imagine instances on which that currency might have been employed?

For an idealized picture of life in hunter-gatherer societies, you may wish to watch (but are not required to do so) the first half hour or so of a film called “The Gods Must Be Crazy” at this link: <https://www.youtube.com/watch?v=VYBSiUnZowg>.

Now we will consider a somewhat later but still very ancient way of life which included agriculture and domestication of animals. For an example of such a society in which something a bit like money began to emerge we will read parts of an article titled “Raffia Cloth Distribution in the Lele Economy” by a famous 20th-century anthropologist named Mary Douglas. To access the article click on this link: https://www-istor-org.ezproxy.babson.edu/stable/1157129?pg-origsite=summon&seq=1#metadata_info_tab_contents.

Read the first paragraph of the article.

Then read from the middle of page 111 (starting with the words “As may be seen”) down to the bottom of page 112.

Now go to page 115 and read the first 3 paragraphs of the section titled “Monetary Role of Raffia.”

Now start reading on page 117 with the paragraph which begins “Men would never admit....” Stop reading at the end of the 3rd paragraph on page 119 which concludes with the words “how the new funds are to be disposed of.”

Finally, read the section titled “Rights over Women” which begins on page 120 and ends on 121. Other anthropologists have studied forms of resistance which were open to women in Lele society. Can you offer any conjectures as to what those were?

Why does Douglas think it was impossible for there to be inflation in such a society?

Finally, go to *The Wealth of Nations* and search for the words “When the division of labour has been”. Read that paragraph and the next one to learn of Smith’s idea of how money originated.

On the basis of all of the above readings, whose explanation for the origin of money strikes you as the most likely – Mary Douglas’ idea or Adam Smith’s? Although they have quite different explanations for the origins of money, do you see any common ground between Douglas and Smith?

W Sept. 8 How Governments Created Markets in the Axial Age

First discussants:

Go to this link -- https://en.wikipedia.org/wiki/Axial_Age -- for a brief explanation of the Axial Age. Read the sections entitled "Definition," "Characteristics," and "Thinkers and Movements."

Read the short biography of the Buddha which I will send to you by email in advance of this class.

Be prepared to discuss in class the two questions below. The questions are not addressed in the reading. You will have to rely on inference and imagination:

1. why did Buddhism, which began as a form of "renunciation" of the things of this world, win an enthusiastic following among merchants and traders?
2. why did the Buddha oppose the great financial innovation of his time, the coining of metal into money?

Hint: both of the above questions are related to the reason why Buddhist monks were forbidden even to look at soldiers. In other words, could the merchants have shared the Buddha's abhorrence of force and why would that have been?

M Sept. 13 The Silk Road(s)

First discussants:

Go to Horn Library Power Search and look for "The Silk Roads in History" by Daniel C. Waugh. Read the entire article and be ready to discuss not only the cultural significance of the Silk Road (such as the spread of Buddhism) but also its economic importance.

Go to the blog "Silk Road Digressions" <https://silkroaddigressions.com/> and browse through a few of the articles, looking especially at the illustrations to get some physical sense of the silk roads.

Be ready to discuss reasons why it was that only lightweight and valuable goods traveled from Asia to Europe – i.e. silk, spices, perfumes, jewels – while heavier goods such as leather and timber traveled only short distances along the Silk Road?

Also be ready to discuss why, for 1500 years, silk made it from China to Europe, and gold made it from Europe to China, but no European (until Marco Polo) made it to China and no Chinese made it to Europe? And what does that fact say about the nature of trade along the silk road?

Gold and other metal money (specie) were often in short supply along the Silk Road. What commodity do you suppose often served as a substitute medium of exchange?

Finally, on the basis of the reading, what do you suppose life was like for the vast majority of people who lived along the Silk Road?

W Sept. 15 Rebellion Along the Silk Road: The Prophet Muhammad and the Revolution Against Monopoly Capitalism in Mecca

First discussants:

I will email you the reading assignment, a short biography of Muhammad, in advance of class.

Consider the 4 following questions:

- 1) From the reading do you see any similarities between Mecca in Muhammad's time and the United States in our time? Are there contemporary American analogues for the Meccan monopolists (the Quraysh tribe) and for the rebellious Muslims? Are there any lessons we can learn from that earlier time?
- 2) How did Muhammad's character contribute to the ultimate success of the rebellion he led against the Quraysh and their monopoly? Remember that Muhammad was a member of the Quraysh tribe and a trader himself. Muslims and non-Muslims alike should be respectful of Muhammad's view that he acted on the instructions of the angel Gabriel. But can you think of other events or forces in Muhammad's life which might have made him receptive to the angel's message? Or to put it another way, what experiences did the young Muhammad have which made him the right kind of person to serve as the messenger of God?
- 3) Can you see any lessons for entrepreneurs (of all kinds) in Muhammad's achievements?
- 4) The answer to the following questions are not in the reading, but please think about them. As a trader or merchant himself, Muhammad understood the financial markets of his time. Why do you think he forbade interest? Does his forbidding interest point to an inherent moral danger in the possession of capital?

In class we will also discuss how the victory of Islam in the Arabian Peninsula, and then the expansion of the Dar al-Islam (the abode of Islam) till it reached from the Atlantic coasts of West Africa and southern Spain to Southeast Asia, created a vast zone of human mobility and trade. Together with northern Europe, China and central Asia, the Dar al-Islam formed what world historians call the "Ecumene" or the "area of intercommunication" in which changes in one region often spread to others, whether by commerce, religion, war, or all three.

M Sept. 20 Medieval Christendom versus Capitalism

First discussants:

We will discuss two very brief passages from one of the great works of Christian theology, Saint Thomas Aquinas' *Summa Theologica*. Saint Thomas (1274-1323) was deeply influenced by Aristotle whose writings, long ignored in the West, were being recovered from Arabic sources in the late 13th century. In other words, the ideas St. Thomas was expressing were at least a millennium and a half old.

To get an understanding of the philosophical basis, as opposed to the religious basis, of where Saint Thomas was coming from, go to Aristotle's *Nicomachean Ethics* at <http://classics.mit.edu/Aristotle/nicomachaen.html>. Open the *Nicomachean Ethics* to Book II and read the first paragraph which begins "Virtue, then, being of two kinds". Pay special attention to what Aristotle says about the difference between "intellectual virtue" and "moral virtue."

Now be ready to consider what kind of virtue Saint Thomas is concerned with in the two passages below. Both passages are short but abstruse. To prepare for our discussion, you should study them carefully and try to understand the meaning of every sentence. It takes careful attention, but it's doable and will help our conversation go smoothly.

The first passage explains the idea of the "just price." Go to this link: <https://www.newadvent.org/summa/3077.htm> and read Article I. You can skip the opening 3 objections. Begin reading with the words "On the contrary..." and stop reading with the words "... and this pertains to his honesty." Why does Saint Thomas think that by charging too high a price a person is selling "what is not his"? What moral critique do you think St. Thomas would have offered of free market ideology in which prices are set by supply and demand?

The second passage explains Aquinas' opposition to usury or interest, a position shared by Islam and Judaism at that time. Go to this link: <https://www.newadvent.org/summa/3078.htm> and read Article I. You can skip the opening 7 objections. Begin with the words "On the contrary..." and stop reading with the words "...bound to restore the money which he has taken in usury." Can you explain in your own words why, for St. Thomas, charging interest is double charging or charging for the same thing twice? What do you think of his argument and the reasons for it?

W Sept. 22 Banking from the Italian Renaissance to Alexander Hamilton

First discussants:

In this class we will aim to understand the origins of two interlinked financial innovations – banking and the creation of paper money.

Read this very brief discussion of Renaissance banking: <https://bigsofhistory.com/banking-the-renaissance/>

Now go to this link and listen to the first four minutes of the audio on the relation between art and banking in the Italian Renaissance <https://www.npr.org/2012/01/31/145731770/in-italy-art-as-a-window-into-modern-banking> It's hard to follow along with the accompanying slides but slide 2 shows the beautiful gold coin, the Florin, which was the official coin of Florence and was sort of the "reserve currency" of the Renaissance economy just as the US dollar is for the global economy today. Slide 9 shows a banker on the left and a customer on the right, not a very favorable image of banking.

By going out of the chronological order of our course we are able to read one of the greatest documents in the history of banking, the "Report on a National Bank" (1790) by Alexander Hamilton, the first American Secretary of Treasury.

Go to this link <https://founders.archives.gov/documents/Hamilton/01-07-02-0229-0003>. Count down to the 9th paragraph which begins "First. The augmentation..." Read that paragraph and the two following paragraphs ending with the words "clearly deducible in theory."

As you read, watch for statements from which you might infer why, long before Hamilton's time, medieval merchants created banks. Is there anything in Hamilton's report which suggests the nature of what we today call "fractional reserve banking." If you don't know what fractional reserve banking is, can you deduce what it is from Hamilton's essay and why paper money came to largely replace gold as a medium of exchange?

Do you see anything in the essay by Hamilton which would explain why he is supposed to have once said "a national debt is a great national blessing?" How does this idea connect to our discussion of the Lele Tribe in our second class?

M Sept. 27 The Colonial Origins of the Business Corporation

First discussants:

After democratic government it could be argued that the business corporation is the most important social innovation of the modern world, contributing immensely to material progress. Yet understanding its origins may give us pause as to how "free" corporations should be allowed to be.

Go to this link <https://www.theguardian.com/world/2015/mar/04/east-india-company-original-corporate-raiders> and read the entire article to learn about the dominant corporation of the 17th and 18th centuries, the English East India Company. Even though it deals with India, not America, does the article help you understand why the American colonists were fearful when they learned that the East India Company had been given a monopoly on tea and therefore pitched the Company's tea into Boston harbor?

Now go to the copy of Adam Smith's *The Wealth of Nations* which you downloaded for our first class. *The Wealth of Nations* was published in 1776 not long after the Bengal Famine of 1770-71 in which the East India Company was responsible for the starvation of millions of Bengalis.

Search for the words “The capricious”. Read from those words to the end of the paragraph. Are you surprised or not about what Smith thought as to the capacity of business people to be good leaders?

Now search your downloaded copy of Smith’s *Theory of Moral Sentiments* for the words “Aristotle, too,”. (Don’t leave out the second comma, or your search will fail.) Read to the end of that paragraph. Be prepared to discuss in class whether that paragraph offers an explanation for the idea he expressed in *The Wealth of Nations* about business people being morally unfit to lead.

Now go back to *The Wealth of Nations* and search for the words “But in the system of laws”. Read that paragraph and be prepared to discuss in class:

- 1) why Smith was hostile to the use of business corporations to establish colonies;
- 2) why *The Wealth of Nations* and its free-market ideas became popular in the new United States.

W Sept. 29 Slavery and Capitalism

First discussants:

We will focus on slavery in the United States, which by the early 19th century was on its way to becoming the leading capitalist country.

For the slave masters’ and overseers’ perspective read a short piece called “Managing Slaves” which I will send in advance of class. Consider the overseers’ and slave drivers’ problems and be ready to discuss whether there are any analogies, albeit less brutal and cruel, in some corporate industries today.

For an eyewitness account of slave discipline, read pages 204 to 207 of *Cotton Kingdom* by Frederick Law Olmsted at <https://archive.org/details/cottonkingdomtra00olms>. The book scrolls slowly, but you will get to page 204 in less than a minute.

Now go to Adam Smith’s *Wealth of Nations* and search for the phrase “In all European colonies”. Read that paragraph and the next one. Be ready to discuss whether Olmsted’s description of slave discipline in *Cotton Kingdom* supports or contradicts what Smith says about the condition of a slave in a “free” country. Also, be ready to discuss whether the condition of a slave would be better or worse if that country were not only “free” but also capitalist like the United States.

In class, I will summarize the argument of a famous book, Edmund Morgan's *American Slavery / American Freedom: The Ordeal of Colonial Virginia* which argues that slavery was more the cause of racism than vice versa. On the basis of Morgan's argument we will discuss the origin of some contemporary Americans' idea that being free means they should have no obligation to consider the wellbeing of other people. How might that idea show that in some ways the United States is still a "slave society" – i.e. a society in which many phenomena seemingly unrelated to slavery are in fact a heritage of slavery. To put it another way, are some Americans still slaves to slavery even though they don't know it?

The assignment for the first draft of your history-of-capitalism essay and individual-research paper will be distributed in class. It will be due at 6 AM on Friday, Oct. 1. Send it as an email attachment to me at hoopes@babson.edu. Submit the paper to me as a Microsoft Word file. Do not send it in Google Docs.

M Oct. 4 Class canceled so you can work on your papers. The canceled class time will be made up in individual writing conferences.

W Oct. 6 Class canceled so you can work on your papers. The canceled class time will be made up in individual writing conferences.

M Oct. 11 All Babson classes canceled in honor of Indigenous People's Day.

W Oct. 13 The Invention of the Machine Age and Its Management Methods

First discussants:

From here on, much of the course will deal with the United States which in the early 19th century and for a hundred and fifty years thereafter led world economic developments. Mercantile capitalism was gradually displaced by industrial capitalism as the most dynamic economic sector. American leadership in industrialism could not have been expected given the seeming disadvantages under which the United States labored, especially its shortage of skilled workers such as metal smiths. After doing the reading below, can you think about why such a seeming disadvantage might have actually been an advantage?

Read the short article at the following link and pay special attention to Ely Whitney's mistake in trying to earn a profit from his invention of the cotton gin by charging a royalty for its use. We will aim to learn something about the irony of historical change by considering how his decision turned out to be a huge mistake for him personally but led him to make profound contributions to world economic development.

<https://www.juliantrubin.com/bigten/whitneycottongin.html>

Then read a file which I will send in advance of class about the management of textile factories and military armories in the early 19th century: “Managing Women and Men.” Why did the coming of machine production and labor-saving machinery lead to people’s working harder and for longer hours?

Finally, we will look ahead to the management of machine shops and factories in the early 20th century. I will send you a few pages on Frederick Taylor and scientific management. Taylor has long been out of fashion in business schools, but many organizations are still managed in ways of which he would have approved. Call centers are one example. Can you think of others? The minuses of Taylor’s ideas are emphasized today. What do you suppose were considered the pluses in his time?

M Oct. 18 Railroads: The First Capital Intensive Business

First discussants:

Railroads were an English invention but most fully exploited in the United States.

For the corporate background of railroads, read a short piece titled “From Public Purpose to Private Profit” which I will send to you in advance of class.

For challenges raised by the capital-intensive nature of railroads do a Horn Library Power Search for “J. P. Morgan in New York and London Before 1914” and read from page 119 to the top of page 122.

Finally, read a few pages on the management of railroad workers which I will send you in advance of class.

Be ready to discuss in class why the railroads were a step toward making some of Adam Smith’s ideas irrelevant to modern economics only half a century after his death. For instance, what was it about the nature of railroads which meant Smith was mistaken in his idea that, in a free market, business corporations run by salaried managers could not compete against small businesses run by owners?

W Oct. 20 Mass Distribution, Mass Production and Managerial Capitalism

First discussants:

In this discussion we will consider the effect of the “transportation and communication revolution” (railroads, steamships, telegraph, telephone) on the institutional, organizational,

and managerial innovations which tremendously lowered the costs of producing and distributing goods.

Read these two brief articles on the rise of the department store. Pay special attention to what both articles say about Marshall Fields. We will discuss the background economic changes that made possible mass distribution in general and the department store in particular.

<http://www.departmentstorehistory.net/>

<http://www.bbc.com/culture/bespoke/story/20150326-a-history-of-the-department-store/index.html>

For the origins of mass production, I will summarize the best scholarship during our class.

To learn about the concept of “managerial capitalism” go to Horn Library Power Search and look for “The Dynamics of Industrial Capitalism: Perspectives on Alfred Chandler’s *Scale and Scope*.” Read Section III of the article which is titled “Competitive Managerial Capitalism in the United States” and runs from page 202 to page 206.

To understand a famous argument for the rise of large managerial firms go to the following link for a 1937 article on “The Nature of the Firm,” which won its author, Ronald Coase, a Nobel Prize: https://www-istor-org.ezproxy.babson.edu/stable/2626876?pg-origsite=summon&seq=1#page_scan_tab_contents. Scroll to section II of Coase’s article which begins on page 390 with the words “Our task is to attempt to ...” Read the first two paragraphs of section II. Now scroll to the last two paragraphs of section II which begin on page 397 with the words “Apart from variations....” And read those two paragraphs.

Be ready to discuss in class why Coase thinks large firms exist and, also, what Adam Smith would have thought of Coase’s argument? Obviously, Smith would not have agreed in 1776 (the year *The Wealth of Nations* was published) that there are circumstances where corporate managers are more efficient than markets. But suppose there had been a miracle and Smith had lived until 1937 (when he would have been 208 years old). If he saw all the intervening events, do you think he would have agreed or disagreed with Coase?

M Oct. 25 Capitalism and Neo-Corporate-Colonialism in the Belgian Congo

First discussants:

In the 19th century the United States and the industrial-capitalist countries of Europe practiced a policy of “neo-colonialism,” establishing colonies in Africa and East Asia, just as in the 16th and 17th centuries the Europeans had colonized the Americas and south Asia.

As in the earlier period, 19th-century colonialism was largely the work of a combination of good intentions, missionary zeal, incompetent administrators, and above all, corrupt corporations. We will consider one case of Neo-Corporate-Colonialism, the Belgian Congo.

For background on the Belgian Congo, read the short biography of the extraordinarily adventurous H.M. Stanley, an English filibuster (the original meaning of “filibuster” was “free booter” rather than a parliamentary maneuver) at https://en.wikipedia.org/wiki/Henry_Morton_St Stanley.

Among his many dubious achievements, Stanley fought for both sides during the American Civil War and “found” a famous and beloved missionary in the Congo basin (“Dr. Livingstone, I presume.” Poor Dr. Livingstone did not know he was lost until Stanley “found” him which sold a lot of newspapers and made Stanley a lot of money.)

Stanley eventually partnered with the ruthless Belgian King Leopold II to found the Anglo-Belgian India Rubber (ABIR) Company to exploit the mineral wealth of the Congo Basin. The Abir Company was as bad, or perhaps even worse, than the East India Company and, like it, caused the deaths of millions of people. Leopold pretended to have the humanitarian goal of freeing the Congolese from the tyranny of Arab slave traders – hence the original name of his colony, “The Congo Free State.”

For background on the Belgian Congo, go to https://en.wikipedia.org/wiki/Belgian_Congo and read from the beginning down to the end of the section on “The Congo Free State.”

Read the short article at this link: <https://rarehistoricalphotos.com/father-hand-belgian-congo-1904/> to learn how the ABIR company and the Congo *Free State* harnessed the Congolese people to the job of extracting the rubber which made Leopold rich and enabled him to endow Brussels with the architectural magnificence it still possesses.

Read this short article about an early corporate “whistle blower” and nearly forgotten hero in the struggle for international human rights, E. D. Morel, who exposed and eventually ended Leopold’s atrocities:

https://web.archive.org/web/20060812085955/http://www.catalystmedia.org.uk/issues/nerve7/edmund_morel.htm.

Then read this article on the Russian economist Nicolai Kondratiev who, during the Soviet/Communist era, was executed for his argument that capitalism was sustainable:

https://en.wikipedia.org/wiki/Nikolai_Kondratiev.

Now look at this image of Kondratiev waves <http://www.irenses.ie/2010/04/27/kondratiev-wave-economic-theory/> which we will consider in order to help us understand why the European powers colonized Africa and East Asia in the late 19th century.

Can you think of how the picture of capitalist economies in the late 19th century which is presented in the Kondratiev waves might suggest reasons for the surge of neo-colonialism at that time?

W Oct. 27 The Irony of Anti-Trust: How the Sherman Act Promoted Economic Concentration in the United States

First discussants:

The Sherman Act of 1890 was meant to stop the growth of big monopolistic corporations in the United States. Ironically, it encouraged their development.

Read this article on the Sherman Act https://go-gale-com.ezproxy.babson.edu/ps/i.do?p=UHIC&u=m_lin_m_babson&id=GALE%7CCX3441000106&v=2.1&it=r&sid=summon. You can skip over the excerpts from sections 2 through 8 of the act. But pay careful attention to section 1.

Be prepared to discuss why the outlawing of “conspiracy” in restraint of trade fostered the first great merger movement in the history of capitalism.

Now go to Horn Library Power Search and look for “Did J. P. Morgan’s Men Add Value? An Economist’s Perspective on Financial Capitalism.” This will take you to a book titled *Inside the Business Enterprise* which you can open and read from the bottom of page 210 to the middle of page 218.

Finally, read this article https://www.federalreservehistory.org/essays/panic_of_1907 on how Morgan’s operations to save the US financial system from collapse in 1907 led to the 1913 creation of the Federal Reserve.

Be prepared to summarize in a sentence or two the debate between those who think Morgan and the economic concentration he supported in response to the Sherman Act either added or did not add value to the American economy. What do you think? As you consider this question you might want to think about the viewpoint of Ronald Coase which we discussed in our earlier class on “Mass Distribution, Mass Production, and Managerial Capitalism.”

M Nov. 1 European Capitalism Takes Different Directions from the United States

First discussants:

To Americans, committed to free market individualism, the fact that their country long led the world economy seems easy confirmation as to the primacy of the market in shaping the course of capitalism and its institutions such as corporations and governments.

In this class we will use a comparative approach to consider the possibility that reality is more complex than the ideology of free market individualism allows. Could it be that corporations, governments, and national cultures have shaped markets as much as markets have shaped them?

Go to Horn Library Power Search and look for “The Dynamics of Industrial Capitalism: Perspectives on Alfred Chandler’s *Scale and Scope*.” Read Sections I, II, IV, and V of the article.

Be prepared to discuss why, as opposed to the “competitive managerial capitalism” of the United States, England stuck to “personal capitalism” and Germany became a nation of “cooperative managerial capitalism.”

W Nov. 3 The Coming of the Multi-Divisional Corporation and Its Moral Meaning

First discussants:

The Multi-Divisional Corporation or “M-Form” – the standard form of organization for many large and/or multinational corporations today – first developed in the United States in the years after World War I in the explosives and automobile industries. We will discuss the M-Form Corporation on the basis of the lives of the three leading people in its development – Pierre DuPont, William Durant, and Alfred Sloan – and its interpretation by the leading business guru of the middle of the 20th century, Peter Drucker.

Please read:

https://en.wikipedia.org/wiki/Pierre_S._du_Pont

https://en.wikipedia.org/wiki/William_C._Durant

https://en.wikipedia.org/wiki/Alfred_P._Sloan

Finally, read a short piece on Peter Drucker which I will send you in advance of class. It explains the M-Form and Drucker’s interpretation of its moral and social meaning. It also describes Sloan’s response to such a moral and social interpretation.

Be prepared to explain, not as a matter of your unsupported “opinion” but as a matter of evidence, whether Drucker or Sloan had the stronger argument as to the moral meaning of the multi-divisional corporation.

The assignment for the second drafts of your history-of-capitalism essay and individual-research paper will be distributed in class. They will be due at 6 AM on Friday, Nov. 12. Send it as an email attachment to me at hoopes@babson.edu. Submit the paper to me as a Microsoft Word file. Do not send it in Google Docs.

M Nov. 8 Class canceled so you can work on your papers. The canceled class time will be made up in individual writing conferences.

W Nov. 10 Class canceled so you can work on your papers. The canceled class time will be made up in individual writing conferences.

M Nov. 15 The Great Depression I: Karl Marx versus Trade Unionism

First discussants:

Capitalism's greatest crisis of overproduction was in the Great Depression of the 1930s. This is when the United States first implemented welfare-state measures (social security, unemployment insurance, make-work programs) while other industrial nations extended the welfare states they had already created. All this is a well-known story which will not be our focus.

We will focus instead, in this class, on Marxism and trade unionism.

In the next class after this one we will focus on how corporations failed to embrace the opportunity they had to help end the Depression and how their failure to do so actually helped cement their moral and social dominance in the United States.

In the class after that, we will consider how the Depression helped encourage a new style of corporate management which still prevails. We will also consider some possibly unrecognized moral limitations of that style of management.

Just as Adam Smith was the great analyst of mercantile capitalism, Karl Marx (1818 – 1883) was the great analyst of industrial capitalism. As we have discussed, some of Smith's key notions were soon outmoded by economic and political developments. The same is true of Marx. But just as Smith still deserves our attention, so does Marx. Like Smith, Marx offered an analysis of capitalism which was fundamentally moral with lessons we would be foolish to ignore.

Although Marx (1818-1883) lived in the 19th-century he reached the apogee of his worldwide intellectual influence during the Depression of the 1930s and the decades which followed. That's partly because he offered a fundamental analysis of the economics of industrialism which seemed to many to explain the reasons for the Depression.

Today's first reading is the *Communist Manifesto* which is the most accessible of Marx's writings. Here is a link to it: <http://www.gutenberg.org/cache/epub/61/pg61-images.html>.

As you did with Smith's *Wealth of Nations*, copy the *Manifesto* into a word file so it is searchable.

Now search for the words "Modern bourgeois society with". Read from that point till the end of the paragraph to learn about Marx's view of what modern economists call "the business cycle" but which he called periodic "crises of overproduction."

Next, search for the word "Hitherto," (don't leave out the comma). Read that paragraph and the next one to learn why Marx thought a time would come when human society could not coexist with the bourgeoisie (capitalists). This is the point at which he believed the "expropriators" (capitalists) would be "expropriated" by the proletariat, but those words do not appear here (they are from *Das Kapital*.)

Be ready to discuss in class the reasons Marx thought the overthrow of capitalism was a scientific inevitability. Marx was obviously wrong – at least so far – about the inevitable collapse of capitalism. But he was mistaken more on moral and political grounds than economic grounds. He underestimated the ability of both workers and governments in industrial societies to organize themselves so as to provide some measure of stability in the face of exploitation and "crises of overproduction."

To understand part of the reason why Marx was wrong about the inevitable collapse of capitalism we will focus on a movement he loathed, trade unionism or as some called it "business unionism" to suggest that labor unions had some of the same objectives as capitalists – to make more money.

For a fairly detailed understanding of business unionism go to "Horn Library Power Search" and look for "Gompers and Business Unionism, 1873-1890." Read the entire article, which is only about 12 pages long.

The other great labor leader of the early 20th century was John L. Lewis. Read the first 7 paragraphs of this article about him. <https://aflcio.org/about/history/labor-history-people/john-lewis>. Lewis created a kind of business unionism called industrial unionism. From the readings can you deduce what "industrial unionism" was.

Congressional legislation which we will summarize in class cemented many of these labor gains and made it possible for the union movement to thrive from the 1950s to the 1970s, a period during which about one third of American workers were in labor unions. Today it's about 7%. We will briefly discuss the reasons for that decline.

Finally, we need to recognize that labor unions do not protect all workers. Read this article, for example, about child labor in the early 20th-century and the legislation it took to protect them: <https://www.history.com/news/child-labor-lewis-hine-photos>.

Please also think about a concept called “American Exceptionalism” which among other things is sometimes used to explain the fact that Marxism was a harder sell to American than to European workers (though at times such as the Depression Marxism did have a significant American following). We will discuss what it was in American history vis-à-vis European history which made Marxism less attractive to American workers than to their European counterparts.

W Nov. 17 The Great Depression II: Corporations Blow Their Chance to End the Depression

I will send the assigned reading in advance of class.

Be ready to discuss the following questions in class:

- 1) What was the role of corporations in the First New Deal as opposed to the Second New Deal?
- 2) Would you say the failure of corporations to fill the role envisioned for them in the First New Deal demonstrates the correctness of Adam Smith’s view of corporate leadership as antisocial by nature? Or was the corporate failure more a matter of poorly designed legislation – the National Industrial Recovery Act – which did not recognize the difficulty which even the best-willed corporate leaders would have in cooperating with each other? Or was it due to the fact that chief government administrator of the program was a former CEO with a self-serving overestimation of the moral capacity of corporate honchos?

M Nov. 22 The Great Depression III: Organizational Behavior versus Simone Weil

The Depression badly frightened the American corporate establishment and helped make it supportive of a new style of management then called “human relations” and later called “organizational behavior” with which you are of course very familiar. I will send you a reading in advance of class on the relation of OB to the Depression.

OB is a style of management Marx could not have anticipated. Be ready to discuss in class what Marx would have thought of OB if he had known of it. To what extent do you agree or disagree with the view you attribute to Marx? What are the reasons for your agreement or disagreement?

Finally, we will consider the possibility that both Marx and the OB school missed the boat in the way to improve the life of employees. Go to this link [\https://churchlifejournal.nd.edu/articles/the-first-condition-for-dignified-work/](https://churchlifejournal.nd.edu/articles/the-first-condition-for-dignified-work/) and read “The First Condition for Dignified Work” by the Depression-era philosopher and mystic Simone Weil. It is a challenging but rewarding essay, so take your time with it.

It would be a mistake to consider Weil's essay of interest only to Catholics. She is dealing with the universal problem of inequality which she sees first of all as inequality of intellectual and moral opportunity.

One of the indignities faced by a person with a low-income job is lack of opportunity for education, travel, and other experiences which often provide intellectual and moral growth. Most of those who have such opportunities know they are not supposed to say they are intellectually and morally superior to less fortunate others. But many well educated people with wide experience of the world do feel that way.

Many low-income people are aware of this feeling of moral and intellectual superiority which higher income people have about them. Not infrequently, it is a cruel aspect of their lives and is widely resented.

Weil, on the basis of her own experience as a factory worker, advocated for better pay and working conditions. She did not believe material equality was possible. Much earlier than many other left-wing intellectuals of the 1930s, she saw Communism as an impossible ideal which, in practice, would give rise to political repression.

Also much more commonly than most people in her time or ours, Weil recognized inequality of respect and offered the "first condition" for dignified work in this article.

Can you explain in your own words, perhaps more clearly than she did, the "first condition" for dignified work? Do you agree with her? Why or why not?

Even if you agree with her "first condition" as an ideal, it is hard to imagine it being realized in a nation as a whole, at least given our present state of social development. But can you imagine such an approach being taken in a company? How would management do that?

Her use of the word "first" suggests she saw at least one other condition as necessary for dignified work. What do you suppose that was? Does it distinguish her approach from OB?

Regardless of your answers to the previous questions, is it possible that her focus on indignity and lack of respect addressed a problem reaching down to our own time which helps to explain some of the divisions in societies like the US and many other nations which are growing increasingly unequal?

M Nov. 29 Out of the Ashes: The Origins of the Global Economy and the Rise of an "Asian" Model for Capitalism?

First discussants:

On the economic recovery of Europe from World War II and the seed ideas for the global economy read the first two paragraphs of this article on the Schuman Plan:

https://en.wikipedia.org/wiki/Schuman_Declaration

Be prepared to discuss how the rise of the European Union and the global economy might be understood as a vindication of Adam Smith's free market ideas.

Be prepared also to discuss how challenges in our own time to the EU (Brexit) and the global economy (populism) might suggest that we should pay less attention to the utilitarian ethics which some of today's supporters of capitalism mistakenly think dominated Smith's moral views. In other words, would paying more attention to the virtue ethics Smith mainly propounded resolve some of the difficulties which capitalist economies face today?

Read the essay on W. Edwards Deming and Japan which I will send in advance of class.

Be ready to discuss in class why Americans found "Japanese Quality and Art of Management" such a new, useful, and in some cases frightening idea?

Thirty years ago when China adopted a market economy it was widely perceived in the West as a victory for open, democratic societies. There has long been a tacit assumption that political freedom and free markets go hand in hand. The assumption was that China's shift to a market economy would bring a shift toward a more open society.

Instead, China remains a one-party state. And the West or at least some elements in the US as well as at least some significant number of Chinese view the relationship between the two countries as inevitably antagonistic, a struggle for dominance between an old superpower and a new one.

China's rapid economic progress so far has been based on what might be called state-corporate capitalism. It's a complex system but perhaps not as unprecedented as some like to think if we remember, for example, the state purposes for which the first business corporations were chartered such as the English and Dutch East India Companies. Or one can think of the state-corporate capitalism practiced in the 19th-century US to build roads, bridges, canals, and railroads.

The following article may be as good an understanding of the operations of the Chinese economy as anyone outside China has yet achieved. Go to Horn Library Power Search and look for "We are the (National) Champions: Understanding the Mechanisms of State Capitalism in China."

Read from the middle of page 704 through 710. Next, compare the abstract representation of a Chinese corporate group on page 710 to the more detailed diagram of one such actual group on page 733. Remember that every dot is one of the group's state-owned companies and that

every square is an allied company in which the state is not a shareholder. Finally, read from the middle of page 746 to the middle of page 753.

Now think about an idea of Adam Smith's which we have not yet discussed in our course. Smith believed that it is difficult for individuals to think about and act on big, abstract ideas like "public good." One of Smith's justifications for a free market in which individuals act out of "self-love" was that, in his view, society works best when each person gives "principal attention" to what is nearest to their "abilities" and "understanding." (Notice, please, that Smith does not say "exclusive attention" but only "principal attention" should go to what is nearest to us and that among the things nearest to us are our friends and neighbors. Smith was always, first of all, a virtue ethicist focused especially on the virtues of benevolence and generosity, not just our own self-interest).

China of course had its own great virtue ethicist – Confucius who, like Aristotle and Smith, emphasized character. Although the Chinese Communist Party long opposed Confucius and tried to destroy his legacy, they have belatedly realized 1) that Confucianism is too deeply engrained in Chinese life to be easily uprooted and 2) that the Confucian notion of virtue and character has possibilities for organizing a socially minded corporate life.

Be ready to discuss reasons for Chinese economic success and the relative satisfaction of many of its people, despite their lack of democracy. Is it possible that China's government-corporate structure is a vast networked hierarchy of people who, together, can do some of the work which democracies count on government alone to do and which Smith said is difficult for even virtuous individuals to do – i.e. to think and act for the public good?

Be ready to discuss what sort of challenge such an achievement by China might pose to the combination of democratic political systems and corporate capitalism characteristic of many other economically developed nations. Without abandoning democratic frameworks, are there possible lessons from China that need to be learned by corporate leaders in democratic societies?

W Dec. 1 Entrepreneurship versus Inequality

First discussants:

Half a century ago, many students entering Babson College and other business schools expected to make their careers as employees of large corporations. Often, those students' highest ambition was to become a CEO of an already well-established company.

Today, many students entering Babson College and other business schools aspire to careers as entrepreneurs.

From about 1600 to about 1970 economic progress came from the formation of ever larger and more complex organizations which employed ever larger numbers of employees and managers.

Today, much of the world rests its hopes for economic progress and for lifting people out of poverty on entrepreneurship and start-ups.

The objective for today's class is to try to understand the reasons for these changes.

Despite the triumph of the free market ideology in the last few centuries, economic reality and physical reality have limited the freedom of markets by limiting the number of *channels* in which business can be done.

Recently, information technology has begun to expand the number of channels, in effect making the market freer and opening new space for entrepreneurs.

To understand that process in one industry, the entertainment industry, please read the article at this link: <https://www.wired.com/2004/10/tail/>

Be prepared to discuss how widely the ideas in this article might apply to other industries.

Please revisit your class notes or, perhaps, the original reading by Ronald Coase assigned for our earlier class on "Mass Distribution, Mass Production, and Managerial Capitalism."

Be prepared to discuss how technological change might have outmoded some of Coase's ideas same as happened to some of Smith's and Marx's ideas.

To understand some of the politics surrounding the late 20th-century rise of entrepreneurship, read "Supply-Siders versus the Big Corporation" which I will send to you a few days in advance of class.

Finally, we will discuss whether the rise of many more channels for entrepreneurs means we should expect large, managerial corporations to disappear completely in the near future, thus belatedly fulfilling Adam Smith's belief (hope) that free markets would bring the demise of the business corporation!

Thomas Piketty thinks we should not expect the death of the corporation anytime soon. One of the most influential economists of the past 10 years, he is the author *Capital in the 21st Century*. For a review of his book and its ideas go to <https://hbr.org/2014/04/pikettys-capital-in-a-lot-less-than-696-pages>.

Be prepared to discuss in class what Piketty thinks are the big reasons why economic inequality has increased in capitalist societies in recent decades. Pay special attention to what he says has been the role of corporate executives in causing ever-increasing inequality. Be ready to discuss whether you agree or disagree, not as a matter of "opinion," but as a matter of evidence, reasoned argument, and logical strengths/weaknesses you see in his views. What realistic steps could concerned corporate executives take to help mitigate the damage?

M Dec. 6 How Virtue and Character Can Shape a Profitable Strategy

No first discussants and no reading assignment for today. I will present 3 cases for your consideration of companies – including one led by a Babson graduate – which have succeeded by leading for virtue. That's not a lot to put on the scale against all the misdeeds we have studied, but it's something.

Many of our class sessions have dealt with the moral danger capitalism poses. Today, we will focus on an idea toward which many of our earlier discussions have pointed, the possibility that you would reduce your moral risk and increase your opportunities if you managed not just *by* values, as the popular phrase has it, but *for* virtue and character in your organization, your associates, and above all in yourself. That would be in the spirit of Adam Smith who cared so deeply about virtue and character.

Smith also thought, as we have seen, that corporate life damages the character of business people. That's ominous for Babson students, almost all of whom aspire either to work in a corporation or start one. Yet historical developments have rendered many of Smith's ideas wrong or at least outdated.

What are the chances that history – and you, since you're an historical agent – could prove Smith wrong in his idea that business life is bound to lower your character? What practical steps could you take right now, this minute, to begin the job of proving Smith wrong?

Instructions for the third and final versions of your papers will be distributed at the end of class.