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How Capitalism Lost its Soul

From Protestant Ethics to Robber Barons

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1. Introduction

A serious discussion of capitalism and its development cannot avoid the confrontation, at one moment or another, with ethical issues. Historically, there have been quite a number of different positions in the debate – giving us a sense that the confrontation is, indeed, a complex one. When it comes to the connection between ethics and capitalism, we can differentiate between at least four different ideal typical perspectives.

First, we find what we call the missionary perspective. ‘Missionaries’ are in general associated with the liberal tradition. They picture capitalism as a deeply and naturally ethical system and as, in fact, a structural condition for the development and stabilization of ethical behaviour. Discussions in the 1990s around the corruption and dysfunctions associated with the Communist heritage fit in there. The idea was that unethical behaviour on a large-scale was a systemic heritage from the Communist times and that the move towards a capitalist logic was the necessary precondition to ethics and ethical behaviour in the economy. Missionaries tend to believe, and argue, that the capitalist market necessarily goes together with political freedom and democracy, and together with social but also moral progress (Knight, 1982; Knight and Merriam, 1979; Hayeck 1962).

A second perspective can be termed here ‘Nietzschean’ in that it positions capitalism beyond – or before – ethics. Here again, the intellectual inspiration can be traced back to classical liberalism but the focus has been the ‘natural’, ie pre-historical, pre-social and hence pre-ethical character of the capitalist logic. There is a double consequence here. On the one hand, capitalism as a natural order is ultimately inescapable and unavoidable. On the other hand, the boundaries between ethics and capitalism are and should be watertight. The business of business is to make profits and create wealth. Ethical preoccupations should remain absent from both the capitalist logic and the economic realm so as not to muddy and tamper with natural forces and dynamics (Friedman 1962, Brennan and Hamlin 1995). Within this second perspective, capitalism is an a-moral economic order that can readily articulate with different types of social, political and ethical systems. It can, in particular, accommodate itself of political dictatorship as the cohabitation in Chile between the ‘Chicago Boys’ and the Pinochet regime has for example historically shown (Valdès 1995, Fourcade-Gourinchas and Babb 2002).

The third perspective is a critical one and the argument here is that capitalism is a profoundly and essentially unethical system. Critical perspectives have different intellectual roots but they are in particular associated with certain strands of Christian thought and with

the Marxist tradition broadly understood (Leo XIII, 1891; Pius XI, 1931; Belloc, 1977; Marx and Engels, 1998; Wallerstein, 2000). Individual greed and power are the motors of the capitalist logic and the consequence, from that perspective, is exploitation. Exploitation in turn can manifest itself in many different forms – between individuals, across classes, gender, ethnic or religious groups or across nations for example. Here, the logical consequence is that overcoming the capitalist logic is a necessary precondition to an ethical world – likely to be reached only through a revolutionary platform. Such a perspective had been considerably weakened during the 1990s with the demise of Communism. However, the consequences of globalization for certain groups and countries associated with the multiplication of corporate scandals, at the heart of the capitalist system have recently revived that perspective, at least within parts of the anti-globalization movement.

We label the fourth ideal-typical perspective the ‘regulatory one’. The argument here is that capitalism is not a naturally ethical or self-regulating system. The idea, though, is that it can be – and needs to be – combined with regulatory efforts to create the conditions for ethical behaviours and interactions (Dunning, 2001; 2003). Ethics can be defined, from that perspective, either as locally and generally nationally grounded codes of conduct or else as a set of universally applicable norms (Küng 2003). With the first definition, the regulatory effort will likely be driven by the national state or national political institutions (Clegg, Ibarra-Colado and Bueno-Rodrigues, 1998). The second definition implies a quite different regulatory frame, where states play a role but are not the only actors. Transnational organizations and bodies, of a semi-public and even sometimes of a private nature, will also be involved in this case in the regulatory effort (Djelic and Quack 2003, Drori et al. 2003, Djelic and Sahlin-Andersson 2005). This is the Menchevik tradition that has inspired many reformist programs. The Keynesian New Deal also fits here and so does a fair share of the contemporary debates on the limits and dangers potentially associated with globalization.

In most historical periods, those four perspectives have co-existed, representing different intellectual and practical positions on the connection between ethics and capitalism. Interestingly, empirical evidence can be found to ground all four of those perspectives – although the bodies of data and the methods for data collection will naturally vary. The objective of this chapter is to overcome the dichotomy and the opposition between those four perspectives. We engage in a genealogical journey and we show that the story is not one of all or nothing. Capitalism, we argue has gone historically from being a system with a strong ethical foundation to, in a sense, ‘losing its soul’ under a combination of different kinds of pressures. The contemporary consequence is that capitalism is indeed today a-moral or a-ethical (rather than immoral or unethical). As a consequence, in the present context, we argue that combining capitalism with an ethical agenda will call for regulatory intervention. The decision to do so is ultimately political, in the deepest sense of the term (Weber 1959). Such a decision should reflect the priorities of given human and social collectives (as expressed in national states or wider transnational entities such as the European Union for example). But this chapter clearly claims, in the end, that the ‘iron cage’ of capitalism cannot be assumed today to be a spontaneous ethical order and to self-regulate as such.

The chapter starts by unearthing the missing ethical link in the liberal tradition. The idea is to show that Adam Smith, the father of liberalism, did not in fact argue that capitalism was a spontaneous and natural ethical order. Rather, a full reading of Smith shows that the ethical character of capitalism depended upon the existence of a code of morality deeply inscribed in individual actors. We show the similarities between this perspective and that developed by Max Weber to explain the structuration of modern rational capitalism. Here again, a profound ethical structure was shown to underpin and foster the development of capitalism. Then, we turn to the next stages – when this deep structure progressively faded away and capitalism ‘lost its soul’. A marking moment, there, is the period of “Robber

Barons' capitalism in the United States (Josephson 1932). We show the combined impact, then, of ideological shifts and profound structural transformations. Ultimately, this leads us to argue, in the conclusion, that contemporary capitalism is a-ethical and that regulatory intervention is necessary if we want capitalism to combine with a particular ethical agenda.

2. Adam Smith and the Missing Ethical Link

Let us start from the widely shared assumption that Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*, first published in 1776, was a defining work that played a key role in the emergence of the modern field and science of economics (Smith 1999). As such, this particular book has significantly contributed to the ideological and institutional structuring of modern capitalism (Blaug 1986, Manent 1987, Fourcade-Gourinchas 2001). Going back to the text and to the context of its production is illuminating. It shows, in particular, that Adam Smith had deep ethical preoccupations but that the latter did not find their way into *The Wealth of Nations*. Smith's ethics are to be found in his first book, *The Theory of Moral Sentiments*, originally published in 1759 – a work that has been on the whole ignored (Smith, 1982; but see Coase, 1976) Such 'division of thought' would prove to be extremely consequential and the 'bible' of modern capitalism is, in a sense, missing one leg – the ethical one.

2.1 Smith and the Liberal Inspiration

In his economic thinking, Adam Smith was building and expanding upon the contributions of the great founders of political liberalism – John Locke in particular. For John Locke, a state of nature predated the social contract. In contrast to Hobbes, however, Locke's picture of the state of nature was not one of essentially chaotic and destructive anarchy. Instead, this state of nature was stabilized by natural law – the right to private property based on the work of the individual. In the state of nature, each individual was facing nature and interactions between these individuals turned around, precisely, that interface. These interactions had to do with work, the products of work, property and ownership. Pre-political man – 'natural' man – was clearly in that context an economic man before anything else (Manent, 1986; Locke 1997). The social and political contract came only after, as a reaction to potential and real threats to the natural order. And the role of this social and political contract was merely to create a collective responsibility for the respect of natural law – hence for the protection of private property.

Building upon the idea of 'natural man' as economic man, Adam Smith re-affirmed strongly both the autonomy of the economic sphere and its moral and historical precedence over all other spheres of human life (Smith, 1999). The systematic disembeddedness and self-contained character of economic activity so characteristic of most orthodox economic thinking in the 19th and 20th centuries follow directly upon that. Adam Smith then also took over the idea that this preeminent and autonomous economic sphere was by nature a stable state, structured as it was by 'natural laws' – in this case division of labour, invisible hand and competition. Economic or natural man had, according to Adam Smith, a natural propensity to 'truck, barter and exchange one thing for another', to exchange the fruits of individual labour (Smith 1999: 117). The market was in fact a natural, emergent and essential reality of human and social life stemming from this very propensity. The propensity to exchange had for direct consequence that each individual did not have to rely only on herself to provide for the whole

range of her needs. She could find answers to parts of those needs on the market and obtain them in exchange for the things she produced. The extent and complexity of the division of labour depended upon, in each historical period, the spread and density of the market. The latter was itself in direct correlation with the demographic context and with the development of infrastructural conditions allowing exchange and the transportation of goods (Smith 1999: I, iii). Adam Smith went even further. He argued that the historically progressive extension and expansion of markets and the associated advance of the division of labour meant, ultimately, greater individual and collective well being as well as, in fact, moral, social and political progress away from feudalism and towards yeomanry, away from tyranny and towards democracy (Smith 1999, III).

Another 'natural law', according to Adam Smith, was that markets were orderly. The miracle of that order was that it did not stem from an all-knowing, all-powerful regulator or planner. Rather, it emerged from a multiplicity of transactions and their combination. The collective good was achieved not by planning it but by leaving free rein to the natural propensity of market players to maximize their individual welfare and personal gains. The image used by Adam Smith to illustrate the idea of the Invisible Hand has become quite famous.

It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self-love and never talk to them of our own necessities but of their advantage (Smith 1999: 119)

Ultimately, however, the multiplicity of such acts motivated by individual selfishness led to a collective good. The greediness of individuals turned, through combination in the market, into a morally satisfying and welfare maximizing collective order. This was the miracle of the invisible hand, which required however specific conditions.

In particular, the invisible hand would not come to play lest free rein was left to the competitive mechanism. Competition emerged, in the work of Adam Smith, as a basic, natural and structuring principle of the market. In a market where competition was left free rein, the scarcity of a particular good should naturally lead to the emergence of new providers and over supply should in turn discourage some of the producers. In both cases, this would mean that the balance between demand and offer could be reestablished. However, this could happen only if the market was left to function freely. Smith mentioned the large number of players, the free flow of goods, resources and information, as key conditions for the free play of the competitive mechanism (Smith 1999: I, vii). At the same time, Smith pointed to different forms of tampering with the market mechanism that he argued should be avoided or at least limited as much as possible. One was about individual market players themselves and 'people of the same trade' who 'seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices' (Smith 1999: I, x, 232). This part of Adam Smith's work has generally been neglected but it is clear that Adam Smith was conscious that competitive markets – where the miracle of the invisible hand can play its part – were not automatically self-sustaining. He was conscious furthermore that the threats could come from individual players and private interests themselves. The other, more obvious form of tampering, which has been so symbolically associated with economic liberalism – in the European sense of the term – since Adam Smith, is that to be attributed to the state and political authorities. Adam Smith systematically and regularly denounced this form of tampering with 'naturally self-regulating markets'.

No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not otherwise have gone: and it is by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord (Smith 1999: IV, ii, 3)

2.2 The Forgotten Ethics of Adam Smith

Reading Adam Smith only through *The Wealth of Nations* gives a peculiar picture of the ethical dimensions of capitalism. The moral imperative, in Smithian capitalism, seems to be that individuals should maximize their self-interest – hence be selfish and greedy. This is a world beyond – or rather before – good and evil. ‘Economic man’ is ‘natural man’ – hence pre-dating in his behaviour social, political or moral codes of conduct. A miracle, though, happens through the assumed but mysterious alchemy of the market and its ‘invisible hand’. The aggregation of multiple a- and un-ethical individual actions turns into a morally and ethically satisfying collective good. In *The Wealth of Nations*, individuals are a-moral; the market though is inherently albeit mysteriously producing a moral order. In that book, the moral or ethical nature and power of the market has the characteristics of a constitutive assumption, a ‘foundation myth’ more than it is scientifically demonstrated (Nelson 2001).

The idea that the market is a moral structure – beyond the dimension of efficiency – is still with us today. It is present in all variants of neo-classical economic theory, as ‘natural law’ – hence unchallenged, unquestioned and not to be scientifically demonstrated (Nelson 2001). Arguably, this is one of the most striking – and consequential – legacies of *The Wealth of Nations*. If the market is indeed a moral and ethical structure, then a direct consequence should be that there is no need to bring in ethical considerations at the level of individual behaviours. Furthermore, the reasoning could well be that if we attempted to do that, we would only distort and disturb the natural regulative mechanisms of the market (Friedman 1962). Hence, we could be tampering with and destroying the capacity of the market to produce a morally satisfying collective good. A correlate conclusion could then well be that capitalism will be working at its best when individual behaviours are left unfettered and free to explore all the paths leading to a maximization of self-interest, including when those paths could be judged to be a- or un-ethical.

This rendering or interpretation of Adam Smith’s thought becomes more problematic when we consider not only *The Wealth of Nations* but also the *Theory of Moral Sentiments*. In *The Wealth of Nations*, economic man is pre-social – in the sense that the natural propensity to trade and barter precedes the social contract. But trading and bartering imply contacts and interdependence and in that sense human nature is profoundly social – individuals are not and cannot be self-sufficient monads. This becomes all the clearer when we read *The Theory of Moral Sentiments*. The market and its invisible hand reveal a Rational (ie Divine) plan and order and individuals are linked to each other in and through that plan (Nelson, 1991). The theological dimension of economics has been neutralized today to a great extent (albeit not fully, ie. Nelson, 2001). It is relatively absent from *The Wealth of Nations* but highly visible in the *Theory of Moral Sentiments*. The individuals placed in this Rational/Divine scheme are endowed – presumably by the Author of Nature – with certain faculties (such as reason or imagination) and particular propensities (Smith, 1982).

There are two such propensities – self-love that expresses itself in particular in the maximization of self-interest but also ‘fellow feeling’ as the first sentence of the *Theory of Moral Sentiments* shows:

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it (Smith, 1982: I.i.1.1).

Fellow feeling, as much as self-love, is a survival kit and a condition of man's fitness for that social state and interdependence in which he finds himself by divine design. Fellow feeling implies sympathy and empathy. It means a disposition to seek the approval of his fellows and also to be worthy of approval:

Nature, when she formed man for society, endowed him with an original desire to please, and an original aversion to offend his brethren... The desire of approbation, and this aversion to the disapprobation of his brethren, would not alone have rendered him fit for that society for which he was made. Nature, accordingly, has endowed him not only with a desire of being approved of, but with a desire of being what ought to be approved of; or of being what he himself approves in other men (Smith, 1982: III.2.6-7).

2.3 The Missing Link – The Structuring Ethics of the Wealth of Nations

The search for approval and worthiness points to the ideas of 'propriety' and 'restraints' (including self-imposed ones) and hence to an ethical project. The individual has a natural disposition to form judgments (applied both to herself and others) concerning what is fit and proper to be done or to be avoided. But since this natural disposition may conflict with self-love, it is probably not enough, Smith tells us, as a source of control. It should be strengthened and reinforced by the setting up of socially defined 'general rules concerning what is fit and proper' – the latter resulting from an inductive generalization of continual observations upon the conduct of human beings and ultimately revealing the commands and laws of the Deity (Smith, 1982: III.4.8).

This code of morality – this ethical project – may be the missing link in *The Wealth of Nations*; the one that could explain that the aggregation of self-interested actions turns ultimately into a morally satisfying collective good. A code of morality that would be deeply inscribed in the individuals themselves – although it may sometimes conflict with and contradict self-love – could create the basis for collective self-restraint and relative harmony. It appears, in fact, when we read *The Wealth of Nations* and the *Theory of Moral Sentiments* together, that the proper workings of the market and its ethical character were deeply conditioned for Adam Smith by the presence of what could be called an ethical foundation infusing through all individual actors – even if that ethical foundation could conflict on a case-by-case basis with the pressures of self-interest.

3. Protestant Ethics and the Spirit of Capitalism

Once we stand there in our reading of Adam Smith, we are not too far in fact from Max Weber and from his account of the dynamics and balance of early modern capitalism. Max Weber pointed to the profound ethical structure underpinning modern capitalism and sustaining its early development and expansion. This silent structure acted through socialization and deep personal appropriation by individual actors. Hence in a sense, just like

‘fellow-feeling’ and its associated code of morality, this deep and silent structure was mostly invisible. Nevertheless, it was highly real and consequential in Weber’s account. It was an important mechanism of both movement and stability, of both the dynamics of capitalism and its sustainability.

3.1 Calvinism and its Invisible Hand

In the *Protestant Ethics and the Spirit of Capitalism*, Max Weber explored the fit and the elective affinities existing between the Calvinist creed and a particular form of rationality or ‘spirit’ associated with modern capitalism (Weber, 1958; Giddens, 1971). Max Weber differentiated between several ideal types of capitalism that had marked history in varying ways. Leaving aside predatory, trade or warfare capitalism, Max Weber was mostly fascinated by the emergence in early modern Europe and in Puritan North America of what he termed ‘rational capitalism’. He saw that form as more than just an impulse for acquisition and in fact he defined it as being ‘identical with the restraint, or at least a rational tempering, of this irrational impulse’ (Weber, 1958: 17). Capitalism, he argued, ‘is identical with the pursuit of profit, and forever renewed profit, by means of continuous, rational, capitalistic enterprise’ (Weber, 1958: 17).

The first signs of emergence of that form of rational and systematic capitalistic accumulation were found, Max Weber tells us, in a modernizing European continent. The birth of rational capitalism depended upon and was associated with free labour, the development of the Western city, the structuring of the nation state, the progressive separation of the productive enterprise from the household and accounting innovations such as double entry bookkeeping. The argument of Max Weber, however, is that those structural and material conditions were necessary but not sufficient to account for the development and expansion of rational capitalism. The key there, for him, was the existence of a propensity in human beings to behave in such a rational, accumulative but also restrained manner (Weber, 1958: 20). According to Max Weber, such a propensity was not linked in any way to ‘human nature’. Rather, it was highly conditioned by the spiritual and religious context in which individual and collective actions were embedded. And in contrast, when this propensity has ‘been obstructed by spiritual obstacles, the development of rational economic conduct has also met serious inner resistance’ (Weber, 1958: 26-27).

The next stage in Max Weber’s demonstration was to show that some forms of Protestant denominations – particularly those associated with the teachings of Jean Calvin – were indeed quite conducive to the emergence and stabilization of such a propensity in given populations. Hence, the main explanation for the rapid expansion of rational capitalism in early modern Europe and Puritan America was, according to Max Weber, the encounter, the fit and the affinity between the material conditions identified above and the spiritual tenets of Calvinist Puritanism. The ethics associated with that type of religious denominations were a deep structure fuelling and fostering the propensity towards rational capitalist accumulation. Calvinist ethics were in other words in very close elective affinity with the spirit that was necessary for that type of capitalism to develop and expand. That type of normative structure worked through collective socialization and deep individual appropriation and in a sense acculturation. To that extent, it was indeed ‘invisible’ and nevertheless highly powerful – framing behaviours, interactions and mindsets a priori and hence reducing the need for external constraints, controls and expressions of power.

Jean Calvin was a Franco-Swiss preacher. Together with Martin Luther, he was a key actor of the Protestant Reformation movement in Europe during the 16th century. An important element of Calvinist teachings was the doctrine of predestination. The original version of that doctrine was extremely rigid. The Calvinist God was a stern and all-powerful

master planner that had divided humanity from immemorial times between a few that were elect and would be saved and the rest who would be damned. The Universe was created to further the glory of God and the motives of that almighty God were beyond human understanding. The division between those bound for damnation and those who would be saved was fully pre-determined. When born, a particular individual was already assigned to one of those two categories without having any means to know which – and even less power to change his or her fate. Good deeds, human merits or repentance could have no impact whatsoever on whether one was part of the elects or not. In this rigid version, the doctrine of predestination was a source of deep existential anguish and pessimistic disillusion. It produced an ‘unprecedented inner loneliness of the single individual’ (Weber, 1958: 104).

3.2 From Calvinist Doctrine to Practical Ethics

In such a rigid form, this doctrine was too harsh and unbearable. Practical takes on the doctrine of predestination hence soon emerged. It was a duty to consider oneself one of the chosen. And it was possible to look for the signs of salvation in a positive contribution to the glorification of God’s Kingdom on earth and in ‘intense worldly activity’ (Weber, 1958: 111-12). This could be done through an absolute focus on one’s ‘calling’. The idea of the calling – or ‘Beruf’ – was that each single one of us was put on this planet by the Great Master Planner into a particular position and with a particular duty. Signs of our election could be found in the successful accomplishment of our ‘Beruf’. In contrast, the refusal to do one’s calling, the refusal to work so as to help fructify God’s pre-ordained world turned into a sign of damnation. Quite unlike what was the case in Catholicism, where the highest form of religious sentiment was otherworldly contemplation and the denial of the self and of the world as symbolized by the monk, in Calvinism the fulfilment of one’s duty in worldly affairs was the highest form that the moral and religious activity of individuals could take (Weber, 1958: 108-10).

In that context, the creation of wealth became a clear sign of divine election. But in Calvinism, existential anguish was a permanent state – and the search for signs of election also was and should be permanent. And in fact, ‘the God of Calvinism demanded of his believers not single good works but a life of good works combined in a unified system’ (Weber, 1958: 117). The wealth that was being created was not created for enjoyment and it should not be used towards self-aggrandizement. Wealth should not lead to personal pride; it should not on the other hand be used as a tool to diminish, harm or exploit others. Nobody, after all, was responsible for his or her own salvation or damnation; nobody ‘deserved’ one or the other – we are all just being confronted to a mysterious divine scheme. And all of us have our place and our position – necessary and predefined – in the earthly expression of that divine scheme. Acquisition should not be pursued to satisfy material needs and allow pleasure. In fact, straying away from an ascetic work ethic – through enjoyment, pleasures, unnecessary spending, pride, spite or the use of wealth to exert power – may be interpreted as signs of damnation. Wealth should be created and immediately and forever reinvested to fructify further God’s Kingdom on earth. And the greater the possessions, ‘the heavier, if the ascetic attitude toward life stands the test, the feeling of responsibility for them, for holding them undiminished for the glory of God and increasing them by restless effort’ (Weber, 1958:170).

3.3 The Prophecy of Max Weber

Such combination of a rational and perpetual search for accumulation and wealth creation with an ascetic lifestyle proved to be a perfect spiritual ground for the development of modern

rational capitalism. And for Max Weber, the encounter between the early material conditions for rational capitalist accumulation and the Calvinist ethos turned out to represent one of those moments when history accelerated. The Calvinist ethos was the spiritual fuel that structured and stabilized at its beginnings the emerging capitalist order. Hence, from that perspective, modern rational capitalism was indeed a deeply moral and ethical order. But it was so historically and not essentially or naturally and, as Max Weber showed, this difference was highly consequential.

The prophecy of Max Weber, at the dawn of the twentieth century, was that modern capitalism was already in the process of 'losing its soul' and its moral and ethical backbone. And in fact, the Calvinist revolution in itself had been an important step towards a disenchantment of the world.

The rationalization of the world, the elimination of magic as a means to salvation, the Catholics had not carried nearly so far as the Puritans had done. To the Catholic...the priest was a magician who performed the miracle of transubstantiation and who held the key to eternal life in his hand (Weber, 1958: 117).

The practical ethics of Calvinism generated their own internal contradictions. In time, the latter were coming to weaken the invisible spiritual structure of developing capitalism. Calvinism, in its doctrinal form, denied individuals the very possibility of contact with a jealous, all powerful and sternly hidden Deity. The only approximation to such an interaction was in fact indirect, through intense activity in this world – leading to the production of riches and hence to a furthering of God's Kingdom on earth. The rationalisation of economic life was therefore initially tightly connected to an ethical and religious project that required and implied its own material and this worldly translation. Such materialization of a spiritual project, though, inherently generated tensions. Wealth and the materialism associated with its production were seen by Max Weber to have a deeply secularizing influence (Weber 1958: 174). As a consequence, they were bound, he argued, to weaken the spiritual structure that originally sustained them. Max Weber found the best descriptive expression of that process in a text written by John Wesley already at the end of the 18th century. Founder of the Methodist movement, John Wesley feared that

...wherever riches have increased, the essence of religion has decreased in the same proportion. Therefore, I do not see how it is possible, in the nature of things, for any revival of true religion to continue long. For religion must necessarily produce both industry and frugality, and these cannot but produce riches. But as riches increase, so will pride, anger and love of the world in all its branches...So, although the form of religion remains, the spirit is swiftly vanishing away (Wesley as quoted in Southey, 1855: 308).

4. Towards The 'Iron Cage' – The Disenchantment of Capitalism in the United States

The prophecy of Max Weber was in process already in the United States during the last decades of the nineteenth century. American capitalism was on its way to 'losing its soul', becoming 'disenchanted' and hence turning into an 'iron cage'.

The Puritan wanted to work in a calling; we are forced to do so. For when asceticism was carried out of monastic cells into everyday life, and began to dominate worldly morality, it did its part in building the tremendous cosmos of the modern economic order. This order is now bound to the technical and economic conditions of machine production which today determine the lives of all individuals who are born into this mechanism, not only those directly concerned with economic acquisition, with irresistible force. Perhaps it will so determine them until the last ton of fossilized coal is burnt....In the field of its highest development, in the United States, the pursuit of wealth, stripped of its religious and ethical meaning, tends to become associated with purely mundane passions...(Weber, 1958: 181-82).

There were essentially two sources of pressure, we argue, driving the process of disenchantment in the United States. On the one hand, the rapidly increasing clout of social Darwinism undeniably played a role. On the other hand, the deep institutional transformations that were profoundly reshaping American capitalism also pushed in that same direction.

4.1 Social Darwinism...

In his *Origins of Species* (1859), Darwin outlined one general law that ‘led to the advancement of all organic beings – namely multiply, vary, let the strongest live and the weakest die’. The argument was that minor transformations or variations in living organisms resulted either from the chance process of reproduction or from the use or lack of use of certain organs in the context of a changing environment. These transformations or variations were ‘selected’ and stabilized in a particular species if they gave an adaptative advantage to those organisms which had developed them first – advantage measured by survival and reproductive success. ‘Selection’, in other words, happened through the ‘struggle for life’. And this ‘struggle for life’ took place at different levels – between individuals from the same species, across species or directly between individuals and the environment or physical conditions of life.

Very rapidly, the evolutionary argument proposed by Charles Darwin was adapted and transferred to social sciences. The idea was that what applied to man as an animal or as an organism could also work for the study of man as a social, cultural or political being. Charles Darwin himself turned out to play a key role in that transfer and he undeniably was one of the first ‘Social Darwinists’ (Hawkins, 1997, Jones, 1978). As such, he believed that most features of social and human life – ethics, religion, political institutions, the rise and fall of nations and civilisations as well as psychological or behavioral characteristics – followed the general law of evolution. Variation was triggered through confrontation with the environment, other practices or chance encounters. Selection followed through ‘struggle for life’ and ‘survival of the fittest’, leading to the disappearance of those features and practices that ‘failed’, appearing less ‘fit’ or inadequately adapted. From there, it was relatively easy to associate evolutionary change with social, human, or even moral progress. And this indeed has often been a feature of social Darwinian arguments. Charles Darwin himself did not shy away from deducing the superiority of civilized anglo-saxon nations over other countries from his general law of evolution (Hawkins, 1997).

To this day, evolutionary theory has been quite directly and obviously related to the work of Charles Darwin. One should not forget, however, the role of Herbert Spencer in shaping evolutionary theories in the social sciences. And, in particular, Spencer’s ‘theory of inevitable progress’ had quite a significant impact in the United States. It was instrumental in shaping the local versions and readings of the evolutionary argument. From 1848 to 1853, Spencer was editor at *The Economist*, the key British financial weekly that was then already a

mouthpiece of liberal economic thinking in its purest form. One rapid and somewhat schematic way to describe Herbert Spencer and place his contribution to the evolutionary argument relative to that of Charles Darwin is to say that Spencer was somewhat of an extremist and definitely a determinist. In his first book, *Social Statics* (1851), he claimed that

Progress, therefore, is not an accident but a necessity.... The modifications mankind has undergone and is still undergoing result from a law underlying the whole organic creation. And provided the human race continues and the constitution of things remains the same, those modifications must end in completeness and progress.

4.2And its transfer to the United States

For the most part, the evolutionary argument was transferred to the United States in its Spencerian rather than Darwinian version. From the beginning, evolutionary theory and liberal economic thinking were highly intermixed and intertwined in that country (Hawkins, 1997). There were clear elective affinities, in any case, between both ideologies and they combined on American soil, strengthening each other in the process. The Spencerian variant of the evolutionary argument was positive and quite optimistic. Progress was the necessary outcome of evolution, as long however as the natural process of evolution was left full and free rein. Spencer identified the struggle for survival as the main mechanism around which this natural process was articulated. And this struggle for survival was often associated, combined and conflated in his writings and those of his followers with the liberal economists' understanding of competition. Free and unhampered competition emerged as the principal mechanism of the evolutionary process – a mechanism bringing about both variation and selection.

Such a Panglossian view of evolution and a deterministic sense of inescapable progress meant that Spencer believed in and championed strict *laissez faire*. Any kind of interference could only be detrimental to the longer term and natural evolutionary process. There was no need whatsoever, in the Spencerian world, for politics, collective bargainings or welfare initiatives. Furthermore even, not only was there no need for those but they could be highly destructive. They were bound to disrupt the natural process that should lead to the 'survival of the fittest' and to the shouldering aside of the weak. Herbert Spencer was the real author of that phrase which became such an icon in American evolutionary theory as well as, episodically but regularly, in American economic practice.

Progress was an end that justified the means. And progress was endogenous to the system. It could only be defined in a circular way and it was measured in fact by survival. It did not have any more the spiritual dimension that had been associated with Calvinist Capitalism. Capitalism was clearly losing its 'soul' there and capitalism was turning into a self-reinforcing 'iron cage'. To play itself out, 'survival of the fittest' – ie progress – required an entirely unfettered and free field for individual action. Gone was the fellow feeling of Adam Smith as a necessary foundation of market interactions. Gone also were the self-control of the Calvinist and his inscription within a higher order project – that of ensuring his own spiritual salvation through serving God in his earthly Kingdom.

The transfer of social darwinism in its Spencerian variants from the old to the new continent took place in the few years before and after 1870. The Spencerian argument did resonate particularly well with the conditions that characterized the United States after the Civil War. Hence, it spread fast and was eagerly appropriated. This was a time of upheaval, turbulence, transformations and unpredictable developments where the old rules were inadequate and the new ones still to be invented (Kolko, 1963; Chernow, 1990). In that

context, Spencer's ideas became the intellectual foundation for the social Darwinism that came to characterize the 'Robber Barons'. The 'Robber Barons' were that generation of businessmen that thrived initially on the chaotic conditions associated with the American Civil War and then established firmly their power and legitimacy during the period of corporate reinvention of American capitalism, at the end of the 19th century (Sklar, 1988; Zunz, 1990; Roy, 1997; Djelic, 1998). The 'muckracker' journalists, and in particular Matthew Josephson were the first to use the label 'Robber Barons' to refer to the capitalist captains in that period of American history (Josephson 1932). Spencer's ideas also spread within American intellectual circles, with significant impact in particular in American universities. Amongst the most famous and influential American champions of Spencerian evolutionism were John Fiske (philosopher and historian), William Graham Sumner (professor of political economy at Yale) or William James (Harvard) (Hawkins, 1997).

When Herbert Spencer went to the United States in 1882, he was received with the highest honors. Andrew Carnegie or John D. Rockefeller revered him (Chernow, 1998). Spencerian evolutionism could, in and of itself, justify – including in a moral sense – the brutal tactics that were then characteristic of American capitalism. Violent and rapacious behaviour, in the context of 'free', in the sense of wild competition, were identified as necessary means leading to progress through struggle. The 'elimination' of the weak and the institutionalization of a hierarchical and unequal division of labor were also given legitimacy in this way. The Robber Barons were unsurprisingly the first to seize upon an ideology that turned in this way struggle, violence and brutal use of power into necessary steps towards progress (Hawkins, 1997).

The spread, in the United States, of social Darwinism in its Spencerian form proved to be, in retrospect, an important factor contributing to and hastening the secularization of capitalism in that country. The idea of an emergent natural order was a common dimension of economic liberalism in its Smithian variant, of Calvinism and of social Darwinism in the Spencerian version. In all three bodies of thought, that natural order was considered to be beyond human intervention. In fact, in all three cases, that order could only be revealed if natural laws were left free play. Natural laws had a divine dimension both in Calvinism and in a complete reading of Adam Smith. In the version of economic liberalism that forgot the *Theory of Moral Sentiments*, though, as well as in Spencerian social Darwinism, natural laws were essentially mechanistic. They had no 'deeper meaning', no ethical foundation – they just were there to be reckoned with.

Like Calvinism, economic liberalism and Spencerian social Darwinism were highly conservative ideologies but they were so in a different sense. Calvinism justified the status quo and the position that all occupied in the divine scheme of things was reflected in the social hierarchies of this world. There was, however, room for all in this world – the weak and the strong, those who would be damned and those who would be saved. Economic liberalism in its mechanistic variant and Spencerian social Darwinism justified instead the logics of evolutionary dynamics – and the survival of only the fittest and most competitive, which implied as correlate the disappearance, death or disintegration of the weak and the least competitive. Those logics were not (and should not be) mitigated by any form of self-restraint or 'fellow feeling' – as had been the case both in a full reading of Smithian liberalism or in Calvinist capitalism. Instead, the fight of all against all should be given absolutely free play even if it expressed itself in the most violent and brutal manner. In that context, ethics were reconstructed as mere obstacles – just like laws, regulation and state intervention – to the free play of natural, mechanistic, forces. Ethics, as a consequence, did not belong with economic logics and were in fact bound to disturb those logics.

4.3 The Corporate Reconstruction of American Capitalism

In spite of an apparent intellectual affinity between economic liberalism, Calvinism and Spencerian social Darwinism, the argument here is therefore that the deep ideological structure sustaining capitalism changed significantly in the United States towards the end of the 19th century. The secularization of capitalism happened through the progressive marginalization of spiritual motives for economic action – as predicted both by John Wesley and Max Weber. Calvinism gave way and a combination of mechanistic liberalism and Spencerian social Darwinism progressively took over and imposed itself as the intellectual structuring frame for capitalist dynamics.

This subtle but nevertheless highly significant intellectual evolution correlated in the United States, reinforced and was being reinforced by profound structural transformations that were in fact redefining the meaning of capitalism in that country. Fathers of the American Constitution, and Thomas Jefferson in particular, had identified freedom as a constitutive element of the future American social and economic space (McCoy, 1996). In sparsely populated and essentially rural territories, the ideal typical situation of many individual and independent entrepreneurs, competing healthily in a mostly unregulated environment, seemed a legitimate ambition. Such a ‘proprietary-competitive’ – one could say classical liberal – type of capitalism appeared to embody freedom, the very spirit of the new Nation (Sklar 1988). The small firm was an economic but also a moral entity. The individual acquired through it not only the means of his physical survival but also the means of his freedom– essentially independence, wealth and social status. Like motherhood and apple pie, the small firm was the stuff of the American dream.

In a short period of time, though, during those years bridging the 19th and 20th centuries, the economic component of the American dream would come to be radically redefined. By the 1920s, ‘big’ was undeniably becoming ‘efficient’, if not always ‘beautiful’ in the American economy (Sklar, 1988; McCraw, 1984; Adams and Brock 2004). A corporate version of capitalism, increasingly regulated at the federal level, was pushing the small producer republic to the periphery of the national economy. Emerging within the context of significant economic and technological disruptions, corporate capitalism had also been shaped within particular historical and institutional conditions. The reconstruction of American capitalism, or the invention of corporate capitalism, was in fact a fairly messy process, revealing social and political confrontations as much as it was reflecting economic and technological evolution. The institutional environment, particularly in its political and legislative dimensions, set significant constraints. Still, the multiplicity of actors, characterized by bounded rationalities as well as divergent and complex motives, meant that unintended and contingent developments played a part.

The American Civil War and its associated disruptions set the stage to the structural revolution that characterized American capitalism. In a mostly unregulated and fairly turbulent environment such as had been the case during that period of war, business arrangements and agreements had multiplied – mostly in the form of loose cartels or trusts. This generated a public concern with the ‘trust question’ – reflecting the growing power of those large business aggregates and their use of ruthless practices in what came to resemble economic warfare (Lloyd, 1894; Josephson, 1932; Chernow, 1998). The growing uproar and discontent amidst, in particular, small independent business owners and western or southern farmers indicated that the ‘trust question’ could indeed have destabilizing effects on the American social and political scene. The pressure was such that the American Congress did enact first a legislation regulating railroads – the Interstate Commerce Act in 1887 – and, a few years later, a general antitrust act – the Sherman Antitrust Act in 1890.

The intent behind the Sherman Act was initially to curb the threat that aggregates of economic power were perceived to represent and to reestablish the conditions for free and fair

competition. The unique set of conditions, however, in which this Act was enacted limited its domain of applicability and had unintended consequences of significance (Peritz, 1996). Early court cases showed that cartels and other ‘restraints of trade or commerce’ across the states of the Union would be prohibited *per se*. As a Federal legislation, however, the Sherman Act did not apply within states. Tight combinations or mergers within the legal frame of particular states that made them possible (such as New Jersey) seemed to fall outside its reach (Roy, 1997). And corporate lawyers were soon identifying mergers as an alternative to cartelization, legal under Sherman Act (Sklar, 1988). The passing of the Sherman Act was thus indirectly a triggering force in the first American merger wave (1895-1904). In an irony of history, the fight for competition in the United States led to the emergence of large, integrated firms and contributed to the oligopolistic reorganization of American industries. The Sherman Act was read as *per se* outlawing cartels and loose forms of agreements. With respect to size, however, and hence mergers, the interpretation that ultimately came to dominate in the Supreme Court was that illegality stemmed not from size *per se* but from ‘unreasonableness’ – as revealed by the proven intent and purpose to exclude others and stifle competition (Peritz, 1996). By the 1920s, both the *per se* prohibition of cartels and the ‘rule of reason’ with respect to mergers had become trademarks and defining features of the American antitrust tradition. In the United States, collusion and cooperation between independent firms became legally and morally impossible. Instead, competition was valued – but in practice the American antitrust tradition was fostering oligopolistic competition and not the type of classical competition championed by Adam Smith and other liberal economists (Djelic, 2002). Those highly significant early first steps triggered in turn other consequential transformations, leading ultimately to a profound reinvention of capitalism in the United States. We identify here six pillars or dimensions that define the form of capitalism emerging in the process. The latter is quite different indeed from the Smithian (or Jeffersonian) ideal of classical liberalism.

Those six dimensions have emerged in the United States in quite unique historical and institutional conditions and sometimes even in quite unexpected ways (Fligstein, 1990; Roy, 1997; Djelic, 1998; Lipartito and Sicilia, 2004). First, as we have seen, the very meaning of competition came to differ significantly. In the emerging corporate capitalism, the competitive logic was that of oligopolistic markets policed by antitrust (Djelic, 2002). Second, the large-scale merger wave associated with the oligopolistic reorganization of industries led to the dominance of large and capital intensive firms (Chandler, 1962; 1990). Third, the constitution of large firms often through mergers and acquisitions at the end of the 19th century was made possible by and required a change in legal status. The joint stock corporation with dispersed ownership became quite common as a legal structure in American capitalism (Roy 1997, Lipartito and Sicilia, 2004). Four, those joint stock corporations were listed on stock exchanges where they found a large share of the vast capital they required (Navin and Sears, 1955). Five, those corporations also soon came to be ruled by professional managers, whose legitimacy did not reside in ownership rights (Berle and Means; 1932). Six, the separation between ownership and the everyday handling of company affairs turned out to be a major revolution. It triggered the emergence of a profession – management – and the structuring of an organizational field around that profession (Sutton et al., 1956; Zunz, 1990).

The structural transformation of capitalism could only reinforce the process of disenchantment that was already at work. The separation of ownership and control, in particular, had consequences of significance. An important consequence was that the link between work and wealth creation was severed – turning a class of formerly hard working and ascetic business owners into a leisure class living to spend what their money (and not their work) had earned (Veblen, 1924). A second consequence was the professionalization of management that ensued from the transformed meaning of ownership (Berle and Means, 1932). When ownership means holding a few shares in a large corporation, it does not grant

the right to manage or decide. The void is then filled by the professionalization of the management activity and by the rapid development of a new class – that of professional managers. The professionalization of management has meant one further step towards a rationalization of the economic sphere. The pervading influence of science, associated with such professionalization, could only render more anachronistic references to and reliance upon spiritual motives in that sphere. Finally, the corporate revolution in the United States has vastly expanded in time the scope of the ‘iron cage’ while tightening the latter further. The corporate revolution has transformed large numbers of petty owners, farmers or entrepreneurs into the salaried servants – whether as operatives or managers – of the new corporations. Progressively, but ever so rapidly, the possibilities to escape the corporate and organizational cage have become increasingly rare (Perrow, 2001). This has been true both in the private and in the public sectors, in law, medicine or education. The cage, indeed, has become all but inescapable at the same time that it was losing its soul or ‘spirit’ (Weber, 1958: 181).

5. Conclusion – Beyond Robber Baron Capitalism?

Originally, modern capitalism reflected a spiritual and ethical project. One can agree or disagree with the ethical agenda that underpinned the development of modern capitalism. Nevertheless, it is probably fair to argue that this partly invisible but quite strong ethical and spiritual structure was a powerful fuel, initially, of the rapid development of rational capitalism. Internal contradictions in a system that turned spirituality into materialism combined with ideological shifts and structural pressures to weaken, in time, the spiritual and ethical superstructure of modern capitalism. Although the process has naturally been much more multi-faceted, it makes some sense, symbolically, to associate this progressive disenchantment with the triumph, in the United States, of Robber Baron capitalism.

5.1 Robber Barons and the Search for Redemption

Interestingly, Robber Barons as a group had many characteristics of a transitional force. They led the way from one world to another with brutal energy and nevertheless unconscious regrets and nostalgia. Seizing upon the ideological combination of mechanistic liberalism and social Darwinism, they launched into a raw ‘struggle for life’. They justified and legitimated their individual thirst for ever greater personal wealth and power as being part of a progressive collective scheme – where survival indicated superiority (‘fit’) and superiority (‘fit’) was measured by survival (Josephson, 1932; Dolson, 1959; Gordon, 1988, Chandler, 1986). The social world was a raw evolutionary scene where an unhampered struggle of all against all would lead to progress and collective good.

In their private lives, many of those Robber Barons were of protestant lineage and quite attuned in fact, through their parents, grand parents and families to the ethical and spiritual dimension of capitalism (Josephson, 1932; Winkelman, 1937; Chernow, 1990; 1998; Stasz 1995). In their daily actions as businessmen, they evacuated and rejected the spiritual dimension and the ethical restraints that had underpinned the economic behaviour of their parents or grand parents. They only played by the rule of self-interest and its maximization (Schreiner, 1995). Fellow-feeling was left on the wayside not only of economic action but also quite often of their lives. The biographies of many of those men show a dire lack of fellow-feeling and in some cases even heartless violence in their closest personal relationships – with their wives and children in particular (Josephson, 1932; Wall, 1970; Chernow, 1990).

At least, this was generally the case during the longest part of their lives – the part when they were in full activity.

But then, another pattern emerged towards the end of their lives. As if in a search for redemption, when the day of reckoning was getting near, Robber Barons turned philanthropists (Josephson, 1932; Winkelman, 1937; Flynn, 1941; Nevins, 1953). This happened to a whole generation from the 1910s to the 1930s – and most of the big private American Foundations were created then. The wealth that had been accumulated through sometimes violent maximization of self-interest suddenly seemed to burn their fingers. The last years of many Robber Barons were busily spent redistributing some of that wealth through good deeds. Fellow-feeling finally expressed itself and sometimes on a big scale. Money was spent on education, health, social and cultural projects. Motives, as they can be reconstructed, were mixed. Naturally, part of that can be explained by the search for social legitimacy in a period when muckrackers were violently denouncing, in the United States, the ways in which many Robber Barons had accumulated wealth (Sinclair, 1988; Tarbell, 1905; 1924; Brady, 1984). But buying back one's reputation in this world was probably not enough to explain the scale and scope of the philanthropist involvement. Undeniably, existential fears also played a role. The need to feel chosen and hence saved was getting more urgent and the Puritan God required a life of 'good works'. Because wealth had often been created in such a ruthless manner, its redemptive power was probably not so obvious, including to the Robber Barons themselves. The consequence was that they fell back on what can be called a 'catholic pattern' – trying to make up for past behaviours through alms and good deeds:

The giving and receiving of heart offerings without price, deeds that win crowns and sceptres in Heaven (Mrs Jane Leland Stanford, Inscriptions, Memorial Church at Stanford University).

5.2 Capitalism as an a-Ethical System

This generation brutally accelerated the transformation of capitalism into an a-ethical system, simply preoccupied with the creation of wealth as an end in itself. However, this generation was also a transitory one that still inscribed itself in the spiritual heritage that had marked the development of early modern capitalism. The turn to philanthropy in the later part of their lives showed that. In most cases, their lifestyles also showed that. Many of those Robber Barons were highly ascetic men and imposed an ascetic lifestyle on their families, in spite of their incalculable wealth (Chernow, 1990; 1998, Stasz, 1995).

By the end of the Robber Barons period, however, and of its associated ideological and structural transformations, the spirit had all but left the cage. Ethical and spiritual preoccupations were clearly becoming separated from daily economic practice (and theory). In a sense, the strict separation between wealth creation and philanthropic redistribution, as pioneered by the Robber Barons, would come to characterize the world of the twentieth century. The economic logic, the logic of wealth creation differed significantly and should be unrelated to ethical projects and behaviours – and vice-versa. This has undeniably left us with a profoundly a-ethical system of economic production. Contemporary capitalism is a system beyond good and evil – and the aggregation of self-interest maximizing behaviours does not spontaneously lead to an ethical and moral collective good, far from it. If it is to exist, this ethical and moral collective good has to be defined as a political project. It can only articulate with the contemporary capitalist architecture through a regulatory agenda that could be proposed and championed at the national and/or at the transnational level (Djelic and Quack, 2003; Dunning, 2003; Djelic and Sahlin-Andersson, 2005).

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