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Lehmann's Analytical Inconsistencies on Liberalism and Capitalism

Review of Lehmann, P.-J., *Liberalism and Capitalism Today* (London, Hoboken: ISTE Ltd. and Johnny Wiley & Sons, 2021, 214 pages, ISBN 978-1-78630-689-0)

Paul-Jacques Lehmann, Emeritus Professor of Economics at the University of Rouen, has written many books on theoretical, practical, and historical problems concerning monetary and financial fields. From all these valuable contributors, one is shedding light on *Liberalism and Capitalism Today*, published at ISTE Ltd. and Johnny Wiley & Sons, Inc. in Great Britain and the USA in 2021. Throughout the book, he provides an optimistic view of the future of capitalism and liberalism in the context of the COVID-19 crisis by looking back to other crises that markets have been through and how they have been overcome. Analyzing the causes and the effects of these crises, and exposing the theoretical structures of capitalism and liberalism, Lehman underlines the necessity of maintaining the principles on which liberalism and capitalism are based despite the more negative effects they have.

The book is divided into two main parts. Firstly, Lehmann deals with the problem of the origins of capitalism and liberalism and their political, economic, and sociological conditions of emergence. Secondly, he tackles the development of capitalism in the 21st century regarding both its advantages and disadvantages. Therefore, Lehmann aims to evaluate how these ideological and economic systems have appeared, developed, and then determined the social and economic field of society over time. In this sense, the author uses the views of two great figures in politics and forerunning sociology: Alexis de Tocqueville and Max Weber, thus adopting methodological individualism for his analysis. His choice is based on the 'troubled' moderate liberalism of these authors, which were 'favorable a priori to capitalism, but did not hide questions in the face of the already present drifts of this system of their time'. Lehmann is also employing notions from Adam Smith and more contemporary authors such as Hayek or Schumpeter.

The first part focuses on the conceptual structures of capitalism and liberalism and a comparative analysis of them, highlighting their main difference: the view on monopolies. Moreover, it is an introduction to the main ideas of Tocqueville and Weber, especially the latter. Lehmann argues that there can be no capitalism without liberalism as its political and legal structure – the latter was and still is a *condition sine qua non* of a full-on capitalist economy. That is a consequence of the fact that liberalism extends the right of ownership of individuals – economic freedom of rational agents – and thus, capitalism is possible. Liberalism emphasizes the superiority of the individual to that of society, and this notion brings with it the view that individuals are the source of development within society. Consequently, liberalism considers work as a central motivation that individuals must concern with to improve their social conditions. This is also the main point of Weber's view on the Protestant spirit of capitalism: 'For everyone without exception, God's Providence has prepared a calling, which he should profess and in which he should labor' (Weber, 2001, 106). Individuals promoting their well-being will eventually encourage the economic development of their country. A liberal society is based on individual interests and thus on *homo economicus*, which means that each individual seeks to maximize their well-being.

Capitalism depends on the principle of economic freedom of rational agents. There through, the question of the state's role in the economy is fundamental concerning the liberty of individuals. Initially, Adam Smith refuted any intervention of the state as undermining individual rights. Then, Tocqueville sought that the protections from the state will eventually become more and more pressing and will increasingly grow in demand; thus, the state's role will be too significant for individuals. History also recalls valuable positions such as Hayek's, who thought that the state's action should be diminished to maintain transparent and general rules of individual conduct in the free market economy, proposing an anti-theological and spontaneous view of the market named 'catallaxy'. Any intervention by the state in economy means a violation of individual freedom and leads to the disruption of free trade.

Liberals generally agree that the state's power should not be extended more than necessary. As a matter of fact, many liberals reduce the state to the role of enforcing private property rights and general, abstract, and a priori non-contradictory rules, disregarding the details of particular conditions of individuals. Lehmann highlights that, however, the significant

disjunctions within this tradition refer to what one thinks as ‘necessary’ concerning problems such as the commodification of health, education, or public transportation and infrastructure, which also leads to the problem of the general well-being of society. On the one hand, many liberals think such services should not be under the influence of market and profit-making logic because no one should be excluded from them and these services are unfit for market competitiveness. On the other hand, free-market liberals argue that the state should not decide what is good for citizens and which services are better than others. Gathering these perspectives, we reach the conclusion that the principle of supply and demand is much of the time necessary for many liberals and capitalism as such.

But although liberal positions differ either slightly or more consistently, there is also a core split between liberalism as a coherent conceptual apparatus and capitalism as its practical economic application. Liberalism rejects the existence of monopolies because the concentration of capital denies competition in the marketplace and thus small businesses. At a first glimpse, it denies individual freedom. On the contrary, as capitalism advances, the concentration of capital becomes rather a standard, and it develops into either monopolistic or oligopolistic structures. Therefore, liberals maintain that a free market should be competitive, where abstract rules govern a spontaneous economic order.

Lehmann points out that the core principles of democracy, namely formal equality, freedom, and responsibility of active agents of society, depend on liberalism. Tocqueville thought that only democracy is compatible with the latter, and such a system must reinforce three precepts: political equality (the rule of law), equality of opportunity, and equality of consideration. Albeit inequality is inevitable, there are many ‘fair inequalities’ as long as equality is based on each person’s role in society. Ultimately, differences will arise from skills, merits, or responsibilities. Moreover, these inequalities motivate individuals to accumulate; it thus becomes an engine of production and growth. With the emergence of the bourgeois class, aristocratic privileges became increasingly discredited and the above-mentioned values developed rather into the standard ethic. A new, dynamic system, made it possible for every member of society to better his or her condition by working, risk-taking, and bearing responsibility. The emergence of a growing middle-class was essential. Its existence as a social body was, for Weber, prior to capitalism, and it is due to initiatives of the bourgeoisie that capital

has developed through a process of rationalization and bureaucratization because the bourgeois individuals were 'risk-takers, calculating and daring men at the same time, wise and greedy, who amass more than they spend'. Nonetheless, for Weber, forms of capitalism had existed long before it emerged as a complete system, but, given the contexts, it never evolved as such. The growing mercantilism in Northern Italy and the Dutch Republic accelerated the European pre-modernity's process of rationalization, bureaucratization, and the rational, legitimated state where a capitalist system could develop. For Weber, unlike many liberals considering bureaucratization a trait of socialism, capitalism is not only compatible with the bureaucracy but favors its development by allowing it to have the necessary financial means at its disposal through taxation. Thus, capitalism represents the most rational economic basis for its existence: 'If capitalism corresponds to economic rationalization, bureaucracy corresponds to the rationalization of power.' Weber's theory on the decisive influence of the Protestant ethics on the development of capitalism does not assume that the newly reformed dogma *caused* capitalism, but it rather pushed it through ethics valuing material success and rationally seeking goods. The rationalization totalized the social life as a source of progress and, as Luther claimed, the work of people made it possible to control nature. Individuals were not anymore under the influence of religion, tradition, customs, or ethical ideas, and social relations became impersonal, with each pursuing his or her interest seeking maximizing benefits, and minimizing costs. It was a social group already engaging in economic activities, which once assuming the Protestant ethic became the bourgeois class. Their moral code banishes idleness, laziness, and pleasure in favor of work, especially savings and accumulation of capital, with working becoming the first obligation of individuals towards God: it has a moral purpose, not only an economic one. The profits were not to be spent – it was a sin – but they had to be reinvested or saved. Now, the spirit of capitalism is born.

Concerning economic and sociological conditions, the context in which liberalism could impose its economic system was taking place. Lehmann emphasizes the view of Tocqueville, which thought it was not the trade, which generated freedom, but freedom preceded and allowed trade to evolve. Weber wrote an economic history based rather on exchanges. Overcoming such perspective, Tocqueville takes a descriptive approach to the American value of freedom and trade and the relation between the two, noticing the lesser role of agriculture and the rising of industrial capitalism. Because people saw a better chance of earning money in industries, they

had a proclivity for moving to cities and professing. For Weber, the circulation of goods began with luxury products. This fact allowed the establishment of periodic markets, together with regular products of artisans, farmers, and local traders. Lehmann underlines that freedom of trade is the consequence of freedom of work within a decentralized market that determines what is to be produced.

Throughout Lehmann's analysis, liberalism has to be conceptually prior to capitalism. However, it should be noticed that he does not seem to take into consideration the distinction between a conceptual structure and its historical development. He seems to take for granted that an ideology such as liberalism has existed before the economic system that it had to legitimate, advancing the view that capitalism is an 'application' of liberal ideas. Even though nowadays capitalism depends on the individualist ideology of liberalism, the historical conditions of its development remain inconsistent during his analysis. On the one hand, this view does not take into consideration the historical specificities of capitalism compared to the prior economic conditions from which it emerged. On the other hand, by crediting Weber's analysis, the problem regarding the view that liberal principles existed before capitalist practices only deepen because Weber's analysis has been scholarly proven as circular. He presupposes capitalism before its existence as a 'complete' economic system – thus having nothing to say of its origins per se and missing the historical context of its emergence. For further reading on the circularity of Weber's analysis, the naturalization of capitalism, and why the material conditions have to be addressed first, Meiksins's *The Origin of Capitalism* may provide the best response to the problems encountered above.

Regarding the critiques of capitalism and liberalism, Lehmann recalls the destructive effects on 'humanity' that capitalism has caused because of the division of labor, the conditions in which industrial revolutions were taking place, the growing inequalities, 'industrial aristocracy', and pauperism. The class of industrial capitalists, acquiring power, reduced the workers to 'the slave condition of modern times'. On the one hand, the new industrial revolutions have led capital to more and more corporate concentration. On the other, pauperism has grown. In this sense, Lehmann highlights the contradiction of capitalist development: 'If modern democracy was characterized by the constant improvement of well-being and the search for equality, it simultaneously generated industrial development and pauperism', a contrast,

which was also noticed by Tocqueville, who was not such a liberal in the economic field. He proposed a non-taxation system supplanted by social assistance. In contrast, Weber pointed out that working classes could not attain any class consciousness by continuing to believe in the promises of eternal happiness. Later on, he rejected the idea, believing that state intervention was necessary for both political and economic stability. However, Lehmann's choices regarding the critiques of capitalism are more or less justified. Although his inquiries, as well as Weber's and Tocqueville's, have as starting point the assumption that the principles of capitalism should be a priori assumed, the harshest critiques of both liberalism and capitalism have been those refuting the very foundational principles, which may have been the revolutionary critiques or those belonging to the traditions they have left behind.

The development of capitalism has led to many questions about its legitimacy. The experiences of the 20th and 21st-century crises have morally challenged capitalism. For an analysis of these events, Lehmann focuses on the dynamics of financial markets and speculation as the main causes of these debacles that have been occurring from the 18th century on, stressing the negative role played by overconfidence in the abstract models of economic rationality. Even though crises have existed long before capitalism, they are nonetheless intrinsic to it. The crashes following 1929 have been predicted by the unleashing of the gold standard and fixed exchange rate system, which allowed a 'natural' control of monetary expansion. Because the quantity of money was no longer limited by the available stock of gold, finance has gone into an 'anarchic' expansion of the money supply. The 20th-century financial capitalism has thus gone through many runs of instability and deregulations. Even though speculation and effectiveness are necessary for the economy, Lehmann underlines that irrationality in these areas must be condemned. Speculation is not bad or immoral in itself, but it has to be rationally applied to financial markets for its useful effects on the economy.

Lehmann thinks that these crashes must be prevented *a priori* as much as possible, and the contexts favoring crisis to happen to be avoided. However, Lehman addresses rather vaguely the question of *avoiding* or *escaping* problems that are inevitable and intrinsic to financial markets. The very possibility of a priori prevention is to be questioned because the contexts of the crisis vary greatly, and new situations may find us completely unprepared, such as the current COVID-19 did. There seems to be a slight inconsistency here: one should tame an inevitable

crisis, thus *preserving* the probability of crushing itself by maintaining its causes. Although Lehmann advocates for a more concerned with concrete social effects liberalism – because it often tends to be too theoretical (regarding, for example, the transparency of markets and models of competition or price formation) – his requirement seems, however, to be just as theoretical as the ones he is criticizing.

Lehmann's discourse and analysis, although coherent and detailed, lack normative substance because he reinforces the very principles whose effects he is criticizing. The measures proposed by him regarding renewed corporate governance: responsibility, ensuring ethics, not leaving aside ecological aspects, accepting fair inequalities, giving meaning to work, minimizing state intervention or free competition, are missing the point of questioning the very foundations on which capitalism and liberalism are based even though they have provided the most efficient economic system ever applied. Even though Lehmann does not believe to be any alternative to capitalism more fit for democracy and economic prosperity, questioning the concept of efficiency and especially the logic of capitalist growth does not necessarily lead to a systemic replacement of them. Principles could be reformed themselves and not only mitigated their unfortunate outcomes by correcting some inconveniences when, in fact, the bases of capitalism are also to be blamed (as the primacy of individual interest has been). Moreover, the concepts of 'efficiency' and 'growth' are themselves to be questioned because the historical contexts of the emergence of liberal philosophies have changed and these principles have to be revisited. Thus, welfare may be today a problem of distribution of wealth and social stratification rather than one of the available resources and as the capitalist demands of incessant growth have already left their mark on climate change, the question of whether this model of economic development is the proper one for a sustainable society must be posed. Foundational principles should be challenged because they shape the framework and the outcomes of theoretical structures. Otherwise, the liberal way of addressing these issues by reinforcing their causes would only be a circular way of begging the question.

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