

The Kantian Ethic of Capitalism

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Some authors (e.g., Evan & Freeman, 1993; Phillips, 2003) have suggested Kantian ethics as a foundation for schemes designed to put limitations on the possibilities for voluntary exchange. This is a misuse of Kant. As the ultimate expression of classical liberalism, Kant's moral philosophy provides an ethical endorsement for exactly the system of economics that was described by Kant's contemporary Adam Smith. The present article outlines that philosophy and shows how it is related to the principles of free-market capitalism.

Who Was Immanuel Kant?

Kant was born in Prussia in 1724, a year after Adam Smith was born in Scotland. His father was a saddler, and for all his life Kant displayed the commonsense attitudes of a small entrepreneur. His writing is filled with catchphrases he must have picked up at the family dinner table: "Contract no debt for which you cannot give security"; "be thrifty, then, so that you will not become destitute"; "be no man's lackey" (Kant, 1996b, 188); "he who would like to eat bread should contrive a mill" (Kant, 1996a, 40). Later in his life, his closest companions were businessmen, and even the most speculative of his treatises is filled with expressions he had picked up from them (Kuehn, 2001, 241). In one place he says, "It is bad economy to spend blindly whatever comes in without being able later . . . to distinguish the part of the revenue that can cover the expenses from the part that must be cut" (Kant, 1998, 207). In another place, he describes an argument as particularly weak by saying it is like a merchant trying to "improve his financial state by adding a few zeroes to his cash balance" (569).

He received his doctorate in 1755 and was allowed to lecture as

“private teacher” (*Privatdozent*), which meant he had no official position but could earn as much as his students were willing to pay. Adam Smith, who had some familiarity with the universities of the time, said that professors who could rely on a salary showed little concern for the quality of their lectures. The only ones who ever became good instructors were those who were entirely dependent on the fees paid by their students (Smith, 1937, 716-21). Kant fell into the latter category, mastered the art of teaching, and found his classes full. Included among those attending his lectures were many who were not even enrolled in the university, including a Polish nobleman who left his possessions every winter to enjoy the benefits of Kant’s instruction (Stuckenberg, 1990, 78 and 366).

Kant was, in fact, something of an educational entrepreneur. The work of a *Privatdozent* tended to be less than highly remunerative; few could afford to engage in it without some other source of income (Kuehn, 2001, 66). Kant compensated by maintaining a careful budget and teaching a large number of classes. He could become quickly familiar with any field he chose and could therefore talk about anything in which the people of Königsberg might be interested (Stuckenberg, 1990, 51-58).

One of the topics on which Kant lectured was economics. (Kuehn, 2001, 324). In *The Metaphysics of Morals*, he specifically refers to Adam Smith (1996b, 69-71), and he remarks elsewhere that without the division of labor and in situations where “each is a jack-of-all trades, there the trades still remain in the greatest barbarism” (Kant, 2002, 4). He clearly understood and came very close to specifically enunciating the relation between money supply and prices (Kant, 1996b, 68-68; see also 27). In one place he writes about an “affective price,” which arises “in accord with certain tastes” (Kant, 2002, 52-53), describing thereby a price that was the result of individual preferences than objective value. This comes very close to what Mises (1996, 20-21, 27, 94-96) called the subjective theory of value.

In 1770, Kant gained a professorship and began the work that made him famous. Up to this point in his life, his primary interests had

been science and mathematics. Will and Ariel Durant (1967, 532) have gone so far as to say that if he were remembered for what he did in the first 46 years of his life, he would be remembered as a scientist. After the publication of *Critique of Pure Reason* in 1781, his name became a synonym for philosophy (Durant, 1926, 192). The size of his achievement may be measured by the fact that of the fifteen volumes in a paperback printing of Frederick Copleston's *History of Philosophy*, all of one volume and most of another are about Kant. Copleston, a Jesuit and an Aristotelian, devotes more space to Kant than to Thomas Aquinas and Aristotle combined.

Kant has a bad reputation among free-market libertarians primarily because he was maligned by Ayn Rand (1967, 246), who accused him of having "divorced reason from reality." Her dislike for him may have come from the fact that she knew of him only by way of "his intellectual descendants," who have indeed misrepresented him. This is especially true of his epistemology, but it applies also to his ethics. Most of those who have written about Kant, says Professor Roger Sullivan (1996, vii), have contented themselves with reporting on only a part of his work, rejecting everything that does not fit with the way in which they have made up their minds to interpret him.

Rand, furthermore, may be guilty of protesting too much. John Galt's speech in *Atlas Shrugged* drips with Kantian philosophy. The inscription above the door to the Galt's Gulch powerhouse ("I will never live for the sake of another man or ask another man to live for mine" [Rand, 1957, 675]) seems to be no more than an abbreviated imitation of one of the ways in which Kant phrased his Categorical Imperative: "Act so that you use humanity, as much in your own person as in the person of very other, always at the same time as an end and never merely as a means" (Kant, 2002, 46-47). If Rand was not imitating Kant, her lines are a testimony to the soundness of his reasoning.

The Categorical Imperative: First Formula

His famous and widely misunderstood epistemology

notwithstanding, Kant was not interested primarily in how we learn about external reality. His central concern was ethics. The question, "What can I know?" he said (1998, 677), was "merely speculative" and deserved attention only for the sake of two vastly more important queries: "What should I do?" and "What may I hope?" He wanted to show that morality has a claim upon us even in the absence of perfect knowledge (Kuehn, 2001, 265).

Our lack of perfect knowledge is exactly the difficulty we run into when we attempt to learn about morality by watching what people do. Kant (2002, 4) described such an approach to the study of ethics as "practical anthropology." If we take this approach, we soon find it is difficult to separate morality from the other factors that come into play. Two different people may be doing entirely different things, and both of them may seem to be getting away with it. Two societies following very dissimilar social policies may both be prosperous. Something may seem to work at one time but not at another. This is the problem to which Mises (1996, 31) refers as "complex phenomena:" the threads of causation intertwine, and it is impossible to be sure about which is determinative for whatever it is we may be studying. Even the great positivist Milton Friedman admits to the truth of this position: "Historical evidence by itself," he says (2002, 11), "can never be convincing."

As far as Kant was concerned, the only acceptable approach to the study of morality was logical analysis. He wanted to do more, however, than simply abstract from the particulars and arrive at generalizations. The analysis of empirical data has its place, he said (remember his early career in science and mathematics), but it is a poor tool for the examination of ethical standards. Moral philosophy seeks to discover "what ought to happen, even if it never does happen" (Kant, 2002, 44). Even if experience has taught us that all men are liars, for example, we still know that we ought to tell the truth.

According to Kant (2002, 5), we can address the core issues of morality only by means of disciplined logic. The indispensable tool is the law of non-contradiction, and the lesson it teaches is what Kant (37)

described as the Categorical Imperative: “Act only in accordance with that maxim through which you can at the same time will that it become a universal law.”

Kant said that everything we do can be referred back to some “maxim,” which was his word for a general principle of behavior. If the general principle underlying a particular action could be universally applied, that action is moral. If a universal application of the underlying principle would run into the law of non-contradiction, the behavior is immoral. I may know, for example, that I can get myself out of a particular difficulty by making a promise I do not intend to keep. The underlying principle is that it is all right to make lying promises. If everyone made promises without any intention of keeping them, though, promises would never be believed. If promises were never believed, I could not get myself out of trouble by lying, because no one would believe me (Kant, 2002, 39). I know the action is immoral because I see that when it is carried to the ultimate extreme it contradicts itself.

This is a point on which Kant disagrees with modern positivism. Milton Friedman (2002, 167), for example, says merely that society is held together by “a basic core of value judgments that are unthinkingly accepted by the great bulk of its members.” Kant would argue that the Categorical Imperative points to a moral absolute: a value or practice that violates morality, even if “unthinkingly accepted,” is socially destructive. He gave the example of fighting duels, which was a common custom in the world of his day. (Two students at the University of Jena fought a duel over their different interpretations of Kant’s *Critique of Pure Reason* [Kuehn, 2001, 319]). The maxim or underlying principle of dueling is that you may kill anyone who offends you. If universalized, this maxim would lead quickly to the elimination of every potential offender. Dueling would disappear because society would collapse (Kant, 1996, 32).

The fact that the forcible redistribution of income has been “unthinkingly accepted” by most of the American population is not enough to make the practice moral. The maxim “To each according to

his need” divorces consumption from production. Without production, however, there can be no consumption. Not even the fruits of nature can be consumed if no one harvests them. Any maxim that endorses consumption without reference to production runs very quickly into the law of non-contradiction and, therefore, is immoral quite without regard to how many people have come to think of it as acceptable.

Kant was not entirely blind to the fact that social norms often prevented an accepted custom from being carried to its logical conclusion. Dueling, for example, was surrounded by practices that made it less damaging than it might otherwise have been. A duel to which both parties had not agreed would be a murder and therefore punishable under the law. Kant himself was once challenged to a duel over his opinions on free trade. He ignored the challenge, went on with his comments, and turned a potential adversary into his best friend (Stuckenberg, 1990, 198). His own experience taught him that the custom of dueling was less dangerous in practice than it was in theory.

Nevertheless, the dangerous tendency was there, and Kant was more interested in the tendency than in observable results. Social consequences, remember, are “complex phenomena” (Mises, 1996, 31): it is impossible to predict everything that might intervene to prevent or exacerbate a particular effect. The Kantian method strips away all the empirical data to examine the decision itself in the light of pure reason.

Such a line of reasoning never raises the administrative questions of how to identify the “needy” and of how to set up an apparatus to provide for them. It does not address the problems of perverse incentives and bureaucracy. It bypasses the economist’s concern with efficiency. It does not deny that the welfare state is impractical, but it insists that this impracticality is the result of something deeper. The redistribution of wealth is immoral, it says, and nothing immoral is likely to work well in practice.

Unlike the principle underlying the welfare state, the maxim of capitalism meets the tests both of economic efficiency and Kantian morality. “To each according to what he and the instruments he owns produces” (Friedman, 2002, 161-62): The principle is moral because it

can be universalized without running into the law of non-contradiction. Obedience to this principle cannot prevent economic difficulties, for the empirical fact of scarcity remains. Morality, however, is the key to the effective use of whatever resources a society may actually have at its disposal.

The Categorical Imperative: Second Formula

Kant would say redistribution is immoral because the maxim upon which it is based cannot be universally applied without running into the law of non-contradiction. The welfare state is immoral also because it allows the recipient to make demands upon the taxpayer without providing the taxpayer an equivalent value in return. Redistribution is immoral, more generally, because it allows one person to treat another as no more than a means to the first person's ends.

“Act so that you use humanity, as much in your own person as in the person of every other, always at the same time as end and never merely as means,” Kant (2002, 46-47) said this is another way to formulate the Categorical Imperative. The earlier formulation had been the result of his conviction that human rationality can demonstrate the results of any maxim's having become a universal principle of action. The individual human mind is therefore the only thing in the universe that is capable of distinguishing between right and wrong and as such demands ultimate respect: “*Rational nature exists as an end in itself*” and must never be treated merely as a means to some other end.

In terms of the Categorical Imperative's first formulation, if the maxim that one could treat others as no more than means to one's own ends were universalized, each person would seek to treat every other as no more than a means. In this situation, every rational mind would be preoccupied with defending itself from the onslaught of every other rational mind, and society would disintegrate.

Kant did not deny we must sometimes treat other persons as means to our own ends. Moral problems arise only if we attempt to treat them as means without treating them also as ends in themselves (Copleston, 1967, VI, ii, 20). The natural end of all human beings is

their own happiness, so a person can treat humanity as an end in itself by seeking, “as much as he can, to further the ends of others”; the ends of the people with whom I come into contact “must as far as possible be my ends” (Kant, 2002, 48).

This is what happens in free markets. Adam Smith’s famously self-interested butcher and baker (Smith, 1937, 14) could reach their own ends only through a conscious and deliberate effort to serve the purposes of their customers. The customers, equally self-interested, had to provide something the businessmen wanted in order to obtain the requested services. On one side of the transaction, there was a desire for money to replenish inventories, provide for the needs of Mrs. Butcher, Mrs. Baker and all the little Butchers and Bakers, and perhaps (a century before the appearance of the welfare state) set something aside for retirement. On the other side, there was a desire for meat, bread, and perhaps a bit of cake for the evening meal. On both sides of the transaction, individuals were using others as a means to their own ends by becoming one means to the ends of those with whom they were doing business.

The immorality of redistribution lies in the elimination of this mutuality. The voter seeks to use the taxpayer as a means to the voter’s financial security without at the same time deliberately choosing to do something that will serve the taxpayer. The politician attempts to use both the taxpayer and the voter as a means to the politician’s goals of power and tenure. The fact that the voter, the taxpayer, and perhaps even the politician may be the same person does not raise the scheme to the level of morality. It indicates only, as Herbert Schlossberg (1990, 281) has pointed out, that the person in question believes he can enrich himself by picking his own pocket.

Trade restrictions also fall short of the Kantian standard. In an attempt to use their limited resources as efficiently as possible, consumers purchase the products and services of foreign vendors. This interferes with domestic producers’ desire to maintain the high prices upon which their wage levels and profits depend. In limiting customers to the purchase of domestic products, producers are seeking to serve

their own ends without at the same time serving the ends of their customers. Domestic producers are seeking to use domestic consumers simply as means to the producers' ends.

Trade restrictions fail as well when tested by the Categorical Imperative's first formulation. The maxim seems to be that it is acceptable to hinder free exchanges. If this were true, then all exchanges would be prevented, there would be no division of labor, and every economy would come to a grinding halt. Those who seek protection would find they have nothing to protect. The policy would destroy itself.

The Role of the State

The Categorical Imperative is a Kantian formula but not a uniquely Kantian insight. To will the universalization of the principle underlying your choices is to will (perhaps among other things) that others should treat you as you treat them. Kant's American contemporary Benjamin Franklin offered this as the first of his four precepts for a rational morality (Smith, 1934, 522). Early in the third century, Alexander Severus had these words engraved on the walls of his palace and public buildings: "What you do not wish a man to do to you, do not do to him." Two and a half centuries earlier, Hillel was asked for a brief summary of the Jewish Law and replied, "What is hateful to thyself do not do to another" (Durant, 1944, p539, 626). Jesus agreed; his summary went like this: "So whatever you wish men that men would do to you, do so to them" (Matthew 7:12, RSV). Five centuries before that, Confucius said a gentleman would practice *shu*, "altruism, reciprocity," which is summed up in the *Analects* as "not doing to others what you do not like yourself" (Reischauer & Fairbank, 1958, 71).

If the Kant's first principle of morality seems thus to enjoy an almost universal endorsement, it may be said also to suffer from an almost universal neglect. "If it were a thing obvious and easy for every man to *know himself*," Plutarch (2001, II, 389) observed, "the precept had not passed for an oracle." Just so, if people usually treated others as

they would themselves prefer to be treated, the maxim would never have gained such a wide popularity. In describing a person as being in favor of “a free market for everyone else, while regarding himself as deserving of special treatment,” Friedman (2002, 68) is pointing to a universal tendency. We all recognize the validity of the Categorical Imperative, Kant (2002, 42) says, “yet we take the liberty of making an *exception* for ourselves.” We are rational beings, yet our “pathological affections” (Kant, 1996a, 48) often get in the way. We seek to live by standards we would find reprehensible in the behavior of others and to impose on those about us rules we would be reluctant to accept for ourselves.

In a state of nature, this human flaw creates a condition in which no one’s freedom and property can be permanently secure. Drawing again on the law of non-contradiction, Kant (1996b, 44-45) argues that he is “not under obligation to leave external objects belonging to others untouched unless everyone else provides me assurance that he will behave in accordance with the same principle.” This line of reasoning should not be taken too literally in the case of Kant himself, who stood under 5’4” and weighed less than 100 pounds, but his point is clear: social stability requires assurances of some kind with regard to the protection of property. “So only in a civil condition can something external be mine or yours.”

To this statement Kant (1996b, 45) attaches the corollary that property is impossible unless its owner is in a position “to constrain everyone else with whom he comes into conflict about whether an external object is his or another’s.” It is from this necessity that the coercive power of the state arises. Given the fact of humanity’s universally flawed character, freedom and property cannot survive in the absence of some authority with the power to protect them. In practice, “human rights and the authorization to use coercion mean one and the same thing” (26).

Governments are necessary, Kant (1996b, 24-26, 89-91) said, primarily to secure citizens against violence and to protect their property. A government has no right to pass laws “contrary to the

natural laws of freedom.” It is appropriate to use external constraint in the enforcement of a voluntarily contracted obligation because the individual’s own rational and moral analysis should have impelled him to carry out the terms of the contract. The power of government does no more than back up the dictates of reason. On the other hand, no government has the right to pass laws that demand disobedience to the Categorical Imperative.

As soon as the state attempts to do more than protect freedom and property, it has gone too far. Kant could never have conceived of government as being responsible for the welfare and happiness of each individual citizen (Sullivan, 1996, xiv). “Freedom,” he said (1996b, 30) “is the only original right belonging to every man by virtue of his humanity.” Human beings naturally desire and happiness (151) and may be expected to use their freedom, however imperfectly, in the pursuit of it. The just state will therefore treat its citizens “in accordance with the laws of their own independence: each is in possession of himself and is not dependent upon the absolute will of another alongside him or above him” (94).

The Dangers of Paternalism

The duty of beneficence flows directly from the Categorical Imperative, for anyone who found himself in a straitened condition would hope for the assistance of his fellows (Kant, 1996b, 202). Early in his life, when Kant’s own situation was far from comfortable, he managed somehow to find enough to help those whose difficulties were greater than his own (Copleston, 1962, VI, i, 213); years of thrift and the success of his investments with Green, Motherby, and Company later allowed him to bestow pensions on his younger sister and his brother’s widow (Stuckenberg, 1990, 183). He was charitable himself but insisted that it could never be one person’s duty to demand this virtue of other people. My duty with regard to the benevolence of another is entirely negative, to leave him as free as possible either to exercise it or not, according to his own understanding of his responsibilities. “It is a contradiction for me to make another’s perfection my end and consider

myself under obligation to promote this” (Kant, 1996b, 156).

On this point Kant can perhaps be seen as in conflict with himself. His doctrine of freedom implies that with regard to “the disadvantaged” a person should be entirely free to help them or not, as his or her own conscience may dictate. The success of such a philosophy is evident in the fact that, as Friedman (2002, p190-91) observes, in the “heyday of laissez-faire, the middle and late nineteenth century,” private charities proliferated. Kant was not content, however, to depend entirely on the results that could be achieved by means of personal benevolence. He said the state is entirely within its rights when it taxes those who owe the security of their property to its protection for the sake of those who cannot take care of themselves (1996b, 101).

He admitted to the dangers of such a system. Among the flaws of human nature is “a widespread propensity to servility” (Kant, 1996b, 188). Even at its best, the human personality is an “ambiguous hybrid of angel and beast” (208); not much of incentive is required to call it down from its potential for rationality and morality. The paternalistic state, he said, is “the most despotic of all,” because it “treats citizens as children” (94). There is also a danger that the institutions created for the sake of helping the less fortunate will take on a life of their own and impose net costs on the public welfare (135).

Conclusion

The liberal, Friedman (2002, 195) says, believes in “the dignity of the individual, in his freedom to make the most of his capacities and opportunities.” But how can anyone believe such a thing? For most of history and in most of the world even today, individuals have not been and are not treated as if they had any dignity and certainly not as if they should be free to make the most of their capacities and opportunities (Rosenberg & Birdzell, 1986, 1-3). “The typical state of mankind,” Friedman admits, “is tyranny, servitude, and misery” (9). Each of us may feel that he or she is important, but if we demand empirical verification we must see that our feelings can not carry much weight in the face of overwhelming historical evidence to the contrary.

Positivists may believe in the dignity of the individual, Kant would have said, but their philosophy provides no foundation for their convictions. The empirical data provide little support for belief in the human being's right to make free choices and rise to level of his or her potential. We can come to such a conviction only by means of pure reason. The individual mind deserves both ultimate respect and the freedom to choose, for it is the only thing in the universe that is capable of distinguishing between right and wrong. Although distorted by "pathological affections" (Kant, 1996a, 48), individual decisions are always made with reference to a moral compass and never lose their capacity for the display of virtue. Persons who have been deprived of the right to make their own choices have been deprived also of their ability to strive for the moral perfection that Kant regarded as the highest level of existence.

A few years before Kant published his first great treatise, Adam Smith said this with regard to the use of material assets:

The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but would assume an authority which could not safely be trusted, not only to no single person, but to no council or senate whatever, and which could nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it (1937, 423).

What Smith argued with regard to the use of physical capital, Kant argued with regard to the use of spiritual capital. Smith said that no one is better informed about a particular economic situation or more highly motivated to make an effective use of it than the person most immediately concerned. Kant said in effect that no one is more familiar with the facts of a particular moral dilemma or more highly motivated to arrive at the right solution than the person most immediately concerned. Many economic decisions turn out to have been mistaken,

and many moral choices are the wrong ones. In both cases, though, errors are fewer, less destructive, and more easily corrected when the individual chooses for him/herself than they would be if decisions were left to a third party.

Samuel Fleishacker (1999) has argued at some length that *The Wealth of Nations* is concerned less with economic efficiency than with the exercise of personal judgment. To the extent that this is true, Smith's theme is the same as Kant's. For Smith, the individual is the locus of economic responsibility because personal desire is the source of economic activity. For Kant, the individual is the locus of moral responsibility because personal rationality is the source of moral principle. The ethic of capitalism is a Kantian ethic because it insists upon individual choice as the key to social organization.

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