

# Bourgeois Virtues Foster Capitalism; Does Capitalism Foster Bourgeois Virtues?

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## Abstract

Bourgeois virtues foster economic growth and prosperity. Economic growth leads to government growth, partly because increasingly complex property rights demand a larger government to define and enforce them, partly in response to elites who want to control government for their benefit, and partly in response to the demands of the masses to rein in concentrated economic power. Government undermines the bourgeois values that maintain a market economy, so the values that produce economic growth also produce institutional changes that undermine those values.

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## I. Introduction

A succinct summary of McCloskey's impressive trilogy, contained in the subtitle of the third volume (2016), is that "ideas, not capital or institutions, enriched the world." The first volume (2006) explains what these ideas are, the second volume (2010) shows the shortcomings of other explanations for the remarkable and unprecedented economic prosperity the world has enjoyed since the beginning of the Industrial Revolution, and the third volume explains how those ideas have generated prosperity. McCloskey's analysis is thorough and convincing. I suspect that you, the reader, have little interest in hearing why I agree with McCloskey, who has stated her case more eloquently than I can, so I will focus on a related issue. We agree that bourgeois virtues foster capitalism, the economic system that has generated continually increasing prosperity. A line of reasoning, contained in McCloskey's books but not really developed, suggests that capitalism encourages government growth, which undermines the bourgeois virtues that have been responsible for capitalism's success.

McCloskey observes (2006, p. 242) that “As a system . . . capitalism, in modern times is a great triumph of cooperation.” She quotes Robert Nozick, who says “what is desired is an organization of society optimal for people who are far less than ideal, optimal also for much better people, and which is such that living under such an organization tends to make people better and more ideal”; she goes on to say, “Nozick and I say it’s capitalism” (2006, p. 27). McCloskey begins the first book of her trilogy by saying, “You will find here . . . an ‘apology’ for capitalism in its American form.” (2006, p. 1). The argument developed below is that as capitalism in its American form matures, it may undermine the bourgeois virtues that created it.

McCloskey (2016, p. xv) says, “The modern world was not caused by ‘capitalism,’ which is ancient and ubiquitous . . . The modern world was caused by egalitarian liberalism.” She suggests that “we should drop the word [capitalism] because it has led people astray” (2016, p. 93). It leads people to think that investment has made us rich, rather than the innovation that comes from liberty. Perhaps. But she did begin her first volume by saying that the trilogy is an apology for capitalism in its American form. The virtues she promotes are the foundation for the American form of capitalism she defends.

McCloskey (2006) persuasively argues that the remarkable and unprecedented economic prosperity the world has seen since the beginning of the Industrial Revolution is inextricably intertwined with a virtuous ethic that both is necessary for a productive economy and is fostered by it. McCloskey (2006, p. 128) says that “real economies depend on real virtues.” She says of the virtues she preaches (2006, p. 432) that “such values are necessary for markets to work, and that a society without . . . [them] . . . will be . . . nightmarish.” And she is “preaching, as everyone should, in favor of ‘virtue’” (2006, p. 201). Virtue is necessary for a thriving commercial society. The argument that follows says there is reason to think that the institutional development that accompanies economic progress may undermine virtuous behavior.

## II. Bourgeois Values

Simply by employing the term *bourgeois*, McCloskey evokes the image of a class struggle between the bourgeoisie and the proletariat, as described by Marx and Engels. She reinforces that image by, on many occasions throughout the book, referring to ideas before and after

1848, the year *The Communist Manifesto* was published.<sup>1</sup> The idea of class struggle and differences in the interests of different classes, prominent in Europe in 1848, persists today. Twentieth-century sociology and political science recast the division between bourgeoisie and proletariat as a division between elites and the masses. Bentley (1908), Truman (1951), and Mills (1956) lay foundations, and Bartels (2008), Hacker and Pierson (2010), and Gilens (2012) are twenty-first century examples. The Occupy Wall Street movement that began in 2011 divides people into the 1 percent and the 99 percent, and Stiglitz (2012) uses this Occupy language to describe the same division that Marx and Engels were describing when referring to the bourgeoisie and the proletariat.

The idea of class struggles—one class against another—evoked by the term *bourgeois* remains current whether the classes are described as bourgeoisie and proletariat, elites and masses, or the 1 percent and the 99 percent. McCloskey has a broader vision of the bourgeoisie than is found in Marx, or by extension, in elite theory or the Occupy movement. McCloskey (2006, chap. 46) describes how capitalists engage in virtuous activities that benefit everyone, in stark contrast to the way the Occupy movement depicts the 1 percent. McCloskey (2010, p. 3) notes that she does not use the term “in its frequent Marxist sense.”

McCloskey (2006, p. 74) includes the middle class as bourgeois, grouping together “everybody from sweating assistant managers to glittering CEOs.” She remarks, “Marxists have long been vexed by the complacently bourgeois character of the American working class” (2010, p. 3). When reviewing McCloskey’s list of the seven virtues—love, faith, hope, justice, courage, temperance, and prudence—one might just as easily describe them as working class virtues, if one were taking a class-based approach toward analyzing them. The elite theory from sociology and political science would more readily identify those virtues with the masses than with the elite. Appealing to the current popular opinion, would the Occupy protesters associate those virtues more with the 1 percent or the 99 percent?

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<sup>1</sup> McCloskey (2016, p. 223) says, “By 1848 bourgeois ideology had wholly triumphed.” Yet in that same year, Marx and Engels began *The Communist Manifesto* by saying “A spectre is haunting Europe—the spectre of Communism.” Also in 1848, John Stuart Mill’s *Principles of Political Economy* was published, in which, after recounting the unfairness of the distribution of income under capitalism, he says (1848, p. 208), “If this or Communism were the alternative, all the difficulties, great or small, of Communism would be but as dust in the balance.”

McCloskey says these values provide the foundation for a productive market economy. For that to be the case, most market participants must act in accordance with them. They must be the values of the masses, not just the elite. McCloskey describes an expanding bourgeoisie as the productivity of capitalism has shifted employment away from repetitive tasks and manual labor toward more creative occupations. As bourgeois values expand to an ever-larger population, it may be that the elite, the 1 percent (Marx's bourgeoisie), leave those values behind for a set of values that differentially favors the elite over the masses.

Consider the aftermath of the bursting of the housing bubble in 2008. Homeowners lost their jobs in a severe recession. They could not make their mortgage payments and could not sell their houses because they owed more on their mortgages than their houses were worth. They were then foreclosed on. The fat-cat Wall Street financiers holding those nonperforming mortgages got government bailouts. Are those Wall Street fat cats exhibiting the virtues of prudence, temperance, love, or justice? Weren't the 1 percent taking imprudent risks? Is justice really served when the bankers who have evicted people from their homes are bailed out with tax dollars paid by those same homeowners?

Twenty-first century elite theory that pits the elite against the masses or the 1 percent against the 99 percent depicts an elite that uses its influence over government to bend the rules for its advantage at the expense of the masses. They do not act on McCloskey's bourgeois values. McCloskey (2010, p. 370), explaining the spread of bourgeois values, says that "resistance to the rent-seeking and redistribution that characterize an ageless mercantilism ... is precisely the liberty from interference that the bourgeoisie sought," suggesting a difference between the bourgeois values that generated prosperity and the cronyism and elitism that characterize the twenty-first century 1 percenters. Can capitalism undermine the bourgeois values that were responsible for initiating capitalist prosperity?

### **III. American Capitalism**

A capitalist economy depends on government enforcement of property rights and contracts for its success. One could imagine an anarchocapitalism in which private agencies secure property rights and enforce contracts, but that is not how capitalism has actually evolved. Capitalism has brought with it more government, not less. One reason is that a market economy requires secure protection of

property rights, and innovators have created increasingly complex ownership arrangements and asset classes, making it difficult for the owners of capital to know what they own, beyond a claim to a stream of earnings from a financial asset. What does the owner of a share of Boeing (or Enron) stock actually own, and how does that owner protect those ownership rights from predation? How are contracts interpreted and enforced when disputes arise? The answer, in fact, is that government defines and protects those rights and adjudicates disputes.

As capitalist economies have evolved and become more complex, the size and scope of government have grown in response. Government has not just grown along with the market economy, but in response to economic growth. More sophisticated ownership structures and forms of property require a more sophisticated enforcement structure to oversee them. A larger superstructure of government institutions to manage a more complex nexus of property rights is only one reason that economic growth brings with it government growth.

The Progressive Era regulatory state emerged as a response to the growing concentration of economic power. Ordinary citizens wanted government to expand to protect their economic well-being from concentrated and predatory economic power. The redistributive state grew in response to the perception that income inequality was a byproduct of capitalism, and that the economic security from increased wealth should be guaranteed to all. The history of capitalism has been one not only of economic growth, but of government growing as a share of the economy, both in expenditures and regulations. Sometimes government has aided economic growth, in what Olson (2000) refers to as market-augmenting government. Sometimes government has undercut markets, corrupting capitalism, as Stockman (2013) describes. For many reasons, government grew in response to economic growth.

Kolko (1963) offers an interesting take on the Progressive Era. Whereas the conventional wisdom is that the economic regulation at the beginning of the twentieth century was designed to rein in the robber barons' concentrated economic power and look out for the general public's economic interests, Kolko argues that, in fact, Progressive Era government intervention was designed by the economic elite for their benefit, to make it more difficult for newcomers to challenge their place at the top of the economic hierarchy. Kolko argues that government intervention was designed

by the elite, the 1 percent, for their benefit, in contrast to the conventional wisdom that it was designed to constrain them.

Regardless of whether one accepts Kolko's interpretation of history or the conventional wisdom, both versions depict an expansion in the size and scope of government in response to economic growth. Perhaps both interpretations contain an element of truth. Economic growth brings demands from both the 99 percent for more government oversight to control the actions of concentrated economic interests and from the 1 percent for interventions that constrain outsiders who challenge their positions.

Kolko's analysis of the Progressive Era fits well with Stigler's (1971) capture theory of regulation and with the rent-seeking framework of Tullock (1967) and Krueger (1974), but Kolko's analysis includes something the regulatory capture and rent-seeking literature omits, which is the explicit identification of an elite class of people who get the rents and capture the regulators. McCloskey (2016, p. 141) recognizes this as well, noting that in general, government projects "are directed not at general betterment but at enriching special interests at the expense of the generality." McCloskey (2016, p. 143) describes government regulation as "interference at best inspired by antique theories . . . and at worst by conspiracies to benefit existing rich people, backed by violence." Growing government benefits the elite at the expense of the masses.

Echoing Kolko's observations about Progressive Era regulation, McCloskey (2016, p. 144) observes, "The Interstate Commerce Commission, supposed to keep down rail rates charged to farmers, was swiftly captured by the railways and commenced keeping rates up. Because the rich and powerful run the government, the poor and other powerless have regularly been hurt by governmental regulation." Consider McCloskey's observation in the context of burgeoning government in all developed economies since the beginning of the twentieth century. Bigger government further disadvantages the poor and powerless.

McCloskey (2006, p. 43) says government spending "benefits politically well-connected construction unions and the owners of paving firms, not little kids from the inner city." Again expressing the view that the elite manipulate the system for their benefit, McCloskey (2006, p. 45) says, "It's the Golden Rule: Those who have the gold, rule." And again (2006, p. 47), "In consequence of the way politics actually works the American farm program, say, benefits not poor farmers but big farmers with access to senators from farm states."

She goes on to observe (2006, p. 50), “The spoofing Golden Rule—those who have the gold, rule—suggests why governments are nasty tools for fixing social problems.” She later says, (2006, p. 70): “The power elite runs things, I repeat.” If economic progress fosters government growth, McCloskey’s observations suggest that American capitalism, as it matures, undermines the values necessary for prosperity.

McCloskey emphasizes the virtues that are necessary for a productive and growing economy and minimizes the dark forces pushing in the other direction, toward an economic system biased toward an elite that does not act according to those virtues. As the quotations in the previous paragraph show, she recognizes those forces, but focuses on the values that have contributed to past successes rather than those that may be undermining the future. One reason is that she does not link government growth with economic growth.

Looking back, she notes, “The bourgeois project *is* on balance good and *has* in large part succeeded” (2006, p. 299, emphasis original). That success has depended on the values McCloskey promotes. Quoting Scottish philosopher Alasdair MacIntyre, she tells her readers, “The essential function of the virtues is clear. Without them . . . practices could not resist the corrupting power of institutions” (2006, p. 247). But have practices actually resisted the corrupting power of institutions? Stiglitz (2012, pp. 39–40) says, “We have a political system that gives inordinate power to those at the top, and they have used that power not only to limit the extent of redistribution but also to shape the rules of the game in their favor.” Using the Occupy terminology to describe how the system favors the 1 percent, Stiglitz (2012, p. 59) laments, “It’s one thing to win a ‘fair’ game. It’s quite another to be able to write the rules of the game—and to write them in ways that enhance one’s chances of winning. And it’s even worse if you can choose your own referees.” Is what Stiglitz is saying different from McCloskey’s observation that those who have the gold, rule?

McCloskey is looking back and expressing faith in the ethical foundation that brought unprecedented prosperity to most of the world. But the quotations above show she is cognizant and even supportive of the arguments Stiglitz makes. McCloskey’s faith in bourgeois virtues may not translate into the hope that those values

will continue to direct the American economy.<sup>2</sup> It may be that economic growth and development itself have pushed the ethical foundation of modern American capitalism beyond the virtues that produced its past successes.

#### IV. The Evolution of a Capitalist Economy

McCloskey (2006, p. 1) says she is writing “an ‘apology’ for capitalism in its American form,” but American capitalism has changed substantially from the beginning of the twentieth century to the beginning of the twenty-first. Federal government spending was 2.5 percent of GNP in 1913, the year the federal income tax was introduced, and peaked at 24.4 percent of GDP in 2009.<sup>3</sup> This growth in expenditures was accompanied by growth in the regulatory state, as Higgs (1987) and Holcombe (2002) note. The remarkable economic growth of the nineteenth and twentieth centuries has brought with it a growth in government that has the potential to undermine the virtues that enabled that growth.

Progressive Era regulation was beyond a doubt put in place as a reaction to the concentration of wealth that was the product of economic growth, regardless of whether Kolko’s thesis that such regulations were designed to benefit the elite is correct. Government growth has been a direct byproduct of economic growth. As the scope of government has grown, the benefits of using state power for private gain have also grown. Baumol (1990, 1993) has explained how the institutions that come with a larger government provide incentives for individuals to use their entrepreneurial instincts to pursue destructive rather than productive ends, and Olson (1982) has noted the tendency for interest groups to strengthen, leading people to increasingly seek benefits through government favors rather than through privately productive activity. Economic growth leads to government growth, and government growth increasingly pushes the elite to shift their efforts away from productive market activity and toward cronyism and interest group activity, undermining the virtues that led to the earlier economic growth.

If it is ideas that have enabled capitalist economic growth, Schumpeter (1943, p. 143) says “that capitalism creates a critical frame of mind which, after having destroyed the moral authority of

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<sup>2</sup> McCloskey (2006, p. 160) notes, “Hope is, by contrast to faith, forward-looking.”

<sup>3</sup> The 1913 figure is from *Historical Statistics of the United States from Colonial Times to 1970* (Washington, DC: United States Census Bureau, 1975) and the 2009 figure is from the Federal Reserve Bank of St. Louis’s FRED database.

so many other institutions, in the end turns against its own. . . . The bourgeois fortress then becomes politically defenseless.” Capitalism is not static. Schumpeter (1943, p. 162) argues, “The capitalist process not only destroys its own institutional framework but it also creates the conditions for another.” While Schumpeter foresaw socialism, it is easy to argue that twenty-first century American capitalism has evolved past the *laissez-faire* capitalism of the nineteenth century into what might be called crony capitalism (Stockman 2013), corporatism, or political capitalism (Holcombe 2015).

The bourgeois virtues McCloskey promotes lay the foundation for economic growth and prosperity, but economic growth generates government growth as the masses push for more government to control the economic power of the elite and as the elite push for more government to facilitate their retaining that elite status. Growing government, in turn, undermines those bourgeois virtues, at least among the elite, because they can control public policy to provide rents to themselves at the expense of the masses. Who is doing the capturing in the theory of regulatory capture? The elite. Who receives the rents described by the rent-seeking literature? The elite. Several passages quoted above from McCloskey show that she recognizes this tendency of capitalism combined with democratic government to undermine the virtues that made capitalist prosperity possible.

## **V. Can the Breakdown of Bourgeois Ethics Be Prevented?**

McCloskey (2006, p. 503) argues that over time, employment has shifted toward more creative and more entrepreneurial activities so that “the universal class into which the other classes are slowly melting is the detested bourgeoisie.” The bourgeois values McCloskey champions are becoming the values of the 99 percent, not the 1 percent that Marx depicted as the bourgeoisie. But this is semantics. If the masses are now the bourgeoisie, they still risk falling prey to the power elite who, both Stiglitz and McCloskey argue, design the rules for their own benefit. Do policy makers have the incentive to favor the masses over the elite? Hayek (1944) argues that in government, the worst get on top, pointing toward a system of cronyism and oppression in which the economic and political elite increasingly adjust the rules for their benefit, at the expense of the masses. As government grows, government policy is increasingly driven by the elitist values of the 1 percent—the worst, as Hayek depicts them—rather than the bourgeois values of the 99 percent.

Buchanan's (1975, 1990) constitutional project, oriented toward developing constitutional constraints to limit government's powers, has aims similar to McCloskey's. Both want to maintain the productive forces of capitalism. Buchanan emphasizes designing rules to rein in government power, but McCloskey argues that institutional constraints are ineffective without the rhetoric and values that support them.

Economic progress itself undermines those values, because economic progress causes government growth. Because government runs by force rather than by voluntary exchange, the elite are naturally drawn toward the growing power of government as a way to maintain their status. Neither Buchanan's constitutional project nor McCloskey's emphasis on values recognizes that over time, economic growth alters the institutional structure toward constitutional rules that favor the elite and shifts the incentives of the elite to erode bourgeois virtues within that class. This pessimistic view suggests that the productive economic system that was driven by bourgeois virtues contains within it forces that evolve to eventually undermine those virtues.

McCloskey (2016, p. 510) says, "That superficial rhetoric makes all the difference, potentially refigured in any generation that cares to do so." Optimistically, one might see the possibility of persuading the next generation to have renewed support for the bourgeois virtues. Pessimistically, McCloskey admits the possibility that the next generation's rhetoric will turn against capitalism, and the evidence is that it has. The twenty-first century has seen the rise of anticapitalist rhetoric, perhaps in response to the rising cronyism and elitism that McCloskey notes throughout her books. She says (2016, p. 641), "Not everyone accepted the Bourgeois Deal, even in the United States. There's the rub, and the worry: it's not complete, and it can be undermined by hostile attitudes and clumsy regulations." What breeds those regulations, and those attitudes? If we believe the public choice literature on rent-seeking and regulatory capture, those regulations are designed by the elite for their benefit. And seeing this, hostile attitudes are the public's response to the cronyism they increasingly perceive.

McCloskey (2016, p. 641) goes on to observe, "The bourgeoisie is far from ethically blameless. The newly tolerated bourgeoisie has regularly, I say once again, tried to set itself up as a new aristocracy to be protected by the state, as Adam Smith and Karl Marx predicted it would." McCloskey looks back at the values that enabled economic

progress to emerge over several centuries. But while her books do not emphasize it, many passages look forward to suggest that the values that have generated prosperity are being undermined by the very prosperity they produced.

## VI. Conclusion

McCloskey convincingly argues that capitalism requires a particular ethical foundation to thrive. As she notes, not only are those values necessary for a thriving market economy, but market activity also encourages people to hold those values. Government undermines them. As an empirical fact, as capitalism has matured, the size and scope of government have expanded, both absolutely and as a share of economic activity. There is a plausible causal relationship at work, because as capitalism matures, the masses demand more government oversight of the elite's economic power, and the elite push for government policies that stand in the way of those who would challenge their elite status. Economic growth brings with it government growth, and government undermines the values upon which capitalism is built.

This line of reasoning, like those of Marx and Schumpeter, says that capitalism sows the seeds of its own destruction. Hope lies in the fact that individuals can decide their own futures. Nader (2014) notes that there is widespread pushback across the political spectrum against what he calls the corporate state—the cronyism—that characterizes so much public policy. The problem is well-recognized. The solution is not. The political left calls for more government oversight, oblivious to the fact that government is the problem. The right calls for less government, but both are oblivious to the ethical values that provide the foundation for productive interaction among individuals. The pushback is not against the bourgeois virtues, but against the capitalist system, as people perceive it. McCloskey (2010, p. 442) says, “If the new rhetoric of innovation is what caused the modern world, then it is possible—not logically inevitable, but possible—that losing the ideology can lose the modern world.” Might it be that economic growth leads to government growth, which leads to cronyism, which then undermines the ideology that was responsible for growth in the first place?

McCloskey (2010, p. xii) approvingly quotes economic historian Joel Mokyr (2010), who says, “Economic change in all periods depends, more than most economists think, on what people believe.” Ideas have consequences (at least, academics hope they do!), and

McCloskey's trilogy contributes much to our understanding of how the world, in a few hundred years, has become so prosperous, and of the values required to maintain economic progress. Despite the pessimism expressed above, people can choose to nurture the values McCloskey so eloquently supports. Her rhetoric persuades, and we should hope that her ideas are disseminated widely enough to help preserve the economic system that has produced so much well-being for so much of the global population.

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