

The Evolving Commercial Society¹

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Sustained business accomplishment requires all dimensions of the thing to be understood and integrated. These dimensions of the material, the emotional, the intellectual and the spiritual are quintessential modern concepts and are the foundations of a new and modern phenomenon of the Commercial Society.

The Moral Foundation of Commercial Society

When and where can we discern the birth of these new forms of wealth creation to have occurred? Most likely in the late 16th and early 17th century in what is now known as The Netherlands can we discover the roots of modern Commercial Society. As the Dutch experiment gained momentum the seeds of modern societies were sown and an intellectual and scientific debate evolved into the Age of the Enlightenment. Adam Smith opined that at the heart of the intellectual debate we find the central issue of the moral justification of Commercial Society. Central to the idea of a Commercial Society—according to Smith—was the notion of self-interest of the individual. Smith's ideas on the morality of Commercial Society were vigorously debated with and criticized in particular by the French intellectual Jean-Jacques Rousseau.

Smith and the other “philosophes” of the Enlightenment offered a new psychological perspective that introduces the utility of the market as the prime mechanism for that balance between the individual's need to pursue self-interest in the public space with justice as a necessary counter force to prevent anarchy. In the 18th century this led to a new understanding and a new idea of politics. Politics is defined as the state of the individual outside of the sphere of the private.

Society according to Smith can originate through—initially—two origins or sentiments of love (benefice) and fear (injustice) between which he inserted a third: utility.

This was a radical departure from the standard theological model of human progress; one of humility and darkness, against a new model which involved the radical notion of forward looking individual improvement.

Smith's approach was primarily pragmatic and historical in nature. Authority or power in Smith's understanding was the starting point and the specific origin of wealth. Wealth, hence created dependency and the merger of wealth and power provided the foundation of the state. Istvan Hont emphasizes that Smith asserted that this was the key notion behind the idea that commerce created liberty:

“It could do that because commerce created more equality in wealth than there had been at the beginning of the accumulation of wealth”².

¹ Extension of a presentation at the Hana, Hawaii *Roundtable Dialectic* November 2015.

² Istvan Hont, “Politics in Commercial Society”, p.80

Commercial society is hence a political idea of a new organization of society³. This requires a new thinking about progress, individualism and social justice. Business activates this new thinking into a new idea of action. In early 17th Century Holland we can discern this new form of public action: commercial activities conducted in a virtual environment which measures utility by the new mechanism of supply and demand by enterprising individuals (a first step to modern freedom). This actually activates the “long term” into current decision making. Hence the need for risk based decision making.

Currently we’ve arrived at a cross roads. John Gray pointed out that the market as a clearinghouse, divorced of social norms and economic activity, alienates community from its sense of autonomy. Globalization expands that even further. If business doesn’t anchor into the specific communities and hovers inalienable over it, the connection between self-interest and social justice is torn apart. There’s a contradiction here: in its essence markets create stability and predictability, but – as markets are alive and a product of human ingenuity—they also generate strong forces of alienation in a constant feedback loop.

Modern western society’s historical roots are considered to lay in the intellectual revolutions as carried by Bacon, Copernicus, Descartes, Spinoza, Newton, Locke, Voltaire and Rousseau just to name some of the most obvious proponents. The Industrial Revolution lays at the foundation of modern commercial development with the French Revolution the primary spark for the political and social changes that followed it.

So we expect intellectual challenges to precede technological and political changes in a fairly predictable and ordered linear process. Markets assume rational man or *homo economicus* first to have freed itself from tribal and traditional shackles through a renewed imagination to be followed by economic and political rational adaptations and concepts of behavior.

Adam Smith in Dennis C. Rasmussen, “*The Problems and Promise of Commercial Society*”:

“Rather than simply claiming that commercial society is good or bad, Smith constantly asks, ‘In comparison to what?’ [...] Smith is perhaps the most empirical of all the empiricists, pursuing his version of ‘the science of man’ in a particularly messy, fact-laden rather than theory-laden way. Smith’s defense of commercial society rests on a kind of cost-benefit analysis, not an abstract, ideological argument. Smith’s most enthusiastic defenders and most fervent critics tend to paint him as a kind of free-market ideologue, but actually he is no ideologue of any kind: his defense of commercial society is pragmatic and prudential, not foundationalist or principled. This is why he repeatedly acknowledges the downsides of commercial society and insists that it can be improved upon. In misunderstanding the character of Smith’s approach, his admirers and critics alike have turned him into the very ‘man of system’ whom he criticizes so severely (Theory of Moral Sentiments, VI.ii.2.17, 233).”

Smith explains what he means by the term commercial society:

³ See Richard Tuck, “*Rousseau and Smith’s Radical Resemblances*”, In: *Times Literary Supplement*. February 3, 2016: “What is at stake here is essentially the importance of *politics* to the writers with whom Hont was concerned. He is right to point out the similarities between Hobbes and the natural jurists, and Smith; but the reason why all of them were profoundly critical of Hobbes was that they saw (correctly) that for Hobbes we could live a social life only within *political* structures. Hobbes would have had no sympathy with the idea of socialization through markets. *The Social Contract* says something similar: as Rousseau’s early readers all understood, he was a genuine Hobbesian, at least in this respect, and his criticisms of the natural jurists such as Pufendorf focused on this issue.”

When the division of labor has been once thoroughly established, it is but a small part of a man's wants which the produce of his own labour can supply. He supplies the far greater part of them by exchanging the surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for. Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society. (An inquiry into the Nature and Causes of the Wealth of Nations, I.iv.1, 37)

Smith had a long conversation with Jean-Jacques Rousseau whose critique of commercial society can be summarized as follows:

1. *People that live in a commercial society can have little social or personal unity because of the prevalence of inequality, weakness, and ignorance and the consequent decline of citizenship;*
2. *People will necessarily be dependent on the opinions of others in a way that produces a great deal of role playing, ostentation, deception, and immorality;*
3. *People's endless desires will lead them to spend their entire lives toiling in a vain attempt to attain a happiness that will always elude them.*

Smith concedes these drawbacks but argues that *on balance* a Commercial Society offers better prospects than any other system of social organization. In a Commercial Society people *live* by exchanging.

A New Arrangement

“When medieval Dutchmen banded together to reclaim land from the sea, the new land was not owned by a king or a church; it became theirs. They chose not to own it collectively, however, but to divide it into individual parcels. So while feudalism held sway elsewhere in Europe, people in these low-lying provinces were protocapitalists: landowners who set about buying, selling, renting, and making profits.”⁴

To the extent the Dutch Republic of the late 16th and early 17th centuries can be understood to have been not a proto-capitalist but explicitly the earliest notion of a modern capitalist society, the British economist Angus Maddison (1991) noted:

“In the past four centuries there have been only three lead countries [defined as the country which operates nearest to the technical frontier, with the highest average labor productivity]. The Netherlands was the top performer until the Napoleonic Wars, when the UK took over. The British lead lasted till around 1890, and the USA has been the lead country since then.”

We discern therefore, three Commercial Societies, the first of which preceded the English Industrial Revolution of the mid-eighteenth century with its steam power, cotton gins and railroads.

Economic historians Jan de Vries (University of California, Berkeley) and Ad van der Woude (Agricultural University, Wageningen) state unambiguously in their work *“The First Modern*

⁴ Russell Shorto, *“Amsterdam, A History of the World's Most Liberal City”*.

Economy—Success, Failure, and Perseverance of the Dutch Economy, 1500-1815” that the Dutch Republic (or the United Provinces) was the first modern economy. Geert Mak in his lament “*Long, Live Spinoza, Gümüs, and the “Mercator Sapiens”*” states:

“There used to exist that ideal image of the civilian-merchant, the manager-civic administrator, the kind of man that led the immigrant city of Amsterdam in the 17th century. At the opening ceremony of the Atheneum Illustre (the predecessor of the University of Amsterdam) on January 9, 1632, Caspar Barlaeus introduced the term “Mercator Sapiens”, the wise, erudite merchant. This was the merchant that did not live on an island, but was engaged into the affairs of his city and its surroundings.”

De Vries and van der Woude turn received historical analysis on its head. Instead of the main assumption of technological, read: industrial, innovation to lead the way to modern economic development (a sustained increase in productivity) and by implication a modern Commercial Society, they claim:

“By judging all earlier economies by the norms of the ‘first industrial revolution,’ it misleads in the same way as do assessments of nineteenth-century European economies that use the British experience as a template of successful development.”

So what are the generic features of a modern economy de Vries and van der Woude discern:

- Markets, for both commodities and the factors of production that are reasonably free and transparent;
- Agricultural productivity adequate to support a complex social and occupational structure that makes possible a far-reaching division of labor;
- A state which in its policy making and reinforcement is attentive to property rights, to freedom of movement and contract, and at the same time is not indifferent to the material conditions of life of most inhabitants; and
- A level of technology and organization *capable* of sustained development and of supporting a material culture of sufficient variety to sustain market-oriented consumer behavior.

Critical for a Commercial Society is to sustain technological innovation which is the result of productivity-increasing investment fueled by the forces of competition. It does not mean that monopolistic market behavior is absent. An important innovative component of the early Dutch Republic was the Dutch East India Company VOC (Vereenigde Oostindische Compagnie or United East India Company). The VOC was the world’s first company to issue stock⁵ as a means to diversify and mitigate risk. The VOC paid an 18% annual dividend for almost 200 years. The assumed risk was not only caused by the physical hazardous nature of the long ocean voyage, but also due to supply and demand forces on the markets for exotic spices.

⁵ VOC shares were traded on the Amsterdam Stock Exchange or *Beurs*. Not the first market for stock trade, but what “was new in Amsterdam was the volume, the fluidity of the market and publicity it received, and the speculative freedom of transactions” according to Fernand Braudel.

Much like the US Trust companies in the late nineteenth century, the VOC's trade monopoly rationalized markets hitherto highly subject to fluctuations in prices as supply and demand movements indicated.

The essence of De Vries en Van der Woude is that the Dutch Republic's Commercial Society broke with the historical traditionalist and feudal societies and the Malthusian and merchant capitalist restrictions to sustained growth. This first modern Commercial Society introduced an entrepreneurial caste with a focus on cost reduction and technological change in a competitive environment.

The Dutch Republic as the first modern commercial society was made up of a prolific set of productive communities of individuals engaged in commercial, political and civic activities. Jonathan Israel describes this in *'The Dutch Republic, Its Rise, Greatness and Fall'* as follows:

"Visitors continually marveled at the prodigious extent of Dutch shipping and commerce, the technical sophistication of industry and finance, the beauty and orderliness, as well as cleanliness, of the cities, the degree of religious and intellectual toleration to be found there, the excellence of the orphanages and hospitals, the limited character of ecclesiastical power, the subordination of military to civilian authority, and the remarkable achievement of Dutch art, philosophy, and science."⁶



⁶ One foundation for this productive commercial society was the philosophy of the humanist Erasmus (1466-1536) who stressed an "idealization of the (literate) individual."

The use of commercial habits to order and govern society is a historically recent phenomenon. Conceived by the Dutch in the 17th Century, “Commercial Society” is an exceptionally effective way for nations and states to assure individual liberty, stimulate innovation, and advance national well-being. In a new age of globalization, with technology advancing at warp speed, here is the question: How best to integrate and ameliorate free market enterprise and community?

Or, more concretely: Given mass global consumerism, can modern commercial societies rediscover and revitalize the idea of “Mercator Sapiens” to better satisfy its citizens’ aspirations?

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Suggested Further Reading

- Dennis C. Rasmussen, “*The Problems and Promise of Commercial Society.*” Pennsylvania State University Press. 2009
- Jan de Vries and Ad van der Woude, “*The First Modern Economy—Success, Failure, and Perseverance of the Dutch Economy, 1500-1815.*” Cambridge University Press. 1997
- Istvan Hont, “*Politics in Commercial Society. Jean-Jacques Rousseau and Adam Smith.*” Edited by Béla Kapossy and Michael Sonenscher 160pp. Harvard University Press. 2015
- Jonathan Israel, “*The Dutch Republic, Its Rise, Greatness and Fall.*” Oxford University Press. 1994
- Russell Shorto, “*Amsterdam, A History of the World’s Most Liberal City.*” Vintage Books 2013

Appendix – Tabular Review of the Contrast between Rousseau and Smith

Rousseau (1712-78)	Comments	Smith (1723-90)	Comments
<i>In wealthy societies a few people will become rich, and it is because they are rich that others are impoverished: “there are poor people only because there are rich ones.”</i>	Bernie Sanders, Elizabeth Warren, Pope Francis	<i>The extraordinary productivity in a Commercial Society made possible by the division of labor will allow even a peasant to be materially better off.</i>	<i>A high tide raises all boats.</i>
<i>Commercial prosperity is every bit as psychologically damaging to the rich as the poor. The rich are more interested in displaying their wealth.</i>	“ <i>Theory of the Leisure Class</i> ”, Thorstein Veblen.	<i>To offset privileges of the rich with access for the poor by eliminating mercantilist restrictions. Progressive taxation and the use of tax revenues to provide services (primarily through compulsory and state-sponsored education) for the poor.</i>	<i>Increase vertical and horizontal mobility for all. Poverty eradication is possible because of the maximization of production and less by its redistribution.</i>
<i>The more ingenious are our tools, the cruder and more maladroit our organs become. By dint of gathering machines around us, we no longer find any in ourselves.</i>	<i>The alienating effect of computers, mobile devices and interactive social networks.</i>	<i>The most important benefit of commercial society is that it provides a greater degree of liberty and security than pre-commercial societies.</i>	
<i>In Commercial Society people are forced to work in one-dimensional jobs, and these jobs make people themselves one-dimensional.</i>	Charlie Chaplin’s “ <i>Modern Times</i> ”	<i>Rigorous state-funded public education offers a way out of the monotony of one-dimensional jobs.</i>	
<i>Encouraging luxury is dangerous rather than salutary, the idea that vice leads to public benefits only serves to</i>	<i>Citizens United vs Federal Election Commission</i>	<i>Commerce encourages traits like reliability, decency, honesty, cooperativeness, a commitment to</i>	<i>The mutual benefits of a free exchange. Prevent rent-seeking (Joseph</i>

<p><i>Encouraging luxury is dangerous rather than salutary, the idea that vice leads to public benefits only serves to encourage private vice and public corruption.</i></p>	<p><i>Citizens United vs Federal Election Commission</i></p>	<p><i>Commerce encourages traits like reliability, decency, honesty, cooperativeness, a commitment to keeping one’s promise, and a strict adherence to society’s norms of justice.</i></p>	<p><i>The mutual benefits of a free exchange. Prevent rent-seeking (Joseph Stiglitz). Enhance competition by adequately enforcing fair play (Elizabeth Warren). Too big to fail.</i></p>
<p><i>People will always gain more from harming others than peacefully coexisting with them.</i></p>	<p><i>“Nice guys finish last”; Tit-for-Tat; Prisoners’ Dilemma.</i></p>	<p><i>The fact that people are concerned with the opinion of others can in fact serve as the very basis of moral conduct, especially in commercial society.</i></p>	<p><i>Cooperative competitive strategies. Conduct worthy of praise. The famous Pareto Optimum.</i></p>
<p><i>People simply will not be satisfied in a society in which everyone is made richer if they still find themselves chasing a happiness that always remains one step ahead, if their artificially induced desires multiply faster than their means to satisfy them.</i></p>	<p><i>Pope Francis</i></p>	<p><i>The key prerequisite for an individual to avoid misery – to attain a reasonable degree of tranquility and enjoyment – are a sense of relative safety and freedom from direct dependence on another individual.</i></p>	
<p><i>“It is true that you (Commercial Man) have softness, but they (Natural Man) had happiness; you are reasoners, they were reasonable; you are polite, they were humane; all of your pleasures are outside of you, theirs were within themselves.”</i></p>	<p><i>See various fascist movements. Isaiah Berlin argues that Rousseau “was one of the most sinister and most formidable enemies of liberty in the whole history of modern thought.”</i></p>	<p><i>Commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals. While perfect happiness is unattainable under any circumstances, a government should be valued insofar as it tends to promote the happiness of those who live under it.</i></p>	
		<p><i>Striving for meaningless luxuries turns out in some ways to be a crucial advantage of commercial society for if there were no luxuries, or if people were not inclined to strive for them . . . , then the wealthy would instead be</i></p>	