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Capitalism's creature

For 250 years, the market economy promised ever-greater progress at the expense of morality. Turns out that is not what Adam Smith had in mind

The year 1776 is now remembered for three revolutions that, together, set the modern world in motion. First, with the publication of *An Inquiry into the Nature and Causes of the Wealth of Nations*, Adam Smith laid the foundation for a systematised discipline – economics – that would become the organising logic of modern society. Second, the Declaration of Independence led to the founding of the United States of America and elevated democracy as the political ideal of the modern age. And third, the Industrial Revolution was beginning to displace manual labour with machines like James Watt's steam engine, propelling humanity toward greater abundance through the power of technology.

These three transformations converged to produce something unprecedented: a society governed not by tradition or hierarchy, but by impersonal rules. Progress would be guided by the invisible hands of the price mechanism, the ballot box, serendipitous scientific discovery and accumulating technological innovations. The economic historian Karl Polanyi would later describe the result as a 'disembedded' society, where the economy is dislodged from its social and moral foundations and allowed to operate according to its own autonomous logic.

The logic of the market became an end in itself, rather than the means to an end. The system then being constructed would be populated by a new kind of human being: the rational, self-interested, free, but also unmoored and increasingly atomised, individual.

Exporting dreams

Like the creature in Mary Shelley's *Frankenstein*, this new being was a composite: one part rag paper, one part parchment, brought to life by some animating spark we only partly understood. It would later be formalised, even caricatured, as the rational agent of economic theory: *homo economicus*, a being capable of doing good without being

good, of turning individual cost-benefit calculations into collective well-being through the power of compounding economic growth.

In many ways, Thomas Jefferson's vision when writing the Declaration of Independence – the promise that free individuals, navigating free markets, could partake in unprecedented prosperity – became a reality. In 1931, the historian James Truslow Adams popularised the idea of the 'American Dream' to describe the founders' achievement. In the postwar decades, the puzzle of perpetual progress seemed to have been solved, with alternative approaches having failed. That is why, with communism crumbling and the Soviet Union on the brink of collapse, Francis Fukuyama proclaimed the end of history.

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The combination of democracy and industrialised capitalism had produced more wealth than at any other time in human history. The results spoke for themselves. As the historian Yuval Noah Harari observed a decade ago, humanity had largely subdued famine, plague and war, and all in the blink of an eye. The Harvard psychologist Steven Pinker has documented dramatic declines in violence, disease and extreme poverty. For much of the past 250 years, the dream appeared not only plausible but vindicated, especially in its country of origin.

It was also exported widely. In the second half of the 20th century, the 'Chicago School', led by the late Nobel laureate economist Milton Friedman, cast itself as the intellectual heir to Smith and spread the gospel of markets and rational self-interest, especially during the Reagan era and thereafter.

Sometimes the gospel was eagerly adopted, and sometimes it was imposed through the International Monetary Fund, the World Bank and the broader institutional framework of the neoliberal Washington Consensus. Thus did the American way of capitalism become a global template. With private property, enforceable contracts and independent central banks, everyone could achieve prosperity.

Alive and unwell

Yet look around the world today, and you will see all three revolutions of 1776 being reversed or running off the rails. The backlash is impossible to ignore. The Smithian formula of free trade is faltering. Democracy

is curdling into populist authoritarianism. And intelligence itself – the defining attribute of humanity – is being automated and industrialised. Even in the most advanced economies, the dream of boundless material gain is at risk of becoming a nightmare.

In the US, the Harvard political scientist Robert D. Putnam has long chronicled the steady erosion of social capital (interpersonal trust), and the US Surgeon General has warned of an epidemic of loneliness and isolation. For some cohorts, life expectancy – once the clearest marker of development progress – has declined, driven in part by what the economists Angus Deaton and Anne Case call 'deaths of despair' in communities left behind by economic change.

As in *Frankenstein*, the creature is turning on its creator. Our impersonal systems have generated a growing constellation of existential risks, from climate breakdown and nuclear war to the prospect of AI outstripping human control. Yet economics, as currently constituted, struggles to account for these dangers. It treats them simply as negative 'externalities' – costs that fall outside the price system – but when externalities are existential, the categories of 'cost' and 'price' become meaningless.

We have a global economy, but no true global polity to govern it.

Meanwhile, economic inequalities continue to strain the social fabric. As Thomas Piketty of the Paris School of Economics and many others have shown, the physics of 'trickle-down economics' were always implausible. The gains from growth are increasingly concentrated, and social mobility has declined. Trust in institutions has eroded, because many have been captured by wealth, technology and other forces beyond democratic control.

In other domains, institutions are simply absent. We have a global economy, but no true global polity to govern it. Coordination problems proliferate; collective action has faltered; the commons has become the stage for a tragedy. Making matters worse, as the financial journalist John Kay and former Bank of England Governor Mervyn King have pointed out, many of the threats we face are not risks in the conventional (quantifiable, probabilistic, insurable) sense. Rather, they represent what Frank Knight called uncertainty: variables that are unknowable, incalculable and utterly resistant to prediction.

The roots of this crisis may lie in an obscure but revealing intellectual preoccupation known as '*Das Adam Smith Problem*.' First articulated by the 19th-century scholar Wilhelm Hasbach, and later by the American

economist Arthur Okun, the problem is how to reconcile Smith's two great works: *The Wealth of Nations*, with its emphasis on self-interest and market coordination, and *The Theory of Moral Sentiments*, with its rich account of sympathy, moral judgment and social embeddedness.

Although more recent thinkers, including the Nobel laureate Amartya Sen and the Harvard economic historian Emma Rothschild, have shown that this is a false dichotomy – that Smith's project was always more integrated than later interpretations allowed – modern economics nonetheless resolved the tension by privileging one half of Smith over the other. We built a system around self-interest at the expense of sympathy, creating the conditions for economic imbalance and moral dislocation.

The solution may lie in reversing that choice, by re-embedding markets within moral and social frameworks. As Samuel Bowles of the Santa Fe Institute argues in his work on the 'moral economy', markets depend on norms they cannot themselves produce. Financial incentives alone cannot sustain cooperation. A healthy society needs citizens with a conscience, who are embedded in communities of mutual obligation.

Our task today is to replace the invisible hand with a human touch.

The same insight can be found in Shelley's novel, which is less of an indictment of invention than a warning against social abdication. Victor Frankenstein's offence lay not in creating life, but in refusing to take responsibility for it. The same can be said of the system we have built. The crisis at the heart of capitalism is a moral one. It is a crisis of meaning, of belonging, of recognition and of identity. As the philosopher Michael J. Sandel has argued, markets do not simply allocate goods. They also shape values, and when they are allowed to expand without limit, they crowd out the very norms on which they depend.

The challenge for all of us untethered individuals is to find our way back — not to accept the erasure of freedom, but to redefine it as positive (the capability to do things) rather than as purely negative (the right not to be interfered with). Freedom lies not in isolation, but in connection. Realising that kind of freedom requires a rediscovery of what Jefferson and Smith never abandoned: fellow-feeling — the emotional and social dimensions of human life. Both understood that cooperation, no less than competition, underpins our success as a species.

The American Dream, with its basis in the Declaration's immortal words, was one of the most powerful ideas ever conceived. But the notion that it could power itself indefinitely was impossible. The economy it helped to bring into being is now shaping society, rather than the other way around. Economics has become an end in itself, and the dream has become the kind that can't end soon enough.

Our task today is to replace the invisible hand with a human touch. If Jefferson's Declaration and Smith's *The Wealth of Nations* were the defining texts of 1776, let us make *The Theory of Moral Sentiments* the watchword for 2026 and beyond.

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