

“Self-Interest Properly Understood” as a Regulatory Mechanism on Commerce

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Abstract: The recent economic crisis has caused a debate on whether the government should regulate the financial sector more to prevent such a crisis in the future or whether the government should practice laissez-faire policies toward the market because regulation will cause even more problems. Alexis de Tocqueville can shed some new light on this regulation debate. Tocqueville implicitly advocates for a restraint on market forces based on individual behavior. Economic crises are the result of excessive risk-taking. If individuals practice “self-interest properly understood,” the frequency and strength of economic crises will be mitigated because excessive risk taking will not be pursued. Unrestrained commerce, specifically unrestrained risk-taking, will lead to frequent and dangerous economic crises along with political instability and social dislocations. Self-interest properly understood is therefore a non-governmental regulatory mechanism on commerce.

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The recent economic crisis has caused a debate on whether the government should regulate the financial sector more to prevent such a crisis in the future or whether the government should practice laissez-faire policies toward the market because regulation will cause even more problems. In this debate, Democrats usually want more regulation whereas Republicans are suspicious about any new regulations. President Obama argued that “without enforceable, commonsense rules to check abuse and protect families, markets are not truly free.”¹ On the other hand, Republicans such as Senator Judd Gregg of New Hampshire warned us that “We shouldn’t put in place a regulatory regime that overly reacts and, as a result, significantly dampens our capacity to have the most vibrant capital and credit markets in the world.”² In July 2010, President Obama signed financial regulatory reform legislation into law with overwhelming Democratic support and little Republican support.³ Republicans vowed to repeal aspects of it whereas some liberals argued that it did not go far enough.⁴ Obama claimed that this law would prevent an economic crisis along the scale of the 2008 economic crisis and that “because of this law, the American people will never again be asked to foot the bill for Wall Street’s mistakes.”⁵

¹ Barack Obama, “Wall Street Reform,” (Email to Supporters) 16 April 2010.

² David M. Herszenhorn and Edward Wyatt, “G.O.P. Blocks Debate on Financial Oversight Bill,” *New York Times* 26 April 2010 <<http://www.nytimes.com/2010/04/27/business/27regulate.html>>.

³ Helene Cooper, “Obama Signs a Contentious Overhaul of the U.S. Financial System,” *New York Times* 22 July 2010

<<<http://query.nytimes.com/gst/fullpage.html?res=9E03EFD71331F931A15754C0A9669D8B63&ref=financialregulatoryreform>>>.

⁴ “Financial Regulatory Reform,” *New York Times* 4 November 2010

<http://topics.nytimes.com/topics/reference/timestopics/subjects/c/credit_crisis/financial_regulatory_reform/index.html?scp=1-spot&sq=financial%20regulation&st=cse>.

⁵ Barack Obama qtd. in Cooper, “Obama Signs a Contentious Overhaul of the U.S. Financial System,” *New York Times* 22 July 2010.

Alexis de Tocqueville can shed some new light on this regulation debate. Tocqueville realizes that commerce can produce negative as well as positive social effects. He is against administrative centralization and therefore government planning of the economy; but he favors governmental centralization and therefore some government regulation of the economy. However, government regulation is not by itself enough. Therefore, Tocqueville implicitly advocates for a restraint on market forces based on individual behavior. If individuals practice “self-interest properly understood” certain harmful effects of commerce will be prevented. Self-interest properly understood will mitigate economic crises whereas unrestrained commerce will lead to dangerous economic crises along with political instability and social dislocations. Self-interest properly understood is therefore a non-governmental regulatory mechanism on commerce.

In modern capitalism, we do need extensive government regulation to prevent abuses. However, “self-interest properly understood” can be used in addition to government regulation of the financial markets to mitigate the strength and frequency of future economic crises. Before we get to how self-interest properly understood can and should be used to regulate commerce, we first need to look at Tocqueville’s views on commerce, his fear of administrative centralization as well as his argument for governmental centralization, and his idea of “self-interest properly understood.”

Tocqueville’s Views on Commerce

Tocqueville was not an economist. He admits this to Nassau William Senior in a letter where he states that he is “insufficiently informed on this important portion of human science.”⁶ However, Tocqueville is being modest in this letter. Even though he did not have any formal

⁶ This important portion of human science is, of course, the economy. Letter dated January 27, 1836 in Alexis de Tocqueville, *Correspondence and Conversations of Alexis de Tocqueville With Nassau William Senior From 1834-1859 Vol. 1*, M.C.M Simpson ed. (London: Henry S. King & Co, 1872), 17.

training in economics, Tocqueville studied the works of important economists and often personally corresponded with influential economists. Tocqueville studied J.B. Say's works extensively on his long voyage to America and learned about some of Adam Smith's ideas through Say.⁷ Villeneuve-Bargemont and Malthus were both Christian political economists. They influenced Tocqueville with their idea that wealth creation had to be linked to morality and individual liberty.⁸ Tocqueville's idea of a "manufacturing aristocracy" probably came from Villeneuve-Bargemont's description of industrial relations as a "new feudalism."⁹ Nassau William Senior was an influential English economist; he drafted the Poor Laws. Tocqueville and Senior were friends for many years. Senior and Tocqueville often disagree in their positions on the economy. For example, Senior has a positive view of the rise of capitalism and argues that the "wages of the English labourer are higher than those of any other labourer. He has not landed property, because it is more profitable to him to work for another than to cultivate."¹⁰ Conversely, Tocqueville has a fairly negative view of the rise of capitalism and argues that the worker's lack of land ownership hurts him and that happiness is based on more things than simply wealth; happiness is also based on "personal consideration, political right, easy justice, intellectual enjoyments, and many other indirect sources of contentment."¹¹ Senior and Tocqueville also have very different views on the Poor Laws; Senior, as the author of them, thinks that they benefit English Society whereas Tocqueville thinks that they harm English

⁷ Richard Swedberg, *Tocqueville's Political Economy* (Princeton: Princeton University Press), 81-83. Swedberg also discusses the relationship between Say's ideas and Tocqueville's ideas. For a further discussion of this relationship see Michel Drolet, "Democracy and Political Economy: Tocqueville's thoughts on J.-B. Say and T.R. Malthus," *History of European Ideas* 29 (2003), 159-181.

⁸ Drolet, "Democracy and Political Economy," 181.

⁹ Swedberg, *Tocqueville's Political Economy*, 83-86.

¹⁰ Letter dated February 17, 1835 in Alexis de Tocqueville, *Correspondence and Conversations of Alexis de Tocqueville With Nassau William Senior From 1834-1859 Vol. I*, 4.

¹¹ Letter dated February 21, 1835 in Alexis de Tocqueville, *Correspondence and Conversations of Alexis de Tocqueville With Nassau William Senior From 1834-1859 Vol. I*, 7.

society.¹² Tocqueville had a personal relationship with John Stuart Mill and they read each others' works. Both Mill and Tocqueville were ambivalent about the new industrial economy.¹³

Now that we know the major influences on Tocqueville's economic thinking, we can move on to how he viewed commerce. There is a big debate over this in the literature on Tocqueville; some scholars think that Tocqueville has a fairly positive view of commerce, others argue that he has a negative view of commerce, and a few claim that he does not really have any concrete opinion on commerce. Tocqueville neither has a completely positive nor a completely negative assessment of commerce; he sees its positive as well as its negative aspects.

Several scholars claim that Tocqueville has a fairly positive view of commerce. Stephen Holmes argues that for Tocqueville "commerce and democratic politics are interdependent."¹⁴ Seymour Drescher asserts that Tocqueville links economic prosperity and political freedom in the first volume of *Democracy in America*.¹⁵ Richard Avramenko also implies that Tocqueville has a generally positive assessment of commerce. Avramenko explains that in America "Tocqueville discovers what can only be called *economic courage*. American honor points not to valorous deeds on the battlefield, but to courage in trade and industry."¹⁶ Americans are courageous in their commercial activities just as aristocrats are courageous on the battlefield. Virtue is thus somewhat linked with commerce.

¹² For Tocqueville's discussion of the poor laws see his *Memoir on Pauperism*.

¹³ For a discussion of this ambivalence see Swedberg, *Tocqueville's Political Economy*, 98. For J.S. Mill's views on industrialization see his work *Principles of Political Economy* particularly book 4 chapter 7 where he discusses the plight of workers.

¹⁴ Stephen Holmes, "Tocqueville and Democracy," *The Idea of Democracy* ed. David Copp, Jean Hampton, and John R. Roemer (Cambridge: Cambridge UP, 1993), 44.

¹⁵ Seymour Drescher, "Tocqueville's Two Democracies," *Journal of the History of Ideas* 25.2 (1964), 201-216.

¹⁶ Richard Avramenko, "Economic Courage and Wealth," *Manly Courage: The Politics of Life and Limb* (forthcoming), 270. Avramenko does not think that the American idea of economic courage which Tocqueville praises is a wholly positive development. The economy is part of the private realm of household management (302). Economic courage is good in that it is a type of courage that allows more female participation. However, economic courage also expands the private realm to the detriment of the public realm.

Conversely, many scholars claim that Tocqueville has a primarily negative view of commerce. Debra Satz disagrees with Holmes that democratic politics and commerce are “two mutually supporting and interdependent spheres.”¹⁷ Rather, she asserts that “we need to be much more sensitive to the ways in which commercial society and democratic society do not work in tandem.”¹⁸ Unlike the first volume of *Democracy in America*, Seymour Drescher claims that economic prosperity and political freedom are in conflict for Tocqueville in the second volume.¹⁹ Aurelian Craiutu and Jeremy Jennings reconstruct a possible volume three of *Democracy in America* from Tocqueville’s letters after 1840. In this hypothetical volume three, Tocqueville would have expressed a much more negative evaluation of commerce because market instability and American democratic immaturity are prominent themes in his letters.²⁰ Roger Boesche argues that for Tocqueville commercial society has a very real potential to undermine democracy.²¹ Laura Janara agrees with Boesche and asserts that Tocqueville’s description of democracy and his description of commerce lead to the conclusion that “commercial capitalism exacerbates democracy’s unhealthy tendencies to undermine democracy’s potential to foster healthy, meaningful democratic citizenship.”²² According to Boesche, Tocqueville’s unusual liberalism is critical of capitalism and laissez faire ideas; Tocqueville draws on conservative, liberal, and radical republican ideas to critique the emerging capitalist system.²³ Thus, Jean-

¹⁷ Debra Satz, “Tocqueville, Commerce, and Democracy,” *The Idea of Democracy* ed. David Copp, Jean Hampton, and John R. Roemer (Cambridge: Cambridge UP, 1993), 64.

¹⁸ Debra Satz, “Tocqueville, Commerce, and Democracy,” 65.

¹⁹ Seymour Drescher, “Tocqueville’s Two Democracies,” 201-216.

²⁰ Aurelian Craiutu and Jeremy Jennings, “The Third ‘Democracy’: Tocqueville’s Views of America after 1840,” *The American Political Science Review* 98.3 (2004), 391-404.

²¹ Richard Boesche, “Why did Tocqueville Fear Abundance? Or the Tension between Commerce and Citizenship,” *History of European Ideas* 9.1 (1988), 25-45.

²² Laura Janara, “Commercial Capitalism and the Democratic Psyche: The Threat to Tocquevillian Citizenship,” *History of Political Thought* 22.2 (2001), 317.

²³ Roger Boesche, “Tocqueville and Le Commerce: A Newspaper Expressing his Unusual Liberalism,” *Journal of the History of Ideas* 44.2 (1983), 277-292.

Claude Lamberti argues that Tocqueville cannot be considered an economic liberal.²⁴ Terry Lynn Karl claims that Tocqueville would not support neoliberal economic policies because large inequalities endanger democracy.²⁵ Cheryl Welch summarizes all this by explaining that “the complex tension between the demands of markets and the demands of free democratic politics” is a prominent theme in Tocqueville’s works.²⁶

There are also scholars who think that Tocqueville has no clear theory on commerce or that his theory has major problems because of the issues he ignores. Satz critiques Tocqueville for not addressing economics at greater length and for not dealing with the Industrial Revolution. Because of these omissions, Satz argues that Tocqueville is “not helpful for theorizing about democracy, at least for the United States of the present.”²⁷ Drescher is also upset with Tocqueville for not addressing potential industrial dangers at greater length. Drescher argues that Tocqueville “gives short shrift to the threat posed by great industrialists, [he] gives none at all to the threat of industrial workers.”²⁸ Similarly, Lively critiques Tocqueville for not realizing that industrialization would play a big and important role in the United States.²⁹ According to Irving Zeitlin, Tocqueville did not realize that a new economic system was arising because he focused on the superstructure rather than the base (like Marx) and this caused him to miss “some of the most significant structural trends in American society at the time.”³⁰

²⁴ Jean Claude Lamberti, *Tocqueville and the Two Democracies* trans. Arthur Goldhammer (Cambridge: Harvard University Press, 1989), 183.

²⁵ Terry Lynn Karl, “Economic Inequality and Democratic Instability,” *Journal of Democracy* 11.1 (2000) 149-156.

²⁶ Cheryl Welch, *De Tocqueville* (Oxford: Oxford University Press, 2001), 235.

²⁷ Debra Satz, “Tocqueville, Commerce, and Democracy,” 69.

²⁸ Seymour Drescher, “Why Great Revolutions Will Become Rare: Tocqueville’s Most Neglected Prognosis,” *The Journal of Modern History* (1992), 446.

²⁹ Jack Lively, *The Social and Political Thought of Alexis de Tocqueville* (Oxford, Clarendon Press, 1962), 217.

³⁰ Irving M. Zeitlin, *Liberty, Equality, and Revolution in Alexis de Tocqueville* (Boston: Little, Brown, and Company, 1971), 31.

These criticisms are unfair because Tocqueville does deal with the Industrial Revolution and the threats it poses to democracy in his critique of the manufacturing aristocracy and the plight of factory workers. He addresses commerce and industry at great length in the second volume of *Democracy in America*, in *The Ancien Regime and the Revolution*, and in the *Memoir on Pauperism*. Even though Tocqueville did not foresee all of the ways in which industrialization would change American society, he still discussed the possible problems industry could bring and he should not be faulted for not being clairvoyant.

Drescher is further unimpressed with Tocqueville's economic analysis because according to Drescher, Tocqueville does not understand "economic man."³¹ It could be that Tocqueville disagrees with the "homo-economicus" model instead of not understanding it. After all, Tocqueville points out that happiness is not simply based on wealth; it is also based on "personal consideration, political right, easy justice, intellectual enjoyments, and many other indirect sources of contentment."³²

For Tocqueville, commerce has both positive and negative aspects. Tocqueville has many positive descriptions of commerce and industry. He argues that there is a relationship between commerce, manufacturing, and political freedom. Tocqueville explains that he cannot "cite a single example of any people engaged in both manufacture and trade, from the men of Tyre to the Florentines and the English, who were not a free people. There must therefore be a close link and relationship between these two things, that is, freedom and industry."³³ By industry,

³¹ Seymour Drescher, *Tocqueville and England* (Cambridge, Harvard University Press, 1964), 126.

³² Letter dated February 21, 1835 in Alexis de Tocqueville, *Correspondence and Conversations of Alexis de Tocqueville With Nassau William Senior From 1834-1859 Vol. I*, 7.

³³ Alexis de Tocqueville, *Democracy in America* (New York: Harper and Row, 2006), 539. Tocqueville does use the French words for trade, manufacturing, and industry. The following is the original French version: Je ne sais si l'on peut citer un seul peuple manufacturier et commerçant, depuis les Tyriens jusqu'aux Florentins et aux Anglais, qui n'ait été un peuple libre. Il y a donc un lien étroit et un rapport

Tocqueville means manufacturing and commerce. In this passage he first pairs commerce (the English translation is trade) with manufacturing and then he refers back to this sentence and claims that there is a relationship between freedom and industry. The relationship between freedom and industry occurs because in ages of equality people need to form associations, political freedom promotes the spread of associations, and associations are often “favorable to the production of wealth.”³⁴

Tocqueville also praises commercial mores for preventing revolutions. According to Tocqueville, commerce makes men “inclined to liberty but disinclined to revolution.”³⁵ This is because there is “nothing more opposed to revolutionary morality than the moral standards of traders. Trade is the natural enemy of all violent passions. Trade loves moderation, delights in compromise, and is most careful to avoid anger.”³⁶ Commercial mores, in addition to preventing revolution, also help to prevent wars. The love of wealth is a much less dangerous passion than ambition. This love of wealth “takes the place of ambition, and prosperity quenches the fires of faction.”³⁷

However, there is a danger in turning solely to commercial pursuits. Political freedom and economic prosperity are connected. Yet, those who only pursue political freedom as a means for the ends of economic prosperity will end up losing both. Tocqueville asserts that “[w]hoever seeks anything from freedom but freedom itself is doomed to slavery.”³⁸ If people are only concerned with their material well-being, they will lose their political freedom to a tyrant. When

nécessaire entre ces deux choses : liberté et industrie (Alexis de Tocqueville, *De la Démocratie en Amérique II* (Paris: GF Flammarion, 1981), 175).

³⁴ Tocqueville, *Democracy in America*, 539.

³⁵ Tocqueville, *Democracy in America*, 637.

³⁶ Tocqueville, *Democracy in America*, 637.

³⁷ Tocqueville, *Democracy in America*, 306.

³⁸ Alexis de Tocqueville, *The Ancien Régime and the Revolution* (New York: Penguin Classics, 2008), 168.

people “find it a tiresome inconvenience to exercise political rights which distract them from industry,”³⁹ their excessive taste for wealth “hands them over to the first master who offers himself.”⁴⁰ Thus, the excessive “passion for material comfort...is tantamount to being the mother of servitude.”⁴¹ If a people ignore their political life for the sake of their economic life, they will lose their freedom because they will not be weary in the political realm. They will think it an advantage if a tyrant rules because they can then solely focus on the economic realm and completely abdicate their political responsibilities. As was previously stated, associations contribute to economic well-being. And so eventually, such a people will also lose their prosperity because the tyrant will eliminate associations.

In addition to the dangers faced by turning solely to commercial pursuits, there are also dangers that can come about through industry even if this is not one’s sole pursuit. The division of labor in industry causes “the man [to be] degraded as the workmen improves.”⁴² The workingman who (to use Adam Smith’s example) puts pinheads on pins gets better and better at this specific task; however, he does not think about this task nor does he exercise his skills by performing other tasks and this leads to a decline in his mental and physical capacities. Tocqueville also warns about an industrial aristocracy arising but he does not think that we should fear this greatly. Tocqueville claims that “the manufacturing aristocracy which we see rising before our eyes is one of the hardest that have appeared on earth. But at the same time, it is one of the most restrained and least dangerous.”⁴³ There are two main reasons why this type of aristocracy is the least dangerous; first, it is contained to the world of industry and second, the industrial manufacturers are not a real class because they do not have common interests or

³⁹ Tocqueville, *Democracy in America*, 540.

⁴⁰ Tocqueville, *Democracy in America*, 539.

⁴¹ Tocqueville, *The Ancien Régime and the Revolution*, 122.

⁴² Tocqueville, *Democracy in America*, 555.

⁴³ Tocqueville, *Democracy in America*, 558.

traditions.⁴⁴ Tocqueville may have underestimated this new type of aristocracy because such an aristocracy is no longer confined to industry—it can be argued that there is a financial aristocracy. And the individual members of such an aristocracy often do share common interests.

The biggest dangers from manufacturing and commerce are periodic industrial crises. In an industrial crisis “all private fortunes are in jeopardy at the same time and the state is shaken.”⁴⁵ An industrial crisis is dangerous because it destabilizes the state and thus has the potential to cause a political crisis. In addition, it can bring about a major social crisis—many people are at risk of losing all of their money or their jobs and thus becoming completely destitute. The livelihoods and even the lives of the working class are especially at risk in an industrial crisis. Tocqueville describes how the “industrial class, which gives so much impetus to the well-being of others, is thus much more exposed to sudden and irremediable evils.”⁴⁶ Tocqueville’s primary concern lies with the negative effects industry might have on the social and political spheres; he is not concerned with making the economy work better for its own sake. However, if the economy worked better by having less severe industrial crises or by having them less often, serious instability would not endanger the political sphere and harmful dislocations would not threaten the social sphere.

Tocqueville’s Fear of Administrative Centralization and Argument for Governmental Centralization

One possible solution for mitigating the harmful effects of an industrial crisis is more government involvement in the economy. Tocqueville is very suspicious of the government because of his fear that administrative centralization will result in a loss of liberty. He is

⁴⁴ Tocqueville, *Democracy in America*, 557.

⁴⁵ Tocqueville, *Democracy in America*, 554.

⁴⁶ Alexis de Tocqueville, *Memoir on Pauperism: Does Public Charity Produce an Idle and Dependent Class of Society?* (New York: Cosimo, 2005), 11.

therefore very much against government planning of the economy but he is not against government regulation of the economy.⁴⁷

There is a fair amount of consensus among scholars that Tocqueville is against administrative centralization. Francis Wilson points out that “Tocqueville saw clearly the centralizing implications of industrialization.”⁴⁸ Jack Lively agrees with Wilson and explains how Tocqueville would be against using industry as an excuse for the extension of state power and centralization because it would undermine liberty.⁴⁹ Roger Boesche argues that due to Tocqueville’s fear of administrative centralization, he was “frustrated with the large enterprises of capitalism and was terrified of the claims of socialism.”⁵⁰ According to Welch, the main theme of the *Ancien Régime* is why France is different from America; specifically, why France “had developed a profound attachment to centralization, and why a violent but sterile revolutionary spirit had come to plague every attempt to break this attachment, thus apparently dooming France to a permanent oscillation between administrative domination and political chaos.”⁵¹ Administrative centralization is always linked to tyranny and domination in Tocqueville’s mind.

⁴⁷ Friedrich Hayek provides a very good discussion about the difference between regulation and planning. For this discussion see Friedrich A. Hayek, *The Road to Serfdom* ed. Bruce Caldwell (Chicago: University of Chicago Press, 2007), 86-90 and 148. Hayek is against government planning but is not against government regulation. Planning assumes that the government has the type of knowledge that it cannot possibly have. Regulation does not assume such knowledge because it does not seek to achieve a particular end but only provides a framework in which individuals can seek their own aims. Planning and competition are incompatible; regulation and competition are perfectly compatible. Hayek explains that although “competition can bear some admixture of regulation, it cannot be combined with planning to any extent we like without ceasing to operate as an effective guide to production” (Hayek, *The Road to Serfdom*, 90).

⁴⁸ Francis G. Wilson, “Tocqueville’s Conception of the Elite,” *The Review of Politics* 4.3 (1942), 273.

⁴⁹ Jack Lively, *The Social and Political Thought of Alexis de Tocqueville* (Oxford, Clarendon Press, 1962), 94-95.

⁵⁰ Roger Boesche, *The Strange Liberalism of Alexis de Tocqueville* (Ithaca: Cornell University Press, 1987), 138.

⁵¹ Cheryl Welch, *De Tocqueville* (Oxford: Oxford University Press, 2001), 121.

There are a few scholars who think that Tocqueville does not necessarily fear government expansion and regulation. Seymour Drescher argues that Tocqueville wavers on the principle of government non-interference in the economy.⁵² And Chad Alan Goldberg reconstructs Tocqueville's argument in *Memoir on Pauperism* to argue that Tocqueville would support certain types of welfare.⁵³

Tocqueville is very much against administrative centralization but favors governmental centralization. Governmental centralization and administrative centralization are two very different things. For Tocqueville, governmental centralization is necessary and beneficial whereas administrative centralization is unnecessary and detrimental. Governmental centralization basically means that the same general laws will be determined centrally and apply throughout the whole country.⁵⁴ Tocqueville cannot “conceive that a nation can live, much less prosper, without a high degree of centralization of government.”⁵⁵ Administrative centralization deals with government control and planning. According to Tocqueville, “administrative centralization only serves to enervate the people that submit to it.”⁵⁶ Economic regulatory laws are part of governmental centralization and not administrative centralization. Such laws provide a framework to check abuses and promote prosperity. Tocqueville even implies the necessity for some government economic regulation in his critique of the manufacturing aristocracy. However, Tocqueville is very much against government planning of the economy because the central government is not omniscient. According to Tocqueville,

A central power, however enlightened and wise one imagines it to be, can never alone see to all the details of the life of a great nation. It cannot do so because such a task exceeds human

⁵² Drescher, *Tocqueville and England*, 128.

⁵³ Chad Alan Goldberg, “Social Citizenship and a Reconstructed Tocqueville,” *American Sociological Review* 66.2 (2001), 289-315.

⁵⁴ Tocqueville, *Democracy in America*, 87.

⁵⁵ Tocqueville, *Democracy in America*, 88.

⁵⁶ Tocqueville, *Democracy in America*, 88.

strength. When it attempts unaided to create and operate so much complicated machinery, it must be satisfied with very imperfect results or exhaust itself in futile efforts.⁵⁷ Administrative centralization deprives a people of “local self-government”⁵⁸ and can only lead to negative results because the central government is unable to know the needs of local populations.⁵⁹

According to Tocqueville, administrative centralization is also very likely to lead to tyranny. Tocqueville, as an Aristocrat, always depicts the French Revolution as a time of tyranny. He describes how the process of administrative centralization in France began during the Ancien Régime and was perfected under the Revolution. The Jacobins were able to take over France and institute the Terror because the centralization of “administration of the Ancien Régime had in advance removed from the French both the possibility of and the desire for mutual support.”⁶⁰

“Self-Interest Properly Understood”

For Tocqueville, government regulation is part of the solution to mitigating the severity of industrial crises. The second part of the solution is “self-interest properly understood.” This doctrine can restrain some of the causes of industrial crises and thereby prevent serious social dislocations and severe political instability. Before we get to how self-interest properly understood can do this, we need to look at the origins of “self-interest” and the definition of “self-interest properly understood.”

There are several different views on the origin of the term “interest.” According to Albert O. Hirschman, “interest” has an origin in the idea of the countervailing passion. This idea held that “one set of passions, hitherto known variously as greed, avarice, or love of lucre, could be

⁵⁷ Tocqueville, *Democracy in America*, 91.

⁵⁸ Letter dated April 9, 1854 in Alexis de Tocqueville, *Correspondence and Conversations of Alexis de Tocqueville With Nassau William Senior From 1834-1859 Vol. 2*, 103.

⁵⁹ Tocqueville, *The Ancien Régime and the Revolution*, 52-53.

⁶⁰ Tocqueville, *The Ancien Régime and the Revolution*, 201.

usefully employed to oppose and bridle such other passions as ambition, lust for power, or sexual lust.”⁶¹ The countervailing passion eventually became tied to reason and thus converted itself into interest. Hirschman explains how “[i]nterest was seen to partake in effect of the better nature of each as the passion of self love upgraded and contained by reason, and as reason given direction and force by passion.”⁶² Thus, what was originally the idea of harmless passions (such as greed, avarice, etc.) combating harmful passions (such as ambition, sexual lust, etc.) became the idea of the interests combating the passions.⁶³ The harmless commercial passions were transformed into interests and they were viewed as harmless and even beneficial because they were predictable.⁶⁴

Stephen Engelmann disagrees with Hirschman’s account of the origins of “interest.” Engelmann asks, “What are we to make of the troubling incongruity that interest-talk is everywhere in the English seventeenth century, yet surprisingly little of it, especially early on, refers to passions, countervailing or otherwise?”⁶⁵ According to Engelmann, the idea of interest with an economic connotation does not come from the idea of a countervailing passion. Rather, “The economic rationality of monistic interest has multiple origins. Reason of state is perhaps the most important of these. But the seventeenth-century English public interest sheds reason of state’s pluralism and parochialism, and so represents a closer antecedent to monistic interest.”⁶⁶ Engelmann identifies the origin of economic “interest” in the reason of state and the public interest theories.

⁶¹ Albert O. Hirschman, *The Passions and the Interests: Political Arguments for Capitalism before its Triumph* (Princeton, Princeton University Press, 1977), 41.

⁶² Hirschman, *The Passions and the Interests*, 43.

⁶³ Hirschman, *The Passions and the Interests*, 32.

⁶⁴ Hirschman, *The Passions and the Interests*, 49.

⁶⁵ Stephen G. Engelmann, *Imagining Interest in Political Thought: Origins of Economic Rationality* (Durham, NC: Duke University Press, 2003), 29.

⁶⁶ Engelmann, *Imagining Interest in Political Thought*, 104.

Harvey Mansfield also disagrees with Hirschman. He traces the origin of the idea of “interest” to Machiavelli.⁶⁷ According to Mansfield, “Machiavelli did not use the term interest; so he is its origin and not the originator.”⁶⁸ Interest comes from Machiavelli’s idea that the prince is driven by necessity and according to Mansfield, “[n]ecessity, for Machiavelli, endorses the acquisitive princes and transforms moral virtue into a new virtue.”⁶⁹

The origins of interest are beyond the scope of this paper. Whatever the origins, by the 1800s when Tocqueville wrote, interest certainly had an economic connotation. Tocqueville did not mean for self-interest properly understood to only apply to the economic realm. In fact, Tocqueville was more concerned about the social and political realms and he had explicit arguments about how self-interest properly understood would benefit these realms. Whether interest was or was not originally meant to counteract the passions, Tocqueville’s concept of self-interest properly understood is meant to counteract dangerous and selfish passions that harm the social and political realms. His economic argument is implicit rather than explicit. Self-interest properly understood can counteract risky behavior and thereby mitigate the strength of economic crises.

There is a debate among scholars about the importance of the doctrine of “self-interest properly understood” for Tocqueville; some scholars view this doctrine positively and argue that this is a very important concept whereas others view it negatively and claim that it has no significance. The doctrine of self-interest properly understood causes one to look beyond oneself. Cheryl Welch thinks that this doctrine is important for Tocqueville because it leads to local

⁶⁷ Engelmann rejects this canonical interpretation of the origins of interest. According to Engelmann, the idea of interest does not come from Machiavelli, Hobbes, or Hume (Engelmann, *Imagining Interest in Political Thought*, 20-28).

⁶⁸ Harvey Mansfield, “Self-Interest Rightly Understood,” *Political Theory* 23.1 (1995), 51.

⁶⁹ Harvey Mansfield, “Self-Interest Rightly Understood,” 50.

political and civil associations.⁷⁰ Richard Avramenko argues that the “doctrine of self-interest properly understood turns the feverish pursuit of material interest into a courageous pursuit. By definition, daring endeavors that transcend personal interest are courageous. Economic avarice becomes economic courage because it is coupled with the doctrine of self-interest rightly understood.”⁷¹ Thus, this doctrine is significant because it contributes to courage and courage is a virtue. The doctrine of self-interest properly understood is important for Jon Elster because he sees it as a causal mechanism; it has a positive connotation because it will cause one to do what is in one’s long term rather than short term interest.⁷² Donald Maletz describes how the idea of rights can be extrapolated from this doctrine.⁷³ And Andrew Sabl explains how self-interest properly understood can be used in community organizing to get the upper classes to sacrifice their pride and make concessions.⁷⁴

Roger Boesche argues that self-interest properly understood is not an important concept for Tocqueville; Boesche claims that “[o]nce his concentration on American democracy had subsided...he wrote scarcely a word that would countenance any kind of politics based on self-interest.”⁷⁵ According to Boesche, Tocqueville in discussing self-interest did not “advocate a politics based on self-interest...he was merely making a small but necessary bow towards realism, without losing his wish for a political world in which citizens debate differing opinions of the general good.”⁷⁶ Peter Augustine Lawler agrees with Boesche and claims that this

⁷⁰ Welch, *De Tocqueville*, 88-95.

⁷¹ Avramenko, “Economic Courage and Wealth,” 295-296.

⁷² Jon Elster, *Alexis de Tocqueville: The First Social Scientist* (Cambridge: Cambridge UP, 2009), 48-49.

⁷³ Donald J. Maletz, “Tocqueville’s Tyranny of the Majority Reconsidered,” *The Journal of Politics* 64.3 (2002), 746-748.

⁷⁴ Andrew Sabl, “Community Organizing as Tocquevillean Politics: The Art Practices, and Ethos of Association,” *American Journal of Political Science* 46.1 (2002), 8.

⁷⁵ Boesche, *The Strange Liberalism of Alexis de Tocqueville*, 195.

⁷⁶ Boesche, “Why did Tocqueville Fear Abundance? Or the Tension between Commerce and Citizenship,” 31-32.

doctrine is not the key to Tocqueville's "practical teaching about democracy."⁷⁷ Lawler argues that because Americans only feel comfortable using self-interested justifications, the doctrine of interest rightly understood serves as pretext to protect "free local political institutions, religion, and the family as counterweights against the democratic impulse toward egalitarian consistency."⁷⁸ Delba Winthrop has the most negative view of self-interest properly understood. According to Winthrop, "self-interest as understood by democrats and as partially obscured by the democratic dogma of equality tends naturally to despotism."⁷⁹ Additionally, self-interest is unable to lead one to a morally right decision. Winthrop argues that the doctrine of self-interest properly understood is not enough to get rid of racism because racism may be interpreted to be in one's interest.⁸⁰

Tocqueville has a favorable view of the doctrine of self-interest properly understood. He explains that "self-interest properly understood is not at all a sublime doctrine" but it is "the best suited of all philosophical theories to the wants of men in our time."⁸¹ In the aristocratic age, the nobility did not think in terms of interest; rather, they "liked to entertain a sublime conception of the duties of man."⁸² In the democratic age, interest "provides the only stable point in the human heart."⁸³ Interest thus becomes "the chief if not the only driving force behind all behavior."⁸⁴ This may lead to positive as well as to negative results depending on "how each man will

⁷⁷ Peter Augustine Lawler, "Tocqueville on the Doctrine of Interest," *Government and Opposition* 30.2 (1995), 221.

⁷⁸ Peter Augustine Lawler, "Tocqueville on Pride, Interest, and Love," *Polity* 28.2 (1995), 217.

⁷⁹ Delba Winthrop, "Rights, Interests, and Honor," *Tocqueville's Defense of Human Liberty* ed. Peter Augustine Lawler and Joseph Alulis (New York, Garland Publishing, 1993), 215.

⁸⁰ Delba Winthrop, "Race and Freedom in Tocqueville," *Tocqueville's Political Science: Classic Essays* ed. Peter Augustine Lawler (New York: Garland Publishing, 1992).

⁸¹ Tocqueville, *Democracy in America*, 525-527.

⁸² Tocqueville, *Democracy in America*, 525.

⁸³ Tocqueville, *Democracy in America*, 239.

⁸⁴ Tocqueville, *Democracy in America*, 527.

interpret his private interest.”⁸⁵ The doctrine of self-interest properly understood is important because it is an interpretation of interest that leads one to do good. This doctrine holds that “by serving his fellows man serves himself and that doing good is to his private advantage.”⁸⁶ Self-interest properly understood thus causes the individual to be concerned with others and to relinquish the pursuit of selfish objectives that harm others. This teaching is not sublime because it is centered on interest and not on virtue and so “it may stop some men from rising far above the common level of humanity, but many of those who fall below this standard are restrained by it. Some individuals it lowers, but mankind it raises.”⁸⁷ Self-interest properly understood requires calculation and eventually such calculation “becomes instinct.”⁸⁸ There are many different interpretations of interest and therefore one needs to learn how to calculate correctly so that one is following her “*intérêt bien entendu*” rather than her “*égoïsme imbecile*” or her “*intérêt sans la science*.”⁸⁹ If we want people to follow their self-interest properly understood, “it is all important for them to be educated.”⁹⁰

Self-Interest Properly Understood as a Regulatory Mechanism on Commerce

⁸⁵ Tocqueville, *Democracy in America*, 527.

⁸⁶ Tocqueville, *Democracy in America*, 525.

⁸⁷ Tocqueville, *Democracy in America*, 527

⁸⁸ Tocqueville, *Democracy in America*, 512.

⁸⁹ Schliefer explores Tocqueville’s use of “*intérêt bien entendu*” in the drafts of *Democracy in America* (the drafts are currently located at Yale). Schliefer finds that “self-interest properly understood” (*intérêt bien entendu*) had evolved from “refined and intelligent selfishness” (*égoïsme raffiné et intelligent*). L’*égoïsme raffiné et intelligent* is opposed to l’*égoïsme imbecile* and la doctrine de l’*intérêt bien entendu* is opposed to la doctrine de l’*intérêt sans la science*. James T. Schliefer, *The Making of Tocqueville’s Democracy in America*, (Chapel Hill, NC: University of North Carolina Press, 1980), 233-244.

⁹⁰ Tocqueville, *Democracy in America*, 527. Tocqueville’s concept of self-interest properly understood is thus very different from Adam Smith’s concept of interest. For Tocqueville, interest by itself does not serve the public. Self-interest properly understood serves the public but this interpretation of self-interest needs to be learned and consciously followed by the individual (at least until calculation becomes instinct). On the other hand, Adam Smith argues that an individual, who pursues his own interest, promotes the public interest unintentionally and unconsciously through the invisible hand. Smith explains that an individual “intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of society better than when he really intends to promote it.” Adam Smith, *The Wealth of Nations* (New York: Random House, 1994), 485.

Tocqueville explains that the Americans are all “subject to very unexpected and formidable industrial crises.”⁹¹ These crises are especially dangerous because “all private fortunes are in jeopardy at the same time and the state is shaken.”⁹² Industrial crises lead to social dislocation and political instability. Tocqueville thinks “that the recurrence of these industrial crises is an endemic disease among all democratic nations in our day. It can be made less dangerous, but not cured, for it is not due to accident but to the essential temperament of these peoples.”⁹³ Tocqueville identifies several factors that help to cause an industrial crisis. There are structural factors such as a population restricting its needs, “domestic overproduction, [and] foreign competition.”⁹⁴ But there are also the more important behavioral factors such as excessive risk taking; Tocqueville explains that the Americans have “turned rash speculation into a sort of virtue.”⁹⁵ The passage about industrial crises and the essential temperament of democratic peoples is located at the end of a chapter in which Tocqueville discusses how democrats are risk-takers because of their love of wealth and their love of chance. Risk-taking is the “essential temperament” of democratic peoples.

In democratic times, “the prestige attached to what is old has vanished, men are no longer distinguished, or hardly distinguished, by birth, standing, or profession; there is thus hardly anything left but money which makes very clear distinctions between men or can raise some of them above the common level.”⁹⁶ Hence, in democracies men have a much greater desire for wealth than in aristocracies. Tocqueville explains that “Men living in democratic times have

⁹¹ Tocqueville, *Democracy in America*, 554.

⁹² Tocqueville, *Democracy in America*, 554.

⁹³ Tocqueville, *Democracy in America*, 554.

⁹⁴ Tocqueville, *Memoir on Pauperism*, 11.

⁹⁵ Tocqueville, *Democracy in America*, 622.

⁹⁶ Tocqueville, *Democracy in America*, 615.

many passions, but most of these culminate in love of wealth or derive from it.”⁹⁷ One cannot accumulate great wealth in agriculture within a short period of time; thus, the democrat “sells his field, moves from his house, and takes up some risky but lucrative profession.”⁹⁸ In democracies men naturally turn “in the direction of trade and industry, for these seem the quickest and best means of getting rich.”⁹⁹ The Americans pursue wealth with a feverish ardor and “they are ever tormented by the shadowy suspicion that they may not have chosen the shortest route to get it.”¹⁰⁰ Great wealth can be accumulated or great wealth can be lost very quickly by rash speculation—it all depends on one’s luck. Too much rash speculation will result in an industrial crisis.

Americans do not engage in risk-taking in the economic realm solely for wealth.

Tocqueville explains that “Chance is an element always present to the minds of those who live in the unstable conditions of democracy, and in the end they come to love enterprises in which chance plays a part.”¹⁰¹ Chance is strongly linked to risk; one has a chance to win but to do this one must risk something. Americans experience chance and risk in all aspects of their lives and so they come to love chance and risk in the economic realm. Americans engage in trade and rash speculation “not only for the sake of promised gain, but also because they love the emotions it provides.”¹⁰²

Risk-taking is not a completely negative characteristic. Tocqueville describes how in America “the type of courage best known and appreciated is that which makes a man brave the fury of the ocean to reach port more quickly, and face without complaint the privations of life in

⁹⁷ Tocqueville, *Democracy in America*, 614.

⁹⁸ Tocqueville, *Democracy in America*, 552.

⁹⁹ Tocqueville, *Democracy in America*, 551.

¹⁰⁰ Tocqueville, *Democracy in America*, 536.

¹⁰¹ Tocqueville, *Democracy in America*, 553.

¹⁰² Tocqueville, *Democracy in America*, 553.

the wilds and that solitude which is harder to bear than any privations.”¹⁰³ Thus the Americans have “put something heroic into their way of trading.”¹⁰⁴ Excessive economic risk-taking can lead to an industrial crisis but well-measured economic risk-taking can often be courageous—this is a very important distinction. Risk-taking becomes excessive when it puts the general welfare at risk as well. Avramenko argues that “Economic avarice becomes economic courage because it is coupled with the doctrine of self-interest rightly understood.”¹⁰⁵ Well-measured risk taking is risk taking combined with self-interest properly understood. Excessive risk-taking can never be courageous because as Avramenko explains “danger is acceptable insofar as it is confined to the individual; it is not acceptable if it threatens the social fabric permitting the orderly and constant pursuit of wealth.”¹⁰⁶ Excessive risk-taking leads to serious industrial crises which lead to social and political instability.

Risk-taking can result in positive effects in the form of courageous acts or negative effects in the form of industrial crises. Self-interest properly understood can lessen the strength and frequency of industrial crises by curbing excessive risk-taking because it links the success of the individual to the general welfare of the whole community. However, self-interest properly understood cannot, nor should it, eliminate all risk-taking because risk-taking is the “essential temperament” of democratic peoples.

In democracies, people are guided by their interests. However, interest is a very general concept and so “we have yet to see how each man will interpret his private interest.”¹⁰⁷ People engage in risky economic behavior because they believe that it is in their interest to do so—they believe that they can become wealthy in a short period of time. If people interpret their interests

¹⁰³ Tocqueville, *Democracy in America*, 553.

¹⁰⁴ Tocqueville, *Democracy in America*, 403.

¹⁰⁵ Avramenko, “Economic Courage and Wealth,” 295-296.

¹⁰⁶ Avramenko, “Economic Courage and Wealth,” 305.

¹⁰⁷ Tocqueville, *Democracy in America*, 527.

in one way they will engage in excessively risky economic behavior whereas if they interpret their interests in another way they will only engage in well-measured risk-taking. Tocqueville explains that if “citizens, attaining equality, were to remain ignorant and course, it would be difficult to foresee any limit to the stupid excesses into which their selfishness might lead them.”¹⁰⁸ When people interpret their interests through ignorant selfishness (“égoïsme imbecile”), they engage in excessively risky behavior because they are only thinking of benefiting themselves and are not at all thinking of the consequences that their “stupid excesses” might bring for others. However, such behavior will not even benefit these people because as Tocqueville explains it is difficult to “foretell into what shameful troubles they might plunge themselves for fear of sacrificing some of their own well-being for the prosperity of their fellow men.”¹⁰⁹ A rash speculator who only thinks about accumulating wealth for himself and ignores the negative consequences his actions are likely to cause for the prosperity of others, is likely to eventually lose all of his wealth. Many of the banks that failed in the recent economic crisis are perfect examples of this.

The very essence of self-interest properly understood prevents excessively risky behavior that brings harm to others. Someone who has self-interest properly understood believes that “by serving his fellows man serves himself and that doing good is to his private advantage.”¹¹⁰ This type of self-interest causes the individual to think always about the consequences her actions will have for others because she knows that her well-being is linked to the well-being of others. An industrial crisis is harmful for everyone because “all private fortunes are in jeopardy.”¹¹¹ An individual who interprets her interest properly is unlikely to engage in excessively risky

¹⁰⁸ Tocqueville, *Democracy in America*, 527.

¹⁰⁹ Tocqueville, *Democracy in America*, 528.

¹¹⁰ Tocqueville, *Democracy in America*, 525.

¹¹¹ Tocqueville, *Democracy in America*, 554.

economic behavior, even if such behavior will benefit her financially, because this behavior will harm, instead of serve, her fellows and thus will also eventually harm her. There is a close connection between “private profit and the general welfare.”¹¹² The individual who interprets his interest properly recognizes this and foregoes excessive risk-taking in the market because an industrial crisis will harm the general welfare as well as his private profit.

Self-interest properly understood causes one to give up the passions in favor of one’s long term interests. One may have a passion for risk-taking because of one’s desire for quick wealth or one’s love of chance. However, a man with self-interest properly understood “resists all his instinctive impulses and deliberately calculates every action of his life, that instead of yielding blindly to the first onrush of his passions he has learned the art of fighting them, and that he habitually and effortlessly sacrifices the pleasures of the moment for the lasting interests of his whole life.”¹¹³ Such a man will calculate whether a risk is worth taking or whether a risk is too excessive, he will calculate the likely consequences of the risk, and he will calculate whether such a risk is likely to lead to an industrial crisis and thus harm his lasting interests. Eventually such “calculation becomes instinct.”¹¹⁴ Thus the man, who was originally drawn to excessive risk-taking by his instinct, is now drawn away from it by his instinct.

Even if excessively risky behavior can lead one to make a profit and keep it in the ensuing crisis, self-interest properly understood makes it unlikely that one will engage in such behavior. One of the characteristics of self-interest properly understood is that it “does not inspire great sacrifices, but every day it prompts some small ones.”¹¹⁵ This type of self-interest can never lead one to give up all of his wealth for the prosperity of others, but it will lead one to

¹¹² Tocqueville, *Democracy in America*, 511.

¹¹³ Tocqueville, *Democracy in America*, 529.

¹¹⁴ Tocqueville, *Democracy in America*, 512.

¹¹⁵ Tocqueville, *Democracy in America*, 527.

make small sacrifices in the form of profits from excessive risk-taking. Another characteristic of self-interest properly understood is that it disposes people to “give up part of their time and wealth for the state.”¹¹⁶ During an industrial crisis “the state is shaken”;¹¹⁷ excessively risky behavior thus has very negative consequences for the welfare of the state. Self-interest properly understood will cause speculators to forego the profits that could be accumulated through excessive risk-taking—it will cause them to give up this part of their wealth for the good of the state.

Self-interest properly understood makes any kind of excess impossible because “its discipline shapes a lot of orderly, temperate, moderate, careful, and self-controlled citizens.”¹¹⁸ Orderliness, temperance, and moderation are all the very opposites of excess—orderly, temperate, and moderate citizens by definition do not engage in excess. Careful citizens are calculating and would thus calculate that excessively risky behavior is not in their long-term interest because an industrial crisis results in harm for everyone.¹¹⁹ Self-controlled citizens are able to control their passions—they will not be moved by their love of wealth or their love of chance to engage in excessive risk-taking.

Through all of these ways, self-interest properly understood acts as a regulatory mechanism on commerce. Someone who interprets her interests in this manner does not engage in the excessively risky behavior that contributes to an industrial crisis. Self-interest properly understood serves to make industrial crises less dangerous and less frequent. However, industrial crises can never be completely prevented, as Tocqueville explains, because their cause is “not

¹¹⁶ Tocqueville, *Democracy in America*, 526.

¹¹⁷ Tocqueville, *Democracy in America*, 554.

¹¹⁸ Tocqueville, *Democracy in America*, 527.

¹¹⁹ Tocqueville uses the word “prévoyants” (Tocqueville, *De la Démocratie en Amérique II*, 155). Careful is the English translation of “prévoyants.” “Prévoyants” has a connotation of farsightedness and calculation.

due to accident but to the essential temperament of [democratic] peoples.”¹²⁰ Risk-taking is the essential temperament of democratic peoples. Self-interest properly understood eliminates excessive risk-taking but not well measured risk-taking. Even well measured risk-taking can lead to negative results (otherwise it would not be a risk) but these negative results are much less serious than the negative results from excessive risk-taking. Risk-taking combined with self-interest properly understood ensures the stability of the social and political realms whereas excessive risk-taking leads to social and political instability.

To be able to use self-interest properly understood as a regulatory mechanism on commerce, “it is all important for [citizens] to be educated.”¹²¹ Not all of the aspects of self-interest properly understood are intuitive. Therefore, people must be educated to see a link between their private welfare and the general welfare, to correctly calculate which actions they should take, and to make small sacrifices for the well-being of the state and the prosperity of their fellow citizens.

Concluding Remarks: the Recent Economic Crisis and the need for Self-Interest Properly Understood in Addition to Government Regulation

Tocqueville uses the term industry to describe manufacturing as well as commerce; industry does not always connote factories, machines, and large-scale manufacturing. In his chapter on “What Gives All Americans a Preference for Industrial Callings,” Tocqueville explains that in “democracies nothing has brighter luster than commerce.”¹²² Trade and industry are often synonymous for Tocqueville. Today we do not have a large manufacturing economy; we have an economy based on finance. There is trade and speculation in an economy based on finance as well as one based on manufacturing. We still have a crisis every decade and so self-

¹²⁰ Tocqueville, *Democracy in America*, 554.

¹²¹ Tocqueville, *Democracy in America*, 528.

¹²² Tocqueville, *Democracy in America*, 553.

interest properly understood can be used as a regulatory mechanism to mitigate these types of crises as well as industrial crises.

The recent economic crisis is due to excessive risk-taking at several levels. Banks gave out risky loans, the government supported these risky loans through Fannie Mae and Freddie Mac, and speculators on wall-street engaged in risky derivatives trading.¹²³ Banks engaged in increased risk-taking in the years before the burst of the housing bubble.¹²⁴ They made too many subprime mortgage loans to people they knew did not have the financial resources for a mortgage. The banks took these risks because subprime loans carry higher interest rates and the banks believed that they would profit.¹²⁵ The banks did not expect so many people to default. The government supported these policies under Clinton and Bush, through Fannie Mae and Freddie Mac, because both presidents wanted to increase home ownership. These subprime loans as well as other types of loans were backed by trillions of dollars in credit swaps (the most commonly known derivative).¹²⁶ The trading of derivatives is especially risky because there is no regulation of this market and there is very little transparency—Buffet even called derivatives “financial weapons of mass destruction.”¹²⁷ Eventually when subprime mortgage homeowners began defaulting on their loans, the financial institutions that sold these credit swaps did not have enough capital to make good on the guarantees.¹²⁸ And thus the result was the economic crisis.

More government regulation of the financial sector is necessary to prevent such a crisis in the future. The July 2010 financial regulation legislation is a step in the right direction but it does

¹²³ Thomas J. Billiterri, “Financial Bailout: Will U.S. and Overseas Action Stem the Global Crisis,” *CQ Researcher* 18.37 (24 Oct. 2008), 868.

¹²⁴ Kenneth Jost, “Financial Crisis: Did Lax Regulation Cause a Credit Meltdown,” *CQ Researcher* 18.8 (9 May 2008), 411.

¹²⁵ Marcia Clemmit, “Mortgage Crisis: Should the Government Bail Out Borrowers in Trouble,” *CQ Researcher* 17.39 (2 Nov. 2007), 913-936.

¹²⁶ Billiterri, “Financial Bailout,” 868.

¹²⁷ Jost, “Financial Crisis,” 416-417.

¹²⁸ Billiterri, “Financial Bailout,” 868.

not go far enough. Tocqueville would favor regulation because it is an example of governmental centralization rather than administrative centralization. However, Tocqueville would argue that in addition to regulation we need the idea of self-interest properly understood. If people want to engage in excessive risk-taking they will always be able to find loopholes in regulations. The solution is thus to make people link their personal risk-taking to the health of the community as a whole. The way to do this is to teach them the doctrine of self-interest properly understood. The recent economic crisis demonstrates that many people lack self-interest properly understood. Rather, they only have “l’egoïsme imbecile” or “l’intérêt sans la science.”¹²⁹ If we want to prevent such serious crises in the future, we need to make a commitment to educate our citizens to interpret their interests in the right manner. This is not a substitution for government regulation because certain people may still interpret their interests in the wrong manner. Self-interest properly understood needs to be combined with government regulation to prevent such a serious economic crisis in the future.

¹²⁹ For a discussion on how American Society has moved passed self-interest properly understood and how it has embraced egoism see Jordon B. Barkalow, “Changing Patterns of Obligations and the Emergence of Individualism in American Political Thought,” *Political Research Quarterly* 57.3 (2004), 491-500.