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# The Political Economy of Adam Smith\*

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## THE INTERPRETATION OF ADAM SMITH

Adam Smith and John Locke are the premier philosophers of modern Western civilization. Such stature is Smith's in part because he comprehended and analyzed the deepest levels of the newly developing industrial market economy.<sup>1</sup> I propose to interpret Smith's picture of the market economy in terms of his total system of thought and analysis. This system, with all its oppositions and tensions, comprises Smith's solution to the problem of order, or of the organization and control of the economic system. Expressed somewhat differently, I shall inquire into the significance for economic policy of the central argument presented in the *Wealth of Nations*. Smith speaks to the ages, or at least he is still being heard in our age. What does he have to say on the most fundamental level? What is really going on in our economic system, according to Adam Smith?

I first must acknowledge certain considerations involved in the retrospective interpretation of the history of thought in general and of specific classic literature in particular.<sup>2</sup> These considerations necessarily limit my analysis and argument.

First, each generation has the task and the opportunity of reinterpreting Smith for itself. There is no escaping this, nor would we desire to.<sup>3</sup>

\*C. Woody Thompson Address, Midwest Economics Association, April 1, 1976. Comments and suggestions, upon an earlier draft, by John Henderson, Elizabeth Johnston, Herbert Kisch, Sylvia Samuels, and Warner Wick, are gratefully acknowledged. This is a further revision of a version published in the Summer 1976 issue of the *Nebraska Journal of Economics and Business*, whose permission is acknowledged with thanks.

1. True, he has some interesting if not important things to say about practical issues and details of economic organization and policy, not all of which, by any means, we are obligated to accept. His views on interest rate regulation and the corporation are two examples. But his opinions often are of interest because he is taking a position, more or less idiosyncratic, about some practical aspect of the fundamental structure and process of the market economy and/or its political correlates.

2. Several of these considerations are discussed in Warren J. Samuels, "The History of Economic Thought as Intellectual History," *History of Political Economy* 6, no. 3 (Fall 1974): 305-23.

3. Interpretation, of course, serves several functions, among them social control. In the *Wealth of Nations* and in the *Theory of Moral Sentiments*, Smith examined the social control mecha-

Second, it should be clear that the understanding of Adam Smith is influenced by the problems, interests, and values which each interpreter, whether an individual or a generation, brings to his work. This is one facet of the inescapable tension between the data (or "facts") of history and the mind of the historian. Furthermore, the history of the interpretation of Smith influences our subsequent perceptions of problems, interests, and values. In both respects, the meaning of the man arises in and through our efforts to apprehend him. It is therefore both necessary and difficult to pierce several veils, not the least being one's own ideology, in order to approach Smith more closely.

Third, the interpretation of Smith has been influenced by a selective filtration process<sup>4</sup> which has permitted certain views to remain viable and others not, a process deeply channeled by ideology, power, and whatever governs professional or disciplinary concerns, including the felt needs of both orthodoxy and heterodoxy in economics, each of which has had its own dogmas and preconceptions about the past and present. No less perceptive an authority than Alex Macfie has remarked, with regard to the historical overemphasis upon the economic side of Smith's work, that "the immense economic impact of the *Wealth of Nations* [arose] considerably out of the way it could be used to support the more dominant economic forces of his and later times."<sup>5</sup> Similarly, John Maurice Clark attributed the immediate success of the *Wealth of Nations* to a shift of "class interests."<sup>6</sup> Ideological and other filtration has permitted most economists and noneconomists to have only an aphoristic appreciation of Smith's view of the economic world. One wonders whether he would have thought the notoriety worthwhile if, in achieving it, his work and analysis were caricatured.

Fourth, I would recall the mixed reception that has been given to the *Wealth of Nations* as, in Frank Knight's phrase, "a propaganda for economic freedom."<sup>7</sup> Of course, the book and its reasoning have been frequently invoked and made increasingly sophisticated as an argument in favor of the market and commercial freedom. Yet many, like Knight, have perceived that Smith was too deep and subtle, and too admitting of unsafe thoughts,

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nisms of the existing society and economy. One indicator of the historic importance of Smith's work has been that the interpretation of the *Wealth of Nations* has become a facet of the social control system of the Western economies. Yet this only illustrates the general view that the entire history of economic thought has meaning as knowledge, social control, and psychic balm, since economics may serve as both explanation and rationalization. The interpretation of the *Wealth of Nations* has become part of the quest for moral and legal rules, a quest which to Adam Smith, as we will see, is a very important part of the socioeconomic system.

4. See Warren S. Gramm, "Natural Selection in Economic Thought: Ideology, Power, and the Keynesian Revolution," *Journal of Economic Issues* 7, no. 1 (March 1973): 1-28.

5. A. L. Macfie, *The Individual in Society* (London: George Allen & Unwin, 1967), p. 13.

6. John Maurice Clark, "Adam Smith and the Currents of History," in *Adam Smith, 1776-1926* (Chicago: University of Chicago Press, 1928), p. 73.

7. Frank H. Knight, "Theory of Economic Policy and the History of Doctrines," *Ethics* 63 (July 1953): 279.

to permit his book to be readily effective propaganda once one looked beyond certain obvious passages. The reception and status given to the *Wealth of Nations* has depended upon many variables, including the interpreters' perceptions of Smith and of the necessary and desirable course of social and economic policy in their own times.<sup>8</sup>

Fifth, I would urge that the most significant aspect of Smith and the *Wealth of Nations* resides in the total matrix of interpretations and mutual critiques, not in any single one, however attractive, useful, ostensibly complete, or accurate it may be. No one interpretation can capture the complexity and fecundity of Smith's mind or the social meaning of his work.

Sixth, I should say that the history of the interpretation of Smith is as interesting and instructive, and as difficult to fathom, as the interpretation of Smith himself. Suffice it to say that the very nature and identity of vulgar Smithism is itself a matter of interpretation; that there is a tension between the confidence that one can determine "what Smith really meant" and the needs of reinterpretation; that it is difficult to transcend the filtration process, in part because its results inevitably help select our perceptions; and that I intend here not some "final" word, but one contribution to the continuing matrix of interpretations.<sup>9</sup>

Adam Smith was no ordinary economic writer; he was a premier philosopher of Western civilization. He worked out many of the distinctive principles of a civilization newly coming into being,<sup>10</sup> and the complexity of such a task can hardly be overestimated. A philosophy of civilization deals with what Joseph Spengler has called the problem of order, requiring continuous readjustments between freedom (or autonomy) and control, continuity and change, and hierarchy and equality.<sup>11</sup> Each such philosophy encompasses not only freedom or continuity, but also the systematic handling of freedom *and* control and continuity *and* change, according to the authoritative principles of the civilization or of those who determine them. Vis-à-vis other civilizations and on its own terms, each civilization and its philosophy evolves a more or less distinctive resolution of the problem of order. This may be perceived and defined in terms of some view of freedom, or otherwise, but it includes within it all the elements which comprise

8. For example, see the disparate interpretations of the significance of the *Wealth of Nations* presented at the Political Economy Club centennial celebration; Political Economy Club, *Revised Report of the Proceedings at the Dinner of 31st May, 1876, Held in Celebration of the Hundredth Year of the Publication of the "Wealth of Nations"* (London: Longmans, Green, Reader & Dyer, 1876).

9. The interpretation given below is largely in the tradition of Jacob Viner, Glenn Morrow, Alex Macfie, and Nathan Rosenberg, among others, all of whom deserve prior exculpation for the uses to which I have put their ideas. The influence of Joseph Spengler also will be evident.

10. Wesley C. Mitchell, *Types of Economic Theory*, ed. Joseph Dorfman (New York: Kelley, 1967), 1:165.

11. Joseph J. Spengler, "The Problem of Order in Economic Affairs," *Southern Economic Journal* 15 (July 1948): 1–29, and "Hierarchy vs. Equality: Persisting Conflict," *Kyklos* 21 (1968): 217–36.

the problem of order: freedom, control, continuity, change, hierarchy, and equality. Each civilization and its philosophy is thus a synthesis of often seemingly contradictory or antinomial elements, such as the controls necessary to permit a particular freedom to exist, and so on. Civilizations represent systems of social control, whatever the character and scope of perceived and actual freedom therein, whatever their resolution of hierarchy versus equality and of continuity versus change. At the level of a civilization, the problem of order is holistic, and one must speak of *patterns* of freedom and control, and so on. On a lower level there exist particular conflicts regarding the details of the problem of order. Adam Smith must be interpreted in terms of such a context and on the level of abstraction required by the general problem of order.

Let there be no mistake about acknowledging the obvious: Adam Smith most distinctively stood for private enterprise, private property, self-interest, voluntary exchange, the limited state, and the market. He was the philosopher of a system of spontaneous economic activity, or resource allocation through market forces, and of efficiency (as it has come to be called) comprehended in terms of self-interest or maximization of personal well-being. The market, in the Smithian view, is a mechanism for resolving basic economic problems and for producing order without elaborate central direction, the "mystery," as Mark Blaug expressed it,<sup>12</sup> of order achieved through exchange entered into by private individuals manifesting "the uniform, constant, and uninterrupted effort of every man to better his condition."<sup>13</sup> All this does in fact characterize the distinctive argument presented in the *Wealth of Nations*, which heralds the market system and its conceptions of freedom, welfare, and the nature, origin, and mode of their realization.

Yet, as I suggested several years ago, there is a second model of order in the *Wealth of Nations*, a model of the economy as a system of power.<sup>14</sup> Smith understood the deep forces of organization and control at work in the economic system. He realized how market forces operate only within, and give effect to, the structure of power and, especially, how those with access to and (in some sense) control over government use it. Market order is achieved only within the structure of power. Both the market and power govern whose interests will count in the economy. Markets are structured by power, and market solutions are power-structure specific. Power and market relations both constitute sets of variables in a general interdependent system.

It is possible to exaggerate the analysis of conflict and power in Smith, but it is also possible to exaggerate the analysis of voluntary market exchange, and it is the latter which has developed as a consequence of the

12. Mark Blaug, *Economic Theory in Retrospect*, rev. ed. (Homewood, Ill.: Irwin, 1968), p. 6.

13. Adam Smith, *The Wealth of Nations* (New York: Modern Library, 1937), p. 326.

14. Warren J. Samuels, "Adam Smith and the Economy as a System of Power," *Indian Economic Journal* 20 (January-March 1973): 363-81.

filtration system governing the development of interpretation. Smith's realism and fecundity include both market exchange narrowly considered and the power play over rights and other bases of access to and participation in the market, including the complex economic role of government. Smith includes both market and power models in his conception of how society works out resolutions to the problem of order. What is distinctive about the market economy is not the absence of fundamental power relations, but their particular form. It is necessary to examine the system on more than its own (ideological) terms and consciousness, and it is this which Smith largely did.

#### SMITH'S SYNOPTIC AND SYNTHETIC SYSTEM

The juxtaposition and combination of power and market models must be seen, however, as but one part of Smith's total conception of the economic system and its underlying processes. Smith, many of his contemporaries, such as David Hume, and many successors, such as Karl Marx, Carl Menger, Vilfredo Pareto, and Max Weber, each had a synoptic grasp upon or approach to the world. Smith, and the Scottish school in general, "thought of economics only as one chapter (not the most important) in a general theory of society involving psychology and ethics, social and individual, law, politics, and social philosophy as well."<sup>15</sup> Smith had not only a synoptic view of the world but also, and most suitably, a synthetic way of thinking; results were a consequence of the integration or composition of complex and often seemingly contradictory elements.

Let me outline the important points which must be added to the juxtaposition and combination of market and power.

First, a fact that is quite well known but whose significance is not so well appreciated, is that Smith's approach to moral philosophy encompassed four realms of thought and action: natural theology, ethics, justice (or jurisprudence), and expediency (by which he meant concern for wealth, power, and prosperity). The domain of ethics was explored in the *Theory of Moral Sentiments*; expediency, or wealth and associated power, in the *Wealth of Nations*; and justice was to be the object of another discourse, to consist of "an account of the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society, not only in what concerns justice, but in what concerns police [policy], revenue, and arms, and whatever else is the object of the law."<sup>16</sup> In lieu of this latter volume we have had one transcription of his lectures.<sup>17</sup> The point is that the moral, market, and legal orders are distinguishable interacting subprocesses of a larger whole and that their interaction is an important part of their operation and explanation.

Second, it was Smith's view that what transpired in the life of the

15. Macfie, p. 16; see p. 147 and passim.

16. Adam Smith, *The Theory of Moral Sentiments* (New York: Kelley, 1966), p. 503.

17. Adam Smith, *Lectures on Justice, Police, Revenue and Arms* (New York: Kelley, 1964).

individual and society was a synthesis of a number of forces. These included self-love, self-interest, self-command, sympathy, benevolence, moral rules, and legal control. Individual thought and behavior represented a balance or synthesis of motives, each of which had complex origins. Social and individual phenomena were a product of both reason and feeling and of both rationalism and authority. There is both deliberative and nondeliberative choice in society.<sup>18</sup>

Third, society exhibits tendencies toward both harmony and conflict, with tension between them. There are great conflicts in society, and such harmony as exists does so within the existing system and structure and is very rough and limited; moreover, it is a created and not a fully spontaneous harmony.<sup>19</sup>

Fourth, it is easy to lose sight of the foregoing because in both the *Theory of Moral Sentiments* and the *Wealth of Nations* Smith himself presented a synthesis of naturalistic deductive lines of reasoning and factual inductive arguments. Needless to say, tensions exist between these two procedures.<sup>20</sup> As for society itself, there is a synthesis of "experience, induction from it, and the final faith."<sup>21</sup>

Adam Smith's mind encompassed both the broad, dynamic, interactive, and open-ended process of resolving the problem of order and the set of its on-going solutions. The process was at any point constrained by the status quo and, for Smith himself, by certain normative pluralistic requirements (however ambiguous they may appear in retrospect).<sup>22</sup> Smith's was an essentially modern, albeit undeveloped, theory of society. Inevitably, the tendency of interpreters is to see and emphasize portions of his analysis, but we must not lose sight of Smith's synoptic and synthetic whole, with its interdependence, ambiguity, and tensions. The strength of partial analysis is necessarily associated with its limits, including the neglect both of interaction between subprocesses and of the general interdependent character of the whole. What happens to or in one subprocess profoundly affects and is affected by what transpires in the others. This is a system which Gunnar Myrdal calls cumulative causation. Interpretation cannot properly reduce Smith's analysis to single-factor explanations or to narrow normative systems without doing injury to his synoptic and synthetic view of the realities of economic life. Apparent closure, vis-à-vis the open-endedness of his analysis, is a result of ideological filtration which, however inevitable, necessary, and even salutary, nonetheless fails to present the entire Smithian

18. Macfie, chaps. 5, 6, and passim; Warren J. Samuels, *The Classical Theory of Economic Policy* (Cleveland: World, 1966), chap. 2 and passim.

19. Lionel Robbins, *The Theory of Economic Policy in English Classical Political Economy* (London: Macmillan, 1953), pp. 25–29; Samuels, *Classical Theory*, pp. 7–9.

20. Macfie, pp. 108, 122, and passim; Glenn R. Morrow, "Adam Smith: Moralizer and Philosopher," in *Adam Smith, 1776–1926* (Chicago: University of Chicago Press, 1928), pp. 168–71.

21. Macfie, pp. 102–3, n. 4.

22. Samuels, *Classical Theory*, chap. 5; Robbins, chap. 6; and A. W. Coats, *The Classical Economists and Economic Policy* (London: Methuen, 1971), pp. 5 ff.

analysis. His work serves to caution us that basic problems must be defined in such a way as not to foreclose analytical consideration of important variables and forces but rather to stress certain critical antinomies ensconced within them. There are inevitable interactions, tensions, and problems which are characteristic of the working out of solutions to the problem of order.

The greatest difficulty in both positive and normative analysis is to project adequately the system of freedom under analysis while providing an important and explicit place for the system of control necessary for that system. The same is true with regard to continuity and change. It was Adam Smith's genius to have treated this as a critical part of his synthetic and synoptic analysis. As Macfie remarks, "Some of Smith's arguments seem to conflict with others, and the charge of inconsistency has been brought against him, with undoubted justice. But while consistency is certainly a virtue and an ideal, we live in a world shot through with inconsistencies. In this regard, I like to remember the saying of Emerson: 'With consistency a great soul had simply nothing to do': an exaggeration, no doubt; but in due measure true, at least for geniuses."<sup>23</sup> The same point has been made by others: Reinhold Niebuhr wrote that "life is full of contradictions and ambiguities" and that "we live our lives in various realms of meaning which do not cohere rationally."<sup>24</sup> F. Scott Fitzgerald wrote that "the test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function."<sup>25</sup> Niels Bohr distinguished between "minor truths, whose opposites are plainly false, and great truths, whose opposites are also true."<sup>26</sup> However much ideological filtration may have distorted and emasculated Smith's analysis, his was a first-rate intelligence. He did comprehend great truths whose wisdom and accuracy resided in their synthesis with opposites which were also true in distinguishable respects. Nowhere is this insight more important than in regard to his analysis of market and power and of freedom and control, but it is also true, and important, in regard to his analysis of moral rules, law, and institutions generally.

#### INTERDEPENDENCE AND TENSIONS

This section will sketch the interdependence and tensions contained within Smith's synoptic and synthetic analysis. Most of the discussion concerns the nature and role of the market, its relation to other institutions of social control, and the relation of self-interest to the market and to moral

23. Macfie, p. 139. On the problem of Smith's consistency, see Ralph Anspach, "The Implications of the *Theory of Moral Sentiments* for Adam Smith's Economic Thought," *History of Political Economy* 4, no. 1 (Spring 1972): 203-5.

24. Russel B. Nye, "The Thirties: The Framework of Belief," *Centennial Review* 19 (Spring 1975): 52.

25. Quoted in James Cerruti, "Stockholm," *National Geographic* 149, no. 1 (January 1976): 59.

26. Richard Schlegel, Book Review, *Journal of Economic Issues* 7, no. 3 (September 1973): 480.



and legal rules, all involving the socialization of the individual. We will see that the usual formulation of his message “completely short-circuits much of the real substance of Smith’s work.”<sup>27</sup>

Smith viewed the market as a regulatory system, itself an institution of social control. The invisible hand is supposed to control individual conflicts and the excesses of competition and to “safeguard the public good through healthy competition. Such is his faith.”<sup>28</sup> The market above all is an institutional mechanism to compel men to pursue self-interest in social rather than antisocial ways.<sup>29</sup> As Rosenberg has said, “The price system, as Smith saw it, was an intensely coercive mechanism [which] tied the dynamic and powerful motive force of self-interest to the general welfare. Its free operation would, in most cases, leave the individual producer no alternative but to pursue his economic interests in a manner conducive to the national welfare.”<sup>30</sup> Smith’s emphasis is not solely, or not so much, upon the self-regulatory character of the market as upon the regulation of self-interest by the market. The regulatory function of the market is quite neglected by the modern emphasis upon market solutions as being a priori optimal or upon an a priori free market. This often blind invocation of the market neglects the fact that Smith’s simple and obvious system of natural liberty was a shrewd method of harnessing and releasing the human propensities deemed favorable to the creation of opulence and good order and suppressing the unfavorable ones.

Notice the merely tentative propriety attributed by Smith to market results. It is true that the individual’s search for “the most advantageous employment for whatever capital he can command . . . naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society.”<sup>31</sup> But his most elaborate statement of the general principle is considerably qualified:

As every individual, therefore, endeavors as much as he can both to employ his capital in the support of domestic industry and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he 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. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.<sup>32</sup>

27. Nathan Rosenberg, “Some Institutional Aspects of the *Wealth of Nations*,” *Journal of Political Economy* 68 (December 1960): 557.

28. Macfie, p. 62.

29. Rosenberg, p. 558.

30. *Ibid.*, p. 560.

31. Smith, *The Wealth of Nations*, p. 421.

32. *Ibid.*, p. 423.

Notice that Smith here does not say that in *all* cases self-interest is led by an invisible hand to promote the public interest; only “in this, as in many other cases” does this occur. Again, pursuit of self-interest does not *always* promote the interest of society, only “frequently.” The market, as a regulatory system, is seen by Smith as a more or less newly discovered institution of social control, but its operation is not a priori optimal. The market must be associated with the operation of other institutions of social control; there is no presumptive optimality of market solutions. The principle of the optimality of markets and market solutions, in all its forms, is a later principle with both explanatory and legitimizing roles and does not adequately reflect Smith. The market must be seen as qualified in its operation by the impact of moral and legal rules and other institutions which are themselves a matter of choice and evolution.

The market, in Smith’s total scheme, operated within and gave effect to the rest of the institutional system as well as to individual choice within the system. Voluntary exchange takes place only within legal and moral rules as well as the market. The market, according to Smith, must be comprehended within the larger system involved in the continuing resolution of the problem of order, however much it may contribute thereto. The order produced by markets can only arise if the legal and moral framework is operating well; as Rosenberg has written, the “decisive superiority” of the price system “as a way of organizing economic life lay in the fact that, *when it was surrounded by appropriate institutions*, it tied the dynamic and powerful motive force of self-interest to the general welfare.”<sup>33</sup> The market does not do so alone.

It is a fundamental argument of Adam Smith that institutions, including moral and legal rules and rule making, function as social control. Morrow, Macfie, and Rosenberg have elaborately spelled this out.<sup>34</sup> As Macfie has argued, for example, “the central and fruitful proposition of the *Moral Sentiments* is not the natural theism, but the inductive argument based on the sympathetic feelings of the impartial spectator, with its historical setting of societies developing through the growth of social institutions, education, custom, moral rules and the institutions of justice.”<sup>35</sup> For Rosenberg, “one of the major themes of the *Wealth of Nations*, of course, is its exhaustive examination of the manner in which institutional arrangements structure the decision-making of the individual, sometimes in a manner which harmonizes private interest and social interest, and sometimes in a manner which disrupts them.”<sup>36</sup> “The question is, in each case, whether institutions do, or do not, harness man’s selfish interests to the general welfare.”<sup>37</sup> The *Wealth of Nations*, then, is Smith’s “attempt to define, in

33. Rosenberg, p. 560.

34. Morrow; Macfie; Rosenberg, “Some Institutional Aspects of the *Wealth of Nations*” and “Adam Smith on the Division of Labour: Two Views or One?” *Economica* 32 (May 1965): 127–39.

35. Macfie, p. 107.

36. Rosenberg, “Adam Smith on the Division of Labour,” p. 129.

37. Rosenberg, “Some Institutional Aspects of the *Wealth of Nations*,” p. 560.

very specific terms, the details of the institutional structure which will best harmonize the individual's pursuit of his selfish interests with the broader interests of society."<sup>38</sup>

Among other things, in Smith's analysis institutions govern distribution. For example, he was concerned with the social gains and costs of the division of labor. One of his points, in modern terms, is that institutions govern their distribution among classes. In other words, there is a complex set of distributional, hierarchical, and aggregate-income level trade-offs and related choices to be made through institutions.<sup>39</sup> As expressed by Rosenberg, "Smith is constantly searching out the impact of specific institutional forms upon the human actor. Given his basic conception of human motivations and propensities, the specific kinds of behavior which we may expect of any individual will depend on the way the institutions surrounding him are structured, for these determine the alternatives open to him and establish the system of rewards and penalties within which he is compelled to operate."<sup>40</sup>

For Smith as for Hume, predictability of human behavior was brought about by the continuity generated by stabilized relationships embodied in institutions. "Once the institutional framework is specified," says Rosenberg, "human behavior becomes highly predictable."<sup>41</sup>

Institutions also govern the answer to the question of whose liberty is to be achieved. (Or, liberty for what?<sup>42</sup>) Smith was surely influenced by Stoic natural liberty and natural harmony doctrines, but he was also aware that social action of one form or another was necessary to discriminate between liberties and between actions. Selectivity is necessary unless *all* action be deemed harmonious and *all* exercise of liberty be sanctioned as "natural." Belief in ultimate rationality and harmony does not avoid the problem of evaluating the status quo with regard to the actual elements of harmony and disharmony and of rationality and irrationality in accordance with the principles of approbation and disapprobation. It is precisely the role of moral and legal rules, and their respective underlying processes, to govern such evaluation. It is the business of morality and law, as well as of the market, to regulate the detailed realities of freedom and of exposure to freedom. Speaking of banking regulations and fire walls, Smith said that "those exertions of the natural liberty of a few individuals, which might endanger the security of a few individuals, are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotic."<sup>43</sup> Moral and legal controls constitute part of the basis of the market, so that sympathy as well as division of labor may serve as social

38. *Ibid.*, p. 559.

39. Rosenberg, "Adam Smith on the Division of Labour," pp. 136–38.

40. Rosenberg, "Some Institutional Aspects of the *Wealth of Nations*," p. 563.

41. *Ibid.*, p. 563.

42. Macfie, p. 148.

43. Smith, p. 308.

cement; whatever harmony and freedom exists is a function of other institutions besides the market.<sup>44</sup>

The process involved in the foregoing may be examined by surveying Smith's conception of the socialization of the individual. Self-love is restrained by the growth of moral rules and social institutions which control it "appropriately" through informed sympathy.<sup>45</sup> Smith "concentrated on the social sanctions of morality rather than the individual one" of conscience.<sup>46</sup> The critical factor to Smith is not individual self-interest as such, but the moralization of the passions "through the gradual establishment of general rules, in the course of social progress, and through the reactions of individuals to such rules and conventions, in the course of their social living."<sup>47</sup> As Morrow explains, "It is because the individual is in his very nature socialized, a product of the social environment, that he can in general be left without external interference to act in accordance with the demands of his individual nature."<sup>48</sup>

The Smithian model is one of controlled freedom; freedom of behavior and choice exists only within the socially established norms of conduct. Smith "certainly believed that it was only on ethical grounds that controlled liberty for individuals was justified and essential. This justified freedom (within limits) is the personal foundation of his individual and moral economic theory. The strategic factor, however, is not so much the freedom of the individual, which has received too unqualified attention since 1776, as the limitations on freedom which Smith always added were necessary, if freedom to pursue self-interest were to be moralized."<sup>49</sup> Hence the paradox that "in his main argument, Smith was always fundamentally the sociologist, though in his equally basic argument for the (suitably controlled) freedom of the individual he was the eternal radical."<sup>50</sup> The individual is elevated to be the prime element in the economic system, but the individual not only operates within a moral and legal framework but is also a socialized or moralized individual. We might also say that the individual is a legalized individual. Self-love and self-interest go hand in hand with social control and socialization. It is true both that vanity has a social function in motivating self-interest *and* that "the great secret of education is to direct vanity to proper objects."<sup>51</sup> In Smith we have both self-interested behavior *and* the control of self-interest by moral and legal rules. Self-interest exists

44. Rosenberg, "Some Institutional Aspects of the *Wealth of Nations*," pp. 559, 560, and passim; Macfie.

45. Macfie, p. 81.

46. *Ibid.*, pp. 97–98.

47. *Ibid.*, p. 117; see p. 118.

48. Morrow, p. 178; see pp. 166–67, 172, 177. See also Gladys Bryson, *Man and Society* (New York: Kelley, 1968); and Louis Schneider, *The Scottish Moralists on Human Nature and Society* (Chicago: University of Chicago Press, 1967).

49. Macfie, pp. 117–18.

50. *Ibid.*, p. 91, n. 23.

51. *Ibid.*, pp. 72–73; Smith, *The Theory of Moral Sentiments*, p. 380.

only within social control.<sup>52</sup> Self-interest not only is operated upon by the market but also is defined, channeled, and restrained by moral and legal rules and by the operation of benevolence, sympathy, and the principle of the impartial spectator. Socialization operates through sympathy and the impartial spectator as internalized social control.<sup>53</sup>

Smith charts the operation of individual conscience (the impartial spectator plus the sense of propriety) and of social conscience (the general rules of conduct) which interact and together constitute the formation and internalization of social control. Individual choice and rationality exist within collective choice and rationality, which are in turn influenced by individual choice and rationality. The operation of the principles of approbation and disapprobation applied to the actions of oneself and others both govern and are influenced by the sense of propriety and moral rules. The impartial spectator principle helps build up the moral rules and customs which serve as social cement, yet the principle depends for its content on already internalized social control. It is truly a process of cumulative causation or general interdependence and *not* one in which particular rules or particular patterns of socialized behavior may be taken as given once and for all. Interdependence signifies endogenous change.

Several other topics warrant brief notice. Two concern the role of social conditioning in Smith's analysis. Of these, the first treats the social basis of man's general motivational system. I refer, in part, to Smith's argument that it is the deception of the "pleasures of wealth and greatness" which "rouses and keeps in continual motion the industry of mankind."<sup>54</sup> This has, of course, profound implications for Smith's individualism.<sup>55</sup> He took for granted an organization of life which promoted material welfare, the propriety of which was channeled and reinforced by the dominant socioeconomic philosophy of life, that is, by socialization processes. In part this performed the social role of overcoming indolence.<sup>56</sup> But it is important also to recognize that Smith was clearly interested in other, nonmaterial dimensions of welfare; that he recognized the moral corruption of overemphasizing wealth and success;<sup>57</sup> that he distinguished between the role of

52. Morrow, pp. 166–67, 172, 177–78.

53. Macfie, pp. 70–71, 75, 128, and passim; Anspach; and A. W. Coats, "Adam Smith's Conception of Self-Interest in Economic and Political Affairs," *History of Political Economy* 7, no. 1 (Spring 1975): 132–36.

54. Macfie, pp. 47, 53–54, 60–76, 122–24; Nathan Rosenberg, "Adam Smith, Consumer Tastes, and Economic Growth," *Journal of Political Economy* 76 (May–June 1968): 371; and Samuels, *The Classical Theory of Economic Policy*, p. 37.

55. Smith's element of cynicism here (Macfie, p. 54) may be compared with Milton Friedman's criticism of what he considers intellectuals' "contempt for what they regard as material aspects of life." See Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 8.

56. Rosenberg, "Adam Smith on Profits—Paradox Lost and Regained," *Journal of Political Economy* 82 (November–December 1974): 1187, and passim.

57. Macfie, p. 78.

the lure of wealth and the corrupting influences of wealth acquired by both oneself and others;<sup>58</sup> and that he felt that self-interest is not to be equated with selfishness, although he provided no conclusive principle for differentiating useful self-interest from selfishness, holding instead that such had to be worked out in society.

The second aspect of social conditioning involves Smith's view that preferences are endogenously determined within the economic system broadly considered. They are a partial function of moralizing and socializing processes which help define self-interest, including, of course, the proper objects of vanity.<sup>59</sup> Institutions, in Smith's analysis, help form the incentive and reward system of individuals.<sup>60</sup> And of course the market itself is a partial source of endogenously generated preferences; as Rosenberg says, "The growth of commerce is instrumental in shaping character, in altering tastes, and in providing new and more powerful incentives."<sup>61</sup>

Next, I would reiterate that the dualism of power *and* the market should not be forgotten. Both complement Smith's analysis of the origin, operation, and impact of moral and legal forms of social control. In this connection, three incidental points may be made. First, Smith appreciated the complexities of power. He appears, for example, to have been quite sophisticated in his understanding of how the union of Scotland and England served in the former to diffuse power (by limiting that of the local aristocracy), notwithstanding the somewhat more apparent centralization of power.<sup>62</sup> Second, it appears that institutionally produced inequality was more important to Smith than natural inequality.<sup>63</sup> Third, I note the open question of the relation(s) of the division of labor to the power structure in Smith's work.

Another point worth noting is Smith's policy consciousness, a product of his relative empiricism, secularism, and down-to-earth realism. He treats institutions not as inevitable, but as subject to redesign and change, as the product of past choice and subject to revised choices. He did not revere the institutional status quo; rather, he represents the eighteenth-century version of concern to increase deliberative decision making in modern society.<sup>64</sup> Nonetheless, there is in Smith a sense of both the possibility of improving man and his condition *and* the severe limits thereof.<sup>65</sup>

Smith, it should be apparent, blended methodological individualist and methodological collectivist levels of analysis, and he used both the individu-

58. Rosenberg, "Some Institutional Aspects of the *Wealth of Nations*," pp. 557 and passim, "Adam Smith, Consumer Tastes, and Economic Growth."

59. In general, see Rosenberg, "Adam Smith, Consumer Tastes, and Economic Growth," pp. 367, 370, 372.

60. Rosenberg, "Adam Smith on the Division of Labour," pp. 129–30.

61. Rosenberg, "Adam Smith on Profits—Paradox Lost and Regained," p. 1185.

62. Macfie, p. 137.

63. *Ibid.*, p. 120, n. 43.

64. *Ibid.*, pp. 49ff; Samuels, *Classical Theory*, chaps. 2 and 5.

65. Macfie, p. 117.

al and society as units of analysis. There is both voluntary exchange and a system, structure, and process of power. The individual is in one sense the prime element or unit in the economic system, but the individual exists and acts only within the evolving moral, legal, and institutional framework as a socialized individual. There are both individual choices and social forces. As Morrow has argued, Smith used two analytical procedures: the method of regarding society as a derivative of the individual *and* that of regarding the individual as a product of society. Apropos of his consideration of the concrete social environment “in explaining the nature of the individual man, . . . Smith is one of the very few thinkers of his time who had any realization of this complementary point of view.”<sup>66</sup> The filtration system has substantially worked to disregard this aspect of his thought.

The last of these points, treated only in passing, relates to Smith’s complex attitude toward businessmen vis-à-vis (or, should I say, versus) consumers. His views may be summarized as follows: (1) a functional emphasis upon the critical role of the business class in regard to the organization and direction of production and thereby growth; (2) a normative and perhaps positive emphasis upon consumption as the “sole end and purpose of production” and upon the consumer as the primary beneficiary;<sup>67</sup> (3) a view of the market as a system of control to overcome indolence but also to control the businessman through socialization; and (4) a celebration of the business system but not of the individual businessman. Indeed his views of the behavior of businessmen were often critical; as Heilbroner notes, Smith was “an admirer of their work but suspicious of their motives.”<sup>68</sup> In sum, Smith provided no defense of the market on probusiness terms; there is no more presumptive optimality of market solutions than of business decisions in Smith; all that came much later with more sophisticated formulations of the central myth of capitalism.

This brings me to the central topic of the evolution of legal and moral rules and institutions. Smith acknowledges, and indeed emphasizes, the inductive development of moral and legal rules, their changing character and content.<sup>69</sup> There is an evolutionary dimension to the evaluative process in society.<sup>70</sup> Moral and legal rules evolve through the principles of approbation and disapprobation operating through the impartial spectator principle, expressing a refined sympathy and moral sensibility, as part of the larger evolving system.<sup>71</sup> “It is by our gradual evolution of moral rules and customs from innumerable cases that we develop those human institutions which are at once the safeguards and the growing points of human soci-

66. Morrow, p. 172.

67. Smith, *The Wealth of Nations*, p. 625.

68. Robert L. Heilbroner, *The Worldly Philosophers*, 4th ed. (New York: Simon & Schuster, 1972), p. 51.

69. Macfie, pp. 83–87 and passim.

70. *Ibid.*, pp. 89–90.

71. *Ibid.*, pp. 83, 87, 89; Morrow.

eties. In them the clashes of 'self-love' and benevolence, of sentiment and reason, are so far reconciled—reconciled in no absolute way, but pragmatically *ambulando*.<sup>72</sup> Smith's argument in the *Theory of Moral Sentiments* is that moral and legal rules must be worked out and revised over time and cannot be set down once and for all.<sup>73</sup> Not all unintended consequences of the market are, or are to be accepted as, beneficent. Such consequences may have adverse impact upon desired legal and moral rules or upon human welfare, and such rules may be changed to correct for adversity.<sup>74</sup> As I noted earlier, the historical interpretation of the *Wealth of Nations* had been part of the process through which moral and legal rules have been revised, sometimes in one direction and sometimes in another.

Smith's analysis thus provides for reevaluation: of institutions, including the market, in regard to the incidence of the reward and incentive system;<sup>75</sup> of legal rules in the light of changing norms and circumstances;<sup>76</sup> of the congruity of received values with new economic realities, including the terms of fellow feeling, for example, in regard to the distinction of ranks and respect for wealth and greatness;<sup>77</sup> of the reformulation (redefinition and reassignment) of property and other rights through law; of wealth vis-à-vis other considerations; of the definition of injury in regard to the doing of what one likes so long as it does not injure others;<sup>78</sup> of the meaning of "extraordinary" in what Smith referred to as "extraordinary restraints" and "extraordinary encouragements";<sup>79</sup> of the proper objects to which education is to direct vanity; and, inter alia, the substance and exercise of self-interest and egoism.<sup>80</sup>

It follows from this understanding of Smith that the interactions which mark his synoptic and synthetic system involve inevitable tensions. There is tension as to the content and direction of social control. There are tensions between the market, market forces, and institutions, and between market social control and legal and moral social control. There is tension between self-interest and the market as a regulatory system: individuals seek to escape from market control, there are conflicts of self-interest, and the market has an open-ended role as a conflict resolving system which, perhaps paradoxically, is capable of being channeled by those who can control it.<sup>81</sup> There is tension over the appropriateness of institutions, over the nature of injuries which should be avoided or prevented by rules and rights, and over

72. Macfie, p. 57.

73. Smith, *The Theory of Moral Sentiments*, pp. 499 ff.

74. Jacob Viner, "Adam Smith and Laissez Faire," in *Adam Smith, 1776–1926* (Chicago: University of Chicago Press, 1928), pp. 116–55.

75. Rosenberg, "Some Institutional Aspects of the *Wealth of Nations*," p. 562.

76. Viner; Samuels, *Classical Theory*, chaps. 4 and 5.

77. Macfie, p. 124.

78. Smith, *The Wealth of Nations*, p. 308; Viner.

79. Smith, *The Wealth of Nations*, p. 650.

80. Macfie, p. 78 and passim; Morrow.

81. Samuels, "Adam Smith and the Economy as a System of Power."



when the liberty of one is endangering the liberty of another in such a way as to call for remedial action. There is tension over all the incidents of the socialization process: If the great secret of education is to direct vanity to proper objects, there is tension as to *which* (or *whose*) objects are proper and as to how vanity is to be so directed. There are inevitable tensions over the evaluation of aspects of the general motivational system, for example, over the morality and immorality of wealth and self-interest, including the structure of "institutional arrangements [within which] to cut off all avenues (and there are many) along which wealth may be pursued without contributing to the welfare of society," that is, over "the conditions under which [the] market mechanism would operate most effectively."<sup>82</sup> There is tension over the power structure as such;<sup>83</sup> and, *inter alia*, over the conditions "wherein consist[s] the happiness and perfection of a man, considered not only as an individual, but as the member of a family, of a state, and of the great society of mankind."<sup>84</sup> These tensions characterize the processes of socialization, collective action, and group existence. They were recognized as such by Smith, although they have been obscured by some interpreters, who seem to have sought to sanction certain resolutions of the problem of order, and thereby of these tensions, and not others, all in the purported image of Smith. Such interpretations presumptively overstate the degree and overspecify the substance of the closure which Smith's system permits.

I urge, then, that change, reevaluation, and tension are necessarily critical aspects of Smith's synoptic and synthetic analysis. It is only by a static partial equilibrium-like approach to the problem of order, one which abstracts from the larger analysis, that one can reach conservative and *laissez-faire* doctrines and conclusions. I say this notwithstanding Smith's role as premier philosopher of the market system and the important conservative and free market elements in his analysis and without trying to make a case for any particular set of moral and/or legal controls or of changes therein. The deepest understanding of these aspects of Smith's analysis require consideration of his larger system. Without doing so we will not understand the conflict between those who see any act of government as an impediment of the market and those who see in government activity a change in the legal and moral foundations of the market.

#### PRESENT SIGNIFICANCE

What, then, is the significance of Smith for contemporary analysis and policy? Smith can be and is, of course, interpreted, evaluated, and applied from any number of specific positive or normative perspectives. His analysis is broad enough to encompass quite a wide range of applications. His larger analysis—his total system, of which the central invisible hand argument in the *Wealth of Nations* is but one interacting part—permits and indeed has an important place for many diverse phenomena. There are two

82. Rosenberg, "Some Institutional Aspects of the *Wealth of Nations*," pp. 560, 569.

83. Clark, pp. 58, 62, 73–74.

84. Smith, *The Wealth of Nations*, p. 726.

key points here: The scope of his system is broad, and its details, that is, the details which characterize a market economy and its moral and legal elements, are quite open and subject to revision. There is in Smith's total system what may be called a joint determination process: On the one hand is the determination of optimality through markets as individuals engage in voluntary exchange, and on the other is the ongoing socialization process which governs the reformulation of legal and moral rules, institutions, the power structure, and thereby the substantive conditions or content of optimality, always in combination with individual choice. Smith is quite obviously pro-market, but not in a way that deems market solutions optimal *per se*. He does not propose, let alone establish, the exclusive or a priori presumptive optimality of market solutions. Rather, he articulates the role of the market as a regulatory system which performs well or not, depending upon the role of institutions and other forces of social control. Smith did not use his economic theory to justify conclusions which were beyond its scope, given the terms of his larger analysis, although he is easily enough interpreted as having done so. To Smith, reality is not a simple question of market-optimality versus standards or norms of legal and moral social control; rather, the market gives effect to and operates upon such social control. His system is much larger than the dominant view of his work has admitted. Indeed, his larger analysis actually serves to explain the continued conflicts over proposed changes of moral and legal rules, institutions, power, values, and so on: Such conflicts are central to his conception of the evolution of the total economic system. And herein lies a major contemporary significance of Smith. Interpretive overkill, perhaps in an effort to make Smith's analysis safe for the system, has tended to obfuscate the larger process he deemed to be a crucial part of the social system.

Contrary, then, to the more typical usages of Smith and especially of the *Wealth of Nations*, I would urge that he provides not a set of immediate policy solutions or presumptions but a framework within which, given that it postulates and legitimizes a market economy, there can be no unequivocal or conclusive a priori determination of practical policy issues. It is Smith's message that these issues need to be worked out through the principles of approbation, disapprobation, the impartial spectator, and so on. Policy requires more than market-premised economic theory, in part because there is more to the operation of the economy than such theory incorporates. The theory of the market does not itself explain the larger system of which the market is a part, nor does it conclusively assert the superiority of market solutions within the existing systemic structure. Smith's emphasis upon the market tells us much about the general character of his desired economic system and how it works in general, but it tells us very little about the details of the continuing resolution of the problem of order under its aegis. Smith was aware of the limited probative value of his economic reasoning and therefore of the limits of what science can and cannot do.<sup>85</sup> The

85. Macfie, p. 13.

ultimate message of his synoptic and synthetic analysis is the openness—the empty boxes—which it presents and therefore the choices which it both permits and requires. This conclusion stands in marked contrast to the more conventional view that Smith's message is to leave things alone. His inclusion of the tensions, which I have discussed, serves to indicate the vacuousness of that view. To Smith, such tensions were not going to be resolved once and for all, nor were market solutions the only ones permitted or justified. It is a result of past filtration of Smith's analysis that such a view as I have given may be perceived as statist.

The evolution of the interpretation of Smith, and of the doctrinal defense of the ongoing system of which that interpretation has been a part, has been a process of both filtration and conversion. Through filtration much of the substance and significance of Smith's larger system has been excluded, including some fundamental social processes and many continuing tensions. Through conversion, his analysis of the market, the invisible hand, has been transformed from an analysis and justification of relatively small-scale individual activity to that of large-scale enterprise to which some economists refer as the corporate system. Both filtration and conversion are inevitable processes. They function not only to rationalize selected aspects of the changing status quo, but also, in that respect and others, as important parts of the social valuational process. The point here is that in all these respects Smith's total system and analysis have been transformed.

Much has changed since Smith's time; the modern world is vastly different in technology, institutions, political geography, historical experience, world view, social stratification, and economic organization and control. One does find in the *Wealth of Nations* the germs of many of the conflicts of modern Western civilization, but Smith largely antedated the conflicts between capital and labor and between property and nonproperty rights and positions in the economy. Yet these conflicts have a place in his system. He offers no genuine, unequivocal, and conclusive solution to any of those conflicts, but the probability that they will arise is predictable from the total analysis. Nevertheless, past usages of Smith have functioned either to deny the propriety of many of those conflicts or to channel their resolution. There is no more conclusive ground for citing Smith in favor of a probusiness or property solution than there is for citing him in repudiation of the conflicts themselves. Given a market system, Smith's is a relatively open system. His analysis also recognizes, of course, that labor and capital are each jockeying for position to control the other, that government is an instrument of those who are in a position to use it, and that much asymmetry of position characterizes both conflicts.<sup>86</sup> Neither the conflict between laborer and capitalist nor that over property rights was considered essentially antimarket by Smith.

The fact of the matter, of course, is that the defense of the market,

86. Samuels, "Adam Smith and the Economy as a System of Power."

quite properly often in the name of Smith, has also served as a defense of existing power structures. Market theory has been used to obfuscate the problems of power, of moral and legal rules, and of the use of government, and to canonize existing power positions and their use of morality and law. One does not find in Smith the gains-from-trade and voluntarism arguments used in such a way as to rationalize the existing power structure. Rather, Smith delineates the deep processes, however laden with controversy, through which institutions, legal and moral rules, and power structures are made subject to nonmarket revision. One cannot speak for Smith's reaction to a world of large-scale economic units, but it seems obvious to me that he might say that moral and legal controls, indeed the very corporate institution, should be subject to revision.<sup>87</sup> Surely Smith would have sympathized with Henry Simons's statement that "we may recognize, in the almost unlimited grants of powers to corporate bodies, one of the greatest sins of governments against the free-enterprise system."<sup>88</sup> In Smith's view, market solutions are not necessarily optimal; one must consider the power structure and other factors before one can reach that conclusion. It is a gross and misleading oversimplification of Smith to invoke his conception of the market without further examination of these other factors.<sup>89</sup>

Adam Smith was a premier philosopher of the market economy, more so than our intellectual heritage has often allowed. The greatness of his analysis is that it is an *open* system in much the same sense that the market economy itself is an *open* system—notwithstanding the efforts of the already established and powerful to the contrary. If we understood Smith better, it might be an even more open system, but that is quite another story.

87. Macfie, p. 120; Clark, pp. 54, 75.

88. Henry C. Simons, *Economic Policy for a Free Society* (Chicago: University of Chicago Press, 1948), p. 52.

89. Rosenberg, "Some Institutional Aspects of the *Wealth of Nations*," p. 570.