

The Contradictions of Adam Smith
By Daniel Steinmetz-Jenkins

Adam Smith is often considered to be the father of modern capitalism. At first glance, it's not hard to see why. His most famous book, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (1776) contained a number of famous notions that have long been associated with the very essence of capitalism: the invisible hand, self-interest, the division of labor, free markets, and free trade.

Yet Smith was also a moral philosopher. His 1759 book *The Theory of Moral Sentiments* suggested that human beings could act altruistically through their intrinsic capacity to feel and sympathize for others. Scholars have long debated whether there is an inherent contradiction between these two books. Yet in her new book, *Adam Smith's America: How a Scottish Philosopher Became an Icon of American Capitalism*, Glory Liu suggests that long-standing interpretative debates about tensions in Smith's thought provide an excellent case study for understanding the ideological preferences and distortions of his American readers in particular.

Liu, who is a lecturer on social studies at Harvard University, explores how generations of Americans thinkers have read, interpreted, reinterpreted, and weaponized Smith's ideas, revealing how his popular image as a champion of American-style capitalism and free markets is a historical invention.

I spoke with Glory Liu about the nature of Smith's thought, how it was interpreted by the founders, what role it played in debates over slavery, and how neoliberal economists transformed him into a free market icon.

—*Daniel Steinmetz-Jenkins*

DANIEL STEINMETZ-JENKINS: Your book offers a history of Adam Smith's reception in the United States from the country's founding to the present moment. In doing so, you make it clear that Smith's works have been read quite differently by different generations and weaponized for all sorts of political causes. What, though, would you say are the defining features of Smith's thought?

GLORY LIU: First, Smith is an empirical thinker. He is one of the best observers of human life. Whether it's the pin factory, the woolen coat of the ordinary laborer, or the image of our brother being tortured on the rack, these specific examples allow Smith to illustrate more general phenomena in a highly relatable way—the division of labor, imaginative projection, and sympathy. Starting with the observation of specific examples and then building out to a general principle also allows Smith to show just how *human* social phenomena are.

Smith is a historical thinker. I mean this in [at least] two ways. The first is obviously connected to his empiricism. The second is that history, for Smith, informs his explanatory theories, on the one hand, and also the “test bed” for those theories, on the other. So, for instance, Smith's stadial theory of human development—from hunter-gatherer societies, to shepherding societies, to agricultural societies, and civilized societies with commerce—is informed by the *actual* history of say, the nomadic shepherding societies of central Asia, or the ancient republics of Greece and Rome, or the sack of Rome by the Germanic invaders. Theory emerges from history. But history also verifies theory—or not. In other words, Smith will take his theory and use history to show all the cases where the theory *doesn't* explain something. Economic theory can't explain everything; we need history to make sense of the contingencies of social, economic, and political development.

Third, Smith is realistic and pluralistic. This is important because I think it's easy to flatten or idealize any *one* feature of human behavior and claim that it is *the* defining characteristic or value for Smith. But Smith just doesn't think like that. And I'd add that Smith thinks there are a variety of values worth defending: liberty, equality, non-domination, stability, virtue, to name a few.

We can have a separate debate about what he means by “liberty” and “equality” and whether or to what extent they’re in tension with one another, but to reduce Smith’s thought down to one value, above all else, would be to fundamentally misunderstand him.

Finally—and maybe this is sort of a cheat answer to your question!—Smith defies easy categorization. As a function of his style, his attention to detail, and his historical method, Smith doesn’t give simple answers. One has to be excruciatingly patient and careful reading him. Just when you think you’ve figured out what Smith is saying, it turns out he was actually reconstructing a view or a position he’s about to critique at length, but not before acknowledging the wisdom and advantages of said position. I like what Donald Winch said about Smith in this regard: He’s “infuriatingly balanced.”

DSJ: Can you elaborate a bit on the perceived contradiction in Smith’s thought that, in some sense, has allowed for such diverse, and at times, contradictory interpretations of his work?

GL: I think it’s important to emphasize that the contradiction is something that is *perceived* here. Smith does not say, for instance, “Free trade is good,” and then “Free trade is bad.” What he says is something more like free trade has many benefits, but there are circumstances under which national defense and infant industry protection take priority over lowering barriers to international commerce. That’s hardly a “contradiction.” But I think two things have allowed for the diverse interpretations of his ideas. First, as I mentioned above, Smith tried to be balanced. Even when he’s very clear on his own position, he goes to great lengths to show under what circumstances the opposite position might be worth considering.

Second, I think there are certain things that Smith is genuinely ambivalent about. Take merchants, for example: the merchants are the heroes of Book Three of the *Wealth of Nations*, in Smith’s history of the development of Europe. It’s the introduction of foreign luxury and the rise of independent towns that bring about the collapse of feudal domination; it’s merchants who catalyze commerce that brings about growth that lifts people out of abject

poverty. But they're also the anti-heroes of *The Wealth of Nations*. They collude with the ruling class to pass legislation that puts their private interest of profit-making over the public interest; they're behind the violence of the East India Company. So sometimes we get these different Smiths because we're not doing our due diligence in understanding Smith's own position, and other times Smith himself hasn't made up his mind.

DSJ: What role did Adam Smith's economic thought play in US debates about slavery? I was, for instance, quite intrigued that Frederick Douglass was a reader of Smith. What did Douglass find attractive about his thought?

GL: Smith's thought, and more generally the language of political economy, provided a way for American legislators to talk about slavery without talking about slavery. Debates about trade in the antebellum decades were debates about the constitution of the national economy. Appealing to the seemingly neutral causal logic of free trade—that the government shouldn't direct how labor and capital should be deployed, and that free trade would benefit the whole nation, not just a particular region—allowed pro-slavery advocates to argue for the profitability of a system that relied on slave labor. At the same time, pro-tariff Northerners advanced their own idea of a national economy that was heavily dependent on slavery's expansion, or at least its persistence.

Now, one notable departure from this pattern that I discuss briefly is the abolitionist Charles Sumner's 1860 speech "The Barbarism of Slavery." Sumner's main argument was that slavery was fundamentally incompatible with civilization. Alongside people like Thomas Jefferson and John Locke, Sumner quotes Adam Smith's *Theory of Moral Sentiments* as a "philosophical authority" to prove his point. So rather than arguing that slavery was bad on economic grounds, Sumner, like many abolitionists, is trying to mount the case that slavery is immoral. Using Smith as a philosophical rather than economic authority helps him do that. I don't know how close a reader of Smith that Douglass was, but he was certainly familiar enough with Smith to quote him in a speech in 1864. Regardless, I think there's something in Smith's observations about slavery in *The Wealth of Nations* that

Douglass probably found quite appealing. The persistence of slavery can't be explained by economic forces alone; Smith argued that slave labor would never be as productive or as profitable as free labor (he also found it morally abhorrent). Nevertheless, "the pride of man makes him love to domineer," and it's this taste for domination that underlined people's preference for slave over free labor. I don't think it's unreasonable that Douglass found a lot of power in that explanation.

DSJ: I now want to jump to the 20th century. In what sense did the Chicago School of Economics, and especially someone like Milton Friedman, simply reinvent the notion of Smith's invisible hand of the market in accordance with their neoliberal vision of the free market?

GL: Smith doesn't even use the image of the invisible hand consistently across the three instances in which he uses it—first in his essay on the history of astronomy; second in *The Theory of Moral Sentiments*; and third in *The Wealth of Nations*. It's a reinvention that is part truth, part fiction, part genius. (And I suspect people will give more or less weight to those parts, depending on their view of Friedman.) There is a core "Smithian" insight in Friedman's version of the invisible hand, namely, that individuals pursuing their own interests can sometimes—not always—promote the public interest without intending to. Fine. The neoliberal reinvention of this core insight, though, is that the invisible hand is not only a descriptive metaphor for how free markets work, but a normative one that shows how markets enshrine the value of individual free choice. This allowed someone like Friedman to pit the invisible hand of the market against the hand of government. And it is also where Friedman's invisible hand sort of slides into fiction.

Friedman recasts *government itself* as the ultimate special interest group, the most dangerous monopoly that has threatened individual freedom. That's not at all what Smith says. Smith's worry was about how an elite merchant class (we might say "special interest group" today) would collude with lawmakers and profit by bending the law to promote their interests. The invisible hand, in the context in which Smith introduces it in *The*

Wealth of Nations, is about releasing individuals from this mercantile capture of government, not from government itself. Now, regardless of what you think of Friedman or his politics, blurring this line between state intervention and state capture is a critical argumentative and rhetorical move. And judging by the criticism he got for his use of the invisible hand metaphor, it clearly struck a chord.

DSJ: I'm intrigued by how Smith was appropriated by neoconservatives. Why were they attracted to Smith's thinking on moral economy?

GL: Irving Kristol and Gertrude Himmelfarb were attracted to Smith because they saw in his works a way to restore the soul of capitalism. They wanted to redefine what it meant to live in a “moral economy,” to show that capitalism wasn't just about cold, calculating profit-seeking but also about moral improvement. The forces of capitalism didn't need to be reined in by government but by individual moral agency. They saw Smith's sentimentalism, his organic theory of morality, and his relatively optimistic view of human nature as providing the moral fabric in which his vision of a prosperous and free-market society resided. But they imported into Smith's moral theory their own neoconservative (or some would say neo-Victorian) values: things like prudence, traditional family values, organized religion, and education.

I think Himmelfarb's breakthrough work, *The Idea of Poverty*, really changed the way people saw Smith—he wasn't merely an economist in her works, but a humanitarian thinker who cared deeply about the least well-off. So Himmelfarb's notion of the “moral economy” isn't a separate sphere of values sheared off from the “regular” economy; it's the idea that a prosperous market economy like the one Smith envisioned *requires* shared moral commitments.

DSJ: In what sense has Smith's thinking on moral economy proved attractive to thinkers on the left?

GL: At the most superficial level, showing that Smith's moral philosophy and political economy might be aligned with the contemporary left's concerns is politically valuable. Reclaiming

Smith on the “left” distances him from his long-standing reputation with the “right”—whether that’s the Chicago School neoliberals or the neoconservatives like Kristol and Himmelfarb. It recodes the “moral” in moral economy to stand not for the values of choice, efficiency, and traditional virtues, but rather, with fairness, equality, social and distributive justice. One thing that’s worth appreciating here is that the term “moral economy,” on its own, is incredibly underspecified and ambiguous. If someone says, “We need a new moral economy,” we need to ask, “*What kind of moral economy?*”

But there’s another level at which this reexamination of Smith’s “moral economy” has been attractive, regardless of the specific politics of a given scholar or interpreter. People have been trying to work out the relationship between *The Theory of Moral Sentiments* and *The Wealth of Nations* for ages. That quest originated among late-19th-century German scholars and their invention of “Das Adam Smith Problem,” which basically asked whether Smith’s system of sympathy in *TMS* was fundamentally incompatible with a system based on self-interest in *WN*. Did Smith change his mind or have a change of heart? they wondered. Almost everybody today agrees there’s no “Adam Smith Problem”—at least not according to the original formulation of it. But I agree with Paul Sagar that there’s a newer, more tantalizing twist on this so-called problem that goes something like this: How could Smith have been both a moral critic *and* a defender of markets? And that version of the “Adam Smith Problem” is linked to perennial questions such as: How can we reconcile the material benefits of a market-oriented society with its moral costs? Is capitalism and any analysis of it moral?

This version of the “Adam Smith Problem” gives us so much to unpack: the 1790 revisions to the final edition of *The Theory of Moral Sentiments*, where Smith describes sympathy for the rich as the “great and most universal cause of the corruption of our moral sentiments,” his almost Marxian description of the debilitating effects of the advanced division of labor, his support for public education, the role of vanity, and much more. Especially in the years since the Great Recession, there’s been a surge of interest in Smith’s ideas about inequality, poverty, the moral stakes of economic growth, corruption, and elite capture—

topics that have defined the last decade or more. The commentary and interpretive debates around these topics are so rich, and they have expanded our understanding of Smith's thought by orders of magnitude. They're also the reason I was drawn to Smith in the first place.

But I think we also need to recognize that in turning to Smith as a resource on these topics, we're asking Smith to do something for us—to make the political economy of ever-creeping market expansionism somehow compatible with progressive morality and politics. We're asking Smith: "Tell us why capitalism is morally defensible." I don't have a problem with this sort of presentism per se. But I do think that we are in danger of misunderstanding Smith if we let our own definitions of what a "moral economy" might look like color our reading. I'm rather allergic to reading *The Theory of Moral Sentiments* as a book about the morality of capitalism—or, if you prefer the less anachronistic term, "commercial society." It's not. It's a work of 18th-century moral sentimentalism.

DSJ: Where do things currently stand with Smith's appeal today in the US? Who now finds him attractive, and why?

GL: Smith still gets a lot of brand recognition as the father of economics, and for being associated with the politics (or maybe anti-politics) of free markets—call it neoliberal, call it libertarian, call it "right," whatever. There are still organizations out there (like the Adam Smith Society) that use Smith as a mascot for pro-free-market, pro-business, small government thought and policy. I think most people, if they've encountered Smith anywhere, are going to have encountered him through economics. As a very rough indicator: According to data from the Open Syllabus project, *The Wealth of Nations* is something like the 44th most assigned book on college syllabuses. *The Theory of Moral Sentiments* is somewhere around 1,000th place.

I'd like to think things are changing. There does seem to be more recognition that Smith is not just the "invisible hand" guy, and that he didn't use the phrase "the invisible hand" in the way it's often used today. I also think there's something interesting going on in the way people refer to Smith as a moral philosopher. Among scholars there's an understanding that calling Smith a

“moral philosopher” is more historically accurate—not only because he was a professor of logic and later professor of moral philosophy, but also because back then “moral philosopher” was used in contrast to “natural philosopher,” so it meant something closer to what we might call a “social scientist” today rather than a “natural scientist.” In any case, what’s interesting to me is how calling Smith a moral philosopher *instead* of in addition to calling him a political economist can signal something beyond just his profession. One example I give at the end of my book is a conversation between Barack Obama and former AEI president Arthur Brooks at a White House summit on poverty. Brooks says something to the effect that “Adam Smith wasn’t just a political economist; he was a moral philosopher who wrote *The Theory of Moral Sentiments* before *The Wealth of Nations*, and actually the book on morals was more important. It teaches us the right morals we need to have to deserve free enterprise.” I listened to that conversation and was shocked but not surprised. Brooks is unintentionally making a claim about how these two texts relate to one another, but more importantly he’s trying to use Smith to say that capitalism has to be predicated on “the right morals.” To be clear, this is not at all what *TMS* is about.

Say what you want about pundits and politicians, the point is that there’s some real conceptual slippage between what *Smith* meant by “moral philosophy” and what *we* want Smith’s moral philosophy to do in relation to his political economy. My hunch is that appealing to Smith as “not just an economist, but a moral philosopher” exploits the conceptual ambiguity of the idea of a “moral economy” by allowing readers to retroject their own values back onto Smith, to use Smith to legitimize their own defense of capitalism on moral grounds.

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