

АКТУАЛЬНЫЕ ВОПРОСЫ ПОЛИТИЧЕСКОЙ НАУКИ

(RE-) READING ADAM SMITH IN A TIME OF CRISIS

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At a time of not only empirical crisis, but also a philosophical crisis of the underpinning ideologies of the liberal capitalist economic system, there is an increasing tendency to dogmatize the work of classical thinkers, using selective readings of their work as the basis for support or critique of the status quo. Few are as subject to selective reading as the so-called “father of modern economics”, Adam Smith. This paper seeks to reflect on Smith’s thought on two central aspects of the modern crisis: the nature of the limited liability corporation (whose profit motive is increasingly being challenged on a number of grounds) and the role of the individual in a market economy (amid accusations from across the political and philosophical spectrum about the increasing isolation, individualization, and neo-liberalization of the self). These subjects are not as different as they might seem as they both relate to Smith’s conception of the nature role of the individual actor — *homo oeconomicus* — not only in a market in and of itself, but in a market that Smith saw as a social creation and a part of a human community.

Key words: Adam Smith; invisible hand; free market; liberal capitalism.

Why re-read Smith? (1)

The title of this paper may seem either paradoxical, provocative, or repetitive. Paradoxical because Smith, dubbed the father of modern economics, is not only understood, but his teaching are applied on a daily basis in the global markets. As such, why re-read? Provocative because, as many hold, it is precisely the application of Smith’s theories which has landed the world in the ongoing crisis. And finally repetitive, because everyone has heard about the invisible hand ad nauseam.

I will defend my choice of topic and title not by repudiating these challenges, but specifically by addressing them. Smith, if he is the father of modern economics, is perhaps among the most misunderstood and selectively quoted thinkers of the modern age. Not only is his monumental *Wealth of Nations* misunderstood, but its predecessor, *Theory of Moral Sentiment* is almost entirely ignored (2). In both books, Smith presents a far more nuanced view of the individual in society and even of the limited liability corporations of his time. This paper will focus primarily on the differing role of self-interest and profit in driving the actions of Smith’s economic actor.

We live in a world with a very particular narrative about the nature of so-called free-market capitalism. This is a world where workers are seeing health benefits slashed

(indeed where a large part of the US voting public opposes public healthcare) because of notions of individual responsibility and “liberty”; yet where banks who have knowingly engaged in fraudulent activity are given massive government bailouts to widespread approbation. Where the Occupy Wall Street protesters are called irresponsible for voicing concerns about the market system. Anyway, we all know the story. In short, we have two aspects of the ontology of the free market system: the rational, atomized, profit-maximizing individual worker-cum-consumer and the limited liability corporation which is legally considered a person, and therefore a rational, atomized, profit-maximizing individual. And this is then supposedly rooted in classical liberalism, modern proponents of which use Smith’s work or derivatives thereof to defend free market capitalism and self-interested pursuit of profit [8. P. 11—19; 11. P. 11—18; 16]. These arguments center on Smith’s oft-cited argument that if economic actors pursue their self-interest, they will maximize aggregate gain and thereby benefit themselves and society via the “invisible hand” of the market. Friedman, based on this logic, made his famous statement that the “social responsibility [of corporations] is to make as much money as possible [8. P. 14]”.

The simplistic question to ask would be “What would Smith say if he were around today?” This revisionist theorizing is not the best approach for a number of reasons, so rather than trying to answer that question, I will try to clarify what Smith actually did write in his time.

The corporation and Economic Man

The first point that bears making is that Adam Smith was an outspoken critic of the joint-stock corporate model. His first issue involved the control over one’s equity in a firm; namely, stockholders can sell or transfer stock, thereby bringing a new member or owner into the firm without necessarily gaining other members’ or owners’ consent. Associated with this lack of control is the issue of the price of shares. This involves the fact that share value is dictated by the market and therefore does not represent “the sum which its owner stands credited for in the stock of the company” but, notwithstanding, that stockholders are only liable for the company’s actions “to the extent of his share.” In Smith’s view, this combination of diminished control and limited liability meant a “total exemption from trouble and risk” that would create complacency among shareholders who would over-invest in risky ventures. On the other hand, a company’s directors, by virtue of controlling others’ money with their limited participation would give themselves to managerial “negligence” [15. P. 940—941]. This double limited liability, as it were, would then lead to such companies operating inefficiently. This in itself is condemnation that should resound today. It also stands in contrast to mainstream reinterpretations of Smith like that offered by NYU professor and investment analyst Marc Hodac, who a few short months before the start of the current crisis argued that “Smith was well aware of the benefits of corporations, including their ability to concentrate large amounts of money...” [9].

But here we come to the issue of ontologies. First there is the notion that the individual in society is a rational profit-maximizer who has a “responsibility” to care for him- or herself entirely through wise market choices. Consider current U.S. Presidential Candidate Herman Cain’s challenge to the Wall Street protesters: “Don’t blame Wall

Street, don't blame the big banks, if you don't have a job and you're not rich, blame yourself! ... It is not a person's fault because they succeeded; it is a person's fault if they failed" [3]. Second there is the notion of the corporation as a legal "person," taken to extremes by thinkers like French, who has gone so far as to suggest that corporations should have equal *moral* standing with biological human beings. In a case of what Lindblom might term "imprisoned thought" [10. P. 333] the deliberation has prematurely accepted these as givens.

Adam Smith, though he is considered to be an early economist, lectured in moral philosophy and jurisprudence. Moreover, along with David Hume and a number of other contemporary philosophers, he was considered a Sentimentalist. Anspach points out that this group "argued that the distinguishing mark of man was not reason, but feelings, or sentiments, engendered by man's participation in society" [1. P. 177]. This background is important for two reasons. First, Smith's focus was neither the ideal human being nor human progress toward some teleological apex of human development. He dealt with humanity as it was, complete with its virtues and flaws. Smith suggests as much himself when he writes in *The Theory of Moral Sentiments* that "the present inquiry is not concerning a matter of right ... but concerning a matter of fact" [14. P. 77]. Second, this realism was characterized by an emphasis not on "rational utility maximiz[ation]" or "mathematical optimization analysis" undertaken by purely rational actors but rather on "humankind as a uniquely complex realm of nature that does not lend itself to such reductionism" [4. P. 246—247]. This is not say, however, that Smith was an absolute relativist. Rather than being overtly normative, Smith's work seeks to prove that while there is not necessarily any "natural harmony in man's psychological propensities ... particular characteristics of human beings which were in various ways disagreeable were accompanied by offsetting social benefits" [2. P. 17].

So what did Smith's economic man (*homo oeconomicus*) look like and how did he relate to the market? He broke down human characteristics into overarching categories, which I will briefly outline.

Sympathy — Smith did not believe humans were necessarily benevolent, but rather that they were possessed of a quality he called sympathy, or the ability to empathize with others by placing themselves in their position (3). This was not, in keeping with Smith's overall system, an absolute value. Sympathy is affected by social norms, specific circumstances, and personal proximity and familiarity. It is omnipresent but subjective. Sympathy is how humans make judgments both about others and, by realizing that others can do the same to them, about the propriety of their own actions. In Smith's moral philosophy, it is only through sympathy and the judgments that it permits that humans are able to engage in and maintain social relations. This is because just as we enter into fellow-feeling with others and find pleasure in achieving sympathy for them, so we desire them to sympathize with us. This desire, driven by the human capacity for sympathy, by giving impetus to socialization, "constitutes a condition essential to the development of morality" [13. P. 84]. Morality, Smith is quick to note, is relative to cultural and historical circumstances, but without sympathy it could never form.

Prudence — Smith argued that humans' foremost virtue was reason, which allowed for rational analysis of the "advantage or detriment" of actions; next came self-command, which allowed people to achieve long-term gain through short-term sacri-

fice. The “union” of these was prudence, the virtue which was “most useful to the *individual*” [14. P. 189]. Rather than being a slave to his passions, Smith’s sympathetic and sympathizing actor tempers excesses of passions by acting prudently, especially in the economic sphere (4).

Self-Interest — Although Adam Smith’s work is often associated with the notion of selfish motivation for actions, he in fact wrote primarily about “self-love” and “self-interest”. He makes this distinction explicitly by equating selfishness with savagery and self-interest with notions of culture and modernity [14. P. 206]. He saw self-interest as being a natural part of human nature — but it was an engine of action and had its place in our drive for self-improvement and the accumulation of wealth, not an entirely narcissistic impulse. But how does one mitigate the excess of selfishness? “It is [through] reason, principle, conscience, the inhabitant of the breast, the man within, the great judge and arbiter of our conduct” [14. P. 160].

The impartial spectator — One of the central themes of Smith’s philosophy is a deep concern with justice. This can take an institutional form or one intrinsic to human beings. If sympathy alone cannot be relied upon to temper the injuries we might cause others as a result of our self-interest, we must turn to an embodiment of our socialized moral sense. As society functions despite our self-interested nature, Smith deduces that this is so because “we endeavour to examine our own conduct as we imagine any other fair and impartial spectator would examine it” [14. P. 110]. If self-interested action was inevitable, Smith saw the impartial spectator as a necessary moderating force.

Society and the Invisible Hand

The classical understanding of what Smith meant by the concept of the “invisible hand” of the market is most often found in allusions to one of the most often quoted passages of *The Wealth of Nations*. “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages” [15. P. 23—24]. But an insular society of purely market relations was not Smith’s ideal. He believed that “man ... has a natural love for society, and desires that the union of mankind should be preserved for its own sake, and though he himself was to derive no benefit from it” [15. P. 88]. Such society should arise spontaneously — once an individual is socialized into a community through sympathy and develops moral sense “enforced” by the impartial spectator, he is free to engage in moderated, prudent, yet self-interested behaviour. If man acts in his own self-interest but does so justly, he simultaneously serves his own best interest while serving that of society. This in turn gives him social esteem through others’ sympathy. So even if he is accumulating wealth, if he does so in a manner acceptable to the impartial spectator, he is acting in accordance with social norms and thereby benefitting other members of his community. In this situation, the invisible hand both mitigates individual conflicts and excesses of competition which safeguards the public good [12. P. 212]. This is clearly completely different than the blind pursuit of profit solely for the sake of profit.

Quite simply, an effective market requires cooperation and some degree of trust among actors seeking to improve their own lot in life. Therefore, as Fitzgibbons argues,

“Smith thought that trade and economic growth would flourish best in a moral climate, not a climate of greed, and his impartial spectator was his ... attempt to give scientific credibility to that moral climate [5. P. 152]”.

Conclusion

The answer to our double-edged question has a surprisingly clear two-part answer: For Smith, an atomized, rationally profit-maximizing actor is neither the ideal nor the reality; and a corporation quite simply has no emotions, and hence no morality, and therefore could never be considered a human actor. Quite the opposite: a purely selfish, profit-driven actor (be it a human or a corporate entity) would be viewed by is detrimental to the welfare of society.

At the risk of being misunderstood, I do not intend this as a condemnation of the corporation in all its forms. The corporate mode of aggregating investment for certainly has its merits. But as the world moves forward into uncertain terrain, Smith remains a source of astute moral and economic analysis, but the content of this analysis should not be taken for granted. Nor should Smith's name be invoked in vain.

I started by asserting that asking “What would Smith say if he were around today?” is simplistic. This is true. But perhaps a deeper reading of Smith might prompt equally simplistic questions that are, none the less, a little more radical. For instance: “Might Smith actually agree with the sentiments of the Wall Street protestors?”

COMMENTS

- (1) I am not a Smith revisionist, nor do I consider myself a liberal in the classical sense associated with Smith, but my aim here is simultaneously to clear his name — at least on two issues — and to look at more universal lessons we can learn from this distinguished, seminal, and chronically misunderstood scholar.
- (2) While acknowledging the so-called “Adam Smith Problem”, this paper agrees with Fitzgibbons' conclusion that “Smith wanted to *integrate* economics and morals, by developing a philosophy that would harness the force of self-love without being dominated by it”. This is the view adopted in this paper, with neither work being given primacy, and under the assumption of constancy between their content.
- (3) A. Smith “The Theory of Moral Sentiments” begins with the assertion that “How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. ... The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it” [14. P. 9].
- (4) “The man who lives within his income, is naturally contented with his situation, which, by continual, though small accumulations, is growing better and better every day. ... If he enters into any new projects or enterprises, they are likely to be well concerted and well prepared” [14. P. 215].

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ПЕРЕПРОЧТЕНИЕ А. СМИТА В ПЕРИОД КРИЗИСА

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В период кризиса как мировой экономики, так и самих идеологических оснований экономической системы либерального капитализма отчетливо наблюдается тенденция к догматизации работ классических мыслителей через выборочное использование отдельных фрагментов их работ, для оправдания или критики статуса-кво. Такое выборочное прочтение особенно характерно для трудов А. Смита — т.н. «отца современной экономики». Представленная статья имеет целью отразить мысли А. Смита по поводу двух центральных аспектов современного кризиса: причин ограниченной ответственности корпораций (чи мотивы извлечения прибыли в ряде сфер все в большей степени подвергаются критике) и роли индивида в рыночной экономике. Данные вопросы не настолько различны как может показаться, ведь они оба относятся к концепции А. Смита о естественной роли индивида (*homo oeconomicus*), так как А. Смит рассматривал рынок не только как экономический, но и как социальный институт.

Ключевые слова: Адам Смит, «невидимая рука», свободный рынок, либеральный капитализм.