

ADAM SMITH'S MODEL OF CAPITALISM AND ITS RELEVANCE TODAY

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Abstract: Modern Capitalism has been criticized on many different grounds, especially for the genuine imperfections of actual forms of capitalist organization and the difference that it has created between rich and poor. There is one more front where capitalism has come under severe attack i.e. the ethics of the capitalist system. Neo classical thinking has legitimized a narrow conception of capitalism that has largely excluded social and moral considerations from economic thinking. Such a narrow conception of capitalism that excluded wider moral motivations and institutions from their economic thinking has prevented capitalism from harnessing its full potential. This paper argues that for profit to endure we need a higher form of capitalism involving a social purpose along with profit. This sophisticated form of capitalism, one imbued with a social purpose, involves a deeper understanding of Adam Smith's insights on economy and society.

Keywords: Adam Smith, Business Ethics, Capitalism

Resumen. El capitalismo moderno ha sido criticado en diferentes aspectos, especialmente por las genuinas imperfecciones de sus formas actuales de organización y por la diferencia que ha creado entre ricos y pobres. Otro aspecto que ha sido objeto de severo ataque es la ética del sistema capitalista. El pensamiento neoclásico ha legitimado una concepción estrecha de capitalismo que excluye en gran medida consideraciones sociales y morales del ámbito del pensamiento económico. Tal concepción, que ha soslayado ampliamente a las consideraciones morales y a las instituciones, ha impedido que el capitalismo desarrolle su pleno potencial. Este trabajo argumenta que para que el beneficio perdure necesitamos una forma superior de capitalismo que conjugue los beneficios con un propósito social. Esta sofisticada forma de capitalismo, imbuida con un propósito social, presupone una comprensión más profunda de las ideas de Adam Smith acerca de la economía y la sociedad.

Palabras clave: Adam Smith, ética de negocios, capitalismo

Introduction

Adam Smith is known as the father of economics. It is widely acknowledged that his contributions helped to reshape the subject of economics on scientific lines (Sen, 2010). His ideas regarding the market economy and the role of the state in economics laid the foundations of the modern capitalist system. As a member of the school of classical economic thought, Smith, like other classical economists, was concerned with the question of how the market system that emerges during the transition from the feudal system, would meet the needs of producers and consumers alike. Adam Smith was not only an economist but he was also a moral philosopher. Along with the blue print of the natural mechanisms of a free economy unfolded in his *Inquiry into the Nature and Causes of the Wealth of Nations* (WN), he also wrote a book on moral philosophy, the *Theory of Moral Sentiments* (TMS), in which he discussed his moral theory about the nature of man and the world. In his TMS, Smith demarcated a system of noble virtues, namely generosity, gratitude, love, friendship, compassion, kindness, and the like. Whereas commercial virtues like self-interest form the subject matter of WN (ibid).

Smith lived and wrote during the late 1700s, during which time a mercantilist society still existed. He envisioned a free society and a more efficient economy that would benefit individuals and the entire nation at the same time. He talked about the system of perfect liberty, where every individual was free to make choices and if the person was dissatisfied with the choice he or she made, a free trade society allowed the freedom and ability to move unrestrained from one occupation to the other. There is much debate among academic scholars about whether or not the so-called *moral Adam Smith* is compatible with the *economic Adam Smith*. Some scholars believe there is a discrepancy between his discussion of individual morality and his thoughts on a market system fuelled by self-interest; German scholars have coined this *Das Adam Smith Problem*. However, other scholars believe that these two virtues are interdependent and can be applied in both the personal and the economic sphere of life e.g. virtue of self-command, which allows a person to act with moderation within both the economic and personal spheres (Vaggi, 1996). It is argued that in order to be both a virtuous and successful person, one must employ both the commercial and noble virtues. By relying only on commercial virtues, the person may become successful in business, but will not emerge as a complete moral being. Smith also argued that virtues like integrity and cooperativeness are promoted through the mechanism of free market in the process of mutually ongoing beneficial exchange. For example, in *Lectures on Jurisprudence*, Smith argues:

Whenever commerce is introduced into any country, probity and punctuality always accompany it. These virtues in a rude and barbarous country are almost unknown. Of all the nations in Europe, the Dutch, the most commercial, are the most faithful to their word. The English are more so than the Scotch, but much inferior to the Dutch, and in the remote parts of this country they [are] far less so than in the commercial parts of it, as some pretend. This is not at all to be imputed to national character, as some pretend. There is no natural reason why an Englishman or a Scotchman should not be as punctual at performing agreements as a Dutchman. It is far more reducible to self-interest, that principle which regulates the actions of every man, and which leads men to act in a certain manner from views of advantage, and is as deeply implanted in an Englishman as in a Dutchman. A dealer is afraid of losing his character, and is scrupulous in observing every engagement ([1762–1763, 1766] 1982: 588).

Although Adam Smith is known as a most ardent advocate of commercial society, he also pointed out that happiness and tranquility are not necessarily linked with material goods, but rather he pointed out that the continuous and uninterrupted effort for ever-more material goods undermines people's tranquility and enjoyment. People in commercial societies are more contented than other forms of society, not due to material goods but rather because they have relative liberty and more security that enable them to act virtuously and to have the pleasure of rewarding relations with friend and family. Thus, for Smith, money or wealth is not source of tranquility in itself but commercial societies have tended to reduce dependence and insecurity that was a great source of misery in pre commercial societies (Rasmussen, 2011). Many later commentators find it challenging, to reconcile this position with his economic theory where he defended a society that fundamentally depends on and encourages the uniform, constant, and uninterrupted effort of every man to better his condition.

However, careful reading of his economic theory along with his theory of human behavior helps us to resolve this tension (Hirschman, 1977). Adam Smith presented a richer concept of human nature in which the struggle for economic advancement is driven by non-economic and non-consumptionist motives. Smith never reduced the whole complexity of society into self-interest and the free market (Vaggi, 1996). It is also pointed out by the Hirschman (1977) that for Smith,

...The drive for economic advantage is no longer autonomous but becomes a mere vehicle for the desire for consideration. By the same token, however, the non-economic drives, powerful as they are, are all made to feed into the economic ones and do nothing but reinforce them, being thus deprived of their erstwhile independent existence (p.109).

However, the question that is posed by many academic scholars is this: Does the capitalist economy in the modern world really work this way? Are the guiding functions of the market mechanism, outlined by Smith no less than

quarter of a millennium ago, still relevant in the 21st century where the market is characterized by giant corporations and strong labor unions that are able to stand up to the pressures of competition? This essay assumes and tries to make the case that the market economy can benefit from Smith's philosophy, which contains ethics that are most relevant and appropriate for a modern capitalist system.

The Political Economy of Capitalism

Capitalism is a socio-political and an economic system that is based upon the principles of private property and free market. According to Scott (2006),

.....capitalism is an indirect system of governing an economy wherein various economic actors are allowed to compete to serve the needs of consumers according to a set of laws and rules, and where the ensuing competition serves to induce the mobilization of human energy and talent as well as other resources for the benefit of society as well as the economic actors themselves (p.4).

Scott (2006) used an interesting analogy of organized sports to provide an insight on a three-level-model of capitalism. Like organizing games, capitalism also has three levels of governance; the first level is political authority; the second is infrastructure and the third level is comprised of business and firms that compete like sports team within this structure. Capitalism is based upon recognition of the price mechanism as a regulatory force and key coordinating device instead of command and control. However, government may directly or indirectly intervene through such actions as altering the institutional foundations in which market transactions take place. Thus, Capitalism is a dynamic system, having an institutional foundation and legitimacy. Unlike other systems its components have regenerative powers and their relationships continue to evolve over time. However, it is the responsibility of the state to provide an institutional foundation for a capitalist system. Political authorities have the power to regulate economic transactions through taxes and regulations. Policies and regulations are enforced through three branches: legislative, executive, and judiciary, in which political authorities are typically divided (ibid).

Three fundamental components of the regulatory framework of the capitalist system are the market, institutional foundation, and political authority. Market frameworks are created through the interplay of complex political processes, involving multiple stakeholders. Thus, it can be safely concluded that economics is intimately connected to political and administrative processes and political choices are involved in creating the

institutional context and shaping market frameworks. Successful capitalism depends upon the state to control unleashed desires of self-seeking private actors who abuse their power for personal gains (Scott, 2006).

Adam Smith's Views on the Political Economy of Capitalism

Political economy is one that protects its citizens, creates conditions for well-being, including economic growth, and provides public services in the context of personal liberty protections of rights, and enforcement of laws of justice. (Smith, 1776)

Adam Smith provided a blue print for a model of social organization based on the system of perfect liberty. Private property and voluntary exchange are the main features of the capitalist economy. Smith offered an important insight into the role of the division of labor, competition, capital accumulation and private property in creating a functioning and prosperous commercial society. He gave a vision of the society as a whole moving towards a distant but clearly visible goal of *Progress*. He gave a vision of society where individuals are following their self-interest without state interference or a central planning authority, through a mechanism called *Political Economy*, or, in today's terminology, economics. In his laws of market he tried to settle the fundamental question of how the private interest and passion of individuals can be led in a direction that can bring foreseeable beneficial results for society as a whole. He was interested to explore the mechanism through which society is held together, despite everyone busily following his or her self-interest.

He demonstrated through his laws of market that competition among self-motivated individuals will result in the provision of commodities to society at market price that society is prepared to pay. According to Smith,

The natural price therefore is as it were, the central price, to which the prices of all commodities are continually gravitating. Different accidents may sometime keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this centre of repose and continuance; they are constantly tending towards it (WN 1. vii.15).

However, this is only possible in the case when the market operates under the condition of perfect liberty. Thus, individual self-interest in a market economy, under the condition of perfect liberty, is guarded through competition rather than any planning authority. Competition transmutes the selfish motives of men through a self-regulating system of the market system for society's orderly provisioning. The law of accumulation and the law of population propel the productivity of the market in an ascending spiral. Therefore, if accumulation reaches its saturation point, where more

demand for labor increases the wages to the extent that they eat away the sources of accumulation, the law of population will bring the balance back (Heilbroner, 1999).

Smith was the economist of pre-industrial capitalism and his name is often heard along with the terms self-interest, laissez-faire and invisible hand. However, despite Smith's panegyric of a free and unfettered market, he recognized three important functions of the government in a society of natural liberty. First, it should protect that society against the *violence and invasion of other societies*. Second, it should provide an *exact administration of justice* for all citizens. And third, the government has the duty of *erecting and maintaining public institutions* and those *public works* which may be in the highest degree advantageous to a great society, but which are of such a nature that the profit could never repay the expense to any individual or small number of individuals (Heilbroner, 1999). Careful examination of Smith's writing clearly opposes the minimalist view of Smith. According to Warren et.al (2005) Smith's opposition to mercantilism cannot be extended to any other form of government activism. Smith has a tripartite model of society comprised of three different but interrelated modes of social control: moral rules, law, and the market. Each of these models works in its own way to channel individual behavior into socially apprehended directions. According to Smith (1976),

After the publick institutions and publick works necessary for the defence of the society, and for the administration of justice, both of which have already been mentioned, the other works and institutions of this kind are chiefly those for facilitating the commerce of the society, and those for promoting the instruction of the people. The institutions for instruction are of two kinds: those for the education of youth, and those for the instruction of people of all ages (p.723).

The Relevance of Adam Smith Today

Over past few years, due to the economic crisis, the western capitalist system has come under a protracted and brutal attack in public debates on a grand scale. Suffering caused by the recent economic crisis has led scholars to believe that it is important for the overall health and survival of capitalism to review the model of the capitalist economy and its miraculous powers intended by its original author. Otherwise capitalism will be discredited or destroyed by internal failures or external pressures. According to Lewis (1977), Adam Smith enjoys a unique position in economic thought. Being a moral philosopher, he was a part of an intellectual structure, based on a broader moral foundation of natural rights. However, the main thrust in economic thought has divorced Smith's analysis of the free market from its moral foundation. Lewis argued that although Smith advocated the removal

of market restriction, increased productivity and growth, he had a broader and more subtle purpose of the market system in mind. Smith saw the market as crucial mechanism to save civil society through the way in which it forced men to recognize natural rights. That there has been little concern with these normative and political aspects of Smith's basic economic concepts has a far-reaching effect on economic theory and policy. According to Lewis (1977),

Failure to appreciate the strength of Smith's position and breadth of its potential application has unduly narrowed the scope of both contemporary economic analysis and the liberal political theory (p. 24).

Sen (2010) has also argued that, though not so widely acknowledged, the relevance of Smith's ideas in the theory of moral sentiments is far reaching and has insights to offer to the world today. Smith's analysis is, in fact, deeply relevant today in understanding what has just happened in the financial world. Smith did not take the market mechanism and profit motive as sole performer of excellence in the market exchange. Along with the self-motivated behavior of individuals at the moment of market exchange, Smith was also concerned with the other wider moral motivations for economic activities. In his theory of moral sentiments Smith discussed more refined motivation other than just the pursuit of one's own gain or even prudence. Smith argues that,

while "prudence" is "of all the virtues that which is most useful to the individual [...] humanity, justice, generosity, and public spirit, are the qualities most useful to others" (Smith 197, 189- 190 cited in Sen, 2010).

Smith believed society can benefit through the pursuit of enlightened self-interest. Smith proposed a very democratic notion of the purpose of the market. He believed that capitalism will favor consumers rather than producers. He also conceived capitalism as a system that will promote the wealth of society without jeopardizing the interest of society at large and it will bring discipline, moderation and order throughout society. He believed that every individual in a society has a strong desire for approval from his fellow beings and this desire is a leverage of control that guides fundamentally self-interested individuals toward sympathy and benevolence in a well-functioning society (Henry Jackson Initiative, 2012). However, virtues of capitalism, advocated by the *father of capitalism*, could not be fully materialized in the modern capitalist system and capitalism has been exposed to erious challenges in the modern world.

Therefore it is worthwhile to re-examine Smith's model of the capitalist economy in order to generate the highest long term returns from the capitalist system. According to Evensky (2011), one of the more subtle points made by Smith that has been widely missed by many advocates of the

modern capitalist system while celebrating his vision of the free market, is that self-interest can be a source of magical transformation, which drives each individual to better his condition, only in a situation where trust prevails under conditions of perfect liberty. In the monopolized markets entrepreneurs limit their productivity voluntarily in order to create artificial stock shortages in the market. This situation demands for some corrective mechanism for the efficient functioning of the market (Salvadori and Signorino, 2013). Thus, in Smith's analysis, the establishment of a system of positive laws and the institutions to implement these laws along with the individual ethics provide a potentially constructive solution for establishing trust. This brings trust as an important driving force motivating the self-interested actors in the hope of *bettering their condition*, to the center of debate (Evensky, 2011).

If capitalism has to regain its lost trust it has to be overhauled from the stakeholder' perspective and not just the shareholders' perspective. This idea, expressed sometimes as *stakeholder capitalism* or as the *triple bottom-line*, explicitly measures the business not only by its economic performance, but by its social and ecological performance as well. Capitalism can thrive best when business becomes aware of its ethical dimensions as well. People have to bring moral dimensions of their personalities into their business decisions. It might seem at odds with the notion of a capitalism run by self-interest, but this is only the case when we understand self-interest in a narrow sense. We have to understand the broader notion of self-interest in order to avoid repetition of the problems we have suffered. As noted by Smith, self-regard and desire for praise and recognition also provide a strong basis for ethical standards that is applicable in business as well (Henry Jackson Initiative, 2012).

Smith's Ideas about Self-Interest

Smith is sometimes blamed for giving new dignity and sanctification to greed in his model of the free market. However, Werhane (2006) contested that Smith's description of self-interest in commerce is often confused with his admonitions concerning greed and avarice. Smith is both descriptive and normative and slipshod in making a fact/value distinction, sometimes making it difficult for the learner to read him correctly. Smith repeatedly argued that markets work best under conditions of economic liberty grounded in the *rule of law*. He stressed, for the efficient functioning of the market, the cooperative and competitive behavior of people who act prudently (ibid).

According to Werhane (2006), Smith was not a radical individualist, a position that is sometimes traced to Smith; rather his emphasis was on the social nature of human beings. He identified three sets of passions or natural affections in human nature, namely: Selfish Passion, Social Passion and Unsocial Passion. Selfish passions are self-interests like pleasure and pain. Social passions are directed towards others such as altruism, justice, and compassion; and the unsocial passions are negative reactions to others such as hate and envy. According to Smith, none of the passions dominate the others, so that most of us are naturally interested in others as well as in ourselves. We, as human beings, derive our interest from these passions through cognitive and emotional processes.

Market liberals often dwell on Smith to support their doctrine, although Smith insisted on the primacy of the common good over self-interest. Avener (2012) challenged the primacy that self-interest has gained in two interlocking doctrines of self-interest and market efficiency in current economic discourses. Primacy of self-interest is no more than speculation and is used as license for defection. Smith's doctrine is more ethical, based on controlling the drive of personal advantage through the human urge for approbation. His emphasis on individual wellbeing through approbation and interpersonal acceptance makes him more attractive ethically and more compelling empirically (Avener, 2012). However, market efficiency can only be achieved when markets are truly competitive and impersonal, and that is exception, even in modern societies.

Smith was a consequentialist who believed that the road to virtue and the road to fortune do not always go in the same direction. Therefore, society would have substantial ethical problems if everyone was rich, as they abandon the path of virtue quite frequently. Smith was of the view that the majority of people refrained from pursuing their detrimental self-interests due to the *impartial spectator* that is the human conscience. Mostly, people are responsive to the scolding of this moral agent, observing our motives and actions through communal law and religion (Collins, 1994). In TMS Smith writes:

How selfish ever many 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 (Smith, 1976 cited in Collins, 1994).

There is a tendency among scholars to present Smith as an ardent utilitarian; however his approach is a mix of utilitarian and deontological ethics, which require that individuals should be encouraged by the government to pursue their economic interest, provided social welfare is generated without causing any harm (ibid). However, at no point does Smith argue that self-interest is the ultimate goal of social and economic life. Rather, he argued that self-

interest is channelled towards the welfare of society through *impartial spectators*. He believes that a strong system of justice is important for controlling those individuals who are insensitive to the moral sentiments of the impartial spectator. Thus, Adam Smith provides us with a more ethical framework for analyzing the capitalist system.

Adam Smith and the Ethics of Capitalism

TMS (1759) and WN (1776) are thought by many scholars to be incompatible, since the former deals with the moral sentiments, whereas the latter presents a picture of an individual driven purely by his self-interest. However, this tension can be easily resolved when we appreciate the differing but not necessarily competing purposes of these classical works: one has to do with the science of human conduct, the other with the science of wealth creation. The impulse of self-interest is not in itself immoral, but rather, when it is translated into the highly commendable virtue of prudence, it brings good for society as well. Smith wanted to construct a system in which he attempted to show that commerce is consistent with morality and both these attributes of economizing and moralizing are natural to man (Barry, 1990).

Smith presented a system of naturalistic ethics in which each part is connected to the whole through a complex chain of reasoning. Every individual has a perception of right and wrong that sometimes can be tainted by excessive self-love. However, in a process of *moral equilibration* potentially harmful self-love is checked against the less self-interested standards by an impartial spectator. Thus, Smith had a foundation for ethical judgments which was independent of utility. His moral foundation is grounded in the community, which provides a meaningful conception of morality to the individual. This ethical foundation also bears relevance for individual conduct in the commercial order. According to Barry (1990),

Apart from utilitarian considerations, capitalism seems to be characterised by the natural fact that people are constantly engaged in the struggle to better themselves; and their actions in this regard will meet with the approval of others (and the spectator) as long as they do not involve a breach of a rule of justice. Of course, the approval of others may not always be a consequence of an exercise of unadulterated self-interest in the conventional capitalistic sense; indeed the desire to be well-thought of may well promote other-regarding virtues (p.96).

Smith was convinced on utilitarian grounds that government regulation cannot improve morality or economics. In many parts of his analysis Smith regarded capitalism as a morally sparse doctrine having no place for the non-obligatory virtues of benevolence and charity. As argued by Smith (1976) in his widely quoted passage,

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 (p.26-27).

He was always a realist about human nature. He was convinced that benevolence was only possible in very small, face-to-face relationships. Non-cooperative self-interest and other regarding sympathy are the major pillars of Smith's model of market economy in impersonal and personal exchange respectively (Smith, 1998). Therefore, in market relationships, where we are often dealing with strangers, only self-interest can motivate people to produce a general beneficial outcome since the satisfaction of personal desire depends upon the capacity to satisfy the desires of others. The most relevant moral virtues for commercial society are justice, honesty, reliability and frugality, which are essential features of the market system. For Smith, a greater penetration of society by business attitudes would on the whole lead to a rise in moral standards, because without the expectation that agreements will be honored, property respected and individual integrity respected, the capitalist system cannot flourish. Thus, rules of justice need to be enforced in commercial societies.

Adam Smith and the Case of Inclusive Capitalism

Modern capitalism has been criticized on many different grounds, especially for the genuine imperfections of actual forms of capitalist organization and the difference that it has created between rich and poor. There is one more front where capitalism has come under severe attack, i.e. the ethic of capitalist system. Ethics are defined as code of conduct for individual behavior in any society. Ethics are incorporated through an intensive socialization process. Therefore, individual choices of right and wrong are influenced and shaped by society and are important dimension of one's self-image. This is true for individual, social, and economic behavior. An economic system lacking any ethical foundation is doomed to failure in the long run. However, in the modern world, business and society have been pitted against each other for too long. Neo-classical thinking has legitimized a narrow conception of capitalism that has largely excluded social and environmental considerations from economic thinking. The requirement for social improvement in the broader context in which firms operate and do their business is taken as invariably contrary to business interests that might impose a constraint on the corporation (Porter and Kramer, 2011).

Such a narrow conception of capitalism that excludes social and environmental considerations from the economic thinking has prevented capitalism from harnessing its full potential. Porter and Kramer have argued (2011) that a firm is not a self-contained entity. In order to create demand

for its product, firms need a supportive environment that is provided by the successful community. In understanding the business environment managers have to focus on the profound effect that location can have on productivity and innovation (Porter and Kramer, 2011). Therefore it is essential to reset the boundaries of capitalism by better connecting companies' success with societal improvement. For profit to endure we need a higher form of capitalism, involving a social purpose along with profit, because productivity suffers in monopolized markets. As Smith argued,

The exclusive privileges of corporations, statutes of apprenticeship, and all those laws which restrain, in particular employments, the completion to smaller number than might otherwise go into them, have the same tendency, though in a less degree. They are a sort of enlarged monopolies, and may frequently, for ages together and in whole classes of employments, keep up the market price of particular commodities above the natural price, and maintain both the wages of the labour and profits of the stock employed about them somewhat above their natural rate.(WN 1:vii.28)

Thus, compliance with the ethical standards, through self-interested behavior of economic actors, will enable society to advance more rapidly while allowing business to grow even more. This sophisticated form of capitalism, one imbued with a social purpose, involves a deeper understanding of competition and economic value creation not through philanthropy but through self-interested behavior. This new form of capitalism establishes a strong connection between social and economic progress. According to Porter and Kramer (2011), there is a close link between competitiveness of a company and development of surrounding communities in order to create demand for its products and provide a supportive environment.

In order to ensure their long time success is in the interest of business managers one has to go beyond short term business performance. Businesses, not as charitable donors, are an unparalleled vehicle for meeting human needs, improving efficiency, creating jobs, and building wealth. Therefore, it is important to redefine the purpose of the corporation to drive a new wave of innovation and productivity growth in the global economy by considering the impact on people, profit and the planet. It is in the best interest of business to understand the fallacy of short-term cost reductions and try to create opportunities for sustainable growth through creating shared value. The concept of shared value initially explored in 2006 by Porter and Kramer provides us with a valuable framework to bridge the gap between market efficiency and social needs. An ongoing exploration of societal needs, especially in underserved markets, will lead companies to discover new opportunities. Firms can increase their efficiency by tackling so-called externalities like water use, health and safety, working conditions, and equal treatment in the workplace. Thus firms can adopt strategies for

improving the overall environment of business through such activities as education for employment, supporting small- and medium-sized businesses.

Conclusion

Despite the vast economic changes which have taken place since the time of Adam Smith, his notion of human nature is still of interest to the modern reader of economy and society. In *The Wealth of Nations* he tried to make the point about how self-interested individuals can contribute to the welfare of society, while pursuing their self-interests. Smith attached a great value to freedom and natural liberty over all other systems of direction, performance or restraint. Adam Smith's remarks on how government intervention through trade and labor policies produces immobility and irrational inequalities still hold true, even for the modern capitalist system. Smith also had some serious reservations about capitalism, along with his veneration for the market system and natural liberty. The message of Adam Smith for today's world is to be found by the combined study of both of his classical books, *The Wealth of Nations* and the *Theory of the Moral Sentiments*, which is certainly a tract for our times. It will reshape capitalism and its relationship to society in line with Smith's original model of capitalism imbedded in its moral and ethical foundation.

In the race for wealth, and honours, and preferences ... [one] may run as hard as he can, and strain every nerve and muscle, in order to outstrip all his competitors. But if he should jostle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they' cannot admit of. (Introduction, *The Wealth of Nations*, 10)

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