

INET Talk on Adam Smith, October 21, 2017

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Given that this is a panel on that quintessential Enlightenment thinker Adam Smith, I can think of no better way to begin my remarks than to invoke that most enlightened of modern economists, Kenneth Boulding, who in 1971 penned the delightful essay, "After Samuelson, Who Needs Adam Smith?" Boulding's wonderful piece is a defense of the study of the history of economic thought, which even in 1971 was, as he put it, viewed by many economists as at best a "slightly depraved entertainment." This bias against the history of economic thought gained credibility in the 20th century as three assumptions took hold in the minds of economists, namely, (1) that economics is a real science, (2) that most successful sciences exhibit cumulative progress, so that (3) the study of history by students of economics is unnecessary because all the important findings of the discipline are, as the saying goes, "contained in the latest working paper." On this view, the study of the history of economics may amuse, but it is also an unnecessary diversion from the important scientific work at hand. Boulding pithily and wickedly summarized the position as reducing to the claim that "all we have to learn is embedded in the present scriptures" (Boulding 1971, p. 226).

Boulding offered in response to this unfortunately ubiquitous view a defense of what he called the Principle of the Extended Present. For Boulding, "Works like *The Wealth of Nations* are inevitably part of an extended present... (because) one can still go back to Adam Smith after many rereadings and find insights which one has never noticed before and which may have a marked impact on one's own thought" (ibid., p. 231). He pointed out how reading masters like Smith provides students with a feeling for the peak achievements of the human mind, noting that most of the things that one has to read in college "are after all the product of minds, to put it gently, which are below the peaks of human experience" (ibid., p. 235). He argued too that "one of the great purposes of formal education is to give the student a sense of an extended present," for "it is a mark of intellectual poverty to know only one's own time and place" (ibid., pp. 233-4).

We might add further to the arguments found in Boulding's beautifully crafted essay. For example, if one questions the positivist assumption that economics is a science characterized by the steady accumulation of certain knowledge, then the idea that we might actually have something to learn from studying the writings of past economists becomes much more credible. For those unhappy with the current state of affairs in economics, the argument becomes very nearly self-evident.

From its origins INET established its commitment to supporting research in and the teaching of the history of economics, as well as its support for related fields like the philosophy and methodology of economics. The most recent evidence is provided by the prominent role accorded to these fields in the two day YSI Festival that preceded this conference. Rather than continuing to preach to the distinguished choir that is arrayed before me, I will use the rest of my time to discuss an important substantive problem that confronts the field. It is a perennial problem, one that I think will never be solved, and precisely for that reason one that both creators and consumers of the secondary literature in the history of economics must keep ever in mind. This is the problem of interpretation. Now I do not mean to dive here into the murky waters of historiography or historical methodology. Rather, I want simply to make the commonsense observation that interpretive questions pervade the field of the

history of economics. How do we interpret the meaning of texts? In particular, how have practicing economists interpreted the works of those who came before? Is there a correct reading? Sometimes there are complementary readings, but sometimes readings clash. What to do then?

It turns out that Adam Smith is a particularly good case study for showcasing the varieties and indeed the vagaries of the interpretive enterprise. Of course much of British classical political economy took as its starting point the critique, supplementation, or emendation of Smith's writings, all of which required interpretation of what he wrote. Outside of Britain, the early reception of Smith by German scholars was decidedly less than warm. Because of the time he spent in France and his apparent endorsement of *laissez faire*, they took him as a sort of Scottish Physiocrat, which given the historic relations between France and the various German states at the time was not meant as a compliment.

By the middle of the 18th century members of the German Historical School were convinced that the purportedly general economic laws that the British classical had claimed to have discovered regarding, for example, the virtues of free trade, were not general at all. They were suspicious that the benefits of free trade mostly benefited the British empire, and reacted accordingly. They are called the German Historical School because they thought that a generalizing theoretical approach to social science was wrong headed; that the proper approach would study the unique historical development of each country, its political, juridical, economic, and cultural institutions, its moral foundations and its relations with its neighbors, to discover the best sort of policies for the country's particular phase of development. It was this group of scholars who first hit upon Das Adam Smith Problem, the alleged inconsistency between Smith's *Theory of Moral Sentiments*, where sympathy was the mainspring of human action, and *The Wealth of Nations*, where self-interest was. Most later writers agree that Das Adam Smith Problem is in fact an illusion, that the two books are not merely consistent but indeed complementary, but one could see how the interpretive exercise of undermining Smith was important for promoting the competing views of the German Historical School.

If one fast-forwards to the early twentieth century, we find the Old Chicago School economist Jacob Viner writing about Smith on the 150th anniversary of the publication of *The Wealth of Nations*. Viner's piece, "Adam Smith and Laissez Faire," is a classic in the interpretive literature, one that I always assign to my classes. Writing in America in the middle of the 1920s, Viner was taking on Progressive and Institutionalists critics of the market system who dismissed Adam Smith as a single-minded promoter of *laissez faire*. Viner was a liberal in the classical or European sense. His is a rich paper that explores many themes, but one of its chief messages is to remind Smith's antagonists that though the Scotsman had articulated a general case for limiting government interference in the economy, he also allowed for many exceptions. Indeed, as Viner summarized, had Smith "been brought face to face with a complete list of the modifications to the principle of *laissez faire* to which he at one place or another had granted his approval, I have no doubt that he would have been astounded" (Viner 1927, p. 102). Viner was defending Smith, but also a Smithian vision of the market system. He was pointing out that to accuse the defenders of markets of embracing a strict adherence to *laissez faire* was itself unfair, that most who defended markets were not, in the language of today, market fundamentalists. It is telling that both John Maynard Keynes and Friedrich Hayek, writing in 1926 and 1933 respectively, made similar points to Viner's (Keynes [1926] 1931; Hayek [1933] 1991, p. 31). All three of them were liberals while at the same time critics of what Hayek would later decry in *The Road to Serfdom* as "the wooden insistence on certain rough rules of thumb, above all the principle of *laissez faire*" (Hayek [1944] 2007, p. 71). Though they differed, to be sure, on how best to organize a liberal society, in the context of the times they were

still on the same side. And if that statement seems bizarre to you, it only shows how short our historical memory can be, and the importance of embracing Boulding's Principle of the Extended Present. Instead of dealing in easy caricatures, we need to go back and see what people actually wrote.

For my final example we will fast forward again, now to 1976, the bicentenary of the publication of *The Wealth of Nations*. The University of Chicago Press brought out a one volume reprint of the classic Edwin Cannan edition, one that carried a preface by another Chicago economist, George Stigler. It is a characteristic Stiglerian performance. Acknowledging that the Chicago edition would compete with the then being released Clarendon Press or Glasgow edition of Smith's works, he felt obligated to point out that his edition had "three substantial advantages...for the general reader: it is less encumbered with editorial material; it has useful marginal summaries of the text; and, as Smith would observe, it is a good deal cheaper" (Stigler 1976, p. xiv). (This last is not true, by the way, of the paperback edition of the Glasgow edition that was later brought out by Liberty Fund and which I highly recommend.) There are other nice touches. His Preface, for example, is dated June 5, 1976; June 5 is typically given as the date of Smith's birth.

Anyway, in the preface Stigler lays out what might be called the quintessential Chicago School reading of Adam Smith, as follows: "The fundamental explanation of man's behavior, in Smith's view, is found in the rational, persistent pursuit of self-interest." Stigler then quotes the celebrated line from book 1, chapter 1, of the book that "It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest" He follows this with the statement that "This drive of self-interest, which the modern economist has labelled 'utility-maximizing behavior,' is always present in *The Wealth of Nations*" and "On this behavioral basis Smith constructed a theory of how markets work" (ibid., pp. xi-xii). In sum, Adam Smith had, on the 200th anniversary of the publication of his book, been transformed into a Chicago School economist. Of course, 1976 was about the time of the ascendancy of the Chicago School, when economics imperialism was really taking off, so the new interpretation, as was true in the earlier episodes, had a definite function. I will simply point out the delicious irony that the Adam Smith resurrected by Stigler bears a striking resemblance to the one that critics like the German Historical School and Institutionalists accused him of being, and the one that the earlier Chicago economist Jacob Viner had shown to be an unfair caricature. I guess that it is not for nothing that people distinguish between the old and new Chicago Schools.

Well, enough general talk about interpretations, which I hope has whetted your appetite for what is to come. I am delighted to yield the podium to three scholars who will offer their own interpretations of Smith's oeuvre as well as discuss ways that his ideas might be used to illuminate current concerns.

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