A Rereading of Adam Smith and his Prevailing Interpretations

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Introduction

This paper wants to critically analyse key aspects of Smith’s thought in order to show that the common view that he is a conservative author and a dogmatic proposer of laissez-faire policies is not correctly based. As Muller has claimed, many of those who regard Adam Smith as “a patron saint” often fail to think in the way he did because they are quite satisfied with what he thought (1993: 197). To try to comprehend the root of Smith’s ideas has been the main objective of this paper. To understand the former is key when contemporizing his thought. A Smithian analysis of society has to apply Smith’s method of thought to our contemporary world. In section 1, I argue that as markets and institutions have changed since Smith’s time, to apply his recommendations directly to our days is misleading. In fact, if applied nowadays, they will generally lead to different outcomes. By carrying out the study of his method of thought I aim to show that Smith’s legacy cannot be the Utilitarian school and that more appropriate followers of his work are authors such as Amartya Sen, Arthur Pigou or Karl Marx. In section 2, I propose Sen as a more adequate follower of Smith since he uses the concept of sympathy in his economic analysis to show that our functions of welfare are not only influenced by our individual well-being. In section 3, I propose Pigou as an adequate follower of Smith since he uses the concept of justified state intervention –in sectors that benefit the whole of society but that the individuals would not want to privately invest in– to elaborate the concept of externality so as to show that government has to set up taxes to privately internalize the public damage. In section 4, I support that Marx’s concept of alienation was very influenced by Smith. All in all, this paper challenges the common assumption that Smith was a proto-libertarian through an in-depth contextualization of Smith’s work.
Section 1: Context

Historical context is of utmost importance to correctly understand Adam Smith’s ideas. Investigating the market structure at the beginning of the industrial revolution will help acknowledge how different it is to talk about competition in markets that are not guided by the same forces. Being aware of the influence the industrial revolution had on aspects like concentration, size of the markets and internalization of processes of production is also key to analyse Smith, since he did not live to see how “the visible hand of management replaced the invisible hand of market forces” (Chandler 1977: 12). In the present section, my aim is to explain how the economic relations are very different from the period when Smith lived and wrote. Therefore, to apply Smith’s ideas directly to our times is misleading. An in-depth study of the pre-modern business enterprise has to be made so as to comprehend what was Smith trying to criticize and how he thought his system could improve the world he was living in.

A feature of modern markets is a great amount of power within its participants. During the eighteenth century the majority of the firms were small and specialised (Wilson 1995: 47). This is important because if market concentration remains low and therefore the size of the average firm is small, no enterprise is powerful enough to individually alter the market. Moreover, the same happens with existing Labour Unions, they did not have the ability to interfere in market relations. As Heilbroner explains, “no agent of the productive mechanism on the side of labour or capital was powerful enough to interfere with or to resist the pressures of competition” (2014: 58). He then goes on by comparing the world of atomistic competition with modern economies, and arguing how things are “vastly different”: today’s market mechanism is marked by few and very big corporations and by strong labour unions who can disregard the pressures of competition. The analysis of both will be carried out individually in the present section. The existence of these two opposite forces in today’s economies alters the implications of defending laissez-faire policies.

The main reason responsible for such a world of small enterprises was its business culture and technological development. This particular way of understanding businesses was only forced to change around 1830, when railway and gas companies made managers have to gradually start shifting their practices (Wilson 1995: 42). One of the examples of the prevailing business culture was the generalised aversion towards joint stock companies. Most businessmen

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1New economic manuals such as Core (2017) or Microeconomics (2018) are starting to include market concentrations in their understanding of economics. Neoclassical economic manuals still analyze a Smithian world of atomistic competition.
preferred to depend on their money or in their well-known people’s. In 1720 the “South Sea Bubble Act” legislated that Joint Stocks could only be created with the permission of the parliament through a specific act. This legislation ended up forcing the fashion in which people invested for the next 105 years, when the act was repealed. It obliged the majority of enterprises to opt for the partnership form (Wilson 1995: 45). Another example of the way of understanding business practices, which is very different to how modern enterprise works, is the disinclination for contracting professional managers. Firms were managed in a very individualistic manner. Even though some enterprises decided to contract the so-called “players”, who took care of the functional or operational management, the owning family (dubbed ‘gentlemen’) resisted giving them the responsibility of strategic management (Coleman 1973: 92-116). These limitations, due to the general conception on how to manage firms, explain why the world Smith was looking at could be seen as a world of small firms competing between each other where which none could alter –alone– the rules of the market. A very similar version of this Smithian world is that described by Chandler in his book The Visible Hand, which refers to northern-American economy from 1790 until 1840.

If businesses could not disregard the pressures the market exerted on them, what about Labour Unions? Associations and demonstrations organised by workers were considered illegal until 1824. Be that as it may, the laws were not applied with severe determination until 1799/1800, when the Combination Acts were passed. This was due to the rise in syndicalism from workers of all type that was starting to appear (Webb 1990: 84). In the Combination acts, regulating the industry was the main aim and it led to its prohibition (Webb 1990: 80). Associations were not being banned for being considered intrinsically damaging but they were banned for altering the price and market system. So, even though there existed particular demonstrations like the Spitafields riots (1765-1768), organised by the workers of the silk weaving industry, Labour unions would not start to be able to alter the market forces until well entered the 19th century.

So, even though this was the context for the British national market, Smith already foresaw the intentions of the different sides of the market to get together and alter its results. An example which makes reference to the capital side’s willingness to change the outcomes that result of competition is: “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices” (Smith 1999: 235). We will later move on to tackle the moral criticism towards

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2 A third example would be the aversion to paper money that existed during Smith’s times (Wilson 1995:36).
the three classes in society but, before, we must analyse the way in which Britain and its mercantilist government made use of its foreign policy.

Muller has pointed out that this “relative freedom apparent in internal trade was absent from international trade” (1993: 31). In the mercantilist view, foreign trade was a zero-sum game. The objective of policy makers was to maximize the benefits of England while minimizing their rival’s. In order to do so, the main strategy used was to reduce imports and increase exports as much as possible, therefore custom duties on imported goods were the norm (Muller 1993: 31).

In 1776, the year when the Wealth of Nations was published, custom duties conformed up to a fourth of the Nation’s tax revenue (O’brien 1988: 9). If importing from the continent was already restricted, even more so were the limitations on transcontinental trade (Muller 1993: 32). Smith, though, was very clear in his opposition to this way of understanding commerce. For him, “colonial trade was profitable to the owners of colonial plantations and farms, who were well represented in parliament, but it was British taxpayers and consumers who bore the costs (Thomas and McCloskey 1981: 95). Smith was challenging the system he was living in with these affirmations. Muller (1993: 38) makes use of a good example to explain a situation where these policies would confirm his previous claim. When extreme cold, droughts or other situations led to bad harvests, the price of national grain rose. In those cases, consumers were severely affected by the situation since they could no access the foreign market to obtain cheaper grain. Smith even highlights that the “variety of goods of which the importation to Great Britain is prohibited, either absolutely, or under certain circumstances, greatly exceeds what can easily be suspected by those who are not well acquainted with the laws of customs” (Smith 1999: 267). Since the landed owners were dominating the Parliament, this situation would be very difficult to change. Practices of this kind were derived from a specific way of understanding economics. Smith would stand up against a world in which lobbies were influencing decisions taken by the Parliament. Gonzalo Pontón has explained this situation: “[Los capitalistas] Contaron […] con la protección del estado británico, que, contra toda retórica al uso, fue un gran regulador de la economía, con los aranceles proteccionistas más altos de Europa, con premios a las exportaciones, con incentivos para la renovación tecnológica y, sobre todo, con su intervención decisiva en la defensa del “libre comercio” mediante los cañones de su flota” (2009: 21). Rashid has explained that Smith’s defence of freedom of trade did not receive any victories during his lifetime. It only started to receive them when his message was “peculiarly relevant to British interests” (Rashid 1982: 23)

A last aspect to consider in Smith’s time is the material gain that society was viewing in the third quarter of the 18th century, when he was writing the Wealth of Nations. The early stages of industrialisation, with its division of labour, led Smith to include passages of these kind:
“perhaps, the accommodation of a European prince does not always so much exceed that of an industrious and frugal peasant as the accommodation of the latter exceeds that of many an African King, the absolute master of the lives and liberties of ten thousand naked savages”. At the time the Wealth of Nations was written, the vast majority of the working people would be expecting a basic minimum of food, shelter and clothing. Colonial luxuries that would have only been available for the few had become household items by the end of the 18th century (Hersh and Voth 2009: 1). The great epidemics had disappeared and hunger had been mostly eradicated mostly due to the consumption of American potatoes (Pontón 2009: 21). Smith viewed a world in which the material gain was not only affecting the richer part of society, but also, the working class (Muller 1993: 32). From this, we will later see how even though he is aware of the damages that the commercial society can create, restrictions which hinder the expansion of the market should not be welcome for him.

It is important to bear in mind Smith’s context when reading him. Many of the great misinterpretations of Smith’s thought have stemmed out of two scenarios: the first, the isolation of his works to the context in which he was writing that leads to misunderstanding concepts like market or competition; the second, the differentiation between his Moral philosophy and his Political philosophy, this has been known as “Das Adam Smith Problem”, named after A. Oncken’s article (1897) with the same name. To avoid hermeneutical problems, then, three key aspects of Smith’s times have been underlined. He lived in a world of atomistic competition where generally no individual in the national market had the power to individually alter its self-regulating mechanism. Nevertheless, foreign trade, lobbies and cartels had found its way into the Parliament and were defending the interests of the landed classes and the mercantilist system by raising tariffs to importation. Lastly, a burgeoning commercial society was starting to produce material rewards to its participants. The restriction of imports was hindering the expansion of the market and division of labour, which were to bring wealth to the nations as they had done so within the national boundaries. The aspect of “Das Adam Smith Problem” will be addressed in the following section and also has to be clarified so as to understand Smith’s view with precision.
Section 2: The Role of Self interest and Smith’s moral philosophy

Many studies of the role of self-interest in Smith’s thought draw their conclusions out of book 1 of *The Wealth of Nations* (Fleischaker 2004: 90). However, During Smith’s time he became famous due to his *Theory of Moral Sentiments*. It was not until the 19th century, when most of the readers had read *The Wealth of Nations* but not *The Theory of Moral Sentiments*, that the first confusions started to appear, claiming he presented a contradictory approach to human nature (Fleischaker 2004: 87). The role of self-interest or self-love was being understood differently due to the context in which it was being read. This famous passage is often used to explain Smith’s approach to self-love:

> 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. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens. Even a beggar does not depend upon it entirely (Smith 1999: 114).

Smith’s moral philosophy cannot be reduced to this paragraph. He devoted a great part of his life to the teaching of moral philosophy and wrote *The Theory of Moral Sentiments* where he explains with careful detail his approach to the area of study. Therefore, it is very simplistic to only read Smith’s philosophy from *The Wealth of Nations*. He first sets the basis of his ethical and moral approach to the individual in the *TMS*, and then moves on to the economic relations in society in the *WN*. Moreover, his whole work has to be understood as different parts conforming an ensemble. Skinner has been very clear when stating that when Smith was lecturing to his students on ethics, jurisprudence and economics, he was providing them and future readers with separate but inter-related ways in which they could understand the behaviour of man in society (Skinner 1992: 143). In that sense, what had been stated earlier as “Das Adam Smith problem” does not have to be considered. Supporters for the “problem” claimed that the unrestrained persecution of self-love or personal interest would constitute Smith’s mature position. The argument goes on by saying that Smith reached that conclusion after evolving and abandoning his previous thought stated in *The Theory of Moral Sentiments*. In the aforementioned book, the main idea is that human behaviour has to be based in sympathy between members of a community as a necessity to maintain its survival (Roncaglia 2006: 171).

A part from different interpretations of Smith’s work, there are factual reasons to dismiss the so-called “problem”. Roncaglia (2006:171) and others (Oncken, 2000: 84-105) state that *The Theory of Moral Sentiments* kept being reprinted under the supervision of Smith, even after the Wealth of Nations had already been written and published. In fact, Smith kept adding notes and comments to the *TMS* until the year 1790, when the sixth edition appeared. Lastly, Leonidas Montes (2004) remembers readers that in the bicentenary of the publication of the *WN*, Oxford
University Press republished it and the *TMS*. When referring to the “problem”, editors David Raphael and Alec Macfie (Smith 1984: 23-28) state that it is nothing but a pseudo problem that stems from the incapacity of comprehending the book. Once clarifying that the problem is old fashioned (Recktenwald 1978: 66) we now move the centre of attention to Smith’s moral philosophy and the role of self-love or self-interest.

Smith’s moral philosophy is complex and cannot be reduced to explaining all human action as derived from self-love. In the introduction to the *TMS*, Amartya Sen writes that “the role of self-love in explaining particular economic phenomena does nothing to reduce the relevance of different motivations in the understanding of other economic regularities” (Sen 2009: 56). The role of self-love for Smith has nothing to do with Mandeville or Hobbes’s ideas, since he does not set unrestrained self-love or self-interest at the centre of what motivates action (Fleischaker 2004: 84). In the *TMS* Smith explains very clearly his opposition to Mandeville’s thesis that private vices are public benefits:

> There is however, another system which seems to take away altogether the distinction between vice and virtue, and of which the tendency is, upon that account, wholly pernicious: I mean the system of Dr. Mandeville. Though the notions of this author are in almost every aspect erroneous, there are, however, some appearances in human nature, which, when viewed in a certain manner, seem at first sight to favour them. [...] It is by means of this sophistry, that he establishes his favourite conclusion, that private vices are public benefits. (Smith 2009: 367)

For Smith, the distinction between vice and virtue is clear. In order to fully understand such difference, it is important to explain, a part from self-love or self-interest, three important aspects that define his moral philosophy: the impartial spectator, self-command and propriety.

The three are a key part of Smith’s moral judgment of actions. Smith repeats all along the *TMS* that the greatest part of human happiness stems out of the conscience of being loved and that humans search recognition (Smith 2009: 78). In the first part of the *TMS*, “Of Propriety of Action”, he explains the sympathetic process whereby the impartial spectator is defined. It judges our actions based on the effects they have on third persons and their effects towards ourselves (Sen 2009: 17). It also allows us –to a certain extent– to see ourselves in the way others would, thus, being able to judge our actions. Then he defines self-command, although our actions stem out of self-love, our impartial spectator –with its limitations on impartiality–, will alter our actions in order to make them being accepted by us and by others. Smith claims that one “must […] humble down the arrogance of his self-love, and bring it down to something which other men can go along with” (Smith 2009: 83), the act of hindering self-interest is done through self-command. Lastly, the third aspect that he defines is propriety. Montes argues that it is key during the process of sympathizing with the spectator. Smith defines it as the motive that
leads to action and it has to be taken into account by the impartial spectator when judging the moral approbation of an act. It cannot only evaluate the consequences of our actions but it must also bear in mind the causes that led to them (2004: 135). To conclude, it is the propriety of our actions that is analysed by the impartial spectator and it is through self-command that we limit actions in order not to act impulsively.

Once having explained these three concepts of Smithian thought, we can go back to analysing how Smith and Mandeville are different in order to understand the limits the first puts on the conception of the second. In Smith’s thought, private vices do not always necessarily lead to public benefits. Smith states that when competing against each other, many different just methods can be used “but if [the competitor] should justle, or throw down any of [the other competitors], the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they cannot admit of” (Smith 2009: 83). Smith clearly states a line that separates vice from virtue; the impartial spectator will not accept everything. So, he is aware that individuals, as selfish as they may be, will always be interested in the fortune of others and will derive pleasure from the happiness of others (Smith 2009: 1). For him, selfishness is not the only feeling that motivates action.

All in all, as Roncaglia argues, Smith’s liberal opinions are based in two assumptions: firstly, each individual knows better than any other his own interests and, second, out of all the interests of each individual, the desire for being loved or admired by others exists, thus, the desire for the respect of the welfare of others is present (2006: 173). He then goes on by stating that the first assumption explains why Smith is not in favour of a centralized and planned market economy and the second is an indispensable prerequisite to ensure that the pursuit of self-interest leads to the welfare of society. The second assumption –the principle of sympathy and the system Smith derives from it–, was undermined and forgot by the Utilitarian School that started after Jeremy Bentham.

Montes claims Smith’s position differs to that of the Utilitarian and, later, neoclassical homo oeconomicus since the agent has moral autonomy and “is not determined by a particular felicitatis calculus” (2004: 129). The homo moralis Smith is referring to in the TMS cannot be different from the homo oeconomicus the standard views have found in the WN. As Fleischaker claims, Smith is concerned with having “the same type of animal acting in both the moral and economic realm” (2004: 83). Both Montes (2004) and Fleischaker (2004) have derived from Smith’s sense of propriety that he is more of a proto-Kantian author than a proto-utilitarian: the importance he sets on the causes for acting, as opposed to the consequences, separate Smith from classical Utilitarianism. The main contemporary economist who has introduced the
concept of Smithian sympathy in his analysis is Amartya Sen. Inspired by it, he has assured that welfare functions do not only depend on the individual, they also include those of the others. In other words, “the pursuit of one’s own utility may thus be helped by sympathetic action” (Sen 1995: 89)

All in all, the opposition between private and public interests only appear when private ones are understood as selfishness. Instead, if understood as self-interest with its restraints –self-command– derived from the process of sympathy, no such opposition exists (Roncaglia 2006: 173). Moreover, Smith argues that the pursuit of self-interest bumps into two different limits, one is internal to the individual and the other is external: the first is the sympathy towards the rest of human beings, and has been explained in this section; and the second, the administration of justice which is one of the roles that he gives to the State, will be tackled in the following one. The two previous limitations on self-interest, according to Smith, are of utmost importance for the survival and the future development of societies (Roncaglia 2006: 176). Now that we have commented the vision Smith has on human beings and the existing limitations of self-interest, we shall move our centre of study to those scenarios where he believes there is place for state intervention.
Section 3: The role of the state in society

Since 1776, when the *WN* was published, Smith has been allocated in very different places within the wide spectrum of political thought. His ideas were first considered as progressive due to his thoughts on the independence of Colonies (Roncaglia 2006: 206). Authors like Condorcet, Thomas Paine and Mary Wollstonecraft, known for their radical and progressive ideas, had very good views on “The wealth of nations”. Roncaglia explains that it is after the French Revolution –not supported by the English public opinion – that Smith’s liberalism was reinterpreted (2006: 207). He states that Douglas Stewart started this new interpretation of Smith’s thought so as to make it more acceptable. As Muller claims, Smith “argued so persuasively against direct involvement in the economy, [that] his awareness of the crucial significance of the state is often overlooked” (1993: 141). What this chapter aims to assess is book IV and V of the *WN* to analyse the role Smith believes the state must have.

Before doing so, it is essential to understand what was Smith’s approach to certain parts of the private sector. The moral analysis of each of the three major groups that form in society – workers, merchants and landowners– will be made in the next section. That said, we now aim to debunk some of the myths on Smith with regards to the way in which he viewed the private sector. Rothschild has noted that Smith’s condemnation is not for institutions of national government, it is “even specially, [for] the oppressive government of parishes, guilds and corporations, religious institutions, incorporated towns and privileged companies” (Fleischaker 2004: 126). In that sense, when applying Smith’s ideas to our contemporary world, it is misleading to think that, for Smith, the more privatised sectors in the economy, the better: first, he explicitly establishes three aspects of society where the state has to intervene; and, second, Smith would claim that organised bodies like General Motors or the Catholic church cannot be considered as private entities at all (Fleischaker 2004: 237). He argues that these big companies or organisations act much like governments in so far as they use their power to affect the way in which “individuals would otherwise act in local situations” (Fleischaker 2004: 237). Moreover, Smith is aware that the interests of merchants and churches are opposed to the public interest and that they compete with government to control society (Fleischaker 2004: 237). Therefore, he advocates for the independence of the legislative power with respect to the business class. Smith is very clear when stating that the government has to be the controlling agent. When Smith argues that private people can solve certain problems, he is referring to the free and unrestrained interaction of individuals or “small units, not large corporations” (Fleischaker 2004: 241). In any case, if these small-scale units are not capable of solving the problems, he advocates for the state as being more capable of solving it. States have an “official commitment
to public wealth, and the political sovereign has an interest maintaining this commitment” (Fleishcaker 2004: 241).

Now that Smith’s view towards concentrations of power and his overall approach to the state have been explained, we move the focus of our study to the three specific ways through which he believes the state must be present in society. The role he gives to the state comes out from the negative effects of division of labour. Although its intensification is considered to be positive for Smith, it also has some important drawbacks that the legislator has to obviate (Muller 1993: 142). Firstly, he should ensure national defence, he should defend society against invasion of other societies; secondly, he should ensure the “exact administration of justice” for all citizens; lastly, he should invest in public institutions and works that benefit society overall but that the profit derived from them is such that it “could never repay the expense to any individual or small number of individuals” (Smith 1999: 310).

As economies become stronger and wealthier, the need for national defence increases proportionally (Muller 1993: 142). Richer societies are more of a target for less developed countries. Smith analyses the way by which a wide variety of societies have organised their defence throughout history. He claims that the development of firearms has been a turning point in the way states organise their defence. This invention, he claims, gives advantage to the nation “which can best afford that expense” (Smith 1999: 297). Before firearms were invented, it was the barbarous societies that would be able to attack the opulent societies. Individuals in the former were at the same time warriors and citizens, whereas individuals the latter were less prepared for war by their ordinary employment (Smith 1999: 294). Due to the division of labour, Smith argued, war had become more complex and more expensive. Moreover, citizens did not want to prepare exclusively for war since, during times of peace, they took no benefit out of that knowledge. Thus, the State has to set up a National Army where men could fully dedicate to the art of war (Smith 1999: 294). Even though Smith is aware of the political dangers of a standing army, he still prefers it to a militia (Smith 1999: 294-295). Once he makes clear the type of organization he prefers, he concludes that this service will have to be paid for. Since war is an event that affects all citizens, he believes the best way to finance such event is through the “general contribution of the whole society” (Smith 1999: 45). The type of taxation he proposes is progressive in the sense that “all members, [will be] contributing, as nearly as possible, in proportion to their respective abilities” (Smith 1999: 405).

After providing national defence, Smith believes that a very important role of the government is to protect members of society of “injustices or oppression of other members of society” (Smith 1999: 297). Therefore, he advocates for a State provision of justice and security under laws.
Moreover, he argues for the separation of judicial from executive powers. He believes that when they are united, justice will be politicized in the favour of the sovereign (Smith 1999: 310). Moreover, merchants and manufacturers will not be able to enforce contracts and the payment of debts if a regular and reliable system of justice doesn’t exist (Mulder 1993: 146). Another important function of justice in the state is to ensure private property. As Smith acknowledges, those who have the greatest amount of property are those more vulnerable to having to use courts of justice. He argues that it is in their interest because they can be protected of those who are “driven by want or prompted by property to invade his possessions” (Smith 1999: 315). Therefore, even though the judicial system is something that benefits the whole of society, Smith thinks that its users have to be those who pay for it. On the one hand, the wealthiest will benefit the most from the judicial system and therefore they will have to pay for its use and, on the other, those who have broken the law will also have to pay (Smith 1999: 405). He claims it is not necessary for others to pay for a service they are not using. The given argument then presents a case of exception where these costs have to be paid by the general contribution of the whole society: when criminals have not enough “estate or fund sufficient for paying those fees” (Smith 1999: 405). This final remark shows how Smith always bears in mind those with the less amount of money in society.

The third governmental function according to Smith is the expense of public works and public institutions. In our world, this could be understood as infrastructure. Roads, canals, bridges would bring benefits to society but are too expensive to be undertaken by individuals (Mulder 1993: 147). Smith subdivides his proposals into two different categories of public works and institutions: firstly, those that facilitate commerce; secondly, those that serve for the education, either of the youth or for people of all ages.

With regards to those public works or institutions designed to facilitate commerce, Smith believes the role of the state is to ensure correct competition between its participants. In fact, he claims that there are only four justifiable reasons for creating joint stock companies – which would be the equivalent in his time to today’s big companies that act as monopolies–: “firstly, the banking trade; secondly, the trade of insurance from fire and from sea risk and capture in time of war; thirdly, the trade of making and maintaining a navigable cut or canal; and, fourthly, the similar trade of bringing water for the supply of a great city” (Smith 1999: 345). Smith specifies the different situations where “these firms can carry on successfully without an exclusive privilege” (Smith 1999: 345). There is another situation where Smith argues that giving particular privileges to a private firm can be positive for society. Smith argues that when a “company of merchants undertake, at their own risk and expense, to establish a new trade with some remote and barbarous nation, it may not be unreasonable to grant them […] a monopoly
of the trade for a certain number of years” (Smith 1999: 343). But then the argument goes on by saying that, after some time, the privilege has to disappear and “the forts and garrisons, if it was necessary to establish any, [have] to be taken into the hands of the government, […] and the trade to be open to all members of the state” (Smith 1999: 344). For Smith, arguing against the state in some cases is more a matter of strategy than a matter of principle (Muller 1993: 19). Therefore, he is more than willing to opt for another strategy when he considers it can render the best outcome for society. Smith generally argues against setting prices, wages, and tariffs not because he considers them wrong de facto, he argues against them for he sees that restraining them will benefit consumers (Muller 1993: 187). For Smith, “no society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable” (Smith 1999: 137).

With regards to government intervention in education, it is a key aspect in Smith’s analysis. He argues that it is through education that citizens can overcome the pernicious effects he finds in the division of labour. Although Smith is a great defender of it, he is aware of its negative effects. He claims that because of it an individual “becomes as stupid and ignorant as it is possible for a human creature to become” (Smith 1999: 368). Although it is the next section that analyses the three classes in Smith’s society, we now explain this negative effect of division of labour in individuals so as to show how Smith thought it could be solved. Smith acknowledges that it has negative cultural effects on society; he thought this was the state in which “the labouring poor, the great body of the people, must necessarily fall, unless government takes some pains to prevent it” (Smith 1999: 369). Smith argues for universal public schooling, largely at government expense and also with very low fees (Muller 1993: 150). He thought that the benefits derived from an educated society would benefit the whole of it, not only individuals. They would be less susceptible to superstitions that lead to religious wars, they would be more sceptic of defending faction and sedition, and, finally, they would “behave in a more decent and orderly manner” (Muller 1993: 152). As Skinner has pointed out, Smith is writing to a society in which a six-year old is gaining “three pence or six pence a day, and parents find it to be in their interest to set them soon to work” (Skinner 1999: 48). Therefore, the poor have to be encouraged to study, to avoid, as Skinner says, this “problem of market failure” (idem).

As it has been argued, Smith defends the usefulness of public investment for projects that cannot be undertaken by the private sector although they benefit society as a whole. Thus, it should not surprise to think of a modern-day Smith as someone who would defend scientific research, ecological repair of the environment or a system of public health for those who cannot afford to pay it for themselves (Heilbroner 2014: 69). Thus, Muller has stated that probably “the
most important updating of Smith’s thought is Pigou’s theory of social costs” (Muller 1993: 199). Although these are mere speculations of what is implicit in his thought, trying to apply the essence of his ideas to today’s world helps to put Smith where he belongs: he is not a doctrinaire advocate of laissez-faire or a proto-libertarian.

Thus, as economies develop and division of labour appears, some market failures also do. As Muller states, “the visible hand of the state would counteract the potentially stultifying effects on the invisible hand of the market” (1993: 151). Viner argues that Smith saw many different functions that the government could carry out and that he was prepared to expand them if it proved to be prepared to assume wider responsibilities (Viner 1984: 64). Moreover, he strongly advocates for the independence of the judicial with the executive power, and for the legislative power to be separated from the influences of the business classes. All in all, Smith analyses the society in which he is living in and writes as a reply so as to better it. To conclude, the role of the government is essential in society in order to put some limitations to human behaviour – defence and justice–; also, to facilitate the infrastructures needed to incentive commerce; and lastly, to solve the pernicious effects derived from the division of labour. Now that the role the state assumes in Smith’s society has been explained, the next section will study the moral analysis of the three classes that conform it.
Section 4: The moral analysis of the three major classes in society

Once having explained the role of self-interest for Smith and the situations where he thinks the government must intervene, we move the centre of our study to the moral analysis he makes on society. The aim of this section is to show that even though he was an admirer of his proposed system, he was aware of the downside effects it had in affecting the “moral characters of people who lived therein” (Pack 1991: 138). Smith argues the character of a person is tailored by the type of job and position he holds in society. He claims that the differences between a philosopher and a street porter stem more from the “environment, habit, custom, and education” than from nature (Smith 1999: 120). Therefore, in order to understand the moral decline he views, we must analyse the three major classes in society. Smith elaborates a very strong critique of each of its members: the landlords, the workers and the capitalists. Perelman has stated that the only sectors of society who escape Smith’s criticism are “skilled artisans, small merchants, and manufacturers, as well as intellectuals like himself (1989: 515). To understand why these particular groups escape Smith’s criticism, it is of utmost importance to analyse what he claims are the downside effects of capitalism for each of its three major groups.

The first major class Smith considers are landlords –aristocracy and the clergy–. He defines them as those who receive money from the ownership of land. They rent their property to the capitalists who invest in the land so as to obtain profit. Therefore, “the landlords’ role in the economic process is passive” (Pack 1991: 139). By the nature of their role in the process, they become, according to Smith, “ignorant […] and unable to understand the consequences of any public regulation” (Smith 1999: 139). Therefore, even though they should be in favour of those policies, they commonly oppose that of the kind that contribute to the Wealth of Nations. Moreover, a part from their inability to collaborate to the Wealth of Nations through their active role in the economic process, they contribute to a waste of productive capital (Reisman 1976: 125). The violent tendency of feudal governments “stifled any move towards economic growth and a consumer-oriented society” (Reisman 1976: 125). Where an industrial capitalist could be employing labourers to reproduce its capital, Smith views the landlord as someone who wastes his money in –what he calls– unproductive labourers such as servants, entertainers and retainers (Smith 1999: 430). By doing so they do not invest their money, they spend it. The subtle difference between both concepts is that by spending money the use of capital for one year will be used up by the next, contrarily, if it was invested, it would reproduce so as to maintain labour in the future. As landlords live from their rents derived from agriculture, they gain money every year without any effort. If, as stated earlier, men are formed by their employment, and the majority of them are unproductively employed, “the nation tends to be “extravagant and wasteful” (Reisman 1976: 126). With regards to the clergy, Smith carries out a very similar
critique. In the same way as he does with landlords, he argues they incentivise unproductive labour and that their armies may create a fight whenever “they think it is proper to engage them” (Reisman 1976: 127), and, therefore, contribute to instability. Moreover, he adds a criticism that is particular to the clergy. They are a “source of false doctrines […] and a threat to political stability because of its tendency to faction and fanaticism” (Pack 1991: 129). So, Smith considers the “landlords and the clergy to be what is now called the idle rich” (Pack 1991: 139).

In other words, for Smith, the idle rich were those who received money from possessing land. Pack argues that in contemporary societies, the people Smith refers to as the idle rich would be the equivalent to those who receive money from securities such as land, stocks, bonds and unit trusts (Pack 1991: 140). As we have stated, according to Smith these people will not know how to invest their money correctly and they will end up wasting it. Thus, giving money to the idle rich will not contribute to increase the wealth of nations. Pack argues that this Smithian perspective can be used to argue against policies proposed by the 1980’s supply-side economists. He states their measures gave more money to the idle rich and therefore “encouraged luxury consumption and prodigality” (Pack 1991: 140). He then ends up his argument stating how ironic it is for advocates of these policies to have frequently cited Smith.

The second major class that Smith studies are the workers. During the whole of the *Wealth of Nations* he presents a pro-worker position. He was more concerned with the material and moral welfare of the majority of society –the workers– than with the welfare of the social and political elite (Muller 199: 8). Smith argues that those who feed clothe and lodge society should have a portion of their own work so “as to be themselves tolerably well fed, clothed and lodged (Smith 1999: 376). The main topic Smith treats in his book is how to increase the wealth of nations. This growth of wealth comes as a consequence of the division of labour and will stimulate the demand for workers and, therefore, raise worker’s salaries. Be that as it may, the division of labour will also bring negative consequences to the workers; it can bring “psychological depravation and narrowed horizons” (Reisman 1976: 147). In previous states of the evolution of society, Smith claims the worker has to keep alive his invention so as to manage to carry out a wide variety of things for his subsistence (Smith 1999: 368). He must learn to hunt, go to war, cook and many other things, he must keep his invention alive, whereas in civilized society, Smith argues, the “inferior ranks of the people” suffer from “that drowsy stupidity that seems to benumb their understanding of society” (Smith 1999: 425). Smith even claims that the “torpor of [the worker’s] mind renders him incapable of […] forming any just judgement concerning many even of the ordinary duties of private life” (Smith 1999: 369). So, even though the division of labour brings material gain, it also has negative consequences to the capacity of invention and understanding of the working classes. Robert Lamb and other authors like E. G. West (1969) have contributed to argue that Smith is a predecessor of Marx and his concept of
alienation. Lamb argues that Smith “anticipated all three types of alienation –self-estrangement, isolation, and powerlessness– identified by Marx in his early works (1973: 285). Smith believes that in a civilised society, for the worker to improve his dexterity, he has to give up his “intellectual, social and martial virtues” (Smith 1999: 369) and that “this is the state into which the labouring poor […] must necessarily fall, unless the government takes some pains to prevent it” (Smith 1999: 369). Thus, if workers don’t use their intelligence, they will loose it, and, as we have explained earlier, the only way to solve this is through state intervention. As society advances, the division of labour increases, therefore “to think or to reason comes to be, like every other employment, a particular business, which is carried on by very few people” (Smith 1999: 115). If he was already aware that the working class of a proto-industrialised society would be –to a certain extent– victim of the pernicious effects of the division of labour, it is not difficult to think of a modern-day Smith as someone who would be very aware of the stultifying effects of our highly industrialised societies.

The third major class Smith discusses about are the raising capitalists. Pack has presented Smith’s views on the capitalist class as being doubtful of whether they are guided by the pursuit of self-interest that will lead, as if by an invisible hand, to the wealth of the nation, or whether they are too greedy and can lead the world to “wars and the destruction of entire peoples” (Pack 1991: 147). Smith claims that merchants or capitalists have a monopolizing spirit. Moreover, he is aware of the tendency of the capitalists to try to rule society, and, as we have argued earlier, he advocates for the independence of the legislative power and the influence of capitalists. In chapter seven of book IV of The Wealth of Nations, Smith devotes himself to criticizing the role of capitalists in international affaires. He argues that capitalists apply mean and rapacious policies and that, therefore, their acts are motivated by greed. (Pack 1991: 151). Smith would most probably be against the presence of revolving doors in our modern societies. In the same sense, they affect public policy-making so as to favour personal interests; therefore, they mix the mean and rapacious spirit of the capitalists with the public interest.

All in all, it can be said that Smith critically analyses each of the three major classes in society. Firstly, he considers landlords to waste their money in unproductive things such as luxury; secondly, he considers workers’ intelligence to be highly reduced due to the negative effects derived from the division of labour; lastly, he considers the capitalist class to be greedy and to want to interfere with the legislative power so as to ensure their monopolistic capacity. Once understanding Smith’s analysis of the three classes in society, it is easy to realise what groups escaped his criticism: mostly, sectors who do not suffer the effects of division of labour, and therefore “exercise more the head than the hand” (Reisman 1976: 155). In that group, he includes the kind of people who work in agriculture, since they perform a number of different
tasks; small artisans, who create the whole of their works and are not specified in a particular task; small merchants and manufacturers who have a great amount of free time so as to dedicate to creative hobbies and their interests; and, lastly, intellectuals who devote the great majority of their time to thinking. It is important to not overestimate Smith’s criticism to the different parts in society (Reisman 1976: 156). Although he is very critical, he is not trying to say that his proposed system should not be implemented, contrarily, he is aware of the positive and negative effects of division of labour and proposes several ways to solve the negative consequences derived from the division of labour. Also, when acknowledging the negative moral status of the landlords and the capitalists, he is stating that the former can be very damaging to economies due to their propensity to create wars or situations which are not favourable to commerce; and the latter are too greedy and want to interfere with legislators so as to be granted with privileges. By acknowledging the downside effects of the system, Smith is not saying –like Marx did– “that classes or their functions had to be abolished” (Lamb 1973: 110). Even though their analysis is very similar, by stating those effects, Smith is justifying –as we saw in the previous section– state intervention. This intervention can be, to promote culture to the least educated classes, to ensure the correct type of competition for the capitalists, or to ensure property for the landlords.
Conclusion

During this paper I have studied the root of Smith’s ideas so as to understand what he actually said. Be that as it may, to understand what he actually said has to bear in mind considerations like when he said it. I have carried out this study to show that the existing image of him being an “advocate of unhampered self-interest, an opponent of government and an icon of individualism” (Muller 1993: 7) is misleading. After analysing in detail *The Theory of Moral Sentiments* and *The Wealth of Nations* my interest is to collaborate to Muller’s intention of rescuing Smith from those “who claim him as their intellectual progenitor” (Muller 1993: 7). I have focused on: firstly, Smith’s context, so as to view how the market structure and mentalities of the people that conform it have changed; secondly, the role of self-interest in individual decision making to prove that Smith did not argue in favour of egoism; thirdly, the role Smith gives to the states and their ability to intervene in order to prove he was not against state intervention when necessary; lastly, the moral analysis Smith makes of each of the major conforming classes in capitalist society, to show how critical he was with each of them.

In the first section, by studying how the economic relations were carried out in times of Smith I have found out that some important aspects were very different to our modern markets. During the third quarter of the eighteenth century, no individual in the side of labour or capital could individually alter the market forces. On the one hand, national enterprises were small and specialised. This was due to cultural and technological constraints that made the market one of atomistic competition. On the other hand, labour unions were considered to be illegal until 1824. In fact, although being banned, a strong prosecution to existing groups of workers was not carried out until 1800, when the rise of syndicalism started to be notable. The section goes on to analyse the mercantilist policies that were being applied. Although there existed an apparent freedom in internal trade, external trade was very much limited by the mercantilists’ government. The mercantilists understood foreign trade as a zero-sum game and, therefore, decided to tax imports highly. Moreover, the importation of some specific goods was not allowed. Lastly, the section analyses how Smith was writing in a time were industrialisation was giving its fruits: there was a material gain in the lower classes of society and goods as tea, which had been considered luxurious, were now being consumed by many workers. By carrying out this analysis, I want to emphasize that our contemporary world is very different from that of Smith’s. That said, I want to show that the same measures Smith advocated for in his day, can lead to very different outcomes in our modern societies. Therefore, it is of utmost importance to understand what Smith aimed with his ideas more than his ideas per-se. By understanding the roots of his thought, we will be able to find new ideas that will satisfy Smith’s ends in our modern societies.
The second section in my study has centred in the role that self-interest has in decision-making. To start, I have stated that the so-called Adam Smith problem is “old-fashioned”, as Recktenwald has said it. To assume that Smith makes a distinction between his moral philosophy and his economics is factually wrong. As I have stated, he keeps revising the TMS after the WN was published and he includes no significant changes. Then I have studied how Smith ethically analysed the role of self-love in decision-making. Smith does clearly not share the assertion that individuals do not take into account others when making decisions. Contrarily, he presents the concepts of the impartial spectator, propriety and self-command to expose his view. Smith argues that we have an impartial spectator that allows us –in a certain extent– to see ourselves as others would. Thus, in the search for recognition and acceptance by others and ourselves, our actions take into account the views of this spectator. Then he presents self-command, which is what makes us capable of controlling our instincts after bearing in mind the views of the impartial spectator. Lastly, the concept of propriety is presented to show how the ‘spectator’ cannot only take into account the consequences of our action, but also, it must consider the causes that lead to that specific action. I then go on to argue that Smith’s agent is very different to the homo oeconomicus presented by the Utilitarian John Stuart Mill. Smith’s agent does not rationally maximize his welfare; contrarily he bears in mind his interest and also the views of the impartial spectator to try to decide. Moreover, Smith gave importance to the causes that led to action as opposed to the Utilitarians, who focus on the consequences of action. In that sense, they could not be the followers of Smith’s thought. Thus, someone who would be more consistent with Smith’s definition of the decision-making agent is Amartya Sen, who makes use of Smith’s definition of sympathy so as to include the welfare of others in the agent’s utility function.

The third section has analysed the role of state in society. The evolution of the understanding of Smith’s ideas has changed a lot since he wrote them. Following Roncaglia’s argument, I claim that he was considered radical and egalitarian until the French revolution. After, he was re-interpreted –mainly– by Douglas Stewart to separate his ideas from being related to the French revolution that was not well viewed by the general public in England. I then expose the three ways in which Smith believes government has to intervene in society: defence, justice and those projects which are good for the public benefit but that will not be undertaken by private investment. With regards to defence, Smith argues that as states become richer, they become more susceptible of being attacked by barbarous nations. He claims this occurs because the latter are, normally, more prepared for war. Contrarily, individuals in the former –due to the division of labour– have lost their martial spirit. Be that as it may, for Smith, the solution again is derived from the division of labour and the industrial progress. Due to the development of
firearms, going to war becomes more expensive, in that sense, richer countries –for the first time– will be more prepared for war than barbarous nations. Thus, Smith proposes to create a standing army of people who dedicate exclusively to warfare. The costs of this army, he claims, will be bore by a proportional system of taxation. The second function that he thinks that ought to be carried out by the state is the defence of citizens from other citizens through the courts, in other words, he proposes a system of justice. He advocates for the separation of judicial and executive powers and he is aware of the danger of not having independence between both systems. His proposed judicial system is financed by contributions of both of the litigants – unless they cannot pay for themselves–. The argument behind is that, on the one hand, it is the richer part of society who will usually be more attacked or robbed by those who envy them and therefore they are the most interested in sustaining the courts. On the other hand, those who have robbed –and cannot bear the costs by themselves– have acted morally wrong and, thus, need to pay for the costs too. The last aspect Smith gives to government is that of investing in projects that are good for the whole of society but that will not be undertaken by private parties. Inside of this general frame he includes investment in infrastructure and in education –either for the youth or to people of all ages–. In this sense, a modern follower of Smith would be Pigou, who argues that states have to intervene to internalize the costs of externalities.

The last section studies Smith’s moral analysis of the three major classes in society: workers, landlords and capitalists. We see how Smith is essentially pro-worker although he acknowledges that they will become incapable of reasoning as a consequence of the division of labour. Thus, he advocates for public schooling. Smith’s views towards landlords are that they spend their money in unproductive ways. Moreover, he claims they have a tendency to lead the country to wars that do not benefit the commercial society. Lastly, Smith’s analysis of the new capitalist class is that they are lead by greed and are usually willing to control the government. Smith argues against the interference of the business class with the executive system. Although they do not propose the same solution, Marx further developed Smith’s critique of the negative effects of division of labour through his concept of alienation.

All in all, as times have changed since Smith’s days to our modern world, to understand his ideas, we cannot centre in specific proposals he made such as restraining trade. Contrarily, to carry out an in-depth study of his thought and his intentions will help us imagine what a modern-day Smith would think of a wide variety of topics. After carrying out our examination of his ideas, we can conclude that he did not think economic agents were similar to the Utilitarian *homo oeconomicus*, on the contrary, he was advocating for a *homo moralis* who takes into account others in his way of acting. Moreover, he did not see state intervention as something that had to be reduced to its minimum expression. In fact, he thought state
intervention was not only positive for society, but also necessary for different reasons: firstly, to provide defence towards other nations; secondly, to ensure justice inside the nation; lastly, to encourage commerce and to hinder the intellectual damages of the division of labour on workers through a public system of schooling. Therefore, the idea that Smith supports the less possible amount of intervention is misleading. Lastly, Smith is not a dogmatic supporter of the positive effects of capitalism, after acknowledging them, he charges towards the three classes in capitalist society and argues that it is their work that will define their personality. Therefore, he analyses each of them and concludes they can all be criticised. In other words, Smith cannot be an advocate of laissez-faire or a predecessor of libertarianism because only a misguided reading of his texts will lead to that conclusion. Contrarily, thinkers like Sen, Pigou or Marx have been much more consistent in following Smith’s understanding of society.
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