

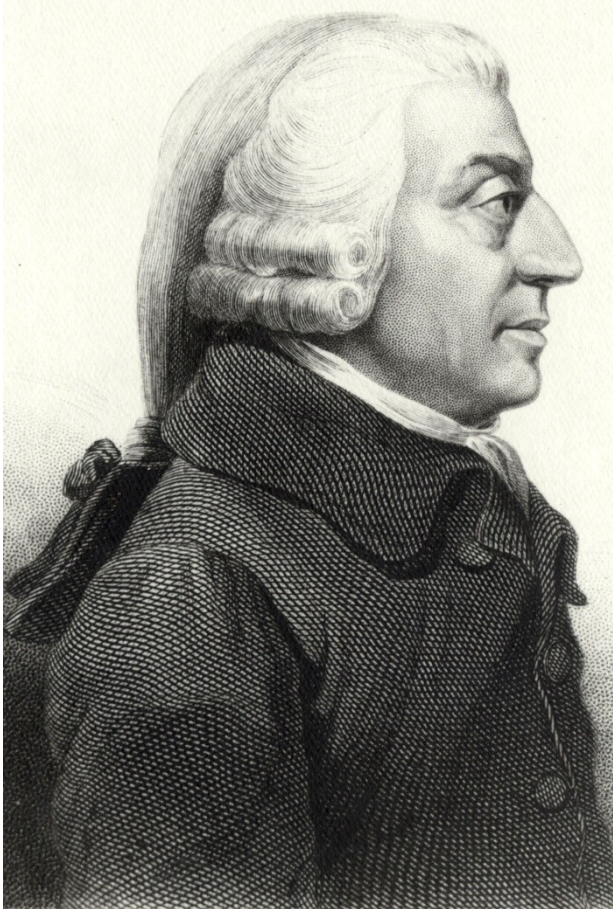
# History of Economic Thought: Adam Smith

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# Adam Smith (Kirkcaldy, 1723-1790)



**1749-1746**: U of Oxford, Balliol College

**1751**: U of Glasgow, Professor Logic and Moral Philosophy

**1764**: Moves to France to act as a tutor of a French Duke. Meets Quesnay, Voltaire, and Maribau.

**1773**: Member of Royal Society of London.

**1797-1789**: Lord Rector, U of Glasgow

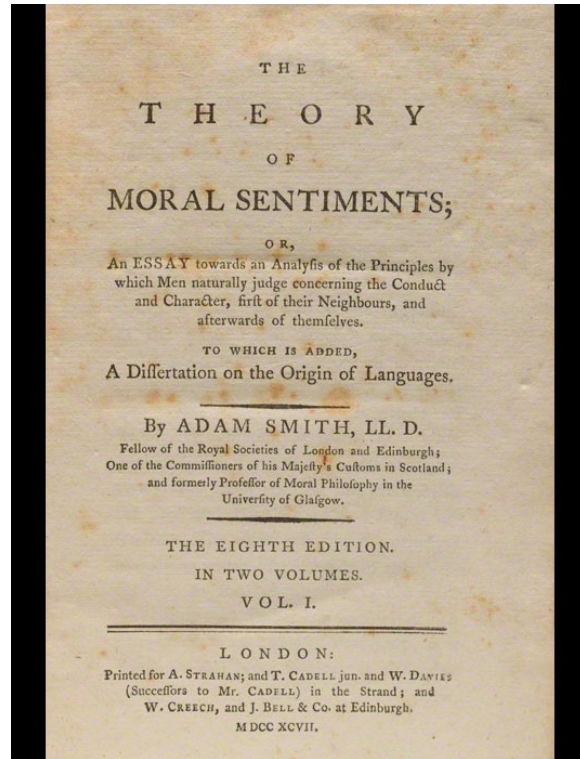
# Adam Smith (Kirkcaldy, 1723-1790)

**Mark Blaug** (1927-2011): “Once upon a time, there was a man who read *the Wealth of Nations*; not a summary, nor a volume of selected passages, but *the Wealth of Nations* itself ... Now of course I may have exaggerated somewhat. There probably never was any such man.”  
(*Economic Theory in Retrospect*, 1962).

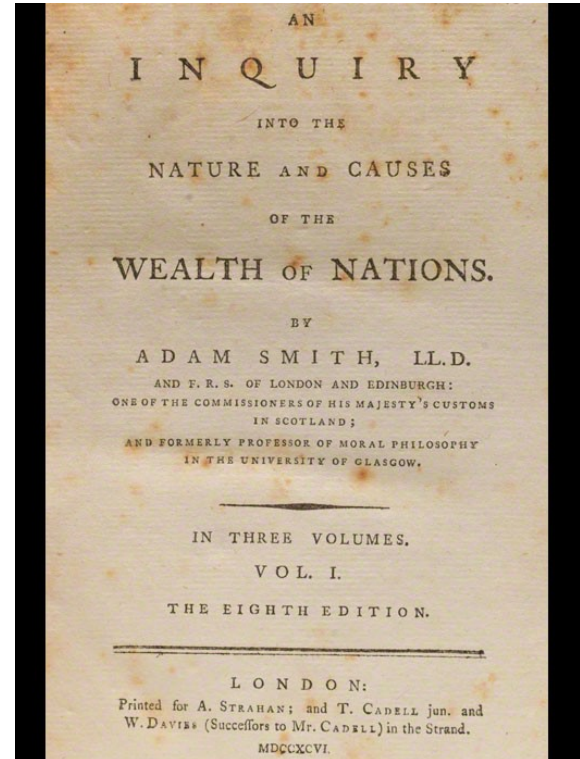
AS, one of the most cited but least read figures in the history of economics

- How about Marx, Veblen, Keynes, and others?
- How about reading them in their native languages?

# Adam Smith (Kirkcaldy, 1723-1790)



*The Theory of Moral Sentiments* (1759)



*The Wealth of Nations* (1776)

- Other books of AS
- *Lectures on Rhetoric and Belles Letters* (1748, 1762?)
  - *Lectures on Justice, Police, Revenue, and Arms* (1763?)

# Adam Smith (Kirkcaldy, 1723-1790)

## (1): **Interpretations of AS**

- Milton Friedman's AS
- F. von Hayek's AS
- AS according to neoliberal economists

## (2): **Myths about AS**

- "AS as the founding father of modern economics"



Increasing diversity and pluralism among theories in the history of economics

# Adam Smith (Kirkcaldy, 1723-1790)

AS as the “founding father of modern economics”:

- **The founding fathers of the US:** John Adams, Benjamin Franklin, Alexandre Hamilton, John Jay, Thomas Jefferson, James Maddison, George Washington
- **Creationism in the history of economics**
  - The Adam of economics
  - Then, who is the Eve of economics (or “Madam Smith”)?
  - An illusion: there was no economic theory before AS

# Is Adam Smith Liberal?

by

ELIAS L. KHALIL \*

Smith's theory of authority is nonliberal both in the classical liberal sense of Locke and Buchanan and in the social liberal sense of Bentham and Marx. Smith distinguishes civil contract from political contract: While the state protects rights *à la* civil contract, its *differentia specifica* is the political contract, which involves authority and allegiance. Allegiance is neither an involuntary act nor the product of choice *à la* civil contract. Allegiance characterizes the enlistment of low-rank agents in the service of high-rank agents whose station is desired. For Smith, admiration of the powerful is the origin of political order – which is a nonliberal view. (JEL: D 70, B 4)

## 1 Introduction

What is the nature of authority as typified in the employer–employee, master–serf, or state–citizen relationship? Does authority, defined as submission, differ from power, defined as hegemony? A power relation typifies the monopoly–consumer interaction, the hegemonic state in relation to the bullied ones, or any agent who enjoys an advantage over others in the market system or in the system of international relations. Is authority in the sense of submission indispensable to political order; or can political order be maintained by an effective referee that is accorded judiciary and police powers as proposed by liberal political philosophers and public-choice theorists?

These questions are at the core of the reconstruction of Adam Smith's view of the *nature* of the state as proposed in this paper. The paper ignores Smith's view of the *function* of the state – such as whether Smith advocated laissez-faire policies. In this manner, the paper tackles a different question than the one discussed in the secondary literature, which largely has focused on the *function* of the state (VINER [1928]; ROSENBERG [1979]; TEICHGRAEBER [1986]; WEST [1990]; PACK [1991]; WERHANE [1991]; ROTHCHILD [1992], [1994], [2001]; REISMAN [1998]). In the same vein, the paper does not focus on Smith's study of public finance

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\* Earlier versions benefited from the comments of James Buchanan, Richard Posner, Walker Todd, Hans Jensen, and anonymous referees, and especially from the detailed and thorough comments (30 pages in total) of one anonymous referee. The author appreciates the technical help of Carole Brown. The usual caveat applies.



Volume 3, Issue 2

Fall 1971

## History of Political Economy

Articles by: Kenneth E. Boulding  
Samuel Hollander  
George J. Stigler  
William David Montgomery  
Arun Dose  
Murray Wolfson  
C. E. Ferguson and  
Donald L. Hooks  
R. W. Pfouts  
James M. Buchanan  
Leonard Kahn and  
F. Stuart Weaver  
Neil H. Jacoby  
Arnold Heertje  
Vincent J. Thurman

Volume 3, No. 2

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## After Samuelson, Who Needs Adam Smith?

*Kenneth E. Boulding*

I must apologize to my friend, Paul Samuelson, for using his name as a symbol. To have one's name become a symbol, however, is even greater fame than the Nobel Prize, so perhaps he will forgive me. What the symbol stands for in this case is modern economics, of which Samuelson's textbook,<sup>1</sup> and even more perhaps his *Foundations of Economic Analysis*,<sup>2</sup> are widely recognized as outstanding examples. I use Adam Smith, also, partly as a symbol as representing the



# Adam Smith (Kirkcaldy, 1723-1790)

“The Wonderful World of Adam Smith” (*a la* Heilbroner)

- The WN as an expression of an utopia (a place that does not exist)
- Where transaction costs = 0
- The Tower of Babel



Pieter Bruegel, 1563



Lucas van Valckenborch, 1594



Gustave Doré, 1865



European Parliament, Strasbourg

# A Metaphor – The Tower of Babel

GENESIS 11:1-9

And the whole earth was of one language, and of one speech. And it came to pass, as they journeyed from the east, that they found a plain in the land of Shinar; and they dwelt there. And they said one to another, Go to, let us make brick, and burn them throughly. And they had brick for stone, and slime had they for mortar. And they said, Go to, let us build us a city and a tower, whose top may reach unto heaven; and let us make us a name, lest we be scattered abroad upon the face of the whole earth. And the LORD came down to see the city and the tower, which the children of men builded. And the LORD said, Behold, the people is one, and they have all one language; and this they begin to do: and now nothing will be restrained from them, which they have imagined to do. Go to, let us go down, and there confound their language, that they may not understand one another's speech. So the LORD scattered them abroad from thence upon the face of all the earth: and they left off to build the city. Therefore is the name of it called Babel; because the LORD did there confound the language of all the earth: and from thence did the LORD scatter them abroad upon the face of all the earth.

# A Metaphor – The Tower of Babel

“Hz. İbrâhim ile Nemrud arasındaki mücadele ve Nemrud’un İbrâhim’i ateşe atması konusunda yahudi geleneğinde Bâbil Kulesi öyküsü ön plana çıkarılmıştır. Geleneksel olarak Bâbil Kulesi’nin Nemrud’un krallığı döneminde inşa edildiğine inanılır (Abodah Zarah, 53b; The Old Testament, I, 297). Milâttan sonra I. yüzyıla ait apokrif metin Pseudo-Philo’ya göre Nemrud devrinde göklere kadar uzanan kulenin inşası sırasında insanlar hazırladıkları kerpiçlere isimlerini kazırlar ve onları pişirerek inşaatta kullanırlar. Ancak İbrâhim ve yanındaki on bir kişi buna karşı çıkar, bunun üzerine tutuklanıp işkence görürler. Sonunda İbrâhim ateşe atılır, fakat yanmaktan mûcizevî şekilde kurtulur (a.g.e., II, 310-312; ayrıca bk. Pesahim, 118a; Teugels, s. 175; Evans, s. 152-153).”

Kaynak: Türkiye Diyanet Vakfı, İslam Ansiklopedisi

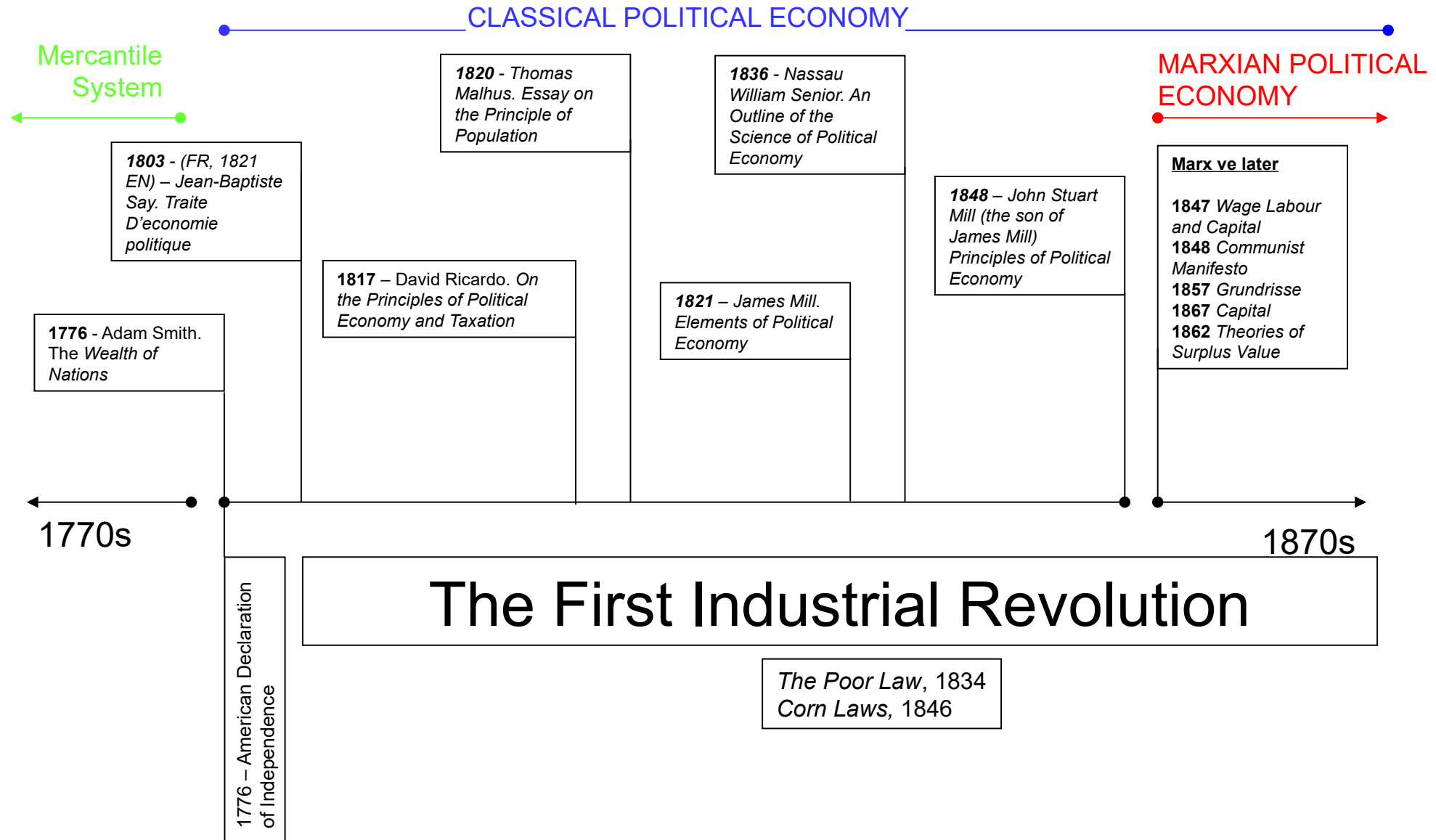
<http://www.islamansiklopedisi.info/dia/ayrmetin.php?idno=320555&idno2=c320406>  
[Erişim Tarihi: Kasım 2017]

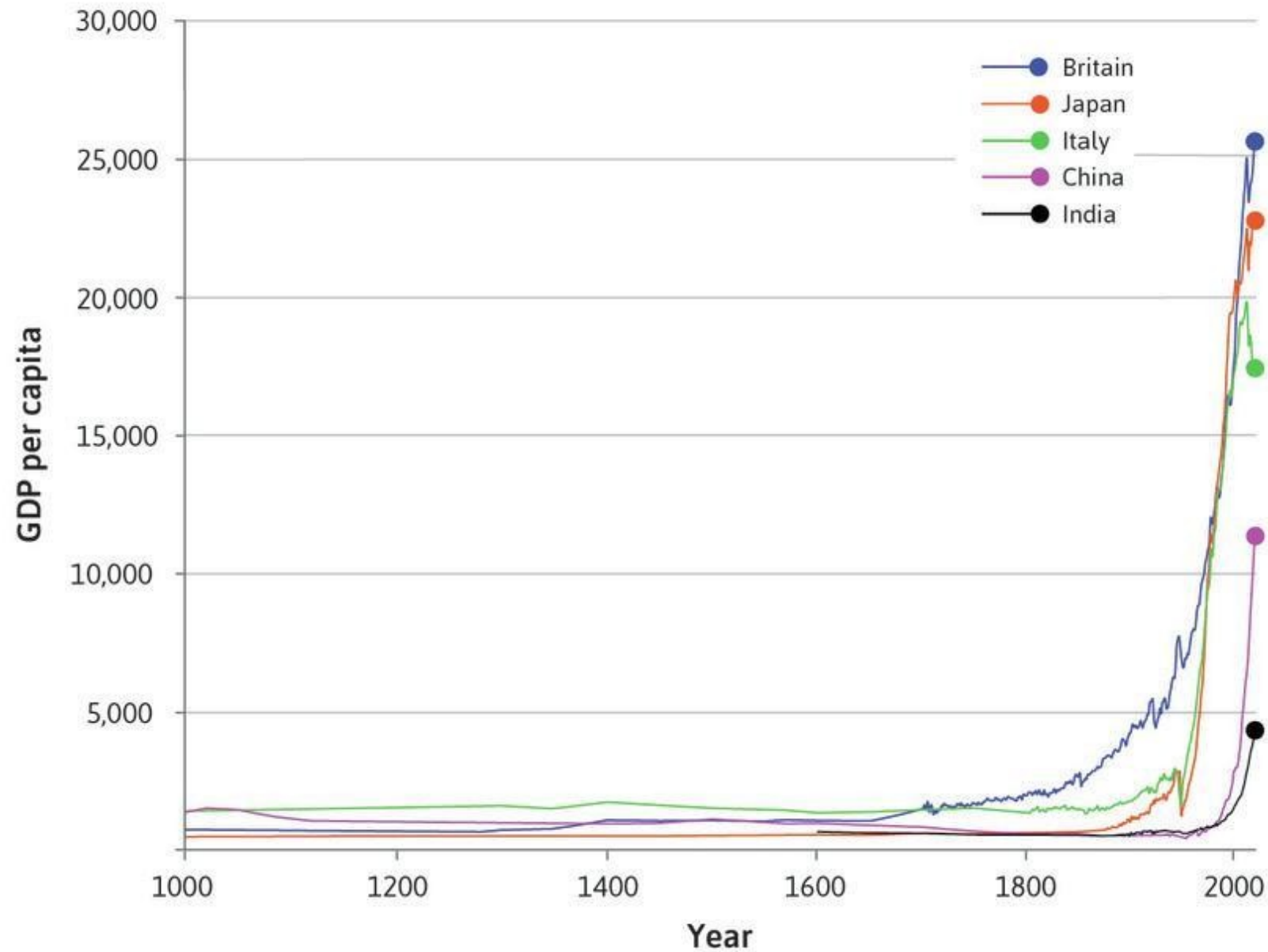
# Adam Smith (Kirkcaldy, 1723-1790)

The world of AS is wonderful but:

- AS was not an apologist of the market system (i.e. capitalism)
  - The wealth of a nation, not the wealth of a social class.
  - Virtue ethics
- Criticising neoliberalism ≠ criticising AS
  - Criticising (the actual regimes of) communism ≠ criticising Marx

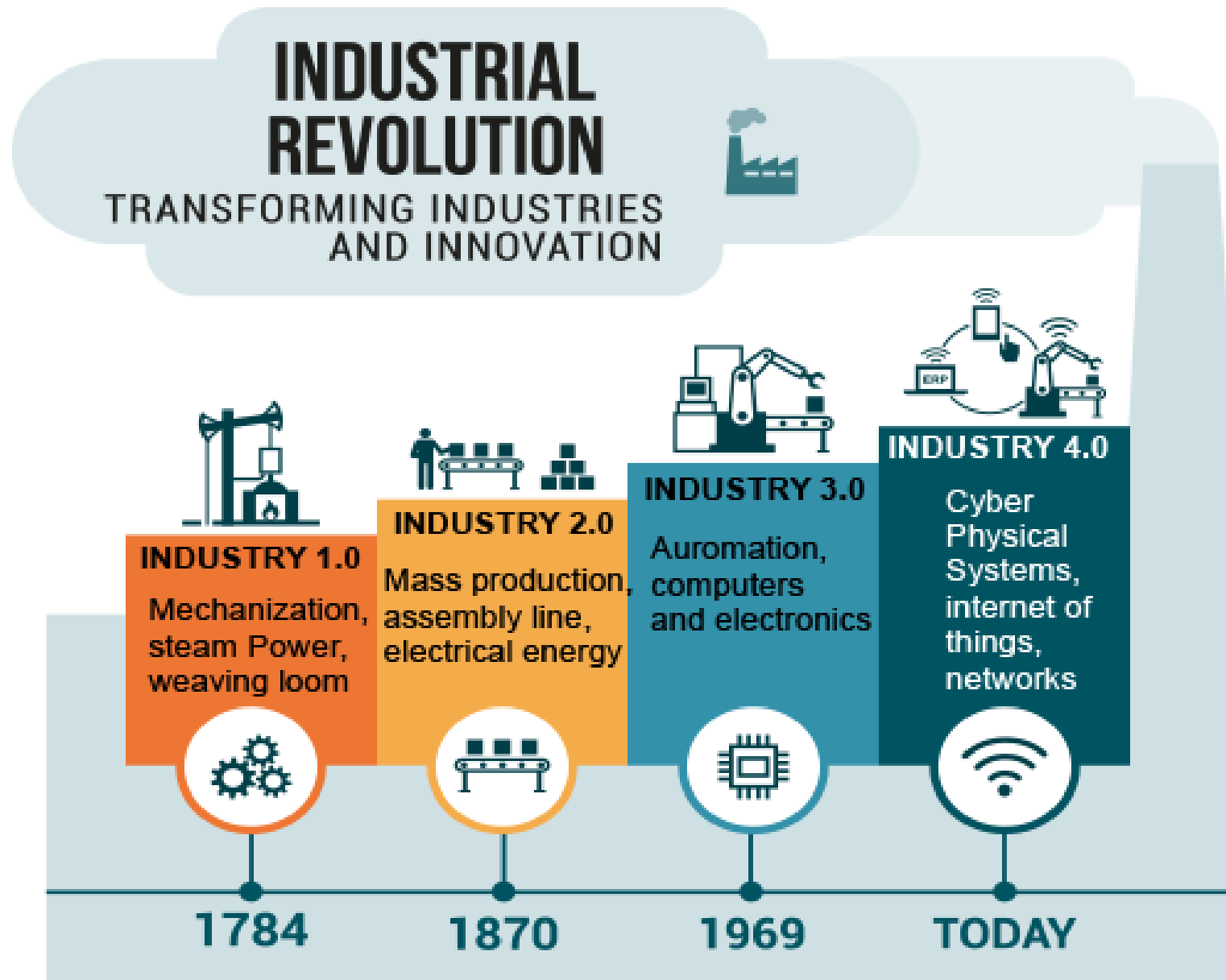
# CLASSICAL POLITICAL ECONOMY (1776 – 1870'ler)





Source: The Economy, <https://www.core-econ.org>, Figure 1-1 [Accessed: March 2019]

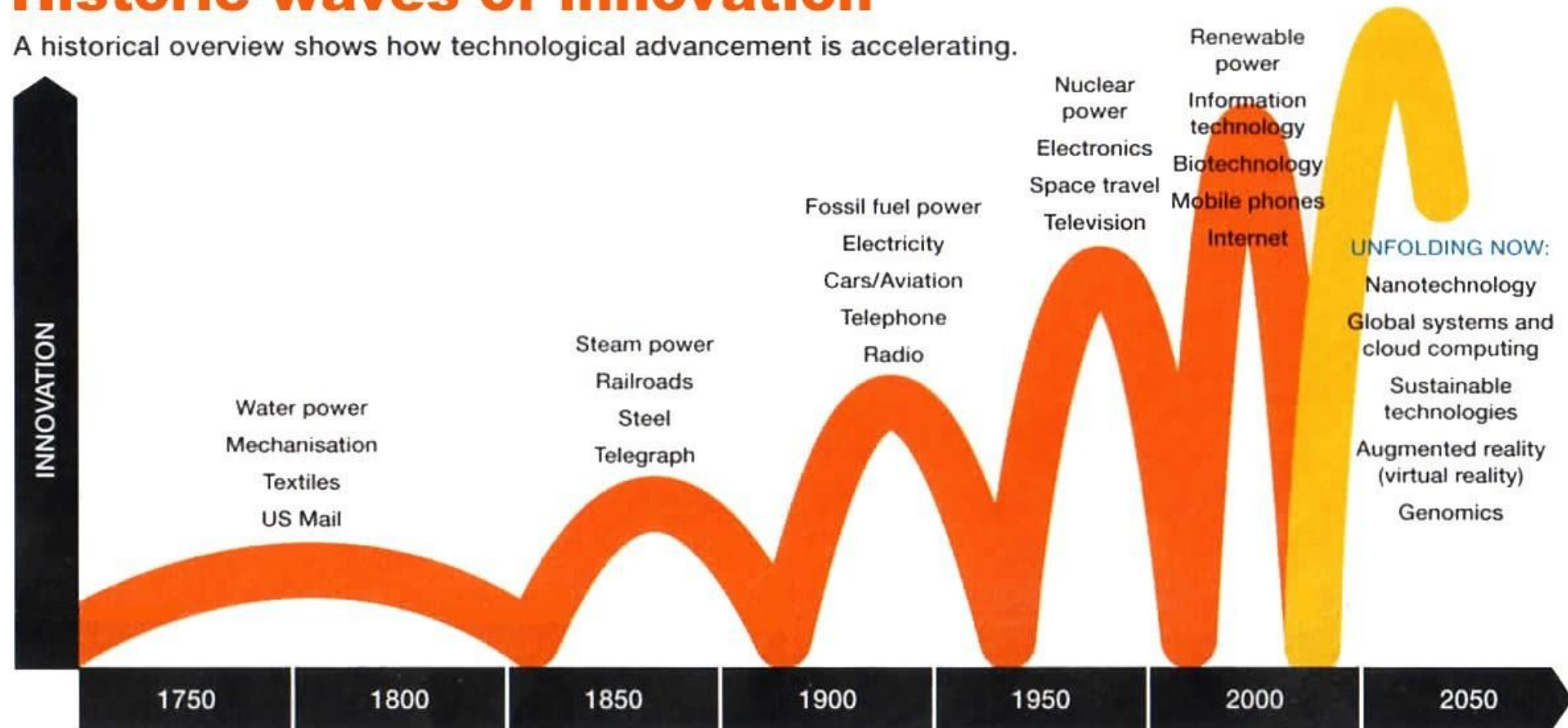




Source: <https://nordigi.no/index.php/en/blog/24-nordigi-in-industry-4-0> [Accessed May 2019]

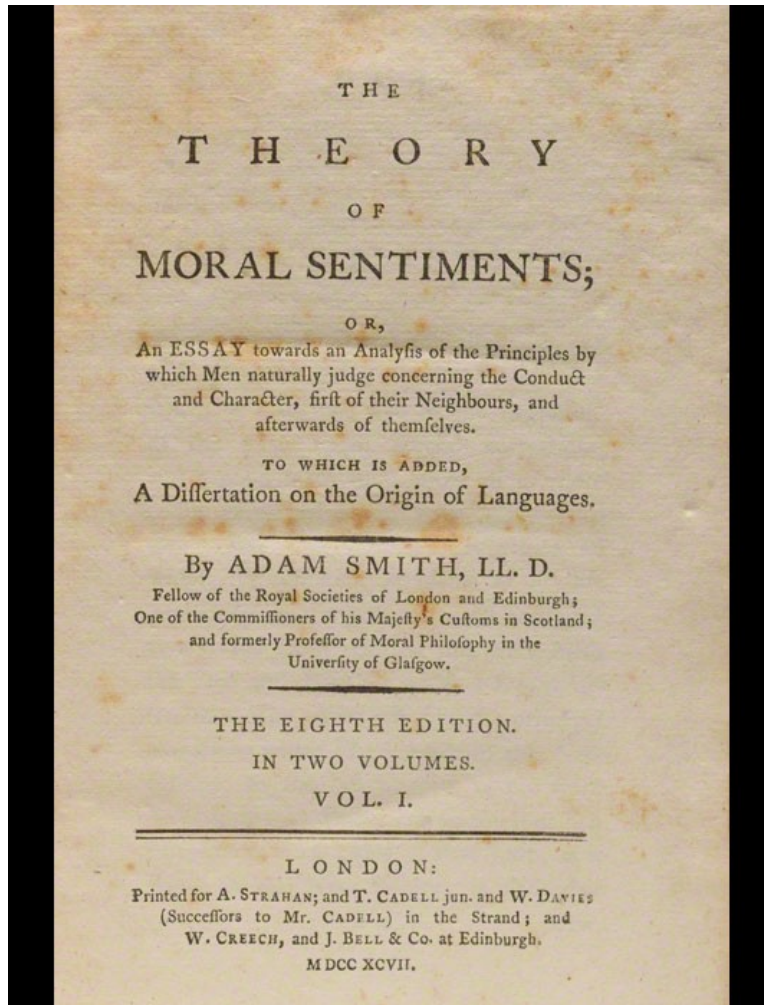
# Historic waves of innovation

A historical overview shows how technological advancement is accelerating.



ADAPTED FROM WAVES OF INNOVATION MODEL, *THE NATURAL ADVANTAGE OF NATIONS*, K. HARGROVES AND M. SMITH. (2005)

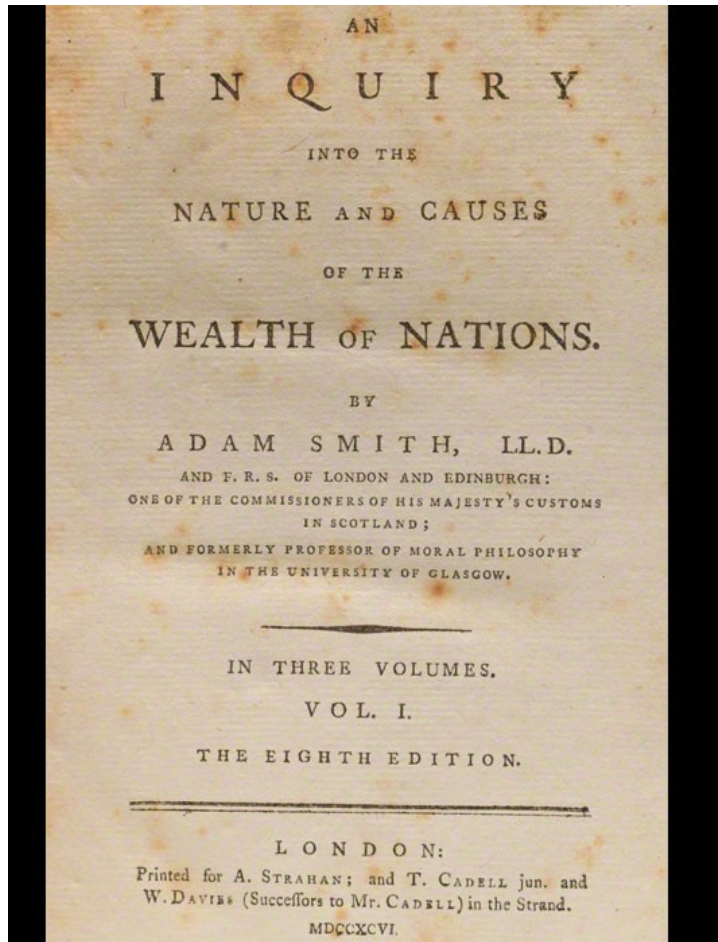
# Adam Smith (Kirkcaldy, 1723-1790)



## *The Theory of Moral Sentiments* (1759)

- TMS as a work on virtue ethics
  - *Virtues of the bourgeoisie*: hope, faith, prudence, justice, love (see: Deirdre N. McCloskey)
  - *Virtues of the working class*: solidarity, justice, truth
  - *Virtues of artists*: creativity, freedom, perfection
- Sympathy: share the feelings of others
- Empathy: understand the feelings of others but not necessarily share them («impartial spectator»)
- Self interest and self love

# Adam Smith (Kirkcaldy, 1723-1790)



## *Wealth of Nations* (1776)

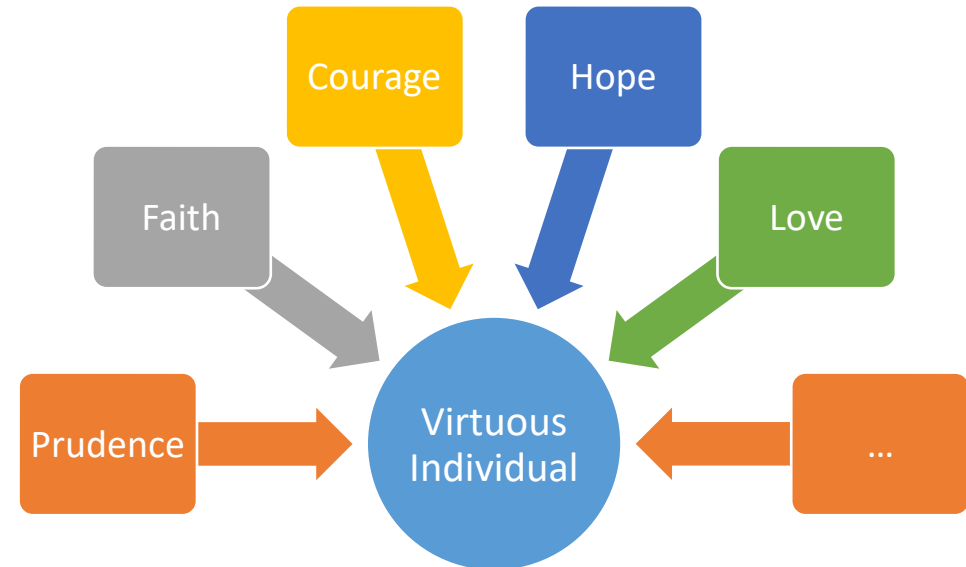
- AS's *magnum opus*
- A classic book of the Scottish Enlightenment and classical political economy
- 6 editions sold out in 6 months
- Last edition in 1789, 5000 copies sold

**Das Adam Smith Problem:** Do WN and TMS contradict in terms of methodologies and conclusions?

# Adam Smith (Kirkcaldy, 1723-1790)

***Self interest and social harmony***

*(The Theory of Moral Sentiments, 1759)*

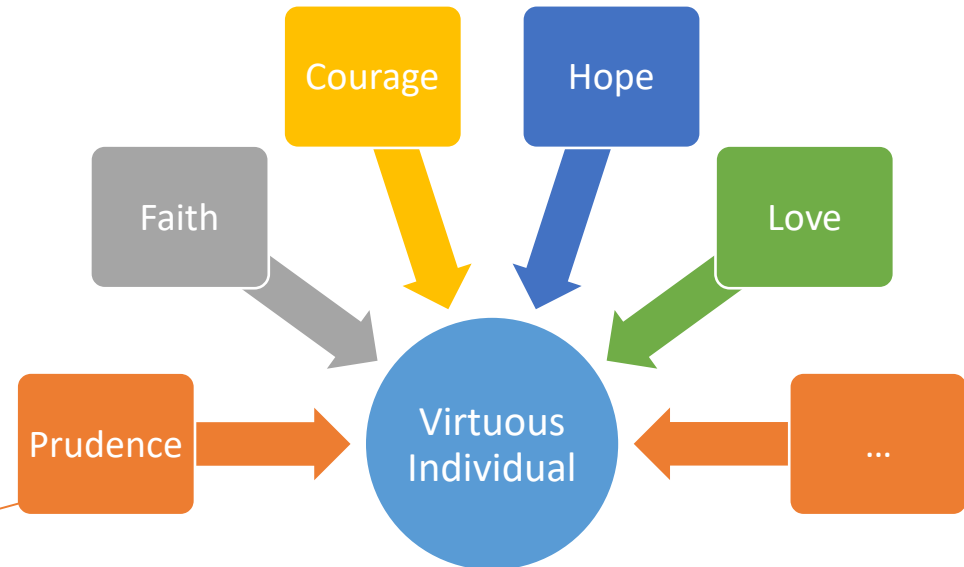


See also: Deirdre McCloskey. 2006. *The Bourgeois Virtues* (Chicago U Press)

# Adam Smith (Kirkcaldy, 1723-1790)

## ***Self interest and social harmony***

*(The Theory of Moral Sentiments, 1759)*



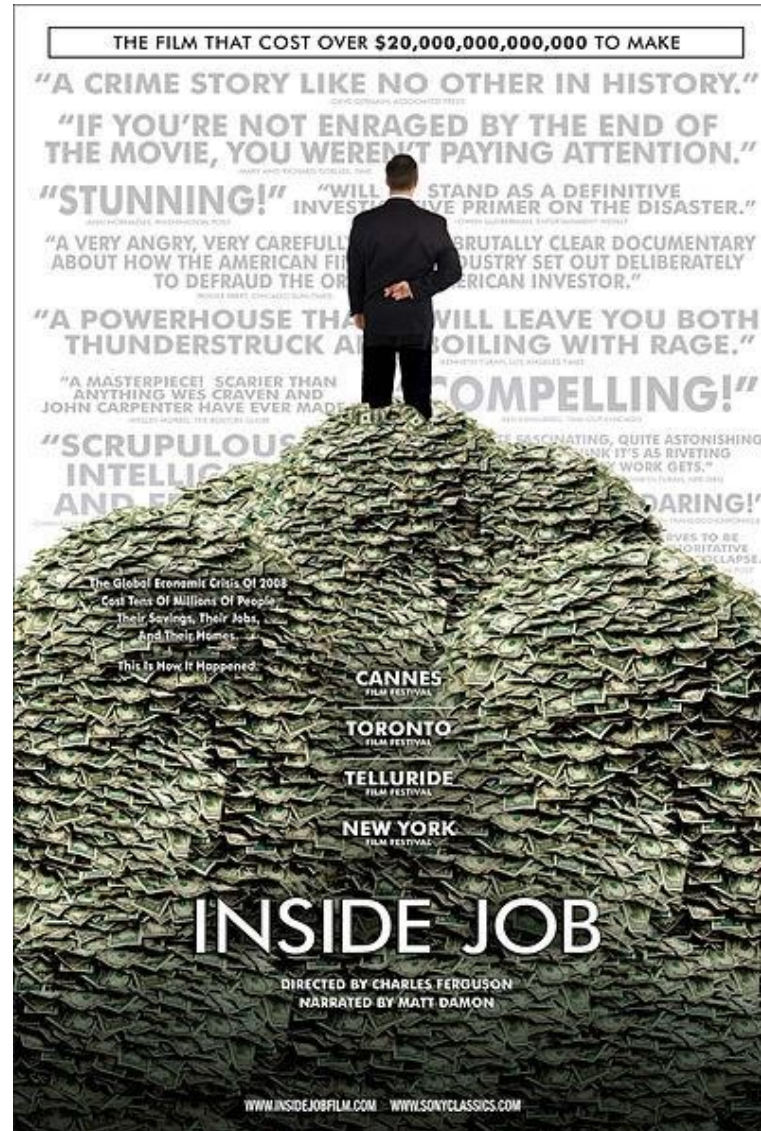
Self interested individual →  
self flourishing as a virtue

See also: Deirdre McCloskey. 2006. *The Bourgeois Virtues* (Chicago U Press)

Capitalism is an ethical issue!

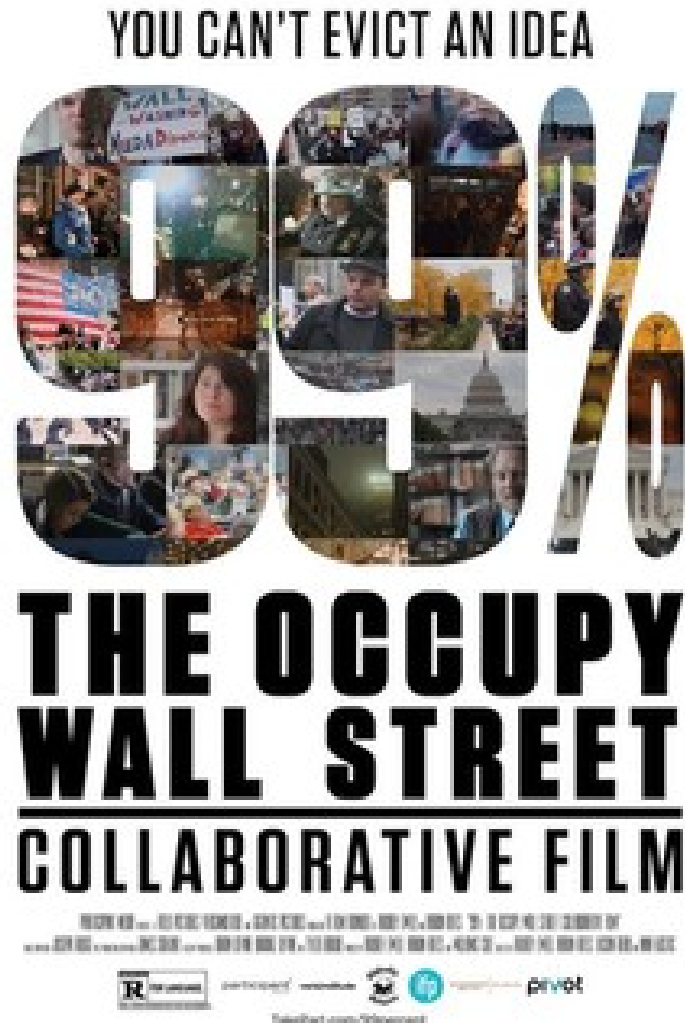


# Inside Job, 2010 (Dir.: C. Ferguson)



Anti-capitalism is also an ethical  
issue!

99%: The Occupy Wall Street, 2013 (Dir.: Ewell, Aites, Read, Krstic)



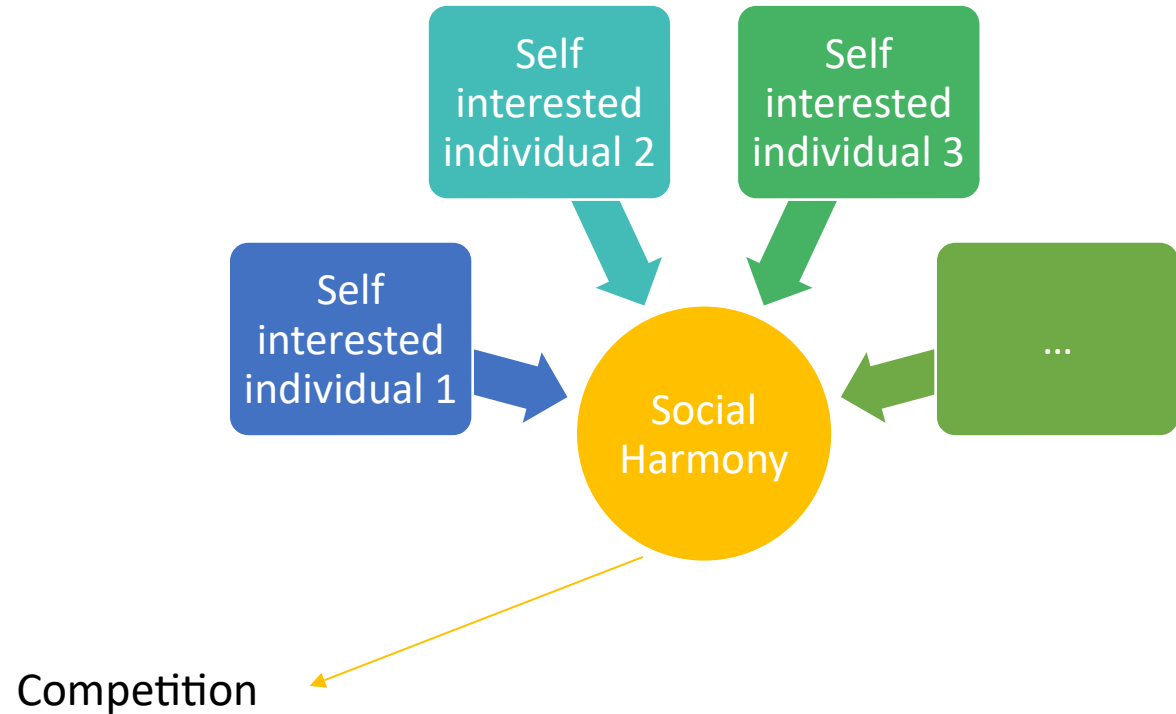
Question this:

If Adam Smith is a moral philosopher, why do economics departments not offer any courses on ethics?

# Adam Smith (Kirkcaldy, 1723-1790)


***Self interest and social harmony***

*(The Wealth of Nations, 1776)*



# Adam Smith (Kirkcaldy, 1723-1790)

## *Invisible hand\* (and spontaneous order)*

- One of the most well known metaphors in economics
  - Markets are able to self correct
  - Unintended consequences, unpredictability and irreversibility
  - Self interest → public benefit
- 
- Private vices → public virtues/benefits

\* AS used “invisible hand” three times, only!

# Adam Smith (Kirkcaldy, 1723-1790)

Bernard  
Mandeville, *The  
Fable of the Bees*  
(1714)

## *Invisible hand\* (and spontaneous order)*

- One of the most well known metaphors in economics
- Markets are able to self correct
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- Self interest → public benefit



Private vices → public  
virtues/benefits

\* AS used “invisible hand” three times, only!



# Adam Smith (Kirkcaldy, 1723-1790)

## *Division of labour and specialization*

Why does division of labour exist?

- “The propensity to truck, barter, and exchange one thing for another is common to all men, and to be found in no other race of animals” (*WN*: I: 2: 13)
- “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 self-interest” (*WN*: I: 2: 14).

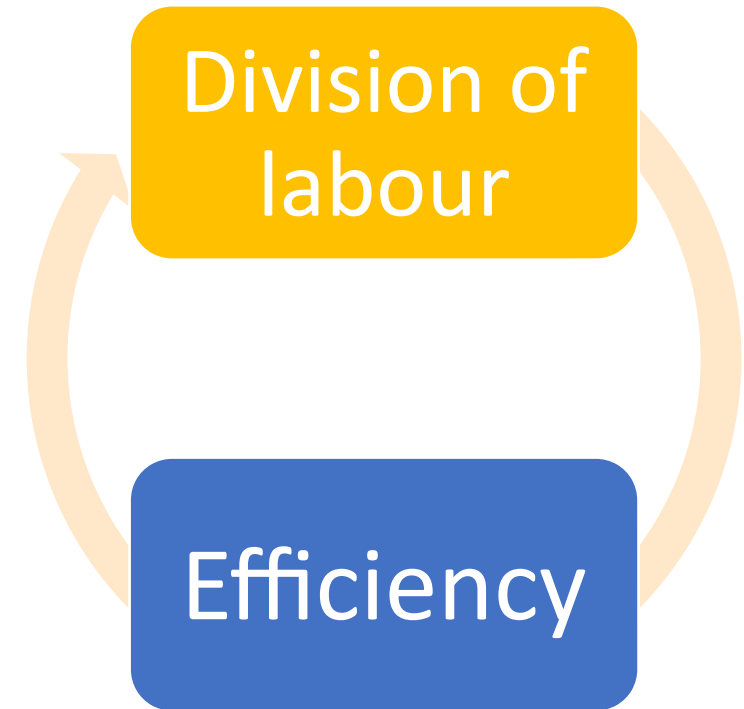
# Adam Smith (Kirkcaldy, 1723-1790)

## *Division of labour and specialization*

Why does division of labour exist?

“Division of labour is limited by the extent of the market” (WN):

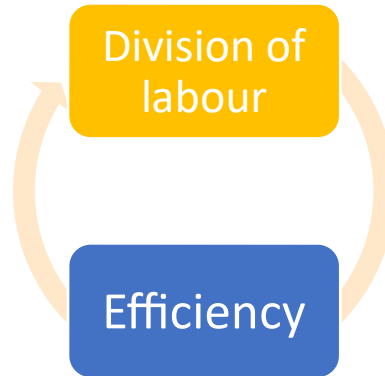
- The larger the markets,
- the larger the efficiency
- the higher the rates of growth



# Adam Smith (Kirkcaldy, 1723-1790)

## *Division of labour and specialization*

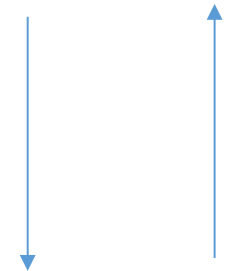
Why does division of labour exist?



- Capabilities and skills
- Time saving methods and techniques
- Mechanization

**Outcome:** *Economic growth*

**Outcome:** *Capital accumulation*

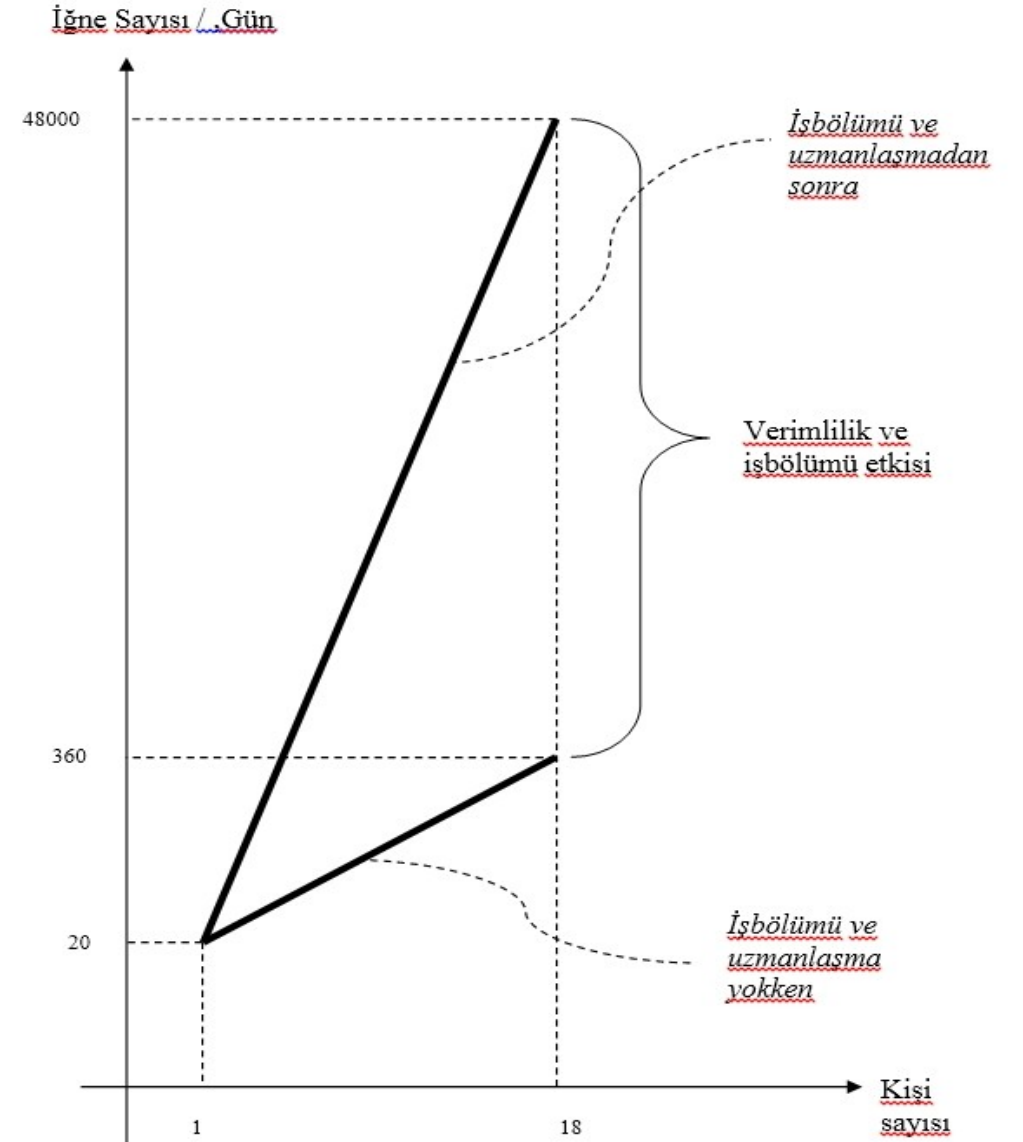


# Adam Smith (Kirkcaldy, 1723-1790)

## *Division of labour and specialization*

Example: Pin factory

- In a workshop:
  - 1 worker 1 day 20 pins
- In a factory:
  - 18 workers 1 day 48000 pins
  - 1 worker 1 day average: 2666 pins



# Adam Smith (Kirkcaldy, 1723-1790)

***Theories of Value:*** judgements regarding the principles, importance, utility, usefulness of an object.

Consider the following statements:

***Mary is valuable for me***

***My iPhone is valuable for me***

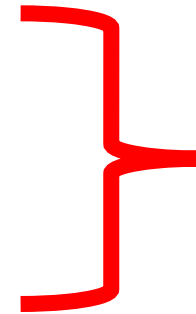
# Adam Smith (Kirkcaldy, 1723-1790)

**Theories of Value:** judgements regarding the principles, importance, utility, usefulness of an object.

Consider the following statements:

*Mary is valuable for me → She's my best friend.*

*My iPhone is valuable for me → It's expensive.*



**PRICE ≠ VALUE\***

\* Don't be a cynic!

“A cynic is a man who knows the price of everything and the value of nothing”

Oscar Wilde

# Theories of value

***Theories of Value:*** judgements regarding the principles, importance, utility, and usefulness of an object.

***Significance of the theory of value (for economists):*** Is an objective measure of the value of commodities possible?

According to classical political economists, yes it is: **labour**.

***Labour Theory of Value:*** The value of a commodity is equal to (or measured by) the amount of labour-time spent during the production process.



# Adam Smith (Kirkcaldy, 1723-1790)

## **(1) Primitive stage of the society**

- When there was no capital accumulation and no private property on land.
- The value of a commodity is equal to the value of labour-time only.
- Value  $\equiv$  Wages

# Adam Smith (Kirkcaldy, 1723-1790)

## **(2) After capital accumulation**

- When private property was established on capital goods
- The value of a commodity is equal to the value of labour-time + capital goods.
- Value  $\equiv$  Wages + Profits

# Adam Smith (Kirkcaldy, 1723-1790)

## **(3) After land was owned by individuals**

- When private property was established on capital goods and land
- The value of a commodity is equal to the value of labour-time + capital goods + land.
- Value  $\equiv$  Wages + Profits + Rents

# Adam Smith (Kirkcaldy, 1723-1790)

***Theories of Value:*** judgements regarding the principles, importance, utility, usefulness of an object.

***Significance of the theory of value (for economists):*** Is an objective measure of the value of commodities possible?

According to classical political economists, yes it is: **labour**.

***Smith's Labour Theory of Value:*** The value of a good is equal to the sum of the prices of the factors of production.