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SCHUMPETER DISCUSSION PAPERS

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The Schumpeter Discussion Papers are a publication of the Schumpeter School of Business and Economics, University of Wuppertal, Germany

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SDP 2024-001
ISSN 1867-5352

Impressum
Bergische Universität Wuppertal
Gaußstraße 20
42119 Wuppertal
www.uni-wuppertal.de

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Adam Smith, the “Adam Smith problem” and his influence

April 2024

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Abstract

On the occasion of Adam Smith's 300th birthday, commemorated in 2023, this contribution discusses some of his positions and their effects, particularly with regard to the present day, and addresses issues such as the so-called “Adam Smith problem”. After an outline of Smith’s central positions on liberalism, his relationship to some of his contemporary thinkers will be discussed. An assessment is made of the connection between real or apparent contradictions between Smith’s major works, *The Theory of Moral Sentiments* and *Wealth of Nations* (the Adam Smith Problem), which is followed by some reflections on the famous “invisible hand”. Finally, assessments of Smith’s theory by Friedrich A. von Hayek and Ludwig von Mises are presented and an evaluation of his theory from today’s perspective is made on the basis of the various reactions to his work.

Keywords Liberalism, the state, mercantilism, invisible hand, the Adam Smith Problem

JEL Codes A 20, B12, D40, D02, H40, N13, P10

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1. The ideas of Adam Smith

Of course it will not be possible to describe all his ideas, so that is the reason why a few ideas will be selected: on poverty, the tasks of the King (the government), separation of powers, invisible hand and on markets etc. There is one element that should not be forgotten: the followers of a writer always add their own thinking and ideas to the ideas of their great (role)model. They always extrapolate his/her theories and that can lead to totally different conclusions.

First of all Smith criticized Mercantilism, because according to him (and later every economist agreed), this was not the right economic system for a country. That is why he was so vigorous against that system and pro-liberty. Before the arguments of Adam Smith against Mercantilism will be explained, the arguments of his predecessor David Hume on this subject will be discussed. As mentioned by a contemporary writer, mercantilist sentiment is “very much alive today” notwithstanding its somewhat irrational and outdated nature. “In times of economic slowdown, it often bubbles to the surface of popular economic discourse, threatening to make an unwelcome return to politics and policy” (Toft 2008, 135). One of them found his views anticipated by the mercantilist writers (Hayek [1941] 2007, 368f.).

Hume played a pioneering role in challenging the mercantilist monopoly on economic thought. He provided an important break from mercantilist thought by suggesting that the value of money is ultimately fictitious and that an increase in the money supply has inflationary effects, which may be damaging to a country’s economy. That idea has also been pronounced by Milton Friedman in the 20th century. What Hume had identified was the seemingly paradoxical short-term non-neutrality of money, despite its long-term neutrality (Toft 2008, 137-140).

The ideological debate on the harm and disadvantages of mercantilism is far from over.

The mercantile system

The objections of Adam Smith to the Mercantile system were, that

1. The mercantile system is in reality subversive of the great purpose which it means to promote. The result of all those measures turns out to be the opposite result. Adam Smith describes the several bounties granted to import, which resulted in more import than (the wished for) export. (Smith [1776] 1981, Vol. II, 642-646)

2. The exportation of the materials of manufacture is sometimes discouraged by absolute prohibitions and sometimes by high duties and vice versa. (Smith [1776] 1981, Vol. II, 647) “It retards instead of accelerating the progress of the society towards real wealth and greatness; and diminishes instead of increasing the real value of the annual produce of its land and labour”.

3. According to Smith the prices in an open and free market would have been allowed to rise to the natural and proper price (Smith [1776] 1981, Vol. II, 652). The obvious and simple system of natural liberty on the other hand establishes itself of its own accord. Adam Smith supposed that “every man is free to pursue his own interest (provided he obeys the laws)”. In that case the sovereign will be discharged of superintending the industry of private people (Smith [1776] 1981, Vol. II, 687) and has only three duties left to fulfil (that will be explained later). In connection to this he says, that “We trust with perfect security that the freedom of trade without any attention of government, will always supply us with the wine which we have occasion for.”

4. The mercantile system sacrifices the consumers to the producers (Smith [1776] 1981, Vol. II, 642), but according to him consumption is the sole end and purpose of all production. This is so obvious that it does not need explanation, but “in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer.” (Smith [1776] 1981, Vol. II, 660)

It cannot be difficult to determine who have been the contrivers of this whole mercantile system; not the consumers, whose interest has been entirely neglected; but the producers whose interest has been so carefully attended to, especially the merchants and manufacturers. (Smith [1776] 1981, Vol. II, 661).

Smith was also a forerunner of globalism (and globalization). For example he describes that in Scotland it is possible to grow wine, provided one has greenhouses etc., but it would be far cheaper to buy the wine in France (Smith [1776] 1981, Vol. I, 458).¹ That does not mean that he was pro Laissez-faire. There is a difference between free competition and Laissez-faire. The last one occupies itself with the relation of government and the economic life. Smith did not really want to change the existing economic relations.

¹ Smith speaks of “By means of glasses, hotbeds, and hotwalls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expense for which at least equally good can be brought from foreign countries.” (Smith [1776] 1981, Vol. I, cit. 458)

Hayek explains that the arguments of Smith, Hume, Burke, Locke were never a complete Laissez-faire. In fact, their argument was never anti-state as such, or anarchistic, which is the logical outcome of the rationalistic laissez-faire doctrine (Hayek 1960, 60).

Smith emphasized the importance of the laws in Great Britain, as they gave security to every man that he shall enjoy the fruits of his own labor alone, which makes every country flourish (Smith [1716] 1981, Vol. I, 540).

Poverty

Smith ideas on poverty and progress were the following, that in the *progressive state*, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the laboring poor, of the great body of the people, seems to be the happiest and the most comfortable. “It is hard in the stationary, and miserable in the declining state. The progressive state is in reality the cheerful and the hearty state to all the different orders of society. The stationary State is dull; the declining, melancholy.” (Smith [1776] 1981, Vol. 1, 99) So, according to him a state in progress benefits also the poor more than a stationary one.

He rejected poorness. No society according to him “can surely be flourishing and happy, of which the greater part of the members are poor and miserable.” (Smith [1776] 1981 Vol. 1, 96) He also was of the opinion that poverty was extremely unfavorable to the rearing of children.” (Smith [1776] 1981, Vol. 1, 97)

The separation of powers

This is one of the most important issues for Liberalism, because that is the way to limit power of the government but also of other powerful institutions. (“Power corrupts and absolute power corrupts absolutely” is the saying). Certainly Adam Smith agreed on the proposition of the separation of powers because of the following reasons.

The following can happen:

“when the judicial is united to the executive power, it is scarce possible that justice should not frequently be sacrificed to [...] politics. But upon the impartial administration of justice depends the liberty of every individual, the sense which he has of his own security. It is not only necessary that the judicial should be separated from the executive power but that it should be rendered as much as possible independent of that power; the judge should not be liable to be removed from

his office according to the caprice of that power, nor his salary should depend upon the good-will of that power.” (Smith [1776] 1981, Vol. II, cit. 722f.)

It seems a problem not worthy to discuss but that is precisely the problem that arises in Poland, Hungary, Turkey, Russia and China. Not really a small part of the world and in the European Union (EU).

Hayek refers to William Paley concerning the theory of the separation of powers: “The first maxim of a free State, is that the laws be made by one set of men, and administered by another; in other words, that the legislative and the judicial character be kept separate.” (Paley [1785] 1824, 348ff.). In that case general laws are made by one body of men without foreseeing whom they may affect; and when made must be applied by the other, let them affect whom they will (Hayek 1960, 173). That means impartiality.

When these functions are unified in the same person or assembly, particular laws are made for particular cases springing from particular motives and directed to private ends. That is one of the reasons, why the legal structure of the EU should be reconsidered. The European Commission has the initiative of legislation and is also the executive power. Only their ideas can be realized. Never that of an independent power. Also in the upcoming case against *X* (the former Twitter) the European Commission is prosecutor, judge and executor in one person (instance), just like in the case of the European Commission versus Microsoft (in 2001/2004).

The duties of the executive power

The King has according to Smith only three duties to attend to (but remember this was the 18th century, when the government was very small!)

1. The duty of protecting the society from the violence from other countries= defence.
2. Protection of citizens against violence from others. That is the administration of justice.
3. The duty of erecting and maintaining certain public works and certain public institutions, it can never be for the interest of any individual or a small number of individuals to erect and maintain; because the profit could never repay the expense to any individual or a small number of individuals though it may frequently do much more than repay it to a great society (Smith [1776] 1981, Vol. II, 687f.).

These public works are chiefly those for facilitating the commerce of the society and those for promoting the instruction of the people. These instructions can be split in two: those for the education of the youth and those for the instruction of people of all ages.

Public works

Smith sees the importance of public works “which facilitate the commerce”. Good roads, bridges, navigable canals, harbors, is evident without any proof. But the maintenance of those roads and bridges (carriages and boats) can be defrayed by paying toll by the people who make use of it. It is obvious that bridges and roads are only built where the commerce requires them. So, they are not constructed where there is no use of it, like in the desert or leading to a Lords house (Smith [1776] 1981, Vol. II, 724-731). “The Coinage an (other) institution for facilitating commerce, in many countries, not only defrays its own expense, but affords a small revenue or seignorage² to the sovereign. The post-office, another institution for the same purpose over [...] defraying its own expense, affords in almost all countries a very considerable revenue to the sovereign.” (Smith [1776] 1981, Vol. II, 724)

Smith is apparently not really fond of peerage. He criticizes the indolence and vanity of the rich (by using carriages, supposedly) is made to contribute in a very easy manner to the relief of the poor, by rendering cheaper the transportation of heavy goods to all the different parts of the country (Smith [1776] 1981, Vol. II, 724f.). What he meant to say was that people who used carriages, had to pay toll, while the poor did not have to pay toll or, in any case much less. Smith was against “privatization” by private persons of toll or lock-duty upon a canal and also the tolls for the maintenance of a high road “cannot be in the hands of private persons” (Smith [1776] 1981, Vol. II, 726).

He spends a great deal of the text to show how to finance the several services, like national defence and “the supporting of the dignity of the chief magistrate”, which are both laid out for the general benefit of the whole society. These costs should be defrayed by the general contribution of the whole society. The same goes for expenses of the administration of justice. In (civil) procedures the costs should be paid by the parties. Because justice can be favorable for those “whom the courts of justice either restore to their rights or maintain in their rights.” These costs need to be paid by the parties (Smith, [1776] 1981, Vol. II, 814f.). The local expenses (like police) should be defrayed by a local or provincial revenue. Expense of good roads has to be defrayed by the general contribution of the whole society. Expense of the Institutions of education may be defrayed by the general contribution of the whole society, but Smith also mentions the contribution by those who use this education (an individual contribution) or a voluntary one.

² Seigniorage is the difference between the value of money and the cost to produce and distribute it.

The funds or sources of revenue

Smith sums up the following possible funds or sources of revenue:

1. Taxes upon rent or upon rent of land
2. Taxes proportioned to the produce of land
3. Taxes on the rent of houses
4. Taxes upon profit or upon the revenue arising from stock
5. Taxes upon the profit of particular employment
6. Taxes upon the capital value of lands, houses and Stock.
7. Taxes upon the wages of labor (Smith,
8. Capitation taxes
9. Taxes upon consumable commodities

Of course the division of labor, self-interest and free market could also be described, but I wanted to show, that Smith indeed saw a role for the state, not in the sense we are used to in the 21st century, but it is still interesting to consider it.

2. Smith's connection with other contemporaries

Adam Smith was one of the most important persons and initiative takers of a period of astonishing learning that has become known as the “Scottish Enlightenment”. The Scottish Enlightenment included ground-breaking innovations in everything from medicine to geology to chemistry to philosophy to economics (Otteson 2018, 3). The Enlightenment culture was based on close readings of new books, and intense discussions which took place daily at such intellectual gathering places in Edinburgh as “The Select Society and, later, “The Poker Club”, as well as within Scotland's ancient universities (St. Andrews, Glasgow, Edinburgh, King's College, and Marischal College). Scottish thinkers and scientists of the period were Joseph Black, Robert Burns, William Cullen, Adam Ferguson, David Hume, Francis Hutcheson, James Hutton, John Playfair, Thomas Reid, Adam Smith, and Dugald Stewart (Otteson, 2018, 5f.).

David Hume for example was one of them. He was older than Adam Smith, but the latter has written – so it seems – the Abstract of the *Treatise* in 1739. The story goes as follows: Hume tried to write an abstract of his *Treatise* in 1737 and failed. In 1739 Hutcheson, professor of Philosophy at Glasgow set as an exercise to his 17 year old pupil Adam Smith the task of epitomizing the *Treatise*, book I and book II. He sent the result to Hume, who was so pleased with it, that he had it printed in London and sent Adam Smith a presentation copy of the

Treatise. However, in 1933 John M. Keynes and Piero Sraffa discovered a copy of the abstract and edited it in 1938. They tried to refute abovementioned theory, using 4 arguments (Hume [1737] 1987, book I, 32) and mentioned a John Smith, who was a publisher in Dublin at the time.

Their case is a strong one, but not a conclusive one, for why should a publisher be so familiar with philosophy? Of course Adam Smith was very young at the time. Could he have understood the theories of David Hume? In the introduction to the book *A treatise of human nature* by David Hume the editor brings a following argument: Adam Smith succeeded where Hume failed, in epitomizing the central argument of the *Treatises* (Hume [1737] 1987, 29-34).

3. The Adam Smith problem

Summarized, it discusses the incompatibility of sympathy in *The Theory of Moral Sentiments* with self-interest in the *Wealth of Nations*. The supposed inability to combine morality with economics. For his part, Smith did in fact believe that morality and markets could mix, and that his two books were each part of a larger philosophical project. Henri Thomas Buckle shared this opinion. He was a great admirer of Adam Smith and discussed the consistency problem observing that Smith's two works should be seen as one, because they include two aspects of human nature, i.e. being sympathetic as well as selfish (Buckle 1871, 305).

One of the things Smith observed is that moral sentiments often change. What counts as morally required, prohibited, or indifferent, changes over time (Otteson 2018, 2). That is so true as we can see nowadays at the Cancel culture etc. Roughly speaking the debate can be split into two parts, the first is the historical “das Adam Smith Problem”, which can be linked to the 19th century with economists of the German Historical School, who could find no connection between the ethics of *Theory of Moral Sentiments* and the “self-interest driven market of the *Wealth of Nations*”. The second is a more modern point of view, “originating in Paul A. Samuelson's *Economics* (1948), and focusing on the apparent conflict between the ‘invisible hand’ and an attempt to lead a virtuous life.” (Hodder 2016, 21)

There are several interpretations on the Adam Smith Problem. Well-known is the German classification (<https://de.wikipedia.org>) in

- *Umschwungtheorie* (“turnaround”/“reversal theory”)
- *Kategorienfehlertheorie* (“category error theory”) and
- *Privatgebrauchtheorie* (“private use theory”)

The “reversal theory” plays a role, especially in Germany. The Adam Smith Problem states that between the creation of both works, Adam Smith shifted his opinion on the central motive of human action from sympathy to self-interest. At first, this seemed difficult to understand, because Adam Smith revised the theory of ethical feelings until shortly before his death in 1790, without making any major changes to the motif of sympathy. An explanation for this is provided by the historian Barbara Stollberg-Rilinger (2011, 189) according to whom Smith’s stay in France and his meeting with the Enlightenment in France could be the explanation (Diderot’s *Encyclopedia* had just been published).

According to the “category error theory” Smith’s concept of sympathy was characterized as the basis for legitimizing the existence of the self-interested, non-social producer. Acceptance by the “impartial spectator” only takes place if the feelings of the participants coincide.

The “theory of personal use” is based on Immanuel Kant’s distinction between the public and private use of reason, which he made in his *Enlightenment pamphlet* of 1784. Kant (1724-1804) explains it with the example of a soldier who should obey as a soldier, but as a human being he should use his reason and enlighten as a scholar. His argument:

“Here is everywhere restriction of freedom. But what restriction is an obstacle to the Enlightenment? Which ones don't, but are probably even conducive to her? I answer: the public use of his reason must be free at all times, and that alone can bring about enlightenment among men; the private use of the same, however, may often be very narrowly restricted, without thereby particularly hindering the progress of the Enlightenment. But I understand by the public use of his own reason that which someone, as a scholar, makes of it in front of the whole audience of the reader's world. Private use is what I call that which he is allowed to make of his reason in a certain bourgeois post, or office, entrusted to him. Now, for some transactions which run into the interest of the common being, a certain mechanism is necessary, by means of which some members of the community must merely behave passively, in order to be directed by artificial unanimity of the government to public ends, or at least to be prevented from destroying these ends. Here, of course, it is not allowed to reason; Otherwise, you have to obey.” (Kant 1784, cit. 485f.)³

³ „Hier ist überall Einschränkung der Freiheit. Welche Einschränkung aber ist der Aufklärung hinderlich? welche nicht, sondern ihr wohl gar beförderlich? – Ich antworte: der öffentliche Gebrauch seiner Vernunft muß jederzeit frei sein, und der allein kann Aufklärung unter Menschen zu Stande bringen; der Privatgebrauch derselben aber darf öfters sehr enge eingeschränkt sein, ohne doch darum den Fortschritt der Aufklärung sonderlich zu hindern. Ich verstehe aber unter dem öffentlichen Gebrauche seiner eigenen Vernunft denjenigen, den jemand als Gelehrter von ihr vor dem ganzen Publikum der Leserwelt macht. Den Privatgebrauch nenne ich denjenigen, den er in einem gewissen ihm anvertrauten bürgerlichen Posten, oder Amte, von seiner Vernunft machen darf. Nun ist zu manchen Geschäften, die in das Interesse des gemeinen Wesens laufen, ein gewisser Mechanism nothwendig, vermittelst dessen einige Glieder des gemeinen Wesens sich bloß passiv verhalten müssen, um durch eine künstliche Einhelligkeit von der Regierung zu öffentlichen Zwekken gerichtet, oder wenigstens von

In fact Kant makes a distinction between private and public use. According to him, the citizen cannot refuse to perform the tasks imposed on him. The scholar, on the other hand, enjoys an unrestricted freedom to use his reason and to speak in his own person. For this is the guardian of the people of his country. So far the Personal use theory.

The philosopher Mark D. White indicates that this note points out a neglected parallel between the philosophies of Adam Smith and Immanuel Kant related to their views on self-interest, morality, and society. First, he explains the distinction between Kant's perfect and imperfect duties, and how they result from his moral philosophy. Next, he summarizes Smith's two major perspectives on human behavior, as presented in *The Theory of Moral Sentiments* and *The Wealth of Nations*, and discusses the apparent conflict between them. Finally, he uses Kant's two types of duties, to explicate his interpretation of the relationship between Smith's two strains of thought. "By explaining these dual aspects of Kant's ethical system in relation to Smith", White hopes "to give a new perspective on the apparent duality in Smith's thought, as well as help bring out the oft-neglected social aspects of Kant's." (White 2010, vol. 39, 53)

This is also what David Gauthier (1986, 84f.) means when he refers to the market as a "morally free zone": "in understanding the perfect market as a morally free zone we shall be led back to its underlying, antecedent morality," that is, mutually agreed-upon constraints on behaviour corresponding to what Smith called the "laws of justice" that thereby define the boundaries of the market. How Gauthier breaks from both is by claiming that the market is the ideal model for an ethical society, and morality is necessary only where markets are not possible (Gauthier 1986, Ch. VIII).

The important question arises: can we engage in economic transactions while maintaining our morality? Perhaps economic globalism generates increasing material prosperity but does it do so only at the expense of our moral values? For his part Smith did in fact believe that morality and markets could mix. This question is one also of today and stays very actual. Is there a link between morality and economics? Must we give up on our morality in order to become rich?

One can say that a market does not imply morality. Of course the actions on the market are always controlled and limited by the law (s). The market where principles are really required is the labor market. That is why the concept of Social Market Economy came into being after 1950.

der Zerstörung dieser Zwecke abgehalten zu werden. Hier ist es nun freilich nicht erlaubt, zu räsonniren; sondern man muß gehorchen." (Kant 1784, cit. 485f.)

4. The Invisible Hand

Adam Smith's political economy is based on a chain of three arguments:

1. Economizer Argument
2. Local knowledge: "the knowledge of time and place". This theory was elaborated by Hayek and Karl Polanyi (Hayek 1952, 106-107)
3. The invisible hand. That is the self-regulating effect of a market where everyone pursues only his/her self-interest, but thereby collectively manages to create prosperity.

The idea of an invisible hand appears three times in the work of the Scottish philosopher and economist Adam Smith. In one of the cases, in his *Wealth of Nations*, the phrase refers to the effect that the pursuit of self-interest by capitalists serves the common good, by increasing national production and thus increasing the collective wealth of a country. The other two times the phrase has different meanings: in *The Theory of Moral Sentiments* and once in an essay of Smith about astronomy (Otteson 2018, 48, he refers to Smith's *Essays on Philosophical Subjects*, W. P. D. Wightman, ed. Liberty Fund 1982, 184f.). In later publications (also of other authors), the invisible hand refers to a range of economic effects: the ability of the free market to create collective wealth, the formation of price equilibrium in such a market, a broader notion of creating social order through the pursuit of self-interest, the principle of competition, the mutual benefit inherent in trade, etc.

According to Adam Smith this expression of the invisible hand means that "by preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such manner as its produce may be of the greatest value, he intends only his own gain and he is in this, as in many other cases, led by the invisible hand to promote an end which was no part of his intention." (Smith [1776] 1981, Vol. I, 456) Yet if the term only appears 3 times in his work, why is it so important? According to Otteson (2010, 48) this expression of the invisible hand is absolutely central to Smith's thought. And indeed, Smith continues: "By pursuing his own interest he [the individual; AG] frequently promotes that of the society more effectually than when he really intends to promote it." (Smith [1776] 1981, Vol. I, 456) The genius and power of Smith's invisible hand argument lies in offering a path for individual's limited knowledge and selfish interests into a benefit – even an unintended one – to others (Otteson 2018, 49).

But there is another aspect: in *The Theory of Moral Sentiments*, the invisible hand refers to "The Deity" (God), which is not surprising in the 18th century. Atheism was a rare (but upcoming) phenomenon in that time.

“In acting according to the dictates of our moral faculties, we necessarily pursue the most efficient means for promoting the happiness of mankind. Therefore, when we act in accordance with the dictates of our moral faculties, we are in a sense co-operating with the Deity and advancing as far as we can the plan of Providence. (Smith [1759] 2017, cit. 87)

[...]

They are led by an invisible hand to share out life’s necessities in just about the same way they would have been shared out if the earth has been divided into equal portions among all its inhabitants. And so without intending it, without knowing it, they advance the interest of society as a whole, and provide means for the survival of the species. When Providence divided the earth among few lordly masters, it didn’t forget or abandon those who seemed to have been left out in the distribution—these too enjoy their share of all that the earth produces.” (Smith [1759] 2017, Vol. I, cit. 99).

The theory of the invisible hand is obviously not the conviction of intellectuals and/or rulers who want to plan everything on a central level on beforehand.

That brings us to Hayek and his idea on spontaneous order, which can be seen as a continuation and a development of Smith’s ideas.

5. The interpretation of Hayek and von Mises of the theories of Adam Smith

The concept of Hayek on the spontaneous order and knowledge of time and place in connection with the invisible hand. Especially Hayek is known for the concept of spontaneous order, but he got his inspiration from Michael Polanyi, who wrote about the idea already in his book *The Logic of Liberty* in 1951 (Jacobs 1997-98, 14). His interpretation is that such an (spontaneous) order cannot be established by central direction. In fact Smith and Polanyi were the first to indicate the spontaneous order as an element of freedom or what Polanyi called the “spontaneous formation of a ‘polycentric order’” (Hayek 1960, 160, referring to Polanyi 1951, 159). When human beings interact with each other on their own initiative – subject only to the laws universally applicable to all – then we have a system of spontaneous order in society (Hayek 1960, 160). Part of the rationale of Polanyi’s theory of dynamic/spontaneous order was to shed light on political subjects. He believed that vital activities undertaken in a self-ordering manner define the difference between liberal democracy and totalitarianism (Polanyi 1951, 158f.).

That there is some kind of order, consistency and constancy in social life, is obvious. But this orderliness cannot be the result of a unified direction. The actions of such individuals are said

to be free, for they are not determined by any specific command, whether of a superior or a public authority; the compulsion to which they are subject is impersonal and general (Hayek, 1960, 160). Also the idea of Smith concerning public works were practically the same: “There are fields in which the desirability of government action can hardly be questioned. In this latter group which will not be provided by competitive enterprise because such are most sanitary and health services, often the construction and maintenance of roads and many amenities provided by municipalities for the inhabitants of cities” (Hayek 1960, 223, quoting Adam Smith).

As indicated earlier: according to Hayek the theories of Adam Smith cum suis (the Scottish theorists) was never a complete Laissez-faire: “In fact their argument was never anti-state as such or anarchistic.” (Hayek 1960, 60) It is not “natural law” we are talking about. It is always freedom under the law (Hayek, 1967, 129).

6. The influence of Adam Smith and the reaction on his theories

Adam Smith inspired the followers of Liberalism from then on, especially in the 19th century and also in the 20th century till now. One of the enduring significance of Adam Smith is/was the concept of growth. As Otteson (2018, 169) formulates it, “Smith bold-audacious-prediction about the almost limitlessly increasing prosperity that could be generated by countries adopting and maintaining Smith’s “obvious and simple system of natural liberty” has come true. In the last 50 years for example, we have gone from 75 % of the world population living in extreme poverty to just 9 %. Since just 1970 the proportion of the world’s population living at \$1 till 3 \$ a day has dwindled from 27 % of the population today for the first time in history below 5 %. Even if poverty is rising again due to the present inflation, it is still lower than ever before. Which brings us to growth. Most left-wing thinkers judge that growth is one of the biggest causes of all misery, but hear this out. Growth does not always mean that a production becomes bigger. It can also mean the improvement of a product. Either people start to work more hours or they are working smarter. It seems that the costs of electricity have gone down with 14 %. Without the growth of the production of solar panels or wind turbines that would not have happened. Growth means to work more efficiently, do more in 1 hour. Houses are more and more produced in factories, not on the spot. That means less people working and less CO₂ and nitrogen emissions (Hein 2023, 60f.). If one opposes environment and wellbeing on the one hand and prosperity /wellbeing on the other hand, then they are wrong. These are not contrary principles. Production simply shifts from one product

to another: as mentioned before: solar panels, wind turbines and charging stations for electric cars.

Smith's great importance in science is evidenced by numerous acknowledgements of great scientists at that time and today. For example, Immanuel Kant was an avid reader of the works of Adam Smith. He had enthusiastically read the *Theory of Moral Sentiments* in the 1770s, it was even said "to have considered Smith his 'Liebling' among British moral philosophers and makes several references to the book in his Reflexionen." (Fleischacker 1996, 382) Adam Smith also influenced Darwin who in *Descent of Man* accepted several of Smith's "striking" conclusions (Otteson 2018, 12f.). According to Fleischacker (1996, 402) Smith has described the politics that the freedom of judgment requires. Both the regulations he thinks government should avoid and the institutions he thinks it should foster would spread phronesis⁴ as widely as possible across a population. Once people have judgment they should be free to act on it, for Smith, but he is not pro-laissez-faire about the institutions enabling them to develop judgment in the first place. The claim that Smith urges a politics that would foster judgment is a contentious one, running against most readings of the *Wealth of Nations*.

Mark D. White uses Kant's two types of duties, along with Kant's concept of the kingdom of ends, to explicate his interpretation of the relationship between Smith's two strains of thought. By explaining these dual aspects of Kant's ethical system in relation to Smith, hopefully a new perspective on the apparent duality in Smith's thought might be given, as well as help to bring out the oft-neglected social aspects of Kant's (White, 2009, 53-60).

The opponents of Adam Smith and Liberalism

The opponents of the theories of Adam Smith are numerous, especially in Germany and Austria.

The interval between the victory of Liberalism and the turn toward socialism or a kind of welfare state was shorter in Germany than elsewhere. The institutions meant to secure the rule of law had scarcely been completed before a change in opinion prevented their serving the aims for which they had been created. (Hayek 1960, cit. 234)

The fact that the German empire and the unification of the country was created by one person and not by gradual evolution, was an incentive to social and political ambitions, strongly supported by philosophical trends, to demand substantive, or social justice, rather than the

⁴ "Judgement" or "phronesis" is an intellectual skill usually associated with Aristotle; "virtue" or "excellence" is the central term in the approach to ethics; it is supposed to define practical wisdom.

formal equality (equality under the law). Liberalism was not really accepted in Germany nor in Austria.

Von Mises wrote about this already in 1927 in his book *Liberalism* that in the 19th century strong and violent opponents of Liberalism sprang up (Mises [1927] 2005, XVIII). “Modern Germany [...] is a world apart from the spirit of liberalism. People in Germany no longer know what liberalism is, but they know how to revile it. Hatred of liberalism is the only point on which the Germans are united.” (Mises [1927] 2005, 155).

“The world today wants to hear no more of Liberalism. Outside England the term ‘liberalism’ is frankly proscribed. [...] Everywhere today political power is in the hands of antiliberal parties. The program of anti-liberalism unleashed the forces that gave rise to the great World War [...]” (Mises [1927] 2005, xviii) It has led to socialist experiments with as result an increase of want and misery. And (in 1927!) anti-liberalism is leading toward a general collapse of civilization. “For at least fifty years antiliberal parties have ruled in Germany and Austria, yet we still read [...] in those of their ‘scientific’ champions, that all existing evils are to be blamed on the dominance of ‘liberal’ principles.” (Mises [1927] 2005, 133) In those days the abolition of democracy and the parliamentary system were demanded and the institution of a dictatorship was acclaimed. “The Bolsheviks cannot make Russia happy nor the socialist Austria because ‘western capitalism’ prevents it.” (Mises [1927] 2005, 133)

One of the opponents were of course Karl Marx and Friedrich Engels. Marx first was rather positive towards Capitalism: “The Bourgeoisie during its rule of scarce one hundred years, has created more massive and more colossal productive forces than all preceding generations together.” (Marx, 1848, 6), but later he started to criticize it. Before *Das Kapital* (1867), Marx’s writings take a rather uncritical view of capitalist “progress”. This is clear from the *Communist Manifesto*, which celebrates the “subjugation of the forces of nature” and the “reclamation of entire continents” by the bourgeoisie. The changes began in 1865-66, when Marx, reading the writings of the agricultural chemist Justus von Liebig, discovered the problems of soil depletion and the metabolic rupture between human societies and nature. This led him, in volume I of *Das Kapital*, but also in the two other, unfinished volumes, to a much more critical view of the damage of capitalist “progress” (Löwy 2023).

However, it might be a good idea to keep in mind Marx’s distinction between productive forces and relations of production when reading the *Manifesto*. His positive appreciation of capitalism is rooted in his “phases doctrine” in history and the contribution that capitalism has made to the enormous increase of the productive forces and thus to the progress of man and

the world. This is already stated at the beginning of the *Manifesto*. But the relations of production in history, especially in relation to property, are always marked by class struggle, which intensifies when the phase of capitalism and the central function of capital in it has arrived in history. Huerta de Soto, a Spanish economist of the Austrian School of Economics, loathed Adam Smith's theories for a different reason: One of the arguments Huerta used was, that Adam Smith's introduced the notion of the objective theory of value. That was fundamentally wrong according to him (Huerta de Soto 2023, 227). He continued: "Although these theorists of the English Classical School are seen as favoring a laissez-faire approach and a market economy, they actually served on a silver platter to Karl Marx and socialist theorists the foundation for the exploitation theory." (Huerta de Soto 2023, 227-228)

The well-known German journalist and publicist Ulrike Herrman also criticizes capitalism. In her book *Das Ende des Kapitalismus* (The end of capitalism) she states that capitalism follows the logic of the cancer cell by constantly growing and thus destroying first its environment and in the end itself (Herrmans 2022, 96). She contends, that the ecological evolution cannot go hand in hand with growth.

As has been demonstrated before, growth and the Green Revolution can go hand in hand.

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