



Present

**In Search of Adam Smith:
How Might He React to Today's Market Economy?**

Fall 2023, Georgetown Law Campus

The Denny Center for Democratic Capitalism at Georgetown Law and Georgetown's Institute for the Study of Markets & Ethics welcomes guest panelists from Edinburgh Business School's Panmure House, West Virginia University's Social Philosophy and Policy Center, and Georgetown's Tocqueville Forum.

Panelists:

[Richard Boyd](#), Associate Professor of Government, Georgetown University
[Adam Dixon](#), Adam Smith Chair in Sustainable Capitalism, Panmure House
[James Feinerman](#), James & Catherine Denny Chair in Democratic Capitalism, Georgetown Law
[David Schmitz](#), Presidential Chair of Moral Science, WVU

Moderators:

[Caroline Howitt](#), Program Director, Panmure House
[Bruce Shaw](#), Executive Director, Denny Center

IN SEARCH OF ADAM SMITH: What Might He Think of Today's Market Economy?

TRANSCRIPT

John Hasnas:

Good afternoon. My name's John Hasnas, and I'm the Executive Director of the Georgetown Institute of the Study of Markets and Ethics. We're headquartered on the main campus. The institute has three missions. Two of those missions are: To stimulate research about ethical issues that apply in a market society, and to improve the way ethics is taught in universities and business schools. This event is part of our research mission. It's a great pleasure for us to partner with the Denny Center, and bring in an extremely interesting panel on the thought of Adam Smith to you all at the law school. Now I'll turn things over to Bruce Shaw of the Denny Center.

Bruce Shaw:

Thank you Professor Hasnas. It's a great privilege to co-sponsor this get together with the institute. So thank you for all the pre-work and time invested. My name is Bruce Shaw. I'm the director of the Denny Center for Democratic Capitalism here at the Law Center. Our faculty chair, Jim Feinerman is also here today. The Denny Center's mission is to reconcile the benefits of the market economy, the benefits of free market capitalism, with the needs and values of a democratic society. So how do you work with those things in tension? How do you address issues about the market economy that may or may not be working the way in which they were intended? We're thrilled to welcome all of our panelists today to talk about the life and work of Adam Smith.

I'll start by confessing that until I really dug into Adam Smith's writings about six or seven years ago, I thought he was an economist. I spent the majority of my career in business, and I didn't read much Smith as an undergrad. I quickly found out he was a moral philosopher and would have pointed us to his 1759 book "The Theory of Moral Sentiments" before he would have pointed us to "The Wealth of Nations". I'd like to introduce Caroline Howitt, program director at Edinburgh Business School's Panmure House. We're so grateful that you and Adam can be with us today, especially given how busy you are in this 300th anniversary year of Adam Smith's birth. Caroline?

Caroline Howitt:

Hello everyone. I'm Caroline Howitt. I'm the program director at Smith's Panmure House. This is a very ancient building, built in 1691. It was the town seat of the Earls of Panmure, which is how it got its name. But its most famous resident was Adam Smith, who lived there for the final 12 years of his life. While he was there, he completed the final editions of his two master works: "The Theory of Moral Sentiments", which Bruce mentioned, and "The Wealth of Nations", that he's best known for. He also used the house as a meeting place for many of the other finest minds of his generation. They would come here every Sunday to dine together, and debate on the big issues that faced them in their time.

Amazingly, it fell derelict, and in 2008, Edinburgh Business School in Heriot-Watt University stepped in to rescue and restore it. We spent 10 years and 5.6 million pounds restoring it to the standard that you see in these images here. We reopened in 2018, which was the end of the physical restoration of the building. But much more important than that is the intellectual restoration of the building. So today we are a center for research and debate into the biggest social and economic questions of our own time. As Bruce mentioned, it's a very special year for us, and for all of us involved in Adam Smith studies around the world, because Smith turns 300 this year. We've chosen to celebrate that with a number of different special events, but most importantly through the instatement of a new research team who are going to

be delving into what we call sustainable capitalism, and driving research into sustainable finance, sustainable leadership, and sustainable innovation.

And that's being led by this gentleman here over to my right, professor Adam Dixon, our new Adam Smith chair in sustainable capitalism. It's really exciting here for us, because we get to talk more about Smith, and we get to reappraise how he's considered publicly. There's a real caricature of Smith; who he is, who he was, and what he thought about, that has sprung up. People think of him as a laissez-faire capitalist, which is not true. As Bruce said, he was a moral philosopher first and foremost, and his work crossed so many different disciplines. Economics, of course, finance, these are the ones he was known for - but also moral philosophy, literature, history, politics, and even astronomy.

Really the whole gamut. I first encountered Smith when I was a student at Glasgow University studying English and Philosophy. And I first read "The Theory of Moral Sentiments" before "The Wealth of Nations", which was quite unusual. Most people come to it the other way around. I wonder if we might usefully kick off by introducing our panel, and talking about how we first encountered Smith. David is Chair of Moral Science at West Virginia University - would you like to kick us off?

David Schmitz:

Sure, I suppose so. When I was working on a master's degree in Economics and a PhD in Philosophy, I realized that people in economics weren't reading Smith. So just between the two populations of classmates and professors, we decided that there were things in this corpus that we wanted to read. Originally, it was to understand David Hume, one of the most important philosophers who ever lived, but I would say that Adam Smith went beyond Hume, and in some sense was as important a philosopher as Hume was. Every time I read him or learn something new, I have more admiration for him. I would say he was a very nuanced thinker. Jim Feinerman, do you want to go next?

Jim Feinerman:

I have to confess that I initially encountered Adam Smith almost accidentally, because in my freshman year in college, I took a course on 18th century English literature. One of the things that very foresightful faculty member Meredith Tax (who later became famous for writing the screenplay for a movie called Crossing Delancey) assigned us to read was Adam Smith, in addition to 18th century English authors like Jane Austen. She said, "you can't understand what happened in the 18th century or afterwards without reading Adam Smith". She had us read "The Wealth of Nations" rather than "The Theory of Moral Sentiments", but my interest was peaked. I've been interested in the relationships between economics and other disciplines, my own in law and previously in literature, because of the breadth of learning and erudition that Adam Smith had.

Adam Dixon:

I'm going to answer this question by first asking the audience a question. How many of you have read "The Wealth of Nations"? (*response*) Hands high. Okay. Wow! Did you get to book five, or did you stop after specialization? After division of labor? How many people have read "The Theory of Moral Sentiments"? (*response*) I like to hear that. Okay, so many of you have read Adam Smith, but I'd like to conjecture that you are influenced by Adam Smith even if you haven't read him. I don't consider myself necessarily a Smith scholar. There are some amazing Smith scholars that can tell you exactly what he says on page 100 of "The Wealth of Nations". But I think for many of you, if you studied political science or history before coming to law school, you have been influenced by Adam Smith, whether you understand that or not. Partly because he sits in the canon before 18th century philosophers and economists like Karl Marx, but is relevant all the way through to now in how he's been utilized in public policy on both sides of the political spectrum. I find that I've come to Smith because he's still relevant to

who we are, but he's also relevant in the Scottish enlightenment generally, to modern social sciences, and to the structures of the university that we take for granted in the 21st century.

Richard Boyd:

I was compelled to read “The Wealth of Nations” when I was an undergraduate at the University of Chicago. It's part of the Common Core, so we all had to slog through Adam Smith's “Wealth of Nations”, as well as Marx and other classics of social science. I vaguely remember something about the pin factory. That's a deep impression that the book left on me at that time; I think I was too young to appreciate everything that's going on there. I went on to do a PhD in Political Philosophy, and I got back into Smith through an interest in civil society and thinkers of the Scottish enlightenment. One of these was David Hume, who I feel I know a lot better than Adam Smith. Over the years I've worked a little bit on Smith - I teach parts of “The Wealth of Nations” in my class on the history of economic thought. I also teach “The Theory of Moral Sentiments”, and classes on global justice, as well as more contemporary oriented classes. Even though I don't think of myself as being a Smith scholar, he's still somebody who has a pretty significant influence on the way I think about the world.

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Bruce Shaw:

Thanks everyone, so let's jump into our main questions for you all. We're going to leave 15 or 20 minutes toward the end for open questions from the floor, but I think the panel would also love to field questions as the discussion is going. If there's something that's on your mind and you want to interject, just let us know. We'll jump right in with this first question, which is sort of the overall theme of the panel today: If Smith were to jump into a time machine and show up here in 2023, what parts of the current market economy would he recognize, and what aspects of the market economy would surprise him? Adam?

Adam Dixon:

Well, first I have to ask what market economy we're looking at. Are we talking about the American economy, or are we talking about a global economy? I think if we look at the world today, the most striking feature is the centralization of capital in ever-larger firms. Those can be publicly traded firms, but also many large, state-owned enterprises. So just the concentration of economic power into single organizations that are able to exert authority in the organization of production processes and the flows of finance, not simply across the US, but also across the global economy. Would Smith be surprised by that? I don't think he would.

“The Wealth of Nations” is a one man's treatise against the mercantile system. He was very much against large sovereign sponsored corporations like the East India Company and the control that they had over trade. Now, that doesn't mean that what we're seeing today is a new form of mercantilism. I think there's features of it that are still very competitive. But I don't think he necessarily would be surprised. Would he be concerned about the concentration of power in particular organizations? Yes, but I think he was always concerned about who had power, who had the right to govern, and how that affected consumers all the way down to the poorest individuals in society.

David Schmitz:

Two things. The direction wouldn't surprise Smith, although the magnitude surely would. Nobody could have imagined then technology taking the shape that it did. But he did see himself as observing a whole continent; the whole of Europe becoming famine proof in his lifetime, which would spread not just to the Americas but to Asia as well. That would not have surprised him, I think, although the magnitude would have. He never saw the academy coming into the shape that it's in now. He was David Hume's

best student, and what they were doing together was inventing something that they called moral science, which is what my current position is named for in their honor.

The idea was that they could see what Isaac Newton had done in fields like astronomy and physics, and they said, “Yeah, we want moral philosophy to become like that.” They wanted to turn it into a realm of the observable. Not geometry; not the provable, not the deducible, but the observable. Smith would talk about tariffs and how they affected prices, employment opportunities, and international relations. And he didn't say from this, “I can deduce that tariffs are unjust” or something similar. His conclusion was: “Here's how they seem to be operating. I hope history does not remember me as someone who favored tariffs.” And that was it. He was scientific about that.

Richard Boyd:

On the idea of what he would've predicted, or would not be surprised by - I think this is the flip side of what Adam was describing. I think it's not just that the government creates monopolies and charters, or that capital is increasingly centralized in institutions like the British East India Company. What I always appreciate in Smith is that he sees the other side of dynamic; that is, the relationship between the market (or corporations) and the state, specifically the propensity of corporations to try and capture the state, to lobby, and to introduce regulations that are beneficial to them that generate monopoly rents. I think he captures that dynamic perfectly.

One of the more surprising things is that it doesn't seem to me like he thinks the state should be small and weak the way that many people portray him, but that the state should be insulated, right? It may be a large state, but it's a state that is able to resist lobbying and pressures and special interests, which are elements of the landscape that we take for granted. Something I don't think he predicted – of course he understood that there was inequality, he's living in an aristocratic society, subordination for him is something that's natural, he understands classes – but I think his assumption was that as a market system approaches a perfect market, the outcome is equality. That is, any opportunity to make large profits is very quickly arbitrated away in a free market system. And so I think he'd be very perplexed by the existence of permanent inequality to the magnitude that we confront in our society today. I think he would have an explanation that has to go beyond the market to account for that.

Jim Feinerman:

I think something that might be a great surprise to him is the rise of the corporation in its modern form. If you go back to his time, corporations were mostly (and are even today) creatures of the state. Things like the East India Company, or the Virginia Company, were really state businesses. The idea that there would be private corporations with astounding wealth that control a large share of the economy would be something of a surprise to him. I don't know if he would've expected it to be more government controlled than it was, and that these things would perpetuate themselves. He might see that as a good thing, but again, the concentration in the economy in other ways might be a problem for him given his predilections.

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Caroline Howitt:

Should we move to a second question?

Related but distinct. That was quite a “Wealth of Nations” question, and I think I'd like to hear a “Theory of Moral Sentiments” question. What might Smith list as the core elements of a society's moral fabric that are required for a functional market economy? We'll start with David.

David Schmitz:

"The Wealth of Nations" was written as an encore to "The Theory of Moral Sentiments", but the beginning of chapter two starts with an abstract that says, "What accounts for the emergence of specialization in the division of labor?." Almost everybody thinks that what he said next was, "Well, it's the profit motive. You can crank out theorems, you can do proofs, you can do incredible neoclassical graphs that demonstrate incredible things." And that's not what he said at all. Again, this is the epilogue to his previous book or the encore, let's say. He says that we're driven by a propensity to barter and exchange one thing for another. So you have to understand that he was a person who believed that humanity's fundamental drive is a drive for esteem. And it isn't just the teenage or childlike drive for esteem, but there's a threshold you cross where you instead aim to be worthy of esteem. That's adulthood. And so what he's saying is that we're social. I don't think he would've been surprised by Darwin. In fact, there are exchanges between Charles Darwin and his brother saying, "You've got to read this thing, The Theory of Moral Sentiments. I think this is the missing piece in our puzzle." What Adam Smith is saying is that we're fundamentally social animals, and it's our superpower. It isn't gills, wings, or anything like that. It's our ability to make deals even with strangers.

And we're political animals, which means we arrange those exchanges through language. We have to talk about it, and we have to negotiate the terms of engagement. Chapter two goes on to say we address ourselves not to the benevolence of the butcher and baker and brewer, but we address ourselves to their self-interest, because only a beggar would ask for their pity and their benevolence. Instead, you go to them and say, "You came to the right place. You want to deal with me because I've got the best stuff in town, and I want what you're brewing and baking. So I'm going to make you an offer, and you're going to take what I'm offering you." Let's say it's olive oil. You'll go home and your family will say, "How much did you pay for that? Get some more."

So that's the idea - to form an estimable place for ourselves in a community by being recognizable as someone who really has something to offer. Someone who can take our community to the next level in their specialization, giving everybody a reason to be glad they're a part of that community. Now, you all are talking about the emergence of big corporations. Now that you mention it, I think Adam Smith would've been surprised by things like day trading and would've said he's defending markets. Defending the voluntary terms upon which we come together to figure out how to be of service to each other, and how to make each other's lives better. We can go home at night saying, "Boy, you should have seen the look on that guy's face when I offered him this deal. He's going to be back for more." That can be what drives you. It's not the money that keeps you going, but the sense of, "I'm really good at what I do, and everybody knows it too." That's the fundamental driver. But if you look at people day trading, clicking on their computer mouse, that's not what Adam Smith was talking about. I'll stop there.

Adam Dixon:

Can I play off that? I agree exactly with what you said about Smith. Often Smith is portrayed as a proponent of selfishness. I think that's incorrect, because there's a difference between self-interest and the contemporary sense of the word selfishness. And I think that's exactly what David portrayed here: that a lot of self-interest is just the function of, "I've got a job, I've got a family, I've got things to do during the day, and I just don't have time to devote myself to everything." That's very different than being a selfish person. We're not just driven by money. While that is part of it, there's other values and other things that we get. It's the approbation of others looking at what we're doing that is also of value to us, rather than just having a larger check.

That's why day trading is - well, what does that do for you as an individual, or for the community? I think we have to understand that saying Adam Smith is about selfishness is wrong, because I don't think that really captures his ideas. Saying self-interest is the same as selfishness is the wrong way of seeing Smith. Once you make that distinction, it puts Smith in a different light, especially around how we as individuals interact with our communities, and how our communities are important to us. Even if you're not able to help your neighbors on a daily basis, or volunteer in your free time because you have to pick up your son from soccer, we still try, even if it is in our own self-interest, to serve others in our communities.

Richard Boyd:

I agree completely about the social basis of Smith's market. We tend to think, through the lens of contemporary economics, that markets are all about "homo economicus", abstract utility functions, and people trying to maximize utility. There's very little of that in Smith, even in "The Wealth of Nations". The assumption is that markets, the way David very aptly described, are social relationships. They're also about cooperation for Smith, and not so much about competition, or the cutthroat stabbing in the back that we get from Marx and others' vision of the capitalist economy. But I think in addition to it being a social economy, it's also, for him, a legal economy. That is, markets are not freestanding, but markets are predicated on certain legal and institutional relationships, and also a particular virtue that he associates with those legal relationships: the virtue of justice.

So people always look at "The Theory of Moral Sentiments" and say it's about sympathy, and to be fair, he talks a lot in that book about beneficence, magnanimity and some of the other traditional virtues. But he also says in that work that of all the virtues, the one that's absolutely essential for human society is justice. I think what he means by justice is quite interesting. He doesn't mean justice the way we use the term justice, like social justice, meaning fairness or equality. For him, justice is about applying a kind of disinterested rule of law to everyone equally. It's about protecting property rights, honoring contracts, etc. So I think the virtue of law abiding-ness, and in particular the virtue of justice, jumps out as being one of the most important virtues that you need for a market society.

Jim Feinerman:

Well, I hesitate to jump in here, because as a lawyer, we like to make the case for law *and* justice. In fact, in the back of our library building, we have the words "Law is but the means, justice is the end." And we believe that that can be the case. But bringing it back to Adam Smith; one of the things that makes me happy to think of him not as an economist but as a moral philosopher, is that economics is known as the "dismal science". And given the other economists who were around during the time of Adam Smith, or other moral philosophers such as Thomas Hobbes, there was a happy view and a dismal view of human nature, and it spilled over into things like trade, economy and other factors of human existence. I think something Smith was able to do was not present a ridiculously rosy-colored view of what the world was like, but instead say that these things which could be seen as nasty, brutish, and short actually could happen in a much more salubrious environment, and that getting to that point was the goal of human development.

Adam Dixon:

Can I add to the point that Richard made? For Smith, the emergence of the rule of law in Europe wasn't something he expected, but it was amazing that it happened, right? David had mentioned Smith being this observer - he was an observer of history. He didn't deduce from logic that we just have inalienable rights, and he wanted to understand why it is that Europe in the 17th century emerged out of feudalism, out from a British society, to have this system of law that allowed for - I mean, it's much less social justice oriented than we would expect today. When we say rule of law, there were still many inequalities, as we

know. But it was still a system that allowed for commerce to begin. It fomented the uplifting of human capability that for 700+ years had floundered in European history.

So, like many of his contemporaries in the Scottish Enlightenment, Smith was very well-read in Latin and Greek, and Greco-Roman history was very significant for him. That was the civilization “par excellence”. And why did Greek civilization take off? Why did science in the Greek city-state take off, and not other parts of the world? In part, it was through a rule of law that emerged and a commercial society and protection from external threats. So Greece did very well because it had three quarters of its borders on the sea, and there were mountains that prevented others from raiding. Greece had external security that allowed it to have a system of internal security, which then facilitated via a system of law commercial society, which in turn fostered science and the arts. And I think that he doesn't assume we're just good to each other by nature, but that it's the result of the social fabric coming in through the rule of law and these institutions that allows us to flourish, the market being one aspect of this.

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Bruce Shaw:

Turning to our next question: how have the key actors (business, government, other supporting institutions) lived up to Smith's expectations of what's required to support a healthy market economy, and where have these actors fallen short? David?

David Schmitz:

I think the markets have grown and proliferated in a way that could not have been imagined back then. He could not have imagined supply chains as global as they have become. He maybe could have imagined them turning out to be as fragile as they are, because they were pretty fragile in his time as well. But I think he had a problem, having a fair bit of faith in human nature. He had a fair amount of skepticism and cynicism as well. I think he would've been disappointed at how gigantic and impersonal the governance structures have become, and ultimately how unmanageable they are. He was not an anti-government person. He was skeptical about its efficacy, but he was not skeptical about its necessity. I think he would've said that we've outrun our capability for governance, and it's going to bite us.

Richard Boyd:

When I was thinking about this question, it brought to mind a distinction that Smith makes. I think it's in “The Wealth of Nations”; for context, he's talking about tariffs, international trade, and how difficult it is to do things to get beyond the mercantile systems. But he makes a distinction of what he calls “the science of the legislator” and “these other insidious and crafty animals, vulgarly called statesmen or politicians”. So that maybe gives you some sense of Smith's dim view of your average politician, who as he says, is more concerned about getting reelected than doing what's in the best interest of the public. So that part of it is self-evident, but if he doesn't want people to behave like insidious and crafty politicians, what is it to be like “the science of the legislator”?

I think the “science” part is interesting. He believes, as he says, that there are certain rules and principles that people in political life ought to abide by, and that by sticking to those rules and principles, even in situations where that is the uncomfortable or the immoral thing to do, we will end up with better public policy. I always think about that as favoritism, right? Protecting certain industries, or subsidizing other industries because “we don't want to put the sugar beet farmers or steel workers out of business”, kind of feels right. Our intuitions are to be beneficent, like it says in “The Theory of Moral Sentiments”. It's natural to want to be sympathetic to people who are like you, or to American jobs, or particular

industries and groups of people in society. But the “science of the legislator” is all about sticking to these general principles that apply to everyone in the same way, and bringing to bear that kind of impartiality that Smith thinks is necessary not just for the law, but also for public policy and the market economy.

Adam Dixon:

I think one thing to appreciate about Smith, in comparison to say Karl Marx, is that Smith was not a revolutionary. We could potentially consider him a conservative. Not necessarily our perception of a modern conservative, but instead someone like Edmund Burke, who was worried about radical change disrupting the social fabric and the institutions as they were. Smith wanted mercantilism to go away, but he would have been worried about the process through which these policies change. Partly because he was always concerned with unintended consequences; the legislator could move the chess pieces, but the outcomes are not likely to be what the legislator assumed. For Smith, it was about accommodating laws and policy change to the habits of people and their existing social institutions. But at the same time, that didn't prevent Smith from upholding the necessity to do what is right. I think the point that he's not a revolutionary is quite important.

Jim Feinerman:

Well, I was thinking about this event yesterday when I was at the Peterson Institute of International Economics for the first annual Richard Cooper lecture. Richard Cooper was one of the great international economists of the 20th century, and his widow and daughter have endowed this lecture series. And the first speaker that they thought of to give the introductory inaugural lecture was Larry Summers. If you know Larry Summers, you know he's not someone who usually yields to others gracefully. But he acknowledged that he learned a lot from Dick Cooper. And one of the things that he said in his eloquent address was that the understanding Cooper had of the fragility of the international economy in the second half of the 20th century hearkened back to what had been happening centuries earlier as international commerce began to take off, and he knew how to adjust for different challenges. Obviously those challenges come with technology and what else developed over the course of a couple of centuries, but many of the essential questions are still the same. For example, how we deal with questions of comparative advantage, or how we deal with the political aspects of international economics, where every nation is out for itself, but there's a common prosperity in cooperation. All of these questions devolve from things that Smith was at the dawning of, such as how an international economy of such magnitude could eventually grow, but thinking of basic principles that will continue to inform it, even as it increased in magnitude and became global.

One of the things to keep in mind about his worldview is that he knew about colonial power and global trade, but I think his framework was still centered on England and Western Europe. Those were the modern developed economies of his era, and he couldn't have imagined that there'd be economies of similar or greater magnitudes in various places around the world that would really influence places that were quite insular of necessity. Partly because of the developments of technology and international trade at the time, but also because that was their frame of reference. Even though they could think back to the Greeks and Romans, they were still working in a European framework that wasn't really influenced by anything outside of the continent.

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Caroline Howitt:

Alright, another question: what is one piece of advice that you think Smith would give to today's business directors and executives, in a nutshell? David?

David Schmitz:

Thank you, what a fantastic question. They've all been great questions. I'd say that in a nutshell, the unwavering advice to which Smith dedicated his whole career was *don't go for the trinkets*. Conservative and liberal labels at the time weren't a thing yet; they hadn't gelled into the ideologies that we think of them being today. And if you read Burke or Smith, either one, they both sound pretty liberal, and they both sound somewhat conservative. But I would say conservatives then thought you could do a lot worse than monarchy.

Liberals were saying you could do a lot better than monarchy. Notice that that was not a disagreement. When they gelled into ideologies that lived to make the other one worse off...nothing good can come of that. This is a corrupted, perverse, unproductive conversation or form of governance, so I would say that Smith would lament that. I think of his books as mainly written for public servants. They serve as an exhortation: "You guys are going to have to be grownups. I'm just trying to tell you what it's like to be a grownup. I'm telling you that you're not going to care about money in the end. You're not even going to care about power in the end. Even money is trinkets." Smith lamented this in a way that Marx would damn it.

Smith was saying that it was incredible that people could be so good for their customers, and then not think through how to be good for themselves. With regard to the trinkets, what's really going to matter at the end of the day – did you raise your kids to want to look up to people who don't have anything to hide? Are they going to look at you and say that you had nothing to hide? That's what we're going to care about on our last day. Nothing else is going to matter but whether they see right in; they see us all the way down and say, "not bad."

That's what's going to matter. It's not about counting up your winnings; it's about looking in the mirror and being proud of what you see.

Caroline Howitt:

Smith had his own nutshell for that. He said, "Mankind desires to be not only loved, but lovely."

David Schmitz:

I think of that as I use the word "adulthood". Everybody wants to be esteemed. You're born that way, you die that way. But Smith thinks there's a point where you could say, "There's a choice to be made here, and if I do the right thing, I might be vilified for it." But on the other hand, if I do the right thing, I will go home at night, look in the mirror, take a breath and say, "I wish they had admired me more than they did, but I wouldn't do anything different."

Richard Boyd:

I won't be able to say this nearly as eloquently as Dave did, but just to add on, Smith makes a distinction in "The Theory of Moral Sentiments" about praise. Everybody sort of likes to be praised, but he thinks that if you know that you don't deserve the praise, it is unsatisfactory. Most people want to be praiseworthy. That is to say, deserving of whatever public fame or reputation that they have. It's easier to say than to do, I suppose. Smith understands that human beings are naturally partial, and that we tend to dilute ourselves; to think that what we're doing is the right way of doing things, or that other people are in the wrong all the time and we're always correct. Smith has this wonderful device in "The Theory of Moral Sentiments" called the impartial spectator.

So one way you transcend your own self-interest and impartiality is to imagine that you are looking at yourself and your actions through the lens of an impartial spectator. What would someone else think about me? I think it's a nice heuristic, and in some ways anticipates Kant's idea of acting always in a way that is generalizable according to principles that you'd expect others to adhere to. I think it's also an anticipation of roles. How do we figure out what the proper or fair action is? We step outside ourselves and imagine we're not partial beings, and we try to look at things from a more objective vantage point. It's a very interesting psychological trick that I think he would urge policymakers, regulators, and executives to constantly engage in. It's one thing to exhort people to be ethical, and it's another thing to actually teach them a technique or a mental trick to be a little more moral than they would otherwise be inclined to.

Jim Feinerman:

One thing about Smith's thinking to keep in mind is his time and place in the sweep of English history. There had been a century before him of great turmoil, and there had been the glorious revolution. There was a very realistic possibility that the monarchy might've ended with Cromwell. Things came back into a sort of kilter that was familiar, as this was not something unknown to previous English history, but it also held out the promise of possibilities to change. I think that's one of the things that he was quite conscious of, and one of the reasons why both in "The Theory of Moral Sentiments" and "The Wealth of Nations", he was something of an optimist. He was a believer that whatever flaws this system had (and he was quite aware of them), there was a possibility of not perfectibility, but improvability. He believed that this was the natural direction things would take if wise men prevailed. The French Revolution and the carnage of the middle 20th century that followed Smith demonstrates that the journey is not always linear, but I believe he had a great certainty that these principles would eventually become imminent, even if they weren't immediately apparent.

Adam Dixon:

The challenge in asking the question of what Adam Smith would say is that he died centuries ago, and world has changed. In that respect, I'm going to take some liberty in answering: when you read Smith's work, he was critical of a number of different actors. He was critical of the merchant class, and their propensity to collude. He was critical of governments and monopolies as well. But he was never very critical of the poor and those on the bottom rungs of society. I'd like to think that Smith would ask business and political leaders in the 21st century what they are doing to address poverty. Here in the United States, we still have people living in fairly abject conditions, even being one of the richest countries in the world.

Globally, we still have hundreds of millions of people that live in poverty. And yes, these are highly difficult problems to address, but I think Smith would look at the degree of wealth inequality that we have within and across countries, and he would be concerned that not enough was being done. Inequality is an expression of power. We experience that here in the United States, as it's unfortunately very easy to buy politics. Smith might not have an answer of how to address it, but he surely wouldn't just allow markets to act alone. This is me projecting, but I think he would want business and political leaders to do more to address this problem, because there was ultimately an optimistic side to Smith. If you read about him, he had a side that was skeptical and pessimistic. He didn't assume that we were always progressing forward, and he even assumed that we could see another civilizational collapse. But there's a sense of optimism in him believing that things were improvable, and so I think he would put pressure on today's leaders to do more for humanity.

Caroline Howitt:

I think you're being gracious to him for saying this, because he actually wrote about this. His nutshell for this was, "No society can surely be thought to be flourishing, of which the greater part of its members are poor and miserable." I think you're absolutely right.

* * *

Bruce Shaw:

With that, let's turn to questions from our audience.

Student 1:

I actually want to posit that Adam Smith might be more tempted to go for some solutions to equality than others, and I also want to tie in how he might give advice to business leaders, despite not being a contractualist in his time following Hume. I think there are certain methodological situations that would point him down the contractualist trail today. For reasons that you talked about, I think Rawl's "veil of ignorance" is decidedly an inheritance from the Adam Smith tradition of understanding an objective position from which we can devise governing principles. And I think insofar as an impartial spectator, business leaders today, or really any other private actors, might find it extremely difficult to devise principles to govern their behavior, considering extremely complex institutional interactions. I think he might say something like the difference principle should be the guiding notion for what the science of legislation looks like, and the appropriate role for business leaders is to not impede this science of legislation – and that the only justifiable inequalities are those that benefit the disadvantaged. I think he would start and end in situating the responsibilities of business leaders to not corrosively impede that process. And I think that's also consistent with the degree of concern he had about "crony capitalists". That's my theory, but it's also complete speculation.

Bruce Shaw:

So the question is: does the panel agree? Adam?

Adam Dixon:

I mean, in response to whether he was a contractualist like Rawls, I think the Scottish Enlightenment gentlemen were inductive for the most part. I think it's about how extreme you want to take Rawls, right? I think Smith would say we can have these thought experiments, but ultimately it has to come down to actual conditions and the historical trajectory. So I think that's what distinguishes Amartya Sen's interpretation of Smith from that of Rawls' contractual view of him. You still have to take into account history, and the actual existing social situations. But I like your speculation nonetheless.

Richard Boyd:

The way you described this sounds very attractive, and I think there are certainly some of those impulses that you identify in Smith, but for me, one of the core teachings that Smith adheres to is that justice is a public virtue and beneficence is a private virtue. So if we're trying as individuals to figure out how much of our income we should give to charity, or what obligations we have to our neighbors, or what it takes to make us good people, then I think engaging in this kind of abstraction is what Smith was getting at. But I think Smith would have a problem with legislators legislating out of a sense of beneficence because they're not impartial when doing so. Smith hasn't figured out a way like Rawls did to allow us to do that publicly, in a way that would meet these conditions of impartiality.

So he's pushing in that direction, but I think there's also parts of him that are holding it back, if that makes sense.

David Schmidt:

Smith took a pretty dim view of Hobbes. David Hume took a pretty dim view of Hobbes. Hume wrote an essay on the "social contract" in which he came pretty close to mocking it, and I would imagine that Smith was on board with him. Although I do think that what you said about being sympathetic to equalities has got to be right. He saw the French Revolution coming together, and there was an ideal of liberty, equality and fraternity that wasn't a trade-off, but was important. Smith also saw the American Revolution coming together. He saw a Declaration that "we hold these truths to be self-evident that all men are created equal." He didn't mean that to be a preface to a fight against liberty. In fact, everybody saw that as a preface to a fight *for* liberty. That wasn't a tradeoff either. So I think he would've been unsurprised.

I mean, he's on record as having had extremely negative views of slavery. What you see emerging in the 1800s is women saying, "Am I a citizen or not? Why don't I have a vote? Why can't I have a bank account in my own name if I'm married? Why can't I have a patent in my own name? Why can't I have a property deeded in my own name?" I think that this was women fighting for equality, but they weren't fighting against liberty. They were fighting *for* liberty. They were saying the same thing at the time because the equality that they were fighting for (and this is where I'm seeing the way in which you're profoundly right) was the equality in the immediate aftermath of Smith. People thought it was worth living and dying for, and it was all about equal treatment as free citizens.

Student 2:

I'm curious how the panel will respond to how Adam Smith's notion of esteem and social interaction that motivates market interactions is manifesting today, particularly because most of the commerce that we engage in today is so depersonalized, as it's either automated or part of the broader corporate chain that is never seen. And if it's diminished, what effect would it have on the gradual benefit that Smith suggests would happen?

David Schmidt:

I think it's safe to say Smith would not have anticipated the invention of the computer, and beyond that, would not have anticipated the potential of the computer to depersonalize our lives and make it possible for us to spend it in our bedrooms, only communicating with these incredibly empowering, but also somewhat ridiculous pieces of technology. I think he fully grasped the general principle that the future of human progress is going to have a lot to do with reducing transaction costs - that wouldn't have surprised him. My guess is it also wouldn't have surprised him that in the aftermath of computers becoming central to our relationships and how we mediate, the emergence of ways of tracking reputation and trustworthiness. He wouldn't have been surprised by hacking, or people figuring out ways to defend themselves against it, or people figuring out a way to have some idea of who they're doing business with. I don't think he would've been terribly happy, but I don't think he would've been terribly unhappy or shocked either. He couldn't have predicted it, but he can kind of explain it.

Student 3:

What would be Smith's take on the neoclassical framework we find ourselves in today, specifically his reaction to the very intense focus we have on efficiency as the main of society, and also, what would he think about concepts like the Pareto principle?

Adam Dixon:

I think an easy answer is that Smith would see contemporary or modern neoclassical economics as being ahistorical. He was fundamentally a historical thinker, and he would be more in the heterodox economics kind of crowd, more institutionalist, because history and society mattered to him. And so efficiency might be one aspect of it, but again the pecuniary motivation is not the only motivation that drives human behavior or interactions, even in the marketplace.

Richard Boyd:

Just a couple random thoughts - Let's say you asked Smith if he was a classical or neoclassical economist. The terms are anachronistic, but I think if you pushed him to articulate what he was doing in the language that we use today, he would describe himself as not just a moral philosopher, but a political economist as well. We see in the title of the work "The Wealth of Nations", that he's not concerned about maximizing wealth for individuals, and he is not writing some sort of pay-in to the "mathmagic" of the market. He's trying to explain what policies are best in allowing nations to become wealthy; what explains why some nations, like the Dutch for example, have gotten incredibly wealthy, while other nations have failed to develop economically.

So it's a kind of comparative study in political economy. There's this aspect of it that's different from Neoclassical, which is abstracted not just from history and institutions, but from any concern with the legitimate political values it might have. You see this in Smith's treatment of tariffs too. On one hand, he thinks that in general it'd be better off if everybody in the world dropped all their tariffs, all their *protectionism*, and everyone specialized in doing whatever they had a comparative advantage in. And yet, he also recognizes that under certain circumstances it could jeopardize national security, or could give one nation power over another nation. In those cases, Smith says that economic efficiency has to take a backseat to these legitimate national political concerns. I think that's really different.

I'm not an economist, but there are some ways in which he's almost in the classical/neoclassical camp, or maybe even the founder of that camp. But there are other weird ways in which he's still hung up on this medieval, Aristotelian view of things having "natural price", or intrinsic value. And somehow, labor has some relationship to setting a bottom end on the value of things. So he's almost out of that older way of thinking, but there's still that residual element of older philosophy that I think harkens back to the medieval, Aristotelian, Lockean way of thinking about economics, which is definitely pre-classical.

David Schmitz:

I'd like to add that I think mutual advantage was a very familiar concept for Smith. "Pareto superior" moves would have been altogether familiar, but if you talked about "Pareto optimal" outcomes, I think he would have been less familiar. He had an idea of efficiency, but not a neoclassical idea, which connects to his views about justice. Now, this is me being controversial, and I'm not expressing a consensus view, but I think he felt the same way about justice. That justice isn't a peak, it isn't the thing that we could converge on to maximize our potential gains from trade or something like that. That's a vague academic philosopher's idea. What's real is injustice. The thing about mutually advantageous trade is that it spirals us up away from famine and all other injustices. So injustice? That's real. Peaks aren't real, but pits are.

Jim Feinerman:

And I think Smith might be disappointed that we've figured out new ways to induce things in the economy that we should have gotten rid of a long time ago. For example, we have new modern market failures, even when we've solved some old market failure problems. If he were to come back today and

see what's happening with, let's say, ARBs on Wall Street, day trading, or what happened with Robinhood or GameStop, it would defy logic that people who have all the tools of modern technology still can't figure out how to avoid these problems. So maybe there's a flaw in human nature, or a flaw in the economic theories that we thought were going to get us to Nirvana.

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Bruce Shaw:

Thank you all very much. A special thank you to Caroline, Adam, David, Richard, and Jim. Last, but certainly not least to Professor Hasnas and the Institute for the Study of Markets and Ethics for co-sponsoring.