

# Book Review

## Adam Smith's America: How a Scottish Philosopher Became an Icon of American Capitalism, by Glory M. Liu

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### Book details

*Adam Smith's America: How a Scottish Philosopher Became an Icon of American Capitalism*  
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Liu explores the role that framing by Adam Smith has had in forming American Capitalism. Said frame is especially drawn from the *Wealth of Nations* (Smith 1776/1789) but is also framed by a far lesser role of the *Moral Sentiments* (Smith 1759/1790). The fact the *Wealth of Nations* book has received more attention is just more empirical evidence that the primal driver in human nature is ego-based self-interest – selfishness and greed, arrogance of self-love as Smith frames it. The *Moral Sentiments* book is about empathy based other-interest, selflessness, something that has to more generally be nudged, as a Behavioral Economist would call it, or, regulated. Other-interest is about what is shared with the other, the shared moral sentiment, the shared ethic. And, while many economists, especially those of the Chicago School, are opposed to ethical reflection, Smith saw it was essential.

The Liu book suggests many hypotheses that need further testing. To put it in the analytical context of Behavioral and Experimental Economics, Dual Interest Theory which stipulates balance in the joint self & other-interest in a Metaeconomics framework (Lynne 2020; Lynne and Czap 2023), could be helpful. Dual Interest Theory helps makes sense of the observation by Liu that the *Wealth of Nations* framework dominates the American experience, seeing an independent Econ (self-interest only) interacting with other Econs in unfettered (and presumed inherently moral) Markets. Single Interest Theory in mainstream (Micro)economics sees only the self-interest of the Econ. In contrast, Dual Interest The-

ory allows for explicitly considering the moral and ethical dimension as highlighted in the frame of the *Moral Sentiments*, seeing Humans not just Econs. Humans search for that which the other can go along with, the *Moral Sentiments* behind the shared ethic, which is what leads to a moral and ethical Market or not. Humans also do not presume the *Moral Sentiments* will just magically arise to temper the self-interest within the Markets.

Liu (p. 14) points out that both of Smith's books were read by the US founders, who, like Smith, were trying to answer the questions: "What are the principles of law and government that promote security, prosperity, and happiness? How might a country engage in free commerce without becoming dependent on (the) rivals? How do different systems of political economy affect the virtue and character of a people?" To Smith and the founders, it was all about the best balance in a joint Market & Government. The moral sentiments found through empathy-with the other were to play a substantive role in forming and operating that Government, which was made clear in the US Constitution put into play in 1787: Empathy-with the other – everyone endowed with certain inalienable rights – was the frame in the Constitution, giving context to the ego-based pursuit of wealth and happiness by each person. The null hypothesis here would be: Moral sentiments (ethics) do not play a key role in producing wealth through American Capitalism.

Liu notes how Alexander Hamilton mined the *Wealth*

of *Nations* book for ideas about banking, and saw a strong national Government as essential to a viable Market. John Adams searched for ideas on how to handle the influence of extreme concentrations of wealth, and was especially concerned about the natural tendency for the unfettered free market to move to oligarchy, and then to autocracy, in what we now refer to as cronyism. Thomas Jefferson proclaimed the *Wealth of Nations* as the best book on political economy, and saw the moral dimension represented in the *Moral Sentiments* as a key feature. The *Moral Sentiments* was the most read book on moral philosophy all the way to the early-1800s. Still in its infancy, "... (the US) political economy was highly attuned to the moral dimensions of economic life and 'had not yet been sacrificed to the hubris of those who would claim to make economics into a non-moral science' (Liu, p. 42, quoting McCoy, a noted political economist of the day)."

The moral sentiments were to especially play a role in free trade. Liu notes how Smith perhaps had an idealized notion of free trade devoid of Nation-states. So, Smith may have envisioned, as a kind of ideal, a universal set of moral sentiments that every Nation could go along with, working to temper the natural arrogance (self-interest) of all the free traders. Related null hypothesis is: Shared moral sentiments among Nations are not necessary to free trade.

Liu points to the lack of consideration of the *Moral Sentiments* book in the free trade debates prior to the Civil War. The Southern States were free traders, driven by the advantage in trade because of low-cost slave labor. Any kind of tariff reduced the market for cotton. Adam Smith – claimed to be a free trader by the Southerners – became indirectly associated with supporting slavery, while Smith was in fact an abolitionist. Moral sentiments addressing slavery would eliminate same, which was blatantly overlooked by the free traders. Even after the Civil War, a war over which moral sentiments were to prevail, the debate raged well into the late-1800s with related labor strikes exacerbating the tensions between free traders and protectionists. Corresponding null hypothesis is: A shift in moral sentiments was not necessary to eliminate slavery.

Intriguingly, while various US political groups were vying for the part of Adam Smith to push, the German Historical School addressed as a matter of scientific inquiry what came to be called the "Das Adam Smith Problem." Noted American economist Richard T. Ely, one of the co-founders of the American Economic Association in the late-1800s, even though having been trained in Germany, saw no Adam Smith problem. Ely claimed the Smith framework was integrated, with Smith fully seeing the need to deal with private (self) & public (shared other, moral and ethical) interest at the same time. Push-back came from other American economists, notably from economists who would form the future Chicago School, with efforts already at play to wrest Smith's economy away from moral philosophy.

Also, while Liu does not mention it, forming the American Economic Association meant the people in the group who

would eventually become sociologists, and focused on shared other-interest, who had historically, prior to that time, met with the economists ... well, the sociologists were told they were no longer allowed to address economic questions (see Lynne 2022, p. 106). Sociologists had to go form their own associations, even if Ely, and Adam Smith, would likely have welcomed said framing as a part of economics, as in modern economic sociology and sociological economics, as an integration of I & We, self & other. Ely was in fact put on trial at the University of Wisconsin in 1894 for allegedly teaching socialist ideas (Liu, p. 100), as teaching anything in economics other than the distorted Adam Smith, the frame of self-interest only as would become the Chicago School, was not to be tolerated.

Counters to the Chicago School never took hold. Liu (p. 208) points especially to counters by Frank Knight who correctly argued that separating out economy from the political (the latter being fundamentally about the moral and ethical, the shared other-interest), and then reconnecting it with an ideology of self-interest only, turned economics into an ideology, not a science. Liu (p. 212) also quotes Jacob Viner, another counter: "Adam Smith was not a doctrinaire advocate of laissez faire ... saw a wide and elastic range of activity for government ... was prepared to extend it even farther if government, by improving its standards of competence, honesty, and public spirit, showed itself entitled to wider responsibilities. ... Smith saw that self-interest and competition were sometimes treacherous to the public interest they were supposed to serve, and ... was prepared to have government exercise some measure of control over them where the need could be shown and the competence of government for the task demonstrated." It was not to be. The Chicago School that prevailed over mainstream economics distorted Smith, and relegated Government to a minor role, mainly in enforcing private property rights.

Liu brings in the details about how the Chicago School came to distort Adam Smith, especially by Frederick Hayek who founded the Mont Pèlerin Society, with members to the current time still touting an unfettered "free" market. Liu also points to how James Buchanan and Gordon Tullock founded the Public Choice Theory School of political economic thought based on the same framing: Citizens and citizen politicians were replaced with self-interest driven consumers and politicians. And, as an important aside (Liu does not mention it), the Federalist Society in law uses the same frame. The result of such framing in economics has been political economic chaos, with similar chaos in law, all distorting Adam Smith, and powered only by self-interest in taking power to serve narrow private good without regard for the public good.

Lots of mistakes have come out of all said unscientific & unethical framing. Liu (p. 235) highlights the Friedman mistakes "... that market logic could be applied to an astonishing array of issues. Education ought to be privatized, for example, and vouchers would be given to families who sent

their children to private schools. Corporate social responsibility was illusory; the sole social responsibility of businesses was to maximize its profit. In addition to Friedman's fervent opposition to regulatory agencies, he called for the abolition of agricultural subsidies, occupational licensing, minimum wage laws, and the Food and Drug Administration among other things." Now, with due regard for the claims, Friedman did claim all said moves to commodify and turn to Markets had to be legal, so, if the law is ethical, such moves could bring the tempering of self-interest with the law. In reality, the Friedman claim became an empty bound on self-interest as the law was just changed by the same people to serve their own self-interest.

Liu (p. 260) points to how Adam Smith has seen a revival of sorts, in Smith as a Moral Philosopher relevant to both the Ideology of the Right and the Ideology of the Left: "Smith as a moral theorist of capitalism . . . has become a convenient ideological holding pen for beliefs on opposite sides of the political spectrum, with those on the 'Right' appealing to Smith in order to defend conservative moral sensibilities, and those on the 'Left' appealing to Smith in order to defend a view of capitalism that also promoted social justice. Both sides have found common ground in the idea that Smith's vision of capitalism was and is defensible on moral bases." It all makes Metaeconomic sense, as the moral bases is reflected in the shared other-interest, the latter having different content dependent on one being Right and/or Left, and, overall, dependent upon which point on the political spectrum actually works best.

Liu (p. 301) offered a final thought that especially caught my MetaEcon eye: "We find ourselves caught within conceptual ambiguity and have become captive to what Angus Burgin has identified as a 'familiar linguistic paradox:' the ambiguity, slipperiness, and under-specificity of the meaning of Smith's politics, his moral economy, and his defense of capitalism have inspired endless contestation and frustration, but those very qualities are also what enable Smith to be so readily adopted, used, and weaponized." Dual Interest Theory represents Smith's framing, and, as a result, can help in enabling it. Dual Interest Theory also points to the need – and Smith would approve – to build on both a facts (empirical science based) & ethics based foundation, suggesting many null hypotheses for testing, especially in Experimental Economics Laboratories. It is time to focus on said testing, as it holds the real possibility of bringing the true Adam Smith back into play.

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