



„I had imagined liberalism slightly differently“

In the following conversation Adam Smith (1723-90), who founded the science of political economy, talks to business professor Peter Ulrich through the key passages of his work that his neoliberal interpreters are so fond of quoting.

By Jürg von Ins (Interview) and Marc Wetli, AKG (Photos [not in this document])

Adam Smith: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages." [1]

Peter Ulrich: Hmm, sounds like the first lesson in a modern sales training course. Even so, somebody who talks like that is usually thinking about his own personal profit.

Smith: To be sure, in the market an individual "intends only his own gain." But "he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention... By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to pro-mote it." [2]

Ulrich: That's a bit too vague for me, Sir. Couldn't you be more precise?

Smith: Very well, young man. But you' ll have to be content with an example drawn from my own time. I'm thinking of the advantage that poor agricultural labourers derive from the rich landowners' pursuit of profit. The landlords "consume little more than the poor, and in spite of their natural selfishness and rapacity... they divide with the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among all its inhabitants." [3]

Ulrich: With all due respect, your empirical observations are usually much more exact. The inequality in the distribution of wealth among the world's people is enormous, and grows greater everywhere markets have been deregulated. Shouldn't democratically elected, legitimate governments act to ensure a just order for their populations?

Smith: Indeed, I wholeheartedly agree with you. It was never my intention that the regulation of public matters should be left to the merchant classes. "The civil magistrate is entrusted with the power not only of preserving the public peace by restraining injustice" but may also "prescribe rules, therefore, which not only prohibit mutual injuries among fellowcitizens, but command mutual good offices to a certain degree." [4]

Ulrich: Interesting! So you're postulating the primacy of politics over the logic of the market. But our reality is very different. Nowadays, with global competition between different locations, it's exactly the opposite: the logic of the market is given precedence over policies that should legitimately regulate market forces and direct them wisely. What do you think of that?

Smith: I can only warn against the consequences of leaving matters of

public interest in the hands of self-interested merchants, as "the interest of the dealers, however, in any particular branch of trade or manufactures, is always... different from, and even opposite to, that of the publick. To widen the market and to narrow the competition, is always the interest of the dealers... The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the publick, who have generally an interest to deceive and even to oppress the publick." [5]

Ulrich: Wow! That sounds really critical of business. Have I understood you correctly? You don't believe that more market is automatically to the benefit of everybody?

Smith: Not so. Remember, please, that I am a moral philosopher and my views on political economy proceed from ethical considerations. Fairness and justice in social relations are necessary preconditions for a market economy. Society "cannot subsist among those who are at all times ready to hurt and injure one another... Justice... is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society... must in a moment crumble into atoms." [6]

Ulrich: So it's not all just dependent on self-interest?

Smith: Indeed not. In a civilised society it is essential to "render the condition of our fellow-citizens as safe, respectable, and happy as we can... He is certainly not a good citizen who does not wish to promote, by every means in his power, the welfare of the whole society of his fellow-citizens." [7]

Ulrich: What makes you so convinced that the political will exists to guarantee these prerequisites for a legitimate market economy?

Smith: My confidence is ultimately based on that "which in reality is the wisdom of God." [8] "You see, it's like this: "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary

to him, though he derives nothing from it except the pleasure of seeing it." [9] "We either approve or disapprove of the conduct of another man according as we feel that, when we bring his case home to ourselves, we either can or cannot entirely sympathize with the sentiments and motives which directed it. And, in the same manner, we either approve or disapprove of our own conduct, according as we feel that, when we place ourselves in the Situation of another man, and view it, as it were, with his eyes and from his Station, we either can or cannot entirely enter into it and sympathize with the sentiments and motives which influenced it." In other words: "We endeavour to examine our own conduct as we imagine any other fair and impartial spectator would examine it." [10]

Ulrich: With respect, Mr Smith, although you may have anticipated Kant's categorical imperative very nicely here, what about the hymn of praise you sang to success-driven business thinking, the one about the butcher, brewer and baker?

Smith: I would not have become an economist if I had not become aware early on that there was a small problem in that regard: "To the selfish and original passions of human nature, the loss or gain of a very small interest of our own, appears to be of vastly more importance... than the greatest concern of another with whom we have no particular connexion." [11] I concluded, after many years of studying economics that the "System of natural liberty" [12], that is the way interests coincide in a market, partially balances out the asymmetry in the moral forces that bind people together. Until shortly before my death I considered this to be an ingenious and artful manifestation of moral philosophy in the market economy.

Ulrich: But then what happened?

Smith: In the end, I began to despair as I realised that my writings had given rise to historical consequences that I had never intended. I observed that the concise and accessible style in which I had presented my economic philosophy had led to greater greed and a waning of solidarity among the people. Just before my death, I therefore decided to destroy the manuscript of my third major treatise, which was very nearly completed. It would have shown how the state should act to check the momentum of

the investment of capital in free markets for the sake of the public good. But ultimately I realised that it would be of insufficient force, and I would never be able to fully complete my great new liberal synthesis of ethics, politics and economics as planned, after the example of Aristotle. I believe this is what you refer to in your time as the "Adam Smith problem". I decided it would be more honest to leave the solution of these problems to those who would succeed me.

Ulrich: So that's how it is. Your candid self-criticism does you credit. But I doubt that you can imagine what an ideological mess your alleged students have made in the meantime. Most "pure" economists nowadays no longer read your "Theory of Moral Sentiments" and so they don't even consider the preconditions you believed were necessary for a free market to be in the public interest. That's why a lot of them now believe that the great harmony in the play of social forces will automatically be achieved when markets are unconditionally deregulated; they believe in the morally uninhibited competition of purely self-interested economic actors, along the lines of "the market is always right." For them, the market is the divine authority; there's no room for an impartial spectator. Do you understand?

Smith: My God, this is what I feared would happen. But if, as you say, even many economists adhere to such a naive belief in the market, it is in fact much worse than I ever imagined, even at my most pessimistic. What an unpleasant idea for a Scottish moral philosopher like myself! Not the market, but "reason, principle [and] conscience [are] the great judge and arbiter of our conduct." [13] I do believe that in your strange age I would become the biggest critic of such free-market fundamentalism. Forgive me if I sound presumptuous, but I'm beginning to think that the 21st Century will most urgently need a new Adam Smith - to enlighten those pseudo-liberal worshippers of the free market!

Adam Smith's quotations taken from:

The Theory of Moral Sentiments, edited by D. D. Raphael and A. L. Macfie, Clarendon Press, Oxford 1976 (TMS).

An Inquiry into the Nature and Causes of the Wealth of Nations, edited by R. H. Campbell, A. S. Skinner and W. B. Todd, Volumes 1 and 2, Clarendon Press, Oxford 1976 (WN).

- 1) WN, I. ii.2, pp. 26-7
- 2) WN, IV. ii.9, p. 456
- 3) TMS, IV. i.10, pp. 184-5
- 4) TMS, II. ii.1.8, p. 81
- 5) WN, I. xi.10, p. 267
- 6) TMS, II. ii.3.4, p.86
- 7) TMS, VI. ii.2.11, p. 231
- 8) TMS, II. ii.3.5, p. 87
- 9) TMS, I. i.1.1, p. 9
- 10) TMS, III. i.2, pp. 109-10
- 11) TMS, III. iii.3, p. 135
- 12) WN, IV. ix.51, p. 687
- 13) TMS, III. iii.4, p. 137

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From 1992 to 1996, he served as a member of the executive board of the European Business Ethics Network (EBEN). Since 1997 he has been on the management committee of the Deutsches Netzwerk Wirtschaftsethik (German business ethics network).

Peter Ulrich described and analysed the discrepancies between the holistic approach of Adam Smith and that of his neoliberal interpreters in his 1991 book „Der andere Adam Smith. Beiträge zur Neubestimmung von Ökonomie als Politischer Ökonomie“ (The other Adam Smith: Contributions to redefining economics as political economy), co-edited with Arnold Meyer-Faje and published by Paul Haupt.

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