

KARL MARX AND ADAM SMITH: A TALE OF TWO ECONOMISTS

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Wealth and greatness are often regarded with the respect and admiration which are due only to wisdom and virtue.

--Adam Smith, *The Theory of the Moral Sentiments* (1756)

In 1979, when I was coming home from my first sabbatical in Denmark, I stopped off in London at the invitation of my dean. Very soon after my arrival, he and his wife took me to see Karl Marx’s grave, where we found fresh flowers and mementos decorating the site.

I did not ask my dean why he thought I would be so keen on visiting Marx’s grave, but back home my faculty union, six years old at the time, had been accused of planning a Communist take over of the University of Idaho. The campus was still in “safe” hands when I arrived home.

Our faculty critics apparently did not know that the American Federation of Teachers had supported the government’s war against Communists in Southeast Asia, and that our affiliated unions in the AFL-CIO had a long history of anti-Communism.

During that visit and subsequent visits to the United Kingdom, I did not have a chance to visit the grave of Adam Smith, author of *The Wealth of Nations* and the father of free market economics. Smith wrote his famous book after he retired from teaching moral philosophy at the University of Glasgow.

While studying at Oxford, Smith was punished for reading the works of David Hume, a philosopher and religious skeptic, who later became a friend and benefactor. Hume secured Smith a tutorship and pension, and he traveled all over Europe with his young charge Henry Scott, the Duke of Buccleuch.

While in Europe he met philosophers such as Ben Franklin, Jean-Jacques Rousseau, and François-Marie Arouet, better known as Voltaire. Smith appears to have been a religious skeptic himself, rejecting the belief in a personal deity. Smith scholar Gavin Kennedy has concluded that modern economists have badly misinterpreted

Smith's metaphor of the "invisible hand" (mentioned only twice), and it certainly did not refer to any divine action in the economy.

As opposed to his libertarian descendants, Smith believed that governments should build and maintain roads, bridges, and canals. He also believed in public education (with state licensed teachers), state funded hospitals, government centers where clothing would be inspected for quality, and a state-run postal system.

His objections to government intervention in the economy were directed at mercantilism and did not mean, as libertarians say today, that all government programs are bad. Rather than leading a campaign to abolish the public sector, Smith came out of retirement and applied for the position of the ultimate bureaucrat: the Scottish Commissioner of Customs. Going against his general support for free trade, Smith believed retaliatory tariffs were necessary to force other nations to reduce theirs.

Smith was especially harsh on the British government for fighting wars (such as the one in America) to protect trade at a cost that far exceeded the proceeds of the trade itself. Just think of what Smith would say about the \$2 trillion spent to protect oil interests in Iraq under the guise of spreading democracy in the Middle East.

Smith also believed that there was more to life than just making money. For him a poor person with wisdom and virtue is far better than a rich man with neither. Admiring the rich, and aspiring to be like them, while despising and neglecting the poor is, according to Smith, "the great and most universal cause of the corruption of our moral sentiments."

Smith would have agreed with French philosopher Nicolas de Condorcet, who criticized those who had reduced personal liberty to the freedom to make money. Today economists tend to judge the success of a nation on the basis of the efficiency of its markets and the production of goods and services. Most of the French have followed their compatriot's advice by focusing on family, good food, high culture, and taking five-week vacations.

With regard to successful economic theory, Smith wins over Marx hands down: state ownership of the means of production plus a totalitarian government restricting basic freedoms has been an unmitigated disaster. Under Marxist-Leninism the dictatorship of the proletariat became the absolute rule of a few party faithful. Only North Korea, Cuba, and Laos still stubbornly follow this failed and inhumane political philosophy.

Many 19th Century socialists saw these totalitarian possibilities in Marx's and Engel's writings, and they countered the "First International" of 1864 with the "Second International" in 1889. In that year the Swedish and German Social Democratic Parties were founded on the premise that Marx's desire for social justice could be achieved by democratic means.

Over 100 political parties--known as "Labor" in Israel, Brazil, the UK, Australia, New Zealand, the Netherlands, and Norway; as "Socialist" in Chile, Hungary, France, Belgium, Spain, Lebanon, and Greece; and "Social Democrat" in Japan, Romania, the Czech Republic, Switzerland, Finland, Germany, Austria, Sweden, and Denmark--are affiliated with the Socialist International, founded in 1951.

These democratic parties can take great pride in creating some of the world's most prosperous and humane societies. Recently many have lost power to center-right governments, but the extensive social safety nets built by their leftist predecessors still remain in place.

European nations have weathered the recent financial crisis fairly well, but countries that followed more libertarian policies--Iceland, Ireland, and Greece--got into the most difficulty. For example, Goldman Sachs sold the center-right Greek government financial instruments that allowed it to hide its huge debt.

A 2006 study done by the Canadian Centre for Policy Alternative compared low tax countries such as the U.S. and the UK, influenced by Ronald Reagan and Margaret Thatcher in the last 30 years, and the Nordic countries with high taxes and substantial government regulation. The authors conclude that "of the 33 economic indicators examined, the Nordic countries lead on 19 indicators and the Anglo-American countries on 14." With regard to social and health issues the Nordic countries did much better on 43 of 50 indicators.

If he were alive today, Smith would be amazed at the growth of government even in the hands of politicians who claim him as their economic mentor. He would also be disappointed that his followers describe him as one who believed that self-interest alone would perfectly harmonize all economic exchanges and lead to a just society. Today some economists mistakenly believe that by using mathematics, economics can become a physical science, not the hazy social science people think it is.

In Smith's time there were no separate social sciences or physical sciences (the latter was called "natural philosophy.") Even with the current division of the disciplines, Smith would still regard political economy as a part of moral philosophy. Smith's great book on economics must be therefore be read in conjunction with *The Theory of Moral Sentiments*, in which he argued that morality is based on sympathy not self-interest.

What appears to be an inconsistency in Smith's thought is easily resolved on reflection. It is clear from the famous passage in *The Wealth of Nations*--"It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner"--that self-interest works primarily in economic exchanges and sympathy and benevolence should be the moral guides for the greater and most important part of our lives.

Some recent experiments have shown, however, that self-interest may not be as strong as we thought even in economic exchanges. In "The Ultimate Game" a player with a sum of money is told to share it with an anonymous partner. If self-interest were

the only guiding principle in economic exchange, it would follow that players should seek to maximize their holdings by offering a little as possible. But studies have repeatedly shown that monied players give on average 43-48 percent of the sum.

Recent experiments with dogs, who reacted decisively to an unequal distribution of food, demonstrate that fairness is rooted deep in our animal natures. We must also remember that at least for 100,000 years, human beings lived in small hunter-gatherer groups where sharing and cooperative behavior was absolutely essential for survival.

When I received my first pay check at the University of Odense in Denmark 40 years ago, I winced when I saw that 43 percent (the low end result of the Ultimate Game) had been deducted for taxes on the wages of a mere teaching assistant. (Business taxes are much lower.) But when I realized what the Danes were receiving in return for high taxes-- comprehensive health care, good schools and universities, energy self-sufficiency, world-class ballet, and guaranteed long-term care--I came to have a better appreciation for the achievements of Social Democracy.

After 120 years working and ruling in democratic institutions, Marxists-turned-Social Democrats have gradually moved towards the center, and more doctrinaire socialists criticize them from the left every day. Ironically, many American descendents of Adam Smith are on his right in a country that has the smallest Social Democratic party and the weakest and most conservative labor movement. American capitalism has produced the highest levels of economic inequality in the industrialized West, and as a result it has the worst scores on nine major health and social indicators. (See article link above.)

Adam Smith would never have supported the high levels of taxation and government regulation that exist today, but he could not have foreseen the incredible complexity of the world economy, the huge inequities caused by unfettered markets, and the dangers of unscrupulous financial dealings, which brought on the Great Recession and world financial markets to the brink. These events have convinced many people that the “third way” between capitalism and Communism has proved itself more than worthy of respect and application.

Nick Gier taught philosophy at the University of Idaho for 31 years.