

## **ADAM SMITH AND THE CHICAGO SCHOOL**

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Adam Smith's discussion of the system of natural liberty, its effects on the functioning of the market system, and the resultant implications for the economic role of the state has formed the basis for much of the subsequent economic literature analyzing the interplay of market and state. That there is no settled interpretation of this and any number of other aspects of Smith's work is clear; what is equally clear is that Smith's ideas have, via particular interpretive turns, been used to support the development of theories and frameworks for the analysis of economic policy. This is interesting for the interpretation given to Smith's ideas, the uses made of them in light of that, and how both of these factors influence the larger professional (and even popular) view of Smith. The present essay examines what may be the most fertile of these uses of Smith in the twentieth century: that associated with the Chicago school.

While Smith is shared by virtually all economists, it would be hard to argue that the association of his name with any subset of them would be as strong as that with the Chicago school. There is also no question that the Chicago school has both claimed and evidenced a close affinity with Smith—directly or indirectly—for three-quarters of a century. Frank Knight, who is rightly considered a central figure behind the establishment of the Chicago school, did a great deal to cement the place of Smith within the Chicago

tradition. While the Cambridge school and the American Institutionalists, for example, were distancing themselves in important ways from Smith and the larger classical tradition,<sup>1</sup> Knight embraced Smith. He considered *The Wealth of Nations* “a work in which wisdom, learning, and the power of analysis are joined to an extraordinary degree” (1951, p. 8). The same can be said for Jacob Viner, another prominent member of the early Chicago school, who had a tremendous passion for the history of ideas, perhaps going beyond that of any other prominent member of the Chicago school.<sup>2</sup> Viner wrote extensively on Smith, and in very positive, although not hagiographic, terms.

This strong interest in Smith continued in the second generation of the Chicago school, where George Stigler, Milton Friedman, and Ronald Coase figure so prominently. Coase, for example, held Smith in extremely high regard, saying that *The Wealth of Nations* is a book that he “contemplates with awe,” and that “In keenness of analysis and in its range it surpasses any other book on economics” (1977, p. 325). But it is George Stigler, Adam Smith’s best friend in the estimation of some, who has probably done more than anyone else to cement the professional tendency to associate Smith with the Chicago tradition. Stigler calls Smith “the premier economist of all time” and “as great an economist as has ever lived” (1976a, p. 63; 1976b/1982, p. 147). A major reason for this is that, according to Stigler, “Perhaps no other economist has

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<sup>1</sup> On Cambridge, see, e.g., Pigou (1932) and the discussion in Shackle (1967); within Institutionalism, see, e.g., Mitchell (1967, pp. 166-67), Clark (1926), and the discussion in Rutherford (2005).

<sup>2</sup> The main challenger would be Stigler, but Stigler was much more of a historian of economic theory as against Viner’s broader intellectual history perspective. See Stigler (1941, 1965b).

ever fully shared Smith's immense understanding of the forces that govern the structure and development of economies" (1952/1965, p. 197). In surveying the broad contours of the history of economic thought in his essay on "The Economist as Preacher," Stigler makes it very clear that Smith is one set apart when he says that

All but one of the economists I quote were highly intelligent, disciplined men whose views on subjects related to economics deserve your attention and thoughtful consideration, but no more. One, Adam Smith, is differently placed: if on first hearing a passage of his you are inclined to disagree, you are reacting inefficiently; the correct response is to say to yourself: I wonder where I went amiss? (1981/1982, p. 4).

Beyond suggesting that Smith is more likely to be correct than any modern who disagrees with him (and Stigler may well be on solid footing here), Stigler is in one sense, at least, putting Ricardo, Mill, Marx, Jevons, and Marshall on one plane, and Smith above them all—a fact perhaps as remarkable for the status Stigler gives to Marx as for that given to Smith.<sup>3</sup>

While Stigler never overtly claims Smith for Chicago, he repeatedly emphasizes the lessons that modern economists can draw from Smith's work.<sup>4</sup> Indeed, one gets a strong sense from Stigler's writings on Smith that he does associate Smith with economics "properly done," and, given Stigler's view that

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<sup>3</sup> While Stigler certainly had an appreciation for Ricardo's analytical approach, he says that "Ricardo had neither Smith's genius for isolating fundamental empirical relationships nor his supreme common sense" (1952/1965, p. 194).

<sup>4</sup> The same is true for Coase, who repeatedly laments how little progress economists have made on Smith's work. See, for example, Coase (1977).

the Chicago approach was superior to the neoclassical orthodoxy on a number of fronts, it would not be stretching things to suggest that Stigler saw a particular affinity between Smith and Chicago.

The standard depiction of the Chicago approach to economics is that it seizes on two aspects of Smith's thought—the efficacy of the system of natural liberty and the dim view of the abilities of the state to improve on the outcomes associated with natural liberty—and pushes them to the limit in its elaboration of a model of a competitive market system in which government is an impediment to, rather than a facilitator of, economic efficiency. And, like most caricatures, this one has elements of truth to it. The minimalist view of Smith has long pervaded the Chicago tradition, as well as the Virginia school tradition that in many ways sprang out of Chicago. However, the Chicago school's discussion and use of Smith is not homogeneous, and the differences are reflected in the distinctions one can see between what McCloskey has called “the Good Old Chicago School” of, e.g., Frank Knight, Jacob Viner, and Ronald Coase and the “new” Chicago of, e.g., George Stigler, Gary Becker, and Richard Posner. The latter group has given us the man Jerry Evensky (2005) has named “Chicago Smith,” whose work corresponds rather closely with their own rational choice-based analysis of competitive market structures in an a-institutional context. The former group, in contrast, paints a picture rather closer to what Evensky calls “Kirkaldy Smith”—a Smith who is a bit harder to pin down and who is more overtly attuned to the import of what Coase has

called “the institutional structure of production” and the role played by government within that structure.<sup>5</sup>

The purpose of this essay is not to get into a lengthy debate over the merits of the different Chicago interpretations of Smith as against each other or against other interpretations of Smith extant in the literature. Rather, we want to draw out the features of these Chicago views of Smith and, resisting all but the most basic commentary, leave it to the reader of this *Companion* to contrast the Chicago views with each other and with other perspectives on Smith and his work.

### **George Stigler and the Construction of “Chicago Smith”**

To understand the context for the “new” Chicago’s view of Smith, it is useful to begin with Melvin Reder’s (1987, p. 413) identification of the “two main characteristics” of the Chicago school. The first of these characteristics is the “belief in the power of neoclassical price theory to explain observed economic behavior.” The second characteristic is the “belief in the efficacy of free markets to allocate resources and distribute income.” And, he says, correlative with the second is “a tropism for minimizing the role of the state in economic activity.” It seems natural, then, that one finds that the construction of “Chicago Smith” has two major threads: (i) the construction of economic theory founded upon the principle of self-interest and (ii) the efficacy of a competitive market system

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<sup>5</sup> This distinction is perhaps nowhere more evident than in the meanings attributed to “The Problem of Social Cost” by Coase and by Stigler, each of whom sees himself working squarely in the tradition of Smith. On this point see, e.g., Medema (1995) and McCloskey (1998). One might be tempted to conclude that these differences are generational, but, as the subsequent discussion will make clear, it is methodological issues that are at the heart of many of the differences of interpretation, perhaps even including those related to the economic role of the state.

and the resultant implications for the role of government vis-à-vis the market in economic activity.

It would surprise no one to hear the Chicago school approach to economics described as “a stupendous palace erected upon the granite of self-interest.” This phrase was not used to describe the Chicago school, however, but Smith’s *Wealth of Nations*, and the person doing the describing was none other than George Stigler (1971/1982, p. 136).<sup>6</sup> For Stigler, Smith’s “one overwhelmingly important triumph” was that “he put into the center of economics the systematic analysis of the behavior of individuals pursuing their self-interest under conditions of competition” (1976b/1982, p. 147). Indeed, such is the primacy of the concept in Smith’s system, on Stigler’s reading, that he questions whether *The Theory of Moral Sentiments* bears any relationship at all to Smith’s economics (1960/1965, p. 28). In *The Wealth of Nations*, Stigler argues, “The immensely powerful force of self-interest guides resources to their most efficient uses ...—in short, it orders and enriches the nation which gives it free reign. Indeed, if self-interest is given even a loose rein, it will perform prodigies ...” (Stigler 1971/1982, p. 136).<sup>7</sup> So, on Stigler’s reading, Smith considered the self-interested behavior that inevitably characterizes economic

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<sup>6</sup> In support of this, Stigler cites Smith’s statement that “though the principles of common prudence do not always govern the conduct of every individual, they always influence that of the majority of every class and order” (Smith 1776, II.2.36).

<sup>7</sup> Citing Smith to the effect that “The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security” (Smith 1776, IV.5.82).

activity, channeled through a competitive system, as a recipe for efficient outcomes.

The centrality of self-interested behavior in this “Chicago Smith” led Stigler, circa 1971, to label Smith “the premier scholar of self-interest” (1971/1982, p. 139) and to call his aspect of Smith’s work “the crown jewel” of *The Wealth of Nations* (1976b/1982, p. 147). While we do not know whether the maturation of Gary Becker caused Stigler to change his opinion on Smith’s relative status among scholars of self-interest, we do know that Stigler sees an essential continuity between what he considers Smith’s model of self-interested behavior under competitive conditions and present-day economics. This continuity is evidenced in Stigler’s view that Smith’s approach “remains to this day ... the foundation of the theory of the allocation of resources.” (1976b/1982, p. 147).<sup>8</sup>

In fact much of the reason for Smith’s greatness seems to rest, for Stigler, in Smith’s “modernism”—that is, in the analytics that underpin and undergird his positions that Stigler sees as carried through in modern economics. For example, he says, for Smith the “negatively sloping demand curve was already axiomatic” (1950/1965, p. 69).<sup>9</sup> Stigler also points to Smith’s argument that, “*as a matter of demonstrable economic analysis, ... the individual in seeking his own betterment will put his resources where they yield the most to him, and that as a rule the resources then yield the most to*

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<sup>8</sup> See also Becker (1976, 1981).

<sup>9</sup> Citing Smith’s statement that “A competition will immediately begin among [the buyers when an abnormally small supply is available], and the market price will rise more or less above the natural price” (Smith 1776, I.7.9).



society” (1965a/1982, p. 120, emphasis added). In doing so here and elsewhere,<sup>10</sup> Stigler equates Smith’s statements about increased national wealth with the much more modern (and precise) notion of “efficiency.” In this same, modernistic vein, Stigler goes so far as to link up Smith’s approach with contemporary economics imperialism. He characterizes Smith as giving us “a theorem of almost unlimited power on the behavior of man” that is “Newtonian in its universality” (1976b/1982, p. 158). This “always and everywhere” gravitational allusion is not accidental, but rather reflects what Stigler sees as the pervasiveness of self-interested behavior throughout human life.<sup>11</sup> Such is its generality that “we today are busily extending this construct into areas of economic and social behavior to which Smith himself gave only unsystematic study is tribute to both the grandeur and the durability of his achievement” (1976b/1982, p. 158).<sup>12</sup>

Stigler’s portrait of a Smithian system in which self-interest reigns has a normative component, too. Stigler’s Smith believed that self-interested behavior, channeled through the market, is likely to generate desirable social outcomes as long as government does not interfere with its operation. As Stigler noted in his 1964 Presidential Address to the American Economic Association, “The main burden of Smith’s advice ... was that the conduct of economic affairs is best left to private citizens—that the state will be doing

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<sup>10</sup> See Stigler (1971/1982, p. 136).

<sup>11</sup> Both Stigler and Becker see the idea of fixed tastes and preferences that influence behavior across the spectrum of human behavior evidenced in Smith. See, e.g., Stigler (1981/1982, p. 6) and Becker (1976, p. 282).

<sup>12</sup> Beyond Stigler’s general reference to the origins of economics imperialism in Smith, Becker (1975) links his human capital theory very explicitly to Smith’s discussion in *The Wealth of Nations*.

remarkably well if it succeeds in its unavoidable tasks of winning wars, preserving justice, and maintaining the various highways of commerce” (1965a/1982, p. 119).<sup>13</sup> One would have to search hard to find a more apt depiction of what most would consider the Chicago view—of Smith or of the world.

While Milton Friedman’s discussion of Smith exhibits neither the breadth nor depth of Stigler’s extensive Smith scholarship, his bicentennial essay on “Adam Smith’s Relevance for 1976” evidences the same minimalist view we find in the above-quoted passage from Stigler’s AEA Presidential Address. Friedman seems to espouse a spontaneous order view of Smith, noting that “[t]he market, with each individual going his own way, with no central authority setting social priorities, avoiding duplication, and coordinating activities, looks like chaos to untutored eyes.” Yet, he says, “through Smith’s eyes we see that it is a finely ordered and effectively tuned system, one which arises out of men’s individually motivated actions, yet is not deliberately created by men” (1978, p. 17).<sup>14</sup> The associated implications for the economic role of government are straightforward, says Friedman, consisting of “those elementary functions” of government—defense, justice, and certain public works—“that Smith regarded as alone compatible with the ‘obvious and simple system of natural liberty’” (1978, p. 7).

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<sup>13</sup> Elsewhere, Stigler (1976, p. 1201) argues that “The crucial argument [of Smith’s] for unfettered individual choice in public policy was the efficiency property of competition ...”

<sup>14</sup> Friedman says that “Adam Smith’s invisible hand” gives rise to “the possibility of cooperation without coercion” (<http://www.econlib.org/library/Essays/rdPncl1.html>).

Of course, Stigler did not go so far as to suggest that there is no role for the state in Smith's system. In fact, he says, "When the individual does not know, or does not have the power to advance, his own interests, Smith feels remarkably free to have the state intervene" (1965a/1982, p. 120). Yet, Stigler seems to think that, for Smith, such instances are rather limited, and he sees Smith's preference for "private economic activity" deriving from two sources. The first was Smith's "belief in the efficiency of the system of natural liberty" (1965a/1982, p. 120). For example, Stigler says, *The Wealth of Nations* contains a lot of preaching in its later pages, but Smith addresses little of it toward the private behavior of individuals (1981/1982, pp. 4, 6). He cites Smith's attacks on protectionism as an illustration of the benefits of the system of natural liberty in that, in Stigler's view, they "rested squarely on his theory of competitive prices." That is, in Smith, according to Stigler, the "crucial argument for unfettered individual choice in public policy was the efficiency property of competition" (1976b/1982, p. 148).<sup>15</sup>

The second source that Stigler finds for Smith's preference for private sector outcomes is that Smith "deeply distrusted the state"—mostly because of its propensity to be captured by special interests (1965a/1982, pp. 120-21).<sup>16</sup> Smith's disparaging remarks about government officials are well-known and need not be repeated here. What is worth noting, however, is Stigler's attitude

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<sup>15</sup> Stigler here quotes Smith's famous passage that "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society" (Smith 1776, IV.2.4).

<sup>16</sup> Citing Smith's remarks about legislatures being influenced by "the clamorous importunity of partial interests" (Smith, 1776, IV.2.44).

toward Smith's discussion of political agents. Stigler contends that Smith "implicitly locates the most numerous and consistent failures of self-interest in guiding people's behavior" in the political arena (1971/1982, pp. 144-45).<sup>17</sup> Yet, he says, Smith's "attitude toward political behavior was not dissimilar to that of a parent toward a child: the child was often mistaken and sometimes perverse, but normally it would improve in conduct if properly instructed" (1971/1982, p. 142). The centrality of self-interest in Stigler's view of Smith comes through very clearly here, as Stigler chastises Smith for failing to realize that political agents are self-interested in their behavior. In essence, Stigler is criticizing Smith for not being a prototype public choice economist. Nor is Stigler willing to allow that Smith's failure here could be explained by the fact that everyone else in that era, too, looked at political behavior in non-self-interested terms; Smith, he says, "is a better man than everyone else." (1971/1982, p. 143), and so should be above such slip-ups.

### **Recovering Kirkaldy Smith? The "Good Old Chicago School"**

So far, the Chicago version of Adam Smith sounds pretty much as expected: his ideas correspond almost exactly to Reder's description of the Chicago approach. But there is a different Smith evidenced in the Chicago school literature—the Adam Smith of McCloskey's "Good Old Chicago School"—and this Dr. Smith sounds a bit more eclectic and pragmatic than the "Chicago Smith" of Stigler *et al.*

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<sup>17</sup> Stigler points to incomplete information, agency, and public good problems cited by Smith, as other instances of the failure of self-interest to comport with the social interest, but Stigler is of the mind that most of these were "nonexistent or of negligible magnitude" for Smith (1971/1982, pp. 144-45)

McCloskey has said that the “Good Old Chicago School” is the legacy of Smith and the new Chicago is that of Bentham—and thus the latter gives us a Smith read in Benthamite terms. We can see some evidence for McCloskey’s position in that the part of “Chicago Smith” that sees a world consisting of rational maximizers of self-interest promoting the general welfare within a framework of competition is somewhat difficult to find in the Smith portrayed by the Good Old Chicago School of Knight, Viner, and Coase. For starters, Smith’s man looks a lot less like *homo economicus* in the “Good Old” depictions, and we certainly do not find the case for economics imperialism in this view of Smith. In fact, quite the opposite. In a market context, says Viner, “The social sentiments are not aroused to action, and [Smith’s] man behaves in response to calculating, rational self-interest” (1960/1991, pp. 216). However, things are rather different in other areas of life: “For the social system as a whole, excluding its market aspects, the beneficial outcome of laissez faire, according to Smith, results from the social interests embodied in human nature, as well as from the ‘moral sentiments,’” including sympathy, desire for approval, conscience, and benevolence (1960/1991, pp. 215). We find a similar perspective expressed by Coase, who argues that Smith’s view of man is not economic man with his rational, single-minded pursuit of his self-interest. Indeed, he says, “Adam Smith would not have thought it sensible to treat man as a rational utility-maximiser. He thinks of man as he is—dominated, it is true, by self-love but not without some concern for others, able to reason but not necessarily in such a way as to reach the right conclusion, seeing the

outcomes of his actions but through a veil of self-delusion” (Coase, 1976, pp. 545-546).<sup>18</sup> The point, according to Coase, is that Smith saw that benevolence *cannot* serve as a coordinating force in a *market* context. It will work in certain small, close economic contexts—for example, within the family, or among certain business associates—but in modern society we must “rely on the market, with its motive force, self-interest.”<sup>19</sup> Outside of this context, though, behavior, for Smith, is rather more multifaceted.

This more complex characterization of Smith is evidenced in other areas as well. Consider, for example, the case of the invisible hand and private-social harmony. Viner does not reject the notion that Smith sees a correspondence between the pursuit of private interests and the promotion of the larger

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<sup>18</sup> In discussing Smith’s treatment of the American Revolution in *The Wealth of Nations*, Coase suggests that self-interested behavior likely explains at least some of the motivation of the revolutionary leaders, as Smith suggests. Yet, he says, it does not seem to be an adequate explanation for “why the American leaders had followers” (Coase, 1977, p. 324). Coase finds the explanation in *The Theory of Moral Sentiments* and the ideas, expressed by Smith, that “The great mob of mankind are the admirers and worshippers, and, what may seem more extraordinary, most frequently the disinterested admirers and worshippers of wealth and greatness” (Coase, 1977, p. 324). This explanation of human motivation falls far closer to the Veblenian status emulation than to “economic man.”

<sup>19</sup> Coase goes on to opine that “If man were so constituted that he only responded to feelings of benevolence, we would still be living in caves with lives ‘nasty, brutish and short’” (Coase, 1977, p. 315).

Coase’s perspective on the scope of benevolence *vis-à-vis* the market contains a particularly Coasean twist, as the following two quotations illustrate:

We just do not have the time to learn who the people are who gain from our labors or to learn their circumstances, and so we cannot feel benevolence towards them even if benevolence would be justified were we to be fully informed (Coase, 1977, p. 314).

Again, the observance of moral codes must very greatly reduce the cost of doing business with others and must therefore facilitate market transactions (Coase, 1976, p. 545).

What we see here is essentially a transaction cost explanation for the functioning of benevolence. In the former instance, the transaction costs associated with forming close relationships are sufficiently high to render the formation of such relationships either impossible or prohibitively costly. In the latter instance the observance of moral codes serves to reduce the transaction costs associated with market exchange. One might even say that, from this perspective, the impartial spectator, who regulates the interaction of benevolence and self-interest, is a transaction-cost minimizer.

interests of society. He allows that both *The Theory of Moral Sentiments* and *The Wealth of Nations* find Smith postulating a harmonious order of nature within which man, in the course of pursuing his own interest, serves the larger interests of society (e.g., 1927/1991, pp. 93-94). But he is also convinced that “the significance of the natural order in Smith’s economic doctrines has been grossly exaggerated” (1927/1991, p. 103). In contrast to Stigler’s portrait of a Smith who expresses virtually unlimited optimism regarding the working of self-interest, Viner argues that Smith saw the linkage between self-interest and societal interests as “partial and imperfect” in the economic realm. Self-interest and competition, he says, were for Smith “sometimes treacherous to the public interest they were supposed to serve” (1927/1991, pp. 93, 113). Knight, too, dismisses the view that Smith “believed in a universal harmony of interests among men,” calling this “merely one discouraging example of what passes widely in learned circles for history and discussion” (1951, p. 267). To style Smith as “the ‘apostle of self-interest,’” he says, leaves out a great deal of the story, particularly given that Smith “took no pains to conceal his dislike for some of the forms in which self-interest manifests itself in trade and industry” (1951, p. 9).

Even if human nature does exhibit the sort of harmony that some read into Smith, Coase (1976, p. 543) says that this “does not imply that no government action is required to achieve the appropriate institutional structure for economic activity.” This, of course, is more or less the explanation for Lionel Robbins’ (1952) identification of the state as the invisible hand. But problems

with the harmonization process carry the case for government action well beyond this. And, because self-interest works only imperfectly to promote the greater social interest, Smith was certainly not averse to what Viner calls “governmental interference with private interests” if the effects of such interference were likely to be socially beneficial (Viner, 1927/1991, p. 101; Knight, 1951, p. 9).

One can see a significant break between the earlier and later Chicago views of Smith here, both in the extent of government action considered socially beneficial and in the rationale for perceived limits on state action. On the first of these subjects—the appropriate extent of government action—both Knight and Viner saw a basic preference for non-interference in Smith, but they were also clear about the extent to which exceptions to this principle that can be found in *The Wealth of Nations*. Speaking of the classical period generally, Knight points out that “The laissez-faire economists of the straightest sect made exceptions of a sort which opened the way to much wider departures from the principle when and as changed conditions might seem to demand,” and, he argues, this “applies particularly to the great apostle of the movement, Adam Smith” (1947, p. 50). Viner makes a similar point when he says that “If Smith had adopted the term ‘laissez faire’ as an appropriate label for his own policy views, he undoubtedly would not have interpreted it literally as a condemnation of all government interference with the activities of private individuals” (1968/1991, p. 259).<sup>20</sup> In fact, says Viner, while Smith’s “one

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<sup>20</sup> Viner goes on to list a string of activities that Smith sees as appropriate for the state.



deliberate and comprehensive generalization” regarding the proper functions of the state would “narrowly restrain” its activities, the actual range of activities pointed to by Smith was so extensive that, if Smith “had been brought face to face with a complete list of the modifications to the principle of laissez faire to which he at one place or another had granted his approval, I have no doubt that he would have been astounded at his own moderation” (1927/1991, p. 102). So, it seems, would Stigler and Friedman.

As far as the rationale for the limits on state action, recall that, in making the case for a minimalist Smith, Stigler put the efficacy of private actions and the system of natural liberty on at least equal footing with the pitfalls of state actors and actions. Knight, in contrast, did not see Smith as one who advocated individual or private activity as inherently beneficial. For him, the case for the market in Smith rests largely on “the stupidity of governments rather than the competence of individuals” (1947, p. 2). In that vein, Knight seems particularly fond of Smith’s remark concerning “that insidious and crafty animal vulgarly called a statesman or politician,” to which he refers on multiple occasions (see, e.g., 1951, p. 23). In like manner, Viner views Smith’s antipathy toward government intervention not as a commentary on government per se, but on the relative magnitude of the flaws associated with untrammelled private action on the one hand and with government incompetence and corruption on the other. Many of the activities required an assumption that government knew better than the individual what was in his interest, and that, says Viner, was something Smith could not concede

(1927/1991, p. 104). Coase sees the matter in virtually the same pragmatic way, suggesting that Smith was opposed to many forms of government action not just because he considered them unnecessary, but because he felt that “government action would usually make matters worse” because “Governments lacked both the knowledge and the motivation to do a satisfactory job in regulating an economic system” (1977, p. 319).

On Viner’s reading, Smith saw government, even though inept, as the best option in some cases (1927/1991, p. 113), and Smith was willing to give government a wide berth “where, by exception, good government made its appearance” (1927/1991, p. 105).<sup>21</sup> While Stigler, as we have already seen, was quick to criticize Smith for seeming to assume that politicians were more or less immune from the self-interest that he ostensibly attributed to most other forms of human behavior, we see no such criticism from Viner. Viner, in fact, seems very pleased with the non-doctrinaire nature of Smith’s belief that government could show that it was “entitled to wider responsibilities” if it improved “its standards of competence, honesty, and public spirit” (1927/1991, p. 112).

Beyond the greater optimism about government in the Good Old Chicago interpretation, we also see here a Smith who is claims less for market

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<sup>21</sup> Viner cites Smith’s statement that “The ordinary, vigilant, and parsimonious administration of such aristocracies as those of Venice and Amsterdam, is extremely proper, it appears from experience, for the management of a mercantile project of this kind. But whether such a government as that of England; which, whatever may be its virtues, has never been famous for good oeconomy; which, in time of peace, has generally conducted itself with the slothful and negligent profusion that is perhaps natural to monarchies; and in time of war has constantly acted with all the thoughtless extravagance that democracies are apt to fall into; could safely be trusted with the management of such a project, must at least be a good deal more doubtful” (Smith 1776, V.2.5).

outcomes than does the Smith of the “new” Chicago view. Against Stigler’s efficiency-oriented view, Viner contends that “It is not clear that Adam Smith believed that laissez faire would carry the wealth of a nation to some kind of theoretically-conceivable maximum.” What *is* clear, according to Viner, is that Smith believed that, “subject to a vague and in part logically inconsistent list of qualifications ... economic society left to its autonomous operation would produce a higher level of economic welfare than would accrue if government, inefficient, ignorant, and profligate as in practice it was, should try to direct or regulate or operate it” (1960/1991, p. 216).<sup>22</sup> This same “it’s better than the alternative” perspective is evidenced in Knight, when he says that Smith showed how the “apparent chaos of competition” is actually “an orderly system of economic cooperation” where “individual freedom” rather than “central direction” leads not to some “maximum,” but simply to increased national wealth and want satisfaction as compared with the alternative (1951, p. 9).

This last point is reflective of the fact that the tightly analytical, “axiomatic,” and even determinate aspect of “Chicago Smith” is largely absent in the Good Old Chicago school interpretation. Knight saw Smith’s approach evidencing “hard common sense”—mixed with “genial humanity”—rather than “rigorous analysis” (1947, p. 3). This last sentiment is echoed by Viner, who noted that Smith extensively qualified his statements with words like

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<sup>22</sup> In a swipe at the circa-1920s mantra of “social control” as against those who parroted “demand and supply,” Viner suggested that Smith’s words regarding the “impertinence and presumption ... in kings and ministers, to pretend to watch over the oeconomy of private people ...” had present import: “If the standards of public administration are low, progress from a life regulated by the law of demand and supply to life under the realm of social control may be progress from the discomforts of the frying pan to the agonies of the fire” (1927/1991, p. 104). See Smith (1776, II.3.36).

“perhaps,” “generally,” and “in most cases,” as a result of which “his models are not tight or rigorous” (1968/1991, p. 257).<sup>23</sup> The Good Old Chicago Smith is more circumspect and provisional than the new Chicago Smith. Moreover, both Viner and Coase laud the lack of a priorism in Smith’s analysis, and one of the things that Coase finds so important about Smith’s analysis in *The Wealth of Nations* is “its careful observations on economic life” (Coase, 1977, p. 309). Likewise, Viner notes on several occasions that Smith’s analysis is “built up by detailed inference from specific data and by examination of specific problems ...” (1927/1991, p. 95).<sup>24</sup> This includes Smith’s generalizations about the appropriate role for the state and even his assessment of which specific governmental functions are consistent with the natural order—that latter being that group of functions which promote the general welfare, as revealed empirically (1927/1991, pp. 102-103). What we have, in Viner and Coase, is an almost Marshallian Smith—a Smith in keeping with the affinity for Marshall so amply evident in their respective works.

### **Conclusion**

In the Chicago school, then, we meet two contrasting views of Smith. One is rather straightforward and well-defined, the other more nuanced. One sounds a great deal like a neoclassical economist, the other more pluralistic. One is

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<sup>23</sup> Here Viner cites the same passage that Stigler cites to justify his view of a more straight-on self-interest motive in Smith. See note 6, above, and Smith (1776, II.2.36).

<sup>24</sup> This is not surprising, coming from Viner, who encouraged the development of quantitative analysis at Chicago, as against Knight’s more purely theoretical approach and outright resistance of the quantitative turn in economic analysis. See, e.g., Reder (1982, 1987). Stigler (1952/1965, p. 194), too, appreciated Smith’s empirical and commonsensical bent as against, say, Ricardo, but was far more taken with Smith’s analytical efforts and what they ultimately gave us for the present.

something of a champion of laissez-faire, the other evidences a more broad-based role for government within the economic system. Yes, there are elements of continuity over time, but also, and especially, significant differences of interpretation. But of course, this should not be surprising. As Viner so accurately pointed out, “Traces of every conceivable doctrine are to be found in that most catholic book, and an economist must have peculiar theories indeed who cannot quote from the *Wealth of Nations* to support his special purposes” (1927/1991, p. 92). Of course, Viner’s point here was not that Smith *should* be used for such purposes, but that there are lessons to be drawn from the eclectic, pragmatic, and provisional nature of Smith’s work. As he says in closing out his famous essay, “Adam Smith and Laissez-Faire,” “In these days of contending schools, each of them with deep, though momentary, conviction that it, and it alone, knows the one and only path to economic truth, how refreshing it is to return to the *Wealth of Nations* with its eclecticism, its good temper, its common sense, and its willingness to grant that those who saw things differently from itself were only partly wrong” (1927/1991, p. 113).

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