

PREFACE: ADAM SMITH AT 300

In 2023, the world celebrated the tercentenary of Adam Smith's birth. He published *The Theory of Moral Sentiments* (TMS) in 1759, and *The Wealth of Nations* (WN) in 1776 — two seminal works that continue to shape the moral and social sciences. Schumpeter (2008 [1942], p. 3) argued that a work is not great because it “must necessarily be a source of light or faultless in either fundamental design or details.” Instead, the true mark of greatness is that a work cannot die, but has “revivals.” Schumpeter even suggested that “adverse judgment or even exact disproof [of it], by its very failure to injure fatally, only serves to bring out the power of the structure.” This applies to both of Adam Smith's major works. While neither is flawless, both are sources of light.

Like other great works, they contain numerous ideas and propositions, not all of which Smith was able to express unambiguously. The involved vagueness invites alternative interpretations and continuous debates, ensuring the lasting interest and attention of Smith's contributions. Is there a fundamental contradiction between the WN and TMS, famously referred to as “Das Adam Smith Problem”? Or does Smith simply apply the rule of “horses for courses,” presenting a thoroughly selfish agent in certain socioeconomic contexts and a caring, benevolent one in others? Some contradictions stem from inconsistencies in Smith's reasoning. One might argue, therefore, that there is not just one Adam Smith problem, but several. These inconsistencies provide fertile ground for misunderstandings and competing interpretations. However, whatever is the case in these regards, Smith's oeuvre contains a remarkably solid body of thought, which was the source of inspiration for generations of economists and from which we can still learn a lot and which still waits to be fully explored and absorbed.

One problematic interpretation of Smith deserves special emphasis. Many readers of *The Wealth of Nations* overlook the specific circumstances or institutional contexts in which certain propositions are supposed to apply. They often do not recognize that Smith's praise for interdependent markets is far from unconditional. He presupposes a "well-governed society," as he emphasizes right at the beginning of *The Wealth* (WN I.i.10). In such a society, the "statesman and legislator," for whom Smith specifically wrote the work, succeeds in warding off the hazards that threaten "the obvious and simple system of natural liberty" (WN IV.ix.51) and disrupt the smooth "process of civilization." These threats include the instability of banking, the "wretched spirit of monopoly" among merchants and manufacturers who continuously seek to limit competition, and the hedonism and love of money in people unwilling to defend their country in times of war. Smith believed that in these and several other cases, the "wisdom of the state" (WN V.i.a.14) was crucial. Without this wisdom, there is no reason to expect markets to perform well and the "game of human society" go on easily and harmoniously. A well-governed society is a necessary pre-condition for the obvious and simple system of natural liberty; the two are inseparable, like two sides of the same coin.

The tercentenary of Adam Smith's birth offers a timely opportunity to revisit his groundbreaking contributions and address some common yet misleading interpretations. This special issue of *Investigación Económica* presents five papers that engage with these contributions in depth.

Christian Gehrke revisits Smith's theory of value and distribution. Many often interpret this as rooted in labor value-based reasoning, which has led them to believe that Smith and the classical economists' approach to value hinges on the labor theory of value. While Smith's value theory includes labor-based elements, it also incorporates other aspects. Scholars have noted that the French Physiocrats strongly influenced Smith, and Gehrke refers to this as their "material expenses approach" to value. According to this view, the value of a commodity depends on the quantities of materials —such as sustenance for workers, raw materials, and means of production— productively consumed during production. The duality of these approaches, present in the Physiocrats' doctrines, persisted in Smith's analysis. The unclear relationship between the two caused confusion in Smith's work for a long time. It was only Sraffa

(1960) who clarified this relationship, removing a significant barrier that had hindered the development of the classical approach to value and distribution for nearly two centuries.

Lefteris Tsoulfidis examines Smith's theory of value and distribution from yet another perspective. He identifies a second kind of duality which has caused ambiguity and misinterpretation. This lies between the labor-embodied and labor-commanded approaches to value and distribution. Tsoulfidis argues that this distinction misled major commentators on Smith, such as David Ricardo and Karl Marx. Ricardo limited the labor value-based approach to what Smith had called the "original state of things", in which there are only negligible produced means of production employed and land is not yet privately appropriated; in this state the whole product belongs to the laborer. Marx, on the other hand, boldly attributed to Smith a labor theory of value that, if fully developed, would resemble his own. Similarly, according to Tsoulfidis, Smith attributed a tendency of the rate of profit to fall to a rising capital intensity rather than excessive competition, as is commonly maintained. However, deviations from Smith's original contribution did not end here: The marginalist authors later diverged further, claiming, with reference to the water and diamond example in *The Wealth*, that Smith lacked a complete theory due to his failure to incorporate the demand side using marginal utility theory.

Alejandro Valle Baeza offers yet another perspective on Smith's analysis of the object of political economy and the problem of the measure of value. He reminds readers that, despite his frequent criticisms, Marx held Smith in high regard, classifying him as a classical political economist, not a "vulgar" one—in Marx's sense of the term vulgar economics—who only scratched the surface of phenomena without getting to their core and substituted propaganda for the search of truth. Valle Baeza then turns to Léon Walras' criticism of Smith, particularly his focus on dynamic factors influencing economic growth and development. Smith studied the role of capital accumulation in determining the size of markets, which in turn drives a deepening division of labor and increases labor productivity. While Walras focused on the allocation of productive forces in static conditions, Smith paid attention to the dynamic forces altering these conditions. He also highlighted the importance of power in determining income distribution—a factor often neglected in mod-

ern economics based on the Walrasian paradigm. Smith was clearly no Walrasian trying to come out. Finally, Valle turns to the problem of the measurement of value in the works of the Classical political economists and Marx.

Mark Knell and Heinz D. Kurz take a close look at Smith's comparison between the "natural course of events," an ideal development path, and the actual path, shaped by all sorts of misguided policies. These policies not only slow down but can even reverse the "process of civilization." To assess the extent of these deviations from the "natural course," Smith engaged in counterfactual reasoning, asking questions like, "What *if* certain mercantile institutions, such as the East India Company, did not exist?" Knell and Kurz begin by exploring Smith's scientific method and his indebtedness to discussions of causality and counterfactuals in the works of polymaths like Isaac Newton, mathematician Robert Simson, moral philosopher Francis Hutcheson, and historian-philosopher David Hume. Smith adopted and adapted some of their ideas to fit his own research. However, another influence, reflected in his "physiocratic prejudice" that placed special emphasis on corn, weakened his critique of mercantilism and hindered his understanding of manufacturing as an engine of growth.

Richard Sturn focuses on Smith's concept of the "science of the legislator," which aimed to guide political rulers. He points out that while Smith's perspective on human agency, particularly in *The Theory of Moral Sentiments*, recognized the value of scientific knowledge, he also warned against over-reliance on social science findings due to the complexity of its subject matter. Newton had given the natural sciences a new and promising direction, and Smith sought to do something similar for the human sciences. However, he understood that simply transferring Newton's method was not possible. The multiplicity of human motivations and behaviors, their historical contingency, the role of institutions in forming them, and so on, required a sort of kaleidoscopic approach. This approach allowed Smith to study society and the economy through the lenses of different scientific "systems" or studying them with the help of different "machines," built to mimic their functioning and of cause and effect in them. Sturn concludes that Smith's pragmatic and pluralistic viewpoint was his way of handling the complexities inherent in the human sciences.

Let me conclude by expressing my gratitude to *Investigación Económica* and its Managing Co-Editors, Nancy I. Muller Durán, Sara M. Ochoa León, and Ignacio Perrotini Hernández, and its Adjunct Editor, Karina Navarrete Pérez, for bringing out this special issue, the contributors for their excellent work and cooperation, and the referees for their valuable reports. I hope this issue finds many readers interested in the fascinating work of one of the rightly celebrated heroes of our discipline. ◀

Heinz D. Kurz

Graz Schumpeter Centre,
University of Graz, Austria

REFERENCES

- Schumpeter, J.A. (2008 [1942]). *Capitalism, Socialism and Democracy*. Reprint of the 3rd ed. 1950. New York: Harper & Row.
- Smith, A. (several years). *The Glasgow Edition of the Works and Correspondence of Adam Smith*, six volumes, several editors. Oxford, UK: Oxford University Press.
- Sraffa, P. (1960). *Production of Commodities by Means of Commodities*. Cambridge: Cambridge University Press.