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RETHINKING THE "CHICAGO SMITH" PROBLEM: ADAM SMITH AND THE CHICAGO SCHOOL, 1929–1980*

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This article traces the origins and evolution of a popular interpretation of Adam Smith as a "Chicago-style" economist, and it challenges the idea that the "Chicago Smith" is simply a misinterpretation of Smith's ideas. To that end, it reexamines the role that the Chicago school of economics played in developing and propounding a distinct vision of Adam Smith, not only within the profession of economics, but also for the broader American public in the twentieth century. I argue that the readings, teachings, and interpretations of Smith from Chicago economists across different generations are more than just superficial symbolism, claims of intellectual authority, or rhetorical window dressing. Chicago's engagement with Smith's ideas constitute important interpretive and substantive arguments about the essence of Smith's contribution to economics and the role that Smith's ideas could play in shaping public policy.

INTRODUCTION

It has been a persistent theme of Smith scholarship of the last several decades that Adam Smith was *not* an economist, or that he was not *merely* an economist.[1]

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1 Donald Winch's *Adam Smith's Politics: An Essay in Historiographic Revision* (Cambridge, 1978) is one of the first major works of revisionist Smith scholarship. Following Winch, Knud Haakonssen's *The Science of a Legislator: The Natural Jurisprudence of David Hume and Adam Smith* (Cambridge, 1981); and Istvan Hont and Michael Ignatieff, eds., *Wealth and Virtue: The Shaping of Political Economy in the Scottish Enlightenment* (Cambridge, 1983), explicated the philosophical and natural jurisprudential foundations of Smith's politics. Samuel Fleischacker's *On Adam Smith's*

Rather, he was an ambitious social scientist of the Enlightenment, whose *Inquiry into the Nature and Causes of the Wealth of Nations* (1776) was but one part of a larger science of man.[2] This science sought to reveal and explain the hidden forces that governed human behavior in multiple realms of society. *The Theory of Moral Sentiments* (1759) explored how and why people learn moral behavior through a process of mutual sympathetic exchange, and he also proposed a work on the general principles of law and government—a work which he never finished and ultimately had destroyed before his death.[3] Given the wide span and richness of Smith's *oeuvre*, it is hardly surprising that a common complaint of intellectual historians, political theorists, and social scientists alike is the following: that distorted notions of self-interest and "the invisible hand" have eclipsed Smith's moral philosophy, jurisprudence, rhetoric, and belles lettres, and that Smith has become little more than an emblem for think tanks or a historical sound bite in textbooks.

A brief glance at history reveals that Smith use and abuse is no new phenomenon, however. At least in the United States, Adam Smith was taught in higher education as early as the 1780s and hailed as the father of the science of political economy in the 1820s. Several of the American Founders read, lauded, and incorporated Smith's ideas into their own political thought.[4] *The Wealth of Nations* was used widely as a textbook in colleges

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Wealth of Nations: *A Philosophical Companion* (Princeton, 2004); Ryan Hanley's *Adam Smith and the Character of Virtue* (Cambridge, 2009); and Emma Rothschild's *Economic Sentiments: Adam Smith, Condorcet, and the Enlightenment* (Cambridge, MA and London, 2001), are also significant contributions that forged a strong connection between Smith's political economy and moral philosophy. Works that have characterized Smith as a serious theorist of politics include Istvan Hont's lectures on *Politics in Commercial Society*, ed. Béla Kapossy and Michael Sonenscher (Cambridge, MA and London, 2015); Lisa Herzog's *Inventing the Market: Smith, Hegel, and Political Theory* (Oxford, 2013); and Paul Sagar's recent book *The Opinion of Mankind: Sociability and the Theory of the State from Hobbes to Smith* (Princeton, 2018).

2 Nicholas Phillipson characterizes Smith in such terms in his recent biography, *Adam Smith: An Enlightened Life* (New Haven, 2011). See also James Buchan, "The Biography of Adam Smith," in Ryan Patrick Hanley, ed., *Adam Smith: His Life, Thought, and Legacy* (Princeton, 2016), 3–16, on the role of biography (including Phillipson's) in shaping our understanding of Smith's ideas.

3 Smith advertised this work on law and government at the end of the final edition to *The Theory of Moral Sentiments* published in 1790, and also in a letter to the Duc de la Rouchefoucault in 1785. It is believed that surviving student notes from Smith's *Lectures on Jurisprudence* contain some of the contents that would have appeared in the book on law and government.

4 The authoritative and detailed account on this subject is Samuel Fleischacker's "Adam Smith's Reception among the American Founders," *William and Mary Quarterly* 59/4 (2002), 897–924.

and also as a standard by which later works of political economy were often evaluated.[5] Alongside other scholars who have traced the use of Smith's ideas in political debate, I have also demonstrated elsewhere that Smith's name was widely used as a political slogan for free trade throughout the nineteenth century.[6]

And yet, contemporary revisionist scholarship tends to overlook this longer history and instead presume that modern economists alone are responsible for holding Smith hostage to a selective interpretation. More specifically, though, there is a general consensus that economists of the so-called "Chicago school" are culpable for propagating a particularly economistic version of Smith.[7] This "Chicago Smith," in the words of Jerry Evensky, "uses *homo economicus* as the premise for analysis of human behavior and for modeling the human condition," and in turn "has become the accepted identity of Adam Smith among most modern economists."[8] The enthusiasm with which some of Chicago's most illustrious figures touted this version of Smith is the subject of much criticism. Critics have found the Chicago Nobel laureate George Stigler especially guilty for an infamous line he penned in 1971—that "The *Wealth of Nations* is a stupendous palace erected upon the granite of

5 Bishop James Madison is believed to have taught the first course on political economy in America sometime in the 1780s. Madison used Smith's *Wealth of Nations* as the primary text, though the exact date at which he introduced it has been disputed. John K. Whitaker, "Early Flowering in the Old Dominion: Political Economy at the College of William and Mary and the University of Virginia," in William J. Barber, ed., *Economists and Higher Learning in the Nineteenth Century* (Middletown, 1993), 15–41; Edwin A. Seligman, "The Early Teaching of Economics in the United States," in Jacob Hollander, ed., *Economic Essays, Contributed in Honor of John Bates Clark* (New York, 1927), 283–320, at 301.

6 Glory M. Liu, "'The Apostle of Free Trade': Adam Smith in the Nineteenth-Century American Trade Debates," *History of European Ideas* 44/2 (2018), 210–23; Salim Rashid, "Adam Smith's Rise to Fame: A Reexamination of the Evidence," *The Eighteenth Century* 23/1 (1982), 64–85; Emma Rothschild, "Adam Smith and Conservative Economics," *Economic History Review* 45/1 (1992), 74–96; Kirk Willis, "The Role in Parliament of the Economic Ideas of Adam Smith, 1776–1800," *History of Political Economy* 11/4 (1979), 505–44.

7 There is a large body of work devoted to understanding the "Chicago school," who its members were (and are), and the extent of its consistency and coherency in the twentieth century. For general introductions see Ross B. Emmett, ed., *The Chicago Tradition in Economics 1892–1945* (London and New York, 2001); Emmett, ed., *The Elgar Companion to the Chicago School of Economics* (Cheltenham and Northampton, 2010); Johan van Overtveldt, *The Chicago School: How the University of Chicago Assembled the Thinkers Who Revolutionized Economics and Business* (Chicago, 2007).

8 Jerry Evensky, "'Chicago Smith' versus 'Kirkaldy Smith'," *History of Political Economy* 37/2 (2005), 197–203, at 198.

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self-interest."[9] Though Stigler was by no means alone in claiming to inherit Smith's authority to support a belief in the rationality of the profit motive, his crime is seen as symbolic of a larger intellectual tide.[10] Writes the philosopher Samuel Fleischacker, "Thus George Stigler, and thus, with minor qualifications here and there, two centuries of misinterpretations of Adam Smith, especially by economists."[11]

In short, irrespective of the truth of the claim, that Chicago economists singularly invented the myth of Adam Smith is nevertheless consistent with what many contemporary scholars treat as an agreed fact. Repudiating interpretations of Smith "as if he were a co-conspirer of Chicago-style thinking," and attempting to "free [him] from a 'reputation' as a Chicago-style economics professor *avant la lettre*," continue to fuel much of revisionist Smith scholarship.[12] Thus, like *das Adam Smith Problem*, an argument made by German scholars during the late nineteenth century about the incompatibility of *The Wealth of Nations* and *The Theory of Moral Sentiments*, the Chicago Smith problem has persisted as an object of historical study and has stimulated a seemingly endless stream of arguments about the significance and coherence of Smith's works writ large.[13] As such, the Chicago Smith merits our further attention.

This article challenges the idea that the "Chicago Smith" is simply a misinterpretation of Smith's ideas. To that end, it reexamines the role that the

9 George Stigler, "Smith's Travels on the Ship of State," *History of Political Economy* 3/2 (1971), 265–77, at 265. Revisionist scholars who target this specific line include Fleischacker, *On Adam Smith's* Wealth of Nations, 84; Amartya Sen, "The Uses and Abuses of Adam Smith," *History of Political Economy* 43/2 (2011), 257–71; Dennis Rasmussen, "Adam Smith on What Is Wrong with Economic Inequality," *American Political Science Review* 110/2 (2016), 342–52.

10 Amartya Sen, "The Contemporary Relevance of Adam Smith," in Christopher J. Berry, Maria Pia Paganelli, and Craig Smith, eds., *The Oxford Handbook of Adam Smith* (Oxford, 2013), 581–91, at 586; see also Sen, "The Uses and Abuses of Adam Smith"; Smith, "Adam Smith and the New Right."

11 Fleischacker, *On Adam Smith's* Wealth of Nations, 84.

12 Herzog, *Inventing the Market*, 6; Istvan Hont, *The Jealousy of Trade*: *International Competition and the Nation-State in Historical Perspective* (Cambridge, MA, 2005), 100.

13 On the history of *das Adam Smith Problem* see Keith Tribe, "'Das Adam Smith Problem'" and the Origins of Modern Smith Scholarship," *History of European Ideas* 34/4 (2008), 514–25; Richard Teichgraeber III, "Rethinking das Adam Smith Problem," *Journal of British Studies* 20/2 (1981), 106–23; Laurence Dickey, "Historicizing the 'Adam Smith Problem': Conceptual, Historiographical, and Textual Issues," *Journal of Modern History* 58/3 (1986), 580–609; Leonidas Montes, "Das Adam Smith Problem: Its Origins, the Stages of the Current Debate, and One Implication for Our Understanding of Sympathy," *Journal of the History of Economic Thought* 25/1 (2003), 63–90.

Chicago school of economics played in developing and propounding a distinct vision of Adam Smith, not only within the profession of economics, but also for the broader American public in the twentieth century. My claim is that the readings, teachings, and interpretations of Smith from Chicago economists across different generations amount to more than just superficial symbolism, claims of intellectual authority, or rhetorical window dressing. Rather, Chicago's engagement with Smith's ideas constitutes important interpretive and substantive arguments about the essence of Smith's contribution to economics and the role that Smith's ideas could play in shaping public policy. Conceptualizing Smith as the author of the price mechanism enabled Chicago to unify and defend the substantive propositions of economics which had come under assault after the Great Depression: that free markets, under specific conditions, could be self-regulating and self-stabilizing, and that the freedom to pursue one's rational self-interest underpinned the automaticity of markets. This way of reading Smith through the lens of price theory suited the intellectual orientations of the generation of the "old Chicago school" of Frank Knight and Jacob Viner, as well as the "new Chicago school" of George Stigler and Milton Friedman.[14]

However, this Chicago Smith was not monolithic, nor did it emerge all at once, a feature that Steven G. Medema has also observed.[15] Beyond providing a descriptive account of these Chicago Smiths, I expand on Medema's analysis by contending that the different generations' interpretations of Smith are inextricably linked to their diverse views about the scope of economic science and varying degrees of free-market advocacy. The Smith of Knight and Viner is nuanced, eclectic, and grounded in a more capacious definition of "political economy," reflecting a more pluralistic approach to teaching economics in the

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14 A number of historians of economic thought identify this divide between the "old" and "new" Chicago schools. See Steven G. Medema, "Adam Smith and the Chicago School," in Emmet, *The Elgar Companion to the Chicago School*, 40–51. Medema draws up his account based on terms coined by Dierdre McCloskey in "The Good Old Coase Theorem and the Good Old Chicago School: A Comment on Zerbe and Medema," in Steven G. Medema, ed., *Coasean Economics: Law and Economics and the New Institutional Economics* (Dordrecht, 1998), 239–48. Other works that identify this generational break include Smith, "Adam Smith and the New Right"; and Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton, 2012). In more recent work, Medema expands on his previous framework by identifying two "turning points" across three generations of the Chicago school. Steven G. Medema, "Identifying a 'Chicago School' of Economics: On the Origins, Evolution, and Evolving Meanings of a Famous Brand Name," 2018 working paper, permission to cite granted by the author.

15 Medema, "Adam Smith and the Chicago School."

first half of the twentieth century. This early generation of Chicago economists, I argue, was important in creating the Chicago Smith because they identified in Smith key features that appealed to a burgeoning Chicago sensibility and nascent identity. Their view of Smith as an early theorist of price and cautious defender of free markets underwrote the later generation's use of him and was an important methodological and philosophical link between the two generations.

While economists of the later generation—notably George Stigler and Milton Friedman—inherited the essence of the earlier generation's Smith, they also distilled, amplified, and disseminated an image of Adam Smith that was more in tune with the ascendency of rational-choice theory and strident market advocacy. The Smith of Stigler and Friedman, then, became the Chicago Smith familiar to scholars and lay readers today: a Smith whose concepts of self-interest and the invisible hand constitute a coherent and aggressive set of policy recommendations that takes free markets to be the panacea for many social and political problems.[16]

To be sure, Chicago economists were neither unprecedented nor alone in their teachings and reimaginations of Adam Smith. Smith's ideas were featured prominently as the inspiration for, if not the basis of, some of the most important contributions to mainstream economics concurrent with the development of the Chicago Smith. For example, in 1948, Paul Samuelson's landmark *Economics* textbook described the "mystical principle" of Adam Smith's invisible hand as one of the foundational ideas of economics, laying the groundwork for future work on competition, pareto optimality, and general equilibrium. Then, in 1971, Kenneth Arrow and Frank Hahn's *General Competitive Analysis* (which built on Arrow and Debreu's work in 1954) claimed mathematical proof of Smith's invisible hand, which they considered to be a "poetic expression of the most fundamental of economic balance relations."[17]

Regardless of their influence relative to those of rival schools, Chicago economists projected a degree of certainty about Smith's contributions to economics and public policy. Throughout their writings and teachings, one can glean a sense of an "apparently complete assurance that no other estimates of Adam Smith could ever be or would ever be made," to borrow a phrase from Richard Teichgraeber III.[18] While this type of confidence jars intellectual

16 Stedman Jones, *Masters of the Universe*, 87.

17 Kenneth J. Arrow and F. H. Hahn, *General Competitive Analysis* (San Francisco, 1971), 1–2.

18 Richard F. Teichgraeber III, "Adam Smith and Tradition: The *Wealth of Nations* before Malthus," in Stefan Collini, Richard Whatmore, and Brian Young, eds., *Economy, Polity, and Society* (Cambridge, 2000), 85–104, at 92.

historians who try to fend off potential misguided interpretations and distinguish between legitimate and illegitimate legatees of Smith's ideas, it is precisely these "single-minded estimates" that should invite us to investigate further.[19] In this paper, I follow Teichgraeber by insisting that we ought to understand how and why this historical process of inventing Smith took place at the University of Chicago and, moreover, how and why that process inevitably came to exclude other interpretations of the same thinker and his texts.[20]

Revisiting this history, I suggest, is an act of critical repossession. Situating Smith's readers in their appropriate historical and intellectual contexts enables us to recover their intentions for reading Smith more authentically, and it helps us resist the temptation to dismiss these past readings as wholly ideological and, therefore, incorrect or irrelevant. But more than that, it forces us to scrutinize the notion that there is—or ever was—a singular and incontrovertible version of Adam Smith and his contributions to political and economic thought. Uncovering Smith's ideas as his past readers encountered them reveals how Adam Smith's legacy is neither static nor settled, but instead the product of dynamic contestation and repeated reinvention.

BACKGROUND AND CONTEXT

The University of Chicago forged its identity and its corresponding interpretation of Adam Smith in the shadow of two major historical and intellectual crises. The first of these was the Great Depression. Economists of many stripes came under fire for failing to predict the plummeting prices and soaring unemployment of the Depression, and beliefs about the autonomous workings of the market system to correct itself were seriously challenged.[21] Policy makers and academic economists scrambled to set in motion the rapid expansion of social welfare programs, raise tariffs, and theorize the abstract general principles by which the national economy could be prudently managed.[22]

As a whole, the economics profession in the wake of the Depression was marked by plurality. Though American institutionalism emerged as one of the dominant

[19] Ibid., 104. On the method of "legacy evaluation" see Donald Winch and Knud Haakonssen, "The Legacy of Adam Smith," in Knud Haakonssen, ed, *The Cambridge Companion to Adam Smith* (Cambridge, 2006), 367–8.

[20] Teichgraeber, "Adam Smith and Tradition," 92.

[21] Or, in the words of David Ciepley, the Great Depression "completely wiped out the intellectual respectability of laissez-faire." David Ciepley, *Liberalism in the Shadow of Totalitarianism* (Cambridge, MA, 2006), 86.

[22] Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge, MA, 2012), 4–5, 8–9, 14–15.

approaches to the social sciences, economists were heterogeneous in their methodological dispositions, research agendas, and policy recommendations. Despite these differences, they loosely coalesced around the idea that a completely laissez-faire economy was inadequate, and that some degree of reform-minded "planning" was necessary to overcome the problems of the social and economic order.[23] The real questions that divided economists, then, were about *how much* planning was needed and *who* would do the planning.[24]

The second of these crises was the Cold War. Economists and politicians began viewing American economy and the newly erected welfare state in the shadow of European totalitarianism; many began to believe that the philosophical foundations of markets and democracy had to be preserved, protected, and upheld against rising tides of communism and socialist planning. Economists who had the slightest inclinations towards pro-socialist projects were ostracized. Champions of John Maynard Keynes's prescriptions in his 1936 *General Theory of Employment, Interest, and Money* were met with increased suspicion as his macroeconomic policies looked dangerously close to a defense of a strong state.

In response to the pressures of warring economic ideologies, economists narrowed their methods and turned towards mathematics as their language of neutrality. This turn towards mathematics as the language of economics was both a "self-defensive technocratic approach" and a demand from institutions seeking greater political correctness and scientific objectivity in a tense period.[25] Even Keynesians, once seen as near-heretics, could offer their propositions in a professionally neutral, seemingly objective way. The Cold War milieu thus enabled

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23 Mary S. Morgan and Malcom Rutherford, "American Economics: The Character of the Transformation," in Morgan and Rutherford, eds., *From Interwar Pluralism to Postwar Neoclassicism* (Durham, NC, 1998), 2–4; Márcia L. Balisciano, "Hope for America: American Notions of Economic Planning between Pluralism and Neoclassicism, 1930–1950," in ibid., 153–78. As Balisciano notes (at 155), "In this climate [after the Great Depression], planning developed as a flexible and fluid concept. Forward actions of all kinds were proposed beneath the banner of planning in order, it was hoped, to define, shape, and ultimately improve economic outcomes … Planning was a mirror for the pluralism of American society in the 1930s and thus defied precise definition. As such, it was also a mirror for the pluralism of American economics and American economists during those years."

24 Balisciano, "Hope for America," 156.

25 This is obviously a very simplistic account of the impact of the Cold War on academic economics. For a more complete introduction to the subject of postwar neoclassicism see Morgan and Rutherford, "American Economics," 14–17. See also Craufurd D. Goodwin, "The Patrons of Economics in a Time of Transformation," in Morgan and Rutherford, *From Interwar Pluralism to Postwar Neoclassicism*, 53–81; and Márcia L. Balisciano, "Hope for America," 171–4.

and reinforced the synthesis between Keynesian macroeconomic theory on the one hand, and the neoclassical assumptions about market foundations on the other.

This, then, was the intellectual maelstrom in which economists at the University of Chicago were defining their approach to economic science, their role in shaping public policy, and the function of markets in a free society. From the time of the university's founding in 1892 to about 1940, economists at the University of Chicago were much less a unified "school" than they were a "mixed bag" of personalities and thinkers who reflected the broader contours of American economics in the interwar period.[26] Jacob Viner and Frank H. Knight, the focus of this part of my discussion, were two of the most important figures during the interwar years. They joined the department in 1916 and 1929 respectively, and were pioneers in the crafting what would later become a hallmark of their department: price theory.

The method and substance that defined Chicago price theory evolved over decades, and a number of scholars have charted its evolution.[27] Price theory does not hold to any one definition, but its essence may be described as the following. Prices transmit information about what consumers want to buy and what producers want to sell. Thus the analysis of prices—what determines them, what causes them to change—informs our baseline understanding of behavior and allocation in a competitive economy.[28]

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[26] Van Overdtvelt, *The Chicago School*, 25–8; Melvin Reder, "Chicago Economics: Permanence and Change," *Journal of Economic Literature* 20/1 (1982), 1–38, at 2–3.

[27] On the evolution of Chicago price theory see Glen Weyl, "Price Theory," *Journal of Economic Literature*, forthcoming, available at SSRN, https://ssrn.com/abstract=2444233; see also Steven G. Medema, "Chicago Price Theory and Chicago Law and Economics: A Tale of Two Transitions," in Robert van Horn, Philip Mirowski, and Thomas A. Stapleford, eds., *Building Chicago Economics: New Perspectives on the History of America's Most Powerful Economics Program* (Cambridge, 2011), 151–79; J. Daniel Hammond, "The Development of Post-War Chicago Price Theory," in Emmett, *The Elgar Companion to the Chicago School*, 7–24.

[28] Milton Friedman's textbook on price theory describes the price mechanism in pieces: "Prices serve as guideposts to where resources are wanted most, and, in addition, prices provide the incentive for people to follow these guideposts. The use of factor prices to distribute the product makes it possible for other prices, namely product prices, to serve the functions of fixing standards and organizing production," and "Prices … transmit information, they provide an incentive to users of resources to be guided by this information, and they provide an incentive to owners of resources to follow this information." Milton Friedman, *Price Theory* (Hawthorne, NY, 1962), 9–10. Glen Weyl, "Price Theory," 1, offers the following contemporary definition: price theory is an "analysis that attempts to simplify a rich (high-dimensional heterogeneity, many agent, dynamics, etc.) and often incompletely specified model for the purposes of answering a simple (scalar or unidimensional) allocative question."

Knight and Viner are often credited with crystallizing Chicago's approach to price theory in the 1920s and 1930s, a time when many other departments across the nation were moving away from it.[29] Their specific emphases differed; Viner was known to be more Marshallian (his version of the price theory course was "practically a walking tour of Marshall's *Principles* [of economics]," writes Medema), while Knight probed into more philosophical and social territory. Differences aside, both figures took on board a deductive approach, and both emphasized economics' scientific theories as "tendency statements," as opposed to inviolable laws.[30] In providing a "descriptive, objective explanation of the way in which prices come to be what they are," as Viner put it, both teachers drew on an illustration from Adam Smith's *Wealth of Nations*, but not to prove Smith's correctness or clairvoyance.[31] Instead, they chose the following example because it illustrated Smith's misunderstanding of a core economic insight, which paved the way for price theory to offer a corrective.

The example in question is known as the "deer–beaver exchange," from Smith's *Wealth of Nations*, Book I, chapter 6, and it appears in Jacob Viner's 1930 lectures in Economics 301, numerous iterations of Knight's version, and related courses between 1930 and 1939, and also in Knight's earlier article on "A Suggestion for Simplifying the Statement of the General Theory of Price" published in 1928. In Smith's original version, the cost of the deer is framed in terms of the number of beaver that could be caught in the same amount of time. If it takes twice the labor to kill a beaver than it does a deer, for example, "one beaver should naturally exchange for, or be worth, two deer."[32] In modern parlance, this was a classic illustration of the doctrine of opportunity cost or cost-of-production theory, but one with which neither Viner nor Knight were content.[33]

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29 Weyl, "Price Theory," 26; Ross B. Emmett, "Introduction," in Emmett, ed., *The Elgar Companion to the Chicago School of Economics* (Cheltenham and Northampton, 2010), 1–4, at 2–3.

30 Medema, "Chicago Price Theory and Chicago Law and Economics," 154.

31 Jacob Viner, lecture on 17 June 1930 in Economics 301, printed in *Jacob Viner: Lectures in Economics 301*, ed. Douglas A. Irwin and Steven G. Medema (New Brunswick, 2013), 19.

32 Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (hereafter *WN*), ed. R. H. Campbell, A. S. Skinner, and W. B. Todd (Oxford, 1976; first published 1776), Book I, chapter 6, 1.

33 One can reasonably argue that this is not a novel reading or use of Smith's example from *WN*. In fact, Mark Blaug's monumental *Economic Theory in Retrospect* contains several pages of analysis centered on this "simple model in which only one factor of production is used to produce commodities." See Mark Blaug, *Economic Theory in Retrospect*, 4th edn (Cambridge, 1985), 38–9.

Smith's opportunity-cost doctrine fell victim to "circular reasoning," according to Viner.[34] For Knight, though, Smith's primitive labor value theory was simply inadequate. "Go to Adam Smith, Chapter 6," one student noted in Knight's lecture, "and put in the distribution that is implied with the value theory step by step." Knight effectively walked students through Smith's variations on value determination stemming from the initial deer–beaver exchange in which capital and land are not significant factors. "Now suppose that the land is fixed and significant," Knight instructed. "The land will begin to get a rent. What kind of cost curve will you get as soon as the land comes in? Can you say the two deer will necessarily exchange for one beaver regardless of the number produced? No."[35] From student notes, one often encounters Knight's Smith as a quaint and inconsistent thinker. Adam Smith's idea about the labor theory of value "has no historical or archaeological significance," according to Knight.[36] On Book I, chapter 11 ("Of the Produce of Land Which Always Affords Rent"), Knight comments that Smith "gives Ricardian theory completely … forgetting all he said in Bk. I ch. 7," and by the time we reach Book II, chapter 3, on the accumulation of capital, Smith "very definitely goes wrong, tho [*sic*] he started out right in Bk II ch. 11."[37]

This picture of Smith as an error-prone thinker was important for instructional purposes, though. Knight tied the fate of economics to the early errors of Smith. In Knight's view, David Ricardo, for example, adopted a labor theory of value and "followed the wrong one of two main lines of Smith."[38] The other (presumably correct line) was Book I, chapter 7, of *The Wealth of Nations*, in which Smith states something close to a general statement of equilibrium.[39] Smith was an economist who was "on verge of recognizing the equalization principle of Distribution," as one student noted in Knight's lectures on the "History of Economic Thought."[40] Thus showing how Smith's

34 Viner, *Lectures in Economics 301*, 60.

35 Homer Jones, student notes, Econ 301: History of Economic Thought (winter 1934), Frank Knight Papers, Box 8, Folder 10, Special Collections Research Center (SCRC), University of Chicago.

36 Student notes (unnamed), Econ 301: Price and Distribution Theory (Summer 1938), Frank Knight Papers, Box 8, Folder 18, SCRC, University of Chicago.

37 Student notes dated 6 April 1933 (unnamed), Econ 304: Economic Theory and Social Policy (spring 1933), Frank Knight Papers, Box 8, Folder 4, SCRC, University of Chicago.

38 Ibid.

39 "The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour, and profit, which must be paid in order to bring it thither." Smith, *WN*, Book I, chapter 7, 8.

40 Jones, student notes, Econ 301: History of Economic Thought.

economic principles reached far—but ultimately fell short— enabled teachers like Knight and Viner to demonstrate how modern economists improved the science that Smith founded.

"ECONOMICS MUST BE POLITICAL ECONOMY"

Another defining feature of Knight and Viner's version of Smith is its uneasy relationship with the politics of political economy. Both Knight and Viner shunned reductionist interpretations of Smith's free-market ideas, but they were equally skeptical of casting Smith as a completely detached scientist. "The Wealth of Nations has been called a 'political pamphlet,'" a student noted in one of Knight's lectures, alluding to common misinterpretations of the eighteenth-century treatise. "Yet it gave great impetus to scientific price theory."[41] What was the issue with interpreting Smith as a "political pamphlet?" Setting aside the impetus he gave to scientific price theory, was there a right way to read Smith's political economy? Both Frank Knight's and Jacob Viner's answers to these questions reflect their beliefs about the appropriate scope of economics, as well as their preoccupation with the role that economics should play in a changing intellectual climate.

For Knight, to misinterpret Smith's *Wealth of Nations* as propaganda was to misinterpret economics as propaganda. "*Economics must be 'political economy'*," Knight underscored in his lectures.[42] What did that mean, though? First, it meant that economics was *not* a value-free science.[43] "I do not believe in the possibility of a value free political economy in any very strict sense," Knight commented. Mathematical economics (Knight spoke of "our mathematical economists" in vague terms) risked refining "elements of valuation" to the point where one approached "the absence of any kind of content." While not completely opposed to mathematical economics, Knight saw this as unfortunate; the assumptions that mathematical economists made sometimes lacked "enough factual content to justify using the word economics, still less political economy."[44]

Second, Knight's insistence on "the connection of the word 'political' with the word 'economics'" reflected his belief that economics was, at its core, an inquiry

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41 Student notes dated 11 April 1933 (unnamed), Economics 304: Economic Theory and Social Policy, Frank H. Knight Papers, Box 8, Folder 4, SCRC, University of Chicago.

42 Frank H. Knight, lecture notes for Econ 301: Price and Distribution Theory (undated), Frank H. Knight papers, Box 9, Folder 19, SCRC, University of Chicago.

43 Frank H. Knight, lecture notes for Econ 301: Price and Distribution Theory (1943), Frank H. Knight Papers, Box 9, Folder 6, SCRC, University of Chicago.

44 Knight, lecture notes for Econ 301: Price and Distribution Theory (undated).

whose "fundamental propositions have no meaning" if separated from social policy.[45] What better text to use to illustrate this point than the founding text of political economy? "Theoretical political economy as we study it is a hundred and fifty years old, hardly existing before *The Wealth of Nations*," Knight declared. "The science arose out of the transformation of society and its problems of society."[46] In other words, Smith's magnum opus was the product of the author's direct engagement with the politics and society of his own times—hence his opposition to the mercantile system of the eighteenth century. Knight's point was the following: from its urtext, political economy was a *positive* science with *normative* stakes. One studied political economy to understand the development of the modern social order in order to diagnose its ills and improve upon it.

But this was the crux of the problem: "The prime source of confusion in regard to economics has been this mixture of science and propaganda," Knight stated. Divorcing politics from economics to make economics more scientific and then recombining it with a predetermined ideology was exactly the wrong way to go. Again, Knight pointed to Adam Smith to illustrate his point. "Adam Smith's *Wealth of* Nations [*sic*] has been well called a political pamphlet," Knight stated. Then he went on to characterize this false view: "The dominant interest in Smith's mind was political propaganda. The whole Classical economics has been called a system of political propaganda. This is largely false."[47]

Though never explicit and far from being hagiographic, Knight alluded to Smith as a model political economist who struck this balance between detached scientist and political propagandist. Smith, in Knight's view, was "probably just as much interested in political policy as anyone else," and the science he founded was not one that merely preached ideology.[48] Instead, Smith uncovered the principles of "the kind of action required for producing a course of events which may [be] considered more desirable than that which would 'naturally' take place."[49] Smith's political economy, according to Knight,

45 Ibid. Knight repeats this point a number of times: "I may point that a little by saying that I think that the change in name from 'political economy' to 'economics' is unfortunate." Gladys Hamilton, a student in Knight's class in 1934, noted the following: "Economic science is political. The change of name was very unfortunate. Economics as a science should be applied only to mathematical economics." Gladys Hamilton student notes, Econ 302: History of Economic Thought (fall 1934), Frank Knight Papers, Box 9, Folder 14, SCRC, University of Chicago.

46 Knight, lecture notes for Econ 301: Price and Distribution Theory (undated).

47 Ibid.

48 Gladys Hamilton student notes, Econ 302: History of Economic Thought (fall 1934), Frank Knight Papers, Box 9, Folder 14, SCRC, University of Chicago.

49 Knight, notes for Econ 301: Price and Distribution Theory (1943).

modeled the way economic science could legitimately influence policy by illuminating the principles of a social order in which institutions did not interfere with individual behavior. Thus, in Knight's view, Adam Smith not only represented the founding of political economy; he also represented political economy's proper aims as both a positive and a normative science. Failing to see that was to fail to understand the purpose of political economy.

To the extent that Knight's Smith is nuanced, it is perhaps only to the extent that he is inflected with Knight's own conception of economics. Knight did not offer a unique substantive reading of Smith and his works, nor did he provide any guidelines for how, specifically, political economy in modern times might emulate Smith's. By contrast, however, Knight's colleague Jacob Viner offered a fuller picture of Smith and Smith's thought as objects of historical inquiry.

In his essay "Adam Smith and Laissez Faire," published in 1927, Viner famously described Smith as "*the* great eclectic."[50] A serious intellectual historian, Viner was one of the first economists in the twentieth century to emphasize the importance of reading Smith's *Theory of Moral Sentiments* alongside *The Wealth of Nations*, and he was also attentive to scholarly trends on Smith's works, including the German *das Adam Smith Problem* (which Viner called a "pretty term"). It is worth restating briefly the premise of the problem, which I mentioned briefly in the introduction to this article. According to the problem, Smith's two major works were incompatible because the underlying assumptions about human nature were incompatible. The moral order of *The Theory of Moral Sentiments* was based on the individual's capacity for sympathy; but the world described in *The Wealth of Nations* is founded on self-interest.[51]

Wrestling with *das Adam Smith Problem* required Viner to make a bold statement about what Smith's essential contribution was, which Viner explained in these terms: "Smith's major claim to fame … seems to rest on his elaborate and detailed application to the economic world of the concept of a unified natural order, operating according to natural law, and if left to its own course producing results beneficial to mankind."[52] Viner focused on the concept of "natural order" to disabuse the view that Smith was a doctrinaire advocate of laissez-faire. It was wrong, in Viner's view, to conclude that all government activity was Smith's greatest enemy. According to Viner, Smith made no "explicit condemnation[s] of government interference with individual initiative," and even when Smith admitted flaws in his system of natural

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50 Jacob Viner, "Adam Smith and Laissez Faire," *Journal of Political Economy* 35/2 (1927), 198–232, at 199, original emphasis.

51 See sources cited in note 13 above.

52 Viner, "Adam Smith and Laissez Faire," 199–200.

liberty, he did not necessarily always arrive at the conclusion that "government intervention was preferable to laissez-faire."[53]

In order to accept this tempered view of Smith's laissez-faire, however, one first had to accept that there were flaws in the natural order; that is, that the economic order "left to its natural course" revealed deep conflicts between public interest and private interest: masters and workmen fought over wages, the division of labor would ultimately lead to mental degradation and alienation, corn dealers were motivated by avarice, private interests could not be held accountable to maintain roads.[54] Acknowledging these tensions in Smith's economic system, Viner argued, enabled one to see the various areas in which government intervention might actually promote the general welfare. Smith allowed for a "wide and elastic range of activity for government" that could be extended further "if government, by improving its standards of competence, honesty, and public spirit, showed itself entitled to wider responsibilities."[55]

Viner had another point to make about the tensions in the natural order of *The Wealth of Nations*, though. The background harmonious order was "partial and imperfect" in *The Wealth of Nations*; as such, it was not, in Viner's view, the harmonious order "designed and guided by a benevolent God" that permeated *The Theory of Moral Sentiments*. So while Viner rejected the dichotomy of sympathy versus self-interest, he nonetheless believed in a degree of irreconcilability between Smith's major works that stemmed from a "doctrine of a beneficent order in nature"—one which was present in *The Theory of Moral Sentiments*, but surprisingly absent in *The Wealth of Nations*.[56]

Thus Viner's portrait of Smith is ultimately that of an economist, not a moral philosopher. Indeed, Smith's key contribution to political economy was made possible *because* of a "partial breach" with *The Theory of Moral Sentiments*, and *The Wealth of Nations* was "a better book" in Viner's opinion precisely because it abandoned the "absolutism, the rigidity, the romanticism" that characterized the former work.[57]

Taken together, the Smith of Knight and Viner captures the methodological pluralism and diversity of preoccupations at Chicago in the 1930s and 1940s. On the one hand, there existed a familiar "textbook Adam Smith": the Smith who founded political economy, the Smith who came up with an incorrect theory of value, the Smith who made inferences from close observations of

53 Ibid., 206, 221.
54 Ibid., 215, 217.
55 Ibid., 231, 218.
56 Ibid., 201–3, 206–8.
57 Ibid., 201.

everyday life. That version of Smith was a useful pedagogical tool for illustrating the basic method and tools of economic science. On the other hand, there existed a more disembodied Smith that served a broader intellectual purpose. Portraying Smith's project as one that carefully balanced clear scientific insight with social policy (in Knight's case), or as a system in which a harmonious natural order broke down and necessitated government intervention (in Viner's case) was part of an effort to resuscitate the basic principles of market advocacy. Knight—whose own political views during this period have been described as complex, varied, and ambivalent—saw in Smith a way to oppose central planning without being philosophically reductive.[58] Viner, likewise, read in Smith's political economy a dialectic between individual freedom and government direction.[59] The Chicago Smith of Knight and Viner, then, embodied the "dispersed, concessionary, politically abstemious, and deeply conflicted" approaches to market advocacy in the early decades of the twentieth century.[60]

DISTILLING THE MYTH OF THE "CHICAGO SMITH"

The next generation of economists at Chicago would take these kaleidoscopic fragments of Smith's portrait and piece them together in a much more coherent—and radically different—picture. Whereas the generation of Knight and Viner saw the relationship between price theory and political freedom as a philosophical task, the next generation began to overturn this project. Confronting theory with evidence to test a model's predictive capacity became the new hallmark of Chicago economics.[61]

58 Angus Burgin, "The Radical Conservatism of Frank H. Knight," *Modern Intellectual History* 6/3 (2009), 513–38, at 515. See also Burgin, *The Great Persuasion*, 14, 32–7, 41–6; Scott Gordon, "Frank Knight and the Tradition of Liberalism," *Journal of Political Economy* 82/3 (1974), 571–7.

59 The final paragraph of Viner's essay beautifully summarizes some of the tensions Viner saw in Smith: Smith "attributed great capacity to serve the general welfare to individual initiative in competitive ways to promote individual ends. He devoted more effort to the presentation of his case for individual freedom than to exploring the possibilities of service through government … But even in his own day, Smith saw that self-interest and competition were sometimes treacherous to the public interest they were supposed to serve, and he 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." Viner, "Adam Smith and Laissez-Faire," 232.

60 Burgin, *The Great Persuasion*, 44.

61 Friedman's "The Methodology of Positive Economics" (often referred to as F1953 or F53) emphasized the importance of predictive capacity in judging economic theories and is arguably one of the most influential essays on economic methodology in the twentieth

Studies of public finance and monetary and regulatory policy, with an emphasis on prediction to validate hypotheses, replaced the "excitement Knight had evoked for theoretical analysis."[62] By 1953, "Chicago" had become a household name, recognized both internally and externally as a distinct school of thought; its members were recognized as a group of formidable public-minded scientists who employed a method of testing and prediction that Knight could not have anticipated.[63] Increasingly, Chicago would become synonymous with not just a skepticism of socialist economics, but an ever-strengthening commitment to unapologetic free-market advocacy that belied the earlier generation's views.[64]

The new generation of Chicago economists was also much more self-referential and self-aware of being a part of this distinctive school with a publicly recognized name, a pedigreed history, and a novel method. For example, Milton Friedman, in a speech to the Chicago Board of Trustees in 1974, argued that at least in the public mind, the Chicago school stood for "a belief in the efficacy of the free market as a means of organizing resources, for skepticism about government intervention into economic affairs, and for emphasis on the quantity theory of money."[65] Friedman also argued that Chicago stood for much more than free-market fundamentalism, though; it stood for their insistence on empirically testing theories with predictive capability. This approach not only made economics a science, but also demonstrated the correctness of their policy perspectives. In Friedman's words, Chicago economics "takes seriously the use of economic theory as a tool for analyzing a startlingly wide range of concrete problems … [Chicago stands] for an approach that insists on the empirical testing of theoretical generalizations and that rejects alike facts without theory and theory without facts."[66]

century. On the impact and legacy of F1953 see Uskala Mäki, ed., *The Methodology of Positive Economics: Reflections on the Milton Friedman Legacy* (Cambridge, 2009); see also Eric Schliesser, "Friedman, Positive Economics, and the Chicago Boys," in Emmett, *The Elgar Companion to the Chicago School*, 175–95.

62 Ross B. Emmett, "Frank Knight and the Chicago School," Becker Friedman Institute for Economic Research, University of Chicago, 5 Oct. 2015.

63 Medema, "Identifying a 'Chicago School' of Economics."

64 Ross B. Emmett also contends that "Chicago economics was different by the 1940s, primarily because of the emergence of a contingent of economists committed to developing market-based solutions to social problems." Ross B. Emmett, "Introduction," in Emmett, ed., *The Chicago Tradition in Economics: 1898–1946*, vol. 1 (London and New York, 2002), xvii–xxiv, at xviii.

65 Milton Friedman, speech at the 54th Annual Board of Trustees' Dinner for the Faculty, 9 Jan. 1974, Milton Friedman Papers, Box 55.8, the Hoover Institution, Stanford University.

66 Ibid.

This method, according to Friedman, was a common thread among different generations of economists at Chicago, but more importantly, it was a common thread that tied Chicago to the very foundations of economics. Chicago economists were all students of the generation of Frank Knight and Jacob Viner, Friedman declared, "and at a still longer remove, of Adam Smith—who but for the accident of having been born in the wrong century … would undoubtedly have been a Distinguished Service Professor at The University of Chicago."[67] Drawing a direct line from Adam Smith to Chicago was more than a way of lending "intellectual heft to theories that contradicted the political assumptions of the postwar period," however.[68] Both Milton Friedman and George Stigler refined the Smith of their teachers to make important interpretive claims about Smith's central insights and their implications for public policy. Together, Stigler's self-confident assertions and Friedman's prolific public commentary fully distilled the Chicago Smith into the myth so familiar to scholars and the public today.

"ADAM SMITH'S BEST FRIEND"

At least outwardly, George Stigler projected his reputation as "Adam Smith's best friend."[69] He was an invited speaker at the conference celebrating the bicentenary of *The Wealth of Nations*, contributed to a series of seminal essays published for the occasion, and was heavily invested (both financially and emotionally) in helping the University of Glasgow acquire the set of precious manuscripts of student's notes on Smith's *Lectures on Jurisprudence*. Though Stigler's capabilities as a historian of economic thought were widely recognized (his doctoral dissertation was on historical theories of production and consumption from 1870 to 1915), he also bore witness to the declining relevance of history-of-thought classes in the profession nationwide.[70] "The study of the history of economics has escaped all the forces that have transformed the character of economic research in the twentieth century,"

67 Ibid.

68 Stedman Jones, *Masters of the Universe*, 101.

69 George Stigler, "The Successes and Failures of Professor Smith," *Journal of Political Economy* 84/6 (1976), 1199–1213, at 1200. For a secondhand account see Nathan Rosenberg, "George Stigler: Adam Smith's Best Friend," *Journal of Political Economy* 101/5 (1993), 833–48.

70 Sherwin Rosen, "George J. Stigler and the Industrial Organization of Economic Thought," *Journal of Political Economy* 101/5 (1993), 809–17, at 811; Craig Freedman, *Chicago Fundamentalism: Ideology and Methodology in Economics* (Hackensack and London, 2008).

Stigler wrote in 1965. "It has escaped any serious quantification, and research assistants can seldom be used—why, even committees are scarce in the field!"[71]

Stigler did believe that historical ideas were useful insofar as some could occasionally reemerge with new salience; moreover, economists needed to refer to historical systems or sets of ideas in order "to identify the progress of economic theory" more generally.[72] This was Stigler's attitude toward Smith. Stigler saw in Smith more than an academic monument to the past; he saw a direct line between Smith's assumptions and modern—that is, Stigler's own—determinants of economic order.

For Stigler, Smith's most triumphant discovery was identifying the centrality of self-interest for explaining human behavior and social order. Smith was a Promethean figure who stole the firepower of self-interest down from the gods and bequeathed its power to economists. Self-interest was the "crown jewel" of *The Wealth of Nations*, and "remains to this day, the foundation of the theory of the allocation of resources," Stigler wrote in 1976.[73] For Stigler, Smith's idea of self-interest was the fundamental force of all economic activity. Stigler hailed *The Wealth of Nations* as "a stupendous palace erected upon the granite of self-interest," which was an "immensely powerful force [that] guides resources to their most efficient uses, stimulates laborers to diligence and inventors to splendid new divisions of labor—in short, it orders and enriches the nation which gives it free rein."[74]

By homing in on Smith's concept of self-interest, Stigler made it an axiom of modern economics; in doing so, he fashioned Smith into a modern economist like himself. Stigler characterized Smithian self-interest as a principle so ingenious that it was "Newtonian in its universality," and Smith merited near-unending praise for "providing a theorem of almost unlimited power on the behavior of man."[75] This construction of self-interest stood in stark contrast to the readings of the previous generation. Jacob Viner, for instance, had aptly identified Smith's notion of self-interest as being more than a narrow desire for wealth, but a multifaceted concept of "self-love" that was simultaneously the basis for other virtues.[76] Appealing to the

71 George Stigler, *Essays in the History of Economics* (Chicago, 1965), v; see also Freedman, *Chicago Fundamentalism*, chap. 6; Rosenberg, "George Stigler: Adam Smith's Best Friend," 835–6. It ought to be noted that Stigler was a self-declared history-of-thought enthusiast throughout his life, even as institutional interest in the subject waned.

72 Freedman, *Chicago Fundamentalism*, 165.

73 Stigler, "The Successes and Failures of Professor Smith," 1201.

74 George Stigler, "Smith's Travels on the Ship of State," *History of Political Economy* 3/2 (1971), 265–77, at 265.

75 Stigler, "The Successes and Failures of Professor Smith," 1212.

76 Viner, "Adam Smith and Laissez Faire," 212–13.

self-love of the butcher, baker, and brewer in Smith's *Wealth of Nations* may get us our dinner, but excessive self-interest also led to a problematic self-preference, excessive toil, and injustice.[77] Stigler, on the other hand, glossed over these different connotations, arguing that "much of the time, most of the time in fact, the self-interest theory (as [he] interpreted it on Smithian lines) will win."[78]

Whereas the earlier generation embraced the ambiguities, complexities, and inherent tensions in Smith's ideas, Stigler stripped those features away. In identifying a single concept in Smith's analysis that was contiguous with his own approach to economics, Stigler gave self-interest a degree of infallibility, ultimately leading him to drive a wedge between *The Wealth of Nations* and *The Theory of Moral Sentiments*, economics and other fields. For Stigler, Smith's moral philosophy bore "scarcely any resemblance to his economics," and thus proved that economics and moral psychology were—and always would be—at odds with one another.[79] Indeed, Stigler denied that any work in related fields could inform the development of groundbreaking economic theory, and even suggests that contemporary economics imperialism had roots in Smith's economics.[80] Put another way, Stigler made Smith vulnerable to *das Adam Smith Problem* yet again.

However, there is another aspect of Stigler's Smith that is often overlooked, and that is Stigler's attempt at depoliticizing Smith's economics. Once one accepted Stigler's belief that economics consisted of the analysis of individuals pursuing self-interest under conditions of competition, one could then see that Smith's successes as an economist were due to his "impact … on other scholars, not his impact upon public thinking or policy."[81] For Stigler, having policy-oriented goals was tertiary to having scholarly influence and earning the general acceptance of one's theory. "In economics, the ultimate goal is to increase the understanding of economic life: What happens and why," Stigler wrote in his memoir. The second goal was to persuade other scholars that one

77 For analysis on the concept of self-interest and self-love in Smith's works see Maria Pia Paganelli, "The Adam Smith Problem in Reverse: Self-Interest in Adam Smith's Wealth of Nations and Theory of Moral Sentiments," *History of Political Economy* 40/2 (2008), 365–82; Fleischacker, *On Adam Smith's* Wealth of Nations, chap. 5 ("On Self-Interest"); Pratap Bhanu Mehta, "Self-Interest and Other Interests," in Haakonssen, *The Cambridge Companion to Adam Smith* (Cambridge, 2006), 246–69.

78 George Stigler, "Economics or Ethics?", the Tanner Lectures on Human Values, delivered at Harvard University, 24, 25, 28 April 1980.

79 George Stigler, "The Influence of Events and Policies on Economic Theory," *American Economic Review* 50/2 (1960), 36–45, at 44.

80 Medema, "Adam Smith and the Chicago School," 42–3.

81 Ibid.

was right.[82] Smith did both of these things, evident in his identification of the centrality of self-interest, and also in his critique of mercantilism that "rested squarely on his theory of competitive prices" rather than any political motivation.[83]

On this second point, though, Stigler was not entirely successful. The normative implications of Stigler's method were often hidden in plain sight. Once man's behavior was reduced to utility-maximizing self-interest, economists were equipped to tear down the edifices of government intervention in economic life; they were emboldened to "seek a large role for explicit or implicit prices in the solution of many social problems" and advance the "modest policy" of deregulation in certain sectors of economic life.[84] These themes run throughout Stigler's works on the causes and effects of regulation for which he was awarded the Nobel Prize in Economics in 1982.

Both personal experience and personal conviction, however, kept Stigler from outwardly politicizing his economic ideas. But where Stigler stopped short of doing so, there was another Chicago economist who drew them out: Milton Friedman.

INVENTING THE INVISIBLE HAND: MILTON FRIEDMAN'S ADAM SMITH

Friedman's qualifications as an economist were indisputable long before he was awarded the Nobel Prize in Economics in 1976. The John Bates Clark Medal, which Friedman received in 1951, recognized his outstanding contributions to the field as a young scholar. In the 1960s, his groundbreaking publication with Anna Schwartz, *A Monetary History of the United States, 1867–1960*, fortified his reputation as a formidable—albeit contrarian—economist. Combined with his prolific writing ability, impressive debating skills, and natural charisma, Friedman's credentials as a scholar elevated his status as a public intellectual. In addition to what is probably his best-known popular work, *Capitalism and Freedom* (1962), *Free to Choose* (1980) (which Friedman cowrote with his wife, Rose Friedman) became a national sensation. Friedman also wrote hundreds of op-eds for popular news outlets such as the *Wall Street Journal* and *Newsweek* from the 1960s onward.

Finally, Friedman's political orientation was also clear. He made very open and direct efforts to influence public policy, but he defended his desire to do so not in his "scientific capacity but in [his] capacity as a citizen, an informed one."[85] In 1964

82 George Stigler, *Memoirs of an Unregulated Economist* (New York, 1988), 64.
83 Stigler, "The Successes and Failures of Professor Smith," 1201.
84 Stigler, "Economics or Ethics?", 171.
85 William Breit and Roger W. Spencer, *Lives of the Laureates: Thirteen Nobel Economists* (Cambridge, MA, 1995), 95.

he became the lead economic adviser for Barry Goldwater's presidential campaign. And though he never served in any formal capacity in their administrations, he became one of the most sought-after public-policy advisers for presidents Richard Nixon and Ronald Reagan.

Having a general sense of Friedman's active public and political life is important because Adam Smith almost never appears in the work for which Friedman was chiefly known amongst academicians.[86] Friedman was an important conduit for making Chicago's rigorous approach to economics directly relevant to public policy. It was in this capacity that Friedman crafted and promulgated an image of Smith that harnessed the scientific prowess of Chicago price theory to make an overt political statement.

Like Stigler, Friedman zeroed in on what he believed Adam Smith's central insight was and made it the core message of his own free-market advocacy. Additionally, much like his Chicago predecessors, Friedman's view of Smith's contributions was mediated through the lens of price theory. The price mechanism—the heart and soul of the Chicago method—was manifest in Smith's invisible hand, which, according to Friedman, was Smith's "greatest achievement," "flash of genius," and "key insight." In Friedman's words, the invisible hand represented "the way in which voluntary acts of millions of individuals each pursuing his own objectives could be coordinated, without central direction, through a price system," and it was "the achievement that [established] *The Wealth of Nations* as the beginning of scientific economics."[87] Friedman repeatedly described the invisible hand as Smith's "flash of genius," whereby "the prices that emerged from voluntary transactions between buyers and sellers—for short, in a free market—could coordinate the activity of millions of people, each seeking their own interest, in such a way as to make everyone better off."[88] Such invocations of Smith's invisible hand reveal what Friedman took to be an instrumental part of a successful defense of free markets and a free society: that individuals given free rein to pursue their own self-interest would "produce an orderly society benefiting everybody," as though guided by an

86 Craig Smith also makes this point in "Adam Smith and the New Right," 545.

87 Milton Friedman, "The Invisible Hand," in The Collected Works of Milton Friedman, Hoover Institution Archives, at http://miltonfriedman.hoover.org/objects/57602.

88 Milton Friedman and Rose Friedman, *Free To Choose* (New York, 1990), 14. Friedman used similar language about Smith's "flash of genius" and "greatest achievement" in many instances, including in *Free to Choose* (television series) Episode 2 ("The Tyranny of Control"); as well as in "The Case for Freedom," The Collected Works of Milton Friedman, Hoover Institution Archives, at http://miltonfriedman.hoover.org/objects/57138 (originally published in *The Listener*, 27 March 1980).

invisible hand.[89] So central was this idea that if Friedman had gotten his way, *Free to Choose* would have been named *The Invisible Hand*.[90]

There was another layer to Friedman's Smithian lesson in price theory, too, and it was one which implicated Friedman's politics. "In the government sphere, as in the market," Friedman and Friedman wrote in *Free to Choose*, "there seems to be an invisible hand, but it operates in precisely the opposite direction from Adam Smith's: an individual who intends only to serve the public interest by fostering government intervention is 'led by an invisible hand to promote' private interests, 'which was no part of his intention.'"[91]

In other words, Smith's invisible hand of the market required the *absence*—or indeed, removal—of coercion and expert guidance, no matter how well-meaning that guidance might be. Politics ruled with a heavy hand because of "the failure to understand this central insight of Smith," according to Friedman. This interpretation of the invisible hand dovetailed nicely with Friedman's scorn for bureaucrats, and Smith's words provided ample ammunition. Friedman, quoting from *The Wealth of Nations*, Book IV, chapter 2, 39, scoffed at national primaries, describing them as performances of "that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs."[92] Multiple times he decried the Humphrey-Hawkins Bill (introduced in 1977 and passed in 1978 to encourage full employment), marshalling Smith's words to express disdain for the "man who had folly and presumption enough" to legislate such a thing.[93]

To be sure, Smith's invisible hand is one instance—and a minor one at that—of the socially beneficial unintended consequences of individual liberty.[94] This is

89 Milton Friedman, "The Case for Freedom."

90 Milton Friedman and Rose Friedman, *Two Lucky People* (Chicago and London, 1999), 495–6.

91 Friedman and Friedman, *Free to Choose*, 6, 292. The same language is also used in *Free to Choose*, Episode 10, "How to Stay Free."

92 Friedman repurposes the same quote in "The Invisible Hand"; Milton Friedman, "Humphrey-Hawkins," *Newsweek*, 2 Aug. 1976, 55; and in his essay "Adam Smith's Relevance for Today," *Challenge* 20/1 (1977), 6–12, at 8.

93 The full passage from *WN* is as follows: "The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it." Friedman repurposes this quote in many of the same instances cited in the note above.

94 Smith uses the phrase "invisible hand" three times in his corpus: once in his *Essay on the History of Astronomy* (Book 3, chap. 2), once in *The Theory of Moral Sentiments* (Book IV, chap. 1, 10), and once in *The Wealth of Nations* (Book IV, chap. 2, 9).

among one of the most generally accepted—though by no means uncontested—interpretations of Smith's master metaphor.[95] Likewise, the observation that Smith had a rather bleak view of politicians is relatively uncontroversial.[96] As Craig Smith has articulated, "It would take a particularly perverse reading of Smith to deny that he was interested in unintended consequences" or in the moral and cognitive vices of politicians.[97]

Nevertheless, Friedman's interpretation of Smith's invisible hand is emblematic for two reasons. On the one hand, it is grounded in very real aspects of Smith's own analysis. Here was a powerful idea that perfectly suited Friedman's style of market advocacy: "simple in concept, populist in tone, empirical in methodology, and capable of solving the great problems of the modern world."[98] On the other hand, Friedman's Smith was stylized in an unequivocal fashion. Like Stigler's version of self-interest, Friedman's version of the invisible hand obscured any nuances and points of conflict in Smith's writing—nuances and conflicts that were central to Knight's and Viner's readings. While Knight and Viner emphasized the complexity and wide-ranging interpretations of Smith's corpus (one could find "traces of every conceivable sort of doctrine" in *The Wealth of Nations*, and an economist "must have peculiar theories indeed who cannot quote from *The Wealth of Nations* to support his special purposes," according to Viner), Friedman made no such concessions.[99] And while Knight and Viner were wary of such thin readings of Smith—Knight even privately condemned Friedman's aggressive policy positions as "foolish," "oversimplified," and ultimately fatal for the

95 Emma Rothschild has advanced one of the most widely recognized revisionist interpretations of the invisible hand. Rothschild argues that that Smith's invisible hand is nothing more than a "mildly ironic joke" and something that Smith himself would not have readily accepted as a normatively desirable feature of economic and moral life. Emma Rothschild, "Adam Smith and the Invisible Hand," *American Economic Review* 84/2 (1994), 319–22; further elaboration can be found in Rothschild, *Economic Sentiments*, chap. 5. See also Gavin Kennedy, "Adam Smith and the Role of the Metaphor of an Invisible Hand," *Economic Affairs* 31/1 (2011), 53–7; Shannon Stimson, "From Invisible Hand to Moral Restraint: The Transformation of the Market Mechanism from Adam Smith to Thomas Robert Malthus," *Jounral of Scottish Philosophy* 2/1 (2004), 22–47; Eric Schliesser, *Adam Smith: Systematic Philosopher and Public Thinker* (Oxford, 2017), chap. 10.

96 See, for instance, Fleischacker, *On Adam Smith's* Wealth of Nations, chap. 11; Haakonssen, *The Science of a Legislator*, 97–8, contrasting the "man of system" with the ideal "legislator."

97 Smith, "Adam Smith and the New Right," 546.

98 Angus Burgin, "The Age of Certainty: Galbraith, Friedman, and the Public Life of Economic Ideas," *History of Political Economy* 45/supplemental (2015), 191–219, at 215.

99 Viner, "Adam Smith and Laissez-Faire," 207.

cause of liberalism—Friedman made explicit the connection between the workings of the invisible hand and the removal of coercive government forces.[100] On top of it all, Friedman publicly advocated this narrow interpretation of Smithian concepts to an extent unseen before.[101] Indeed, Smith's invisible hand was as central to American freedom as Jefferson's Declaration of Independence, in Friedman's view.[102] In short, it is Friedman's Smith that represents the culmination of the Chicago Smith problem as it is commonly understood in revisionist scholarship today: a tendency to emphasize an economistic understanding of self-interest and free markets, a neglect of Smith's moral philosophy, and a misrepresentation of the broader scope of Smith's Enlightenment project.

CONCLUSION

The goal of this paper has been to show how economists at the University of Chicago produced one of the most distinctive and enduring images of Adam Smith in the twentieth century. This so-called Chicago school Smith did not spring out of economists' imagination, fully formed and fully armed, though; rather, it was the active creation of minds that were continually disputing, defending, and redefining the mode of inquiry that Smith was believed to have founded. I have argued that the Smith of Knight and Viner encapsulated the fundamental tensions of market advocacy in the 1930s and 1940s; nevertheless, Knight and Viner imbued the essence of Chicago's positive and normative project into Smith's political economy. This then became the foundation for Stigler's and Friedman's Smith from the 1950s onward: the Smith who believed in the social productiveness of self-interest alone, and a Smith whose greatest achievement was showing how markets, not government, protected and

100 Burgin, "The Radical Conservatism of Frank H. Knight," 537.

101 An estimated 3 million people on average watched *Free to Choose* when it aired on public television in 1980, and the accompanying book sold over a million copies, making it a nonfiction best seller in the United States. Friedman and Friedman, *Two Lucky People*, 497–8. On the various determinants of *Free to Choose*'s success (production, scripting, Friedman's rhetoric, etc.) see Angus Burgin's illuminating article "The Age of Certainty."

102 "Smith and Jefferson alike had seen concentrated government power as a great danger to the ordinary man," the Friedmans argued in *Free to Choose*. "They saw the protection of the citizen against the tyranny of government as the perpetual need." Friedman and Friedman, *Free to Choose*, 4. The Friedmans also called the Declaration of Independence "in many ways the political twin of Smith's economics." Milton Friedman and Rose Friedman, "The Tide in the Affairs of Men," Collected Works of Milton Friedman Project records, Hoover Institution Archives, Stanford University. Reprinted in Annelise Anderson and Dennis L. Bark, eds., *Thinking about America: The United States in the 1990s* (Stanford: Hoover Institution Press, 1988), 455–68.

promoted individual freedom. Reexamining the ways in which these thinkers were drawn to Smith reveals just one of the many mechanisms by which economists generated powerful undercurrents—or countercurrents—to advance ideas of market advocacy in the twentieth century.

In light of contemporary Smith scholarship, my treatment of the Chicago school's reading of Adam Smith raises thorny interpretive questions of which intellectual historians are well aware.[103] Can we expect Friedman—or Stigler, or Viner, or Knight, for that matter—to have read Smith for his own sake, independent of their own particular methodological and philosophical commitments? What are we to make of the Chicago Smith and its place in the long history of Smith interpretation, the history of economic thought, and the history of ideas more generally?

On the one hand, we might look at the Chicago Smith from the vantage point of a "rational truth made available" by the current state of Smith scholarship.[104] Since the landmark work of Donald Winch, *Adam Smith's Politics*, Smith scholarship has striven to recover "what Smith can legitimately be said to have intended, rather than what he might be said to have anticipated or foreshadowed."[105] And, according to Deborah Boucoyannis, the decades-long revisionist efforts to reconstruct Smith along these lines have been overwhelmingly successful: contemporary Smith scholarship from political theorists and historians has "radically revised the conservative understanding of Smith in the last decades" by showing how Smith critiqued commercial society, advocated for the poor, and championed equality *and* freedom.[106] From this perspective, the Chicago Smith unquestionably falls short of revisionist standards of rational truth. But, as scholars have noted, this approach of rational reconstruction risks "anachronistically rewriting the past to serve present interests."[107] Moreover, it assumes the existence of a single "true" Smith—or, at very least, a true *way* of reading Smith.

[103] Ian Hunter has described the following interpretive dilemma in the history of philosophy as the "great philosophical impasse." Ian Hunter, "The History of Philosophy and the Persona of the Philosopher," *Modern Intellectual History* 4/3 (2007), 571–600. Among the most important essays on the interpretation of the history of philosophy are those in Richard Rorty, J. B. Schneewind, and Quentin Skinner, eds., *Philosophy in History: Essays on the Historiography of Philosophy* (Cambridge, 1984).

[104] Hunter, "The History of Philosophy and the Persona of the Philosopher," 573.

[105] Winch, *Adam Smith's Politics*, 1.

[106] Though it is fair to object to Boucoyannis's use of the term "conservative" in this case, I think it is fairly obvious that she is gesturing toward a Friedman-esque interpretation of Smith and the invisible hand here. See Deborah Boucoyannis, "The Equalizing Hand: Why Adam Smith Thought the Market Should Produce Wealth without Steep Inequality," *Perspectives on Politics* 11/4 (2013), 1051–70, at 1052.

[107] Hunter, "The History of Philosophy and the Persona of the Philosopher," 573.

On the other hand, a historical contextualization of the Chicago Smith helps us avoid the problem of anachronism and making a claim about a "correct" Smith. Reexamining the Chicago figures in terms of their different intellectual projects, philosophies, and politics reveals the historical contingencies of Smith interpretation. To a large extent, this is what I have done in this article. But overly historicizing the Chicago Smith runs the risk of confining reception history to a task of making the past Smiths "look less silly by placing them in the context of the benighted times in which they were written."[108] In other words, relying only on a historical perspective might blind us to the possibility that there *is* an integral core of methodological, philosophical, or political ideas that continue to influence our understanding of Smith today.

I offer a middle ground between these two approaches. One need not presume an inherent stability or rational truth within Smith's works to question whether certain interpretations were reflective of Smith's original intentions and meaning. Smith was a complex thinker, much more complex than many oft-quoted passages might suggest. His use of subtle irony, prolixity, roundabout reasoning, superfluous details, and dialogic analysis demands an abundance of patience and charity, the lack of which has probably contributed to frequent misreading.[109] In the face of these complexities, though, one can identify at least two interpretive pathways, both taken up by the Chicago school. On one path is the generation of Frank Knight and Jacob Viner, who took the instabilities, inconsistencies, and tensions to be central features not only of Smith's project, but also of political economy in the mid-twentieth century more generally. On the other path is the generation of George Stigler and Milton Friedman, both of whom obscured these problematics in order to emphasize a single-minded, "economized" reading of Smith that fit with their intellectual and political projects.

Debates over whether Chicago economists developed an accurate interpretation of Smith should not preclude an attempt to understand *how* Chicago thinkers read Smith in different ways and *why* their various readings are significant. The Chicago Smith's endurance is a testament to the idea that substantive claims of Smith's contributions, importance, and legacy are the products of continual contestation. The award-winning economist and philosopher Amartya Sen aptly captures this last point in an appropriately titled piece, "Uses and Abuses of Adam Smith." "There is nothing much in common between Adam Smith and the champions of rational choice theorists,

[108] Richard Rorty, "The Historiography of Philosophy," in Rorty, Schneewind, and Skinner, *Philosophy in History*, 49–75, at 49.

[109] Samuel Fleischacker discusses these features of Smith's literary method in chap. 1 of his *On Adam Smith's* The Wealth of Nations. See also Rothschild, *Economic Sentiments*.

despite their inclination to invoke Smith as their guru," Sen writes. In the same vein as other revisionist scholars, Sen points out that the Chicago Smith has become so pervasive that even its critics "often describe their enterprise as a rejection of Smithian understanding of human reasoning and choice."[110]

But Sen's prescription is worth scrutinizing. Critics of the Chicago Smith, Sen argues, can "add to the force of their arguments through making use of the subtle distinctions that Smith makes of the different kinds of motivations" in human reasoning and decision making.[111] For Sen himself, this means resuscitating Smith's virtue ethics, highlighting Smith's concern for poverty and inequality, and viewing Smith's impartial spectator as a mode of public reasoning about justice.[112] To what extent Sen's prescription can resolve the Chicago Smith problem by supplanting it with a different version of Smith—in Sen's case, one infused with his approach to welfare economics—is a question I cannot answer here. Nevertheless, I believe it is a question that we cannot and should not ignore, for it presses on an inherent feature of Smith historiography today. To make bold statements about Smith's central insight, his flash of genius, or his contribution to a particular strand of the "science of man" is to partake in this history of constructing and contesting Adam Smith's importance and legacy.

110 Sen, "Uses and Abuses of Adam Smith," 264.

111 Ibid.

112 Sen discusses these ideas in fuller detail in "Uses and Abuses of Adam Smith," as well as in Amartya Sen, "Adam Smith's Prudence," in S. Lall and F. Stewart, eds., *Theory and Reality in Development* (London, 1986), 28–37; Sen, *On Ethics and Economics* (London, 1987); and Sen, "Adam Smith and Economic Development," in Ryan Hanley, ed., *Adam Smith: His Life, Thought, and Legacy* (Princeton, 2016), 281–302.