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Mirage and Reality:  
Reflections on the  
Neoclassical Interpretation of  
Adam Smith's Intellectual Heritage

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**Mirage and Reality:**  
**Reflections on the Neoclassical Interpretation of Adam Smith's Intellectual Heritage**

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**Abstract:**

*The main premise of the neoclassical theory is built on the idea that markets have inherent self-adjusting mechanisms and that everything that facilitates 'free' markets should be the ultimate aim of policy making. The neoclassical theory claims that the theoretical pedigree of this proposition can be found in Adam Smith. Contrary to this neoclassical claim, this review provides evidence that Smith has been very careful to draw the attention to the failures of the egoistic pursuit of profit and to highlight the dangers of unhindered operation of a 'free market' system and reviews his conscious attempts to highlight that the private interest and the social interest are not always compatible.*

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## Mirage and Reality; Reflections on the Neoclassical Interpretation of Adam Smith's Intellectual Heritage

### 1. Introduction

In the darkest days of the Great Depression Keynes was hopeful that

*"the day is not far off when... the economic problem may be solved ... This means that the economic problem is not... the permanent problem of the human race... it should be a matter for specialists – like dentistry. If economists could manage to get themselves thought of as humble, competent people, on the level with dentists, that would be splendid!"<sup>1</sup>*

Contrary to Keynes' hopes almost 90 years after the above lines were written the 'economic problem' is not solved and economists have failed to remedy the inability of the economic system to generate a persistently fully employed economy. Instead the current economic wisdom guided by the prevailing 'individualism' and the 'free markets' neoclassical paradigm has failed not only to alleviate the enormous anomalies of unemployment and poverty but it has promoted gross inequalities of income and wealth unseen in the historical record.

For almost 50 years the neoclassical theoretical discourse in economics and the imposed 'free market' economic policies have seized the theoretical and policy discourse in academia, media and government as the Holy Inquisition had seized Spain. The main premises of the neoclassical edifice are built around the idea that markets have inherent self-adjusting mechanisms. Therefore, the state and the democratically elected governments should simply play a caretaker role since the self-regulating free markets can maximise human welfare only if they are left in to their own devices. A corollary of this is that if the democratically elected government actively attempts to regulate the 'markets' this should be expected to be detrimental to their functioning. Furthermore, such regulation limits individual choice since the ability of consumers to buy and sell whatever they consider as best serving their needs and promoting their goals is a "component of freedom properly understood"<sup>2</sup>. Consequently, the neoclassical view is that regulation of markets via any government action is equivalent to limiting individual freedom. Hence, the role of government should be limited to safeguarding law and order, enforcing private property and contracts, and providing for the common

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<sup>1</sup> Keynes J. M. (1930) Economic Possibilities for our Grandchildren

<sup>2</sup> Milton Friedman (1962), Capitalism and Freedom, University of Chicago Press, p8.

defence and a common monetary and banking system which should be also independent from the government interference or regulation.

Importantly, in the neoclassical theory the main motive of any economic or social activity is the pursuit of 'profit' by individuals in an independent and egoistic fashion. The unhindered functioning of the markets is heralded as ensuring that everyone earns what everyone deserves. Those who employ capital and labour in the right way are expected to eventually obliterate through the unfettered competition those who have followed the wrong path. There is no mercy or protection for those who either through weakness or misfortune are the losers in this cut-throat competition. In the ruthless battle for survival only the most successful survive to witness the bankruptcy of those less so. The neoclassical theory proposes that in this process the benefit of the outcome is what matters and there is no need for any reckoning for the cost of the cut-throat competition or any factoring out of the initial ownership or the initial endowment of the productive resources. Hence, the neoclassical view is that there should be no concern if profit ensues to the individual who, whether by talent or good luck, is found endowed with the productive resources at the right time in the right place.

In view of the above, the neoclassical theory and policy suggests that everything that facilitates 'free' markets should be the ultimate aim of policy making. This should be implemented in four main directions: first, complete deregulation of labour, financial and product markets, second, unmitigated mobility of labour and capital, third, elimination of any provision of public good including abolition of the provision of social insurance and any publicly financed safety net and, four complete privatisation of any assets in the public domain. Actions or institutions that may diminish the market flexibility including government restrictions on finance and capital, labour market regulation, and trade union activity should be banished. Furthermore, antipoverty policies and progressive taxation are counterproductive and therefore should be both avoided and discouraged outright. In this respect, it is interesting that contrary to the neoclassical belief of freedom for the pursuit of profit, the freedom of labour to organise in trade unions and pursue its interests through collective bargaining is considered as impinging free market functioning and as hindering the creation of wealth.

In the neoclassical economic discourse, inequality, an outcome of the concentration of wealth to the few, is considered a reward for the productivity of the individual and a generator of wealth in line with the neoclassical theory of incentives without due consideration to the observation that profit ensues to the individual endowed with the initial productive resources. Furthermore, the theory maintains that the unequally distributed wealth at the top somehow trickles down to enrich all citizens. A corollary of this is that redistribution of wealth through progressive taxation should be considered to be both counterproductive and morally destructive. To the contrary, mainly for the wealthy, taxes are

should be minimised since lower taxes are deemed to promote investment, effort and employment and, importantly, this reduction of tax revenue constrains the financial ability of the government to interfere in the self-regulating mechanisms of the 'free markets' by, for instance, providing public services.

The neoclassical theorists claim their theoretical pedigree in the writings of Adam Smith and the liberal philosophers of the seventeenth and eighteenth century, yet the 'free market' doctrine cannot be found in its neoclassical dogmatic form in the writings of Adam Smith. Contrary to the neoclassical theorising, as it will be discussed in the next section, in his writings Smith has been very careful to draw the attention to the failures of the egoistic pursuit of profit and to highlight the dangers of unhindered operation of a 'free market' system. Importantly, he has made a conscious attempt to highlight that the private interest and the social interest are not always compatible.

## 2. The origins of the 'Free Market' Neoclassical Thought.

Individualism and the free market ideology has had a long history in the development of the economic discourse. As Keynes has observed<sup>3</sup>, it has its roots in the clash between those who defended the natural liberty of the individual against the divine right of the monarchs, the aristocracy and the church. The seventeenth century thinkers such as John Locke and David Hume have developed an intellectual framework that regarded the free individual as the central element of the social structure. Therefore, the rights of the individual with regards to life, liberty, and property are considered to be the fundamental principles of this framework ensuring that the individual had the freedom to enjoy his or her wealth and possessions. For instance, Locke proposes that "*the great and chief end...of men's uniting into commonwealths, and putting themselves under government is the preservation of their property*"<sup>4</sup>.

In Locke's framework individual natural rights and a limited government are established but the extent of the latter is crucially dependent upon the consent of the governed. Indeed, most fundamentally the continuation of the government depends on the right of people to overthrow rulers who fail to uphold their end of the 'social contract'. Thus, the government is perceived to be morally obliged to serve the people and to rest its authority on the consent of the governed in order to protect the individuals' natural rights of life, liberty, and property and facilitate the advancement of individual interests. Furthermore, Locke establishes the individual's right to own property and he defines the right to property for both the land that the individual cultivates and the goods that the individual

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3 The End of Laissez Faire

4 Princeton Readings in Political Thought, Second Treatise of Government, p. 262

produces. Importantly, Locke rationalises land rent as a return for labour expended in improving the land, but he does not justify unearned income -that is economic 'rent' - for what the nature offers freely. Thus, he proposes a distinction regarding labour expended between the common and the private as in the case of one picking fruits in owned cultivated property as "*labour put a distinction between them (fruits) and common: that added something to them more than nature, the common mother of all, had done; and so they became his private right.*"<sup>5</sup>

In France, Rousseau brought to fore the rights of the society, contrary to the perceived social dominance of individual rights cherished by Locke. Rousseau used the Social Contract to advance the case of freedom through the "general will". He argues that "*private interest tends always to preferences, the public interest to equality*"<sup>6</sup> but the public interest which is reflected in the "*general will is always right and always tends toward the public utility.*"<sup>7</sup>. Hence, Rousseau advances the argument that "*each of us puts his person and all his power in common under the supreme direction of the general will*"<sup>8</sup>. The 'general will' is "*only the common interest,*" in contrast to the "*will of all,*" which Rousseau considers to be the "*sum of private wills.*" In effect, Rousseau argued that the sum of private wills – the sum of private interests- does not necessarily reflect the common interest of the society- the *general will*.

Following a different path Jeremy Bentham defended the rights of the society by using Hume's principle of "*greatest happiness principle*" or "*the principle of utility*". However, contrary to Hume views, he not only considers the individual utility of possessions or actions, but also, he advances the idea that the morally essential issue is the extent to which these possessions or actions promote the general happiness defined as the greatest happiness for the greatest number of people. Therefore, whatever action or possession does not maximize the greatest happiness is morally wrong even if it promotes narrowly defined individual interests.

In view of the above there appears to be a dichotomy between private and social rights: how can the individualism proposed by Locke and Hume be compatible with the utilitarian ideal and equality of Bentham and Rousseau? In reviewing the development of the *Laissez-faire* free market ideology, Keynes<sup>9</sup> has pointed out that this difficulty of harmonisation of private interests with the interests of the society, the provision of public goods, social equality and justice could occur only if the Divine

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5 Princeton Readings in Political Thought, Second Treatise of Government, p. 251

6 On the Social Contract, ed. Roger Masters and trans. Judith Masters (New York: St. Martin's Press, 1978). Book II, chapter one, page 59

7 Princeton Readings in Political Thought, On The Social Contract, p. 284

8 Princeton Readings in Political Thought, On The Social Contract, p. 282

9 'The End of Laissez Faire'

harmony prevails, or if a civil authority interferes. Indeed, Rousseau has recognised this contradiction and has found the solution in suggesting that if someone does not abide by “*the general will*” then one must be “*forced to be free*”.

In Keynes view it was Adam Smith who gave a philosophical resolution to the above conundrum without resorting either to Divine harmony or to civil authority compulsion. Smith hypothesises that if individuals by pursuing their own interests under conditions of freedom can also uphold the public interest then the philosophical puzzle can be resolved at least in practice. Hence individuals can concentrate in pursuing their own interests in conditions of freedom.

### 3. Smith’s Intellectual Heritage

The simplicity of the theoretical structure advanced by Adam Smith in *Wealth of Nations* comes from his governing principle of the ‘natural liberty’ along the lines defined by Locke which allows ‘*every man to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice*’<sup>10</sup>. In this framework and under certain conditions Smith argues that

*‘The annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value*<sup>11</sup>. *As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention... By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it.*’<sup>12</sup>.

In advancing this conjecture Smith brings about the harmonisation of private interests with the interests of the society as a natural outcome of the pursuit of private interest in in conditions of free exchange. Smith proceeds with a similar conjecture to propose that the ideal distribution of productive resources can also be brought about in a process of ‘trickling down’ of wealth. Thus, he

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10 WN IV.ix.3.

11 Smith’s version of what it is now known as the Say’s Law, one of the pillars of the neoliberal economic theory.

12 *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book IV, Chapter II, par. IX, IV.2.9

argues a selfish landlord acting independently is able to distribute his harvest to those who work for him without concern for the public interest -again as being led by an *invisible hand*:

*'It is to no purpose, that the proud and unfeeling landlord views his extensive fields, and without a thought for the wants of his brethren, in imagination consumes himself the whole harvest that grows upon them...The capacity of his stomach bears no proportion to the immensity of his desires, and will receive no more than that of the meanest peasant. The rest he is obliged to distribute among those, who prepare...that little which he himself makes use of...; all of whom thus derive from his luxury and caprice, that share of the necessaries of life, which they would in vain have expected from his humanity or his justice. The produce of the soil maintains at all times nearly that number of inhabitants which it is capable of maintaining. The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity... they divide with the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species... In ease of body and peace of mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for'<sup>13</sup>.*

Along the above lines, through using the principle of the 'free market' principle, Smith is able to harmonise the conflict of egoistic individualism and public interest. By pursuing his own private profit, the master entrepreneur can attain this harmonisation in terms of production of goods and services, which results first, in generation of income sufficient to buy the produced goods and services and second, in the distribution of this income among the members of the community in an equitable and just way.

The historical record of uninspiring, incompetent and riddled by corruption public governance for most of the 18<sup>th</sup> century has strongly biased the public's views in favour of the of the above 'free markets' ideal. Almost everything that the State did above its minimum function has been perceived to be either harmful or ineffective. In short, in Smith's time the 'invisible hand' outlined above provided the main route through which, the political economy has found a pretext by which the contradiction between the egoistic individuals pursuing their own advancement and the societal interest without the government interference could be solved. It is an outcome of the philosophical discourse at the end of the era of feudalism and the decay of the established governance of the day.

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<sup>13</sup> The Theory of Moral Sentiments (1759) in Part IV, Chapter 1, Par. 10.

Notwithstanding this historical record Smith has been accurate to observe that *'civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all'*<sup>14</sup>.

However, there is no doubt that the straightforwardness and simplicity of the theoretical structure advanced by Adam Smith in *Wealth of Nations* is appealing, yet, it is clear that it follows not from facts but from his own conjectures. Adam Smith is very much aware of the failings of the 'invisible hand' and the shortcomings of his conjecture that wealth is freely 'trickling' down to the whole of society. Smith's views which are elaborated in his main corpus of work are undogmatic regarding his own conjectures and a far cry from the contemporary neoclassical general equilibrium paradigms in a perfect-competition economy in an institution-free world.

Contrary to the contemporary neoclassical thinking, Smith is very much concerned by the cost and character of the competitive struggle and the tendency of wealth to be distributed towards where wealth is. Smith is critical of the *'merchants and manufacturers'* who in the pursuit of their gain are drawn to foreign markets without regard to their own country. He points out that

*'What all the violence of the feudal institutions could never have affected, the silent and insensible operation of foreign commerce and manufactures gradually brought about... All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind. As soon as they can find a method of consuming the whole value of their rents themselves, they had no disposition to share them with any other persons'*<sup>15</sup>

Importantly, he does not overlook the sufferings of those less well-endowed in the battle for survival. Far from being indifferent for the human cost and suffering generated by the workings of the economic mechanisms that he is conjecturing he argues that

*'Servants, labourers and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged'*<sup>16</sup>.

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14 Chapter I, Part II, 775

15 Book III, Ch. IV, p. 205

16 Book I, Chapter VIII.

Rather than only looking at only for the benefit of the result of the 'free markets' principle accruing to the successful profit makers, he both counts for the cost of the struggle in this ruthless battle for survival and advocates the need of government action for protection of the interests of those less fortunate or less well-endowed in the society. He draws attention to the fact that

*'In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations, frequently to one or two... The man whose whole life is spent in performing a few simple operations...[h]e generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him... incapable... of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life... But in every improved and civilized society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it'<sup>17</sup>.*

Furthermore, Smith does not only propose strongly government protective action for those less fortunate but, contrary to the neoclassical policy doctrines of tax breaks to the wealthy, he advances the view that the state should obtain resources by progressive taxation and then use these resources to attend to the needs of the weaker members of the society since:

*'The necessities of life occasion the great expense of the poor. They find it difficult to get food, and the greater part of their little revenue is spent in getting it. The luxuries and vanities of life occasion the principal expense of the rich, and a magnificent house embellishes and sets off to the best advantage all the other luxuries and vanities which they possess. A tax upon house-rents, therefore, would in general fall heaviest upon the rich; and in this sort of inequality there would not, perhaps, be anything very unreasonable. It is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion'<sup>18</sup>.*

Contrary to the neoclassical view that there is no need for any concern regarding the tendency of the unhindered 'free markets' to promote a concentration of ownership of the productive resources that, in turn, enhances the concentration of political power, Smith expresses clearly his concerns regarding the political power of the organised interests. He draws attention to the preoccupation of vested interests of wealth and privilege in extracting unearned income that is economic 'rent'. This is probably the reason for his strong advocacy for a land tax. He argues that:

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<sup>17</sup> Adam Smith, *The Wealth of Nations*, Book V, Chapter 1, Part III

<sup>18</sup> Chapter II, Part II, Article I, p. 911.

*'as soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost the labourer only the trouble of gathering them, come, even to him, to have an additional price fixed upon them.'*<sup>19</sup>

In view of this, he clearly highlights the harmful societal effects of wealth accumulation based on hereditary ownership and he opposed the view that land ownership rights should prevail since

*'they are founded upon the most absurd of all suppositions, the supposition that every successive generation of men have not an equal right to earth and to all that it possesses; but that the property of the present generation should be restrained and regulated according to the fancy of those who died, perhaps five hundred years ago'*<sup>20</sup>.

Importantly, Smith is very well aware of the vulnerability of public interest to the vested interests of the *'merchants and manufacturers'* and he does not look favourably the institutionalised facilitation of their gatherings. He points out to another consequence of individualism and *'free markets'* unhindered functioning namely corruption, conspiracy and insider dealing organised by those with vested interests by suggesting that *'merchants and manufacturers'* frequently conspire against the interest of the public in their quest for monopoly power since

*'People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary.'*<sup>21</sup>

In view of the above Smith proposes that governments should defend the public interest from monopoly power and economic misbehaviour spawned from the above *'conspiracy against the public'* by the *'merchants and manufacturers'*. He argues that this should be done by governments by putting in place appropriate regulations to ensure that the interests of society are attended to. He strongly argues that:

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19 W of N, book I, ch 6, par 8, p60 .

20 ch 10, par 55.

21 book 1, ch 10, 82

*'exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well of the most despotical. The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which here proposed'<sup>22</sup>.*

Though Smith refers specifically to the banking sector his views naturally apply to other instances of economic misbehaviour. In relation to issues of economic misbehaviour Smith is also suspicious of the activities of what in today's terminology is known as lobbying that serves vested financial and commercial interests. Thus, he draws attention to the outcome of monopoly power on the legislature since

*'the cruellest of our revenue laws...are mild and gentle, in comparison of some of those which the clamour of our merchants and manufactures has extorted from the legislature, for the support of their own absurd and oppressive monopolies'<sup>23</sup>*

Furthermore, Smith suggests that governments should defend the public interest by carefully and rigorously scrutinising any proposals regarding laws and regulations recommended by vested interests. This is a far cry from the current practice in regulatory authorities where vested financial and commercial interests become members or chairs of the regulatory committees. Thus, Smith argues that:

*'The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it.'<sup>24</sup>*

In this respect, he argues that the contrivers of the whole trade system of his day is the monopoly power imposed on the legislature by merchants and manufacturers since

*'It cannot be very difficult to determine who have been the contrivers of this whole mercantile system; not the consumers... but the producers, whose interest has been so carefully attended to;... our*

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22 W of N, Book II, Ch2, par 94

23 Book IV, Chapter VIII, Conclusion of the Mercantile System p. 822

24 Chapter XI, Part III, Conclusion of the Chapter, p. 292

*merchants and manufactures have been the principal architects... [whose interest] has been most peculiarly attended to'* <sup>25</sup>.

Furthermore, Smith is aware of the crucial contribution of public goods and utilities to the society. Contrary to the neoclassical policy recommendations favouring wholesale privatisation of public assets, Smith views state assets such as ports, water, canals, the hospitals and the universities as entities, which are not supposed to operate for profit but rather to establish an infrastructure in the country conducive to providing a stable and low cost environment for all citizens and the business world, within which they could pursue their interests. He proposes that

*"The duty of the sovereign or commonwealth is that of erecting and maintaining those public institutions and those public works, which, though they may be in the highest degree advantageous to a great society, are, however, of such a nature that the profit could never repay the expense to any individual or small number of individuals, and which it therefore cannot be expected that any individual or small number of individuals should erect or maintain. The expense of maintaining good roads and communications is, no doubt, beneficial to the whole society, and may, therefore, without any injustice be defrayed by the general contribution of the whole society"*<sup>26</sup>

Thus, public investment and ownership is viewed by Smith as minimising the economy's cost structure and protecting the citizens and business alike from rent-extracting that privatised monopolies build into the price of public goods. Instead of privatising public services and permitting monopolies to install implicit or explicit tollbooths for rent extraction, Smith voices his view that

*'The tolls for the maintenance of a high road, cannot with any safety be made the property of private persons'*<sup>27</sup>.

#### 4. Conclusions; Smith's reality and the neoclassical mirage

The above review highlights that contrary to Smith's views and concerns about the operations of the 'free markets' the neoclassical theorists hypothesise that the individual has unaccountable 'natural liberty' in their economic activities and that 'free markets' and the unconstrained pursuit of profit provides an unfailing mechanism that maximises both individual and societal welfare. As a result, over the last two centuries the principles of individualism and 'free markets' secured a lasting hold over the

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<sup>25</sup> Book IV, Chapter VIII, Conclusion of the Mercantile System p. 841

<sup>26</sup> A. Smith (1776) *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book V.

<sup>27</sup> Chapter I, Part III, Article I, p. 786

affairs of public policy in a manner that, in some form or another, ignores or downplays the above concerns of the political and moral philosophy of Smith.

In doing so, the neoclassical theorists assume that the world is so made that private and social interests always coincide and that enlightened self-interest always operates in the public interest. Furthermore, contrary to Smith's anxieties but also contrary to overwhelming theoretical and experimental evidence of modern psychology providing undisputed evidence that self-interest is generally not enlightened and more often than not individuals are too ignorant or too weak to act even in attaining their own interest<sup>28</sup>, the contemporary 'free market' theorist assume that the master-individualist entrepreneur serves the society by serving stringently his or her own self-interest.

In addition, 'free market' theorists act as if market prices reflect the true value of the product or service at any time –thus assuming no deception, conspiracy (in Smith's terminology) or fraud in the process. Governments following the neoclassical policy prescriptions have launched a wide attack on the functions of the state which Smith considered vital for a well-functioning society. In particular, governments have engaged themselves in a wholesale privatisation of public services including vital industries such as water, energy, transport, roads, health, education and prisons. As most of these industries are natural monopolies this has enabled the acquiring monopolists to '*conspire against the public*' and to charge the highest price that the market can bear for every essential public asset or service thus extracting a monopoly rent for the use of these valuable and socially necessary services<sup>29</sup>.

In view of the above one should assume that the lasting hold of the neoclassical views on current public affairs is not simply an outcome of the intellectual discourse or the accumulation of historical experience and evidence justifying the theoretical presuppositions but an outcome of the fact that the neoclassical doctrine conforms with the wishes and needs of the of the moneyed and economically privileged elites rather than to the principles of Smith's 18<sup>th</sup> century liberalism. Though the neoclassical doctrine has been heralded as the bastion of Smith's economic thinking it largely and purposefully disregards Smith's important reservations regarding the possible failures of his theoretical conjectures and his advice for defending the public interest through appropriate '*firewalls*'. This impedes the ability of the democratic governments to act towards remedial actions that can ensure the achievement of a '*flourishing and happy*' society as envisioned by Smith.

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28 The questioning of the validity of the neoclassical assumptions are well documented in the area of research in economics as a combination of economics and psychology

29 This rent extracted by monopolists, in the neoclassical discourse is thought to be return to capital and effort investment instead to concern the production of tangible consumption or investment goods and services concern the acquisition of public assets through privatisation. In effect, the ensuing rentier income is redefined as return to investment.

The outcome of the long period that the neoclassical policies have ruled over the public affairs is that, contrary to Keynes predictions quoted above and notwithstanding the enormous progress in science and technology the same 'giant evils' of 'want, disease, ignorance, squalor, and idleness' identified by William Beveridge that haunted Keynes' contemporaries are still causing an immense human distress to large sections of the population not only of the developing world but to a substantial extent of the developed economies though the latter enjoy tremendous technological advancements.

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