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Last updated: June 2016

Abstract: This paper is an excerpt from my dissertation on the reception of Adam Smith in American political thought and intellectual history (table of contents on next page), and focuses on the historical and intellectual forces in the twentieth century that produced an image of Smith as the "father of economics." I argue that the Chicago School of Economics is largely responsible for producing an image of Smith associated with the politics and economics of American neoliberalism, and that this image emerged out of competing discourses around the nature of economic science from the 1930s onward. In the early 1930s and 40s, figures such as Frank Knight and Jacob Viner crafted an image of Smith as the intellectual forbearer of neoclassical price theory, and an economic science that could be "useful for guiding conduct." From the 1950s onward, the generation of economists that included Milton Friedman, George Stigler, and Ronald Coase constructed an image of Smith associated with a narrower definition of economic expertise—namely, empirical testing, prediction, and its application to public policy. The notions of self-interest and "the invisible hand" became central to their approach, and ultimately opened the doors for the heavy politicization of Smith's ideas.

"Inventing the Invisible Hand: Adam Smith and the Making of an American Creed"

Table of Contents and Chapter Summaries

Chapter 1: Who was Adam Smith?
This is an introductory chapter that outlines the scope of the project, provides a brief biographical sketch of the life of Smith and his immediate reception in Great Britain, and surveys current Smith scholarship. While major historiographic shifts in Smith scholarship have sought to overturn Smith's reputation as the economist of laissez-faire, I argue that revisionist scholars have taken for granted how Smith became appropriated as the father of economics in the first place. My dissertation recovers this lost story of how Smith became known as America's favorite economist, and in doing so, charts the relationship between economic ideas and American political beliefs.

Chapter 2: The Arrival of Adam Smith: Adam Smith and the Founding Fathers, 1760-1820
This chapter traces how Smith was read during the founding and early national period, paying special attention to the variation amongst the Founding Fathers' readings and appropriations of Smith. Seminal works and correspondence of Benjamin Franklin, Thomas Jefferson, and James Madison highlight the extent of Smith's reputation as a political economist among the American political and intellectual elite. However, I argue that political exigencies and nationalist debates—particularly around the French Revolution of 1789—enabled deliberate political appropriations of Smith's work. Given these circumstances, explicitly political uses of Smith, such as in Alexander Hamilton's *Report on Manufactures* (1791), ultimately overshadowed close readings of Smith's moral philosophy, such as John Adams' *Discourses on Davila* (1790-1).

Chapter 3: "…Everywhere into the life of politics:" The Philosophy of Smith in the Age of Progressivism, 1876-1920 [To be competed, March 2017]
I focus on the last quarter of the nineteenth century through the Progressive Era for two main reasons. First, the centenary of the publication of *The Wealth of Nations* is an intellectual landmark amongst historians of economic thought. Second, there is an abundance of Smith references in both academic and political discourse from the 1880s onward: the proliferation of new textbooks on the "science of political economy," references to Smith's *Wealth of Nations* in landmark Supreme Court decisions during the Lochner era, and invocations of Smith's works by political figures such as William McKinley, William Jennings Bryan, and Woodrow Wilson.

Chapter 4: The "father of that dismal science:" Adam Smith and the Chicago School, 1929-1980 [INCLUDED AS WRITING SAMPLE—see abstract on first page]

Chapter 5: Reading Smith Today
I conclude my dissertation with an examination of how Smith is invoked in both political discourse and contemporary scholarship on the topic of economic inequality today. I make the case that while Smith does provide a *descriptive* account of the nature, causes, and consequences of inequality, scholars have overlooked his normative framework for what ought to be done about it. I suggest that a "Smithian" approach to understanding the problem of economic inequality that is both consistent with a close and authentic reading of Smith's works as well as valuable for understanding our present concerns.

"The Father of that Dismal Science:" Adam Smith and the Chicago School, 1929-1980

"If Adam Smith is the father of that dismal science called economics, then Chicago is arguably its capital." –Johan Van Overtveldt, *The Chicago School.*

* * * *Introduction* ***

In 1976, as the nation celebrated the 20å0th anniversary of the Founding Fathers signing the Declaration of Independence, economists across the country and the world were celebrating the bicentenary of a very different founding document: Adam Smith's *The Wealth of Nations*. At MIT, a group of graduate students held a commemorative "Adam Smith Roast," where they honored journalist Jerry Goodman—dressed in full Adam Smith attire—with the "invisible hand award."[1] Academic journals witnessed a surge in commemorative and reflective essays on Smith's works. "1976 is not 1776," Milton Friedman began in one such essay, just one year after he had been awarded the Nobel Prize in economics. "Still, there are many resemblances that make Adam Smith even more immediately relevant today than he was at the Centennial of the *Wealth of Nations* in 1876."[2]

Friedman was one among many scholars who recognized and continually reminded the public of Smith's relevance in his time. Against a backdrop of historical revivalism, invocations of the eighteenth century political economist might have gone unnoticed, but less than half a century prior, Adam Smith was neither a political nor popular icon. However, by the last decades of the short twentieth century, he had become not only the icon of America's most eminent economists, but also an honorary Founding Father who endowed America with its core values of economic and political freedom.

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[1] 200th Anniversary of Wealth of Nations Roast of Adam Smith at MIT, April 12, 1976. "Economics in the Rear-View Mirror," by Irwin Collier. http://www.irwincollier.com/from-the-200th-anniversary-of-wealth-of-nations-roast-of-adam-smith-at-mit-1976/

[2] Milton Friedman, "Adam Smith's Relevance for Today," *Challenge* 20, no. 1 (March 1, 1977): 6.

This chapter explains how and why the Chicago School of Economics became largely responsible for producing this image of Adam Smith associated with the politics and economics of self-interest in the twentieth century, and that this image emerged out of debates over the nature of economic science in the twentieth century.

The prestige and influence of the University of Chicago within the field of economics can hardly be overstated. Since 1969 when the prize was first awarded, twelve Nobel Prizes have been awarded to Chicago alumni or faculty in economics; that number rises to over fifty when one includes scholars who were closely affiliated with the University. Add to that the number of number of John Bates Clark Medalists, the most prestigious award given to an economist under the age of forty: seven have been awarded to Chicago economists since the medal was first awarded in 1951, and arguably eleven more to scholars who had ties with the University of Chicago at some point in their career.

However, Chicago deserves greater attention here for reasons beyond its trophy case. The Chicago School was doing something very different in terms of the way they were thinking about economics during the twentieth century.[3] Often believed to represent a coherent school of thought, economists at the University of Chicago were self-consciously novel as they forged their path

[3] There is a large debate about what constitutes the so-called "Chicago School," who its members were (and are), and the extent of its consistency and coherency in the twentieth century. The first use of the phrase "Chicago School" that gained notoriety was in Milton Friedman's 1953 paper, "A Quantity Theory of Money—a Restatement." Friedman's claim was that Chicago symbolized a definitive tradition—which began in the 1930s and 40s with Knight, Viner, and Director—centered around the quantity theory of money and general price theory. This tradition, he argued, "was not a rigid system, an unchangeable orthodoxy, but a way of looking at things. It was a theoretical approach that insisted that money does matter—that any interpretation of short-term movements in economic activity is likely to be seriously at fault if it neglects monetary changes and repercussions and if it leaves unexplained why people are willing to hold the particular nominal quantity of money in existence." See Friedman, Milton. 1953 "A Quantity Theory of Money—a Restatement." Reprinted in Robert Leeson, ed., *Keynes, Chicago, and Friedman* (London: Pickering & Chatto, 2003), 33. Friedman received a deluge of criticism for his characterization of the Chicago School—much of which had to do with monetarist theory itself. See for example, Don Patinkin's responses to Friedman's Quantity Theory of Money essay. Don Patinkin, "The Chicago Tradition, the Quantity Theory, and Friedman," *Journal of Money, Credit and Banking* 1, no. 1 (1969): 46–70; Don Patinkin, "Friedman on the Quantity Theory and Keynesian Economics," *The Journal of Political Economy*, 1972, 883–905. For more on the characterization and evolution of the Chicago School more generally, see Medema , Steven G., Identifying a 'Chicago School' of Economics: On the Origins, Evolution, and Evolving Meanings of a Famous Brand Name (July 6, 2014). Pp. 11-14. Available at SSRN: http://ssrn.com/abstract=2479734; Johan Van Overtveldt, *The Chicago School: How the University of Chicago Assembled the Thinkers Who Revolutionized Economics and Business*, First Trade Paper Edition (Agate B2, 2009), 20.

towards economic enlightenment. They saw themselves as possessing a new type of scientific expertise that could explain the crisis of the Great Depression, and combat the statist approach of Keynesian economics—an approach that they deemed the greatest threat to a free society. Chicago championed a distinctive approach to economics combined a rigorous teaching of neoclassical price theory, a staunch belief in economics as a true science, and a deep skepticism towards prevailing methods and theories, especially Keynesian macroeconomics. Each of these tenets drew on Smith's image and ideas in some way: Smith provided key illustrations for theories of value and relative price, he was the first great systematizer of their discipline, and he also was a mouthpiece for *laissez-faire* policies—though some of Chicago's most illustrious figures would contest abuses of that term. As such, Smith was a foundational to what would become one of the most heterodox and influential approaches to economics. He legitimized a method of scientific inquiry whose object was not *the* economy—as in the national economy—but the economic *behavior* of individuals and social organizations.

Yet economists at the University of Chicago actually had very diverse opinions about the nature of science and the type of science that economics was. To that end, they had different readings, uses, and appropriations of Adam Smith's life and works. To some, Smith was a holistic social scientist interested in systematizing a grand "science of man:" a science that could explain the principles of individual morality and politics as well as principles of market exchange. To others, Smith was the founding father of a new predictive and empirical economic science who gave modern economics prototypes for now-familiar theories of market price, value, and self-interested behavior in *The Wealth of Nations*. Still others fashioned Smith into the most vehement critic of government, ultimately turning Smith's notion of self-interest into the basis for coherent and

aggressive set of policy recommendations that portrayed the free market as the panacea to all social and political ills.[4]

In short, the Chicago School's variegated uses of Smith constituted a legitimating exercise for their brand of economics; Smith gave credence to a new and developing approach to economic science by giving the Chicago school a link to a recognizable past. But more important was that this intellectual connection to the foundations of economics enabled Chicago economists to make a further claim: that the political ideas implicit in Smith's economic theory were also the political ideas of America, both in the past and in the present.

*** *Fathers of Economics* ***

The image of Smith as the father of modern economics was created in the shadows of two key historical and intellectual crises. The first of these crises was the Great Depression. As prices plummeted and unemployment soared, a general sense of desolation pervaded the social sciences. Throughout the 1930s, the entirety of the field was devoted to understanding the causes, consequences, and remedies to the depression. As economists floundered to explain what was often perceived as a failure of *laissez-faire* capitalism, they began to reassess and redefine the very object of their inquiry.

Prior to the publication of *The General Theory of Employment, Interest, and Money* by John Maynard Keynes in 1936, the notion of "*the* economy" was virtually nonexistent in both intellectual and public discourse. As discussed in the first chapter, Smith's use of the word "economy" often referred to the "private frugality" or "good conduct" of individuals and government, not to some abstract entity that captured the productivity of people bound by geopolitical borders. With the publication of Keynes' *General Theory*, however, a new paradigm emerged: now, "economic society"

[4] Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*, Updated edition with a New Foreword edition (Princeton, NJ: Princeton University Press, 2014), 87.

and "the economic system as a whole" and "*the* economy" concretized an object of study that became commonsense and commonplace. New aggregates—production, consumption, employment, investment—became part of an invented object that marked the exclusive territory of the discipline of economics.[5]

With the birth of macroeconomics and the idea of the *national* economy, economics took shape as a discipline that had direct political consequences. Keynes' theory became Keynesian*ism*: macroeconomic abstractions became synonymous with government deficit spending, the expansion of public works programs, and the idea of "priming the pump" to get the economy back on its feet. Across the various social sciences, political leadership and scientific expertise were virtually inseparable. Social scientists themselves were actively sought to help "staff the mushrooming governmental agencies" tackling everything from information collection to national public works planning.[6] Legislation such as the Glass-Steagall Act in 1933, and the Social Security Act of 1935 concretized the deep impressions that Keynesian economics left in the nascent American welfare state.

Against this backdrop—recent emergence from greatest economic depression in history, the boom of the new post-war production frontier, and also the threat of totalitarianism looming in the distance—economists at the University of Chicago were beginning to redefine their objectives and objects of interest. Economics became *the* science for uncovering and explaining the principles underlying the maintenance of order, prosperity, and most importantly, freedom of American society. But unlike their Keynesian opponents, Chicago economists did not view the principles of economic order from the top down; rather, they advanced an approach to economics that would reveal the hidden chains of economic and social order from the bottom up.

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[5] George Steinmetz, ed., *The Politics of Method in the Human Sciences: Positivism and Its Epistemological Others* (Durham: Duke University Press Books, 2005), 136–7.
[6] David Ciepley, *Liberalism in the Shadow of Totalitarianism* (Cambridge, Mass: Harvard University Press, 2007), 77.

At the core of the Chicago method was the instruction and use of neoclassical price theory to approach and explain almost all economic problems.[7] At this point, the idea of "neoclassical" economics was relatively new. American sociologist and economist Thorstein Veblen, who spent time at the University of Chicago between 1892 and 1904, originally coined the term "neo-classical" in reference to the marginalist economist such as Alfred Marshall, John Bates Clark, and Edwin Canaan.[8] But under the auspices of Viner and Knight, neoclassical economics would become a countervailing force against the gravitational pull of social control and institutional economics.[9] Those who identified themselves as being neoclassical economists prided themselves on objectivity and scientific rigor. As Jacob Viner opened his Economics 301 (Price and Distribution Theory) course,

> Neoclassical economics is deductive or a priori in its method. It is static. It does not discuss laws of change, but it discusses processes of equilibrium under given circumstances. It takes value as its central problem and approaches economic problems in value terms, meaning exchange value…It puts little emphasis on consumption. It puts no emphasis on institutional influences on prices and distribution. It does not explore the origin of value. It has both price economics and welfare economics phases. It is an objective description of the process of price determination under certain assumed conditions…It is, therefore, a welfare economics. The main emphasis is on a descriptive, objective explanation of the way in which prices come to be what they are.

Put simply, neoclassical price theory was a method of analysis that sought to simplify complex market processes into its most basic components—supply, demand, prices—in order to answer questions about allocation.[10] In a competitive economy, prices were viewed as the most important signal of what individuals desire; prices determined not just *what* would be produced, but *how* things were produced, and *who* got them.

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[7] Van Overtveldt, *The Chicago School*, 76; H. Laurence Miller Jr., "On the 'Chicago School of Economics,'" *Journal of Political Economy* 70, no. 1 (February 1, 1962): 67–68.
[8] Thorstein Veblen, "The Preconceptions of Economic Science," *The Quarterly Journal of Economics* 14, no. 2 (1900): 261.
[9] Melvin W. Reder, "Chicago Economics: Permanence and Change," *Journal of Economic Literature* 20, no. 1 (March 1, 1982): 1–38; Malcolm Rutherford, *The Institutionalist Movement in American Economics, 1918–1947: Science and Social Control* (Cambridge: Cambridge University Press, 2011)..
[10] Weyl, E. Glen, Price Theory (August 7, 2015). Journal of Economic Literature, Forthcoming. Available at SSRN:http://ssrn.com/abstract=2444233, p. 1. Cf. Peter J. Boettke, Rosolino Antonio Candela. "Price Theory as Prophylactic Against Popular Fallacies" http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2710201.

Passing on this knowledge and inculcating a belief in new graduate students that they were part of a distinguished neoclassical lineage was a distinct feature of the Chicago method.[11] The Price Theory course sequence at Chicago gained a reputation for being a sort of hazing ritual, whether it was under the terrifying gaze of Viner—often known to cold-call and fail a large percentage of students—or accompanied by the rambling and often incoherent musings of Knight.[12] Either way, a good Chicago economist-to-be would have first encountered Adam Smith as the economist who paved the way for neoclassical price theory in one of these courses.

Viner and Knight selectively used the ideas of Adam Smith to construct an ideal of how neoclassical economics ought to work. Paradoxically, the opinion that Smith was fundamentally *wrong* about certain economic principles made him a particularly apt study for neoclassical economics. It was common, for example, to gesture towards Smith and the classical school as having developed a primitive theory of value, but only to illustrate that such a theory of value was fundamentally flawed. One example that Knight and Viner seemed particularly fond of was the deer-beaver exchange from *The Wealth of Nations* Book I, Chapter VI. In Smith's example, the cost of the deer is framed in terms of the *opportunity cost,* namely, 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."[13]

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[11] Douglas A. Irwin and Medema, Steven G., eds., *Jacob Viner: Lectures in Economics 301* (Transaction Publishers, 2013), 2.
[12] Economist Paul Samuelson recalled how "Viner added one new ingredient [to the Socratic method]: terror," while another student characterized Viner as "superb because he was nasty." (quoted in Van Overtveldt, *The Chicago School*, 80–81. George Stigler, in his memoir, recalls how one poor student was victimized in front of the class when Viner had asked him about the determinants of elasticity of demand, and after hearing an unsatisfactory answer, "Viner turned red and said, 'Mr. X, you do not belong in this class.'" See George J. Stigler, *Memoirs of an Unregulated Economist* (New York : Basic Books, 1988.), 19–20. Anecdotes of Knight's "wandering" lecture style abound. Don Patinkin recalls how it was not uncommon for him to be working up to a conclusion only to drift into "brief and cryptic summaries of views that [he] had developed at length in various of his writings." (Don Patinkin, "Frank Knight as Teacher," *The American Economic Review*, 1973, 789.) Rose Director (later Rose Friedman, wife of Milton Friedman) fondly remembers, "We have often remarked that two-thirds of [Knight's] students never got anything from him, and the rest never got anything out of the two-thirds of his remarks, but that remaining one-third of one-third was well worth the price of admission." See Milton Friedman and Rose D. Friedman, *Two Lucky People: Memoirs*, 1 edition (Chicago: University of Chicago Press, 1998), 38.
[13] WN I.vi (p. 65)

The example appears in Jacob Viner's 1930 lectures in Economics 301, numerous iterations of Knight's version of the course 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. Knight liked to manipulate Smith's toy example with different conditions to make one simple point: that the disutility of labor simply cannot be the only factor that determines the price of a good. Knight first presented Smith's account of the deer-beaver exchange as plausible, but ultimately incorrect; student notes from his lectures capture the way in which Knight systematically interrogated Smith's account. "Go to Adam Smith, Chapter 6," one student noted, "and put in the distribution that is implied with the value theory step by step…Now suppose that the land is fixed and significant…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."[14] Knight's point was the following: Smith gave us the foundations of a theory of cost, price, and distribution in simple terms—the cost of labor—but it failed to account for transferable factors such as land. The fate of classical economics appeared to hinge on this example in Knight's mind. Poor David Ricardo, for example, adopted a labor theory of value and "followed the wrong one of two main lines of Smith." The other, presumably correct line was, according to Knight, Book I Chapter 7 of *Wealth of Nations,* in which Smith states something close to a general statement of equilibrium:

> 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.[15]

[14] Homer Jones student notes on Econ 301: History of Economic Thought, Winter 1934. Frank Knight Papers, Box 8 Folder 10.
[15] WN I.vii.8 (pp. 73)

Knight stipulated the following: if only Ricardo—and presumably Smith—had followed this line of thought "instead of going off on labor theory of value…Science might have been 125 years ahead."[16]

This method of reading Smith was markedly ahistorical, which reflects a much broader impulse to *de*-historicize Smith in order to highlight his relevance to modern economics. Knight's aim was to teach economic truth, not to explain the "terms of the conditions existing at the time of [a theory's] ascendency."[17] Thus, this scientific ahistoricism gave Knight and his followers reason to ignore Smith's historical context as being relevant to their particular use of Smith, which was precisely to prove how their field of inquiry served the understanding of contemporary problems. This was the standard against which any science could really be deemed a *true* science or not. Knight was obsessed with defining the nature and purpose of science. As an economist-scientist, Knight saw the role of the economist as being rather limited, and requires "only a correct understanding of the core of value theory," before one had to turn attention towards larger questions about the nature of social science: what is the relationship between scientist and subject? How could principles of economics—which might be "even insultingly obvious,"—be recognized in political life?[18]

Such a view towards history—and towards science—was passed on to Knight's disciples. As Milton Friedman, one of Knight's students, wrote in 1933,

> If there be any such a thing as truth, how a theory arose has little to do with the truth of it. And to me the primary interest of the economist is to find out the truth. [next paragraph] Thus it is with the study of the labor theory of value.[19]

Friedman concluded that "Smith's theory of value aid us not at all in formulating an acceptable theory. He is proceeding, as are all labor theorists, in the wrong direction in trying to find in labor

[16] Student notes dated April 6, 1933 on Econ 304: Economic Theory and Social Policy (Spring 1933). Frank Knight Papers, Box 8 Folder 4.
[17] Milton Friedman, essay on "Labor Theory of Value in the Classical School" for Econ 302. 1933. Milton Friedman Papers, Box 5.13
[18] Frank H. Knight, *Freedom and Reform*, Reprint edition (Indianapolis, Ind: Liberty Fund, 1982). Also quoted in in George J. Stigler, "Frank Hyneman Knight" (Chicago-Center for Study of Economy and State, 1985), 14–15, http://ideas.repec.org/p/fth/chices/37.html.
[19] Ibid.

the essence of value. It is not in disutility but in utility that it is to be found."[20] A Knightian approach towards history and theory thus sharpened the negative image of Smith as "the economist who got it wrong," not with respect to the times and exigencies in which Smith himself was writing, but with respect to its relevance to understanding contemporary social problems.

Such was Knight's view of economics: a staunch belief that economic science was, indeed, a true science of man. "All science, is, of course, 'for' man," (that is, it served human interests) Knight discussed in his Price and Distribution Theory course. There were, according to Knight, strong parallels between these "human" sciences and the natural sciences: "it is 'objective' in a real sense; it describes what happens—under 'given conditions,'…in contrast with stating what 'ought' to happen." Knight saw the positive role of economics more akin to the positive, descriptive role of the natural sciences rather than the normative, philosophical sciences. Moreover, economics "has the same general relation of relevance to action as the natural sciences…As a pure science, it describes a course of events as it takes place, or would take place, in the absence of interference or 'control.'"

Such views about the scientificity of economics reflects Knight's resistance to historical institutionalism. By showing the consequences of interference and social control, Knight's—and the Chicago School's—economic science would gesture towards "the kind of action required for producing a course of events which may [be] considered more desirable than that which would 'naturally' take place," that is, "a type of individual conduct, and a pattern of social relations which results from free individual choice."[21]

This was the model of economics that Knight envisioned: a positive science that would guide human action in a society that supported individual freedom. However, unlike the natural sciences, economics was a science that was also necessarily *political,* but being political ought not

[20] Ibid.
[21] Econ 301: Price and Distribution Theory—"treatise" notes (1943). Frank Knight Papers, Box 9, Folder 6

imply ideological propagandizing. Smith's political economy was paradigmatic in this regard.[22]

Economics must be "political economy," Knight underscored in his lecture notes. Political economy began with Adam Smith and the publication of *The Wealth of Nations* in 1776, which Knight believed had been unfairly characterized as a "system of political propaganda" for his attack on the mercantile system in the eighteenth century. The "confusion in regard to economics has been this mixture of science and propaganda," which was, according to Knight, to the detriment of Smith and the Classical school more generally. Knight openly confessed that he had "never been able to teach economic theory without emphasis on its relation to general world views," and that "the change in name from 'political economy' to 'economics' is unfortunate."[23] Putting the "political" back in "economics" mean putting a premium on the "discussion of social policy" alongside fundamental propositions in economics.[24]

Smith cohered with this Knightian vision of economics as a descriptive science on the one hand, but one that was uniquely equipped to guide a free society. Smith embodied not only a division between pre-modern "non-economics" and modern economics, but also the proper role of political intelligence and economic science: "Adam Smith was probably just as much interested in political policy as anyone else," Knight discussed in his History of Economic Thought course, but distortions of his policy rendered economics as a science useless. Knight's exhortation to his students was to follow a Smithian-inspired policy of having no policy, and to uncover the true prescription of nature: "Your preaching takes on the form of a science when you are preaching to let things take their natural course without interference."[25]

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[22] This idea is corroborated in Knight's lectures in 1934 in Econ 302 (History of Economic Thought). See also Gladys Hamilton's student notes on Econ 302: History of Economic Thought (Fall 1934). Frank Knight Papers, Box 8, Folder 14.
[23] Econ 301: Price and Distribution Theory lecture notes (undated). Frank Knight Papers, Box 9, Folder 19.
[24] Ibid.
[25] Gladys Hamilton student notes on Econ 302: History of Economic Thought. Frank Knight Papers, Box 9 Folder 14.

To simply "let things take their natural course without interference" would have immediately been associated with the notion of *laissez-faire*. The French phrase had a very simple definition amongst its Anglophone users: economic activity free from the dictates of government. However, both Knight and his colleagues were acutely aware of the dangers of turning a policy of "letting go" into an ideological construct. Most notable amongst these colleagues was Jacob Viner.

Viner, whose tenure at the University of Chicago lasted from 1919-1946, was one of the first scholars to scrutinize claims about Smith's adherence to *laissez-faire*. In one of his most famous articles, "Adam Smith and Laissez-Faire" (1927), Viner claimed that Smith was not a "doctrinaire advocate of laissez faire," and this claim stemmed from a highly nuanced reading of Smith's corpus and the history of international trade.[26] Viner was among the first to insist that one had to read both *The Theory of Moral Sentiments* and *The Wealth of Nations* in order to fully understand Smith's contribution to the history of economic thought, and was highly attentive to historiographic debates about the relationship between Smith's moral philosophy and economic thought.[27] An essential aspect of Smith's profile as a political economist was that he was "*the* great eclectic," in Viner's words. Viner praised Smith's work for drawing upon "all previous knowledge in developing his doctrine of a harmonious order," which was not limited to isolated market transactions and price mechanisms, but encompassed the analysis of "the whole range of economic process with the

[26] Viner, "Adam Smith and Laissez Faire," 231.

[27] The most prominent of these historiographic debates is known as "Das Adam Smith Problem," which has its origins in the nineteenth-century German historical school. The essence of this last debate was that there was a fundamental disconnect between the primary forces of the two main works: sympathy in self-interest in *WN*. If *TMS* was supposed to be a "genuine discussion of morality," how could it be compatible with the discussion of markets—or any theorizing of markets? Three key works contributing to the coining of the debate include August Oncken, "The Consistency of Adam Smith," *The Economic Journal* 7, no. 27 (September 1, 1897): 443–50,; Richard Zeyss, "Adam Smith Und Der Eigennutz" 1889; Wilhelm Paszkowski, *Adam Smith Als Moralphilosoph* (CA Kaemmerer, 1890). For more on the historiography of "Das Adam Smith Problem," see Istvan Hont, *Politics in Commercial Society*, ed. Béla Kapossy and Michael Sonenscher (Harvard University Press, 2015), Lecture 1; 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, no. 01 (2003): 63–90; Laurence Dickey, "Historicizing the 'Adam Smith Problem': Conceptual, Historiographical, and Textual Issues," *The Journal of Modern History* 58, no. 3 (September 1, 1986): 580–609; Richard Teichgraeber III, "Rethinking Das Adam Smith Problem," *Journal of British Studies* 20, no. 2 (April 1, 1981); Glenn Raymond Morrow, *The Ethical and Economic Theories of Adam Smith* (AM Kelley, 1969).

purpose of discovering the nature of the order…"[28] This language of "naturalness" and "nature of order," is indicative of Viner and Knight's view that economic science encompassed a wider range of human behavior than just the impersonal forces of the market; it also entailed a study of moral psychology and political philosophy. Viner was fixated on the extent to which the imperfections of human nature— what he called "flaws in the natural harmony in the economic order"—could funnel themselves into harmonious outcomes. The moral psychological premises in *TMS* did not in any way undercut the forces that supported market behavior in *WN,* Viner argued; rather, they opened up questions about the role that benevolence, altruism, and other moral psychological forces might lead to a deeper understanding of economics in general.

The Smith that Viner constructed was much more than an economist, but rather a social philosopher who would not necessarily have subscribed to the contemporary view that "laissez-faire would carry the wealth of a nation to some kind of theoretically-conceivable maximum." Nor would Viner's Smith have accepted a simplification of "economic man" as a perfectly-rational, utility-maximizing man was an exact representation of real man in the marketplace.[29] Smith made no "explicit condemnation[s] of government interference with individual initiative," and "even when [he] was prepared to admit that the system of natural liberty would not serve the public welfare with optimum effectiveness, he did not feel driven necessarily to the conclusion that government intervention was preferable to *laissez-faire*."[30] Viner pleaded for an authentic reading of *laissez-faire*, that allowed for a "wide and elastic range of activity for government" which could be extended farther "if government, by improving its standards of competence, honesty, and public spirit, showed itself entitled to wider responsibilities."[31]

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[28] Jacob Viner, "Adam Smith and Laissez Faire," *Journal of Political Economy* 35, no. 2 (April 1, 1927): 199.
[29] Jacob Viner, "The Intellectual History of Laissez Faire," *Journal of Law and Economics*, 1960, 60–61.
[30] Viner, "Adam Smith and Laissez Faire," 206, 221.
[31] Ibid., 231, 218.

Despite the fact that both Knight and Viner were aware that Smith never used the term *laissez-faire* himself, neither was particularly interested in unpacking the intellectual milieu surrounding the emergence of the term in French political economy in the eighteenth-century. Nor were they prepared to offer a positive corrective to the general trend that they saw. Rather, their reading of Smith vis-à-vis an examination of *laissez-faire* was in many ways a pointed commentary on the nature of economics and its relation to politics. *Laissez-faire* was more than a standalone economic policy or concept; it had "ethical or moral value in it that it left to the individual unimpaired that 'natural system of liberty' to which he had a natural right."[32] Whether or not Smith was the originator of *laissez-faire* besides the point; he was still a model political economist who championed *laissez-faire* rightly understood: not a form of radical anarchy, but a natural right to liberty as a necessary, but not sufficient condition for human flourishing in a free society.

This, then, is the highly nuanced portrait of Smith that emerged at the University of Chicago in the 1930s and 40s. On the one hand, Smith was an intellectual forerunner to neoclassical price theory who provided a *negative* model for theories of cost and value. While Smith and the classical economists were wrong to think that labor was the ultimate source of value, he nevertheless presented a conceptual error that only neoclassical price theory could rectify. On the other hand, Smith symbolized the founding of a discipline—political economy—that sought to emulate the natural sciences in its objectivity and applicability to human life. At a time when economics had just begun to redefine its parameters and scope, this multidimensional picture of Smith provided an appealing and authoritative origin story for a field that sought not only to explain what was natural in the human realm, but also to prescribe how certain outcomes might be achieved. Smith, then, became an early twentieth-century projection of a model economist, and an ideal of economics as a science that could be "useful for guiding conduct."[33]

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[32] Viner, "The Intellectual History of Laissez Faire," 60.
[33] Knight, "Laissez Faire," 782.

However, by the late 1930s, political and intellectual preoccupations began to change. With the triumph of Keynesianism came another intellectual crisis that pervaded throughout the social sciences. While Keynes was revered as the savior of the economy and the reputability of economists, Keynesianism reeked of the dangers of totalitarianism. Though it strove for a "middle way" between socialism and *laissez-faire*, Keynesian economics nevertheless seemed, at least to its critics, to place too much faith in virtuous government, led by an "enlightened and expert policy elite."[34] By the 1940s, American intellectuals—particularly economists—had successfully constructed a dichotomy between the horrors of European totalitarianism on one end, and American liberal democracy on the other. The former stood for a state that had complete control over the minds and bodies of its citizens, whereas the latter stood for a minimal state and the sanctity of freedom of individual choice.[35] Keynesianism seemed to be inching towards the former: if the government could so firmly regulate economic life, what would stop it from then regulating social and moral life as well?

Henry Simons, who taught at the University of Chicago between 1928 and 1946, presented this stark choice in a speech in 1938: "We face, in a longer view, a simple choice between free-market democracy and authoritarian collectivism," with neither political party capable of "opposing the collectivist trend."[36] Simons was a well-respected economist who was unabashed in proffering his "old-fashioned liberal" stance while lending his much-sought after advice. In a speech he delivered in 1937, he characterizes this stance in the following way: the old-fashioned liberal

> [sees] no attractive or tolerable alternative to a highly competitive economic system; who believe implicitly in freedom of trade, both among nations and, especially, within our national boundaries; who are persuaded that, without free markets and competitive, individualist enterprise, we cannot hope to maintain our relatively high scale of living or two

[34] Jones, *Masters of the Universe*, 27.
[35] Ciepley, *Liberalism in the Shadow of Totalitarianism*, 2–3, 21.
[36] Henry Simons, identified speech to republicans, 1938. Henry Simons Papers, Box 9.

> preserve our political and intellectual liberties. Undermining of the free market system will gradually deprive us of our democratic institutions and of our national unity as well.[37]

The climate surrounding Viner, Knight, and Simons at the end of the 1930s, then, was one of an intellectual—and in some ways existential—crisis of economists. It was less a technical dispute about economics as a science, but an ideological one about the political consequences of enlightened state interventionism. Simons saw a "simple choice between enforced competition and totalitarian arrangements," but at the same time, the "emasculation and perversion of competition in American industry and trade." Anti-monopoly legislation was not the solution, in Simons' mind; "only demagogues will propose anti-monopoly programs as panaceas," he commented.[38]

Knight also expressed similar anxieties, specifically with reference to misunderstandings of Smith and the meaning of *laissez-faire*. Knight expressed similar worries about readings of Smith as a dogmatic supporter of *laissez-faire*. While it was entirely plausible to conceive of a "freely competitive organization of society," that resulted in "the greatest possible addition to the total social dividend as measured in price terms," such a proposition, while theoretically plausible, was both impossible in the real world and ethically unsound.[39] Knight and Viner's anxieties about the philosophical reductionism around *laissez-faire* were portentous. In the 1950s, Knight expressed his very concerned opinion that the overestimation of individual freedom as the sole normative force at stake in a liberal society constituted "the greatest error of the liberal age, and is partly responsible for the reaction we now witness, which threatens extinction of freedom and of all defensible values."[40] Such a belief led Knight and others to denounce ideologically-driven economists—even their future students—as being aggressive and even foolish.[41] Thus, economists like Knight, Viner, and Simons

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[37] Henry Simons, lecture in a series on monopoly. May 1938. Henry Simons Papers, Box 9. See also Speech dated June 1, 1938 (Box 9), and a letter dated September 18, 1934 to Robert M. Hutchins. (Box 3).
[38] Henry Simons, lecture in a series on monopoly. May 1938. Henry Simons Papers, Box 9.
[39] Frank H. Knight, "The Ethics of Competition," *The Quarterly Journal of Economics*, 1923, 588–589.
[40] Frank H. Knight, "The Role of Principles in Economics and Politics," *The American Economic Review*, 1951, 16.
[41] Angus Burgin, "The Radical Conservatism of Frank H. Knight," *Modern Intellectual History* 6, no. 03 (2009): 537.

found themselves caught between two poles: there was dangerous tendency toward centralization, but they were also equally wary about the ideological reductionism of the supposed antidote to totalitarianism, namely, *laissez-faire*.

What, then, was the solution? How could economists deliver objective, scientific truth that might be useful for public policy without undermining individual liberty to rectify such widespread economic ills? The answer, which would develop over the following decades, turned on a new interpretation of the purpose of economics, with Adam Smith re-appropriated as its founding father. As Viner foresaw, modern economists were apt to treat Smith's arguments as "oversimplified and perhaps also too emotional and one-sided. "[42] There were "traces of every conceivable sort of doctrine…to be found in that most catholic book, and an economist must have peculiar theories indeed who cannot quote from the *Wealth of Nations* to support his special purposes."[43] Amongst the successors to the Old Chicago School, it did not take much time for those traces to reach a critical level of potency.

[42] See Viner's entry, "Adam Smith," in David L. Sills, *International Encyclopedia of the Social Sciences*, vol. 14 (New York: MacMillan, 1979), 328.
[43] Viner, "Adam Smith and Laissez Faire," 207.

1946 was a watershed year at the University of Chicago. Jacob Viner left the department for Princeton; Henry Simons had passed away, and Frank Knight was on his way to retirement. The Cowles Commission, a research group founded in 1932 designed to bring economists and mathematicians together, was in full swing, giving the department a distinctly empirical and statistical edge. Milton Friedman had returned from brief stints at the University of Wisconsin, Washington, D.C., and the University of Minnesota. Aaron Director—Friedman's brother-in-law—was appointed on faculty at the Law School, which fostered collaboration and ushered in a new movement between the law and economics departments. It was a symbolic changing of the guard that brought with it a dramatic substantive shift in the way that economists did economics, and also the way economists viewed Smith as their intellectual forbearer.[44]

Certain elements of the Chicago School method remained unchanged, however. Those who occupied the halls of the University of Chicago between the 60s and 70s held on to the Knightian approach to economics as a scientific enterprise striving for objective truth. George Stigler, one of several illustrious Nobel Prize-winning economists to come from the Chicago School, once declared "in the long run nothing is more essential to a theory than it be right."[45] A successful economic theory, Stigler argued, had to explain real economic phenomena in general, almost

[44] The idea that there were two distinct Chicago Schools is not new. Paul Samuelson, for example, notes that the "first Chicago School" consisted of Knight, Viner, and Simons, while the second Chicago school was associated with the names of Friedman, Stigler, Aaron Director, and Gary Becker. See Paul Samuelson, "Jacob Viner" in Edward Shils, ed., *Remembering the University of Chicago: Teachers, Scientists, and Scholars*, 1 edition (Chicago: University of Chicago Press, 1991), 538. Steven Medema similarly characterizes the two schools: the "good old Chicago School" of Viner, Knight, and Coase, and the "new Chicago School" of Friedman, Stigler, and Becker. See Medema, "Adam Smith and the Chicago School." 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, ed., *The Chicago Tradition in Economics 1892-1945* (London ; New York: Routledge, 2001), xvii–xviii.. See also Steven G. Medema, "Chicago Price Theory and Chicago Law and Economics: A Tale of Two Transitions," *Building Chicago Economics: New Perspectives on the History of America's Most Powerful Economics Program. Cambridge: Cambridge University Press, Forthcoming*, 2011, http://economix.fr/pdf/colloques/2007_HISRECO/4.%20Medema.pdf; Jones, *Masters of the Universe*, 89–100.

[45] George J. Stigler, "The Successes and Failures of Professor Smith," *The Journal of Political Economy*, 1976, 1211.

universal terms, and could withstand the test of time.[46] Smith was one of the seminal figures whose theories *did* withstand the test of time, even if Knight's framing of the classic deer-beaver case highlighted of its errors. Stigler's early works placed Smith's work at the center of discussions of price theory, the division of labor, and the nature of competition. Adam Smith's idea that the division of labor is limited by the extent of the market, for example, became "the core of a theory of the functions of firm and industry," and the starting point for asking questions such as "should there not be monopolies in most industries?" and "under what conditions do industries become competitive?"[47] According to Stigler, Smith's theory of the division of labor, despite its deficiencies, was not merely a "quaint practice of eighteenth-century pin factories," but "a fundamental principle of economic organization."[48]

Yet the way in which Stigler and his colleagues went about *proving* the continual relevance of Smith reflected a shift in the methodological landscape of economics. The richness of Smith's work provided a multitude of informal theories, ripe for formalization and testing. The appeal to contemporary statistics on, say, vertical integration, could empirically validate Smith's theories as having predictive power. For example, Stigler provided data from studies by Willard Thorpe and Walter Crowder to prove one certain implication of Smith's theory of the division of labor: that there was a tendency towards vertical integration as an industry grew, and disintegration as it declined.[49]

Despite the inconclusiveness of some of the data, Stigler's study was indicative of two major trends at Chicago during the 50s. First was the pervasive practice of mining Smith's works for proof that modern economic theories had truth based in their historical roots.. Moreover, economists went about their mining with markedly ahistorical tools. Stigler, for one, had little interest in

[46] Nathan Rosenberg, "George Stigler: Adam Smith's Best Friend," *Journal of Political Economy*, 1993, 836.
[47] George J. Stigler, "The Division of Labor Is Limited by the Extent of the Market," *The Journal of Political Economy*, 1951, 185.
[48] Ibid., 193.
[49] Ibid., 189.

interpreting Smith in Smith's own intellectual and historical context; rather, he set his eyes on the rational reconstruction of certain concepts such as perfect competition. Other economists recognized Stigler's tactics immediately, and called him out on it. Paul J. McNulty, for example, strongly rejected Stigler's 1957 work on "Perfect Competition, Historically Contemplated" by demonstrating that comprehensive analyses of competition existed before and contemporaneous with Smith in other works of political economy. In doing so, McNulty was also dismissing Stigler's attempt to assign pivotal importance to Smith. "Any implication that [perfect competition's] transition from an element of common discourse to a concept of economic analysis was a contribution of Adam Smith must be rejected," he wrote.[50]

Yet Stigler resisted these criticisms as irrelevant to his purposes, in large part because he had a second trick up his sleeve: the use of statistics to validate a theory—historical or otherwise. As his early paper on competition demonstrated, even a small amount of statistics vindicated Smith's theories as universal. So for Stigler, Smith was a clairvoyant economist whose ideas not only withstood the test of time, but also *predicted* phenomena centuries later. If economics was an empirical, predictive science, then Smith had to be its founding father.

Whereas the generation of Knight and Viner saw the relationship between neoclassical price theory and the workings of a free society being more of a philosophical task—"to contribute to the understanding of how by consensus based on rational discussion we can fashion a liberal society in which individual freedom is preserved and a satisfactory economic performance achieved,"[51]—the later generation of Stigler and Friedman began to overturn this project. The combination of staunch devotion to their empirical approach to economics and some luck put Chicago at the epicenter of neoliberal economic policy and politics by the late 60s and early 70s. The nationwide economic downturn of the 1970s was yet another period of intellectual crisis for economists, but when Milton

[50] George J. Stigler, "Perfect Competition, Historically Contemplated," *Journal of Political Economy* 65, no. 1 (1957): 1–17; Paul J. McNulty, "A Note on the History of Perfect Competition," *Journal of Political Economy* 75, no. 4 (1967): 395.
[51] Stigler, "Frank Hyneman Knight," 11.

Friedman's analysis of inflation—which he wrote in the late 60s—proved to be correct when general prices soared in 1970, Friedman and his Chicago entourage "suddenly stood out as a seer in a kingdom of the blind."[52]

Thus, the method of "confronting theory with evidence" suddenly became the hallmark of Chicagonomics; the Chicago School had become a household name, recognized both internally and externally as a distinct school of thought, and its ilk a bunch of formidable public-minded scientists who employed a method of testing and prediction that Knight could not have anticipated.[53] Empirical studies—public finance, monetary and regulatory policy—replaced the "excitement Knight had evoked for theoretical analysis."[54]

More than an all-out assault on Keynesianism, this new approach to economics maintained a belief that economists ought to have "entailed radically simpler models of society…or that they should have hitched their promises to more automatically working processes."[55] This approach—simplifying models of human society using the assumption of self-interest—opened the doors for a new paradigm of economics to emerge, and with it, a reclaiming of economics' canonical founding father, Adam Smith. Milton Friedman's speech to the Chicago Board of Trustees in 1974 captures this desire to be part of a recognizable and distinguished intellectual heritage:

> Today, the Chicago school has an even broader base than it did…But all are students—direct or indirect—of Knight, Viner, and Simons, 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.[56]

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[52] Daniel T. Rodgers, *Age of Fracture* (Cambridge, Mass: Belknap Press, 2012), 52.
[53] Steven Medema argues that the idea of "the Chicago School" was referenced internally beginning in the 1940s, though it was often disputed by its alleged members. By the 1950s, the idea of the School began to be recognized by outsiders, especially since the publication of Friedman's "Quantity Theory of Money—a Restatement" in 1953. See Medema , Steven G., Identifying a 'Chicago School' of Economics: On the Origins, Evolution, and Evolving Meanings of a Famous Brand Name (July 6, 2014). Pp. 11-14. Available at SSRN: http://ssrn.com/abstract=2479734
[54] Ross B. Emmett (2015). "Frank Knight and the Chicago School." Becker Friedman Institue for Economic Research, The University of Chicago. October 5, 2015
[55] Rodgers, *Age of Fracture*, 50.
[56] Milton Friedman, speech at the 54th Annual Board of Trustees' Dinner for the Faculty. January 9, 1974. Milton Friedman Papers, Box 55.8.

However, the New Chicago School began to strip away at the multifaceted view of Smith—and economics more generally—that the Old School had crafted. Smith, already synonymous with the advent of economics, pro-free-market policies, and a common-sense approach to understanding complex systems of human behavior, began to take on a new personae: one of an economist whose notions self-interest were so visionary and timeless that they constituted the foundations of economic analysis a predictive science. This new vision of economics was predicated on the assumption that self-interest had both epistemological and methodological value; hence, the New Chicago School popularized Adam Smith as the father of not just a particular type of *science*, but also the father of a particular set of political ideas that would become the core of a new American political belief system.

* * *

In 1976, Adam Smith fever was raging around the world. The University of Glasgow held a special conference in honor of the 200th anniversary of the publication of the *Wealth of Nations* in which a number of Nobel Laureates, including George Stigler, attended. Additionally, the University commissioned the republication of all of Smith's major works, along with two supplemental volumes of critical essays. Smith's works were commemorated in numerous articles published around the globe, and the Mont Pelerin Society held its own Smith-themed celebratory gatherings.[57]

But few could compete with the enthusiasm that economists' had for Smith in America. According to Jonathan B. Wight, some 43 journal articles on Smith were published in the 1976 year alone—a five-fold increase from the year before.[58] And the enthusiasm extended beyond written publications. In April of 1976, the Graduate Economics Association of the Massachusetts Institute of Technology hosted an amusing "Adam Smith Roast" to celebrate the bicentenary of the *Wealth of Nations*, and sang the following stanzas to the tune of the hymn, "Rock of Ages:"

[57] George Stigler Papers, Box 25. Mont Pelerin Society folder containing the program of the 21st meeting.
[58] Jonathan B. Wight, "The Rise of Adam Smith: Articles and Citations, 1970-1997," *History of Political Economy* 34, no. 1 (2002): 78 (Appendix 1).

Wealth of Nations! Writ for me!
Let me hide myself in Thee!
Not the Profits, nor the Rent,
But the Labour Time that's spent,
Be of Value the true source.
Make me better; no one worse

Every man looks to his need,
Counting on the butcher's greed.
Public goods are little prized,
Model that is dynamized.
Half the world is cold and bare,
Still we cling to Laissez-Faire…[59]

The bicentennial of the nation and that of Smith's *Wealth of Nations* was a happy coincidence, indeed, but it would be misguided to dismiss Smith's image during this time as being merely decorative. At very least, Stigler's correspondence with Professor Andrew Skinner, one of the editors of the Glasgow Editions of Smith's works, stretches back at least a decade in anticipation of the special republications.[60] Stigler, who was rather pleased with being known as "Adam Smith's best friend,"[61] was also invested—if not financially, then certainly emotionally—in helping the University of Glasgow to obtain precious manuscripts of student's notes on Smith's Lectures on Jurisprudence.[62]

The bicentenary and the years that followed in its wake gave even greater reason for economists to pause and reflect on what it was that they were doing and creating. At Chicago in

[59] Program from the 200th Anniversary of Wealth of Nations Roast of Adam Smith at MIT, April 12, 1976. Text by William N. Parker. "Economics in the Rear-View Mirror," by Irwin Collier. http://www.irwincollier.com/from-the-200th-anniversary-of-wealth-of-nations-roast-of-adam-smith-at-mit-1976/

[60] George Stigler Papers, Box 6. Adam Smith Bicentenary Folder.

[61] Stigler was quite proud of this, as he recalled in his 1976 article: "There is a game I sometimes play with children; I call it 'Three Questions.' If all three questions are answered correctly I promise $1 million…The first two questions present no difficulty: perhaps the number of brothers and sisters the child has, and the city in which it lives. The third question is a different matter. Once I asked, "Who was Adam Smith's best friend?" The reply from this child was, "You are, Uncle George." I had someone like David Hume or James Hutton or Joseph Black in Mind. Still I have long been a good friend of Smith, though I have no right to claim priority in his circle." Stigler, "The Successes and Failures of Professor Smith," 1200; Rosenberg, "George Stigler."

[62] Stigler was corresponding with Ronald Meek, professor at the University of Glasgow, regarding the state of the University's bids to obtain what were then known as the "Lothian Manuscripts," which were discovered by J.M. Lothian in 1958. Today they are known as the second set of lecture notes on Smith's *Lectures on Jurisprudence,* dated to when Smith taught the course in 1762-3. Correspondence between George Stigler and Ronald Meek. 28 January, 1963. George Stigler Papers, Box 6. Adam Smith Bicentenary Folder.

particular, economists capitalized on economic malaise and increasing skepticism towards Keynesianism to defend their method with even greater fervor. Smith emerged as their intellectual authority in an effort to establish their method as *the* mode of economic analysis. Perhaps more powerful, however, was that the intellectual authority Smith lent became increasingly inseparable from a political agenda associated with the American right.

Smith's *Wealth of Nations* captivated the attention of these Chicago economists because it contained both the elements of neoclassical economics and also political ideas that resonated with contemporary circumstances: the behavioral foundations of the free market (self-interest), a his alleged political manifesto (his attack on the mercantile system). The *Wealth of Nations*, according to Stigler, "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.[63]

Self-interest comprised the core of the price mechanism, the heart and soul of the Chicago School. Prices "instruct us on what people desire," and "gives innumerable messages on the state of supply and demand for each commodity or service," at any given instance; and the price system could do this "without central direction, without requiring people to speak to one another or to like one another."[64] But unlike the era of Knight and Viner, self-interest was now an all-purpose tool to simplify assumptions about individual behavior and its social consequences. Smith was a kind of Promethean figure who stole the firepower of self-interest down from the gods and bequeathed its power to economists, and this epic feat could be summed up in his two infamous lines:

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[63] George J. Stigler, "Smith's Travels on the Ship of State," *History of Political Economy* 3, no. 2 (September 21, 1971): 265, doi:10.1215/00182702-3-2-265.
[64] George J. Stigler, *The Theory of Price*, 1947, 14–15, http://203.200.22.249:8080/jspui/handle/2014/10173; Milton Friedman and Rose Friedman, *Free to Choose: A Personal Statement* (Houghton Mifflin Harcourt, 1990), 13, https://books.google.com/books?hl=en&lr=&id=F5z1B5SwGUEC&oi=fnd&pg=PP1&dq=milton+friedman+adam+smith&ots=SL7UwprwdJ&sig=-G6JDU8SQUgDRqjhgJF4u8d_saQ.

> …it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.[65]

That Smithian self-interest effectively made all markets work was a principle so ingenious that it was "Newtonian in its universality," according to Stigler. But rather than reading Smithian self-interest as a "desire to improve one's condition,"—as it was for Smith—the Chicago construct of it self-interest was one of rational utility-maximization as *the* most socially-productive and efficient behavior, with little need or even room for other motives. Stigler, for example, jettisoned all other "ethical beliefs which influence [man's] behavior" that were in conflict with long-run, utility-maximization. If, for example, unlimited altruism were allowed to influence individual utility functions, it would inevitably lead to a system of social utilitarianism, the very antithesis of individual freedom.[66] Though self-interest was bound to fail in certain arenas—especially the political arena—on Stigler's terms, "much of the time, most of the time in fact, the self-interest theory (as [he] interpreted it on Smithian lines) will win."[67]

This construction of Smithian self-interest was far removed from Smith's own idea of the phrase. Nevertheless, the new Chicago economists continued to project onto Smith the image that *they* wanted him to be. Placing self-interest at the foundation of their empirical, predictive approach to economics was one of the trademarks of Chicago economics, which was still trying to define itself as the most formidable opponent to Keynesianism, still the dominant approach to economics through the 1950s.

There was an implicit epistemological claim being made here, too. The Chicago economists used Smith's idea of self-interest to cast doubt on the Keynesian notion of an economy governed by experts. The knowledge of experts, institutions, and especially government claimed to be promoting

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[65] *WN* I.ii.2
[66] George Stigler, "Economics or Ethics?," *The Tanner Lectures on Human Values* 2 (1981): 175.
[67] Ibid., 176.

the public good, but in reality were pursuing their own private interests. Therefore, individuals acting on self-interest alone was the only way to ensure that the public good would be achieved. Once man's behavior was understood as simple self-interest seeking and utility-maximizing, economists were equipped to tear down the edifices of government intervention in the economy, and instead emboldened to "seek a large role for explicit or implicit prices in the solution of many social problems."[68] Hence, the state was an unnecessary and undesirable apparatus for addressing social needs.

So in addition to developing a new methodological approach to economics, the New Chicago economists were developing a set of political ideas that flowed from their methods. These political ideas were the following: that individual liberty and societal flourishing were optimized when government was minimal, and individuals were allowed to freely pursue their own self-interest in a competitive market economy. In other words, the state was unnecessary for the achievement of "the good life" because the market could do it better.[69] These ideas, often seen as the core tenets of American neoliberalism, were formed in no small part from a selective reading of Smith's *Wealth of Nations*.[70]

Again, Smith was heralded as the exemplar social scientist on this front: not only did he provide the foundation of market behavior, he also was one of the first to recognized that inefficiencies stemmed from government interference in economic affairs, not market failure. Aaron Director, a close friend of Stigler's and Milton Friedman's brother-in-law, was particularly attentive to the relationship between self-interest and foreign trade policy; his notes on Smith's *Wealth of Nations* reflect a preoccupation with self-interest properly understood as the force that promotes

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[68] Ibid., 171.
[69] Jones, *Masters of the Universe*, 2, 107–108.
[70] Daniel Stedman Jones defines neoliberalism in a transatlantic context in the twentieth century as "the free market ideology based on individual liberty and limited government that connected human freedom to the actions of the rational, self-interested actor in the competitive market place." (2) On appropriations of Smith amongst neoliberals, see Ibid., 100–101, 112–113, 131–132,.

cooperation and market efficiencies, and "mistaken" self-interest—the force that "explains regulation." "I suppose we may say," Director surmises, "Smith was concerned with economics as based on self-interest, and with showing that govt [sic] regulation was superfluous or harmful."[71] Director, who credited for founding the Law and Economics movement, saw Smith as seminal commentator on the relationship between historical institutions, free individuals, and national prosperity. In reading Smith's diatribe against the Corn Laws, Director was careful to separate what contemporary readers might think of "mistaken self interest of consumers," from what Smith would have attributed to an "ancient policy of Europe that authorizes and encourages this odium [against the Corn Laws]."[72] In other words, Director, along with his contemporaries, believed that *consumer* self-interest was almost always right; it was the institutions of government and trade protection laws—a perverted form of self-interest—that were almost invariably wrong.

Despite the fact that their economic analysis led logically extended into specific policy recommendations, the New Chicago economists tried to separate "economics" from "politics" as much as possible, and denied that their economic theories had any political agenda attached to them. Stigler, for example, praised Smith's attack on mercantilism because Smith's reasoning "rested squarely on his theory of competitive prices," not because he or Smith shared the same particular partisan sentiment.[73] And Stigler goes out of his way to say that Smith's success in this realm is due to his "impact…on other scholars, not his impact upon public thinking or policy."[74] Yet Stigler was ultimately unsuccessful at masking the political implications of his assessment:

> from 1776 to today, the effect of [Smith's] powerful attack [on the English policy of mercantilism], reinforced by the theoretical advances of Ricardo, Mill, and others, established a tradition of free international trade which even the most confirmed of economist-interventionists seldom feel equal to attacking frontally.[75]

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[71] Aaron Director Papers, Box 3, folder 12: Adam Smith Notes (undated).
[72] Aaron Director Papers, Box 3, Folder 12: Adam Smith notes (undated).
[73] Stigler, "The Successes and Failures of Professor Smith," 1201.
[74] Ibid.
[75] Ibid., 1203.

This new generation of Chicago economists saw themselves as reinventing Smith's enlightenment project: by refining the tools used to understand the market and stripping away "politics," economists might be better equipped to scientifically explain the relationship between individual freedom and a good society. Smith was their model onto whom they projected their own twentieth century ambitions, and accordingly chose to emulate. According to Ronald Coase, who arrived at Chicago in 1964,[76] Smith gave shape to the field of economics in its subject, method, and organization.[77] Coase lauded Smith's simple propositions and observations from everyday life, which could be used to explain the whole edifice of a market-based society and ultimately pointed to modern price theory. Prices constituted the self-adjusting mechanism "which leads to resources being used in a way that maximizes the value of their contribution to production."[78] Smith was not, according to Coase, a narrow-minded economist who believed that man was "wholly dominated by self-interest and not at all by feelings of benevolence," nor did he think of man as "an abstraction, an 'economic man,' rationally pursuing his self-interest in a single-minded way."[79] Coase acknowledged the "irregularities of sentiment" in Smith's *Theory of Moral Sentiments*, and argued that forces such as altruism and benevolence lent further credence to the dominance of self-interest as the market activity, and ultimately to a deeper understanding of economics in general. In Coase's words,

> Looked at in this way, Adam Smith's argument for the use of the market for the organization of economic activity is much stronger than it is usually thought to be. The market is not

[76] There is some question as to whether Coase can be appropriately considered part of the "Chicago School," and if so, which generation he belongs to. Despite the temporal distance, Medema considers Coase as part of this earlier generation of Chicago economists because his views on Smith seem to cohere more with those of Viner and Knight. See Steven G. Medema, "Adam Smith and the Chicago School." I argue differently and situate Coase's works on Smith in the context of the generation that was present when he arrived at Chicago, most notably Stigler and Friedman. The case for Coase's inclusion in the Chicago School, more generally often revolves around the story of his "conversion" at the home of Aaron Director in 1960, the result of which was one of his most famous papers, "The Problem of Social Cost," often credited as being the paper which won Coase the Nobel Prize in 1991. See also George J. Stigler, *Memoirs of an Unregulated Economist*, 1st THUS edition (New York: Basic Books, 1988), chap. 5.
[77] Ronald H. Coase, "The Wealth of Nations," *Economic Inquiry* 15, no. 3 (1977): 312.
[78] Ibid., 315.
[79] Ibid., 314; Ronald Coase, "Adam Smith's View of Man," *Journal of Law and Economics*, 1976, 560.

> simply an ingenious mechanism, fueled by self-interest, for securing the co-operation of individuals in the production of goods and services. In most circumstances it is the only way in which this could be done…The great advantage of the market is that it is able to use the strength of self-interest to offset the weakness and partiality of benevolence, so that those who are unknown, unattractive, or unimportant will have their wants served…[80]

In addition, Coase believed Smith was an appropriate model not just for his technical contributions, but more importantly for the vision he had of economics. Smith conveyed his ideas in a way that was "readable, clear, and persuasive," unlike the excessively mathematical and formal work that was beginning to take over the field and also creep into neighboring fields of political science, sociology, law, and even biology.[81] While resisting the increasing tendency of economics to rely heavily on mathematics—or what Coase called "mindless abstraction, or the kind of abstraction which does not help us to understand the working of the economic system"—Coase nevertheless believed in the scientific-ness of economics. In place of the narrowing of economics as an exercise in applied mathematics, Coase wanted "to see [economists] develop an economic theory similar to that found in the natural sciences."[82] Just as the study of medicine could be useful for understanding the biological processes of the human body, so economics ought to be "a tool the public turns to for enlightenment about how the economy operates."[83]

But this view that self-interest could be scientifically proven—and historically corroborated by economics' founding father, Adam Smith—ultimately led to a rather paradoxical outcome: by stripping down human behavior to the motive of self-interest and proving its explanatory power, the

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[80] Coase, "Adam Smith's View of Man," 559.

[81] Coase was known for his distaste for "high-falutin' theory and mathematical abstraction—something which Richard Posner attributes to Coase's "Englishness." Coase, of course, objected to this characterization rather vehemently, but decided to publish his response in the most oblique manner, quoting Horace Walpole's biography on Richard III to describe the inaccuracies and mischaracterizations that Posner made of his method: "So incompetent has the generality of historians been for the province that they have undertaken, that it is almost a question, whether, if the dead of past ages could revive, they would be able to reconnoiter the events of their own times, as transmitted to us by ignorance and misrepresentation," (quoted in Ronald H. Coase, "Coase on Posner on Coase: Comment," *Journal of Institutional and Theoretical Economics (JITE) / Zeitschrift Für Die Gesamte Staatswissenschaft* 149, no. 1 (March 1, 1993): 96.) For Posner's characterization of Coase's methodology, see Richard A. Posner, "Nobel Laureate: Ronald Coase and Methodology," *The Journal of Economic Perspectives*, 1993, 195–210.

[82] Coase, "Coase on Posner on Coase," 96.

[83] Ronald Coase and Ning Wang, "Saving Economics from the Economists," *Harvard Business Review* 90, no. 12 (2012): 36.

Chicago School was claiming to be *more* scientific, and *less* political. However, the perceived scientificity of their field entitled them to enlighten the public on economic affairs. Moreover, the very nature of the entities that they were contesting—markets—were some of the most politically-charged battlegrounds in the twentieth century. While Stigler, Coase, and Director viewed their role of scientists as one that abstained from politics, there was one economist who turned his scientific role into an overtly political one: Milton Friedman.

Over the course of his career, Friedman walked a fine line that separated his persona as detached social scientist from that of a public intellectual and political figure. He made very open and direct efforts to influence public policy, but he expressed his wish to do so not "…in [his] scientific capacity but in [his] capacity as a citizen, an informed one…"[84] Initially he was quite successful at doing this even in the limelight. Friedman's analysis of the Great Depression and theories of monetary reform established his name in the field of economics in the 1950s; in 1951 he was awarded the John Bates Clark Medal,. However, by the 1960s, it became clear that Friedman's work as a scientist was inseparable from his identity associated with the American right. In 1964 he became the lead economic advisor 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 advisors for both presidents Nixon and Reagan. Thus, he became a direct pipeline that fed the neoclassical economics of the Chicago School directly into the neoliberal politics of the nation. Friedman, more than any other economist of the time, flung this laissez-faire absolutism in the face of those who believed that markets were the cause of the Great Depression.[85] In the words of economist Paul Krugman, Friedman's dogged belief in the power of free markets "contributed to

[84] William Breit and Roger W. Spencer, *Lives of the Laureates: Thirteen Nobel Economists* (Mit Pr, 1995), 95.
[85] Rodgers vividly portrays this scramble for intellectual authority during the economic crisis of the 70s: "As the economy unraveled and textbook economic certainties of the 1960s frayed out into confusion and qualification, a new set of claimants pressed into the controversy…[people believed that] many [economists] should have entailed radically simpler models of society…or that they should have hitched their promises to more automatically working processes than the frustrated efforts of the councils of economic advisers. The idea of the self-acting market was ultimately to be borne along both assumptions." Rodgers, *Age of Fracture*, 10.

an intellectual climate in which faith in markets and disdain for government often [trumped] the evidence."[86]

Yet the evolution of Friedman's thought paralleled an evolution of the field of economics, particularly the way in which economists conceived of their role as shaping public policy. While Stigler and Director were much more subtle in articulating their views, Friedman did not shy away from opportunities for public and political commentary. Friedman espoused a view of economics as a discipline whose primary role was to "inform the public, to give the public a better idea of what is in the public's interest."[87] However, economists themselves could never know what was in the public's best interest because they were themselves pursuing their own self-interest, just as government officials sought re-election or businessmen sought promotions. The challenge, then, was to "set up institutions under which individuals who intend only their gain are led by an invisible hand to serve the public interest."[88]

That master metaphor of Smith's invisible hand became one of the most powerful images that Friedman used to advance his political and economic agenda in the 1970s, and as a result, it has become one of the most enduring ideas associated with Smith to this day. Friedman saw the invisible hand as the lynchpin that connected the neoclassical behavioral assumption of self-interest to the neoliberal policy of combating government interference. Again, there was an implicit epistemic claim being made: no expert, no economist, and especially no government officials could ever know what was in the public's interest. Only the individual, according to Friedman, knows that

> what's good for us is good for the country…It would be psychologically impossible for him to believe that his actions are harmful…we should recognize that all of us, ourselves included, are human beings who know our own self-interest better than we know anything else and who will pursue our self-interest.[89]

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[86] Paul Krugman, "Who Was Milton Friedman?," *The New York Review of Books*, February 15, 2007, http://www.nybooks.com/articles/archives/2007/feb/15/who-was-milton-friedman/.
[87] Milton Friedman, "Economists and Economic Policy," *Economic Inquiry* 24, no. 1 (1986): 4.
[88] Ibid., 2.
[89] Ibid., 9.

According to Friedman, Smith's invisible hand implied the *absence* of the hand of government. In its absence was "a vision of the way in which the voluntary actions of millions of individuals can be coordinated through a price system without central direction."[90] Thus, Friedman transformed Smith's invisible hand into two distinct, but inseparable ideas: on the one hand, it was the technical apparatus of the price mechanism associated with neoclassical economics; on the other hand, it represented a political doctrine that was vehemently opposed to the government meddling in economic affairs.

Friedman's technique for translating Smith's eighteenth-century explications into twentieth-century political commentary was audacious, and he had a unique talent for it. "Today, as in 1776," he remarked in his address to the Mont Pelerin Society, celebrating the 200th anniversary of *The Wealth of Nations*, "government departs very far, indeed, from those elementary functions that Smith regarded as alone compatible with the 'obvious and simple system of natural liberty.'"[91] Friedman brushed aside questions about textual, historical, and intellectual history for what he viewed to be the more pressing concerns: how would Smith respond to the issues America was facing in 1976? What would Smith say about the candidates for the 1976 presidential election, for example? Friedman picked out Smith's passing remark in Book IV Chapter 2 of *The Wealth of Nations* to snidely answer that question: "that insidious and crafty animal," Smith writes, "vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs."[92] Openly editorializing Smith's texts was also a talent of Friedman's. Friedman could turn Smith's comparison of the roles of local and state administration appear into an endorsement of President Ronald Regan's deregulation efforts:

> The abuses which sometimes creep into the local and provincial administration of a local and provincial revenue, how enormous soever they may appear, are in reality, however, almost

[90] Friedman, "Adam Smith's Relevance for Today," 11.
[91] Ibid., 6.
[92] *WN* IV.ii.39 (p. 468)

> always very trifling, in comparison of those which commonly take place in the administration and expenditure of a great empire. They are besides, much more easily corrected.[93]

Friedman became the most vocal, public, and provocative "spokesman for the virtues of free markets since Adam Smith,"[94] which earned him criticisms for being a "popularizer and propagandist" who sacrificed the "rigor of his work as a professional economist," for a "looser, sometimes questionable logic that undergird his public policy recommendations.[95] Yet it would be unfair to dismiss Friedman as a popularizer who blatantly *mis*interpreted Smith. While Friedman's uses of Smith's ideas were certainly at odds with Smith's own intentions, his use of Smith is calculated and deliberate in order to serve a very specific purpose, namely, to advance a specific political agenda and to reconnect that agenda with its historical roots. That Smith would become associated with the politics of the American right can be largely attributed to the fact that Friedman's politics precluded his engagement with Smith's economics.

Free to Choose, Friedman's public television series that debuted in 1980, was perhaps one of the most effective mechanisms for propagating this overly political image of Smith in the public imagination. The program featured a series of lectures on "major issues relevant to understanding free markets and their relation to a free society,"[96] delivered by Friedman but shot on numerous locations from the walled city of Kowloon in Hong Kong, to Japan, to Madras in India, and even the Greek island of Cos. Each episode also featured a discussion, moderated by Robert McKenzie (a sociologist from the University of London), and filmed in the library of the University of Chicago Law School. At the ideological core of the series was Friedman's reinterpretation of Smith's invisible hand.

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[93] *WN* V.i.d.19 (p. 731)
[94] Ibid.
[95] Krugman, "Who Was Milton Friedman?"
[96] Friedman and Friedman, *Two Lucky People*, 473.

Friedman immersed his audience in a variety of national and international contexts, beckoning them to consider questions such as, "What makes the people of Kowloon City so industrious, productive, and capable of earning a decent living in spite of the seemingly deplorable conditions?" "How did this single lead pencil get made if not a single person on earth could make it by himself?" "Why was modern-day Japan so much more technologically advanced than India?"

To each of these questions, Friedman presented Adam Smith's invisible hand as the magical answer. The show juxtaposed real-life, modern-day illustrations of the workings of the free market with the divine-like wisdom of Smith (often in the form of passages from the *Wealth of Nations* recited by a Scottish-accented voice talent). The simple laws of supply and demand were at work in a Japanese rice market, and those laws were the ones that "Adam Smith, the Scotsman who turned economics into a modern science, observed 200 years ago."[97] Viewers did not have to understand economic multiplier effects or political concessions to understand the key point; that Smith's "invisible hand [had] done wonders" all over the globe was illustrative enough. The program made Friedman and Smith speak with one authoritative voice; just as Friedman himself had prophesied the soaring of prices in the late 60s, so too Smith appeared to prophesy how certain societies might be free and prosperous. Smith's *Wealth of Nations* was a timeless contribution to the field of economics as Friedman saw it—a field whose power lay in its ability to explain and predict complex phenomena in simple terms. So powerful was this metaphor that if Friedman had gotten his way, the series would have been named *The Invisible Hand* rather than *Free to Choose*.[98]

An estimated 3 million people on average watched *Free to Choose* when it aired; the accompanying book based became a non-fiction bestseller in the United States in 1980, selling over

[97] *Free to Choose*, episode 2
[98] Friedman recalls the struggle to name the TV series. Originally he had suggested "The Invisible Hand," but some exchanges amongst the producers and Friedman revealed that nobody liked the name that Friedman and his wife suggested. Mike Latham, one of the show's producers, ultimately suggested the winning title, "Free to Choose." Ibid., 495–6.

a million copies.[99] The program made manifest Adam Smith's invisible hand to the public unlike any other economist of the time, culminating with an image of Smith that was recognizable as one of the Founding Fathers for his contributions to the American political—and economic—miracle. Friedman's line of argument proceeded as follows: economic freedom was a prerequisite for Jefferson's vision of political freedom: to pursue life, liberty, and the pursuit of happiness.[100] Smith gave us—America—the bases of economic freedom: that by pursuing our own self-interest, seeking our own gain, we would be led by Smith's invisible hand to promote the public good; that so long as the this invisible hand was left to work on its own, there was no need for government interference in our economic and personal lives. Friedman endeavored to show how Smith's invisible hand would be *more effective* than government power across the vastly different realms of life ranging from public security to income equality, education to consumer protection.

Friedman constructed an almost irrefutable dichotomy that became ubiquitous during the last quarter of the century: the invisible hand of the market versus the heavy hand of government. "There is, as it were," Friedman wrote,

> an invisible hand in politics that operates in precisely the opposite direction to Adam Smith's invisible hand. Individuals who intend only to promote the *general interest* are led by the invisible political hand to promote a *special interest* that they had no intention to promote.[101]

His message was clear: let self-interest and the invisible hand operate in both market and non-market contexts, and the public good would be achieved. Let the government try to dictate what was in our interest—be it safety, education, or welfare—and we were surely on the road to tyranny, the antithesis of everything that America stood for since 1776.

However, Friedman and the Chicago School weren't the only economists obsessed with Smith's invisible hand metaphor. Around the same time as Friedman and the new generation took

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[99] Friedman and Friedman, *Two Lucky People*, 497–498.
[100] Milton Friedman and Rose Friedman, *Free to Choose: A Personal Statement* (Houghton Mifflin Harcourt, 1990), 1–2. *Free to Choose*, episode 10:
[101] Ibid., 292.

the reins at Chicago, Paul Samuelson—who started at the University of Chicago at the age of 16, but went on to complete his doctorate at Harvard—was spreading the gospel of Smith's invisible hand fashioned and explained very differently. Like Friedman, Samuelson was an early adopter of the metaphor, but unlike Friedman, he chose a different medium through which to disseminate the image: economics textbooks. Having cornered the market early on, Samuelson debuted his *Economics* textbook in 1948. The text would eventually become the best-selling economics textbook of all time: over 5 million copies sold, translated into 40 languages, and now appearing in its 20th edition. And to those millions of readers, Samuelson introduced Smith in the following way:

> … Adam Smith, the canny Scot whose monumental book, "The Wealth of Nations" (1776), represents the beginning of modern economics or political economy—even he was so thrilled by the recognition of an order in the economic system that he proclaimed the mystical principle of the "invisible hand": that each individual in pursuing only his own selfish good was led, as if by an invisible hand, to achieve the best good of all, so that any interference with free competition by government was almost certain to be injurious.

Samuelson, however, reflected on the consequences of such reductionist readings of Smith, saying that this "unguarded conclusion has done almost as much harm as good in the past century and a half, especially since too often it is all that some of our leading citizens remember, 30 years later, of their college course in economics."[102]

Yet in spite of his own warning, Samuelson proffered a powerful—yet problematic—rendering of Smith's invisible hand that would appear in almost every one of the subsequent editions of the textbook. He rejected the Mandevillian interpretation of the invisible hand—that private vice and selfishness would lead to public good—and he also rejected his Chicago counterparts' interpretation of the invisible hand as the price mechanism. Instead, Samuelson equated the invisible hand with a particular *condition* of the economy at the aggregate level, such as perfect

[102] Paul Samuelson, *Economics*, 1 edition (New York: McGraw-Hill Education, 1948), 36.

competition, Pareto Optimality, and general equilibrium.[103] Instead of the invisible hand standing for a phenomenon of coordinated individual behavior, Samuelson turned the invisible hand into the metaphor of *entire* markets in equilibrium.

Samuelson must have realized that such an interpretation of Smith's invisible hand was going against the grain of not just the Chicago School's interpretation, but also Smith's own interpretation. Later editions of his textbook reveal an apologetic reflection on his contribution to the invention of a "mystical invisible hand principle" that would become embedded in his discipline's "loose vocabulary…impressed on the receptive minds of millions of their students."[104] Yet for all of Samuelson's inventing of Smith's invisible hand as a principle of economics, it had little bearing on shaping the political ideas associated with the invisible hand that Friedman had invented.

Friedman propagated an image of Smith's invisible hand that was separated from principles of economics, either from the Chicago approach or Samuelson's textbook. Instead, he had fashioned it into a tool for neoliberal political ideas and power. A new enemy had been identified—government, not market failure—and the invisible hand would be deployed to combat it. Allowing the market to operate without the visible hand of government was the only way to ensure freedom of individual choice in the market place, and therefore the maintenance of a politically free society. In the words of democratic socialist and activist Michael Harrington, this rendering of Adam Smith's invisible hand ultimately "[came] down to an intellectual exercise whose practical political effort [was] to rationalize conservative power in America."[105]

This reinvention and appropriation of Smith's ideas in the last quarter of the twentieth century put the final nail in the coffin of the older more nuanced view of Smith as an eclectic social scientist. The creation of Smith the economist was in no small part due to the readings and

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[103] Gavin Kennedy, "The Myth of the Invisible Hand – A View from the Trenches," 7, accessed June 24, 2016, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2143277.
[104] Ibid., 8.
[105] *Free to Choose*, episode 1.

teachings of the previous generation of economists, as well as Friedman's contemporaries.

However, the emergence of Smith as the spokesman of neoliberal politics was almost entirely due to Milton Friedman's push to translate economic theory directly into public policy and a vitriolic attack on government. By 1980, Smith stood for two major ideas only: self-interest and the invisible hand. By tracing the methodological as well as ideological aspects of their ideas back to Smith, Chicago economists fashioned an entirely new image of Smith both as the father of a predictive science, but also a father of a coherent set of political ideas.

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