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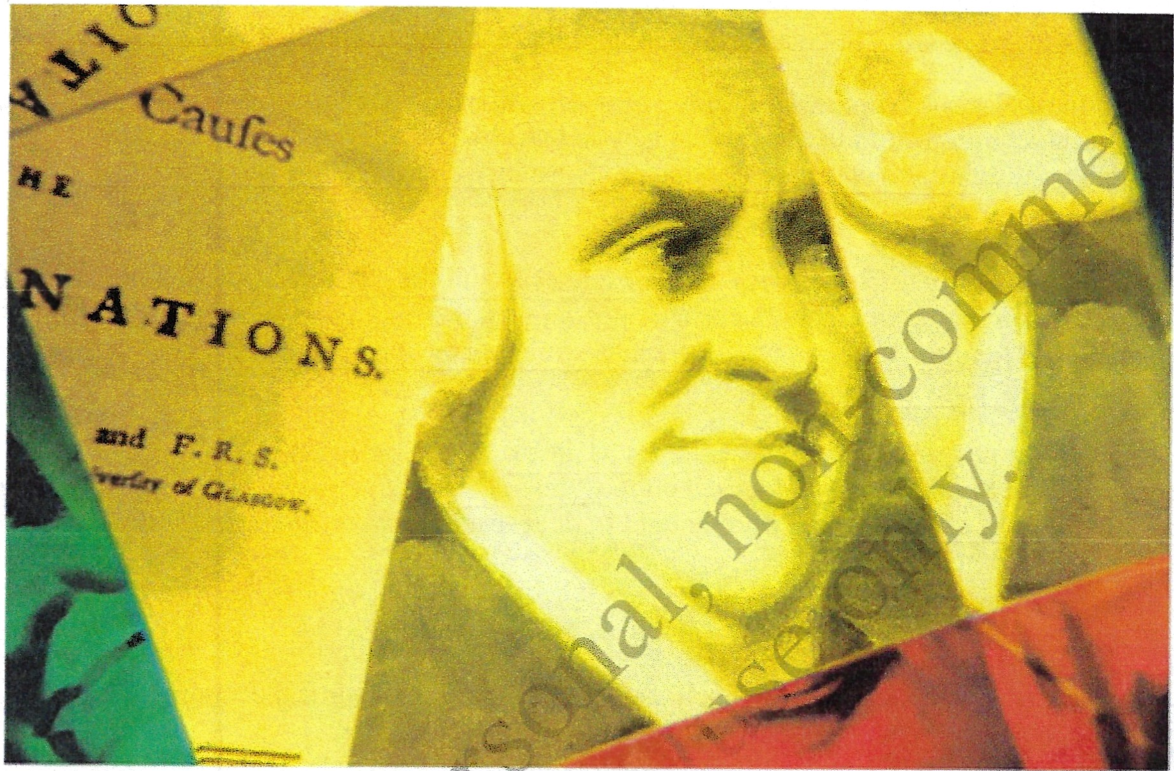

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ADAM SMITH

An Influencer in 1776

(AND EVERY YEAR SINCE)

He is famous for being the inspiration for American capitalism. The real story is more complicated.

BY GLORY M. LIU

ADAM SMITH has become the symbol of American capitalism, a champion of free trade and a free market. But it wasn't always that way.

In fact, it sometimes seems as if capitalism and America share the same origin story. Smith's landmark book "An Inquiry into the Nature and Causes of the Wealth of Nations" was published in March 1776—just months before the Declaration of Independence was penned. Milton Friedman called the Declaration "the political twin of Smith's economics," casting Jefferson and Smith as arm-in-arm revolutionaries.

But the life and afterlife of Adam Smith's ideas in America tell a different story. Smith wasn't a thinker whose singular economic vision triumphed. Instead, his ideas inspired many different strains of political thought when they first appeared— but as Smith became an icon, people became more inclined to simply cite him than to think deeply about him.

The differing Smiths

Smith had a reputation in America long before "The Wealth of Nations," thanks to his work "The Theory of Moral Sentiments." Published in 1759, the book explores how we learn moral behavior and form moral judgments. Smith argued that sympathy was the primary mechanism by which we understood our fellow human beings, by imagining ourselves in their position.

In its day, the book became influential among prominent thinkers. John Adams wove entire passages of "Moral Sentiments" into a series of essays in 1790 criticizing the tendency to admire the rich and neglect the poor.

Nearly two decades later, "The Wealth of Nations" captured a lifetime of observations about economic life in a world remade by commerce, war and imperial ambitions. Smith argued that national wealth wasn't measured in precious metals or a favorable balance of trade; rather, wealth was rooted in the productivity of human labor and how cheaply and plentifully people could meet their basic needs. Note

The book inspired important thinkers in radically different ways. For Alexander Hamilton, "The Wealth of Nations" offered a vision of a nation powered by commerce and manufacturing, one that would rival Great Britain in international trade. The way to get there, Hamilton thought, was to create a strong, activist central government that used subsidies and protective tariffs to shield domestic industry. Note

Obviously, that is different from how most people see Smith now. James Madison, on the other hand, got a different—and much more familiar—inspiration from Smith. Madison focused on the " liberal" aspect of Smith's ideas, calling the philosopher "the friend to a very free system of commerce" who thought trade restrictions were "generally unjust, oppressive, and impolitic." Note

'Apostle of free trade'

"The Wealth of Nations" proved to be such a milestone that within a couple of generations, political economy became a crucial field of study for aspiring leaders. Smith was canonized as the founder of the discipline.

For most of the 19th century, that meant pulling Smith into debates on trade. Southern free traders hailed Smith as a great authority on political economy, a "celebrated Scottish philosopher," invoking him or reading extracts at length before Congress. They tried to project a vision of the American economy where low barriers to trade meant high profits — especially for those who relied on enslaved labor. This appeal to authority forced opponents in the North to walk a difficult line. They needed to challenge the South but couldn't dismiss Smith, given his status. Instead, they argued that Smith wasn't necessarily wrong about free trade, but that his ideas were written for a different country and a different time.

After the Civil War, trade remained a divisive issue—which meant people turned to Smith on the issue again. "The Theory of Moral Sentiments," meanwhile, dropped out of people's political consciousness almost entirely.

A new 'hand'

The Smith we know—or think we know—today didn't arrive until the mid-20th century. In a country reshaped by Depression, war and Cold War anxieties, economists George Stigler and Milton Friedman came up with an expansive new view of Smith, recasting him as an advocate of a self-regulating market system grounded in rational self-interest.

For Friedman, Smith's invisiblehand metaphor was more than a description of how markets worked; it was a defense of individual freedom against government interference. Friedman presented Smith as a founding father of American economic liberty.

Friedman's interpretation—and its profound effect on U.S. politics— seemed to set Smith's intellectual legacy in stone forever. But even at the time, critics accused Friedman of creating a Smith who never was. And over the years, Smith's reputation as the father of free-market orthodoxy has proved far less stable than it once seemed.

To some, Smith is a critic of centralized power, a skeptic of top-down expertise and a theorist who saw a burgeoning market society rooted in virtue and individual moral responsibility. To others, he is a defender of moral equality, a critic of concentrated wealth and a champion of public institutions used to restrain private power.

What makes Smith continually relevant is his power to illuminate the tensions of modern capitalism: the liberating potential of economic growth, the risks of concentrated wealth, the relationship between markets and morality. That we continue to read and debate his ideas is a reminder that these questions are as unsettled now as they were 250 years ago.

Glory M. Liu is an assistant professor of government at Georgetown and author of "Adam Smith's America: How a Scottish Philosopher Became an Icon of American Capitalism." She can be reached at reports@wsj.com.