

# The Classical Liberal Tradition: Adam Smith *vs.* Karl Marx

James R. Otteson, PhD

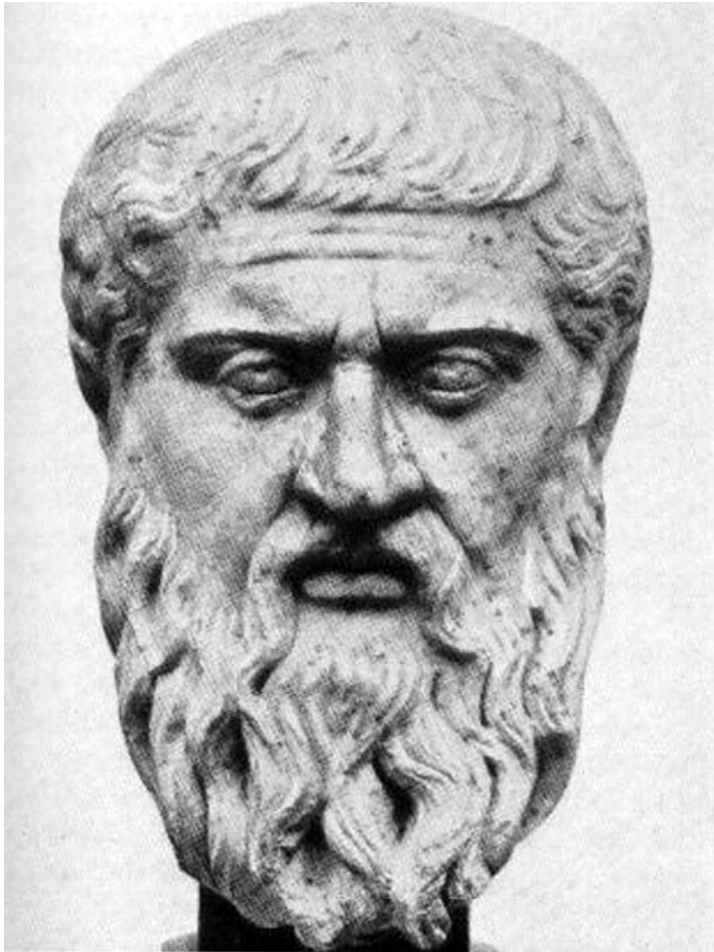
Joint Professor of Philosophy and Economics, Yeshiva University

Charles G. Koch Senior Fellow, The Fund for American Studies

# Part I: What Is Political Philosophy?

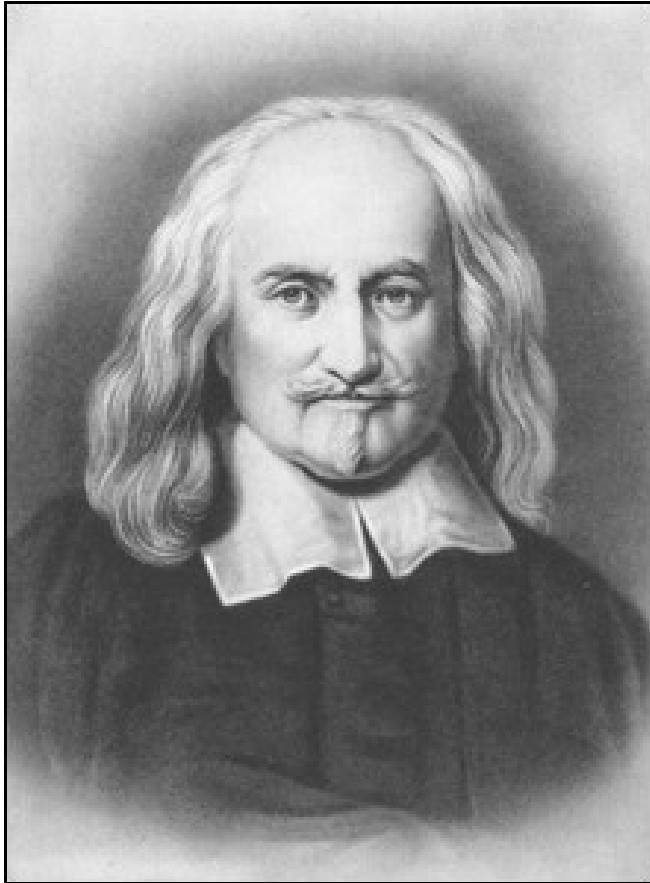
- One basic question:
- *What kind of government should we have?*
- Lots of choices:
  - Democracy, aristocracy, monarchy, constitutional republic.
  - Classical liberal, socialist.
- Criteria?

## Here Is One Criterion: *Ideal Goodness*



- **Plato** (428-348BC)
- *The Republic* (~380)
- *Kallipolis* = ruled by the best.
- Philosopher-kings: The Good Life.
- Jobs, goods, marriage, children, education, ...
- Everything!

## A Second Criterion: *Appropriateness or Fitness.*

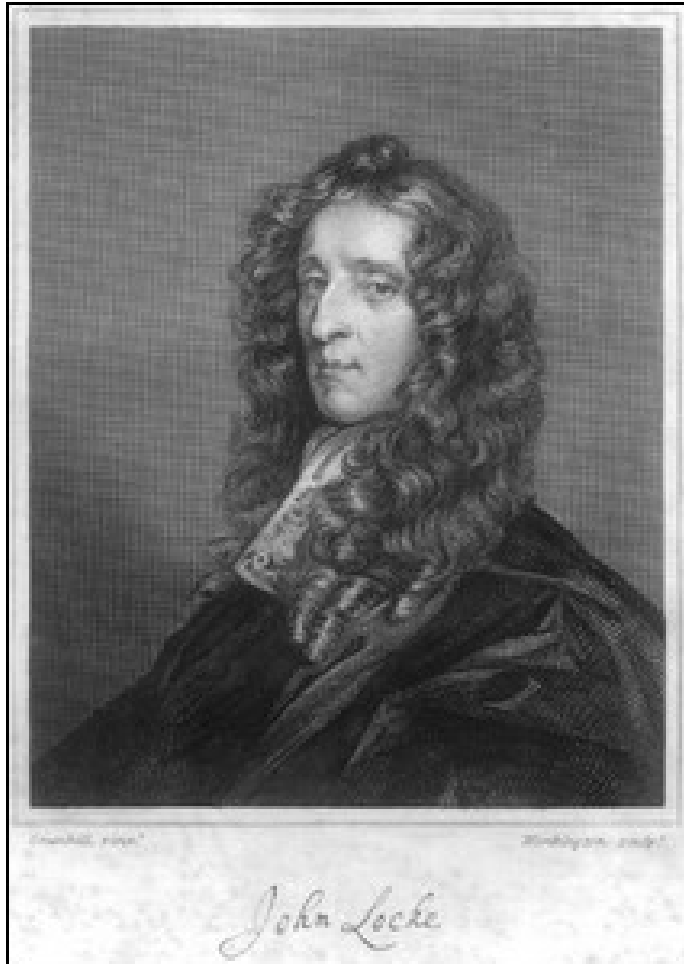


- **Thomas Hobbes** (1588-1679).
- Humans: *competitive, distrustful, vain*—and thus violent.
- Needed: all-powerful “leviathan” to keep peace.
- Think of children during recess ....

## Perhaps you noticed ...

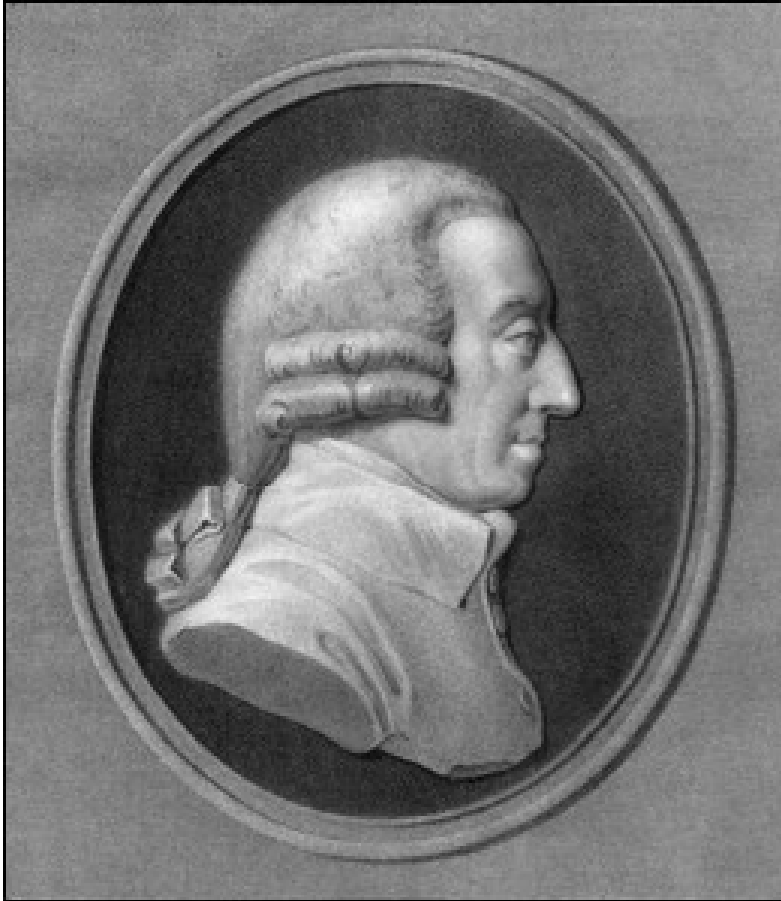
- Both of those lead to 'total' states.
- That is, some person or persons with *absolute authority*.
- Are there criteria that lead to *limited* states?
- That is, limitations on state authority?
- Yes ...

## A Third Criterion: *Legitimacy*



- **John Locke** (1632-1704).
- *Freedom and equality.*
- “Natural rights” to life, liberty, and property.
- No slavery!
- American founding.
- A ‘principled’ case for classical liberalism.

# A Fourth Criterion: *Prosperity*



- **Adam Smith** (1723-90).
- “Father of economics.”
- The ‘economic’ case for classical liberalism.
- Private property, markets, and trade → wealth & prosperity.

## Part II: What Is Adam Smithian “Classical Liberalism”?

- Smith’s question: *What institutions allow people to flourish and prosper?*
- His “classical liberal” answer:
  - Private property.
  - Free trade.
  - “Justice” (= life, property, contracts).
- What else is classical liberalism?
  1. Individual’s priority over the state.
  2. Multiple “good lives.”
  3. Competition.
  4. Consent.
  5. Even ... revolution?



Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776)

- Beginning of “economics.”
- Profound influence on British and American political policy.
- What did it claim?
- Free trade, limited government, competition, and open markets: keys to human prosperity.
- That’s “classical liberalism.”

# What Is WN's Argument?

- “It is the great **multiplication of the productions** of all the different arts, in consequence of the **division of labour**, which occasions, in a well-governed society, that **universal opulence** which extends itself to the lowest ranks of the people.”
- Division of labor exploits *local knowledge*.
- Specialization leads to surplus (“multiplication of production”).
- Surplus → increasing goods → decreasing prices.
- Everyone can afford more (“universal opulence”).

# Why Free (Not “Fair”) Trade?

## Cooperation and Mutual Benefit

- “In a civilized society man stands at all times in need of the **co-operation and assistance of great multitudes**, while his whole life is scarce sufficient to gain the friendship of a few persons.” (*Cooperation.*)
- “[Man] has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is for **their own advantage** to do for him what he requires of them.” (*Mutual benefit.*)

# Why Free Markets?

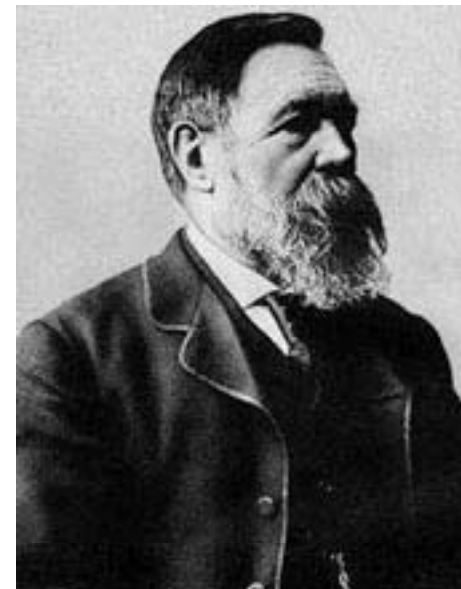
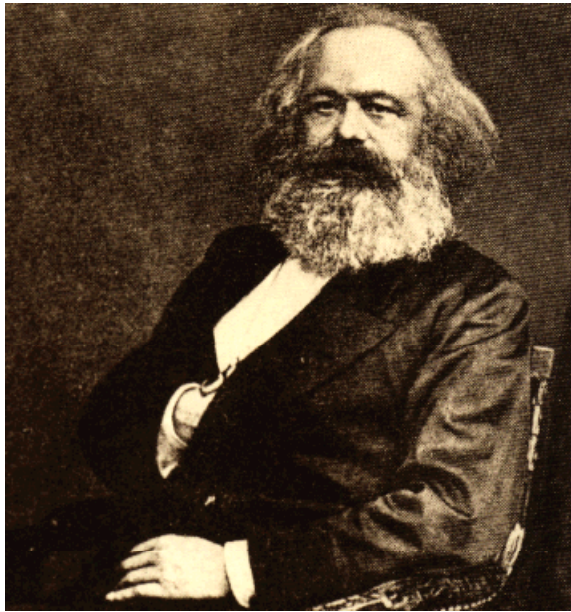
- Markets “encourage every man to apply himself to a particular occupation, and to cultivate and bring to perfection **whatever talent or genius he may possess.**”
- “[T]he most dissimilar geniuses are of use to one **another**; the different produces of their respective talents [...] being brought, as it were, into a common stock, where every man may purchase **whatever part of the produce of other men’s talents he has occasion for.**”
- Thus: markets → opportunities → choices → diversity.

# Self-Interest, Competition, and the “Invisible Hand”

- “As every individual, therefore, endeavours as much as he can ... to direct [his] industry that its produce may be of the greatest value; **every individual necessarily labours to render the annual revenue of the society as great as he can.**”
- “[B]y directing [his] industry in such a manner as its produce may be of the greatest value, he **intends only his own gain**, and he is in this, as in many other cases, led by **an invisible hand** to promote an end which was no part of his intention.”
- *Invisible hand*: unintended but real benefits for others from self-interest.

Part III:  
Adam Smith *vs.* Karl Marx

Here are Karl Marx (1818-1883) and  
Friedrich Engels (1820-1895):



## Predictions from Marx's 1843 *Communist Manifesto*:

1. Smithian “political economy” will: concentrate power and property in the hands of a few and lead to only two classes, the *propertied* and the *propertyless*.
2. The “ideologies” of free trade and free competition *enslave* workers, rendering them powerless against and exploited by employers.



## Marx's predictions (cont'd.):

3. Workers' **wages will steadily decline** to “subsistence” levels; **standard of living falls** as well.
4. Instead of greed-driven and alienating “market forces,” the “most advanced and resolute” intellectuals must “wrest” “all capital from the bourgeoisie” and “**centralise all instruments of production in the hands of the state.**”

*(Note: These are all empirical claims.)*

## Smith Makes *Opposite* Prediction in *Each* Case:

1. The “obvious and simple system of natural liberty” will enable more and more to **ascend out of poverty**, creating large and thriving **middle class**.
2. Free trade, free competition, and the abolition of special privileges (like state-enforced monopolies) will lead to **increasing economic prosperity for everyone, including workers**.

## Smith's Predictions (cont'd.):

3. Over time, *employer* competition will lead to steadily *increasing wages, benefits, and overall standards of living*.
4. Decentralized markets will **precipitate greater prosperity than centrally-planned economies will**.

So . . . Who's Right?  
Marx or Smith?

Smith is.

On every count.

## Consider the United States of America:

- The middle class dominates American economics.
  - Think Wal-Mart and Ford vs. Cartier's and Jaguar.
- Over the last two centuries, working conditions in America have steadily improved.
- These conditions are now at levels unimaginable just a generation or two ago (ask your grandparents!), and dramatically better than that of most other countries today.

## Evidence of Improvement Over Time: Costs Go Down, Quality Goes Up

- A 3-minute phone call from New York to San Francisco cost *90 hours* of labor in 1915; in 2009 it cost 4 *seconds*. (How much time you spend on the cell phone?)
- Three hearty meals in 1919, 9.5 hours; today, 1.0 and falling.
- Housing cost 7.8 hours of work PSF in 1920; today, 4.9—with *much* higher quality and better amenities (indoor plumbing, central heating, electricity, etc.).
- And consider: antibiotics, lasers, and prosthetics.

# In America:

- Markets and competition have led to **economic growth**, **falling prices**, and **higher standards of living**.
  - Computer processing power per dollar.
  - Freud, soap, and civilization.
  - Have you ever had a toothache?
  - My one-bathroom flat in Scotland. (*One* bathroom?! Egad!)
- Workers' wages, benefits, and standards of living are arguably better here than anywhere else in the world
  - Certainly better than most places in the world;
  - Far, far better than for most of human history.

# More Generally:

- Worldwide: free-market-based economies have *dwarfed* centrally-planned economies in productive power.
  - Ex.: Impressive numbers by Soviet Union during Cold War often pure fabrications.
  - Tanks  $\neq$  economic prosperity.
- Free economies have led to prosperity for everyone—*including especially the poor.*
- Poor are *far* better off in market-based economies than in centrally-planned economies.
- Don't believe me?



## Consider:

- In early 1900s, only super-rich had automobiles.
- Today:
  - >90% of American households have cars;
  - 60% have two *or more*.
- America may soon be first nation with more automobiles than people.
- Similarly with most necessities, *especially food, clothing, and shelter*: getting cheaper while quality improves.

# And Don't Forget . . .

- Americans today: more *leisure time* than any generation of Americans has ever had.
- (Again, ask your grandparents—they'll tell you!)
- An indicator: Americans spend on average *35 hours per week just watching TV!*
- (If you add in video games, texting, and net surfing, *over 40 hours.*)
- A main health problem facing America's low-income citizens today is not starvation, but . . .
- *Obesity!*

# What to Conclude from This?

- Markets, trade, and private property, have enabled us to work less and yet afford more.
- Our standard of living is higher than that of previous generations.
- Average annual per-capita income for past 10,000 years: \$100; worldwide average in 2009, \$10,500.
- Today in America: \$46,400.
- Don't take my word: Check this for yourself.
- *Please! (And tell your friends!)*

## Part IV: An Objection

- America's increasing prosperity, at least over the last 100 years, is correlated with increasing economic regulation by the government.
- So: Is America's prosperity due to *government intervention in markets*, rather than just to markets?
- Do we need government regulation of markets?

## Answer:

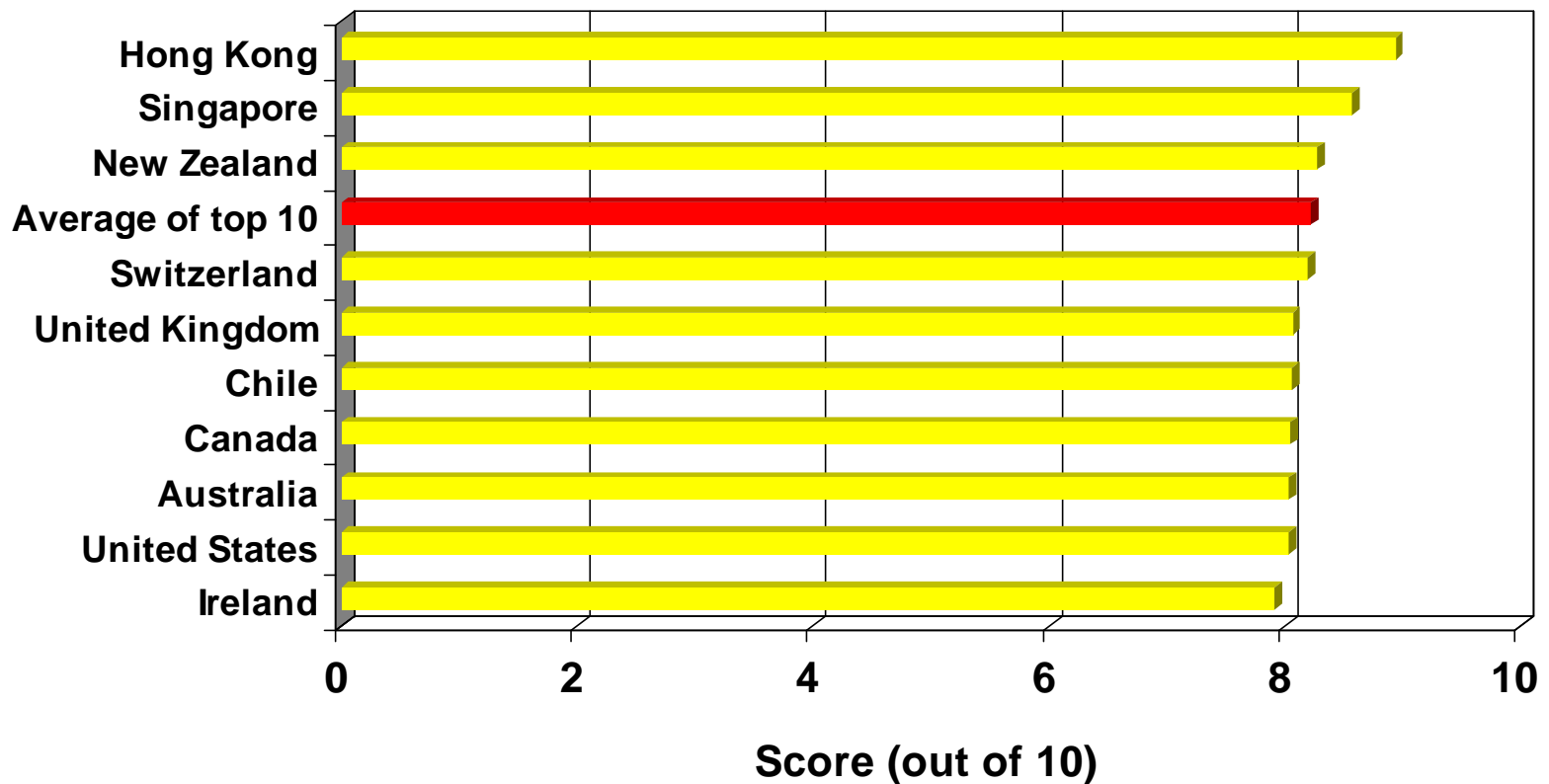
- It would appear not. Why?
- Government regulation of markets is *inversely correlated* with economic prosperity.
- Evidence: the freer the markets in a country, the more it protects private property, and the lower its trade barriers and taxes, ... the higher its overall prosperity.
- Thus:
  - Classical liberalism → *increasing* prosperity;
  - Government regulation → *decreasing* prosperity.

# What *Is* This Evidence?

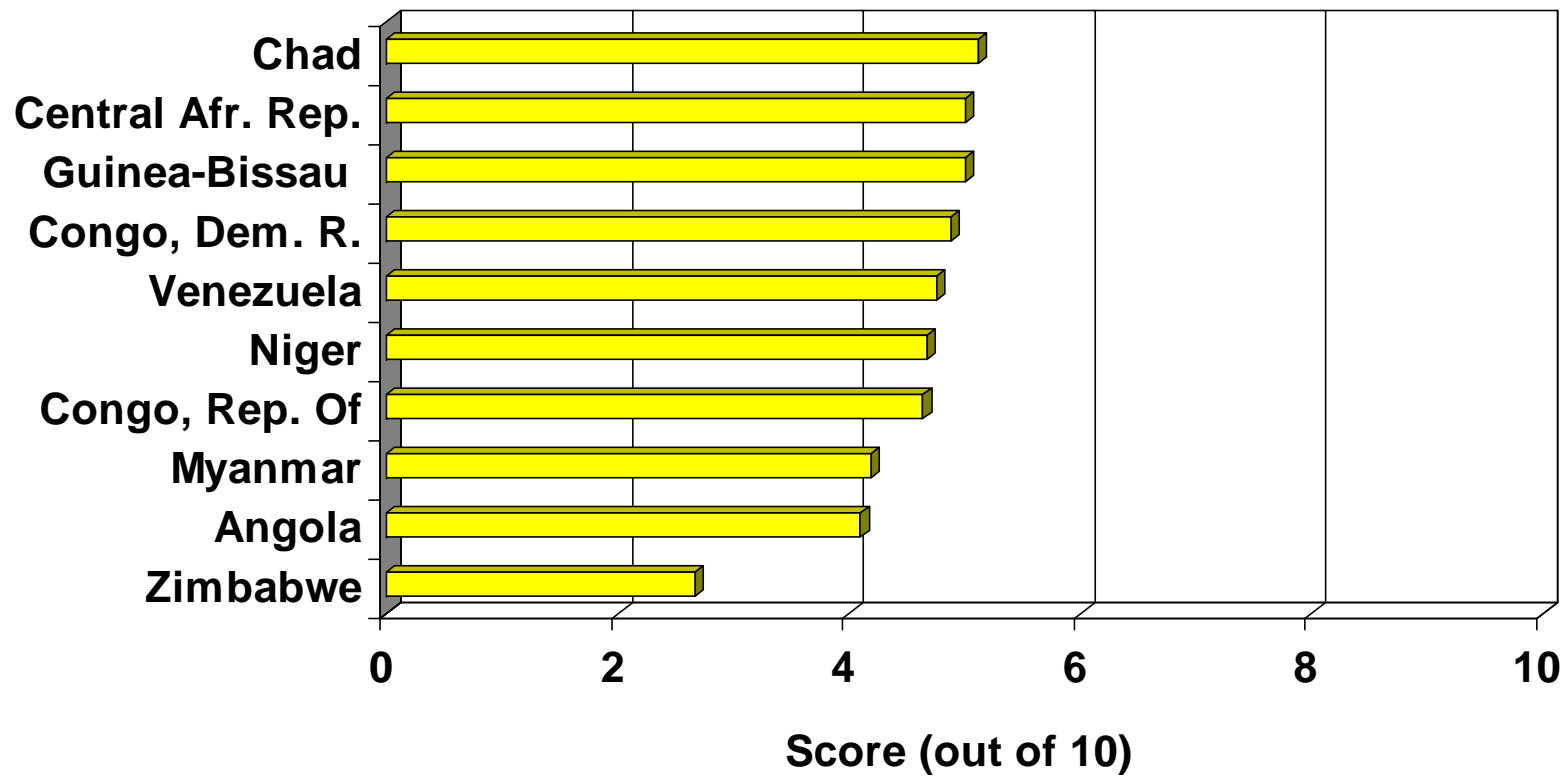
- *Economic Freedom of the World Index* (<http://www.freetheworld.com/>)
- Correlation between *economic freedom* and *economic prosperity* in ~140 countries since 1975.
- “Economic freedom”: “Individuals have economic freedom when property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others. An index of economic freedom should measure the extent to which rightly acquired property is protected and individuals are engaged in voluntary transactions.”
- A notably Smithian definition!
- The results?

# The *Economic Freedom* (EF) Rankings of the Top Ten Countries:

(from *Economic Freedom of the World 2008*)



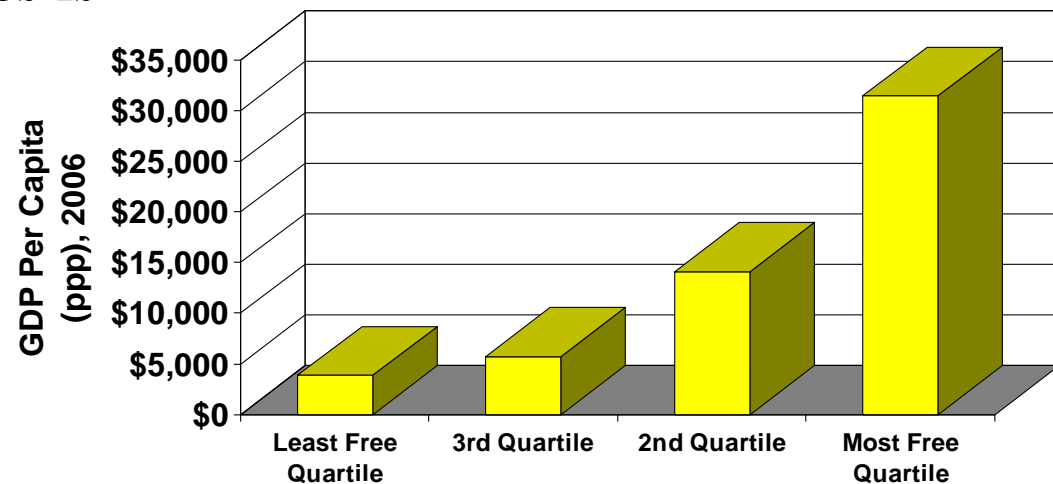
## For Comparison, the *Bottom Ten*:





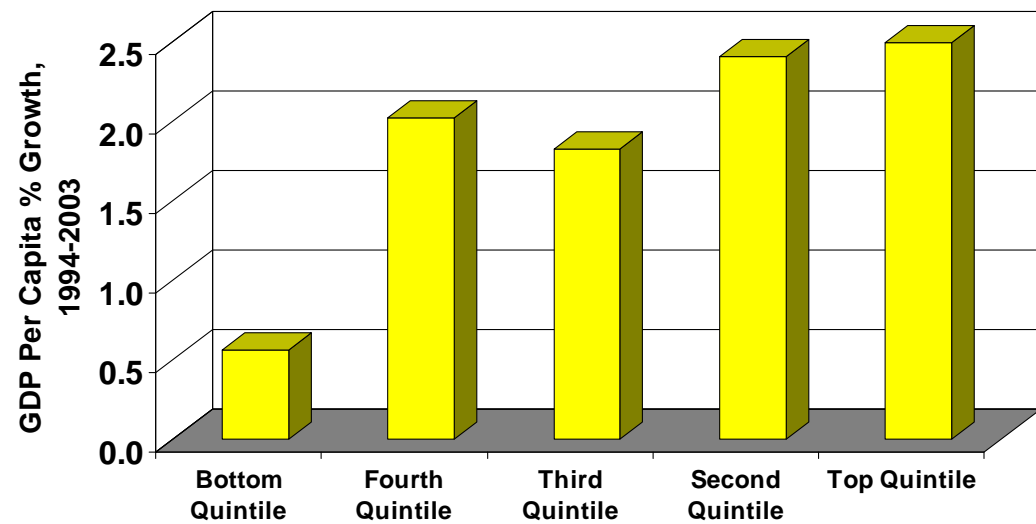
# Correlations: EF and Wealth

- Correlation between *regulation* and *per-capita income*.
- Note: difference between *bottom* and *top* quartiles is nearly **ten-fold**.

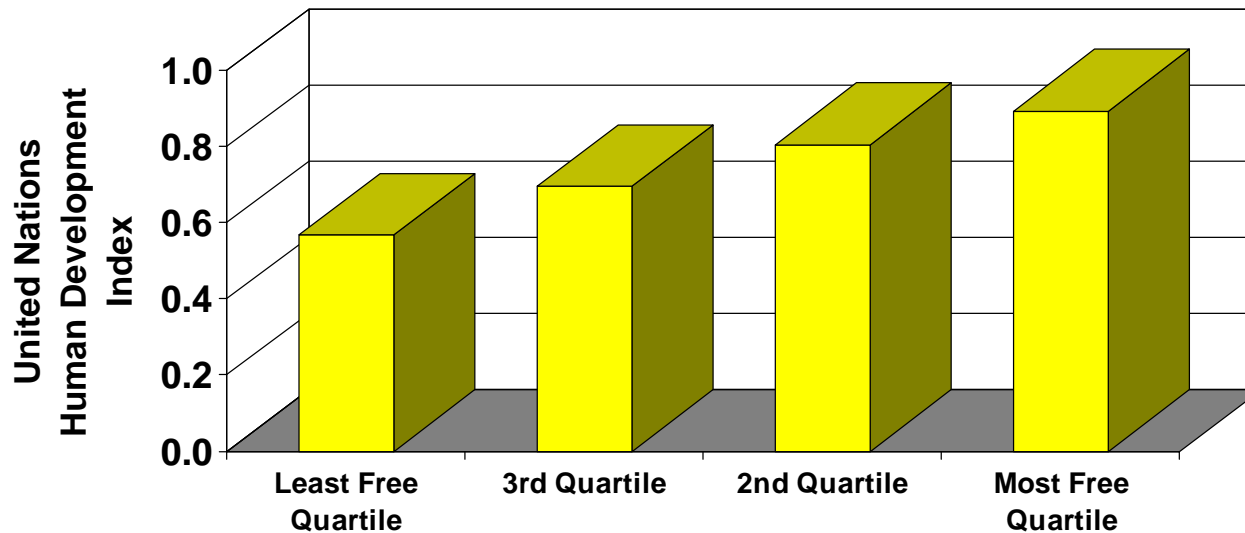


# EF and Economic Growth:

- Correlation between *government regulation* and *growth* (as % of GDP increase):

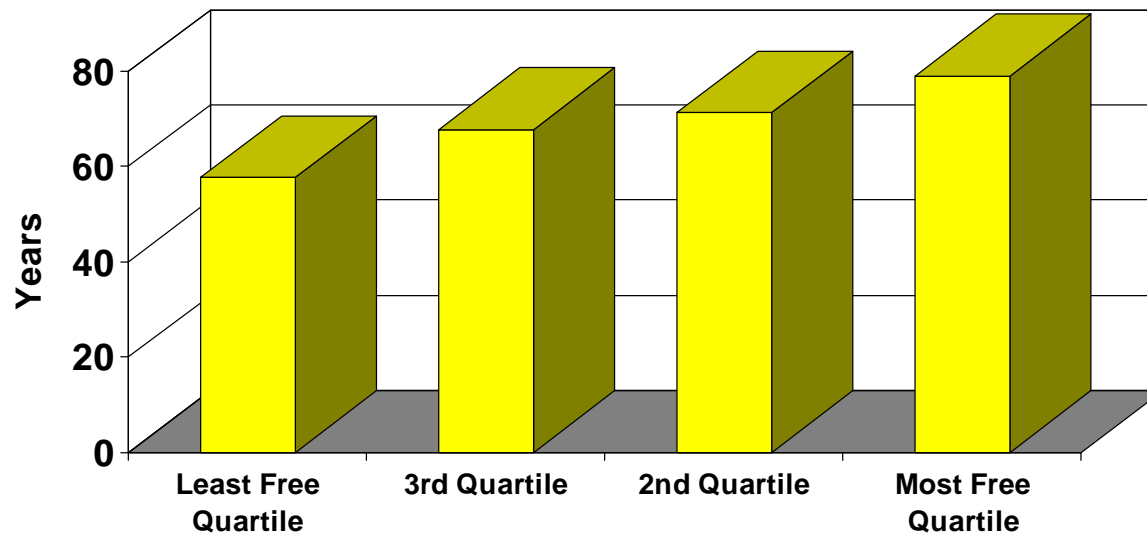


# EF and Prosperity: *Overall Quality of Life*



- EF and UN's "Development Index," combined measurement of: (1) life expectancy, (2) adult literacy rates, (3) school enrollment, and (4) per-capita incomes.

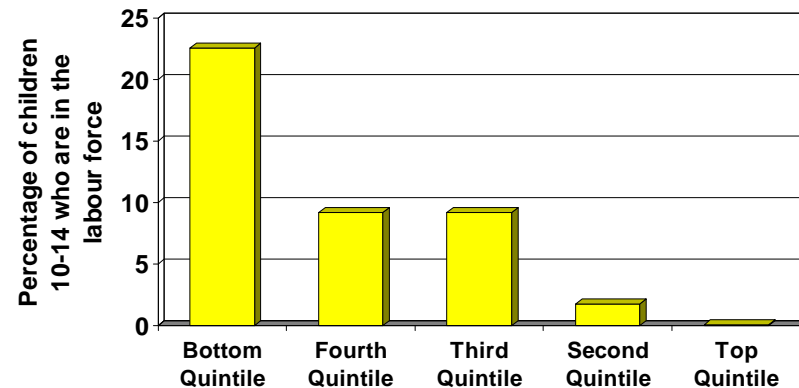
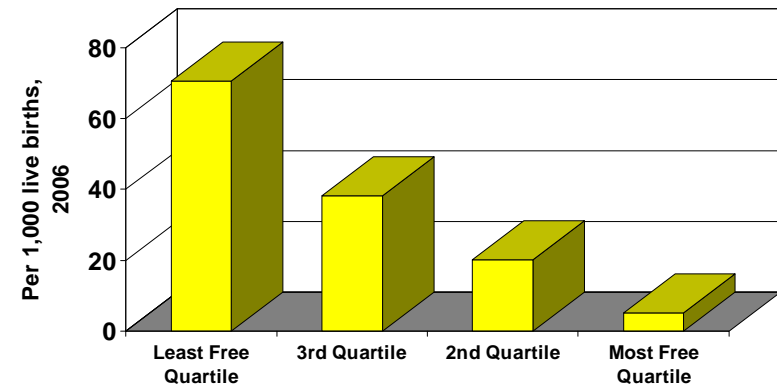
# Quality of Life, Take 2: Life Expectancy



- Note: difference between top and bottom quartiles is *over twenty years*.

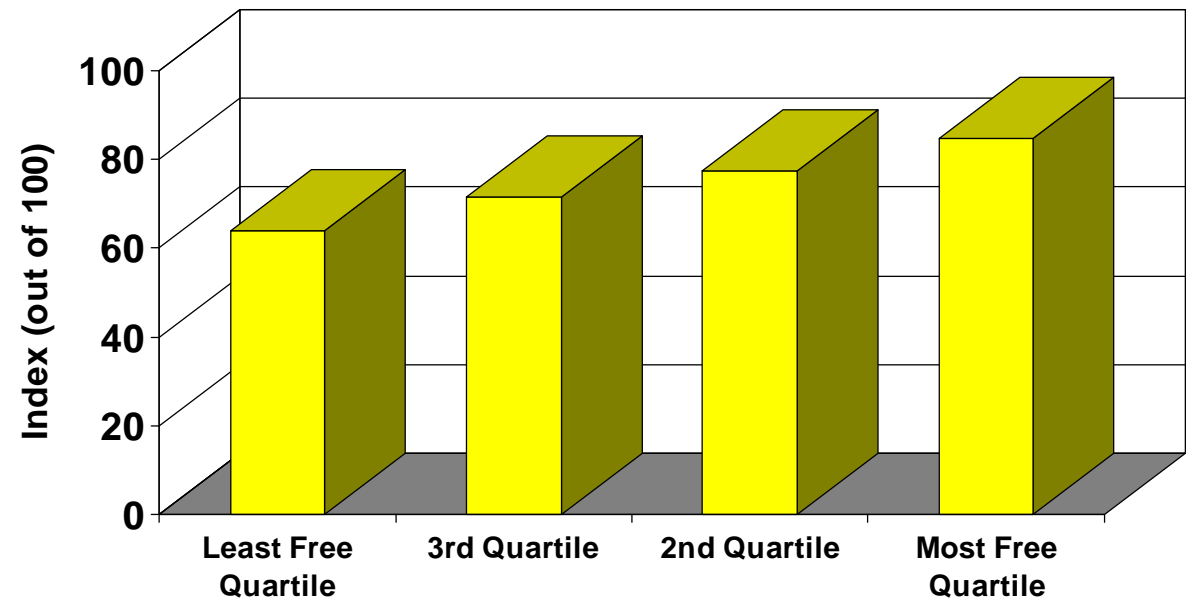
# Quality of Life, Take 3: Children

- Top graph is levels of *infant mortality* measured against EF.
- Bottom is levels of *child labor* (% of 10-14 year-olds in work force) against EF.



# Quality of Life, Take 4: Environment

- EF rated against *environmental performance.*



## So, the Response to the Objection:

- EF tracks measurements of prosperity closely, *up and down*.
- Demonstrates: *as government economic regulation increases, prosperity decreases; and vice-versa*.
- This holds for a number of variables:

## EF Tracks Positively with Increases in:

- Money, both as per-capita income and real economic growth
- Life expectancy
- Infant survival
- Child nutrition
- Literacy
- Food production
- Access to health care
- Access to safe water
- Percentage of GDP dedicated to research and development
- Political stability
- Peace

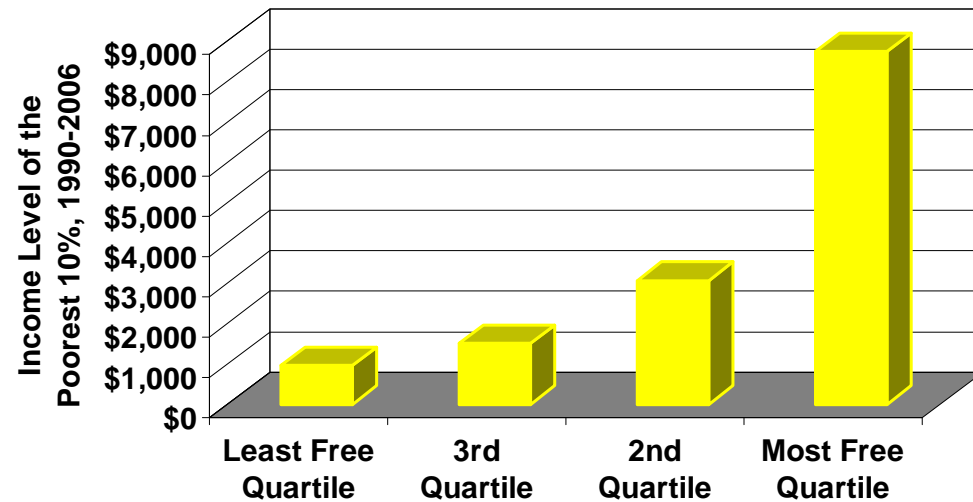


## But: How Do Markets Affect the *Poor*?

- Recent studies conducted by the World Bank that looked at data from 137 countries:
- “Private property rights, fiscal discipline, macro stability, and openness to trade *increases the income of the poor to the same extent that it increases the income of other households in society*” (emphasis added).
- WB Report adds: not a “trickle-down” process; benefits for rich and poor created “contemporaneously.”
- WB Report: Government spending = *negative (!)* effect.

# Evidence from the *Economic Freedom Index* Supports Same Conclusion:

- Poorest 10% earn more in economically free countries—  
by factor of *ten!*



## So . . . Smith vs. Marx:

- Both: large influence on the history of the world.
- Smith's influence:
  - Almost universally beneficial, *especially* for the poor.
  - In U.S.: *both* “rich” and “poor” are getting richer; “poor” at *faster rate*.
- *Marx's* influence, however . . .
- Not so beneficial . . .

## Part V: Marx's influence:

- Everywhere Marxian political-economic ideas have been implemented have suffered terrible consequences:
  - All at or near the bottom of the economic freedom ranking;
  - All are exceedingly poor.

## Compare Actual Results: Per Capita Purchasing Power Parity

- Hong Kong (#1), \$42,700 vs. China (#82) ...
- China: \$6500.
- China, \$6500 vs. Taiwan (#16), \$30,200.
- South Korea (#32), \$27,700 vs. North Korea (n/r)\* ...
- North Korea: \$1800.
- Cuba (n/r)\*, \$9,700 vs. “Little Havana” ...
- Miami, Florida: \$33,712.

*\*EFI does not rank North Korea or Cuba because of insufficient verifiable information. The Heritage Foundation, which does its own rankings (available here: <http://www.heritage.org/index/ranking.aspx>), puts North Korea dead last of 179 countries evaluated and Cuba third-to-last.*

And that is not even considering ...

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... the approximately *one hundred million innocent people killed during the twentieth century by their own governments in the name of Marxian ideals.*

# Consider: Lenin and Stalin.



- V. I. Lenin (1917-24):  
**4,017,000 dead.**
- Joseph Stalin (1929-53):  
**42,672,000 dead.**
- Soviet slave-labor system under Lenin and Stalin killed almost 40 million people over some 70 years—more than twice as many as killed by 400 years of brutal African slave trade.

# Mao Tse-tung



- 1927-76 (includes guerilla period): **37,828,000 dead.**
- Not all records are open to the public yet.
- Final tally may have Mao surpassing Stalin.



# Pol Pot



- 1968-87: **2,397,000 dead.**
- Most *lethal* murderer in twentieth century:
  - 1975-9: killed *8% of population annually.*
  - Khmer Rouge killed 31% of all men, women, and children in Cambodia.
  - The odds of surviving: 2.2 to 1.
- (Pol Pot died peacefully in 1998 after a one-year house arrest.)

# Cheong Ek Mass Grave in Cambodia, Exhumed in 1980: “The Killing Fields”

About 9 miles  
outside of Phnom  
Penh, Cambodia’s  
capital; home of  
some 129 mass  
graves.

Now principally a  
tourist destination.



# Final Lesson

- Classical liberal tradition and Adam Smith have a great deal to offer: prosperity and liberty.
- Perhaps literally the difference between life and death:
  - Indirectly, alleviating poverty; and
  - Directly, decentralizing power.
- Note: A Smithian society will not be perfect.
- But ...
- *No society ever will be.*
- Thus: *relatively* better.
- Evidence suggests Smithian classical liberal society is superior to any other known alternative.

# The 20th Century Was a 100-Year Contest between Smith and Marx.



# Smith Wins by a Knock-Out.



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# Thank you!

James R. Otteson  
Yeshiva University  
500 West 185th Street  
New York, NY 10033

212.960.5402  
[otteson@yu.edu](mailto:otteson@yu.edu)  
[jamesotteson.com](http://jamesotteson.com)