

An Invisible Theorist: Revitalizing the Philosophy of Adam Smith

Anthony Cooper
Department of Social Sciences
Waynesburg University
51 West College Street
Waynesburg, Pennsylvania 15370 USA

Faculty Advisor: Lawrence Stratton, J.D., Ph.D.

Abstract

Most Americans agree that the country needs change. This paper addresses the question of “whether the philosophy of Adam Smith could reshape America?” Building upon a thorough review of *An Inquiry into the Nature and Causes of the Wealth of Nations* and *A Theory of Moral Sentiments*, the paper posits that Smith is widely misunderstood. Because his notions of selfishness and the invisible hand are often misinterpreted, Smith would not advocate America’s current economic structure. A general conclusion is reached that a proper combination of morality and community are the prevailing sentiments necessary for the required changes. There is much to learn from Adam Smith which is practical and applicable to modern day America. Ultimately, Smith’s economic manifesto, *An Inquiry into the Nature and Causes of the Wealth of Nations* should be interpreted within the parameters of *A Theory of Moral Sentiments*.

Keywords: Impartial Spectator, Self-interested Sympathy, Prudence

1. Introduction:

Looking around society today the thought cannot help but form that it could be better. The point of this paper is to analyze the two main works of Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, and *A Theory of Moral Sentiments*, and determine from the works if there is a plausible philosophy inherent in them that can be viewed as a goal for the current American society. This is not meant as a critique of Smith’s works, nor as a comprehensive outline of what he wrote; however, it will outline important parts of both major works as they apply to America today, and look for solutions to current economically based moral issues. John Maynard Keynes himself recognized that the fiercest future debates will be framed not around technical economic questions, “but round those which for want of better words, may be called psychological or, perhaps, moral.”⁸ Keynes hits the nail on the head by bringing up morality, an issue which Smith also recognized.

Capitalism has earned a bad reputation throughout history as a self serving system that inevitably leads to a wealth gap of astronomic proportions, and a perpetual exploitation of the working class. Let me state outright that this is what capitalism has been, I am not trying to deny that at all; however, as this has been the sad reality of capitalism it remains one of the biggest discrepancies in opponents’ arguments and social perspective. The Declaration of Independence, was not the only important piece of literature written in 1776, perhaps not even the most important. In that fateful year renowned Scottish philosopher and economist Adam Smith published his second major work, *An Inquiry into the Nature and Causes of the Wealth of Nations* (here after referred to as WN), an economic follow up to his moral treatise *A Theory of Moral Sentiments* (here after referred to as TMS), which was written in 1759. The two books, however, seem long since forgotten, or more dangerously, line-item vetoed¹ in a sense. America is a far cry from what Adam Smith initially outlined in WN and supplemented with TMS. Smith at this point is essentially a forgotten theorist. His philosophy has been swept under the rug.

At this point, the country could benefit from a reading of just one of Smith's books; either one really, for a return to what Smith taught could only lead to improvements. Above everything, "Adam Smith most distinctly stood for private enterprise, private property, self-interest, voluntary exchange, the limited state, and the market," while at the same time maintaining a "system not only ordering but harmonious and benevolent to all."²⁰ This essay will attempt to discern the difference between the capitalist ideal and reality, answer critics on the fairness and morality of capitalism, and lay bare America's own failures in an attempt at a capitalist economy.

2. Social Capitalism:

Adam Smith's economic theory cannot and should not be implemented without TMS, however, barring a few obvious deviances from WN which will be discussed later; this is essentially what America has done. Whether it is purposeful or not has yet to be determined, but that is not really what is at issue here. Without the morals evident in TMS, an economic system that is based on self-interest is extremely dangerous. Smith was first and foremost a moral philosopher, so the idea that he would write an immoral text in WN is simply irrational.¹⁴ The fact exists that he penned TMS in 1759, a full 17 years prior to WN, and went on to edit TMS a total of six times prior to his death. Smith outlines behavioral patterns brought on by sympathy, particularly how they relate to the impartial spectator, as well as adhering to a bevy of other social structures that he believes to be paramount in creating a properly functioning society. The paper will briefly outline what Smith proposes on the subject of the impartial spectator and sympathy, as well as a few other areas that pertain to the current problems in America.

Whenever a person passes moral judgment on someone else in a situation, it is with the view of an impartial spectator based on the standards of right and wrong. These standards are unique to each society and properly define what is valued and accepted and what is considered moral or immoral in the context of the society. This explains much of the reactions to the different emotions, and passions which will be described below. As an impartial spectator, it then becomes easy to look at a person and imagine oneself being in the shoes of said person. The key to its success here is that being outside of the situation, and thus removed from the passion of the circumstance, proper rationale can be used to determine just how the impartial spectator is feeling in accordance with what it is witnessing. For this reason it is rather difficult to sympathize with an angry person, because unless a fight is being witnessed, the impartial spectator knows only that the person is angry, and not why. It is because of this response that anger falls under the unsocial passions, which will be subject to further discussion later. It is increasingly easier to connect with someone who is happy, and then even more so when someone is sad. The emotional impression left by grief is by far the strongest to the impartial spectator, because it is human nature to feel pity and compassion to those in worse situations. It is not hard to realize the importance of the impartial spectator to Smith's theory, and combined with the societal standards and tendencies towards sympathetic feelings they bring out the morality that is inherent in WN.

The sympathetic feelings brought on by the impartial spectator act as the driving force in Smith's morality; without it, his entire work would fall apart. Whenever the impartial spectator sees somebody in a particularly emotional situation, be it bad or good, the brain recognizes the emotion, creates an impression of itself in a similar situation, and can then sympathize with what it is seeing. This impression is the derivative of what an impartial spectator would feel from looking on to the event and invariably changes for different situations. Sympathy is almost negligible in bad situations where the other person is angry or aggressive, because, as Smith points out, only a single part of the story can be observed by seeing someone angry, and it is hard to sympathize with a situation lacking important detail. At the same time it is highly prominent in good situations where the person in question is happy, but strongest in sad situations where the other person is sad or pitiful.²² All of this is broken down based on different passions. Sympathy is administered differently to each of the unsocial, social, and selfish passions based on the ways that the impartial spectator would see fit. Smith argues that "the satisfaction of being able to live sociably under the direction of the impartial spectator was enough for humankind and enough to encourage the improvement of society..."¹⁷ These passions are organized as such to include in separate groups those that socially benefit society and those that are unsocial and selfish which do not benefit society; however the selfish passions are obviously unavoidable in small quantities.

The unsocial passions are those which bring negative vibes to society. They do more ill than good and should be avoided at all costs. "Hatred and anger are the greatest poison to the happiness of a good mind. There is, in the very feeling of those passions, something harsh, jarring, and convulsive, something that tears and distracts the breast, and is altogether destructive of that composure and tranquility of mind."²² Revenge also plays a part in this category, however magnanimity is the one redeeming motive which can ennoble the expressions of this disagreeable

passion.²² The social passions are what really enable social interaction. “Nothing pleases us more than to observe in other men a fellow feeling with all the emotions of our own breast.”²² These emotions that Smith proposes are generosity, humanity, kindness, compassion, and mutual friendship, and it is the realization of these passions that keep a check on the greed and immoral behavior that can erupt in any society. “Because man holds an interest in the happiness of his fellow man, he is chiefly concerned and sympathetic with the above passions because he finds them agreeable and pleasurable.” These social passions are sorely lacking in America today, and this is highly detrimental to society as a whole. Money’s “pervasive effect induces Americans to view the desire to become rich as most praiseworthy, and success in doing so as a moral achievement as well.”⁹ However, under no circumstance should we regard being rich a moral achievement, but a fringe benefit that comes with maintaining a moral business. Finally, Smith talks about selfish passions concluding that these are the middle ground between social and unsocial passions. Grief and Joy are the subjects here; however the key to avoid offending society is moderation. It is easy for one to sympathize with a moderately acknowledged success, or grief. The problem comes in when, for example, somebody exalts any joy beyond the point that anyone could relate with the joy on any given day. Because of this, “we have to humble ourselves when accosted with great joys, because with simple joys scarcely can there be an overbearing happiness that needs humbled.”²² The opposite is then true, for when someone suffers greatly and complains little, or is subject of a great success and writes it off as commonplace. In this they will be the recipient of much sympathy.

All of these passions interact with one another to create guidelines for a society and this is how Smith explains people helping others in bad situations. Instead of attempting an improbable explanation of altruistic absurdity, he accurately recognizes that human nature is not that pure and finds a way to explain what happens and what should happen through the self-interest of humans. “The individual is brought out of himself by his sympathetic participation in the sentiments and affections of other individuals with whom he associates. Those whom he knows in the family circle are naturally the objects of his first and deepest sympathies.”¹⁴ In this Smith gives an accurate and rational portrayal of how man would go from self-interest to sympathizing with another member of society. It is this sympathetic self-interest that really allows his morals in TMS to work within a community and thus allow the economics of WN to operate within moral parameters.

3. Distinguishing Between the Capitalist Reality and Ideal:

What America currently practices is about as far from Adam Smith’s capitalism a system can be while still being called capitalism. The major problem, with which Smith would undoubtedly agree, starts at the bottom, as seen in part two. Communal issues raised in the TMS must be fixed before any economic system can truly succeed. Smith, in most high school economics classes, is summed up as self-interest and the invisible hand. A terribly small portion of Smith’s treatises cover the invisible hand, and the concept of self-interest is commonly misconstrued for selfishness. So, as many have criticized capitalism for what it is, and proposed a more socialist state in its place, this paper will criticize capitalism for what it is, and what it is not, and propose a true capitalist state in its place. There are three main things this essay touches on, as well as bevy of smaller things, which Smith was very avid about in WN.

One of the structural foundations of WN is undoubtedly the division of labor. The division of labor is simply the dividing up of jobs that one person could do, but a large quantity of people could perform much faster. For example, one person could build a house by himself, and keep the entire profit for himself, but it would take an incredibly long time. However, by dividing up the labor that is needed to make the house between groups of workers, multiple things happen. The house gets completed much faster, and as a result more houses can get completed in the time that it would normally take one to be completed. The profits of the house are then divided between all workers so that more benefit from the building of the houses. The house can also be marketed at a lower price, so that it helps those who are looking to buy a house and avoids inflation, while at the same time all being in the interest of the original worker. By dividing up the labor, profits, and lowering the price, the original worker will indeed make less on the first house, but through the process he will end up profiting more from the completion of multiple houses therefore maximizing his profit above and beyond that of working by himself to make only one house. It would follow then, that it is in his self-interest to follow a plan for the division of labor, and through only his self-interest, though it will be unintentional, can this work benefit society to the maximum. However, Smith goes on to say that because the division of labor rises due to human’s propensity to trade, it should be avoided in outlying communities where trade is much harder, as it would become detrimental to the communal economy and thus to the individual.²³ The fact that

the division of labor comes to fruition like this is indeed what many would refer to as the result of the invisible hand, in that it helps where is needed and is absent where it is not.

However, there is also a problem with the concept of division of labor, in that it alienates the workforce, and subjects them to mundane, assembly line type jobs. Production line jobs do not have to necessarily be mundane, nor does the workforce have to be alienated because of it. The reason Smith wrote TMS in accompany with WN is to assure that a moral structure remains in the economy. In this instance, upper level management can still maintain policies that avoid this sort of alienation of the work force by instilling good workplace conditions, as well as ensuring that morals remain high through any number of incentive programs, or something similar. Ultimately, it is the rapid nature the division of labor implements, along with the end goal being more production, which allows companies to take this concept and use it in detrimental ways that do alienate the work force, and now, as we are seeing, result in outsourced jobs.

Now that the division of labor has been set up, it is necessary to address the first major problem which is inadvertently created by the division of labor mainly due to the lack of business ethics. This problem has to do with the global market and through this global trade as well as the outsourcing of jobs, which are both extremely prominent in America. It is not very hard to realize why these businesses do it, but the side effects, when they occur, because it is implausible to think they will not, are much more complex. Because of foreign trade policies and wage laws it is exponentially cheaper to produce things in third world countries, and then have it shipped to America and sold here for an absurd profit margin. Smith would not approve of this in the slightest, mainly because it is not in the long run interest of the company, or the country as the side effects will indicate. By shipping jobs overseas, the companies are first and foremost sacrificing jobs that could be held in this country and are doing a disservice to their fellow countryman. Here, if TMS has a greater impact one would hope that this could be avoided as a greater sense of community and sympathy would be prevalent. Not only this, but one of the key reasons that Smith proposes keeping jobs in the country of origin is due to political and social instability that is often present in third world countries. If something like this were to occur then it would be a gigantic hazard to overseas production facilities, and the stock of said company would plummet, not only hurting the company but hurting investors and the country as a whole.

It would follow from the above then that supply and demand play an enormous role in WN as well, and one could argue it is the driving force behind the entire economic model. While it should appear obvious how this fits directly with the division of labor, there is a more important role that supply and demand plays in the context of this paper; that being, the workforce, and wages with which they are appropriated. Whenever there is a surplus of laborers, the wages drop unless they join together, which at the time of the WN publication, was outlawed by parliament. Thus, when there was a demand for labor the workers would prosper and when there was a surplus their livelihood would falter. It is therefore determined, Smith continues, that even the lowest worker should earn double that which would support him, so that he can support a family lest the working class dies out after one generation. He is adamant in this so as to best avoid poverty, something he argues fervently against. "Poverty, though it does not prevent the generation, is extremely unfavorable to the rearing of children," and should be avoided at all cost, however not to the detriment of the societal economy.²³ There is still room for what some would call an inequality in wages, but which Smith very reasonably justifies these inequalities through different types of wages, holding that the harder and more unenviable a task is the more money it can be justified to pay the worker. Now, this definitely raises some problems, but these will be touched on later.

The theme of supply and demand continues even in what is said about the importing of goods. This remains very much in the interest of the self to keep imports to a minimum, as, by limiting imports, one can increase his sense of security, as domestic markets are much more stable than global ones if nothing more but for the obvious reasons. Not only this, but by continually importing what one can get on the home front, debts are created that could be contributing to the domestic economy. In the current American Economy, if there was ever to be a war with China, the United States economy would take an enormous hit. But, by keeping imports local, one can secure the future of his business and through no intentional act of his own increase the GDP and provide domestic workers with more business, thus bettering those around him. Smith does make sure to acknowledge however, that, if necessary, it is acceptable and beneficial to become involved in the global economy. If something is needed, it can only benefit one to go overseas to trade for it, and this in turn helps someone else. It follows then, that tariffs are detrimental to the economy as they can only hinder trade and eliminate certain trade partners that are unable to pay the tariff and maintain a profit. Throughout the entire Endeavour, the underlying component is helping oneself first, and through this an unintentional trend of helping those closest to oneself starts to occur. This is the invisible hand correcting and controlling the economy.²³

The final major problem in America today, after job outsourcing and alienated labor is that created by Special Interest Groups. Special Interest Groups, or SIGs, are constantly lobbying congress in an attempt to get legislation passed that helps their respective business. They do so by promising various legislators campaign funds and support in return for legislation that will help there corporation. While this is not necessarily a major component of the economy, it absolutely affects the morality of the system and is one of the major flaws prevalent in the American economy. The affect these interest groups have on legislation is unnatural, and does not fit with the invisible hand concept, or proper business ethics. If SIGs are allowed to control factions of the government, and lobby for legislation that is beneficial to them, then they will advance even further than smaller businesses which will in turn drive down competition. This creates a direct route to a monopolistically dominated economy that can control markets and set prices at whatever they want. This continues on an immoral path that spirals downwards, and simply avoids all the rational business ethics Smith proposes in exchange for short term decisions that make the corporation the most money in the quickest amount of time, without taking into consideration what is best for the economy and the nation as a whole.

Note that all of the problems have to do, in some way shape and form, with unhealthy progression and the deifying of money, neither of which contribute to a healthy moral society.

4. Short Term vs. Long Term Decisions:

There is one last issue to expand upon, and that is the concept of short term versus long term decisions. Long term decisions in this sense are merely decisions that take into account the future implications of the decisions, and factoring those consequences into the equation when the decision is made. Smith was an avid proponent of long term decisions, as is evident in his outline of a prudent person, labor wages ideology and overall business practices, and self-interested sympathy. However, everything told, this is one of the biggest problems in America today. Immediate gratification is becoming the thought process of too many people, and 'how will this affect my life' is being replaced with 'what will benefit me the most right now.' Granted, this stems from other problems, namely what Americans value as a society; notwithstanding those root problems, short term decisions are a dangerous path to venture down. The paper will highlight how, by simply switching back to long term decisions, a lot can be changed in America.

The biggest and most evident example Smith gives for abiding by long term decisions is when he outlines a prudent person in the later chapters of TMS. One of the most lauded items of character pertaining to this individual is the ability to make rational decisions whose consequences, both long term and short term, are accounted for. Smith talks about care and foresight in an individual, and how it can "increase what is called his external fortune."²² Now, one must be careful to avoid miscuing this as well, for it is all types of decisions, not solely financial ones that lead to this. It comes through a proper application of foresight and prudent judgments in areas of social, financial, and intimate dealings. Moreover, when prudence is combined with self-command, it "necessarily supposes the utmost perfection of all the intellectual and of all the moral virtues. It is the best head joined to the best heart."²² It is not hard to see that Smith envisions the perfect individual making rational choices in which foresight is applied. This being said, supposing Smith would not carry this same decision making process over to applications of business seems irrational. Businesses, which serve as the turbines of socio-economic structure, should have the best interests of the future in mind, and a proper application of foresight is paramount to achieving such a balance.

Granted, while Smith does not explicitly come forth and say it, long term decisions are in the best interest of businesses as well, and there are multiple places where he explicitly advocates looking to the future. His thoughts on minimum wage obviously indicate the sensible nature of looking ahead, as he advocates a minimum wage high enough for the recipient to be able to raise a family, and thus provide future workers. This seems like common sense to Smith, and should be to any business. If the working class is eradicated, there will be no future workers. Not to mention, to a certain extent, the more a business pays its workers, the longer they will stay at a current job, and the better they will become at said job due to knowledge accrued over the years that cannot necessarily be taught. This goes beyond wages however, and should continue to be considered into imports and exports as well as globalization.

As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by

directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an *invisible hand* to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.²³

It would follow yet again that attempting to keep jobs and goods in the country, to a rational extent,² can only improve its economical well being. Not only will it improve the economy, but it is the safer long term decision, as it is much easier to anticipate political or social instability in ones country of origin.

Again, with self-interested sympathy, Smith acknowledges that it is in the best interest of the impartial spectator to sympathize with his fellow man, and the best way to do that is clearly by looking at the bigger picture. By attempting to placate ones fellow citizen in the short term, it is quite easy to then anger, or aggravate said citizen in the long term, which could jeopardize the moral relationship and create suspicion between the two citizens. A simple example of this is lying to one's neighbor about something that may or may not have great importance. However, by looking at the long term affects, one could undertake actions that would maintain a good and honest relationship with his fellow citizens and would then not have to worry about his honesty or integrity among his neighbors. Not only is this the ethical thing to do, but it is also the magnanimous route to undertake, which is another element the impartial spectator would try to emphasize. “[The impartial spectator] cannot, therefore, but approve, and even applaud, that proper exertion of self command which enables them [citizens] to act as if their present and their future situation affected them nearly in the same manner in which they affect him.”²² The most important part about this, which will be emphasized again later, is that because the WN was written after TMS, and should therefore be interpreted within the parameters laid out by TMS, then long term decisions should replace the immediate gratification concept America has come to love so much.

The hard part with this is obviously implementing the philosophy, as most philosophies do represent ideals. It will take a basic overhauling of the current American sentiment of immediate gratification. As the essay will address later, it will come down to parents and the society to implement these changes in the countries youth, because it is all too late by the time the youth become the next business leaders of the country.

5. A Free and Moral Marketplace:

There are many different aspects of the free market that Smith attempts to imbue with underlying morality if his two primary texts are to be cross-referenced, enough so to the point that one could easily argue for a sense of morality in WN. “It is unthinkable that a moral philosopher of the stature of Adam Smith, who published *The Theory of Moral Sentiments* in 1759, would have abandoned his conceptions of the moral laws governing human behavior in 1776 when he published *The Wealth of Nations*, without making such a change of view explicit.”¹⁹ This should be obvious, as the concept of self-interest juxtaposed with innate sympathy for fellow man leaves it all but impossible for Smith’s theory to maintain these values and remain amoral. That does not entirely refute the argument that Smith wrote WN and left out obvious moral teachings. Now, it is absolutely possible for writing to carry an implicit moral code, for everyone responds differently to explicitly imposed morals, and an attempt to do so could alienate readers.

If you want to point out to me something you think I am doing wrong, but have good reason to believe that I will hear any moral criticism you express as in service of my enemies, or as a reflection of your failure to understand my feelings, then you might want to avoid any direct moral comment on my behavior and try to arouse my moral judgment, against my own actions, by way of simply describing the effects of my actions on my victims, in dry but imaginative detail... This gives moral reason to Smith to write amoral political discourses.⁶

It becomes clear that when Smith described less than desirable situations and poverty imbued anecdotes, that he desired TMS to be read in conjunction with WN. To further this argument is the fact that he wrote TMS before WN, and edited TMS a total of 6 times right up until his death.

Despite the argument for morality in the free market, there will never be a full acceptance of Smith’s thoughts combining the free market with morality, unless TMS is looked at again, as many economists still prefer to look only at the invisible hand. Their main argument is not that morality cannot exist within the free market, but that the basis for Smith’s morality is gone. The argument plays off Smith’s concept that moral standards stem from whatever

is socially acceptable, and that what is socially acceptable is not always moral. Smith counters this view by “yoking his moral views to social attitudes [to] capture a deep intuition about morality,” so that for the most part enveloping moral views do not stray too far from what would actually be considered moral.⁶ The example used to better explain this is abortion, which is becoming more and more prominent in society, and is not always viewed as moral. However, despite societal actions that at times may appear morally flawed, there will always be an awkward feeling in ones gut; the intuition that causes people to second-guess whatever it is they are doing when said action is not always moral.⁶ It is this intuition that is a gut check, if you will, on the moral standards of society, constantly ensuring that they do not stray to the dangerous extremes. Granted, as society is advancing they are also spending less and less time listening to this intuition, as culturally we are becoming more and more acceptable of questionable actions. However, liberalism aside, this intuition is still and will always be available to keep the socially accepted from straying too far from what is moral.

There is one last problem many have with considering moral capitalist system, and that is the problem with wage inequalities. While Smith was not against wage inequalities as dictated by varying jobs and their respective qualities, there is the opinion that he would have been opposed to what America practices today, mainly because the existing types of wage inequalities are lacking in moral integrity, at best. By following integrity based business ideas as well as feeling real sympathy for his fellow man, the CEO who makes millions today would not have reached that position due to the fact that he would look at the workers making millions for him, realize the contributions they are putting forth, and sympathize with the fact that they make such little money. Such is the benefit that comes from having a vested interest in practicing business ethics. Not only will workers perform better on slightly higher wages, and have a better attitude and loyal nature towards the company, but this ethical practice will spread by word of ear to the consumer.

6. Conclusion:

If Smith could return and see how drastically misunderstood he has been, one cannot help but wonder if he'd regret writing WN at all, and stop after TMS. Self-interested sympathy lends itself to a moral brand of capitalism not currently practiced in the United States, but it something which can be rectified to ensure a more prudent outcome in the future. The misunderstanding has reached such extremes that 20th century steel tycoon Andrew Carnegie at one point promoted what amounted to social Darwinism, in his short essay *The Gospel of Wealth*. It proved to be a radical interpretation of what he thought capitalism should be, and what capitalism is starting to become in America. From the evidence presented above Smith clearly intended WN to be an economic system that could exist within ethical parameters, yet America has strayed from the original blueprint, and in a less than desirable direction. The hope remains that society will rediscover TMS, and redirect efforts from immediate gratification into containing within TMS the nature and causes of wealth.

7. Acknowledgements:

The author wishes to express his sincerest gratitude to faculty advisor Dr. Stratton, for the time, patience, and direction he has enthusiastically given to ensure the possibility of this project. In addition to Dr. Stratton, the parents of the author were also beneficial in providing continual emotional support throughout the entire process.

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9. Endnotes:

1 The line item veto existed during the Clinton Administration for roughly two years before it was ruled unconstitutional. Its purpose was to enable the president to systematically remove specific words or sentences from bills to cut down on pork barrel legislation, however, the inherent danger is that it can and did effectively change the meaning of laws.

2 Again, I am not advocating mercantilism or isolationism, what Smith is advocating is proper use of resources within a country, to the extent where if it is rationally possible, goods should be produced within the country as opposed to outsourcing jobs.