

Adam Smith and Crony Capitalism

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Jesse Norman is that *rara avis*: a politician who both reads and writes intelligently. Maybe such things are slightly less rare today in the UK than in the US, but they are surely everywhere much rarer than they used to be; our Churchills, one fears, are gone for good. But even so, we have much to be grateful for with Norman, who not only reads and writes intelligently but who indeed reads and writes about important ideas. In this case, they are those of Adam Smith, which, by and large, he treats presciently and insightfully in seeking to demonstrate how they can help us better understand our present political moment.

It is on this front, I think, that Norman's book makes its most effective contribution. Norman has little to say about Smith's life or his philosophy that hasn't been covered and indeed covered at length by specialist scholars. As a specialist scholar myself, I'm afraid I found the first part of the book somewhat tedious, as it doesn't add very much to what we already know about Smith. That said, I fully recognize that I'm not the primary audience of this book, and I'm grateful to Norman for the excellent job he's done of presenting Smith and his ideas in ways that will make them intelligible and attractive to readers who might be encountering them for the first time. This is a real service. Yet I suspect that the book's greatest service lies in the connections it draws between Smith's ideas and today's world.

Norman early on signals his comparative advantage on this front, noting that one of the key differences that separates his study from other previous studies "is that it is written not by a professional Smith scholar but a working politician" – "someone both dealing with and trying to understand and explain the nature of political economy in its modern aspects, practical as well as theoretical" (xv). Norman's unique perspective benefits his study in a number of ways. Norman is, first and foremost, uniquely sensitive to Smith's connections to powerful political figures, and insightfully emphasizes the ways in which Smith's ties to such prominent men as Shelburne and Dundas and Townsend and Buccleuch and Pitt and others shaped his career. Nor-

man is also acutely alive to the ways in which Smith's world and thus his ideas were shaped by the eighteenth-century's geopolitical conflicts, from the War of Spanish Succession and the Seven Years' War to the American and (possibly) French Revolutions. But Norman's political perspective bears its most important fruit when the author comes to surveying the world of political economy today.

One of the running themes of the book is the difference between commercial society as Smith envisioned it and the conditions of capitalism today. On this front, Norman makes a host of observations that seem to me very much worth making. First, Norman does a very good job of delineating the differences between Smith's view of markets and that of market fundamentalists today, noting that "the central feature of Smith's worldview" concerns "the embedding of market activity within a normative ethical and social framework" (p. 192), and that "markets do not function independently of human society; they are embedded in it" (p. 230). Second, he persuasively argues that Smith differs from market fundamentalists not merely in his understanding of what markets are, but also in his understanding of just what markets are good for. Norman's Smith thus is said to find commercial society preferable to its alternatives specifically because it both assists "the development of 'natural liberty', and can enable human well-being and freedom to flourish – indeed to flourish better than other forms of political-economic self-organization permit" (p. 266). Third, he shows that one of the main casualties of the quantitative turn in modern economics was precisely this focus on human flourishing that was central to Smith, but notoriously hard to account for via any sort of formal modeling.

But to my mind, the most interesting element of the book is its diagnosis of the many pathologies of modern capitalism. Given space available here, I will focus on just one of these, namely Norman's analysis of "crony capitalism." His analysis has three parts: first, an account of Smith's understanding of crony capitalism; second, an explanation of how we can better recognize the pathologies of crony capitalism

today if we attend to Smith's own understanding; and third, a brief but suggestive reflection on how Smith can help us think through the proper approach to dealing with crony capitalism today.

On the first front, Norman argues that Smith's critique of the crony capitalism of his day emanated directly from his understanding of what markets are good for. The core idea here again is that markets are valuable for Smith because of the way in which they promote human flourishing via the general spread of both opulence and freedom. And what is most important for Norman's Smith on this front is that the ones who benefit most from this are not those at the top but those at the bottom. Crony capitalism, however, overturns this, by allowing elites to exploit power inequities in order to manipulate markets and thus redirect benefits away from have-nots to have-much-already's. Norman provides a helpful exegesis of Smith's views on this front in his analysis of Smith's "deep critique" of a key "pathology of commercial society" (p. 271) – mercantilism. Mercantilism is fundamentally a system that worked for the exclusive benefit of a few: "it fed the 'monopolizing spirit' of manufacturers and merchants, whom it taught to recognize that government action could increase their profits at little or no direct cost," resulting in an explosion of "what would now be called business lobbies and special interests, and further detriment to customers and workers" (p. 113). Smith's careful study of the market-distorting effects of these mercantilists led him to be powerfully aware "that markets can be dominated by greed and tyranny and become separated from – and sometimes directly oppose – the public interest" (p. 235).

Norman's study of Smith's critique of mercantilism paves the way for Norman's own critique of today's crony capitalism. Here he puts to good work Smith's distinction between systems in which markets serve the public interest and systems in which markets serve the exclusive private interests of a few; in the latter, "business activity loses any relation to, and often clashes with, the wider public interest" and indeed "business merit is separated from business reward" (p. 262). Norman then argues that these pathologies manifest themselves in three discrete behaviors. The first is rent-seeking: "when businesses seek to raise their returns not through better performance in the marketplace," but "by colluding with each other," or "by using political influence to win unfair grants, subsidies, or exemptions, build monopoly power or impose costs and barriers to market entry on other competitors" (p. 269). A second are "asymmetries

of information and power" which those at the top use to "exploit and derive unfair advantage over others" (p. 270). And a third is the principal-agent problem: the idea "that someone charged with carrying out a task may have a conflict of interest, an agenda of their own which affects their judgment or performance" (pp. 270-71).

All of these were phenomena well known to Smith and familiar today. The question of course becomes how to respond. "So what can be done?" Norman rightly asks (p. 285). His answer is brief, but suggestive – and also pleasantly unexpected. I confess that, reading his analysis of crony capitalism, I was steeling myself for a different conclusion. Think back to the trajectory of the argument. Smith diagnoses market failures. So too Norman diagnoses market failures. Norman is a politician. Norman is moreover a politician who praises "the wisdom of the great political leader" (p. 148) and trains his sights on disabusing us of the "myth" that Smith was "anti-government" (p. 186f). Add all of this up, and the stage would seem set for the response to market failures that we've come to expect from our politicians today: more government and more regulation. But this isn't the line Norman himself takes, opting instead for one much more in keeping with Smith.

This his response: if the goal is to minimize the monopolies of elites and indeed to enfranchise and empower non-elites, the answer lies not in expanding government power but in expanding the reach of markets. In his book, Norman reminds us that "one point is absolutely fundamental, and bears restating: that markets are the greatest tool of economic development, wealth-creation and social advance ever known" (pp. 273-74). Norman uses this point to ground his suggestion that the cure for crony capitalism, and specifically the power asymmetries on which it is founded, is to level the playing field, as it were, "by putting more computing power at the service of the consumers themselves," and rendering them what he calls "*algorithmic consumers*" capable of harnessing the power of big data to optimize their decisions in the marketplace (p. 285). Now this alone surely isn't enough to render the man on the street the overnight equal of Google and Facebook and Apple and the rest. But at the same time, it represents a way of thinking that is both faithful to Smith and maybe capable of productively moving forward seemingly interminable debates over regulation.

All told, Norman's book does us an important service by showing us an alternative vision of capitalism, reminding us that "crony capitalism is a specific pathology, a disease of

capitalism rather than capitalism itself” (p. 275). It is to be hoped his analysis of this specific pathology, coupled with his efforts to recover Smith’s alternative vision, may inspire us to take steps to rein in certain abuses of the system but also help disabuse us of that cynicism prevalent today among the many who believe that ‘the system is rigged’ and that crony capitalism is the only form of capitalism available. Norman rightly notes that in addition to all its other ills, crony capitalism is especially pernicious insofar as it “invalidates and delegitimizes markets and commercial society itself” (p. 328). I hope his book will help take the edge off this cynicism, and reopen at least some readers to the possibility that markets, rightly understood, can indeed serve not merely special interests, but the public interest.