

A CRITICAL ASSESSMENT OF ADAM SMITH'S POLITICAL ECONOMY AS A PHILOSOPHICAL FRAMEWORK FOR SOCIO-ECONOMIC DEVELOPMENT IN NIGERIA

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ABSTRACT

The focus of this work is to address the problem of socio-economic development in Nigeria using Adam Smith's notion of political economy as a framework. According to Adam Smith, what accounts for opulence across nations is the absence of political policies that hinder a free market economy. This study relies on his theory of invisible hand (1776). In this theory, Adam Smith proposed a free market economy as a means to achieving economic growth, although some of his leanings seem to tilt towards the extreme of complete deregulation of the markets as interpreted by various scholars. Hence, this paper employs the critical method of philosophical enquiry to find out if there is a positive relationship between Adam Smith's notion of political economy and economic growth of nations especially within the Nigerian context. Given the apparent overbearing influence of Nigerian government on the markets, the nation is presently facing so many economic drawbacks such as recession, currency exchange crisis and other high cost of living conditions. Findings of the study revealed that well guided implementation of market liberalization ideas gleaned from Adam Smith will positively impact the growth and development of Nigeria. The study recommended the provision of stable economic environment to foster sustainable growth, pro-growth regulatory and competition policies, investments in infrastructure, human resource development, governance and the rule of law as means to socio-economic development within a liberalized economy.

Key words: Political, Economy, Socio-Economic Development, Liberalization

Introduction

Man is continually faced with the problem of survival, both as an individual and as a member of a social group (Inoka & Akpan 9). His continued existential struggle is a testimony to the fact that he has not succeeded in solving the problem; and the persistent existence of want and misery even in the seemingly richest of nations shows that there is no

absolute solution to the problem of survival. But the very fact that man has to depend on his fellow man has made the problem of survival apparently less troublesome, because no man can live in isolation. Hence, Obioha (248) opines that human life is filled with dreams, ambitions and potentialities and that these values cannot be entirely realized by an individual without a conducive environment and the cooperation of others in the society. This quest for the means for survival, general welfare and meeting of man's needs is also a channel which brings about the different forms of development in the society (Denis & Udom, 388). Thus, in his work, *An Enquiry into the Wealth of the Nations* (1776), Smith situates his solutions to the problem of human survival within the society by exposing the influence of political economy on the economic development of a nation. This was achieved through his idea of the free market economy and liberal market mechanisms. The concept of political economy is concerned with the governance of economic systems by political systems, it is the relationship between markets and the state, it deals with the general management of goods and services through production, accumulation, distribution and consumption (Mause 1599-1600).

Smith relates his idea of international trade to division of labour in the sense that the establishment of trade with other nations would expand the division of labour because the international market is larger than the domestic market (Smith IV.iii.c.3). Hence, Smith showed clearly that how the government influences and organizes a nation's wealth through political policies and economic processes has tremendous influence on the development of social institutions. Interestingly, Nigeria is highly blessed with natural resources which are enough to transform the country if they were managed well (Denis 1). It is based on this that this study sets off to assess the political economy of Adam Smith as a philosophical framework for socio-economic development.

Given the present crisis in the economic situation in Nigeria; the economic melt-down, the recession and many other forms of instability in the use of the nation's resources; leading to unfavourable living conditions for the people, it is pertinent to ask 'what becomes the future of our nation's economy? How do we address these problems for a better Nigeria? Again, the influence of Nigerian government on both local and international distribution of goods and services seem to be apparently overbearing with attendant negative effects. Since Adam Smith's political economy projects a free market economy, the problem then becomes a two edged sword because the liberalization of markets without significant form of government control can lead to unbridled exploitation of the masses by the owners of the means of production. Hence, the question; to what extent should the government exert influence on economic policies of the nation? Dependent on philosophical investigation as an activity meant to tackle problems from foundational perspectives (Umotong 10), this study therefore intends to explore possible solutions to the problem of socio-economic development in Nigeria on the basis of Adam Smith's political economy as a philosophical framework.

Adam Smith's Political Economy: An Overview

The concept of political economy has been characterized as the science of the rules guiding the production, accumulation, distribution and consumption of wealth (Leslie 1). It was also regarded by Adam Smith as a subdivision of the science of the legislator or states man. This is consequent upon his view of the indispensable role of the state for organizing and maintaining the liberty of the market since he believed that the commercial society is class ridden. Hence, the state is to give order to economic activities to strive freely by means of law, ordering the behavior of society and limiting the passions of self-love within the structure of the morality (Bonefeld 5-6).

Adam Smith, in fact, demonstrates the character and causes of nation's opulence by exposing the relations of the economy with politics, morality and the law (Paganelli 2). However, Paganelli observes that political economy within the framework of Smith's analysis can be understood not necessarily as an integral fusion of the polity and the economy but rather as a connection that goes back and forth between two phenomena (3). The enormous interest of contemporary scholars in the political economy of Smith smacks at the complexity and depth of his analysis which is indeed an analysis of the complex network of interactions between economics, ethics, law, customs, politics and institutions (Paganelli 6).

Smith sees human moral behaviour as the cause of the effects of the interaction between economics and politics, hence opines that politics and economics do not just materialize without the decisions of individuals about their origins. In other words, whether intended or not deliberate, individual moral evaluation and actions remains the source of political economic systems (Tully 162). For instance, in the mercantile system, merchants persistently lobby politicians so as to make the regime an opportunity for merchants to effect their own plans which puts their interest first as against the advantage of the general public (Tully 161).

Smith is exceedingly critical of politicians in his thesis on the wealth of nations wherein he assigns a very limited role to government if the society must be improved. He asserts that the government should be primarily concerned with defense, administration of justice and smoothening the progress of commerce in the society (Lipford & Slice 486). Hence, it would be illusionary for politicians to attempt devising economic policy since they are ill equipped for such a task. For instance, politicians do not exactly understand cause and effect which Smith believes is crucial to the enterprise of economics (Tully 161).

He believes that it is only in an unregulated market that "every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men" (Smith 51). Allowing for the highest degree of economic freedom, such as freedom of employment, thus allows for the moral self-actualization. Thus, this system of political economy forces men to accept responsibility for their actions, as they cannot blame it on bad regulations (Tully 161). Consequently, the political philosophy often garnered from this scenario presents an implicit sense of the hypothetical Hobbesian state of nature (Leslie 2). However, let it be noted that it is the reactionary posture of the

age in which Smith lived against the capricious interference with private industry and unfair taxation on fruits of labour that formed the groundwork of the political economy of Adam Smith. (Leslie 5).

Theory of Invisible Hand

Udofia (112) submits that the invisible hand which promotes the free market system is one of Adam Smith's prominent theories. This famous theory is captured in Smith's words, "...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...By pursuing his own interest he frequently promotes that of the society more effectually than he really intends to promote it" (Smith 455-6). Hence, the free market system is defined as the system of natural liberty by Adam Smith as thus quoted by Irwin (5), "every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men".

Smith's idea does not totally rule out government intervention in the market, rather that the involvement government should be based on justice since commerce and manufacturing can hardly flourish in any state in which there is no significant degree amount of confidence in the justice of government (Lipford & Slice 489). However Smith had a distrust of politicians based on presumed ignorance and lack of wisdom and benevolence to make the right decisions that will be beneficial to masses (Mueller 120).

The invisible hand is often presented in terms of a natural phenomenon that guides free markets and capitalism in the direction of efficiency, through supply and demand and competition for scarce resources, rather than as something that results in the well-being of individuals. This theory of invisible hand is aptly captured by Smith when he succinctly asserted that:

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 ([Smith I.ii.27](#)).

The above assertion reveals Smith's position that the society stands to gain in the long-run as each individual is less impeded in the pursuit of their economic goals.

Therefore, Smith assumes that self-interest is an innate quality in the human person and that this interest often manifests in economic behavior through man's propensity to bargain and exchange goods and services hence unintentionally lead to the public good (Smith I.xi.10, IV.iii.c.11). Albeit, self-interest is intrinsically human, Smith does not characterize this as selfishness, but rather as prudence, which when rightly understood points to frugality, foresight and industry (cited in Tully 156).

Smith urges that the state should remove all impediments to market liberty and provide for the invisible hand the necessary moral, legal and

social order which it requires to thrive. Therefore, the State as assumed within the invisible hand theory is not a weak but a strong and active state which should not succumb to social interests but rather governs over them to secure the structure of perfect economic liberty (Bonefeld 5).

Hence, the whole essence of the invisible hand theory lies in the low degree of government intervention in the economy (i.e. laissez-faire policy), wherein the government should concentrate primarily on territorial protection from external attacks while allowing economic activities to freely flourish; administration of justice within the nation State; execution and maintenance of public works and creation of conducive environment for business (Udofia (112-13)).

In extending this argument, Smith also advocated that as nations engaged in producing goods and services they needed for their consumption, the welfare of other nations could then be fostered through exchange if tariffs and other trade barriers were removed. Hence, he argued in his international trade theory of Absolute advantage that “if a foreign country can deliver us goods cheaper than we would produce, it is better to buy them from that country, with a part of the product of our activity, using them in a way which can bring us benefit” (Smith IV.ii.12).

Whereas, Smith’s opinion on division of labour form the basis for his theory of international trade (Schumacher, 58), international trade leads to specialization in the production of commodities that a country is more efficient in, and importation of commodities which it cannot produce efficiently thereby leading to international specialization in factors of production which could increase global output (Schumacher 60).

Therefore, Adam Smith states that with free trade, countries can produce and export goods and services in which they could produce more efficiently with relatively low production cost than the other nations, and import those commodities in which it could produce less efficiently with higher production cost, so that at the end that assistance bring the benefits to all countries (Smith IV.ii.12)..

Practical Relevance of Smith’s Political Economy to Nigeria’s Socio-Economic Development

Adam Smith’s concept of political economy has contributed immensely to the economic growth and development of many countries, for instance China, and other nations like India, Brazil and Russia where in their economies were opened up for faster growth and greater poverty reduction(See Smith IV.ix.40-41). Hence, the practical relevance of Smithian notion of political economy is seen in the fact that increase in Gross Domestic Product (GDP) of any nation arises from higher labour productivity and international trade involving different sectors of the economy.

Trade liberalization will raise the standards of living of the Nigerian populace. This is evident in Smith’s theory of comparative advantage. On this, Smith had argued that that the degree of division of labour is limited by the extent of the market and for division of labour to be profitable the extent of market should be large to accommodate the quantity of goods produced from the industries and if the extent of market is small, it will

not be profitable to produce on a large scale which requires introducing a higher degree of division of labour (Smith I.iii.1). It is in this context that he advocated for free international trade which leads to the increase in the extent of market for goods and his idea of free international trade is evident in the theory of absolute advantage proposed by him (Smith IV.ii.12). For instance, if it takes Nigeria 5 units of labour to produce commodity X and 10 units of labour to produce commodity Y while it takes Ghana 12 units of Labour to produce commodity X and 6 units of labour to produce commodity Y. So, for Smith both countries will benefit from international trade if Nigeria export Commodity X which they produce at cheaper labour cost to Ghana and import commodity Y which they produce at high labour cost and Ghana will in turn, export commodity Y which they produce at cheaper labour cost to Nigeria and import commodity X from Nigeria.

Hence, division of labour finds relevance with this context since it gives rise to economies of scale which concretely implies that increasing the scale of production in the industry due to increase in the number of available labour force or workers would lead to a lower cost per unit of output. This is evident in the fact that cost per unit tends to fall down when the commodity is produced on a large scale which ensures the production of cheaper goods and even poor people can afford them. Finally, Nigeria would not be left behind in a globalized world, economic freedom spurs globalization because most economic activities flow from the free trade and are effective in a global market.

Critique of Smith's Political Economy

Smith's prominent phrase "invisible hand" has been widely misunderstood as implying a total absence of political intervention in the market (Grampp 5). Reading Smith in this manner has exposed him to numerous accusations; that his idea of free markets goes against any form of regulation at all. On the other hand, there are critiques who understand Smith to support regulations and interventionism in the market (Samuels 10). Hence, Paganelli (8) opines that these different positions can find a common ground since Smith seems to actually favor free markets in a way that he also supports political interventions in the market. However, (Stigler 1971) cited in (Mueller 120) insists that Smith's idea of beneficial government intervention contradicts his hypothesis that all men possess self-interest and that self-interest leads to good outcomes in markets.

Furthermore, the misinterpretation of Smith arises from people's view that markets and state are separate and independent from each other. Rather, for Smith it is difficult to have a functional market without the power of the state which controls property rights (Paganelli 8). For Smith therefore, markets do not exist in isolation but are intertwined with the activities of the state in such a manner that is very difficult or almost impossible or difficult to disentangle (Paganelli 9). Hence, Smith's position rightly understood should be that government intervention in the market is imperative only to the point of removing impediments to free trade. Infact, Smith does not only find fault with the injustice done by political power but also condemns the impudent covetousness of merchants, the

mean greediness and the monopolizing spirit of merchants and producers which has to a large extent suppressed the freedom of the market and legislature (Yay 89)

Albeit, self-interest seem to be extolled in Smith's *Wealth of Nations*, cognizance should be given to other human virtues he also gave a pride of place such as justice, sympathy, generosity, prudence, gratitude, conscience, benevolence, wonder, admiration and surprise. It is therefore pertinent to assert that self-interest is never dignified but rather criticized by Smith. For instance, Smith claims that government intervention in the market can restrain acquisitiveness and excesses of personal greed (Mueller, 119).

Tully (155) observes that in demonstrating the essential connection between morality and markets, Smith promotes the idea of free markets and capitalism carried out only in justice. Morality and sympathy therefore become the foundation and fulcrum of politics and economics. It is only in this way would one claim an ideal interpretation of Smith (Tully 161).

Hence, the rationale behind Smith's recommendation of trade liberalization must also be understood going back to his roots. Being a Professor of Moral Philosophy, Smith's entire outlook to life was primarily based on people making choices which should be based on some fixed ideas of morality; it is probable he believed that people would necessarily make political or economic decisions based on established ethical or moral standards. This is corroborated by Yay (89) who held that selfishness was not the fundamental principle of Adam Smith's theory. His system of philosophy ought to be studied as a whole because his economic system was part of a complete system of moral philosophy. It becomes then a lesson for politicians and merchants that self-interest should never be the prime motive for their engagements in the markets.

Finally, Karl Marx had understood Smith's capitalism as one that creates a vacuum between the wealthy and the poor; the bourgeoisies and the proletariats. Hence, the former tend to exploit the latter as a means to an end. Marx had conceived capitalism as a system that had no sense of justice and unity, rather discrepancy, exploitation, and dehumanization (Prabhat 1-2). However, come to think of it, did Smith actually see people as a means toward an end? From analysis, we assume a mix up between communism and communalism. The former emphasizes on a common economic affair, while the latter has to do with a complementary economic affair; that even at the level of personal interest, there is an interdependence of one another. Therefore, we can now talk of Smith as a communalist. This position is corroborated by Obioha and Adegboyega who opined that even in the midst of individualism the common good can be achieved by minimizing the plight and pains of the disadvantaged members of the society through virtues of sympathy, love, compassion, co-existence, acceptance and care as espoused in Afro-communitarian sense of justice (99).

Finally, in interpreting Smith's particular claim that the government should be restrained from meddling with economics on the ground that politicians have no good knowledge about the markets should be critically evaluated by contemporary scholars who dare to interpret his position. In the present age, there are economic experts within the corridors of power,

though unfortunately this expertise is not often used for the common good by politicians. Hence, it is only when this economic knowledge is positively used that we would have been sure to have countered Smith's position.

Conclusion

Free market economy plays an integral part in the economic growth and development of any nation in the world. It aids agreements between countries of the world in stimulating the production of goods and services as well as the movement of same without strict compliance to barriers. This study assessed Adam Smith's political economy as a philosophical framework for socio-economic development in Nigeria. Sequel to the observations raised from the study, Adam Smith promoted a free market economy as a means to achieving economic growth, although some of his leanings seem to tilt towards the extreme of complete deregulation of the markets as interpreted by various scholars. Liberalization of the market will significantly affect the growth of and development of Nigeria if guided by the moral principles of justice as recommended by Smith, else would plunge the society into the Hobbesian state of nature. However, since moral probity of merchants cannot be guaranteed, government censoring is paramount only to the extent of not obstructing the markets through increase in tax and customs administration, rather making efforts only to remove all impediments to economic growth

Particularly, Smith's emphasizes on savings and investments coupled with open market operation as the surest means for socio-economic development of every nation must be taken as crucial. This would contribute immeasurably towards curbing the menace of socio-economic problems of man such as poverty, unemployment, low investment, low productivity, misuse of productive resources and societal inequality. In Nigeria, attempts have been made to use trade policy to promote manufactured exports and enhance the linkages in the domestic economy, increase and stabilize export revenue, and scale down the country's reliance on the oil sector. Therefore, efficient trade policy needed to ensure the smooth achievement of such liberalization goals may include macroeconomic policies, pro-growth regulatory and competition policies, investments in infrastructure, human resource development, governance, and the rule of law.

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