

Ayn Rand versus Adam Smith

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This paper compares Ayn Rand's trader principle with Adam Smith's invisible hand principle. Rand's defense of laissez-faire capitalism is often confused with Smith's defense of the market economy. For example, Peter L. Berger claims that Rand's philosophy is nothing more than "a vulgarized cross between Adam Smith and Friedrich Nietzsche" (quoted in Sciabarra 1995, 402 n. 48). J. Hoberman (1998, 148) describes Rand as a "[u]nique combination of Adam Smith, Friedrich Nietzsche, and Jacqueline Susann." Michael Szenberg (1993, 19 n. 23) describes "the novels of Ayn Rand" as "a modern interpretation" of "Adam Smith's ideas on the importance of self-interest." James A. Smith (1993, 221) claims that the Cato Institute supports "a principled selfishness grounded in writers from Adam Smith to Ayn Rand." Bob Black (1996, 244) describes Rand as one of "Smith's modern epigones." Roy C. Smith and Ingo Walter (1997, 29) describe Rand as one of Smith's "disciples." And George J. Viksnins and Michael T. Skully (1987, 538) claim that the same "sort of 'minimalist government' discussed by Adam Smith two hundred years ago" is "dreamt about by modern followers of Ayn Rand."

I will argue that these views are mistaken. Rand and Smith do not share the same ideas on the importance of self-interest, and they do not support the same sort of minimalist government. I will argue that there are substantial and important differences between these two thinkers. I will also consider the antitrust case against Microsoft as one example of these important differences.

Adam Smith's Invisible Hand Principle¹

A few years ago, the ABC television network screened a docu-

mentary that examined the role of “greed” in a capitalist economy (ABC News Special 1998). The host of this documentary, John Stossel, observed that New Yorkers get their beef not because the cattle ranchers in Manning, Iowa care about New Yorkers, but because they care about themselves. Thousands of people in Manning, Iowa work excruciatingly long hours and co-operate with each other in order to get beef to New York, because they are motivated by “greed,” by the desire to make money, so that they can purchase a house for themselves, so that they can purchase a new car for themselves, and so that they can make their own lives more comfortable.

As Walter Williams observes:

In a free market you get more for yourself by serving your fellow man. You don't have to care about him. Just serve him. And ask yourself: How much would get done if it all depended on human love and kindness? I would feel sorry for New Yorkers in terms of beef. If it all depended on human love and kindness, I doubt whether you would have one cow in New York! (ABC News Special 1998)

This is a classic statement of Smith's invisible hand principle.

The invisible hand principle claims that when individuals pursue their own interests through the marketplace, they are led by an invisible hand to promote the interests of society as a whole. Smith makes this observation in *The Wealth of Nations*. He observes that when individuals employ their capital to support the domestic industry they are motivated by a desire to promote their own interests, but in doing so they are led by an invisible hand to promote the common good, even though this was not their intention. Smith ([1776] 1910, 399) writes:

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.

This is the only mention of the invisible hand in *The Wealth of Nations*. But this theme is apparent throughout the book: the good of society as a whole is best promoted by allowing each individual to pursue his own interests. The invisible hand principle is perhaps the most well known part of Smith's work precisely because it is so central to his project. The market economy is desirable because it harnesses self-interest for the common good.

Smith was not the first person to state this principle. The idea that there is a harmony between an individual's self-interest and the interests of society as a whole was fairly widely accepted during the Enlightenment. A few years before Smith published *The Wealth of Nations*, Bernard Mandeville, for example, published *The Fable of the Bees*. In this book, Mandeville praises the "public virtue of private vices." He observes that the wealth of modern times was created by the "vices" of men. (These vices being luxury, ambition, and the desire for worldly gain.²) What Smith provides in *The Wealth of Nations* is the economic evidence to support this claim (Morrow 1927).

Economics and the Natural Order

One can discern three elements in the invisible hand principle that need to be isolated from each other and considered separately. The reasons for taking this approach will become clear as we proceed. First, the very phrase "the invisible hand" implies that there is a definite order in the economic realm. This reflects Smith's belief that economics should be grounded in the natural order of things. Athol Fitzgibbons (1995, 75) observes that "Smith . . . wanted to analyse social and political phenomena in the same way that Newton had

analysed the planets.” The idea here is that there are natural laws that govern the working of the economic system, just as there are natural laws that govern the working of the solar system. Remember that the full title of *The Wealth of Nations* is *An Inquiry into the Nature and Causes of the Wealth of Nations*. The phrase “Nature and Causes” suggests that there is a definite order in the way an economy operates. The implication is that to act in defiance of the laws of economics is as futile as trying to act in defiance of the laws of gravity.

Smith believed that his was a scientific approach to economics (92). Smith is sometimes interpreted as being a moral economist rather than a scientific economist. In fact, many nineteenth-century economists, who would be embarrassed by Smith’s belief that his is a scientific approach to economics, argued that it was David Ricardo who was the founder of scientific economics, not Smith (89). Here it is important to understand that Smith did not believe economics to be a science in the modern sense. At the time Smith was writing, philosophy and science were not considered distinct subjects (92). Smith believed economics to be a science because he believed that economics provides a systematic explanation for the natural order that exists in the economic system. But this does not mean that Smith employed what today would be termed a scientific method. Smith understood “science” in this way not because he was a moral philosopher, but because he believed that a theory is “scientific” if it enables us to “connect together all the different events that occur in the material world” (Smith [1795] 1980, 119). It is true that Smith is not a scientific economist in the sense of being engaged in a value-free inquiry into the nature of the world. But this does not mean that Smith did not regard economics as a science. It means that he had a different understanding of what it means for economics to be a science. And even if he had a flawed understanding of what a science is, the fact remains that his purpose as an economist and philosopher was to grasp the natural order of things.

Smith’s reference to the invisible hand is often interpreted nowadays as a metaphor. But William J. Baumol (1991, 31) notes that in the eighteenth century this reference would have been interpreted as an “unambiguous reference . . . to the Hand of God.” And as

Baumol points out, Smith does not claim that individuals are led *as if* by an invisible hand or *as though* by an invisible hand. Smith states, unequivocally, that individuals are *led* by an invisible hand. This may have been a mere slip-of-the-quill on Smith's part. But more likely, it simply reflects the widely held belief in the eighteenth century that God created the order in the universe (Evensky 1993, 199). I suspect that the reference to the "invisible hand" only appears three times in all of Smith's work because he believed its meaning was too obvious and unambiguous to need stating.³

Jacob Viner claims that Smith's economics becomes unintelligible if one tries to disregard the theological implications of the invisible hand (31). I think this is a mistake. I agree with Viner that the invisible hand has theological implications. But I disagree with Viner that the invisible hand becomes unintelligible if one disregards these theological implications. Viner might as well claim that the laws of physics become unintelligible if one tries to disregard Newton's belief in God. The facts that Smith was trying to explain can be true even if his explanation turns out to be false. After all, one does not erase a fact from reality by giving it a false explanation. We can easily set aside a belief in God while retaining the central claim that there is order in the universe.

In any case, one has to be careful not to overstate Smith's belief in God. Smith was not a devoutly religious man. He was brought up in a Presbyterian family, and he considered a career in the Church, but there is evidence that after attending Oxford he developed an aversion for Christianity and became a deist (Ross 1995, 15, 59). When Smith was a Professor of Logic at Glasgow College, his colleagues were concerned that he might favor "natural religion" (despite taking the oath of faith, then a requirement for admission as a professor at Glasgow). Smith was known to be a friend of "Hume the atheist," and John Ramsay of Ochtertyre reports that Smith asked for permission not to open his classes with a prayer—a request that was rejected (Rae [1895] 1965, 60; Ross 1995, 118). It appears that the only reason Smith continued to maintain a belief in God at all is because he believed that "the very suspicion of a fatherless world, must be the most melancholy of all reflections" (Smith [1759] 1997,

62; Ross 1995, 188).

Murray N. Rothbard (1995, 439) claims that “Smith remained an ardent Presbyterian,” but he bases this conclusion on highly contentious evidence. Leonard Peikoff (1982, 73) asserts that Smith was “the Christian champion of *laissez-faire*,” but he offers no evidence to support this claim. And this interpretation is not accepted by Smith scholars and political theorists (Blaug 1997, 57; *cf.* Machan 2003, 125). What the evidence suggests is that Smith did believe in God, but he believed in a God that created the natural order in the universe and then left the universe to its own devices. The “invisible hand” of God is not a hand that is constantly interfering in the world so as to miraculously bring individual self-interest into harmony with the common good. Smith ([1759] 1997, 42) agreed with the Stoics that a “wise, powerful, and good God” ordered the universe so that “every single event” tended “to promote the general order and happiness of the whole.” The “invisible hand” of God is the hand that set the planets in motion and established a natural order with which human beings must act in accordance if they want to achieve their goals, such as advancing the wealth of nations (Semmel 1993, 4).

Rand also believes economics should be grounded in the natural order of things. But unlike Smith, Rand does not believe that the natural order of things was established by a benevolent deity (Branden 1967, lecture 4). Rand argues that the natural order of things is a “metaphysically given” fact, which means that the natural order of things is not the product of consciousness, whether it is the consciousness of God or some other entity, but is a basic fact that one cannot go beyond (Rand 1984b, 25). Rand (1961, 124) refers to this position as the axiom that “existence exists.” (Rand is not using the term “axiom” here to refer to the foundation of a rationalistic system of deduction, but to refer to a fact that is so basic that it is implicit in all facts and all knowledge. See Rand [1966–67] 1990, 55; Machan 1999, 31–55.) Rand and Smith are both seeking to explain the nature and causes of the wealth of nations, but for Smith the nature and causes are the product of conscious design, whereas for Rand the nature and causes are primary facts of reality.

What this discussion suggests is that one should be careful about

placing too much emphasis on the phrase “the invisible hand.” The invisible hand principle can be true without there actually being an invisible hand out there in the universe, operating behind the scenes. The idea that the invisible hand principle tries to capture is that there is a natural order in the universe and that if we act in accordance with this natural order this will bring about a harmony between an individual’s self-interest and the interests of society as a whole. We can easily discard the literal invisible hand while still retaining this idea. So while there are important metaphysical differences between Rand and Smith, they both share a basic approach to economics, in that they both want to ground economics in the natural order of things.

The Harmony of Interests

The second element in the invisible hand principle is the idea that there is, in most cases, a harmony between the interests of individuals in a market economy. The claim here is that producers, in a market economy, serve their own interests by serving the interests of others. Smith ([1776] 1910, 13) writes:

[M]an 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 show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. 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's claim here is that a free market is organized in such a way that the butcher, the brewer, and the baker serve their own interests by serving their customers' interests. The free market operates so that one person's advantage is another person's advantage.

Smith is sometimes interpreted as claiming that there can never be any conflict between the interests of individuals, but he clearly did not believe this to be the case. He cites numerous cases where the interests of some conflict with the interests of others (Viner 1927, 214). He cites the example of lawyers who are motivated by their own self-interest to corrupt the language of the law by multiplying words beyond necessity, because they get paid by the number of pages they write. And he cites the example of university lecturers, who are led by their own self-interest to do as little work as possible, because they receive a guaranteed income. Smith did not believe that the pursuit of self-interest was always desirable. He believed that when self-interest is pursued through the marketplace that it tends to benefit others.

Rand makes a similar claim in *The Virtue of Selfishness*. She argues that this harmony of interests is inherent in the very nature of a trade (Rand 1964b, 34–35; 1961, 133).⁴ A trade is an exchange from which both parties expect to derive a mutual benefit. (Rand refers to this idea as “the trader principle.”) The simplest example of a trade is when one purchases a carton of milk from a grocery store. You give the owner money in exchange for milk. Both you and the owner benefit from this transaction. You get the milk. The owner gets the money. There is no conflict here. Rather, there is a harmony of interests. This is why both parties usually thank each other at the end of the transaction (*cf.* ABC News Special 1998).

Rand writes as though there is a guarantee that both parties will derive a mutual benefit from a trade. She claims that a trade is “an exchange which benefits both parties by their own independent judgment” (Rand 1964b, 35). The key phrase here is “by their own independent judgment.” A person's judgment can be mistaken or irrational, and if it is mistaken or irrational then the person may not

benefit from the exchange. For example, if you mistakenly believe that the milk you are purchasing is goat's milk when in fact it is cow's milk and you are lactose intolerant then you will not benefit from the exchange. But this mistake does not bring your interests into conflict with the owner's interests. You failed to benefit from the exchange because you made a mistaken judgment, not because your interests are in conflict with the owner's interests. The owner's benefit does not come at your expense. Also it is still in your interests to deal with the owner as a trader, and it is still in your interests to assess the benefit you receive from the exchange on the basis of your own independent judgment (even if in this case your judgment proves to be mistaken).

Rand also recognizes that interests can conflict. But she believes that such conflicts only occur when individuals abandon the principle of trade (Rand 1964c, 64–65). These conflicts usually occur when someone believes that they have a right to someone else's property without offering anything in return. If you tried to steal milk from a grocery store, for example, then there would be a conflict of interests between yourself and the owner. You would then be getting the milk at the owner's expense.

Smith's belief that there can be conflicts of interest in a free market economy led him to support extensive government interventions (Armentano 1990, 9–10). Smith is often mistaken for a supporter of *laissez-faire* capitalism (Pack 1991, 1). Nathan Rosenberg (1979, 20), then a Professor of Economics at Stanford University, for example, claims that “[w]e all know that Smith believed in and advocated a policy of *laissez-faire*” and that “Adam Smith was one of the earliest and certainly the foremost spokesman for a policy of *laissez-faire*.” Birdsall S. Viault (1990, 270) describes Smith as “[t]he first major advocate of *laissez-faire* in the English-speaking world.” Tibor R. Machan (2003, 163) claims that Smith “defen[ed] a substantially *laissez-faire*, free market system.” Thomas Sowell (2000, 305; 2002, 4; 1994, 50) describes Smith as “the father of *laissez-faire* economics.” He also claims that Smith provides a “systemic defense of *laissez-faire*” (Sowell 1996, 238), and that Smith is the “leading champion” of *laissez-faire* (Sowell 1998, 34). And

Charles Murray (1997, 3) describes Smith as “the apostle of *laissez-faire*.” But this is not the case. Smith believed that the government should support those works that are advantageous to society but which would be unprofitable for an individual or a small group of individuals to undertake. He also believed that the government should intervene in the economy where this is necessary to resolve conflicts of interest. For example, he supported the government provision of harbors, canals, parks, and education (Ridpath 1988; Muller 2002, 76–80; Otteson 2002, 175 n. 5). He also supported the government regulation of public hygiene, the compulsory registration of mortgages, the progressive income tax, taxes on monopolistic gains, export taxes, and tax on alcohol (Ridpath 1988; Rothbard 1995, 469–71). And F. A. Hayek (1960, 223–24) relied on Smith to defend an extensive range of government services, including sanitary and health services, the construction and maintenance of roads, and other public works.

Smith’s belief that there are conflicts of interest in a free market economy does not contradict his belief that, in most cases, there is a harmony of interests in a free market economy. These conflicts of interests are exceptions, they are what today would be termed “market failures” that, where possible, need to be corrected by government intervention. These are cases where the invisible hand fails to bring the interests of individuals into harmony with the common good. This does not alter the fact that Smith believes that in most cases the invisible hand does bring the interests of individuals into harmony with the common good. Nor does it alter the fact that it is this harmony of interests that Smith was trying to explain with the invisible hand principle.

Rand, in contrast to Smith, was a genuine advocate of *laissez-faire* capitalism. She argued for “a full, pure, uncontrolled, unregulated *laissez-faire* capitalism—with a separation of state and economics, in the same way and for the same reasons as the separation of state and church” (Rand 1964b, 37). Contrary to Smith, Rand believed that it was government intervention in the economy that institutionalized conflicts of interest. She believed that government intervention in the economy creates a “cold civil war,” in which each social group

uses the power of the state to advance its own agenda at the expense of others (Rand 1991, 23–26; Sciabarra 1995, 341–43). She believed that just as conflicts between religious sects ended when there was a separation of state and church, so conflicts between social groups within the economic system would end when there is a separation of state and economics.

The Theory of Moral Sentiments

Before we move on, it is necessary to understand Smith's theory of moral sentiments. Smith argues that we develop our "moral sentiments" (or "passions") through "sympathetic interaction" with other people in society. We imagine ourselves in the situation of another person so that we can conceive of what our sensations and feelings would be if we were in their situation (Smith [1759] 1997, 7–8; Otteson 2002, 19). If the sensations and feelings that we have when we imaginatively put ourselves in their situation are in concord with the sensations and feelings that they have when they are in their situation, then we have a "sympathetic interaction" and so we morally approve of their actions. But if the sensations and feelings that we have when we imaginatively put ourselves in their situation are in discord with the sensations and feelings that they have when they are in their situation, then no "sympathetic interaction" occurs and so we morally disapprove of their actions.⁵

Our feelings and sensations are the expressions of our approval or disapproval of the actions of others. This is because Smith ([1759] 1997, 182) believed that the "first perceptions" upon which we base "the general rules of morality" and "all the moral judgments which we form by means of them" are not "derived from reason" (which he believes would be "absurd and unintelligible"), but from "immediate sense and feeling." Our immediate sensations and feelings are the axioms of moral thought (Hope 1989, 113–14; Otteson 2002, 102–4; Ridpath 1988). Smith ([1759] 1997, 175) believed that we did not need "[t]o examine from what contrivance or mechanism within" these sensations and feelings arise and believed that to do so would be "a mere matter of philosophical curiosity" (see also Ridpath 1988).

Smith argues that the limitations of our own experiences and our own biases and partiality often distort the process of “sympathetic interaction.” A person may end up morally disapproving of an action of which he would have approved if he had entered into the process from an impartial perspective (Otteson 2002, 42–50). So Smith ([1759] 1997, 178) argues that we have to adopt the position of an “impartial spectator.” He writes: “We must view [the other person], neither from our own place nor yet from his, neither with our own eyes nor yet with his, but from the place and with the eyes of a third person, who has no particular connexion with either, and who judges with impartiality between us.” When there is concord between the sensations and feelings that an “impartial spectator” would have in the same situation as the person we are judging and the sensations and feelings that the person does have in that situation, then we morally approve of his actions. And where there is discord, we morally disapprove of his actions. The “impartial spectator” replaces us in the process of sympathetic interaction.

Smith’s “impartial spectator” is not God. T. D. Campbell notes that the “impartial spectator” is “a familiar figure in eighteenth-century moral philosophy” who “appears, for instance, in the writings of Smith’s teacher Hutcheson, and also in those of his friend Hume,” who was an atheist (Campbell 1971, 127). Some scholars interpret Smith’s “impartial spectator” as an ordinary person who observes the actions of other people, but who is not any particular person (127). Others interpret Smith’s “impartial spectator” as an Ideal Observer (127–28; Otteson 2002, 58–64). Ridpath interprets Smith’s “impartial spectator” as oneself with one’s biases and partialities set aside, similar to John Rawls’s veil of ignorance (Ridpath 1988; Rawls 1999, 118–23). In either case, there is nothing religious about the “impartial spectator” or the foundation of Smith’s ethics. So even if Rothbard had been correct to believe that Smith was an “ardent Presbyterian,” the fact would still remain that Smith places no weight on a belief in God in his ethics. As Jerry Z. Muller (2002, 81) observes: “For Smith, the source of morality did not lie in some specific revelation by God. . . . Instead, he sought to account for morality through an analysis of ordinary experience.”

Smith ([1759] 1997, 65) argues that the principal virtues that the “impartial spectator” approves of are “perfect prudence,” “strict justice,” “proper benevolence,” and “self-command” (see also Otteson 2002, 142; Hope 1989, 106–7). Smith distinguishes between two different types of virtue, the “self-interest” (or “self-regarding”) virtues that affect a person’s own happiness, and the “other-regarding” virtues that affect the happiness of other people (Smith [1759] 1997, 27; *cf.* Ridpath 1988). Prudence, and its derivatives, economy, industry, discretion, attention, and application of thought, are the “self-interest” virtues, and justice and benevolence are the “other-regarding” virtues (Smith [1759] 1997, 158). And self-command is the virtue that maintains the proper balance between the “self-interest” virtues and the “other-regarding” virtues. Smith does not regard self-interest as such to be a virtue. He criticizes what he calls the “licentious systems” of morality that claim that virtue consists in self-interest (162–73; Otteson 2002, 143). He supports the “self-interest” virtue of prudence only because people depend upon themselves for their own care and other people depend on them for their care (Smith [1759] 1997, 37; Hope 1989, 107). Smith regards the “other-regarding” virtues as superior to the “self-interest” virtues and believes that where there is any conflict between these virtues the “self-interest” virtues ought to be subordinated to the “other-regarding” virtues. Smith writes: “[T]o feel much for others, and little for ourselves, that to restrain our selfish, and to indulge our benevolent, affections, constitutes the perfection of human nature; and can alone produce among mankind that harmony of sentiments and passions in which consists their whole grace and propriety” (Smith [1759] 1997, 25; Ridpath 1988).

The foundation of Rand’s ethics could not be further removed from Smith’s. Rand seeks to ground her ethics not in sensations or feelings, but in the facts of reality. She argues that the first question in ethics should be: What in reality gives rise to ethics? (Rand 1964b, 14; *cf.* Sciabarra 2000, 146). And her answer is that it is the fact that human life is a conditional form of existence, and the fact that we have no automatic knowledge of how to remain in the realm of the living, that gives rise to the peculiarly human need for a code of

values to guide our actions across our lifetime (Rand 1964b, 16–17, 20–21). Rand argues that ethics begins with the choice to live. Each person is confronted with the choice to live or die. If a person chooses to die, then there is nothing that he has to do. But if a person chooses to live, then there are certain actions that a person has to take in order to remain in the realm of the living. And what these actions are is determined by his own nature as a human being and by the relevant facts of reality (Rand 1984c, 99; Smith 2000, 103; Machan 2001, 76; cf. Rasmussen 2002).

Rand argues that rationality is the primary virtue with which a person must live his life in accordance if he wants to survive and flourish, because reason is the human means of survival (Rand 1964b, 22–23, 28). And she derives from the virtue of rationality the virtues of independence, integrity, honesty, justice, productiveness, and pride (Rand 1961, 128; 1964b, 27–30). This is not an exhaustive list of the virtues, but they are the primary virtues that, Rand argues, a human being needs to act in accordance with, if he or she chooses to live. Like Smith, Rand does not regard self-interest as such to be a virtue. But unlike Smith, this is not because Rand regards self-interest to be inferior to the “noble” virtues. For Rand, there is an essential identity between self-interest and the virtues that a person needs in order to survive and flourish. A person is acting in his self-interest when he is practicing the virtues. For Rand, self-interest is not something over and above the virtues. The virtues are what constitute a person’s self-interest.⁶

Self-Interest and Benevolence

There is an important difference between Smith’s invisible hand principle and Rand’s trader principle. Smith believes that self-interest, not benevolence, is necessary for a trading relationship. Remember, Smith claims that “[i]t 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*” (emphasis mine). Whereas Rand, in contrast, believes that it is self-interest that gives rise to human benevolence (Rand 1990, 40–41; Kelley 1996; 1998, 92–101; Branden 1962, 27;

Machan 1998, 95 n. 1). She believes that the butcher, the brewer, and the baker should be benevolent from their regard to their own interests. Smith does not exclude benevolence from trading relationships. The price that one sets for one's goods or services, for example, could be motivated by benevolence when one is trading with family or friends. The problem, as Smith sees it, is that benevolence is a sentiment that is limited to these types of close personal relationships (Muller 2002, 62). Smith does not recognize a generalized connection between trade and benevolence, and he does not recognize any connection between self-interest and benevolence. He regards self-interest and benevolence as distinct and separate motivating forces. As Viner (1927, 210) observes: "Nowhere in the *Wealth of Nations* does Smith place any reliance for the proper working of the economic order upon the operation of benevolence or sympathy."

David Kelley argues, on the basis of Rand's ethics, that benevolence is a necessary means of encouraging and cultivating trading relationships. He writes: "The function of benevolence . . . is to create opportunities for trade by treating other people as potential trading partners" (Kelley 1996, 26). Kelley's point is that people do not want to trade with a butcher, brewer, or baker who is malevolent. People only want to trade with a butcher, brewer, or baker who is benevolent. So if the butcher, the brewer, and the baker want to encourage trading relationships with their customers, then they must treat their customers benevolently.⁷ I suspect that Smith misses this point because he believes that genuine benevolence must be disinterested or self-sacrificial. Smith ([1759] 1997, 258–58) writes: "We never are generous except when in some respect we prefer some other person to ourselves, and sacrifice some great and important interest of our own to an equal interest of a friend or of a superiour" (*cf.* Machan 1998, 18–19). But there is no reason to believe that this is necessarily the case.

Loren E. Lomasky disagrees with Kelley's argument. He claims that it is a "blatant misidentification" to claim that dealing with other people by means of trade is an act of benevolence; it is in fact an act of justice. He writes: "When regard to one's own interest is pursued

in a manner that does not violate the rights of others, an individual is manifesting justice, not benevolence.” He claims that “Adam Smith was not similarly confused” (Lomasky 1997, 62). Lomasky has misunderstood Kelley’s argument, however. Kelley does not claim that a trade is an act of benevolence. On the contrary, he agrees with Lomasky that a trade is in fact an act of justice. He writes: “[T]he trader principle is a commitment to recognizing people for what they are and dealing with them accordingly—and that is the essence of justice as a virtue” (Kelley 1996, 25). His claim is that benevolence is the means by which we encourage and cultivate trading relationships, not that a trade is itself an act of benevolence. So there is no misidentification here.

One could argue that Smith misses the connection between self-interest and benevolence because of his Presbyterian upbringing. This is not the case. Smith believes that benevolence must be necessarily self-sacrificial or disinterested because he believes that one must evaluate moral issues from the point of view of an “impartial spectator.” And from the point of view of an “impartial spectator,” one’s own interests are to be given no more weight than anyone else’s interests. For example, Smith ([1759] 1997, 259) stresses that when a person—as an act of generosity—sacrifices his own interests to another person, “they accommodate themselves to the sentiments of the spectator, and by an effort of magnanimity act according to those views of things which they feel, naturally occur to any third person.” It is possible that Smith believes that benevolence has to be self-sacrificial because of his Presbyterian upbringing, but even if this is the case the fact remains that he does not justify this belief on religious grounds.

Service to Others

The third element in the invisible hand principle is the idea that the pursuit of one’s own self-interest is justified by the service one provides to others (*cf.* Muller 2002, 72–75). Smith recognizes that both parties to a trade benefit from the transaction, but he does not believe that this is the moral justification for the trade. Warren J.

Samuels (1977, 202) notes that Smith placed a “normative . . . emphasis upon consumption as the ‘sole end and purpose of production’ and upon the consumer as the primary beneficiary” (see Smith [1776] 1910, 594). And Jeffrey T. Young (1997, 162) notes that Smith admired the Stoics for their “public spirit,” for their “ability to put the good of the whole ahead of the good of the self.” The butcher, the brewer, and the baker benefit both themselves and their customers, but the moral justification for this trade is the service that they provide to their customers. And when individuals support the domestic industry over the foreign industry, they benefit both themselves and society, but the moral justification for allowing individuals freedom in international trade is that this is an effective means of promoting the interests of society as a whole. Smith does state that a person is more likely to obtain “the help of his brethren . . . if he can interest their self-love in his favour” but he is referring here to a person’s motivation for entering the trade, not to the moral justification for the trade (Grampp 1948, 329). He believes that “self-love” fuels the market system, not that it is the moral justification for the market system.

Smith argues that prudence is a virtue, but one cannot infer from this that Smith regarded self-interest as the moral justification for entering into a trade. It is important to remember that Smith regarded prudence as an inferior virtue (*cf.* Den Uyl 1991, 123–41). When individuals trade with each other, they promote the wealth of nations. But the moral justification for promoting the wealth of nations is not that this promotes each individual’s self-interest. The moral justification is that this enables individuals to practice the higher virtues, including “proper benevolence” in which “we prefer some other person to ourselves, and sacrifice some great and important interest of our own” (Smith [1759] 1997, 258–59). The inferior virtue of prudence is needed to promote our sustenance and the sustenance of others. But once we have achieved our sustenance and the sustenance of others, then we are in a position to indulge the higher virtues, which are self-sacrificial (Ridpath 1988). The moral justification for a trade is not that both parties will benefit from the trade, but that this will provide each with the opportunity to sacrifice

themselves to others.

Rand argues, in contrast, that the service one provides to others in a trade is strictly a secondary consequence. She argues that the service to others cannot be made the moral justification for the trade. She writes: “The economic benefits which the whole society, including the poor, does receive from capitalism come about *strictly as secondary consequences*, (which is the only way any *social* result can come about), *not* as primary goals. The primary goal which makes the system work is the personal, private, individual profit motive” (Rand 1995, 259; emphasis hers). Rand is not claiming that the benefit to others *should* be a secondary consequence. She is claiming that the benefit to others *is* a secondary consequence, and if one attempts to make a secondary consequence the primary cause then the causal relationship breaks down.

Smith and Rand both agree that economics should be based on the natural order of things (though they disagree over the metaphysical basis of the natural order), and they both agree that there is a harmony of interests between individuals in a market economy (though Rand recognizes that this harmony of interests only arises in the context of a trade). Where they disagree is over the moral justification for a trade. Smith believes that a trade is morally justified by the benefits that a trade provides to others and to society as a whole, whereas Rand believes that a trade is morally justified by the benefits that a trade provides to each participant in the trade. This is the fundamental difference between Smith and Rand.

The Adam Smith Problem

Some scholars argue that there is a conflict between Smith’s *Theory of Moral Sentiments* and his *Wealth of Nations*. They claim that in the first book Smith extolled the morality of what we, today, would term “altruism” (the term had not been coined in Smith’s time), whereas in the second book he extolled the morality of self-interest. German scholars even gave this conflict a formal name: *Das Adam Smith Problem* (Baumol 1991, 35 n. 4; Viner 1927, 201; Otteson 2002, 134–69). The claim is that one can make sense of the two books

when they are read on their own, but one cannot make sense of either book when they are read together. As Viner (1927, 201) notes, “there are divergences between [the two books] which are impossible of reconciliation.”

These scholars are right—and wrong. There is a conflict between the morality of altruism and the second element that I identified above—the idea that a trade is a voluntary relationship to mutual benefit. One cannot morally justify a relationship from which both parties are supposed to benefit on the grounds that one party exists for the sake of the other party. If I am your servant, then you are my master. If I exist for your sake, then you have the moral right to set the terms on which I have to deal with you. Trade presupposes that each party exists for his or her own sake. Altruism presupposes that one party exists for the sake of the other party. The two principles cannot be reconciled.

Altruism does not hold mutually beneficial exchanges to be virtuous because altruism is the principle of self-sacrifice. If both parties benefit from the exchange then the act is not altruistic because there is no self-sacrifice involved. For the act to be altruistic, one of the parties must lose. Kristen Renwick Monroe (1996, 6–7), an advocate of altruism, for example, stresses that for an act to be altruistic it “must carry some possibility of diminution in my own welfare. An act that improves both my own welfare and that of another person would not be altruistic but would fall instead into the category of collective welfare.” There is nothing altruistic about providing a benefit to others in a trade because this benefit does not come at a loss to oneself. If there is a loss to oneself, then it is not a trade, because a trade is an exchange to mutual benefit. Either one is being altruistic or one is being a trader. One cannot be both.

But there is no conflict between the morality of altruism and the third element identified above—the idea that the pursuit of one’s own self-interest is justified by the service one provides to others. One can morally justify the pursuit of self-interest when it benefits others, and only when it benefits others, on the grounds that one party exists for the sake of the other party. Smith does not justify self-interest as being moral in its own right. He justifies self-interest as an instru-

mental means to the good of others. The moral emphasis is on the “good of others.” Where there is any conflict between self-interest and the good of others, the good of others takes precedence. Smith ([1759] 1997, 62) writes: “The wise and virtuous man is, at all times, willing that his own private interest should be sacrificed to the publick interest of his own particular order or society” (see also Peikoff 1982, 72–73). And Smith states that “the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer.” Smith regards this “maxim . . . so perfectly self-evident that it would be absurd to attempt to prove it.” And he criticizes the mercantile system for sacrificing the interests of consumers to the interests of producers (Smith [1776] 1910, 594). The third element is not only reconcilable with the morality of altruism; it *is* the morality of altruism.

Observe that the conflict between the morality of altruism and the second element is exactly the same conflict that I have argued exists between the second and third elements in the invisible hand principle. So one could even say that *Das Adam Smith Problem* arises not only *between* the two books but *within* the invisible hand principle itself. The conflict between the two books, remember, is that *The Theory of Moral Sentiments* extols the morality of altruism, whereas *The Wealth of Nations* extols the morality of self-interest. The conflict within the invisible hand principle is that the second element extols the morality of self-interest, whereas the third element extols the morality of altruism. The conflict is the same. To paraphrase Viner, there are divergences within the invisible hand principle that are impossible to reconcile.

Some scholars might argue that the conflict between the two books is really a conflict over human motivation. In the first book, Smith argues that people are motivated, or, at least, can be motivated, by so-called “virtuous” intentions, whereas in the second book he argues that people are motivated primarily by selfish intentions. If this is the claim, then I do not believe that there is any conflict here. In the first book, Smith is making a normative claim. He is claiming that people should be motivated by so-called “virtuous” intentions. And in the second book, Smith is making a descriptive claim. He is

claiming that most people are not “virtuous,” that they are in fact motivated by self-interest, but through the operation of the free market, self-interest may be harnessed so as to promote the interests of society as a whole. As Sowell (1979, 16) explains: “*The Theory of Moral Sentiments* attempted to show the derivation of moral principles. *The Wealth of Nations* attempted to explain actual behavior.”

Today, many scholars would agree that there is no conflict between the two books. T. W. Hutchison (1976, 482), for example, notes that many scholars regard this conflict as “exaggerated or even imaginary.” One such scholar is Rand-influenced economist and intellectual historian John Ridpath (1988). Ridpath argues that Smith distinguished between the “secondary” or “inferior” virtues of prudence, industry, frugality and justice, and the “noble” virtues of generosity, pity, charity, gratitude, compassion, kindness, love and friendship (cf. Muller 2002, 80–83). He argues that in *The Wealth of Nations* Smith was analyzing the role of the “inferior” virtues in motivating people to create the wealth of nations. Whereas in *The Theory of Moral Sentiments*, Smith was analyzing the “noble” virtues that come into being once we have moved beyond the worries of human survival and are able to enter into sympathetic interactions with others in society. The virtue of the advanced market economy is that it gives us the opportunity to move beyond the “inferior” virtues to the “noble” virtues. Ridpath argues that there is no conflict between the virtues of *The Wealth of Nations* and the virtues of *The Theory of Moral Sentiments* because there is a hierarchical relationship between the “inferior” virtues and the “noble” virtues. He argues that Smith believed that a person achieves perfection by practicing the “self-command” necessary to restrain the “inferior” virtues in favor of the “noble” virtues.

If Ridpath’s argument is correct, then there is no conflict between the two books, but there is still a conflict between the “noble” virtues (or the “altruistic” virtues) and the second element that I identified above—the idea that a trade is a voluntary relationship to mutual benefit. The fact remains that one cannot morally require that people should expect to derive a mutual benefit from their exchanges if morality requires them to have the “self-command” necessary to

restrain such “self-interested” behavior in favor of “self-sacrifice.”

The Ayn Rand Problem

Some scholars argue that Rand’s ethics is inconsistent with her defense of limited government. Rand’s ethics defends an individual’s right to exist for his own sake, but certain elements in her politics appear to require the sacrifice of an individual’s private interests to the public interest. If this is the case, then it is possible that Rand’s trader principle suffers from problems similar to Smith’s invisible hand principle. Nicholas Dykes (1998, 9), for example, claims that “Rand’s trader principle [does not] fare well under limited government.” He asks: “How does ‘a free, voluntary, unforced, uncoerced exchange’ take place in the face of a coercive monopoly on the law of contracts?” Roy A. Childs, Jr. (1968, 90) argues that compulsory subpoenas, which Rand supported, are “a clear and present instance of yet another invasion of individual rights.” These scholars argue that Rand’s ethics supports not limited government, as she believed, but the complete abolition of government. Even if one is not persuaded by their arguments, one has to admit that these scholars raise difficult issues that have not been adequately addressed in the Rand literature (*cf.* Sechrest 1999, 102–3). It is not my intention to resolve these issues here, but it is important to consider them briefly to see if they raise problems for Rand’s trader principle.

Let us first consider the alleged conflict between Rand’s trader principle and her political principle that the government should have a “coercive monopoly” on the enforcement of contracts. When Rand states that a trade is “a free, voluntary, unforced, uncoerced exchange,” what she means is that the choice to enter into the relationship is free, voluntary, unforced and uncoerced. She does not mean that the parties are free to do anything they like to each other. If I enter a trade in which I agree to give a shop owner some money in exchange for milk, what we have is a free, voluntary, unforced and uncoerced exchange. This does not mean that I am now free to change my mind and run off with the milk before giving the shop owner the money. Why? Because the shop owner has not freely and

voluntarily agreed to my absconding with his property. If I run off with the milk, then I will have in fact coerced the shop owner into giving me his property. This is why Rand (1964d, 130) describes the violation of contracts as “an indirect use of physical force.” By breaching my agreement to give money in exchange for the milk, I am keeping the milk without the voluntary consent of its owner. Note that Rand does not support the enforcement of all voluntary agreements (such as agreeing to go to movies with a friend). She only supports the enforcement of those agreements in which one party keeps the property of another without his free, voluntary, unforced and uncoerced consent. Enforcing such agreements is entirely consistent with the trader principle.

I believe that the real disagreement here is not over the enforcement of such agreements, but the mechanism by which such agreements are enforced. Rand proposes a limited government that has a coercive monopoly on the retaliatory use of physical force. Anarchists such as Dykes support some form of private mechanism. In either case, the agreement is being enforced. It is not the retaliatory use of physical force that anarchists such as Dykes are opposed to, but the government having a monopoly on the retaliatory use of physical force (*cf.* Rothbard 1978, 215–37; Sciabarra 2000, 322–34). The problem with Dykes’s critique of Rand is that he equivocates between the enforcement of contracts and a state monopoly on their enforcement. But these are not the same. One can support the former while still being opposed to the latter.

Let us turn to the case of compulsory subpoenas. If a person is compelled to testify in a court of law regardless of the burden it might impose, then it would appear that the person is being compelled to sacrifice his own private interests for the sake of the public interest, which is contrary to Rand’s ethics. No supporter of Rand’s philosophy has justified compulsory subpoenas on these grounds. Peikoff (1976, lecture 10) does argue that one can make “a case for defending compulsory testimony in a court of law in a free society,” but he bases this conclusion on the assumption that “[i]f a person refused he would be directly or indirectly aiding and abetting a criminal . . . and he would to that extent become an accessory of the crime.” He

stresses that this requirement must be “very narrowly defined” to cases where the “individual who testifies is undergoing no risk, no loss, no threat, no cost.” Nonetheless it does appear as though witnesses are being expected to sacrifice their own interests for the sake of the public interest. After all, if there genuinely is no sacrifice involved, if there genuinely is no risk, loss, threat, or cost to the witness, then why is it necessary to compel the witness to testify? It would seem that compulsory testimony is required precisely because there is at least a potential risk, loss, threat, or cost to the witness (even if, in the long-term, it is in the witness’s own interests to see that the guilty go to jail).

The problem for Peikoff’s argument is that the witness has not initiated physical force against anyone. If I observe someone stealing milk, it is a stretch to claim that I become an accomplice to the crime if I refuse to testify to what I saw in a court of law. It was not me who took the milk without the store owner’s consent. Peikoff’s argument comes across as an attempt to rationalize compulsory subpoenas in terms of the non-initiation of physical force principle. (Though, to be fair to Peikoff, this statement was made in response to a student during the question period of one of his lectures, and was not intended as a formal argument.) It seems to me that to establish the case for compulsory subpoenas, Peikoff needs to establish that this is a justifiable initiation of physical force, but if he takes this approach this would appear to go against one of the fundamental principles of Rand’s politics.

It seems that compulsory subpoenas do contradict Rand’s trader principle, but this does not mean that the trader principle suffers from problems similar to Smith’s invisible hand principle. The Adam Smith Problem is a problem that is internal to Smith’s invisible hand principle. The Ayn Rand Problem is a problem that is external to Rand’s trader principle. If the Adam Smith Problem cannot be adequately resolved, then this has serious implications for the coherence of Smith’s invisible hand principle. If the Ayn Rand Problem cannot be adequately resolved, then this might have serious implications for the coherence of Rand’s philosophic system, but it does not affect the coherence of her trader principle.

“Self-Interest” and “Selfishness”

Samuels (1977, 201) notes that Smith “felt that self-interest is not to be equated with selfishness.” This view is widely held today by both moral philosophers and economists (Grafstein 1992, 259). The claim is that “self-interest” refers to any goal that a person chooses for himself, including apparently “unselfish” goals, such as donating money to a favorite charity, or purchasing a gift for a friend. These goals are considered “self-interested” because the person receives a benefit, such as pleasure, or personal satisfaction, from knowing that his favorite charity is helping the poor, or from knowing that a friend is enjoying his gift. But these goals are not considered “selfish” because the person is providing a benefit to others. On this view, the butcher, the brewer, and the baker may be pursuing their “self-interest,” but they are not being “selfish,” because their actions are benefitting others as well as themselves.

One of the origins of this distinction between “self-interest” and “selfishness” can be found within the invisible hand principle itself. Hayek, for example, argues that Smith’s defense of self-interest should not be confused with “egotism” or “selfishness.” He argues that what Smith was defending was a person’s freedom to pursue his own interests, which need not be “selfish,” and which could in fact be altruistic (Hayek 1973, 56; 1976, 110). The second element states that a person enters into a trading relationship in order to benefit himself. The third element states that the moral justification for entering into the trading relationship is the benefit that he provides to others. The trading relationship is “self-interested” because a person enters into the relationship in order to benefit himself, but it is not “selfish” because he is providing a benefit to others, whether he intends to or not. The “benefit to others,” in effect, cleanses “self-interest” of its “selfish” implications.

Rand rejects Smith’s distinction between “self-interest” and “selfishness.” First, Rand recognizes that a person’s self-interest cannot be achieved by any random course of action. It seems odd to claim that a goal promotes a person’s “self-interest” simply because he chose the goal himself. A person who jumps from the Empire

State Building to his death is not acting in his “self-interest” simply because he chose to jump. A person who slashes his own wrists in a masochistic frenzy is not acting in his “self-interest” simply because he chose to slash his wrists. A person who regularly overdoses on heroin is not acting in his “self-interest” simply because he chose to take an overdose. This is a subjectivist view of “self-interest.” Simply because a person thinks that he is acting to promote his “self-interest” does not mean that he is, in fact, acting to promote his self-interest (Branden 1964). Rand recognizes that if a person wishes to achieve his self-interest, then, as a matter of fact, there are certain actions that he must take.

Second, there may be a reluctance to refer to people such as the butcher, the brewer, and the baker as “selfish” because there is clearly a moral difference between people who pursue their self-interest by means of trade and people who pursue their self-interest by means of predation. Rand claims that people who pursue their self-interest by means of predation are not, in fact, pursuing their self-interest. As a matter of fact, they are harming themselves. Rand claims that only those people who pursue their self-interest by means of trade are, in fact, pursuing their self-interest. So, for Rand, there are no grounds on which to distinguish between two different types of “self-interest.” There are people who pursue their “self-interest” by means of trade, and there are people who are undermining their own survival and flourishing. It is possible that people have a tendency to think of predators as being “selfish” because they are wedded to the subjectivist view of “self-interest,” a view which Rand, of course, rejects.⁸ Rand agrees with Aristotle that genuine “self-interest” (or “self-love”) consists in the practice of the virtues (Aristotle 1976, 300–3; 1168b7–1169a23; Annas 1993, 257–58).

Third, if one believes that a person can only achieve his self-interest by means of trade, as Rand does, then one should not be surprised by the fact that the pursuit of self-interest benefits others. The expectation of a mutuality of benefits is inherent in the very nature of a trade, and therefore it is also inherent in the very nature of a person’s self-interest (Reisman 1996, 33–34). So, for Rand, there is no basis on which to distinguish between self-interest that benefits

others and self-interest that benefits only oneself. One should expect self-interest, that is genuine self-interest, to benefit others.

Of course, as I observed before, if one makes a mistaken or irrational judgment about the benefit one expects to derive from the relationship, then one may not derive a benefit from the relationship. But the reason one will not derive a benefit from the relationship is not because the other person is acting in their self-interest, but because one has made a mistaken or irrational judgment. The other person, acting on his self-interest, is not the cause of one's loss; failing to properly act in one's own self-interest is the cause of one's loss. A person acting in his own self-interest expects his trading partner to benefit from the relationship just as he did.

Rand's trader principle does not suffer from the problems of Smith's invisible hand principle because she explicitly grounds her defense of trade in an individual's right to exist for his or her own sake. The moral justification for a trading relationship is that both parties benefit from the transaction. I do not sacrifice my interests for your sake, and you do not sacrifice your interests for my sake. I will benefit you by trading with you, but I do not enter into the relationship in order to benefit you. I enter into the relationship in order to benefit myself. And you will benefit me by trading with me, but you do not enter into the relationship in order to benefit me. You enter into the relationship in order to benefit yourself. The moral justification for a trade, according to Rand, is that a trade is a non-sacrificial relationship. It is a relationship in which neither party exists to serve the other. It is a relationship from which both parties expect to derive a mutual benefit.

The Microsoft Antitrust Case

Let us consider the antitrust case against Microsoft, in some depth, as one example of the important differences between Smith's invisible hand principle and Rand's trader principle.⁹ In June 1990, the Federal Trade Commission (or FTC) began investigating Microsoft over an agreement it had with IBM concerning the development of a new operating system, called OS/2. The FTC was

unable to decide whether to pursue the antitrust investigation, and so the case was taken over by the Department of Justice. The investigation ended in July 1994, when Microsoft signed a consent decree agreeing to alter its licensing policies for its Windows operating system. In October 1997, the Department of Justice charged Microsoft with violating the 1994 decree, and a few months later with using “predatory practices” to protect its “monopoly” on PC operating systems. In November 1999, Microsoft was found to hold a monopoly over PC operating systems. And in April 2000, Microsoft was ordered to be split into two companies and restrictions were imposed on how it conducts its business (Andrews 2000; Brinkley & Lohr 2001). The decision to split Microsoft into two companies was overturned on appeal. In 2002, Microsoft reached a settlement with the Department of Justice, in which Microsoft agreed, among other things, to refrain from participating in deals that might harm competition, and to provide sufficient information to its rivals so that they could make their products fully compatible with Microsoft’s Windows operating system. This settlement was challenged by a coalition of nine states and the District of Columbia, but U.S. District Judge Colleen Kollar-Kotelly ruled against the challenge, upholding the Microsoft settlement. While the United States antitrust case is now over, Microsoft has since been charged by the European Union with violating antitrust regulations by including its Windows Media Player with its Windows operating system.

Microsoft was accused of bundling its Internet Explorer web browser with its Windows operating system. This meant that when customers purchased Windows they would also receive Internet Explorer free of charge, whether they wanted it or not. Microsoft also required manufacturers of personal computers to include Internet Explorer free of charge on their computers as a condition of using Windows. Microsoft, for example, threatened to terminate Compaq’s license for Windows after it dropped Internet Explorer in favor of its rival, Netscape Navigator. And Microsoft prohibited Hewlett-Packard from installing Netscape Navigator on its computers as a condition of continuing to use Windows. Microsoft was also accused of requiring Internet Service Providers to sign “exclusionary

contracts” with it. Microsoft, for example, was only willing to promote America Online in exchange for them giving preference to Internet Explorer.

Steven Houck, one of the prosecutors in the Microsoft case, accused Microsoft of “bullying” PC-makers, software developers and Internet Service Providers (Hughes 2001). One newspaper claimed that Microsoft was found guilty of “contravening anti-trust laws and abusing a monopoly in personal computer operating systems to strong-arm customers, crush rivals and harm consumers” (Two firms get order against Microsoft 2000). Judge Thomas Penfield Jackson, the judge who found Microsoft guilty of holding a monopoly over PC operating systems, and who ordered that Microsoft be split into two companies, stated in newspaper interviews—*given prior to the verdict*—that Bill Gates was like Napoleon and that Microsoft was like a “drug-dealing street gang” (Francis et al. 2001, 1). (He was later reprimanded for these comments.) In public forums, Gates is regularly compared to the “devil” and Microsoft is often referred to as “the evil empire” (Armstrong 2000).¹⁰ Netscape CEO James Barksdale testified in court that a 21 June 1995 meeting with Microsoft was like a visit from “Don Corleone” (from Mario Puzo’s *The Godfather*) (Demonizing Gates 1998). Joel Klein, formerly of the Department of Justice, has gone out of his way to paint Gates as “the Big Brother of cyberspace.” More recently, United States District Judge J. Frederick Motz compared Microsoft’s attempts to hinder “Java” (a rival computer programming language) to the 1994 kneeclubbing of Olympic skater Nancy Kerrigan organized by the ex-husband of rival skater Tonya Harding (Microsoft’s actions like assault on figure-skater, says US judge 2002).¹¹

Microsoft is not the first major company to face an antitrust investigation. James and Benjamin Duke’s American Tobacco Company once “controlled” 95 percent of the United States market for tobacco. The government split the company into two smaller entities: R. J. Reynolds, which is best known for its Camel cigarettes, and British American Tobacco PLC, which is best known for its Benson and Hedges cigarettes (Laver 1999, 36(1); Armentano 1990, 85–95). John D. Rockefeller’s Standard Oil once “controlled” about

90 percent of the oil produced in the United States. Rockefeller, like Gates, was denounced as “a bully whose obsessive pursuit of profits had harmed consumers and competitors alike.” His company was split into 34 smaller entities, which included the corporate ancestors of Exxon, Mobil, Chevron, and Amoco (Armentano 1990, 57–73; Ross 1998, 45; Shapiro 1997, 22). And IBM was the subject of a thirteen-year antitrust investigation by the Department of Justice (which ended only with the election of the pro-business Reagan administration).

Adam Smith versus Microsoft

According to Smith’s invisible hand principle, the moral justification for Microsoft entering into trading relationships is the benefit that it provides to others. If Smith’s invisible hand principle is adopted consistently then this means that Microsoft does not exist for its own sake. It exists to serve its customers and to serve society as a whole. This means that Microsoft has no moral right to set the terms on which it deals with others. It is these others that have the moral right to set the terms on which Microsoft deals with them. A “moral right” here means that it is right in morality for a person or company to take a particular course of action. Edwin A. Locke (1999) explains this issue in an open letter to Bill Gates:

If the existence of your superbly productive company can be justified only in terms of a duty to serve the “public interest,” then the government—as the representative of that public and the definer of its indefinable “interests”—has the right to dictate to you the terms of your continued existence. It may claim the right to regulate your prices, your products, your contracts, and your methods of competing with your rivals. If you are only a servant of society, then nothing you do can be free of government controls.

If Microsoft exists to serve others, then these others have the right to decide if Microsoft is charging too much, or, in this case, too little for

its products. They have the right to decide if Microsoft can sell its Windows operating system on its own or “bundled” with applications such as Internet Explorer. They have the right to decide on what terms Microsoft provides Windows to PC-manufacturers. And they have the right to decide on what terms Microsoft should promote Internet Service Providers.

Judge Stanley Sporkin describes Microsoft as “a company that has [a] monopolist position in a field central to this country’s well-being, not only for the balance of this century but also for the next” (Bicknell 1995, 12). It is because of the benefit that Microsoft provides to the “well-being” of the country that the country has assumed the right to tell Microsoft how to conduct its business. The government cannot do this on the basis that Microsoft has a right to exist for its own sake. The government cannot do this on the basis that Microsoft exists to serve its own interests. The government can only assume this right if Microsoft exists to serve the “well-being” of the country. And this is exactly what the third element in the invisible hand principle claims.

Microsoft’s customers have insisted that they have a right to be supplied Windows without Internet Explorer. Boeing, Gateway and Packard Bell testified in court that they would have preferred to use Windows without Internet Explorer built-in (Armstrong 1998). But they can only demand that Microsoft provide them with Windows on its own if Microsoft exists to serve their interests. Only then would these companies have the right to set the terms on which Microsoft deals with them.

The ideological origins of the antitrust laws under which Microsoft was prosecuted can be traced back to Smith, even though Smith himself did not support antitrust laws. Smith was concerned that traders would join together in a “conspiracy against the public, or in some contrivance to raise prices.” (Though Smith believed that such a conspiracy would only be “effectual” if it had “the unanimous consent of every single trader.”) But he did not advocate antitrust laws to remedy this problem, other than taxes on monopolistic gains, because he believed that “[i]t is impossible indeed to prevent such meetings, by any law which either could be executed, or would be

consistent with liberty and justice” (Smith [1776] 1910,116–17). But Robert J. Samuelson (2001, 28) argues that the antitrust laws “aim to enhance Adam Smith’s classic ideal of competition.” Andrew I. Gavil (1991, 220) describes Smith as the “intellectual grandfather” of the American antitrust laws. John H. Atwood (1923, 445) invokes the above passage from Smith about traders conspiring against the public as justification for the American antitrust laws. And Tom W. Bell (1999, 1755–56) notes that this passage is often invoked by supporters of the antitrust laws.

Ayn Rand versus Adam Smith

According to Rand’s trader principle, however, a trade is a voluntary exchange from which both parties expect to derive a mutual benefit. Neither party exists for the sake of the other party. The parties only enter into the exchange on terms that benefit themselves. This means that Microsoft has the moral right to decide the terms on which it makes Windows available to others. If Microsoft wants to make it a condition of purchase that its customers dress in pink frocks and dance around Central Park then that is their moral right. Its customers may prefer not to do this, but they must then ask themselves: Does the benefit that I receive from Windows make it worthwhile for me to dress in a pink frock and dance around Central Park? If they decide that it does not, then they should not enter the trade. This principle holds no matter how ludicrous or unreasonable Microsoft’s terms may be. It is their moral right to decide on what terms they are willing to enter into an exchange. Of course, if their terms are ludicrous and unreasonable, then no one will want to trade with them. People will opt for a different operating system, or will simply refrain from upgrading to a new version of Windows (which is exactly what Boeing decided to do).

Microsoft did not take any action that was inconsistent with the trader principle. They have the moral right to bundle Internet Explorer with Windows. They have the moral right to require PC-manufacturers to include Internet Explorer on their computers as a condition of using Windows. They have the moral right to require

Internet Service Providers to give preferential treatment to Internet Explorer in exchange for promoting their services. Microsoft's customers, the PC-manufacturers, and the Internet Providers are free to go elsewhere. It is true that if they go elsewhere then they will not receive the benefit of using Windows. But they have no moral right to this benefit. Microsoft does not exist for their sake. Of course, a point that is often lost in this debate, is that a trade is a mutual benefit. If these people decide that they do not like Microsoft's terms, then Microsoft will lose the benefit of their custom. In fact, Microsoft has more to lose, since its "market dominance" depends on people voluntarily choosing to continue trading with them.

On the trader principle, the fact that a company is able to persuade another company's customers to trade with them instead is radically unimportant. Netscape Navigator originally persuaded a certain number of people to use their web browser. Microsoft then persuaded many of Netscape Navigator's customers to use their web browser instead. Microsoft did this by offering a superior web browser. (When the first Microsoft web browser came out people continued to trade with Netscape because theirs was the superior browser. People only changed to Microsoft's web browser when they were able to offer a superior product.) Microsoft did not "take" these customers away from Netscape. These customers did not belong to Netscape. These customers voluntarily chose to trade with a different company because they were made a better offer. The customers, after all, exist for their own sake, not Netscape's.

The issues in the antitrust case against Microsoft are not primarily about computers, or monopolies, or even economics. The issues here are primarily philosophical. And the key issue is: Does a person—and thus a corporation—have a right to exist for his or her own sake? Or does a person—and thus a corporation—exist for the sake of others? Smith's invisible hand principle answers in the negative—a person exists for the sake of others. Rand's trader principle answers in the affirmative—a person exists for his or her own sake. The result is that Smith's invisible hand principle undermines the trading relationship between Microsoft and its customers, whereas Rand's trader principle defends this trading relationship. The irony is that

Smith's invisible hand principle undermines this trading relationship at exactly the same time as it purports to provide a moral justification for the market economy.

Conclusion

One should not confuse Rand's defense of laissez-faire capitalism with Smith's defense of the market economy. Rand and Smith do not share the same ideas on the importance of self-interest—for Rand, self-interest consists in the practice of those virtues required to promote one's own survival and flourishing; for Smith, self-interest consists in the practice of "inferior" virtues that ought to be subordinated to the "noble" self-sacrificial virtues. Rand and Smith do not support the same sort of minimalist government—Rand supports laissez-faire capitalism; Smith supports extensive government intervention in the economy. These are substantial and important differences between these two thinkers, as we can see when these principles are applied to the antitrust case against Microsoft.

Notes

1. I will be focusing here exclusively on the moral aspects of Smith's invisible hand principle. I will not be considering the impact that the invisible hand principle has had on theories of spontaneous order (Hayek 1973, 37; 1952, 65; Sciabarra 2000, 128–29). Spontaneous order theorists claim that the order and institutions in society arise spontaneously as the unintended result of human action (Nozick 1974, 18). This claim no doubt has moral implications, but I take this to be primarily a metaphysical and/or epistemological issue.

2. Edwin Cannan argues that Smith's "invisible hand" passage was a restatement of Mandeville's observation that "private vices" lead to "public benefits" (Ross 1995, 418). One has to be careful not to overstate the similarities between Smith and Mandeville. In *The Theory of Moral Sentiments*, Smith ([1759] 1997, 164) criticizes Mandeville for making self-interest as such a virtue and thus failing to make "the distinction between vice and virtue." This does not affect my point. Smith agrees with Mandeville that "private vices" can lead to "public benefits," but unlike Mandeville he still maintains that these "private vices" are in fact vices in spite of their "public benefits."

3. Smith refers to the "invisible hand" for the first time in a paper on the *History of Astronomy*, which he wrote in the mid-1750s, but which was not published until much later. Smith refers to the "invisible hand" again in *The Theory of Moral Sentiments*, which was first published in 1759, but which was significantly revised many times before his death. His final reference to the "invisible hand" appears, of course, in *The Wealth of Nations*, which was published in 1776. In *The Theory of Moral Sentiments*, Smith ([1759] 1997, 249) describes how rich proprietors, who are unconcerned with "humanity" or "justice," are "led by an invisible hand to . . . advance the interest of

the society.” This is an early statement of the invisible hand principle. (Note that Smith states that the “rich proprietors” are *led* by an invisible hand, rather than *as if* by an invisible hand or *as though* by an invisible hand.)

4. Theresa Gabaldon (1992, 1393 n. 26) suggests that Alan Greenspan supported “the device of the invisible hand” in his articles for Rand’s *Capitalism: The Unknown Ideal*. But Greenspan makes no mention of the invisible hand in these articles.

5. Smith is using the term “sympathetic” here in a technical sense to mean “concord” or “correspondence” rather than in the traditional sense of “pity.” See Otteson 2002, 16–18 for a discussion on the different senses in which Smith employs the term “sympathetic.”

6. This is not a “flourishing” interpretation of Rand, because I take flourishing to be the result of successfully obtaining the values one’s survival requires (Smith 2000, 130–45). I do not take flourishing to be the standard of value as the “flourishers” do. For a “flourishing” interpretation of Rand, see Badhwar 2000; Hunt 2000, 109–12; Sciabarra 1995, 256–60; 1998, 47–48. For a “survivalist” critique of the “flourishing” interpretation of Rand see Kelley 1992, 54, 58.

7. An obnoxious trader may still be able to sell a product if the benefit his customers derive from the product is sufficient to make it worthwhile for them to endure his obnoxiousness. But the fact remains that such a trader is not encouraging and cultivating trading relationships through his obnoxiousness. It is the value of his product that is encouraging his customers to trade with him, not his behavior towards them. So if a benevolent trader were to offer a product of comparable quality, the obnoxious trader would most likely soon lose his customers to his more benevolent competitor.

8. I must stress that Rand is not claiming that those people who pursue their self-interest by means of trade are practicing a “higher” form of “selfishness,” or an “enlightened” form of “selfishness” (Peikoff 1993, 240). According to Rand, they are practicing the only form of “selfishness” that there is. They are taking the only course of action that will, in fact, benefit their own lives.

9. *Cf.* Rand 1967, 49–62; 1991, 27–30; and Mayhew 1995, 193–98. For Rand-influenced discussion of the antitrust laws under which Microsoft was prosecuted, see Greenspan 1967, 63–71; Reisman 1996, 389–437; Younkens 2002, 259–69; and Machan 2003, 92–97. Rand is mentioned in the academic literature on the American antitrust laws in Bell 1999, 1754 n. 34, 1755; Pulliam 1981, 50 n. 83; Fox 1986a, 1719–20; and Fox 1986b, 558 n. 14. See Rose 1995 for a critical discussion of Rand’s view of monopoly. For discussion on the influence of Rand in the defense of Bill Gates and Microsoft see Weber 1998, 1; Shafer 1998, A1; Goode 1998, 4; and Laver 1998, 52.

10. *Cf. Anti-Trust* 2001.

11. The Ayn Rand Institute (1998) has argued that those competitors who have pushed the “government assault on Microsoft . . . have resorted to the Tonya Harding approach [to competition]: if you can’t win fairly, then physically cripple your opponent.” *Cf. Biddle* 2002, 115.

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