

Adam Smith, the ESS and the SDGs: A Surprising and Inspiring Contribution

Keynote speech

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L'invention de l'économie sociale et solidaire : l'héritage surprenant d'Adam Smith

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The United Nations has recently affirmed that the social and solidarity economy (SSE) contributes in an exemplary way to the achievement of the Sustainable Development Goals. According to António Guterres, UN Secretary-General, the goal of these goals is "to ensure a better life for people and the planet". However, the SSE remains little known. It is often presented as an economy of reparation, i.e. to compensate for the failures of the market or the state. It is also believed to be confined to very small firms, forgetting that there are also large-scale financial and industrial cooperatives. Further, it remains undertaught in economics departments and management schools, as if it were not part of "real business".

And yet, the SSE emerges in part from a prestigious source, Adam Smith's political economy. After the publication of his book *The Wealth of Nations*, Smith was celebrated around the world as having "given the world a complete system of social economy."¹ These are the words of Jean-Antoine Roucher in 1790, Condorcet's friend, who translated this work in France. This was long before Charles Dunoyer's *Nouveau traité d'économie sociale*, in 1830, or John Stuart Mill's *The Principles of Political Economy*, in 1848.

This historical reality is very surprising. Today, Adam Smith is considered the founding father of the orthodox economic theory, the very one that denigrates the importance of the social economy. Yet in his day Smith believed that the business of joint-stock companies should remain confined to specific sectors, such as deposit banking, insurance, canal construction, or municipal water management, all sectors believed to have limited risks.

After a careful study of the misdeeds of the *East Indian company*, Smith concluded that such enterprises necessarily ran counter to the interests of the people, privileging only the financial interests of their shareholders². But nowadays, multinationals and their lobbies dominate our nations, supposedly in the name of Adam Smith's theory, and the social economy is supposed to remain confined to specific sectors.

The slow rediscovery of Adam Smith's conceptions

Major anniversaries are often an opportunity to revisit truths that were thought to be immutable. The publication in the late 1970s of Adam Smith's complete works, celebrating the bicentenary of *The Wealth of Nations* (1776), made it possible to correct certain false truths conveyed about the founding father of political economy. Gradually, it was realized that he associated self-interest with moral sentiments toward others, that he was not dogmatic toward laissez-faire economics, and that he was not the originator of the false theory of the invisible hand of the market. Many authors, based on Adam Smith's true texts, concluded that he was not the father of economic liberalism³.

Around the tercentenary of his birth (June 5, 1723), several books were published on Adam Smith and the tone hardened⁴. "Nobel Prize winners" in economics, such as Milton Friedman, were called out for their biased reading of some of Smith's texts. For Harvard's Glory Liu, for example, Adam Smith was reduced, especially after the Great Depression and during the Cold War, to a logo with the purpose to defend neoliberalism and capitalism. Smith thus became "the symbol of self-interest, choice and freedom"⁵.

These books also document his social conceptions. For example, he never spoke of the "wealth of tycoons", but of the "wealth of nations". He wanted the Industrial Revolution to benefit everyone, fairly. As Smith wrote⁶:

No society can surely be flourishing and happy of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people should have such as share of the produce of their own labor as to be themselves tolerably well fed, cloathed and lodged.

Similarly, while Smith was in favour of economic development, he wanted the political power of the big manufacturers and merchants to be constrained. He was opposed that his society became nothing more than a "shopkeeper's society". As he suggested⁷:

The interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respect different from, and even opposite to, that of

the publick. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the publick; but to narrow the competition must always be against it and can serve only to enable the dealers by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens.

To take one last example, Smith was also in favor of mutual aid and solidarity. He even contrasted the "spirit of monopoly" of manufacturers with the cooperative spirit he observed in farmers, in harmony with nature. As he noted⁸:

The undertaker of a great manufactory is sometimes alarmed if another work of the same kind is established within twenty miles of him. [...] Farmers and country gentlemen, on the contrary, are generally disposed rather to promote than to obstruct the cultivation and improvement of their neighbours' farms and estates. [...] They] are generally rather found of communicating to their neighbours and of extending as far as possible any new practice which they have found to be advantageous.

It is therefore no coincidence that some of the earliest forms of social and cooperative enterprises emerged in Scotland in Smith's time. The industrial village of New Lanark, for example, 50 km southeast of Glasgow, where Smith taught for years, emerged in 1785. Later run by Robert Owen, this community became Britain's first cotton mill. It is also recognized today as one of the cradles of European cooperativism.

Owen and his associates introduced policies such as the prohibition of child labor, advanced safety and health conditions, and education for all his workers and their families⁹. It is often little known, but it was George Jardine, of the University of Glasgow, Adam Smith's student and colleague, who organized this innovative workers' education¹⁰. Recently, the International Labour Organization adopted a resolution that recognizes the particularly positive contribution of the SSE and cooperatives to the promotion of decent working conditions¹¹.

From profit maximization to the Sustainable Development Goals

Adam Smith never proposed that the sole responsibility of corporations was to maximize their profits, as is still taught in business schools today¹². The author of *The Wealth of Nations* even insisted that " [...] wealth does not consist in money, or in gold and silver".¹³ For him, a "rich" nation was measured by the productivity of its fields, the number of its jobs, the well-being of its population or access for all to quality education. Similarly, António Guterres recently insisted that there is a real need to move away from GDP as the only measure of development¹⁴.

Amartya Sen is the Nobel Prize winner in economics who has most defended these conceptions. He and his colleagues created the Human Development Index (HDI), adopted by the United Nations Development Programme (UNDP). This index is calculated for each

country since 1990¹⁵. It evaluates people's well-being according to a plural analysis, going beyond GDP alone, i.e. people's life expectancy, education and standard of living.

In this index, the notion of development or "wealth" is not only financial. For Sen, development is about increasing the wealth of human life and not just the wealth of the economy in which people live. Or put another way, development is for him "a process of expanding the real freedoms that people enjoy"¹⁶, or their "capabilities", well beyond economics alone.

In a similar fashion, Adam Smith defined political economy as "to provide a plentiful revenue or subsistence for the people, or more properly to **enable** them to provide such a revenue or subsistence for themselves" and "to supply the state or commonwealth with a revenue sufficient for the publick service"¹⁷. The founders of the capability approach have explicitly praised this legacy, which aims to allow people and the state to be capable to act in their interest: For Amartya Sen "The capability perspective involves, to some extent, a return to an integrated approach to economics and social development championed particularly by Adam Smith (both in the *Wealth of Nations* and in *The Theory of Moral Sentiments*)"¹⁸; similarly, for Martha Nussbaum "Adam Smith already used the language of capabilities to describe the material basis of a flourishing human life, and contemporary capability theorists can draw on his rich insights".¹⁹

This same "capabilist" orientation, inspired in part from Amartya Sen's views and the HDI, can be found today in the Sustainable Development Goals (SDGs). Promulgated by several United Nations entities since 2015, this plural model presents not only 3 but 17 development goals for nations and organizations. The motivation behind these SDGs is not profit maximization. It is to promote the capabilities of all people, on a healthy planet, by allowing them to increase their power to act. And this growth in capabilities is, by nature, unlimited. For Amartya Sen, development is sustainable when it allows for the growth of human freedoms over time.

Unfortunately, the term "sustainable development", introduced by the United Nations in the 1987 Brundtland Report, is often misunderstood. Many people believed that this development only focused on environmental issues. However, the United Nations was already talking at the time about the development of capabilities for each human over the long term, of their freedoms already realized and those potential, in harmony with nature. This social conception involves the art and science of politics, the purpose of which is to facilitate this human development at the collective level.

For example, the first seven goals specify the need for a so-called "sustainable" organisation or a new "sustainable" product or service to: 1. Lead to the end of poverty; 2. Contribute to the eradication of hunger; 3. Promote health and well-being; 4. Facilitate quality education for all; 5. Promote gender equality; 6. Ensure clean water and sanitation; and 7. Produce affordable and sustainable energy. Other objectives are aimed at responsible consumption and production as well as partnership and cooperation between business, governments and civil society, i.e. the private, public and common sectors.

The concrete aspect of these objectives allows each person to judge whether an investment, good, service or company can be considered "sustainable" or not. There is no need here for complicated explanations appealing to a supposedly scientific theory, such as "trickle-down economics".

The SDG model has the advantage of being accepted at the international level. It does not come from a specific nation or a particular political party. It has also been the subject of a consensus between governments, multinationals, NGOs, cooperatives, trade unions and associations, both in developed and developing countries.

Of course, the pursuit of these objectives requires a certain profitability in firms and, in public organisations, reasonable costs. But in any case, the objective is not to maximize financial profits. Although some firms adhere to the SDG model to green their image, others are more sincere and find in these economic, social and environmental objectives good reasons to act. These reasons are intended to enable people to actualize their own aspirations, while reducing social inequalities and environmental problems.

Today, 70% of firms across all industries have started to incorporate some of these goals into their strategies. Management schools are also trying to use them to define ethical and responsible management. The most popular goals, which were included by more than 50% of participating firms, are: 1. Combat climate change, 63%; 2. Decent work and sustainable economic growth, 52%; and 3. Suitable consumption and production patterns, 51%. The least popular goals, pursued by less than a quarter of participating firms, are: 1. Peace, justice and inclusive institutions, 23%; 2. Life on land, 22%; 3. No hunger, 20%; and 4. Life below water, 16%.

While some of these statistics are encouraging, António Guterres recently suggested that progress on the goals is "too slow," especially in developing countries. He thus called for a new political commitment and a \$500 billion stimulus package.²⁰

The UN Resolution on the Social and Solidarity Economy

Recently, on April 18, 2023, the United Nations adopted a resolution regarding the contribution of the SSE to sustainable development. This resolution affirms that social and solidarity organisations contribute in an exemplary way to the SDGs and that this type of economy must be promoted²¹. This reaffirms the links that exist between the social economy, theorized by Adam Smith, and the current capabilities approach, which underpin these objectives.

In his time, Adam Smith was indeed very much inspired by the *œconomics* of ancient Greece. It was then a question of managing one's household wisely, in harmony with nature, leading to wise public management. Both required to resist the *chrematistic* compulsion, i.e. to seek only to maximize one's financial profits. Similarly, Amartya Sen and Martha Nussbaum have both insisted that their approach in capabilities draws in particular from Aristotle and Adam Smith.

There is therefore a common line of thought and practice from Aristotle's ancient Greece to Adam Smith's Age of Enlightenment, updated today by the capabilities approach and the United Nations SDGs. Having drawn on some of the same sources and energized by social innovations, workers' associations or solidarist movements²², it is not surprising that the SSE is recognized today as particularly favorable to the social and sustainable economy. For the United Nations, the SSE is now considered to be part of the "new economy for sustainable development", which also includes, among others, the circular economy, the green economy and the economy of care²³.

But, even today, the SSE remains little known. Recent research suggests several reasons for this lack of notoriety²⁴. One of them is that the SSE does not have an "emblematic figure". Recalling Adam Smith's legacy, based on his real writings, may bring the field some prestige, in addition to the theories recently formulated by Amartya Sen.

Another reason is that SSE is perceived as a "catch-all" category. But as we have seen, it is precisely the plural conception of development, present in Smith's work, in the capability approach and in the SDG model that typifies a social and sustainable conception of the economy.

A final reason is that the SSE does not seem to offer a "unifying narrative". However, the search for the wise management of our households and of our nations in order to be able to realize our aspirations beyond mere profit, was already practiced in ancient Greece. This vision, which aims in a concrete way at the autonomy of people and their voluntary cooperation, was pursued in Smith's social economy and is further developed today in the capability approach and the SDGs.

People who are currently working in the SSE can be proud because they embody a conception of the economy infused with meaning in human history. This conception has united the economy and the ecology for millennia. It has raised the individual notion of the "good life" to a collective level, bringing out the theory and practice of political economy.

Moreover, the use of the SDG model can expand the type of organizations that can contribute to the social and sustainable economy today. Nowadays, the SSE is mainly carried out by cooperatives, mutual organisations, associations and foundations. But other types of organizations are emerging, achieving different SDGs, such as social enterprises, mission-driven companies, B corporations, or collective entrepreneurship organizations²⁵. These new types of organizations reformulate the tensions already present in the SSE, such as non-profit-making versus limited profit-making, democratic governance modalities in private organisations or the place of the common good in business projects. However, the SSE itself aims to replace the old reason of economic growth with a new reason, sustainable human development. This new reason for action is in fact very old: Since ancient times, it has consisted of managing our households and our house-earth wisely, in order to be able to realize our aspirations beyond financial profit alone.

It is encouraging to see that the rise of the SSE is now significant at the level of organizations, employing more than a billion people on the planet. In classical economic

theory, this organizational dimension is often neglected, sometimes moving directly from the micro to the macroeconomic level.

But if we want to reduce our increasing social inequalities and environmental problems, it is essential to reintroduce the teaching of the social, solidarity and sustainable economy in our schools and universities. Countering the falsehoods currently taught on Adam Smith, the founding father of political economy, and recalling his contribution to the social economy, will reorient and revitalize this teaching.

It is therefore urgent that our governments facilitate the SSE more, instead of confining themselves to the traditional economy. While gains have been made at the United Nations level, it is time for every nation to get involved in sustainable development, which is social, economical, ecological and political at the same time.

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