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Risk and Trouble: Adam Smith on Profit and the Protagonists of Capitalism

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Abstract: *To better account for deepening global inequalities, political theory could greatly enhance empirical and normative work by answering a fundamental question: What is profit? When engaging political-economic questions, however, theorists often begin thinking from the concept of private property. This, I argue, has obscured the central role of profit as an organizing category for capitalist societies since the eighteenth century. Grounded in the dynamic and uncertain processes of production and accumulation, profit displaces the proprietary citizen and subject of natural rights and gives rise to new social protagonists, who lay claim to increasingly asymmetric rewards. In particular, the article calls attention to a dangerous contemporary sensibility, which sees profit as inherently unlimited. As a viable, robust alternative, it presents Adam Smith's idea of profit as a regular, uniform rate that acts as a productive constraint on business activity, shapes character, and safeguards against risk by widely distributing its costs.*

Profit is the measure of success in modern capitalist democracies, and it is also the measure of inequality. High corporate profits and their shrinking pool of beneficiaries are at the center of critiques of rising global disparities and the exploitation of labor, consumers, and the environment. And yet, this article argues, we have no clear sense of what "profit" means. Almost self-evident in its technical simplicity—the excess of returns over costs—profit stands at the intersection of economic explanation and normative reflection. To understand profit, I propose, is to ask how an "excess" of returns might form in the first place and, at the same time, who will get to pocket it.

Definitions of profit in the history of economic thought have been highly diverse and unstable. "Of all the traditional branches of economics," warned economist John Hicks, "the theory of profits has had the greatest difficulty in attaining the 'safe path of a science'" (Hicks 1931, 170). For this reason, profit has proved particularly suitable for carrying, and concealing, ideological stakes. Profits have been tied to virtue and frugality (Weber 1992, 19, 104), the exploitation of labor (Marx 1996, 161), and the entrepreneurial spirit (Schumpeter 2011, 245) with equal amounts of scientific zeal. Not even today has this disagreement abated, as a study of commonly used neoclassical textbooks has revealed (Naples and Aslanbeigui 1996).

And yet, a general sensibility about profit has nonetheless taken root among experts and the public alike. It is the idea, traceable to the early-twentieth-century theories of Frank Knight, Joseph Schumpeter, and others, that profits are a highly individualized reward, a pure "remainder" of the production process. They are won by a rare few, rewarded for their risk-taking, innovativeness, or simply by virtue of being owners or shareholders.[1] Profits, in this view, should be maximized, lacking any inner principle that would limit them. At best, critics can argue about the external limits a political community can impose, eschewing the question of the legitimacy of profit for debates on the legitimate uses of state power.

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[1]An influential example of the legal commonplace that property owners have a right to profit as its "fruit" (Honoré 1961, 117) is the shareholder-primacy movement, which sees it as the (sole) duty of managers to maximize returns for shareholders (generally seen as the firm's owners; Friedman 1970).

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As a striking counterexample to present-day intuitions, this article puts forward Adam Smith's theory of profit: an early, highly influential effort to incorporate profit into a systemic account of capitalist surplus production. Smith defined profit as a uniform rate across industries and a component of the "natural price"—or socially mandated cost—of all goods. Profits, moreover, had to remain low to accommodate economic progress and more general "improvement," acting as a permanent constraint on business decisions and an important factor in shaping character. Smith also added two frequently overlooked bottom limits on profits: They had to be high enough to incentivize active employment of capital and to serve as insurance on the entrepreneur's investment. In another stark contrast, therefore, with contemporary definitions, which couch limitless profit in *individual* risk-taking, Smith treated profit not only as a bounded income-share but as a *social* risk-redistributive mechanism.

Smith's account of profit reveals the political, distributive, and ethical stakes of all theories of profit. It is of the nature of profit, I argue, as an uneven share of the proceeds of collaboration, that it prompts reflection on merit, inequality, and the source of value. Though Smith is known as much as an ethicist as a political economist, his theory of profit is not unique, therefore, in combining the two. What makes Smith's account particularly valuable for contemporary debates is its targeted critique of rent-seeking, which he contrasts with merited profit-making, and the framework he sets up for social and distributive justice. First, Smith's account was developed as a critique of private property, especially ancient title, serving as the basis of authority, wealth, and economic explanation. A return to Smith, therefore, can help remedy contemporary political theory's narrow preoccupation with private property, as I discuss next, foregrounding instead the unique features of capitalist production as a collaborative process over time.

Second, Smithian profit represents a middle way between a "value-neutral" approach to justice, prioritizing economic regulation, and one founded on a set of state-sanctioned ideal principles, rights, and duties. Smith does not offer, as some have suggested (Hont and Ignatieff 1983), a purely mechanical solution for inequality or, as noted by others (Fleischacker 2004; Smith 2013), does he appeal to universal notions of what humans are and deserve for his idea of justice. Instead, he combines "mechanism" with a basic equity in human interaction and a horizon of collective flourishing. "Invisible hand" explanations notwithstanding, for Smith, profit done right stands as a very concrete mechanism that helps bridge self-interested behavior and general welfare. Smith's theory of profit, moreover, offers a detailed program of "predistributive" justice—addressing inequality at its (economic) source—which includes the wide distribution and sharing of economic risks. Though Smith's views, therefore, are firmly rooted in his eighteenth-century context of a static society with limited franchise, his distributive principles nonetheless lay a path for greater political and economic equality today.

In the first section of the article, I address the problems posed by the omission of profit and the lingering influence of private property as a framework for discussing justice, equality, and political rights. The second section lays out the problem of Smithian justice and places his unique definition of profit in the context of the longer tradition of "surplus theory". The next three sections look at the uses of profit in employing labor, actively employing capital, and insuring against business losses. Each function, as I show, imposes a limit on the rate of profit. The final section discusses the role of profit in shaping the right kind of profit-making elites, workers, and political community for capitalist development. The conclusion proposes some practical and theoretical applications of Smith's idea of profit from business ethics and antitrust regulation to the broader problem of democracy and distributive justice.

Property and Profit

Private property has long enjoyed a privileged place in the way political theory, especially postwar liberal theory, has thought about the joint problems of political participation and economic justice. This means that a particular kind of economic person, the independent proprietor, has served, either openly or tacitly, as the archetypical political person and citizen.[2] Though property requirements for participation have long been lifted (at least nominally), the core values of proprietary citizenship—independence, personal autonomy, and self-government—remain hegemonic, and exclusionary. In this section, I offer a brief outline of this ideal type and some of its recent uses in combating inequality. In general, I argue, this property-centered view,

[2]The meaning of "liberalism", as Duncan Bell (2014) shows, was radically revised between 1930 and 1950 in response to the rise of totalitarian regimes: An anti-Lockean nineteenth-century emphasis on "utility, democracy, and political economy" turned into a mid-twentieth-century emphasis on "natural rights, the social contract, and constitutionalism," with Locke as its figurehead (692). This contractarian turn, I propose, has also manifested itself in the heightened, inflated role of private property, and its virtues.

evident in Smith scholarship as well, has overemphasized independence over interdependence and significantly narrowed our view of the political community. The profit-centered view detailed in this article is meant as a corrective and a complement to this broader social justice agenda.

Drawn from the theories of Locke, Kant, and Hegel, the proprietary ideal, whether or not it is explicitly linked with political rights, roughly adheres to the following: To be truly free and to live a dignified life, individuals must maintain their autonomy and independence, which they are best equipped to do when they can possess, use, and (typically) exclusively control a piece of property. Property serves as an extension and expression of their individual will and discretion, and as a means to fulfilling their autonomously defined ends (see, e.g., Radin 1981; Ripstein 2009; Waldron 1988). A system founded on private property, moreover, and its free exchange, also assumes an equal dignity among persons: an equal capacity to become autonomous and self-authoring (Dagan and Dorfman 2017), regardless of the actual distribution of property in society (Macpherson 1962, 199).

The impact of this largely dehistoricized ideal on political theory in recent decades has been pervasive.[3] Libertarian theories of justice, to name an obvious example, have followed Robert Nozick (1974), focusing on property rights and the "economic liberties" (Tomasi 2012) as the basis of (democratic) justice. Similarly, a "Smithian" ideal of exchange, free from market power and artificial constraints, depicts markets as a set of mutual, voluntary contracts (e.g., Radin 1987, 1888), where an individual's freedom is premised on a robust right of exit (Taylor 2013).[4] Ideals drawn from property and frictionless markets also make more tacit appearances, for instance, in egalitarian literature. Luck egalitarians such as Ronald Dworkin (2000) have been criticized for their emphasis on personal responsibility and individual choice (Wolff 1998; Young 2013), whereas relational equality, a would-be alternative, relies on contractarian principles of "mutual justification" and an ideal of freedom as self-government (Anderson 1999, 322; Dagan and Dorfman 2017, 399).

It is no surprise, therefore, that property is heavily featured in contemporary solutions to inequality, disenfranchisement, and commodification. Worker democracy (Dahl 1985) and, more recently, property-owning democracy (POD), revived in Rawls's later work (O'Neill and Williamson 2012), prescribe the wide redistribution of ownership stakes—either through employee ownership or stockholding—as an important step toward political participation both within and beyond the workplace. The idea of market inalienability, on the other hand, like Locke's original "property in the person," invokes a language of property rights as expressive, and protective, of human dignity, individuality, and equal status (Radin 1987; Satz 2012). In this case, the aim is to limit the expansion of (legal) markets into "personal", or otherwise harmful, spheres, making some possessions, resources, and labor non-salable.

The account that follows shares many concerns and goals with the above theories, particularly those that focus on productive property, like POD; treat the problems of material and political inequalities conjointly, like relational egalitarianism; or study wealth in relation to income, like Piketty's (2014) empirical program. This overview, however, aims to illustrate the limitations of property-centered approaches in their insistence on autonomy, independence, rational reason-giving, or perfect voluntarism as the "bases of self-respect" needed for democratic citizenship. These frameworks not only risk reproducing the material and social obstacles that stand in the way of broad participation (by making either property or autonomy one of its preconditions). Their main flaw is that they obscure the inherent interdependencies of capitalist collaboration as such: the inequalities in status and authority that it mandates and the virtues of care, mutual responsibility, and foresight it promotes.

It is on these questions, as Smith's account demonstrates, that the history of economic thought and its conceptual apparatus can come to the aid of normative and critical theory. The modern science of political economy takes up the question of how productive capital produces wealth for owners, workers, entrepreneurs, and ultimately the state. It puzzles over the wide disparities in income from a single production process, asking how returns should be divided most favorably to individual and collective flourishing. Finally, it asks what power relations are made and unmade through economic collaboration, how class interests are formed, and what personalities develop in the process.

The following is an extended account of the protagonists shaped by capitalist systems, focusing on profit makers as the quintessential capitalist elites. Though readers have often overlooked this point, Smith contrasts profit makers with propertied elites, most prominently landlords, whom he recasts as rentiers. Profit makers are

[3]On the historical emergence of the self-interested, autonomy-centered idea of private property out of older, proprietary, interdependent, and static ideals of property, see Rose (1994, 51–52), Pocock (1985, 59), and Horwitz (1992, 17).

[4]Notably, the right of exit model, unlike the market democracy model, is not simply a negative freedom, but is conditional upon broader social guarantees of one's subsistence needs (Taylor 2013, 597).

defined and justified through their constitutive relationship with workers. Property, meanwhile, is not abolished in this framework, but its role is fundamentally altered. It represents title not to authority but to an income share from productive activity, competing with those of its other, more necessary contributors: labor and enterprise.

Justice and Surplus in Smith

The popular view of Adam Smith sees him as the prophet of laissez-faire capitalism, epitomized in the "invisible hand."[5] Historians and theorists, on the other hand, have long emphasized Smith's concern for the welfare and enlightenment of all members of society. Recent years have seen an influx of work dedicated to Smith as a harsh critic of merchants and joint-stock companies (Herzog 2016; Muthu 2008; Nacol 2016), a champion of the working poor (Fleischacker 2004; Schliesser 2017), and an advocate of taxation and regulation (Boucoyannis 2013; Rothschild 2001). Profit, I argue, which Smith redefined and rehabilitated, linked together these different strands of his thinking on justice. More specifically, profit allowed Smith to combine the technical laws of surplus production with several ethical and political objectives: "improvement," a depoliticized economic sphere, and a government freed from the influence of profit makers.

Without taking up in full the long-standing problem of justice in Smith's thought,[6] this article joins others in rejecting a narrower claim, that Smith's economics can be reduced to a form of "justice by mechanism." It asks to go beyond the conclusion, shared by many of Smith's early readers (Rothschild 2001, 61) and by some contemporary scholars (Hont and Ignatieff 1983), that Smith proposed a purely technocratic solution to the fundamental moral problems posed by steep inequality: a social justice program with "purely economic premises" (Boucoyannis 2013, 1052). Smith, I propose, did not stake his entire endorsement of the commercial system on what is often (inaccurately) termed his "growth" economics (Herzog 2016). Neither can his prescriptions for reform be separated from his analysis of the character of elites, social conflict, and human ambition, especially the desire to improve one's lot.

Profit is a technical construct that nonetheless serves as one of Smith's primary sites of ethical and political theorizing, assuming three major roles. The first is distributive. Profit allows Smith to move from the technical problem of market-based income distribution to the political and moral problems of economic inequality, power asymmetries, and the responsibility for risk. The second role is diagnostic. The rate of profit reflects the general health of the economy and is responsible for reproducing a set of collective goods a healthy economy begets: opulence, peace, and happiness. By focusing on the proper rate of profit, Smith articulates his vision of a prosperous commonwealth as one that is slowly advancing, freed from market power and a "captured" government. Third, profit is formative: It shapes individual character, spreading ideals and behaviors across society in ways that either serve or hinder capitalist production. Though Smith's readers have focused on beneficence and independence as the main commercial virtues, my reading highlights instead the virtues of productivity: foresight, calculation, and frugality.

The social, ethical, and political roles profit assumes in Smith's theory are rooted in the conceptual framework he drew from the tradition of political-economic thought, especially surplus and natural-price theories. Though classical political economy is often equated with the labor theory of value, surplus theory is in fact a longer tradition linking classical economics with its precapitalist origins (Aspromourgos 2005). This theoretical tradition, which goes back to William Petty in the seventeenth century, begins with the premise that social collaboration necessarily produces a surplus, and that any given surplus can provide, with the work of some, the needs of all. The political-economic task then becomes the reproduction and distribution of this surplus (Aspromourgos 2005, 22). Notably, surplus was not always attributed to the value of labor. Smith's predecessors, especially Petty and Richard Cantillon, saw *land* as the main source of surplus (and wealth) and labor as a means to extract it (106–7). Rents (and taxes), not profits, were the main tools for the distribution of surplus (Aspromourgos 2005, 23).

Smith's main innovations vis-à-vis this tradition were his insistence on labor, especially divided labor, as the direct and only true source of surplus, and on profit as the primary means of reproducing and distributing

[5]This popular image is not new and has been actively promoted by economists throughout history (Hutchison 1953, 10–11; Liu 2019).

[6]Commentary on Smith and justice is vast, and it far exceeds the scope of the current argument. Most pertinent to the questions raised in this article is work on Smith and inequality (Boucoyannis 2013; Hont and Ignatieff 1983; Smith 2013) and on Smith's "commercial virtues" (Fleischacker 2004; Rothschild 2001). The present analysis accepts the synthetic reading of Smithian "justice" as embedded in fair practices and manners but not comprehensively enforced by the state (e.g., Smith 2013, 791). I part ways with what I see as an overemphasis on interpersonal justice, foregrounding exchange among individuals of "equal dignity" (Darwall 1999) and the "soft" duties of beneficence (Fleischacker 2004, 209; Smith 2013, 790), at the expense of class-divided, hierarchical production processes.

it (Meek 1954; Tucker 1960). Smith, moreover, spoke of a "commodity surplus," as opposed to the hoarded coin of the mercantilists (Aspromourgos 2005, 104; Blaug 1985, 11–13). A national economy, in his view, has one central task: increasing the lot available for immediate consumption. This includes society's necessary subsistence—not only the "stock which feeds, cloaths, and lodges the people" (Smith [1776] 1976, 2.1.26, 283), but also its "conveniences, and amusements" (2.2.5, 287). In addition to stock, finally, society must also increase its capital: the goods that reproduce surplus. It was, therefore, by rejecting mercantilist dogma—shaped by profit makers—that Smith sought to rehabilitate profit as a legitimate component of the capitalist machine.

In addition, surplus and profit are bound, for Smith, with the idea of natural price. Surplus is produced and shared by at least three separate social classes: workers, profit makers, and landowners. The remuneration for each class forms one (necessary) part of the natural price of goods: rent, the cost of land, wages, the cost of labor, and profit—the cost, as I will show, of the "risk and trouble" of the employer (1.7.1-3, 72; see also Blaug 1985, 39). The principles of supply and demand are only secondary in price determination: They help bring market prices closer to their natural price. The "ordinary or average" rates of profit, wages, and rent, on the other hand, are determined by underlying economic conditions, "the general circumstances of the society, their riches or poverty, their advancing, stationary, or declining condition" (1.7.1, 72).

Natural prices reflect the true value of goods. Though labor, for Smith, is the source and measure of all value,[7] it is not its only component. In complex economies, with divided labor and private property, profit and rent emerge as equally necessary. Smith's idea of natural price, therefore, indicates that profit is not primarily a market phenomenon, one that takes advantage of a privileged position to sell goods above their cost. On the contrary, profit is an integral part of the true cost of a good and is maintained and paid for by society.

Smith's definitions of the different classes, or "orders," and their class incomes, as the next sections show, allow him to manage the tension between his harsh critique of merchants and his economic system, premised on the benefits of profit-seeking. At the center of Smith's project, which was not only an analytical intervention but also a blueprint for political reform, is the separation of the interests of the profit-earning class from policy and law. This was a substantive transformation of profit itself—from a tool of domination and rent extraction by the powerful to a productive constraint on business decisions.

Profit and Wages

Smith has many names for profit makers—merchants, masters, farmers—but the most general, and arguably the most important, is employer.[8] Profit makers employ both labor and capital, "setting to work industrious people" (1.6.5, 65). The new bond with wage labor removes Smithian profit from its traditional semantic contexts—the circulation of money and the privileges of ownership (Tucker 1960, 36–39)—and places it instead in direct relation with production and the productivity of capital.

For Smith, profit and wages are both novel forms of income and mutually constitutive aspects of price, but their distinction is crucial. His first task is to distinguish profit from the wages of labor by rejecting a common view (current even today) that profits are the "wages of superintendence." Wages are determined in proportion to labor expended and are thus a function of skill, time, and effort. Although minimal subsistence, "the lowest consistent with common humanity" (1.8.16, 86), serves as the lower limit on wages (its absence means the rapid demise of the working classes), labor is often paid, Smith observes, at much higher rates. The remuneration for labor in his detailed account makes for a palpable image of the laboring person: It compensates for years of skill acquisition, the anxieties of intermittent work, credit and trust won in a community, or the sheer disagreeableness of the work (1.10.b.1-24, 116–23).

Profit is fundamentally different. Smith frequently reminds his reader that the employment of capital lacks most of these kinds of "premiums." There is no distinct skill in employing capital, no real difference between capital invested consistently or intermittently, and no significant role for trust (1.10.b.10-20, 120–22). Profit does not reward effort or skill. Rather, it is a given proportion of capital invested—the higher the investment, the greater the profit (1.6.6, 66–67). The employer of workers and stock, Smith reasoned, "could have no interest to employ a great stock rather than a small one, unless his profits were to bear some proportion to the extent of his stock" (1.6.5, 66).

[7]Labor measures "value" as buying power: Money in Smith's system pays for labor and is worth as much (Blaug 1985, 38–40; Fleischacker 2004, 126).

[8]One name of particular contemporary relevance is "undertaker" (e.g., Smith [1776] 1976, 1.6.6, 66): the English translation of the French *entrepreneur*, well known to Smith as a reader of Richard Cantillon.

Even more strikingly, Smith assumes that this proportional rate of profit is *uniform* across industries: One stands to make equal gains in any industry one should choose. "If in the same neighbourhood," Smith explains, "there was any employment evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments" (1.10.1, 92). Profits across industries, therefore, tend to equalize, while wages remain variable.

The greater inequalities of wages underscore the centrality of labor productivity in Smith's theory. Next to labor's diversity of forms and elaborate sociology, the uniform, "ordinary" rate of profit may at first seem banal. I propose, however, that it is on this point in particular that Smith's idea of profit so radically diverges from contemporary notions, which treat profit as erratic, unpredictable, and highly personalized—the prerogative of a unique individual. In contrast, Smith highlights the social rootedness (and utility) of profits. As a regular, uniform rate, the cost of profit is broadly distributed across society.[9]

An "ordinary rate of profit" of this kind poses several technical and interpretive difficulties. It appears to assume that national economies in preindustrial Europe were, or could be, consistently capitalist and well integrated (Meek 1954, 141–42; Mirowski 1982, 186). Even by Smith's standards, in reality, "profit is so very fluctuating

> that the person who carries on a particular trade cannot always tell you himself what is the average of his annual profit. It is affected, not only by every variation of price . . . but by the good or bad fortune both of his rivals and of his customers, and by a thousand other accidents.' (1.9.3, 105)

And yet, under conditions of "perfect liberty," Smith holds, the expectation to earn the regular profit will be a prominent factor in shaping the behaviors of profit seekers.[10] Rather than an observed fact, the "regular rate of profit" is Smith's "regulatory ideal": a principle used to differentiate the natural laws of markets from the artificial policies that inhibit their proper functioning and beneficial effects.

The rate of profit determines, and is determined by, the health of a national economy, the balance of power between classes, and the principles that govern economic policy. It matters, therefore, what the *right* rate is, and what institutional means can achieve it. Smith is clear on this question: Profits, as readers have emphasized, must be *low* to promote economic health and steady advancement (Boucoyannis 2013, 1053; Rosenberg 1974, 1178). Smith's logic is, ostensibly, technical. To grow the national stock, one must increase the quantity of labor employed. This requires high wages that can reproduce and increase the labor force, the "most decisive mark of the prosperity of any country" (1.8.23, 87–88). In a system of free exchange, he adds, progress itself can force wages up, keeping profits low:

> As capitals increase in any country, the profits which can be made by employing them necessarily diminish. It becomes gradually more and more difficult to find within the country a profitable method of employing any new capital. . . The demand for productive labour . . . grows every day greater and greater. Labourers easily find employment, but the owners of capitals find it difficult to get labourers to employ. Their competition raises the wages of labour, and sinks the profits of stock. (2.4.7-8, 352–53)

Advancing societies create a growing demand for labor, raise wages by forcing capitalists to outbid each other, and offer avenues for reinvestment. As profits decline, greater initial capital is required to retain a similar level of earnings, increasing demand for labor once more, and reinforcing the progressive circle.

This passage is important for several reasons. First, it highlights the trade-off between wages and profit, with clear implications for class conflict. Second, it emphasizes the role of capital accumulation not only in "the progress of improvement" but also, contrary to contemporary sensibilities, in achieving greater parity between labor and capital.[11] Third, the passage shows how profit might act as a productive constraint on economic elites,

[9]The idea of a regular rate of profit was long seen as one of Smith's main innovations and lasting contributions, setting him apart from his predecessors, prefiguring the neoclassical turn as a rudimentary equilibrium theory, and highlighting the role of competition and capital accumulation (O'Donnell 1990, 54–58).

[10]Smith could conceive of such an idealization thanks to the long-term perspective of classical economics, where profit disparities would eventually cancel out (Milgate 1979, 1). Moreover, though neither the British nor Scottish economies in Smith's day were fully, or predominantly, capitalist, firm records from the period show that his idea of a uniform rate has empirical merit (Mirowski 1982, 188).

[11]Smith's argument relies on competition (O'Donnell 1990, 60) and geographical capital concentration, but never individual hoarding (Boucoyannis 2013, 1053). Part of Smith's optimism about capital accumulation came from his relative ignorance of the staggering new opportunities the industrial revo-

denying them the opportunity to "live upon the interest of their money" (1.9.20, 113) and keeping almost everyone busy. Finally, the entire mechanism is premised on removing barriers to free exchange and dismantling employers' market power—a wide social and political reform.

As technical as Smith's explanation may be, therefore, readers have been right to seize onto its political and social implications. First, profit links the distribution of income with the distribution of economic and political power. The zero-sum game of wages and profits means that income is determined in part through the actual power balance between workers and employers (1.8.11, 83).[12] Smith, moreover, warns against the built-in advantages of employers, who can more easily organize with peers, withhold work, live on stored wealth, and stifle opponents using the tools of the state (1.8.12-14, 83–85). Unchecked, they can thus increase profits at the expense of wages and exponentially raise the price of goods for everyone (rising wages will only raise prices "in arithmetical proportion"; 1.9.24, 114). In contrast, when progress and law tip the balance in favor of labor, rising wages promote overall prosperity, ease class tensions, and prevent, Smith adds approvingly, the rise of worker combinations (1.8.17, 86).

Smith's progressive circle, moreover, equates the interests of one class, labor, with that of society as a whole and establishes the interests of another, profit makers, as antagonistic to general welfare (1.11.p.10, 267; see also Boucoyannis 2013, 1055).[13] Concern over inflated profits forms the basis of Smith's famous critique of government "capture" by profit makers and the doctrine shaped in their image—mercantilism—which prescribed monopolies and restrictions on free trade (Blaug 1985, 10). High profits were part of the mercantilist agenda, as did low wages, seen as the key to worker industriousness (Boucoyannis 2013, 1054; Hont and Ignatieff 1983; Rosenberg 1974, 1179). A high-profit economy, Smith further argued, not only harms economic interests but corrupts good government. This was most evident in colonies run by joint-stock companies, where profit motives left unchecked, coupled with sovereign powers, meant the destruction of peoples and nature (5.1.e.26, 752; see also Muthu 2008, 199).

It is only under a low profit regime, finally, that one could achieve "publick happiness" (3.4.10, 418). The rate of profit, in this regard, becomes diagnostic: a reflection of the general health of the economy and its benchmark for reform. A healthy economy, for Smith, meant more than just increases in commodity wealth or the expansion of markets. It implied the wide diffusion of this wealth through lowered prices and rising living standards (1.11.o.1, 260). Beyond growth (including population growth), low profits lead to "improvement": improved individual conditions (2.3.31, 342), cultivation of land and technological development (1.11.c.8, 257), and the transformation of human relationships and habits of thought.[14] Of all the benefits of improvement, none was more important than political improvement, "order and good government" that guaranteed the "liberty and security of individuals . . . who had before lived almost in a continual state of war with their neighbours, and of servile dependency upon their superiors" (3.4.4, 412).

In closing, the idea of profit as a uniform rate regulating class relations and collective welfare helps clarify the nature of Smith's critique of merchants, joint-stock companies, and mercantilist political economy. Namely, it is a critique of mercantile politics and asymmetric market power, not of the profit-driven system as such. If, as Stimson (2004) argues, the "invisible hand" should be seen as a metaphor, a tool of the imagination when contemplating the mechanism that leads from self-interest to collective welfare (27), I propose that the low rate of profit is one of these hidden mechanisms. Far from spontaneous and unguided, it required active regulation of the labor market (Rothschild 2001, 82-83) and international trading companies (Muthu 2008) alongside the broad liberalization of domestic and international trade.

Though profits were to be kept low, however, they could not be altogether eliminated. A fact that has gained far less attention from readers is that Smith also maintained a *bottom* limit on profits. His system relied

lution would offer for extreme capital concentration, primarily in the form of machinery, or "fixed capital" (Blaug 1985, 36–37).

[12]Smith's "progressive circle" was severely criticized by David Ricardo, who claimed that Smith confused a demand-driven, nominal rise in wages with a rise in real wages, undercutting his own notion of natural price (Ricardo 1951, 95). I argue instead that Smith's account of market power speaks of patented bargaining advantages, built into the institutional environment, which therefore determine the *real* cost of labor and capital. For Smith, unlike Ricardo, market power forms an essential part of natural price.

[13]Similarly, though with very different implications, the class interest of rentiers is also aligned with that of society as a whole since rents tend to grow with general improvement and increased land productivity (1.11.p.1-2, 264). Nonetheless, rising rents are a problematic side effect of progress, for Smith, rather than its cause, propping up the wrong kinds of elites (1.11.p.5, 265).

[14]The one exception is the loss of the martial spirit—an inevitable moral decline that accompanies the division and specialization of military labor. Previously serving as a remedy for the "mental mutilation, deformity, and wretchedness, which cowardice necessarily involves," martial virtues, Smith adds, must be replaced with increased government "attention" (5.1.f.60, 787–88; see also Schliesser 2017, 189).

on their continued existence, prompting him to reflect on the legitimacy of profit and the distributive outcomes it imposes, from inequality to new forms of domination. To understand why, despite the role of profit in corrupting people and institutions, Smith wants to hold onto it and even expand its role, one needs to look at Smith's novel distinction between interest and profit.

Profit, Interest, and Capital

Smithian profit is a regular, uniform rate and has a naturally beneficial upper limit, consistent with "the general interest of the society" (1.11.p. 8, 265). To maintain profit at this healthy rate, policy must be freed from the interests of merchants and artificial barriers must be lifted, including most kinds of trade privilege and monopoly. A question, however, remains, whether a healthy rate of profit is also justified and fair, or whether it is a lingering trace of a precapitalist system of entitlements and privileges. In this section and the next, I argue that, for Smith, profit was a necessary, merited, and therefore legitimate return for the "risk and trouble" of the employer of capital. Profit must remain high enough to guarantee capital accumulation and its relatively risk-free employment.[15]

The idea of merited profit sets Smith apart from later critiques of profit as redundant or exploitative, made famous by Marx and George (1884, 126), or the Knightian idea of profit as the spoils of a game of chance (Knight 1921). These differences are often lost in the current wave of enthusiasm with Smith's progressive agenda. Merited profits, derived from distinctly capitalist activities (e.g., business investment, retail), rather than an agricultural surplus, are also a sharp departure from the physiocratic political economy, which, unlike mercantilism, was as much an inspiration for Smith as an intellectual target (Blaug 1985, 24; Hont 2005, 100–105). Finally, to set up his unique idea of profit as a return on the use (not ownership) of capital, Smith also introduced a novel distinction between profit and interest, departing from a longer tradition that saw the two as synonymous, or profit as secondary (O'Donnell 1990, 86; Tucker 1960, 50).

Interest, for Smith, represents a return on the ownership of capital, more specifically—its passive lending. In contrast, profit is a return on the active employment of people and things, the employer's "trouble." And yet, this distinction raises some interpretive difficulties. "That derived from stock," Smith proposes,

> by the person who manages or employs it, is called profit. That derived from it by the person who . . . lends it to another, is called the interest . . . Part of that profit naturally belongs to the borrower, who *runs the risk and takes the trouble* of employing it; and part to the lender, who affords him the opportunity of making this profit. (1.6.18, 69, emphasis added)

The "employer" earns profits for her trouble, a kind of bother or care rather than a form of work. She manages "stock," rather than a wealth fund, and is charged with the proper judgment and calculation needed to bring a product to market with sufficient returns. The lender, on the other hand, regards this stock as an abstracted wealth, passively handing it over without any individual contribution. For this reason, profit is the "original" return on capital and must be greater than interest to induce people to actively employ it. Profit is not a return on ownership but on use, just as "capital" designates a productive input, separate from any title to property.

While the distinction between profit makers and interest earners is straightforward, the main difficulty emerges when Smith further explicates the meaning of "employing" labor and capital:

> It seldom happens that the person who tills the ground has wherewithal to maintain himself till he reaps the harvest. His maintenance is generally advanced to him from the stock of a master, the farmer who employs him, and who would have no interest to employ him, unless he was to share in the produce of his labour, or unless his stock was to be replaced to him with a profit. (1.8.7, 83)

What is it, therefore, that separates the "advance" of a lender from the "advance" the employer pays the worker, in anticipation of future earnings? I propose two answers to this apparent puzzle. First, the advances themselves are different. The employer's advance tracks the life of labor: workers' physical needs as well as their need for secure income. Her fortunes, moreover, are ultimately bound with the fate of the finished product, either shared or sold for a profit.

Second, wages and materials advanced to workers form an important part of capital itself: what Smith calls "circulating capital." Unlike the fixed implements and machinery that augment labor in production, circulating capital—the greater part of all capital, for Smith (2.1.8, 280)—is a form of accumulated wealth that must be

[15] For this reason too, Smith's idea of profit should not be confused with the neoclassical "zero profit norm," which assumes that profits disappear in the long run. For Smith and his classical successors, like Ricardo and John Stuart Mill, economic activity will necessarily cease long before profits are eliminated.

utilized or exchanged to maintain its value. "The goods of the merchant," Smith explains,

> yield him no revenue or profit till he sells them for money, and the money yields him as little till it is again exchanged for goods. His capital is continually going from him in one shape, and returning to him in another, and it is only by means of such circulation, or successive exchanges, that it can yield him any profit. (2.1.4, 279)

The difficulty of circulating capital to profitable ends elucidates the kind of "trouble" involved in the role of an employer. Because profits are hard to come by, wealth, especially in the form of circulating capital, must be invested first and foremost in labor itself, in "maintaining productive hands only" (2.3.6, 332). Smith identifies the maintenance of labor as the highest investment in a hierarchy that runs from the virtuous and industrious to the idle and prodigal. He contrasts the productive employment of stock with wasteful expenditure on luxury goods and especially on courtiers, "idle guests, and menial servants, who leave nothing behind them in return for their consumption" (2.3.18, 338).[16]

The same hierarchy is visible in nonwage incomes from productive activity. Rents are the most problematic. Though they occupy an original place within Smith's "natural price," they represent little more than a monopoly income from the enclosure of land and offer weak incentives for reinvestment (1.11.a.5, 225). Lenders, meanwhile, who receive interest effortlessly, have at least abstained from consumption in order to make funds available.[17] Profit, finally, occupies a middle ground between passive and active engagement. Unlike wages, profit does not yet feed anyone. It is a form of revenue that might go toward productive ends, or it might not. But it is the need to keep earning a profit and the inability to simply live off of capital that is continuously circulating, which separates profit makers from the idlers and squanderers. "It is stock that is employed for the sake of profit," Smith ultimately argues, "which puts in motion the greater part of useful labor in every society" (1.11.p.10, 266).

[16]A similar hierarchy characterizes the theory of interest rates in the eighteenth century. For Hume, Turgot, and Cantillon, national economies owed their progress to low-interest-fueled lending booms channeled toward mercantile ends, rather than idled by landlords (Tucker 1960, 29; see also Rosenberg 1974, 1183).

[17]The idea that interest, and eventually profit too, is a compensation for "waiting" will become prominent with Smith's nineteenth-century successors such as Nassau Senior and John Stuart Mill (Gootzeit 2006; Winch 1996, 61).

In this way, Smith's definition of profit works to separate legitimate from illegitimate inequality. When compared with labor, profit makers, whose interests clash with those of society as a whole, are suspect. From the perspective of the productive employment of capital, however, profit is aligned with labor against rentiers, whose revenue "costs them neither labour nor care, but comes to them, as it were, of its own accord, and independent of any plan or project of their own" (1.11. p. 8, 394–95). It is the value, therefore, of the worker–employer relationship that justifies, for Smith, their uneven respective returns, while casting doubt on the rents of landlords. The need for a low, secure incentive to employ capital made profits necessary. Insuring against risk, as I show next, was another.

Profit and the Redistribution of Risk

Since the turn of the twentieth century, profits have been justified in large part by the entrepreneur's individual risk-taking (Hawley 1893; Knight 1921). The link between risk and profit dates back well before Smith's time, though the differences from present-day notions are striking. Risk, for Smith, is not unique to one social "order." It is distributed throughout society, where its greatest costs are borne by wage earners and consumers, not profit makers. Nevertheless, risk defines the second social function of profit and second bottom limit: Profits cannot be so low that they can no longer compensate employers for "ordinary losses." In other words, it is society that shoulders the greater burden of economic uncertainty, not the individual businessperson. Another "distributive" role of profit, therefore, is the wide distribution of risk.

Fortune governs the Smithian world, prompting not only economic but also religious and political solutions to "reduce uncertainty and generate reasonable expectations that secure liberty and flourishing" (Schliesser 2017, 123–32, 202). Emily Nacol (2016) identifies a duality in Smith's approach to risk. On the one hand, individual risk takers are vital to economic discovery, expansion, and exchange. Successful risk takers cultivate a type of risk-wary, calculating prudence, as well as extensive social networks of trust and reputation (118). On the other hand, when bound together, either in joint-stock companies or various political conspiracies, risk-taking *bodies* tend to amplify the negative impact and sheer scope of economic risk in the name of personal gain (105). It would appear, she concludes, that Smith's only solution to the omnipresence of risk in capitalist society comes from virtuous individual risk-taking. Collective risk-taking, in contrast, is a social malaise, fueled by a malignant profit motive (Nacol 2016, 100).

I argue, however, that Smith posits low and stable profits as another, *collective* form of risk management, along with interest and wages. In Smith's core definition, one part of profit—a base level of returns before any incentive is introduced—serves as a rainy-day fund to compensate employers for "the occasional losses to which every employment of stock is exposed" (1.9.18, 113). What is colloquially called profit, in other words, is really a twofold and at times threefold remuneration, containing an operational insurance, "something more," that is, a pure surplus, and occasionally also "catastrophe" insurance, "retained for compensating . . . extraordinary losses" (1.9.18, 113).

The "ordinary rate of profit," therefore, is a collective insurance on business that promotes stable and reliable individual expectations. In addition, profits organize the distribution of risk between lender and employer. "The stock," claims Smith, "is at the risk of the borrower, who, as it were, insures it to the lender" (1.9.22, 114). The interest rate, on the other hand, reflects the risk, primarily counterparty risk, to which "lending, even with tolerable prudence, is exposed" (1.9.19, 113). In addition, it is regularly overlooked that Smith locates some of the greatest individual risk-taking in the realm of wage labor, not profit. It is here, in one's choice of occupation, often involving heavy investment of time and capital, that the "probability of success" becomes a significant cause of inequality. Wages rise sharply to compensate workers for "those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion" (1.10.b.12, 120).

The presence of risk throughout the system of value and exchange, finally, does not mean that risk can be easily detected, measured, or isolated. Smith laments the prevailing irrationality among people when assessing an unknown future or the value of an uncertain prize. The lottery is his model for many economic decisions in which "the soberest people scarce look upon it as a folly to pay a small sum for the chance of gaining ten or twenty thousand pounds; though they know that even that small sum is perhaps twenty or thirty per cent more than the chance is worth" (1.10.b.27, 125). In choosing a profession or making an investment, Smith claims by analogy, people tend to overestimate their own talents, underestimate the likelihood of losing, and prefer large prizes at low, overpriced odds. In the absence of strong character and a hesitant if bold nature, therefore, the profit-based system, with its built-in safety nets, would appear to be Smith's far more substantive, thoroughly social answer to the problem of risk.

The Protagonists of Capitalism

Profit, for Smith, in its third, "formative" role, shapes new economic elites and, through these elites, society at large: its norms, values, and institutions. Similar to Smith's call to dismantle the political influence and market power of profit makers, his "capitalist" ethics undermined the "natural superiority" of feudal lords, claiming title to ancient right, or capitalist rentiers, benefiting from their monopoly power (primarily over land).[18] Despite his extensive critique of merchants, therefore, Smith's ethics celebrates the mercantile virtues that spring from a *low-profit* environment, such as "orderliness, reliability, precision, and painstaking attention to detail" (Rosenberg 1974, 1185).

Low profits shape capitalist protagonists who are crucial for the system of free trade. In this final section, I challenge a common misconception that Smith criticizes merchants on account of their mercantile *values*, their "mean rapacity," "shopkeeper" morality, and "corporation spirit": the indefatigable effort to combine in pursuit of their class interest (4.2.21, 461). The section also asks to qualify "republican" readings of Smith's project, which see him exalt the small independent proprietor (Rosenberg 1960, 562) or extrapolate an ambition for equal citizenship (Herzog 2016, 55–56) from Smith's humbler aims of instituting "perfect justice . . . perfect liberty, and . . . perfect equality": the rule of law, free exchange, and equal market power, respectively (4.9.17, 669).

Smith, as readers are right to point out, was a "sharp critic of domination and dependency" in feudal relations (Darwall 1999, 130; see also Schliesser 2017, 32). He did not, however, promote a vision of an expanded citizenry or of social mobility (Herzog 2016, 53), even as he emphasized the importance of independent habits of mind, "freed, in particular, from superstitions and prejudices" (Rothschild 2001, 10; see also Muthu 2008, 192).[19]

[18]The main difference between lords and rentiers here is what Robert Brenner (2007) has called capitalism's "market dependence," the necessary reliance of elites, as much as workers, on the market for their income and (disproportionate) power (64).

[19]Emma Rothschild (2001) shows, for example, that Smith's early reputation as an advocate of economic rather than political freedoms was shaped in diametrically opposed contexts: "Where economic freedom was seemly in Edinburgh, it was subversive in Paris. Political freedom was subversive in Edinburgh and useful in France" (60). For this reason, Smith was considered a radical in France but could be defended as a moderate in Scotland.

Nor does a Smithian economy assume away the interdependence of labor and capital or, as I show below, the continued subordination of workers to the authority of employers, albeit by other means. The capitalist virtues I focus on in this section, therefore, are not the virtues of "independency" but of *productivity*.

The rate of profit in Smith's system shapes character. The predominance of "circulating" over "fixed" capital, constantly shifting in form, coupled with a low rate of profit, mandates a high level of care and concern on the part of those who "live by profit." Smith names four major categories of profit makers: farmers, manufacturers, merchants (or wholesalers), and retailers (2.5.2, 360). All four categories, including merchants, share a similar set of virtues. Each is responsible, moreover, through their self-interested outlook and general lack of public-mindedness (4.7.c.103, 637–38), for the accumulation and reproduction of capital, the commodity wealth of a nation.

A regularly low rate develops foresight, parsimony, and a calculating disposition. It is the small profit margin, not any kind of autonomy couched in the private ownership of land or in market exchange among equals (Darwall 1999, 132–33), that develops the capitalist virtues needed to maintain Smith's commercial system. As Smith writes,

> merchants are generally the best of all improvers. A merchant is accustomed to employ his money chiefly in profitable projects; whereas a mere country gentleman is accustomed to employ it chiefly in expense. The one often sees his money go from him and return to him again with a profit: the other, when once he parts with it, very seldom expects to see any more of it. Those different habits naturally affect their temper and disposition. . . . The habits, besides, of order, economy and attention, to which mercantile business naturally forms a merchant, render him much fitter to execute, with profit and success, any project of improvement. (3.4.3, 411–12)

It is not, therefore, the traditional republican ideal of an independent proprietor, cultivating self-governance over a private piece of property, that makes the country the site of greatest economic promise (2.5.12, 363). It is the spirit of the city, the meanness of the calculating merchant, that "invades" the country to make optimal use of its abundant resources. "To improve land with profit," Smith clarifies, "like all other commercial projects, requires an exact attention to small savings and small gains" (3.2.7, 385).

Profit shapes a new elite, diametrically opposed to feudal elites and to remaining rentiers within the system of free trade. That it is nonetheless an elite, with extensive privileges and authority, is reflected in the way Smith supposed the capitalist virtues to spread widely among society. In his economics, as much as his ethics, Smith places significant emphasis on the role of the objects, and persons, of our admiration in shaping human ideals and behaviors (Schliesser 2017, 140, 229). As "the leaders and conductors of the whole industry of every nation," he argued,

> their example has a much greater influence upon the manners of the whole industrious part of it. . . If his employer is attentive and parsimonious, the workman is very likely to be so too; but if the master is dissolute and disorderly, the servant who shapes his work according to the pattern which his master prescribes to him, will shape his life too according to the example which he sets him. (4.7.c.61, 612)

When profits are artificially inflated, mercantile elites assume the features of the old aristocracy, with its careless spending and penchant for luxury and flattery. When profits are low, however, one can imagine economic elites who live by profit not only serving as better models but commanding, for Smith, a less despotic form of authority, rooted, at least in part, in "the superiority of personal qualifications," especially those grounded in "prudence, justice, fortitude, and moderation of mind" (5.1.b.4, 710).[20]

By focusing on the character of elites and the detrimental effects of high profits, Smith completes his discussion of political economy as a science that combines ethics, politics, and the mechanics of natural laws. Profit as a tool of individual cultivation is also Smith's final blow to the idea of wealth as privately owned estates and hoarded money. The new protagonists Smith's system foregrounds instead are, predominantly, profit makers and laborers, related as employers and employed and bound together in a common (though far from identical) fate.

[20]Though Smith contrasts the legitimate authority of qualification with the dangerous authority of superior riches and birth, his account permits a distinction between kinds of wealth. The wealth of a profit maker in a healthy system is always the result of "a long life of industry, frugality, and attention" (1.10.b.38, 130). Wealth, therefore, can make these "invisible . . . always disputable" virtues palpable, while people's "natural" adoration makes this kind of wealth a more positive moral agent, in Smith's proto-meritocratic account of capitalism.

Conclusion

Given contemporary alarm over rising inequality, Smith's apology for profit may seem outdated, and yet, it is surprisingly relevant. The profit-driven system of his day needed to be defended, once from its critics and another time from itself—from its abuses by a politically savvy, socially powerful profit-making class, whose interests drove domestic protectionism and international colonization. The solution Smith offered, of preserving profit while radically transforming it, was comprehensive, if relatively conservative, in keeping with his political gradualism (Hont 2005, 354; Schliesser 2017, 164). Profit was an important incentive in his activist view of the entrepreneur. It promoted investments that put people and implements to work creating a plentiful stock of consumption goods. It did so, moreover, not only by appealing to individual self-interest, but also by offering security and widely distributing business risks.

The distinguishing feature, however, of Smithian profit and the classical and neoclassical traditions that adopted it, is its disciplinary power, acting as much as a constraint as an incentive. The regularity of profit, on the one hand, and its limited scope, on the other, allowed it to act as an important economic lever. Kept at a healthy low rate, profits promoted greater capital accumulation alongside higher (real) wages. The "progressive state" they maintained was the key to material and moral improvement, culminating in better government and more legitimate authority. They also shaped a frugal, forward-thinking, bold capitalist and, Smith thought, a similarly dexterous worker, prefiguring Weber's capitalist origin story. Though low profits were "natural," they had to be safeguarded with the right policy, regulated by a combination of free markets and political restraints on merchants. Unlike the twentieth-century views of Knight, Schumpeter, or Friedman, Smith clearly outlines the limits to legitimate profit.

Economic theory since Smith has sounded grave warnings on the continued use of profits. Industrialization, corporate consolidation, and financialization have rendered profit a tool of deepening inequality, rather than a social leveler and disciplinary force. And yet, the same history also teaches us that profit's omnipresence in the business world means that it is bound to return again and again to the main stage of economic debate. When it does, it is important to remember its strong links to an economic science dedicated to social and distributive justice. In other words, though we may want to do away with profit altogether, as Marx, George, or Veblen (1923, 92) have demanded, there are important reasons to retain profit as a site for critical reflection and structural transformation.

The idea of profit as distinct from the prerogatives of ownership, acting as a productive constraint, should inform contemporary debates in several areas. First, from profit taxation to business ethics, an idea, really an ideal of profit as hard to come by, could radically shift the incentive structures, particularly when it comes to the problematic notion of shareholder primacy. Second, low but relatively stable and secure profits could be used as an alternative benchmark for antitrust legislation, replacing vaguer standards like consumer welfare and defending smaller businesses from destructive competition. Third, understanding profit as part of the problem of surplus can alter the ways we measure inequality—like Piketty and others have done—by systematically comparing income, static wealth, and GDP growth. More importantly, identifying profit-making with the responsibility for a thriving labor market can transform the way we remedy inequality through predistributive justice. Finally, by aiming for more constant returns, profit can once again become a tool of risk management, rather than an incentive for wild risk-taking, a problem particularly acute within the growing financial sector.

Dedicated to questions of progress, improvement, and the reproduction and distribution of surplus, classical economics conceived of profit in thoroughly social terms. Beyond any policy implication of profit's changing definitions, therefore, profit is, first and foremost, a way to think about the relationship between material, social, and political inequalities. Smith condoned a highly hierarchical society where political power is particularly concentrated. His idea of profit as bound with labor, however, and the demand to level market power, should inform our discussions of extreme inequality in a thoroughly democratic context. We do not need Smith, in other words, to explain the flaws of feudalism and the virtues of free exchange. Smith is helpful in showing how capitalism is bound to re-create feudalism's primary forms of domination when it loses control over its main engine of inequality: profit.

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