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Capitalism, Democracy, and Adam Smith

By John Thrasher*

Abstract

How can we better understand the relationship between capitalism and democracy today? This article challenges the prevailing “independence thesis” that views capitalism and democracy as separate and often antagonistic systems. By revisiting Adam Smith’s integrationist approach to political economy, I argue for a more nuanced understanding of the symbiotic relationship between political and economic orders. The article critically examines common responses to the independence thesis – insulation and implementation strategies – and proposes an alternative framework based on Smith’s integrated political economy. This Smithian perspective not only offers a more accurate description of the interdependence between capitalism and democracy but also provides a robust foundation for addressing contemporary challenges in political economy.

JEL Codes: B12, K10, P10

Keywords: Capitalism, Democracy, Adam Smith, Liberalism, Political Economy

The relationship between capitalism and democracy is a fundamental question in political economy. Despite the fact that almost all developed nations are both capitalist and liberal democracies, many influential thinkers argue that these systems are conceptually distinct and often in tension. Wolfgang Streeck, for instance, in *How Will Capitalism End?* describes the relationship between capitalism and democracy as a “shotgun marriage” (2016, 20). Along similar lines, Quinn Slobodian, in *Globalists*, argues that markets have been “encased” within global institutions in order “to inoculate capitalism against the threat of democracy” (2018, 2). This view, which I call the independence thesis, has profoundly shaped both theoretical discussions and practical approaches to political economy.

This article critically examines the independence thesis and its implications, identifying two common responses: insulation strategies that attempt to shield one system from the other and implementation strategies that use one system to realize the goals of the other. Both approaches face significant theoretical and practical challenges.

As an alternative, I propose revisiting Adam Smith’s integrationist approach, which views the political and economic orders as inherently interconnected. Smith’s political

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economy avoids the pitfalls of the independence thesis and offers a more nuanced understanding of the relationship between capitalism and democracy. This integrationist perspective provides a better foundation for conceptualizing a political and social order that allows and incentivizes an open, dynamic society.

By focusing on Smith's insights, we can develop a more integrated understanding of the relationship between capitalism and democracy in contemporary liberal societies. This approach is crucial for addressing the challenges facing open societies in the 21st century and offers a more promising path forward than the prevailing independence thesis.

1. The Independence Thesis

Russell Hardin (2003) has argued that political liberalism and economic liberalism are conceptually and causally distinct. Political liberalism – *i. e.*, liberal democracy in its contemporary form – arose as a response to religious and monarchical authority. It is focused on justifying and defending individual rights and political institutions through collective action. Economic liberalism – *i. e.*, capitalism in its contemporary form – aims at collective benefit through economic competition. Hardin claims that although these two strands of liberalism have been historically linked in the English-speaking world, they are nevertheless conceptually and causally distinct (*ibid.*, 43).

There are no generally accepted definitions of “liberal democracy” or “capitalism,” but we need conceptual clarity on the terms to assess Hardin's thesis and its corollaries. There is no clear consensus among political scientists on how to define democracy (Munck 2009; Collier and Adcock 1999). Some define democracy procedurally as a system with competitive elections (Schumpeter [1942] 1976; Przeworski *et al.* 2000). Others argue that elections must be held within other substantive protections for civil liberties and individual rights (Freedom House 2024). Still, others point out that, in addition to competitive elections and protections for civil liberties, democracies also have institutional checks on the exercise of executive power (Acemoglu *et al.* 2019). Without taking sides in these methodological and substantive debates, we can at least fix our terms by using some inclusive combination of the conditions used by most theorists and the main democracy measures such as Polity, Varieties of Democracy, and Freedom House. So, as a working definition, we can think of a democracy as having (1) competitive elections, (2) protections for civil liberties, (3) independent institutions, and (4) the rule of law. Each of these may come in degrees, but some combination for each with a minimum threshold would capture the core of regimes that are described as “democratic.”

Capitalism is harder to characterize. Contemporary works, ostensibly about capitalism, fail to define it (Piketty 2014; Case and Deaton 2020). There is also no equivalent to the Polity or Varieties of Democracy measures for capitalism. The closest analog is the Economic Freedom of the World index produced by the Fraser Institute. The drawback of this index is that it does not measure structural or institutional features of the economy directly. The “varieties of capitalism” approach (Hall 2008; Hall and Gingerich 2009) in comparative political economy is better in this regard, though it has the drawback of looking at market coordination from the point of view of the firm in the

economy rather than looking at the larger institutional structures of an economy. This approach also doesn't allow us to distinguish between capitalism and alternative economic systems like socialism. In Halliday and Thrasher (2020), we propose a definition of capitalism that focuses on institutional features of capitalist economies and that allows us to distinguish between capitalist and what we call "feudal" and "socialist" systems. We define a capitalist economy as displaying several features: (a) strong legal protections for private property, (b) wide dispersion of private property across the population, (c) extensive trade, both foreign and domestic, (d) consumer sovereignty (including competition in the provision of goods and services) (e) a diversity of possible employment contracts (*ibid.*, chap. 1). A capitalist economy will have these features in varying degrees, but each is jointly necessary for capitalism as we commonly understand the term.

With our terms fixed somewhat, we can now look more closely at the claim that capitalism and democracy are separate and distinct. Hardin is not the only thinker who should be puzzled by the connection; partisans of liberal democracy and capitalism have tended to ignore or denigrate one another. For instance, two of the greatest theorists of liberal democracy in the last two centuries – John Stuart Mill and John Rawls – both argued that capitalism was at odds with liberal democracy.¹ Rawls identifies two forms of capitalism: welfare-state and laissez-faire capitalism (2001, 137). The first, he argues, allows substantial differences in wealth that can undermine access to the political system while also not providing a sufficient social safety net to ensure that citizens can develop and take advantage of their talents. Welfare state capitalism provides a social minimum, but it still allows for vast disparities in wealth (*ibid.*, 138). In Rawls's formulation, virtually all OECD nations have welfare-capitalist systems and would, therefore, be incompatible with justice and political liberalism. His argument implies that political liberalism is incompatible with economic liberalism.

Other political theorists make similar claims. Brian Barry (2002), for instance, argues that capitalists could dominate democratic politics by threatening to withdraw their support from the system if policies inimical to their interests were implemented, inherently threatening the functioning of liberal democracy. Thomas Christiano (2010) is slightly more optimistic but still holds that, at best, the relationship between capitalism and democracy is "uneasy." According to Wolfgang Streeck (2016), economic and political liberalism needed each other historically, but their connection is one of necessity, not one of mutual affection.

Defenders of capitalism also sometimes argue that capitalism and liberalism, more specifically liberal democracy, may not fit together well (Caplan 2011; Brennan 2016). Joseph Schumpeter ([1942] 1976) famously stated that liberal capitalist de-

¹ As John Gray ([1983] 1996, 137) notes, Mill's principles of liberty does not seem to favor socialism or capitalism. Nevertheless, in his *Principles of Political Economy* Mill makes a case for socialist experimentation, especially in the way firms are organized (Riley 1996). Rawls is unequivocal on this point, excluding both laissez-faire capitalism and welfare-state capitalism from his list of regimes compatible with justice in favor of "property-owning democracy" and democratic socialism (2001, 144). William Edmundson (2017) goes further, arguing that Rawls was always attracted to socialism of one form or another and saw his conception of justice as incompatible with capitalism.

mocracies undermine themselves through their democratic culture and eventually turn to socialism.

We can unify these diverse strands into a general claim that capitalism and democracy are separate and often in tension. More precisely, two distinct claims are being made here, one descriptive and the other normative. The descriptive claim is that political and economic liberalism are separate and distinct. The normative claim, exemplified by Barry and Rawls, is that they *should* be separate and distinct. We can combine these into what I will call the independence thesis: Economic liberalism (*i. e.*, capitalism) and political liberalism (*i. e.*, liberal democracy) are independent and in tension with one another, with a tendency to undermine each other.

At its heart, this is an empirical claim with a normative upshot. It implies that we can have capitalism without democracy or democracy without capitalism, and insofar as possible, we should minimize the interaction between these systems as they tend to undermine each other.

If we look at the People's Republic of China as a case study, we see a case of market liberalization without democratization. The Chinese case shows that capitalism, or at least the market, does not necessarily lead to liberal democracy. Or, at least not in the short term.² The Singaporean example also shows that capitalism does not necessarily require liberalism or at least liberal democracy. It is certainly enough to prove that capitalism or liberal democracy are not necessary for one another and that one is sufficient to cause the emergence of the other. Nevertheless, the fact remains that virtually every other OECD country has both systems operating together in some fashion, so while neither is sufficient for the other, it may generally be necessary for both to coexist.

As most commentators and theorists implicitly do, accepting the independence thesis leads to two natural responses. Both are strategies for negotiating the co-existence of capitalism and liberalism in virtually all developed nations. The first, which attempts to protect one system from the other by limiting its interaction with the other, I call the insulation strategy. The second, which attempts to use one system to achieve the values or goals of the other, I call the implementation strategy. I look at each in turn.

2. Insulation and Implementation Strategies

One natural response to the independence thesis is to look for ways to shield or insulate the economic order from the political order. This strategy assumes the truth of the independence thesis and adds a further claim: The economic and political orders should be kept separate, and their interrelation should be minimized. Institutional barriers should be established and maintained to ensure they influence each other as little as possible. This can be done in either direction. Political liberal separationists want to

² It is an open question whether we should characterize China as a “capitalist” society rather than an authoritarian one that makes use of markets. After all, Deng Xiaoping famously described his market liberalization of the Chinese economy as “socialism with Chinese characteristics.” If we think of “capitalism” as having more aspects than merely markets, the Chinese example becomes less clear. On this point, see Halliday and Thrasher (2020).

insulate liberal democracy from capitalism, while economic liberals want to insulate capitalism from liberal democracy.

It is important to note that this strategy is about keeping the political and economic insulated from one another, which is not the same as the goal of keeping economic concerns out of politics. There are good reasons to keep political actors and institutions insulated from direct economic concerns to avoid corruption. Rather, the idea here is that the economic and political systems should represent two different spheres of influence, and actors in one should not interfere with the other.

Of course, this is an ideal type; no existing society will engage in this strategy to the degree I have described here. Nonetheless, we can see this strategy as a form of normative guidance, implicitly or explicitly held. It may be helpful to look at some examples of thinkers who have made claims of this sort to see its prominence and appeal. There are two versions of this strategy in relation to economic liberalism and political liberalism. The first attempts to insulate capitalism from democracy, while the second attempts to do the opposite.

Many classical liberal and libertarian thinkers have adopted something like an insulationist strategy that is wary of democracy and the tendency of democratic governments to want to interfere with the economy. F.A. Hayek, for instance, explicitly separates liberalism from democracy, noting that democracy is only valuable insofar as it leads to liberalism (1944, 110). Recent critics of democracy in this vein are less equivocal than Hayek. For instance, Jason Brennan (2016) and Bryan Caplan (2011) argue that voters in modern democracies are too “irrational, immoral, and stupid” (Brennan 2011, 141) or at least too ignorant and misinformed to be trusted to rule. As Brennan writes, “[d]emocracy with unconditional universal suffrage grants political power in a promiscuous way” (2016, 140). According to Brennan, when wielded incompetently, this power undermines citizens’ basic rights and life prospects. Instead, he advocates some version of epistocracy wherein a group of experts will either rule directly or have a veto over democratically decided issues (*ibid.*, 215–8).³ Caplan comes to a similar conclusion via a different route. Like Brennan, he does not articulate a fully developed alternative to democracy as it is currently practiced. Still, he does advocate some increase in the role of experts, specifically economic experts, in influencing and restraining democracy.

The other version of the insulation strategy seeks to build a firewall between capitalism and democracy to protect democracy. Democracy and political liberalism are considered necessary and sufficient to preserve freedom, equality, and civil rights. Capitalism is seen as generating a class of people or interests that seek to undermine the proper functioning of that system for their profit. Barry (2002), Rawls (2001, 53), and, more recently, Benjamin Page and Martin Gilens (2020) all argue that significant financial interests in modern capitalist societies undermine democracy.

While corruption should be a concern in any form of democratic governance, the advocates of this insulation do not merely want to avoid corruption from undue lob-

³ Brennan does not fully develop the theory of epistocracy or explain how it should work in practice, but he does develop several versions that he thinks are plausible, arguing that whichever is more competent should be adopted.

bying or rent-seeking. Their concern is not that the democratic system has or can become too embedded in the interests of capitalists. Instead, they tend to see capitalism as inherently corrupting.

Many of the concerns raised by these thinkers are well-founded, but the efficacy of insulation as a remedy is questionable. The strength of the claim that motivates the insulation strategy makes any solution seem paradoxical. Insulation is likely to be impossible if the threat to democracy posed by capitalism is as serious as many of these thinkers argue. Socialism, or some alternative to capitalism, seems the more likely solution than insulation. It seems unrealistic to think that the same people who were unable to stop the influence of capital before insulation will be able to resist it afterward.

Rather than insulate the political process from economics or vice versa, one might still see each system as separate but as being linked hierarchically, with one being the tool of the other to implement its preferred outcomes. Call this the implementation strategy. As before, it takes two forms. One where the economic system is seen as a tool to implement political goals, and the other where the political system is seen as a tool to implement economic goals. Both forms are symmetrical, but the different goals will change the substance of how the implementation is structured.

Perhaps unsurprisingly, we see this best in the work of Rawls and his followers. Although, as mentioned above, the official position in Rawls's later work is that capitalism and justice are incompatible, in *A Theory of Justice*, Rawls argues that when the principles of justice have already been agreed to, the "problem is to formulate a schema that will assist us in applying them" (1971, 173n). In this sense, Rawls uses markets and the price system to implement his conception of justice.

For most socialists, the problem is not merely with income inequality or the influence of capitalism on politics; rather, it is that capitalism does not provide for what John Roemer (2017) calls "socialist equality of opportunity." The vision of socialism that he and G.A. Cohen (2009; 2011) endorse is, though certainly influenced by Marx and Marxism, miles away from the Marxist tradition. As they see it, capitalism is not bad because it is inefficient or exploitative; instead, it must be replaced because it is unjust. There is an ethical rather than economic or historical vision of socialism.

Another example of this approach, somewhat removed from the philosophers, is the use of markets in the People's Republic of China (PRC) under Deng Xiaoping and continuing into the present. Implementing "socialism with Chinese characteristics" has proven to be an amazing success. Over the last 40 years since this policy was implemented, over 800 million people have been lifted from extreme poverty. The PRC is currently the largest economy in the world in terms of its GDP in purchasing power parity (PPP). Its GDP per capita in PPP is still only about \$23,000, meaning that its people are roughly as wealthy as those of Belarus or Mexico and about half as wealthy as the inhabitants of Mississippi, the poorest state in the United States. Nevertheless, the PRC has been able to use markets under the supervision and control of the Chinese Communist Party (CCP).

This strategy is not only adopted by those who can be roughly identified as on the left of the political spectrum, though. We see it on the right in two forms. One wants to use the political process to implement market-friendly reforms and institutions, and

the other wants to bend the economic system to its social goals. In the first case, we can think of shock therapy in the post-Soviet countries and the market reforms in Chile and other parts of Latin America. The other version of implementation from the “right” involves using industrial policy and other policy mechanisms to shape the economy in ways conducive to some political vision. Singapore, The Republic of Korea, and Taiwan (The Republic of China) are three examples of largely successful versions of this approach. Recently, in the United States, a movement has arisen within the right to copy aspects of the Asian Tiger development model to promote industrial self-sufficiency, counter what they see as the pernicious influence of “big tech,” and to appeal to the interests of working-class males, whom they see as their primary demographic (Cass 2018; Hawley 2021).

Both strategies rely on a stark division between capitalism and liberal democracy such that one can be insulated from the other or have its goals implemented exogenously on the other. The explanation may be that political theorists see the economic system either as an exogenous constraint or as an endogenous variable within their own theories. Many economists may do the same thing with regard to political institutions. While this may simplify their theories with regard to their primary concern, this modeling choice leads to an implicit adoption of the independence thesis, which, in turn, requires them to adopt one of the above strategies. Given the descriptive and normative problems with these strategies, though, we should question the adherence to the independence thesis that supports them.

3. The Interdependence of Democracy and Capitalism

There is good reason to reject the independence thesis, at least in its strongest form. If it is not true that political and economic liberalism are independent, then the normative demand for independence is untenable. While it is possible to have elements of economic liberalism (capitalism) – *e. g.*, markets, trade, and some property rights – without political liberalism, there are no examples of mature capitalist economies without liberal democratic governance.⁴ This should be puzzling to defenders of the independence thesis. If political and economic liberalism are independent, why are they almost always found together? It would be surprising in the extreme if this were merely a coincidence.

Both capitalism and liberal democracy are fundamentally structured around competition, creating systems where participants face ongoing feedback and accountability for their decisions. In democracies, voters provide feedback through regular elections, while in capitalist markets, consumers do so through their purchasing decisions. Both systems thrive on open access and the constant possibility of change. For democracy, this means free and fair elections where new candidates can genuinely challenge incumbents. In capitalism, it translates to open markets where new businesses can compete with established firms. This openness fuels a process of “creative destruction” in

⁴ Singapore is the main exception here, but even it has some features of political liberalism in the form of basic protections for personal liberties and some, limited, protections for civil liberties. Singapore does not have a free or competitive democratic system, however. Freedom House rates Singapore as “partly free” in its 2023 report.

both the political and economic spheres, driving innovation and responsiveness to public demands.⁵

The interdependence of liberal economic and political orders goes beyond mere compatibility; it's a symbiotic relationship crucial for maintaining productive competition and societal stability. This symbiosis explains why capitalism and liberal democracy typically coexist: each system reinforces and sustains the other. In capitalist societies, market participants drive most economic decisions, shaping the productive and distributive landscape. However, this market-driven system relies on a political and legal framework that defines and protects property rights, enabling structured competition. A liberal political order provides the stability necessary for markets with an extensive division of labor to flourish. At the same time, the dynamism of capitalism requires an adaptive political system that can evolve with changing societal needs. As Barry Weingast argues, democratic institutions with strong limits on government power create conditions for economic liberty, while thriving markets contribute to a country's wealth (2015, 272). This mutual restraint helps mitigate potential destabilizing effects, fostering both stability and prosperity.

Thus, while the market drives economic decisions, it is the democratic political order that provides the essential foundation for capitalism to flourish and vice versa. This interplay creates an environment where individuals can confidently engage in long-term economic planning and investment, further reinforcing the symbiotic relationship between economic and political freedoms.

While democratic governance may not always produce optimal results, as Brennan (2016) suggests, optimality is not the primary goal. The pursuit of expert-led political governance shares an ironic similarity with early 20th-century dreams of centralized economic planning – both face significant challenges in complex dynamic systems. These challenges stem not only from the epistemic problems Hayek (1945) identified but also from a lack of external accountability mechanisms.

Both socialist economies and highly bureaucratic governments often struggle with this lack of accountability. In contrast, market systems, as Herbert Gintis (1991, 32) notes, serve not just as allocational mechanisms but also as disciplinary ones, constantly adjusting inputs and technologies. Similarly, democratic competition imposes discipline on political actors. This parallel underscores the importance of decentralized feedback mechanisms in both economic and political spheres, challenging the feasibility of top-down control in either domain.

While democratic governance doesn't match the efficiency of markets, it still proves more effective than autocratic alternatives. The relative inefficiency of democracies stems from various factors: more complex institutional structures, higher transaction costs, less frequent and clear feedback mechanisms compared to markets, and principal-agent problems. Nevertheless, empirical evidence supports the superiority of democratic governance. As Gerring, Knutsen, and Berge (2022, 373) note, "democratically governed countries appear to be better governed overall than autocratically governed countries." Some scholars, like Donald Wittman (1989; 1995), even argue

⁵ On this point, see North, Wallis, and Weingast (2009).

that democracies exhibit a form of efficiency analogous to markets, albeit through different mechanisms.

Perspectives on the relationship between democracy and capitalism vary widely. Some influential models, such as those proposed by Przeworski and Wallerstein (1982) and Acemoglu and Robinson (2006), implicitly endorse the independence thesis by viewing democratic capitalism as an uneasy compromise between class interests. The “varieties of capitalism” approach (Hall and Soskice 2001; Hall 2008; Hall and Gingerich 2009) offers a more nuanced view, recognizing bidirectional influences between political and economic institutions, though it still conceptually separates the two systems.

These approaches contrast with both the implementation and insulation strategies discussed earlier, which assume unidirectional causation. In the following section, I will present an alternative perspective inspired by Adam Smith that fundamentally rejects the independence thesis in favor of what I call integrated political economy. This Smithian approach offers a more integrated understanding of the relationship between capitalism and democracy.

4. Smithian Integrated Political Economy

The independence thesis, while prevalent in contemporary capitalism discourse, faces significant challenges to its normative and descriptive plausibility. Rejecting this thesis opens the door to a more nuanced understanding of capitalism and democracy’s interdependent relationship.

Adam Smith’s work offers the most compelling version of this integrationist version of political economy. Though predating modern political liberalism, Smith’s worldview is recognizably liberal, if distinctively so.⁶ Unlike mainstream neoclassical economics, which often divorces exchange from its institutional context, Smith argues that modern economic and political freedom relies on a specific combination of legal and political institutions (Weingast 2022). This integrationist view offers several advantages over approaches rooted in the independence thesis, providing a more holistic understanding of the interplay between economic and political systems.

A key advantage of Smith’s approach is that it eliminates the need for the insulation and implementation strategies necessitated by the independence thesis. Smith recognizes that political and economic systems in modern commercial societies interact

⁶ This claim can be controversial depending on how narrowly or broadly we construe “liberal.” Elias Khalil (2002) argues, for instance, that Smith should not be considered a liberal since he rejects contractualism as a justification for political authority. While it is true that he rejects the social contract as a source of political authority, there is a larger sense in which his approach is consistent with contractualism (Thrasher 2015). Regardless, John Stuart Mill and utilitarian liberals more generally reject contractualism and are not read out of the liberal canon. Paul Sagar (2022, 93) argues that Smith should not be identified with what he calls “so-called classical liberalism.” Still, again, he identifies classical liberalism with Hobbes and Locke, excluding other strains of liberalism. Eric Schliesser (2017; 2021; 2023) has made a strong case for the liberal bona fides of Smith, as has Barry Weingast (2016; 2022), and I follow them in thinking of Smith as a liberal, albeit a distinctive one.

beneficially. He identifies a challenge beyond the Hobbesian concern of private predation and the Lockean worry of public predation: establishing robust institutions that foster high levels of production, trade, and innovation. Central to this is Smith's concept of the "regular administration of justice" laid out in *The Wealth of Nations* (WN), crucial for sustained commerce:

Commerce and manufactures can seldom flourish long in any state and also willing which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay. Commerce and manufactures, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of government (Smith [1776] 1981, WN V.iii.7).

Smith argues that commercial societies, characterized by luxury and abundance, require a trustworthy political order to manage the resulting need for debt financing (WN V.iii.1–4). This contrasts with feudal or other forms of non-commercial society where hoarding of wealth is more commonplace. The paradox Smith identifies is that greater abundance leads to increased demand for luxury and debt, necessitating a political system capable of credibly committing to not arbitrarily expropriating private actors. This underscores the interdependence of political and economic systems in Smith's thought.

North and Weingast (1989) demonstrate how the 1688 revolution in the UK led to the development of institutions that placed constitutional checks on arbitrary political power, particularly concerning property rights and trade. These proto-liberal developments significantly boosted public and private investment, aligning with Smith's argument. Crucially, this process is bidirectional: commerce and capitalism incentivize stable governance, while increased commerce simultaneously requires political stability. As Schliesser (2017, 179) notes, Smith recognized that "commerce leads to good order [...] yet some order is necessary for commerce to flourish." This mutual reinforcement suggests that political institutions can be viewed as endogenous to the broader commercial and financial system (North and Weingast 1989). Such an understanding provides strong empirical and conceptual support for a Smithian integrationist approach, challenging the independence thesis. Recent scholarship (e.g., Acemoglu and Robinson 2019; North, Wallis, and Weingast 2009) is further evidence along these lines.

Smith's integrationist approach doesn't ignore the potential dangers of intertwining political and economic spheres. We can read his attack on mercantilism and colonialism in the WN as a cautionary tale about the dangers of using the economy for political purposes (mercantilism) or creating a political order out of an economic one (colonialism). However, unlike proponents of the independence thesis, Smith views these as perversions of commercial society rather than its inevitable outcome. He articulates this distinction clearly in Book V of WN: "No two characters seem more inconsistent than those of trader and sovereign. If the trading spirit of the English East India Company renders them very bad sovereigns, the spirit of sovereignty seems to have rendered them equally bad traders" (WN V.ii.a.7).

For Smith, the real danger lies not in insufficient insulation between economic and political systems but in the transformation of economic actors into political actors or vice versa. Although they are not independent, economic and political actors are different from one another; they have different goals, rules, and norms. Insulation is neither possible nor necessary because of the inherent interdependence between economics and politics in a liberal democratic capitalist society, but this doesn't mean that economics and politics are the same. This is exemplified by the "wretched spirit of monopoly" he associates with the East India Company. Thus, Smith's critique of mercantilism and colonialism also implicitly rejects the implementation strategy, further distinguishing his approach from the independence thesis.

While concerns about democratic interference in the economy, as raised by thinkers like Caplan and Brennan, shouldn't be dismissed outright, their proposed solution of full separation is both impractical and potentially dangerous. The real challenge lies in balancing democratic participation with economic stability. Excessive political manipulation of the economy not only risks economic liberty and performance but can also endanger democracy itself. As Weingast argues:

Democracy involves high stakes, especially unfettered democracy. Because people are willing to protect themselves by nondemocratic means, the higher the stakes, the less likely democracy will survive for long periods. Long-term democratic stability, therefore, requires that democracies limit the stakes of power. Although these limits necessarily become fetters on democracy, they serve a valuable democratic purpose in that they make democracy more likely to survive for extended periods (2015, 261).

Successful capitalist democracies, therefore, employ counter-majoritarian institutions and the rule of law to constrain opportunistic meddling, much like Ulysses binding himself to the mast to resist the Sirens' call. Smith, ahead of his time, anticipated many of these constitutional and institutional features (Weingast 2022). Crucially, Smith's solution to the dangers of excessive political interference in the economy is not insulation but rather a deeper interdependence. This approach recognizes the need for checks and balances while maintaining the essential connection between political and economic spheres.

Smith's integrationist approach to political economy envisions a liberal order built on a foundation of impartial justice and strong legal institutions. This framework fosters an open, flexible system that encourages political and economic experimentation and competition. Smith's idea of the "system natural liberty" in the WN emerges from this framework. He writes, "[a]ll systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord" (WN IV.ix.51). The system of natural liberty frees many invisible hands to do their work; as Schliesser points out, for Smith, the invisible hand is not a grand process of spontaneous order but rather a "relatively short-term process in which the agent produces unintended and to him unknown consequences" (2017, 253). In this environment, such processes can repeat and diversify indefinitely across various actors.

The resulting open society that emerges from the system of natural liberty exhibits what Gerald Gaus calls "auto-catalytic diversity" (2021, § 16, 115), wherein innovation continually expands possibilities and creates new challenges. This dynamic sys-

tem improves without a predetermined goal, embodying what Henry Petroski (2008) describes as “form follows failure” rather than “form follows function.” It is a social order driven by marginal improvements rather than grand visions, leading to what Virginia Postrel calls an “inherently open, and imperfect, future” (1998, 61). This openness to unpredictable outcomes and continuous adaptation is the essence of the open society that Smith’s integrated political economy sets in motion.

There is, however, an important caveat. While Smith advocates for a constitutional political order as a foundation for commercial society, he doesn’t explicitly endorse modern liberal democracy. This might seem to limit his relevance to contemporary discussions of democracy and capitalism, but two key points are worth noting in response.

First, Smith was writing before the emergence of democratic commercial societies. In the WN, he criticizes the lack of colonial representation in the British Parliament. He proposes a political union of the many English-speaking territories governed by the UK (including America and Ireland), guaranteeing taxation with representation (WN V.iii.68). Schliesser argues that Smith sees this proposal as “a natural fulfillment of the promise inherent in the Whig settlement of 1688” (2017, 164), suggesting that Smith anticipated a progression towards greater representation and equality.

Second, Smith implicitly supports key features of liberal democracy: the rule of law, protection of civil rights, and, by extension, regular elections. His aversion to monopoly implies support for elections as a means of keeping public representatives accountable. These elements align closely with the foundations of modern liberal democracies.

Although Smith does not explicitly endorse modern liberal democracy, his ideas clearly point towards institutions characteristic of such systems. The influence of Smith’s thought on the framers of the US Constitution was evident (Fleischacker 2002). As Glory Liu (2022) highlights in her history of Smith’s reception in America, Smith was very important to the founders. She writes:

For the American founders, the works of Adam Smith were guide-books for enlightened statesmanship. In *The Wealth of Nations* James Madison found an array of general principles about the relationship between interests, institutions, and individual virtue. Alexander Hamilton mined *The Wealth of Nations* for ideas about the advantages and disadvantages of banking, public credit, and theories of economic growth. Meanwhile, John Adams used ideas from Smith’s *The Theory of Moral Sentiments* to grapple with what Adams saw as a troubling socio-psychological influence of wealth in society (2022, 17).

One of the core arguments of Liu’s book is that American thinkers have used Smith to “frame central issues of political economy” (*ibid.*, 10). My goal here has been to do something similar. Although Smith is writing at the dawn of the emergence of liberal democratic capitalism and before anything that could be reasonably called an “open society” has emerged, there are already seeds of the core doctrines in Smith. As I have argued, these insights are still valuable and can help reframe a central issue in political economy.

Smith’s integrationist approach to political economy offers several distinct advantages over the independence thesis:

1. It more accurately describes the deep connections and mutual support between capitalism and liberal democracy rather than viewing them as separate or antagonistic systems (*i. e.*, the independence thesis).
2. It avoids the pitfalls of both insulation and implementation strategies.
3. It provides a framework for principled economic regulation and political design, while acknowledging the inevitable interaction and feedback between these spheres.
4. It directs liberal thought towards the core elements that preserve and stabilize both political and economic liberalism rather than focusing on isolated economic or political principles.

Ultimately, the Smithian integrationist approach excels not only in its descriptive accuracy but also in how this accuracy shapes normative concerns and priorities. By recognizing the intricate interplay between political and economic systems, it offers a more robust and nuanced foundation for addressing contemporary challenges in political economy.

5. Conclusion

Schliesser has argued that the study of Smith is important as a “prefatory step in the renewal and re-articulation of the ‘old truths’ of liberalism” (2017, 375). One such truth, often overlooked, is the profound connection between political and economic liberalism. This paper argues for a return to Adam Smith’s integrationist approach to political economy, challenging the prevailing independence thesis that artificially separates political and economic liberalism. Smith’s vision of an open society, driven by dynamic “invisible hand” processes, offers a more nuanced and accurate framework for understanding the complex relationship between capitalism and democracy.

By exposing the flaws in the independence thesis and its associated strategies, the intention is to pave the way for a renewed appreciation of the interdependence between political and economic orders. This Smithian perspective not only provides a more faithful interpretation of liberalism’s core truths but also offers a more effective approach to addressing contemporary challenges in political economy. It demonstrates that the independence thesis, despite its prevalence, is not the only—nor the most fruitful—approach available to us in understanding the relationship between capitalism and democracy. The Smithian integrationist approach offers a more nuanced, accurate, and ultimately more useful framework for addressing the complex interplay of political and economic systems in our modern world. Adam Smith’s vision of an open society, driven by dynamic and unpredictable “invisible hand” processes, represents what Craig Smith describes as his “greatest legacy to political philosophy” (2005, 168). This article builds on that legacy by advocating for a political economy that places the interdependence of capitalism and democracy at its core.

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