

The Australian Adam Smith Club (Melbourne)



The 21st Century - Why Adam Smith ?

The 20th Anniversary Address by

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Foundation President 1983 – 1998

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Who Was He ?

Adam Smith was born in Kirkcaldy, a small seaport on the east coast of Scotland near Edinburgh on 5 June 1723. His father was a moderately wealthy customs inspector who died before Smith was born. Thereafter Smith lived with his mother with whom he remained close for the rest of his life, she eventually predeceasing him by only a few years.

At 14 Smith commenced study at Glasgow University. The university enjoyed an excellent reputation due in no small part to the eminence of a number of the faculty, not the least of whom was Francis Hutcheson, the Professor of Moral Philosophy under whom Smith studied. Hutcheson was a leading advocate of freedom a reformer and libertarian notorious for lecturing in English rather than Latin.

At 17 Smith won a scholarship to Oxford University intended primarily for those wishing to study for the church. He attended Oxford for 6 years. Contemporary accounts describe him as of average height, slightly overweight and of a somewhat unprepossessing appearance. He was notoriously absent minded with a habit of talking to himself and a tendency when excited to stutter. Although sketches of him exist there is no known portrait.

Smith's studies at Oxford were successful but Smith was unimpressed by the standard of tuition offered. He eventually gave up his scholarship early and returned to Scotland in 1746. This may partly have been due to his having abandoned any thoughts he might have had of a church career or perhaps also to the anti Scottish sentiment following the revolt of 1745.

Following his return home Smith spent the next 2 years writing and looking for work. Eventually he was commissioned to give a series of lectures on English Literature by a group of civic- minded, eminent citizens led by Lord Kames, a leading lawyer. The lectures proved a critical and financial success and the group commissioned him to do a further series, this time on jurisprudence, with similar results.

Apart from an abiding concern for natural liberty, which he saw as a value absolute and not something based on utility, Smith was firmly in favour of competition and worked hard at providing interesting and well-delivered lectures and at promoting himself as a lecturer. In the course of so doing he attended a number of clubs and societies and developed a circle of influential friends, including politicians, lawyers, businessmen scientists and academics.

Who Was He ? (cont'd)

In 1751 Smith was elected Professor of Logic at Glasgow University and thereafter his reputation as a scholar and lecturer continued to grow. He subsequently switched to the chair of Moral Philosophy. In 1759 he published the first of his 2 great books, the *Theory of Moral Sentiments*, which was an immediate success

Smith saw human nature as the basis of morality. To explain this he used the concept of the Impartial Spectator. It was not that the individual possessed an inherent or innate sense of morality. Rather man was a social animal, each with a sense of sympathy towards the other and a need not only for the sympathy and approbation of others in return, but of his own self as well. This led to a concordance of feeling which drove each person to do the right thing.

As a leading thinker, Smith was offered in 1763 a lucrative position as a private tutor and travelling companion to the young Duke of Buccleuch and his younger brother. The remuneration included 300 pounds a year plus expenses for 3 years and thereafter a pension of 300 pounds for life. Smith accepted and thereafter travelled widely with his young charges, meeting many of the leading European intellectuals. Smith used much of the experience gained in his travels in later writing his second great book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, generally known by its short title; *The Wealth of Nations*. During the 12 years of its writing moreover Smith was enabled to live on the pension he received from his service as a tutor. Smith's role as a tutor eventually came to a somewhat tragic end with the death in Paris in 1766 of the Duke's younger brother aged 19 from fever.

The Wealth of Nations appeared in 1776 and was an immediate success. Primarily it was a powerful attack on Mercantilism, the prevailing economic and political paradigm, Mercantilism aimed to discourage the import of work and encourage its export. Wealth comprised the stock of bullion accumulated and in order for this to occur trade needed to be tightly regulated and controlled. Smith's book demonstrated clearly that Mercantilism was a false and failed system, that all trade was of mutual benefit and that wealth was created by trade and was maximised when interference with trade was eliminated. Free trade benefited all and permitted and encouraged the growth of capital and the division of labour by which productivity, and hence wealth, was expanded

In 1778, Smith was offered the post of Commissioner of Customs in Scotland on an income of 600 pounds per year. He settled in Edinburgh and died there some 12 years later on 17 July 1790. Shortly before his death he insisted on his friends burning all of his private papers and manuscripts.

The Significance of His Work

The effect of Smith's books, particularly of *The Wealth of Nations* was immediate and positive both at home and abroad. In the U.K., politicians and statesmen at the highest level were influenced by it. Pitt the Younger, who became PM in 1783, declared himself a disciple of Smith and based his rationalisation of the revenue on Smithian principles. Abroad his work was also extremely influential particularly in the work of J B Say, de Tocqueville and F Bastiat.

Although the Revolutionary and Napoleonic Wars were to delay the process, the work of Smith ushered in in Europe almost a century of liberalism, free trade and laissez faire capitalism that witnessed an unprecedented growth in population and well being for the masses.

It is probably true to say that, along with Marx and Keynes, Smith is one of the 3 most-noted economists of all time. Each was of a separate century; Smith the 18th, Marx the 19th and Keynes the 20th. Each has exercised tremendous influence.

Smith's success has led to myths and exaggerations about his work. Also to a number of criticisms, some at least of which are justified. Smith is sometimes referred to as the 'Father of Economics'. His work however was noteworthy not so much for its origination of new ideas but rather that he presented in his 2 great works, particularly the 900 page *Wealth of Nations* a systematic and felicitously written compilation and integration of ideas which had been developed over the previous century. To that extent the world had been prepared and was awaiting just such a work as Smith then presented.

As Ludwig von Mises stated in his introduction to the 1953 Henry Regnery Coy edition of *The Wealth of Nations*, "Smith's books did not lay the foundation stone but a keystone of a marvelous system of ideas".

Smith's work has also been subjected to considerable criticism, mainly from left wing critics. Thus he has been described by Max Lerner as "an unconscious mercenary in the service of a rising capitalist class" and that "he gave a new dignity to and a new satisfaction to the predatory impulses". Perhaps his most surprising and noteworthy critic is Murray Rothbard who as an economist sees much that is wrong with his work. But as von Mises noted, it is wrong to forget that Smith wrote in the 18th century, when the science of economics was still in its infancy. Economics has progressed considerably since then and in that regard Smith is today largely just an historical figure.

The Significance of His Work (cont'd)

Rothbard also attacks Smith for what he sees as his inconsistencies, in particular his failure to support a consistently pure laissez faire approach. Whilst it is true that Smith made a number of exceptions and concessions for government interventions, particularly where national defense issues were involved it is helpful to keep in mind that Smith was attacking an established system which had been in place for centuries and which despite its many obvious shortcomings continued to maintain considerable support and that he eventually succeeded in demolishing such system.

What of the 21st Century ?

Smith argued the case for free trade and against interventionism in the 18th century and was successful. His name has become synonymous with free trade and the advantages thereof. Yet people being people interested parties continue to press the same old arguments for protection and special privilege. They probably always will. It is appropriate that the fight against them continues to be waged in the name of Adam Smith

Adam Smith also faced in Mercantilism a political and economic paradigm, which was flawed and failing. That this was so was widely recognized by his time. The world was waiting for someone to present an answer. In the Wealth of Nations Smith supplied what was required; a blueprint for the demolition of the old and its replacement by the new. The comparison with the present welfare/warfare Keynesian paradigm, staggering from crisis to crisis seems obvious.

Not only did Smith supply that which was needed, he was a success. He replaced the old and undesirable with what was new and beneficial. Whilst soundness of theory and purity of principle are not to be disregarded it should be kept in mind by those who seek an appropriate result that winning is not only possible but that it has been achieved once already.

David Sharp
20th November, 2003

