



Adam Smith

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THE ECONOMIST MANIFESTO

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The 18th-century philosopher Adam Smith wasn't the free-market fundamentalist he is thought to have been. It's time we realized the relevance of his ideas to today's financial crisis.

The Theory of Moral Sentiments, Adam Smith's first book, was published in early 1759. Smith, then a young professor at the University of Glasgow, had some understandable anxiety about the public reception of the book, which was based on his quite progressive lectures. On 12 April, Smith heard from his friend David Hume in London about how the book was doing. If Smith was, Hume told him, prepared for "the worst", then he must now be given "the melancholy news" that unfortunately "the public seem

disposed to applaud [your book] extremely”. “It was looked for by the foolish people with some impatience; and the mob of literati are beginning already to be very loud in its praises.” This light-hearted intimation of the early success of Smith’s first book was followed by serious critical acclaim for what is one of the truly outstanding books in the intellectual history of the world.

After its immediate success, *Moral Sentiments* went into something of an eclipse from the beginning of the 19th century, and Smith was increasingly seen almost exclusively as the author of his second book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, which, published in 1776, transformed the subject of economics. The neglect of *Moral Sentiments*, which lasted through the 19th and 20th centuries, has had two rather unfortunate effects.

First, even though Smith was in many ways the pioneering analyst of the need for impartiality and universality in ethics (*Moral Sentiments* preceded the better-known and much more influential contributions of Immanuel Kant, who refers to Smith generously), he has been fairly comprehensively ignored in contemporary ethics and philosophy.

Second, since the ideas presented in *The Wealth of Nations* have been interpreted largely without reference to the framework already developed in *Moral Sentiments* (on which Smith draws substantially in the later book), the typical understanding of *The Wealth of Nations* has been constrained, to the detriment of economics as a subject. The neglect applies, among other issues, to the appreciation of the demands of rationality, the need for recognising the plurality of human motivations, the connections between ethics and economics, and the codependent rather than free-standing role of institutions in general, and free markets in particular, in the functioning of the economy.

Beyond self-love

Smith discussed that to explain the motivation for economic exchange in the market, we do not have to invoke any objective other than the pursuit of self-interest. In the most widely quoted passage from *The Wealth of Nations*, he wrote: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love.” In the tradition of interpreting Smith as the guru of selfishness or self-love (as he often called it, not with great admiration), the reading of his writings does not seem to go much beyond those few lines, even

though that discussion is addressed only to one very specific issue, namely exchange (rather than distribution or production) and, in particular, the motivation underlying exchange. In the rest of Smith's writings, there are extensive discussions of the role of other motivations that influence human action and behaviour.

Beyond self-love, Smith discussed how the functioning of the economic system in general, and of the market in particular, can be helped enormously by other motives. There are two distinct propositions here. The first is one of epistemology, concerning the fact that human beings are not guided only by self-gain or even prudence. The second is one of practical reason, involving the claim that there are good ethical and practical grounds for encouraging motives other than self-interest, whether in the crude form of self-love or in the refined form of prudence. Indeed, Smith argues that while "prudence" was "of all virtues that which is most helpful to the individual", "humanity, justice, generosity, and public spirit, are the qualities most useful to others". These are two distinct points, and, unfortunately, a big part of modern economics gets both of them wrong in interpreting Smith.

The nature of the present economic crisis illustrates very clearly the need for departures from unmitigated and unrestrained self-seeking in order to have a decent society. Even John McCain, the Republican candidate in the 2008 US presidential election, complained constantly in his campaign speeches of "the greed of Wall Street". Smith had a diagnosis for this: he called such promoters of excessive risk in search of profits "prodigals and projectors" - which, by the way, is quite a good description of many of the entrepreneurs of credit swap insurances and sub-prime mortgages in the recent past.

The term "projector" is used by Smith not in the neutral sense of "one who forms a project", but in the pejorative sense, apparently common from 1616 (or so I gather from *The Shorter Oxford English Dictionary*), meaning, among other things, "a promoter of bubble companies; a speculator; a cheat". Indeed, Jonathan Swift's unflattering portrait of "projectors" in *Gulliver's Travels*, published in 1726 (50 years before *The Wealth of Nations*), corresponds closely to what Smith seems to have had in mind. Relying entirely on an unregulated market economy can result in a dire predicament in which, as Smith writes, "a great part of the capital of the country" is "kept out of the hands which were most likely to make a profitable and advantageous use of it, and thrown into those which were most likely to waste and destroy it".

False diagnoses

The spirited attempt to see Smith as an advocate of pure capitalism, with complete reliance on the market mechanism guided by pure profit motive, is altogether misconceived. Smith never used the term “capitalism” (I have certainly not found an instance). More importantly, he was not aiming to be the great champion of the profit-based market mechanism, nor was he arguing against the importance of economic institutions other than the markets.

Smith was convinced of the necessity of a well-functioning market economy, but not of its sufficiency. He argued powerfully against many false diagnoses of the terrible “omissions” of the market economy, and yet nowhere did he deny that the market economy yields important “omissions”. He rejected market-excluding interventions, but not market-including interventions aimed at doing those important things that the market may leave undone.

Smith saw the task of political economy as the pursuit of “two distinct objects”: “first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and second, to supply the state or commonwealth with a revenue sufficient for the public services”. He defended such public services as free education and poverty relief, while demanding greater freedom for the indigent who receives support than the rather punitive Poor Laws of his day permitted. Beyond his attention to the components and responsibilities of a well-functioning market system (such as the role of accountability and trust), he was deeply concerned about the inequality and poverty that might remain in an otherwise successful market economy. Even in dealing with regulations that restrain the markets, Smith additionally acknowledged the importance of interventions on behalf of the poor and the underdogs of society. At one stage, he gives a formula of disarming simplicity: “When the regulation, therefore, is in favour of the workmen, it is always just and equitable; but it is sometimes otherwise when in favour of the masters.” Smith was both a proponent of a plural institutional structure and a champion of social values that transcend the profit motive, in principle as well as in actual reach.

Smith’s personal sentiments are also relevant here. He argued that our “first perceptions” of right and wrong “cannot be the object of reason, but of immediate sense and feeling”. Even though our first perceptions may change in response to critical examination (as Smith also noted), these perceptions can still give us interesting clues about our inclinations and emotional predispositions.

One of the striking features of Smith's personality is his inclination to be as inclusive as possible, not only locally but also globally. He does acknowledge that we may have special obligations to our neighbours, but the reach of our concern must ultimately transcend that confinement. To this I want to add the understanding that Smith's ethical inclusiveness is matched by a strong inclination to see people everywhere as being essentially similar. There is something quite remarkable in the ease with which Smith rides over barriers of class, gender, race and nationality to see human beings with a presumed equality of potential, and without any innate difference in talents and abilities.

He emphasised the class-related neglect of human talents through the lack of education and the unimaginative nature of the work that many members of the working classes are forced to do by economic circumstances. Class divisions, Smith argued, reflect this inequality of opportunity, rather than indicating differences of inborn talents and abilities.


Global reach

The presumption of the similarity of intrinsic talents is accepted by Smith not only within nations but also across the boundaries of states and cultures, as is clear from what he says in both *Moral Sentiments* and *The Wealth of Nations*. The assumption that people of certain races or regions were inferior, which had quite a hold on the minds of many of his contemporaries, is completely absent from Smith's writings. And he does not address these points only abstractly. For example, he discusses why he thinks Chinese and Indian producers do not differ in terms of productive ability from Europeans, even though their institutions may hinder them.

He is inclined to see the relative backwardness of African economic progress in terms of the continent's geographical disadvantages - it has nothing like the "gulfs of Arabia, Persia, India, Bengal, and Siam, in Asia" that provide opportunities for trade with other people. At one stage, Smith bursts into undisguised wrath: "There is not a negro from the coast of Africa who does not, in this respect, possess a degree of magnanimity which the soul of his sordid master is too often scarce capable of conceiving."

The global reach of Smith's moral and political reasoning is quite a distinctive feature of his thought, but it is strongly supplemented by his belief that all human beings are born with similar potential and, most importantly for policymaking, that the inequalities in the

world reflect socially generated, rather than natural, disparities.

There is a vision here that has a remarkably current ring. The continuing global relevance of Smith's ideas is quite astonishing, and it is a tribute to the power of his mind that this global vision is so forcefully presented by someone who, a quarter of a millennium ago, lived most of his life in considerable seclusion in a tiny coastal Scottish town. Smith's analyses and explorations are of critical importance for any society in the world in which issues of morals, politics and economics receive attention. *The Theory of Moral Sentiments* is a global manifesto of profound significance to the interdependent world in which we live. 

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