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Happy birthday, Adam Smith [1]

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It's Adam Smith's birthday. Well, sort of. His birth was registered at the church in Kirkcaldy, Scotland, on 5 June 1723. So he was probably born around 3 June 1723. But in 1872 the calendar changed and a few days were added, so that works out to 14 June, which is the day we celebrate it here at the Adam Smith Institute.

And so we should. The Scottish philosopher and economist, best known for his pathbreaking book *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), transformed our thinking about the principles of economic life, from an ancient to a distinctively modern form, based on a completely new understanding of how human society works.

In Smith's time, the common understanding was that wealth meant gold and silver. Countries imposed import barriers, and subsidised their export industries, in the attempt to keep gold and silver flowing into the country and stop gold and silver flowing out. Trade, people thought, benefited only the seller. It was Smith who pointed out that trade actually benefits both sides. People simply would not trade if it did not: why should either side agree to a bargain that leaves them worse off? If people were left free to trade as they wished, the benefits of exchange would spread all over the world, argued Smith, and the welfare of everyone ? especially the working poor ? would be raised, since the existing labyrinth of regulations and controls tended to benefit the rich and powerful who shaped them, rather than the poor who suffered under them. Such ideas became hugely influential and ushered in the great nineteenth-century era of free trade and rising incomes.

But Smith was a moral philosopher as well as an economist. And it was his 1759 book *The Theory of Moral Sentiments* that actually made his reputation and his fortune. In it, he sought to explain our moral ideas in terms of human social psychology. A hundred years before Darwin's *On the Origin of Species*, he explained that nature has given us moral traits that promote our welfare and survival. Indeed, we would all be dead if this were not so. And human beings have a natural 'sympathy' for others, and wish to be thought well of by others, and these traits provide the foundation of what we think of as moral and virtuous.

Today, some people see a conflict between Smith's explanation of economics, based on self-interest, and of morality, based on human empathy. But Smith reconciles the two in the very first line of Theory of Moral Sentiments:

> *How Selfish sover man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.*

In other words, human nature is complex. The same baker who supplies us with bread out of self-interest rather than benevolence is the same person who would dive into a river to save a drowning stranger. Smith's books are complementary attempts to identify how self-interested human beings manage to live together peacefully (in the moral sphere) and productively (in the economic). Self-interest may drive the economy, but as long as there is no coercion and genuinely open competition, that is a force for good. If we simply remove 'all systems of preference or of restraint', and rely on 'natural liberty', says Smith, we will find ourselves settling, as if by an invisible hand, into a harmonious, peaceful and efficient social order. Smith's quest was to identify the natural principles of human action that would in fact create this fortunate result. Happy birthday, Adam Smith.

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