

Adam Smith's Relevance for Today

Speech delivered by Michael Forsyth MP
at the Adam Smith Institute dinner to commemorate
the bicentenary of the death of Dr Adam Smith
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On 16 July 1790, Adam Smith rose from a candle-lit table in Edinburgh where he had been enjoying the after-dinner conversation of friends, saying that he felt a little tired and would retire to bed.

It had been the last conversation of his life.

So died a remarkable man: a quiet man, a modest man, but one whose thoughts and actions still affect the lives of every one of us in this room.

Today there is no doubt that, after a flirtation with Marxism that lasted the better part of a century, our world has learnt its lesson — the lesson taught us by Adam Smith in his own writings and from the notebooks of his Glasgow students — that the wealth of nations derives from “the uniform, constant, and uninterrupted effort of every man to better his condition”.

So powerful is this driving force of individual self-help and self-improvement he identified, that Smith remained optimistic that it would win through, whatever the obstacles. Indeed, he thought this force: "frequently powerful enough to maintain the natural progress of things toward improvement, in spite both of the extravagance of government, and of the greatest errors of administration."

The basic principles of Smith's approach — the importance of free trade, putting consumers before producers, allowing and encouraging competition, rolling back state regulation, and preventing politicians from trying to shape economic life in their own image — are clear enough to the new leaders of the post-communist countries, if not to some politicians in *Western Europe*.

We have recently learned to live without the import controls that were just a fact of economic life in the eighteenth century. You will remember Smith's famous point that:

“By means of glasses, hotbeds, and hotwalls, very good grapes can be raised in Scotland, and very good wine too can be made of them — at about thirty times the expense for which at least equally good can be brought from foreign

countries. Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of Claret and Burgundy in Scotland?"

This passage should be scored out of any copies of *The Wealth of Nations* circulating in Brussels. It might give them ideas.

The importance of choice and competition

Although Smith's world was different from ours, his approach still has astonishing power. He applied his principles of choice, competition, and the market economy to his own world, and in the language of his own times. Today we must apply those same ideas to quite different problems.

This is where the Adam Smith Institute does such a valuable job. It works its way systematically through all types of modern policy problems, probing how the energy of the market can be introduced. As part of this, it has provided advice on economic reconstruction to the reformers of Central Europe. Smith himself gave prescriptions for dealing with a grossly over-regulated economy, but tackling the mess that is faced by the post-communist countries is an order of magnitude harder.

Enemies of the market love to quote Smith when he said:

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

But does it mean that Smith really wanted more regulation of business?

Not a bit of it. In the very next paragraph he makes it clear that *burdensome licencing regulations* promote such anti-competitive collusion. In the paragraph after that he makes it clear that he is talking about workers as well as owners, and that the closed shop is another source of this 'conspiracy against the public'.

Well, Smith cannot be captured by the enemies of the free market, but it was certainly true that as a child he was briefly kidnapped by tinkers. The rest of his life was much less dramatic. He studied mathematics and ethics at Glasgow, then went on to Oxford. Back in Glasgow he lectured in logic, jurisprudence, and philosophy.

We don't really know what he looked like, because the best portrait of him was probably made after his death. He is described as being of middle height, large but not corpulent, and with large grey eyes.

At the age of 36 he came to fame — not for *The Wealth of Nations*, but for his equally important book on human behaviour and moral obligation, *The Theory of Moral Sentiments*. Indeed, it won him an invitation to tutor the young Duke of Buccleuch — with whom Smith undertook the Grand Tour of Europe, meeting

Voltaire and other luminaries, and picking up many of the tit-bits of information about other countries that pepper and illustrate the argument of *The Wealth of Nations*.

He discussed that great book with David Hume, with Boswell, with Benjamin Franklin... What would any of us not give to hear some of those exchanges replayed?

The creative process of the market

And the book is as iconoclastic as those men themselves. It shows that buyers benefit from exchange no less than sellers: that the price mechanism works to steer resources to where they are most urgently needed. It shows that the market economy gives its decisive power not to the politicians, but to the lowly, individual, *sovereign* customer.

That is all bad enough for those who believe that governments alone have the wisdom to run economies properly. But the last straw is Smith's breathtaking observation that when people are left free to pursue their own lives, they *do* in fact produce quite spontaneously a social order which benefits us all. The individual, said Smith:

“intends only his own gain...he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.”

And that is why the Adam Smith Institute pointed out some years ago that we can safely leave the provision of essential services such as bus transport to competing private-sector suppliers. They serve the public interest with much greater efficacy than local transport planning departments could even have imagined.

For Smith, government should not seek to subvert the creative process that is the market, but should establish the framework necessary to keep it alive. It should enforce competition. It should not give in to the well-argued demands of monopolists and would-be monopolists. It should punish people and authorities who conspire to fix prices, divide up markets, or restrict production. “Monopoly,” wrote Smith, “is a great enemy to good management.”

Smith endorsed privatization 200 years ahead of his time. He wrote:

"In every great monarchy of Europe, the sale of the crown lands would produce a very large sum of money...which would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown... When the crown lands had become private property, they would become well-improved and well-cultivated...the revenue which the crown derives from the duties of customs and excise would necessarily increase with the revenue and consumption of the people."

Prospering by Smith's principles

In his day it might have been theory, but today we know it is true. Even the most cursory glance at the modern world shows that the principles which Adam Smith enunciated are still alive and still have the power to change events. Anyone who doubts that power should look at the way it changed Britain in the 1980s. Before 1979 it was the ideas of Karl Marx and John Maynard Keynes which were influential; after 1979 it was the ideas of Adam Smith.

It is fascinating to read again the newspapers of the 1970s and to recapture the flavour and feel of the period. In many ways the period seems closer to ancient history than it does to the world of today. In those yellow pages we read of prices and incomes policies, of the state taking over yet more industries, of the steady rise of trade union power. It seemed inevitable that the government would grow larger and the individual smaller. The steady decline of Britain and her industry seemed like a constant landmark.

Abroad we saw respected economists looking over the Berlin Wall and seeing a great convergence of economic systems. And all the while Adam Smith slept quietly, waiting for his time to come again.

When it came in 1979 it overturned in a single decade the old assumptions and habits, and rendered obsolete the so-called certainties of the age. Back in full force came Smith's precepts: free enterprise, individual choice, competition, less regulation, freer trade, open markets. Like a cleansing wind they blew through the cobwebs grown by decades of central planning. They cleared away the accumulated junk of socialism; they reinvigorated an ailing economy and brought back the flush of a healthy self-confidence.

What had seemed like a remorseless rise in trade union power was halted by a few deft strokes. The unions were brought to book not by an assault on their powers, but by giving a share of those powers to ordinary members. Now we find that a worker in modern Britain is more likely to own shares on the stock market than to belong to a trade union.

In 1979 the British government spent a higher proportion of gross domestic product than any of those who are now our European Community partners. Now we spend less, and the figure is set to decline more steeply in the years ahead. The so-called certainty of more government has been replaced by the prospect of smaller and smaller government.

Once again, the decade overturned a so-called inevitable trend. Again it was the combination of determination and sound policy, inspired by Adam Smith's principles, which achieved it. Previous governments had tried and failed to hold down the costs of government, and had made themselves very unpopular in the attempt. The government elected in 1979 moved entire state operations into the private sector. Exposed to market forces, they learned efficiency in the school of competition. Instead of requiring annual subsidies, they began to make profits

and pay taxes into the Exchequer. Millions of new shareholders were added to the ownership rolls, and the word "privatization" was added to our dictionaries.

The privatization programme has included far more than the much publicized share offerings to the general public. Management led buyouts of state enterprises, with heavy participation by the workforce, have played their part alongside the more visible public share issues. The use of outside contractors has replaced much government activity at local and national level, saving hundreds of millions of pounds for the taxpayer. The bureaucracy itself has felt the first flutters of the privatization breeze as agency status is used to make civil servants breathe the invigorating air of the private sector.

A friend of mine recently showed me his old passport. It had a stamp at the back to show that when he was a student he had taken £15 out of the country. £15! Just think how the government must have worried. The limit at the time was £25, and governments then assumed that they had to exercise the minutest control over the inflows and outflows of cash. How Adam Smith must have cheered in 1979 when Geoffrey Howe stood up in the Commons as Chancellor and abolished exchange controls. It took about a minute of Parliamentary time and ended the whole superstitious nonsense. Since that action we have prospered hugely, both in respect of the investments we have made abroad and which bring dividends home every month; and in respect of the factories and businesses which foreigners have established here, creating both jobs and wealth.

The decade of the 1980s proved that effort, given sufficient space, can indeed bring a nation back from the brink of the precipice.

The point is that the achievement was brought about not by government, but by ordinary people set free by government. It was brought about by the restoration of markets, by the introduction of competition, by giving people room to innovate and to create, and to keep a large measure of the fruits of their efforts. It was brought about by bringing union leaders under the control of their members, and by removing much of the protection which government had given them against the due process of law. It was brought about by ending subsidies and supports, and placing industries under the competitive pressures of the private sector.

It was brought about by ending state monopolies and by giving people choices as consumers. It was brought about by lowering their tax rates from a top level of 98% to a top level of 40%. It was brought about by letting them invest abroad, and by encouraging others to invest here. It was brought about by making it easier for people to buy their own houses and to set up their own businesses.

It was brought about by booting out the world of Marx and Keynes with their regulations and controls and the heavy hand of the state planner, and by replacing it with the freewheeling world of the individual and the entrepreneur, the world of markets and prices, the world of opportunities and rewards.

If Smith were here with us tonight, as indeed he is in spirit, he would not gloat. He was not the type. He was a modest and somewhat detached individual. It is recorded that he once fell into a tanning pit while his mind was preoccupied with some problem of logic. He once wondered why his tea tasted so bad, and discovered it was because he had put his bread and butter into the teapot. But he would surely take some modest pleasure from the success of his principles. He might even add a few remarks, showing how the revitalization of Britain had underlined the worth of economic freedom and individual initiative.

And if the success of free markets in Britain have added strength to his case, reflect how much more is added by the failure of socialism in Central Europe. Last year was a year of inspiration and hope in Central Europe. One by one the subjects of the Soviet empire threw off the regimes under which they had suffered, and made their stand against the coercion which lies at the heart of socialism.

It is a victory for Smith. The newly liberated countries are in no doubt about what they want. It isn't Socialism, not even "Socialism with a human face," if there could ever be such a thing. What they want is the engine of the market. They want the wealth-creating power of free enterprise. They want space for individual enterprise and innovation. They want a society in which men and women can make efforts, take chances, and win rewards. They want an economy not directed to the interests of the producers, as socialist societies always are, but led by the wants and needs of consumers and driven by competitive pressures.

The future agenda

Yes, Adam Smith would be pleased. His insights have been vindicated a thousand times both in the Britain of the decade just past, and in the Europe of the year just past. But what, I wonder, would he have to say about the decades which lie ahead of us? What are the problems we should now try to solve, and what are the solutions we should be looking to implement?

Part of the answer is easy. It is to do more of what we have already done. If markets, competition and enterprise have worked already, they can work again. If they have solved so many of our old problems, they can solve the new ones.

In our economy, there are still no-go areas for competition and enterprise. The railways are still a public sector monopoly with all that this status implies. The coal mines are still dominated by the state sector. The Post Office, subject to so many complaints over the quality and cost of its services, remains in the public sector, largely immune to the benefit which market forces could bring to it. I know that the Adam Smith Institute has suggested that all of these could use the commercial and competitive pressures of the private sector.

Education has been reorganized to allow the pressure of parental choices to take effect. The Institute is now exploring where the process by which our schools transform themselves under that pressure might be accelerated; and looking to

introduce similar choices at other points in the educational system. The health service is about to see its own internal markets, so that choices at all levels begin to make themselves felt on the system. Here, too, several groups are working on further opportunities to extend the same principles.

The tax system, despite the massive reduction in rates we have achieved, still has room for reform according to some observers. They say the burdens are still too high, the rules too onerous, to allow enterprise and initiative full play. There could be no sweeter vindication of Adam Smith than the discovery that, under lower tax rates, the top 5% of earners are paying more in taxation and contributing a higher proportion of the total tax bill than they were under high rates.

Opponents of all this say they would raise income tax to 50%, and abolish the upper limit on National Insurance contribution, creating an effective top rate of 59%. Since we now know this would produce less revenue, I challenge them now to tell us where they intend to get the money from to finance this increase.

By contrast, many of us who have learnt the lessons of the past few decades want to lower tax rates yet further. To make Britain into the tax haven of the European Community, the place where talent and enterprise will seek their opportunities.

Others of us are working on the environment, with the aim of producing a cleaner, a tidier and a safer world. With the words of Adam Smith echoing across 200 years, we are not looking for punitive restrictions which could shut down opportunity and curtail the wealth-creating process. We look instead for incentives to encourage people freely to act in ways more friendly to the world we will bequeath to our children.

We look to see extended to new areas the same market pressures and competitive opportunities which have achieved so much already. Transport is not an area which the market has failed. It is an area in which markets have not been allowed to operate. Where relatively free markets have been introduced, as in inter-city buses and in air services, their effect has been to bring about new and improved services, more competitive prices, and consumer responsive operations.

The European challenge

All of this would no doubt comfort Adam Smith were he here in person as well as in spirit. But what would he make of Europe and the moves towards greater unity? Firstly he would castigate the Common Agricultural Policy. Indeed, he effectively did so in *The Wealth of Nations*.

At least the European Community has now promised to begin the process of dismantling that empire of subsidy. The case Britain has argued all along has now, albeit under American pressure, been taken on board by the others.

Smith would also argue against the tariff walls which Europe erects against world trade. He would argue against the weight of government intervention in industry and commerce. He would not welcome a European superstate which sought to destroy competition, innovation and individuality. Nor, indeed would most observers in Britain.

Britain's future lies with Europe, and the challenge accepted by the Adam Smith Institute and by others is to strive to make its institutions conducive to enterprise and innovation, and its economies open to the benefit of competition and the pressures of the market. We do not want it to consist of a few rich nations huddled behind a tariff wall and unable to compete openly on world markets. We want a Europe free from internal barriers and restraints, and trading freely with the world.

Freedom sweeps the globe

Now that the nations of Central and Eastern Europe have struggled into a hard-won freedom, many people think it would be a tragedy if the European Community were to erect around itself walls too high for them to climb. They need to sell their goods to us, and to look toward admission to our ranks. Europe is far wider than a narrow cluster of western states; its geographical centre lies in Warsaw, well to the East of present Community boundaries. The European Community which is evolving ought to be one in which those eastern states can play their part.

There is perhaps never a good time to die. But Adam Smith, who died 200 years ago today, did so after setting out his philosophy to such effect that we, its beneficiaries, are still drawing its benefits after two centuries.

He would, I like to think, be proud of the use to which we have put his ideas. He would nod his approval to our record since 1979. And while he would caution us about protectionism and interventionism, he would share our determination to make this new Europe conducive to his ideas.

We honour that legacy tonight, as we honour the man himself. Adam Smith can sleep quietly in the knowledge that his work was done well.