



# A Modest Man Named Smith

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**I**T is a clumsy, sprawling, elephantine book. The facts are suffocating, the digressions interminable, the pace as maddening as the title is uninviting: *An Inquiry into the Nature and the Causes of the Wealth of Nations*. But it is one of the towering achievements of the human mind: a masterpiece of observation and analysis, of ingenious correlations, inspired theorizings, and the most persistent and powerful cerebration. Delightful ironies break through its stodgy surface:

The late resolution of the Quakers [to free] their Negro slaves may satisfy us that their number cannot be very great. . . .

The chief enjoyment of riches consists in the parade of riches.

To found a great empire for the sole purpose of raising customers [is] unfit for a nation of shopkeepers, but extremely fit for a nation whose government is influenced by shopkeepers.

So comprehensive is its range, so perceptive its probings, that it can dance, within one conceptual scheme, from the diamond mines of Golconda to the price of Chinese silver in Peru; from the fisheries of Holland to the plight of Irish



prostitutes in London. It links a thousand apparently unrelated oddities into unexpected chains of consequence. And the brilliance of its intelligence "lights up the mosaic of detail," says Schumpeter, "heating the facts until they glow." Sometimes.

Adam Smith published *The Wealth of Nations* in 1776—not as a textbook, but as a polemical cannon aimed at governments that were subsidizing and protecting their merchants, their farmers, their manufacturers, against "unfair" competition, at home or from imports. Smith set out to demolish the mercantilist theory from which those policies flowed. He challenged the powerful interests who were profiting from unfree markets, collusive prices, tariffs and subsidies and obsolete ways of producing things.

We must bear in mind the kind of world in which Smith lived:

Different kinds of money and measurements and weights were used in different localities of England. In some cities, laws hobbled the improvement of manufacturing, and punished any who attempted to introduce it. It was a crime to lend money for more than a fixed interest rate, which shrunk credit even though borrowers were eager to pay more than the law permitted. Business itself was viewed with suspicion by the lords of politics and privilege, as a selfish, déclassé activity in which personal gain is achieved at the expense of others. A free market in real estate or in labor, in the modern sense, did not exist, nor did corporations.

The artisans' guilds, no less than favored manufacturers, petitioned the king to outlaw labor-saving methods: a new stocking-frame was abolished by the Privy Council. To import printed calico was illegal. Farmers, driven off the land so that sheep could graze or aristocrats ride to hounds, were whipped—or branded for vagabondage.

Poverty was accepted as natural, indeed inevitable, part of the natural order and the divine will. Britain, it was assumed, needed an ample supply of the impecunious: especially those with strong backs, grateful hands and

ignorant heads. "Nothing requires more to be explained than trade!" complained Dr. Johnson. By trade he meant that immense, unstudied structure of production, commerce and calculations that economics embraces.

It was this world, this semifeudal order that extended from the Caucasus to the Atlantic, that Adam Smith dissected, clarified, and revolutionized. Other theorists had meditated on isolated portions of economic life, but Smith attacked the nuclear concept of wealth itself: wealth is not gold and silver, as accepted doctrine took for granted, but the total sum of a nation's resources and skills and production.

He advocated a new cause, *laissez faire* (the phrase was Gournay's; oddly enough, Smith never used it), against the "self evident" advantages of having government guide and control the ways in which a nation produces and sells its food and goods. Smith proceeded to spell out in profuse detail why the supposed advantages were illusory: If all men are permitted to act freely, to work how and where they want, to charge whatever prices they can get; if men, that is, are given maximum freedom to try to maximize personal gain; if all men act out their rawest self-interest, pursuing whatever enterprises best satisfy their needs and their egotism and their cupidity; if the government keeps its hands off the economy—the result will be not anarchy or chaos or a jungle of selfish social destructiveness, but an ordered harmony in which the automatic forces of supply and demand, in a responsive and resilient free market, must bring about the most efficient utilization of all resources (labor, land, capital, skills, brains, ingenuity, inventiveness) to supply the largest and most lasting advantages to a nation.

Free, unregulated competition, Smith audaciously argued, converts "the private interests and passions of men" into consequences "most agreeable to the interests of the whole society"—as if by an Invisible Hand, and despite the intentions of rapacious landlords, greedy merchants, mendacious traders, ruthless profiteers.

It was a breath-taking revelation of the grand design that



is hidden within the mundane, workaday world of production and trade: The best guarantor of men's welfare, and the rock on which rests man's freedom, is—the profit system. Smith even offered the startling judgment that Britain's colonies and slave labor were more of an economic disadvantage than asset.

Smith illustrated this complex and paradoxical theme with matchless ingenuity, with a ceaseless cascade of facts and reasoning and analytic *tours de force*. And all that rolling, relentless argument came to focus on one conclusion: Government should get out of, and keep hands off, the economy.

Many men cried, as many still do, that Adam Smith offers an apologia for unconscionable aggrandizement by the heartless rich at the expense of the helpless poor. But only those who have not read him can think him inhumane, or cynical, or an apologist for a dog-eat-dog order. It was Adam Smith, not Karl Marx, who warned: "No society can flourish [where] the far greater part of its members are poor and miserable"; or castigated a social order in which "a mother who has borne twenty children" sees only two survive; or said that mass production would brutalize men's minds unless the government prevented it through energetic public education; or showed how road tolls help the rich "at the expense of the poor."

Smith knew perfectly well that businessmen are prone to possess a "mean rapacity [and] monopolizing spirit." "They seldom meet," he wrote, without concocting "a conspiracy against the public." In a typically dry, wry, memorable passage, he observed:

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 self-love, and never talk to them of our own necessities but of their advantages.

Not the least of Smith's charms are such shrewd and ironic arguments. Judges would try their cases faster, he

said, if paid by the litigants instead of the state. Many religious sects are far better for a nation than one or two, because the need to compete, even in sacred persuasion, will ultimately foster a

pure and rational religion, free from every mixture of absurdity, imposture, or fanaticism, such as wise men in all ages have wished to see established. The . . . zeal of religious leaders can be dangerous only where there is . . . but one sect [or two or three] tolerated in the society. That zeal must be altogether innocent where the society is divided into two or three hundred sects, of which no one would be considerable enough to disturb the public tranquility.

Who was this man who would change the intellectual structure of the world?

Adam Smith was born in Scotland, at Kirkcaldy, Fife, in 1723, and raised by his widowed mother. Briefly kidnaped as a child, by gypsy tinkers, and recovered by his uncle, he went on to live a life devoid of drama. At the University of Glasgow he concentrated on mathematics and moral philosophy, then went to Oxford for seven years.

We cannot be sure what he looked like: the best portrait of him was probably painted after his death. He is described as having been of middle height, "full but not corpulent," with large gray eyes that beamed with benignity. He was a shy man, embarrassed with strangers and inattentive to ordinary things. He was deeply devoted to his mother, and never married; after his mother died, a maiden cousin looked after him: *Someone* had to, for the professor was notoriously absentminded. He once brewed bread and butter, instead of tea. He walked fifteen miles down country lanes, still in his dressing robe, absorbed in some problem. On another occasion, he fell into a pit because he had not looked where he was going. He would stride along in his breeches and broad hat talking to himself, entirely blind to his surroundings, consumed by concentration on some problem.



In 1751 he was appointed to the chair of Logic, and later Moral Philosophy, at the University of Glasgow, where he was once reprimanded for the un-Scotsmanlike frivolity of smiling during a religious service.

He began by lecturing on theology, ethics, and jurisprudence, and he won such repute as a teacher that students came to him from as far away as Russia. This is all the more noteworthy because Smith had some sort of nervous disorder, often faltered in his speech, and became so lost in pursuing an idea that he was prone to forget where he was or what he had set out to demonstrate.

He never could organize his thoughts easily or quickly. He would walk up and down his study, dictating to a secretary, abruptly digressing or pursuing an impromptu hunch. His mind was an immense library and catalog system; he possessed a phenomenal memory.

He was a good if disrhythmic talker, but a better listener, who soaked up information and insights from the conversation of others. He loved poetry and could recite classics from English, Latin, Greek, French, Italian without a flaw. He was profoundly influenced by David Hume and Hume's writings and thinking; they were close friends; and Smith was at Hume's deathbed and wrote a moving account of the philosopher's last hours.

Smith could not resist buying books, and he assembled a vast personal library in history, science, astronomy, philosophy, physics. He loved the life of the clubs, in Edinburgh and especially London, where he reveled in the sparkling repartée and learned discourse of men whom history would place among the immortals: Edmund Burke, Samuel Johnson, Edward Gibbon. I drool over what that sparkling company spent their hours discussing.

At the age of thirty-six Smith published his college lectures in a volume called *The Theory of Moral Sentiments*. It was an investigation of how man's moral judgments can be explained, if men are primarily driven by self-interest. Smith postulated "social propensities" of Sympathy, Justice, and Benevolence. In a brilliant foray into psychology, he

designated Sympathy as the human capacity to feel for others by imagining one's self in the place of another, as if by an impartial spectator. This construct anticipated Kant's categorical imperative, and what modern psychiatry calls identification and empathy.

*The Theory of Moral Sentiments* brought Smith international fame. One of its admirers was the Chancellor of the Exchequer, who invited Smith to tutor his son, to take the young duke, indeed, on the Grand Tour.

Smith went to the Continent with his pupil in 1763. He met the great Voltaire in Geneva and spent almost a year in Paris, where he discussed political economy with Turgot, Necker, and various luminaries of the thriving circle of *philosophes*. Quesnay, physician to Madame Pompadour (!), expounded to Smith the doctrine of the Physiocrats, who held that national wealth was not to be reckoned as the sum of the Treasury's supply of gold or silver, but as the total production a nation creates. But Quesnay thought only farmers produce real wealth; he missed the fructifying operations of the entrepreneur, the manager, the planner, the risk-taker.

When Smith returned to Kirkcaldy, he settled down to devote himself to his inquiry into the nature and causes of national wealth. He had pondered the problem now for over twenty-five years. He had often discussed it in Edinburgh, often with David Hume, often in London and France. He proceeded to dictate his masterpiece, slowly, haltingly, breaking off from time to time to travel down to London to consult others on special problems. (Benjamin Franklin gave him invaluable information about the economy and trade of the colonies.)

It took Adam Smith ten years to dictate and edit *The Wealth of Nations*.

He conceived it as a sequel to *The Theory of Moral Sentiments*, we should not forget, for he never ceased analyzing human behavior and moral obligations. Smith did not think of himself as simply an economist: He was a philosopher,



a theoretical psychologist, a sociologist, an analyst of political and social institutions. He was, that is, an eighteenth-century intellectual. He examined the conduct of men in a constant search for the whys of ethics and the musts of morals. And because it is a sequel, *The Wealth of Nations* accepts, and does not try to stress, what Adam Smith had emphasized in his previous work: that man, for all his acquisitive and predatory appetites, is a social creature, put on this earth for God's purposes. His critics forget that central to all of Smith's thinking was his unshakable conviction about man's nobler social propensities: the instinct of Sympathy, the sense of Benevolence, the impulse to Justice.

Smith showed that a truly free market is a huge, sensitive polling booth. To buy an article or a service is to *vote*—for it and against others less desired or more costly or less useful. Prices therefore fairly reflect utility (or demand) and operate, in their fluctuations, to shift and channel and allocate resources with impartial efficiency, rewarding efficiency, quality, improved services. The decisive power is wielded in the most democratic of all methods: by the lowly, individual, sovereign customer.

The magic of the division of labor, Smith held, the specialization of skills, the encouragement of ingenuity and experiment and innovation, all energized by the potent magnetic lure of personal profits and the personal acquisition of riches, will serve to lead mankind to "universal opulence." And the freedom to venture, to risk gain or loss, in a class-free and depoliticized marketplace, must nourish, as no other economic system can, the priceless growth and strength of individual liberty.

Smith showed that the buyer profits no less than the seller (an unconventional idea in that time); that England's imports are valuable to those who buy them and in addition provide other nations with the money to buy England's exports. International trade must reduce international frictions, Smith held, and promote international peace.

Smith never tried to evade or rationalize what his eyes

and mind told him: "Landlords," he said, "love to reap where they never sowed." They are prone to "violence, rapine and disorder." Businessmen, in general, are prone to gratify "the meanest and most sordid of vanities."

He also knew that a system of enterprise deprived of special favors, and rules backed by governmental power, would be fought tooth and nail by "the insolent outrage of furious and disappointed monopolists." He knew that he would be ridiculed and misquoted by "that insidious and crafty animal . . . [the] politician."

But his analysis led to one unalterable goal: The government must enforce competition, punishing any who conspire to fix prices, or divide up markets, or restrict production.

Adam Smith knew that in human affairs the best must yield to the best obtainable, what is logical to what is possible. He favored certain public works and departures from free trade—for national defense, for instance. He denounced primogeniture, the hallowed custom under which only oldest sons inherit land, in a passage any socialist theoretician would be proud to have written:

This custom . . . rests upon the most absurd of all suppositions, the supposition that every successive generation of men have not an equal right to the earth, and to all that it possesses; but that the property of the present generation should be restrained and regulated according to the fancy of those who died perhaps 500 years ago. . . .

It seldom happens . . . that a great proprietor is a great improver. To improve land with profit . . . requires an exact attention to small savings and small gains; a man born to a great fortune is very seldom capable [of this].

Every generation has an equal right to the earth and to all that it possesses.

I do not think many people realize that *The Wealth of Nations* is a *tour de force* of psychology and sociology, no less than economics. It offered men a theoretical scheme that, for the first time, encompassed the multitudinous intricacies of political economy.

The work is so rich, so germinal, that for a century it



gave Europe's kings, prime ministers, philosophers, politicians, their basic conception of human behavior, and guided their prescriptions for progress. The effect of Adam Smith on such men as Pitt, or Stein of Prussia, or Gentz of Austria, his influence on statesmen, social theorists, ministers of trade, would be hard to exaggerate.

Smith transformed the very way in which men *thought* about private economics or public policy. He lifted the national welfare above the special interests of the august and the privileged: the ruling lords, the landed gentry, the romantic, impatient builders of empire—and also above the special interests of the aggressive merchants, the clamoring protectionists, the clever traders, importers, exporters.

He heralded a new kind of freedom. He virtually founded a secular faith, Individualism, and *The Wealth of Nations* became its bible. "Next to Napoleon," one historian concluded, Adam Smith was "the mightiest monarch in Europe."

He never thought his system perfect; he did demonstrate how much better it was than any that existed, because his economic model operated independent of men's personal motives or monetary goals: it was governed and regulated by larger, impersonal *laws*. He had thought deeper, harder and better than anyone else about the dynamics of an economic order, and perceived the hidden equilibrium of interactions between contending forces.

I should interject that Adam Smith did not *invent* economics, or elevate it to a science single-handed. He owed much to Hutcheson, Hume, Quesnay, Turgot; and Professor William Lettwin has recently showed us how much Smith owes to John Locke, who discerned social laws "akin to the forces of nature," and to the astute Dudley North, who had related supply to demand, foresaw the functions of interest and rent, understood the balancing process in the movements of bullion, and extolled the spacious national benefits of free trade.

But Smith was surely economics' great architect, and remains its commanding theoretician. The gifted economists

who followed him—Ricardo, John Stuart Mill, Bastiat, Karl Marx, Alfred Marshall, Irving Fisher, John Maynard Keynes, Beveridge, von Hayek, Schumpeter—all began, as every economist must, with Adam Smith's stupendous scheme.

The system was not (it could not be) without grave and unresolved defects. Even perfect competition, notes Paul Samuelson, "could lead to starving cripples; to malnourished children . . . to the perpetuation of great inequality for generations or forever. If Smith were alive, he would agree." I have no doubt he would.

Smith did not foresee the fantastic off-shoots of the Industrial Revolution: the role of gigantic corporations, the power of unions, the problem of business cycles. Nor could he foresee how catastrophic depressions, frightful wars, and massive unemployment would create the most violent hatred for an "inhuman, profit-mad, conscienceless capitalist system."

The visible hardships of life have animated powerful movements for social reform. Governmental aid to the unpropertied—farmer or worker, artisan or tenant—became the battle cry for intellectuals, reformers, and labor unions. Hunger, lost jobs, unfound work are intolerable evils to the innocent victims of vicissitude.

To understand capitalism and its ramifications requires a degree of sophistication that is much rarer than compassionate oversimplifications. In the competition for political support, humanitarian appeals drown out reassurances about necessary readjustments. And a nagging sense of guilt about their self-enrichment weakens those who, one would assume, would be the staunchest of capitalism's defenders.

The simple promises of a humane social order have launched welfare states that respond to the demands of the millions. For men want security, no less than liberty. Men seek a proper share of justice and pelf no less than higher wages for their work. Is it surprising that the gap between the very rich and the very poor, between bourgeois luxuries and widespread misery, between the discriminatory effects of inflation or deflation, between war's profiteering and war's horrors, would drive men to revolutionary protest?



Even had Marx or Engels never existed, the very objectivity of capitalism's operations would have imposed economics' penalties on men sooner or later angered by them.

It has become clear, I think, that voters want full employment more than national growth; they seem to prefer inflation to depression; they will vote for massive public debts to finance massive public services. Men may want freedom, but they want insurance against freedom's inherent risks.

How can *laissez faire* win advocacy among the weak, the unlucky, the dull, the unwilling, the inept? Those who fail—the incompetent or imprudent, the lazy or all those to whom the Lord gave mediocre talents and extravagant aspirations—such men do not comprehend or accept the market's unfeeling effects. Diligent men cannot reconcile themselves to the demoralizing verdicts of competition. How can those battered by illness or old age or sheer misfortune philosophically accept their hopeless prospect? Can they care about a system that does not seem to care about them?

It is folly to expect the dispossessed, the confused, the unskilled, the foolish, the scorned, the insecure, the jobless, the emotion-ridden, the impatient, the unanalytic, the failures of this world to accept an abstruse, unreachable scheme which they, in fact, blame for undeserved adversity and unjustified defeats.

The crucial point about democracy, I think, is that men who feel too poor to cast significant votes in the marketplace do cast very large votes in the polling booths.

And having said all this, believing in its verity and effects, what I find most amazing about Adam Smith is how much more often he is right than wrong.

He was to economics what Newton was to physics, or Darwin to the study of man: a giant in the kingdom of intelligence. The cheerful, absentminded master analyst of the great, invisible scheme that shapes a million variant acts and calculations into a harmonious and beneficent whole was far from being the desiccated priest of what Carlyle would call "the dismal science."

I think the best way to gauge Adam Smith's contribution

to mankind is this: List the six books you think have most profoundly shaped our world. Start with the Bible. Include Newton's *Principia* and Darwin's *Origin of Species*. Now, can you possibly name three more without including that astonishing "outpouring of an epoch," *The Wealth of Nations*?