

Adam Smith's Enlightenment paved the way for human progress

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There are many good reasons to commemorate Adam Smith, the most influential Scottish Enlightenment philosopher and first political economist, on the 300th anniversary of his birth (5 June 1723). Adam Smith's Enlightenment ushered in a new era, an industrial revolution and the rise of the modern West.

We can safely say that there was a time before and after Adam Smith. The difference is most evident in the way Smith, apparently for all posterity, changed our understanding of the economy and of the impact of politics on economic and social development.

A quiet revolution

Smith's quiet revolution began by establishing, in stark contrast to prevailing mercantilist prejudices, that the sole aim and purpose of all production is consumption, in other words to satisfy our needs and wants. The goal was no longer to achieve a trade surplus and accumulate precious metals. Thus, the economy was suddenly understood to be for everyone, for the ordinary people and not only for the rich and powerful. The natural next step was for Smith to ensure that the economy would also be open for all to participate in, both as producers and consumers. In this way, we may claim that Adam Smith fundamentally democratised our understanding of the economy.

All this and much more can be found through the pages of Adam Smith's major work from 1776, *An Inquiry into the Nature and Causes of The Wealth of Nations (WN)*. *WN* has since stood out as the most influential product of the Scottish Enlightenment tradition. Through more than 1,000 pages, Smith explains the positive relationships between free trade, the division of labor and economic prosperity. The many historical illustrations of how different institutions and policies have influenced economic development, in many countries and at different times, fill at least 75 percent of the book's pages. In other words, Adam Smith's main work did not suffer any serious lack of evidence based judgement.

It is also noticeable that Smith is always consistent in his special concern for the economically vulnerable in society, for "the labouring poor, that is the great body of the people". This is clearly reflected in Smith's political recommendations on everything from legal equality, freedom of occupation, entrepreneurial freedom, free trade, abolition of remaining feudalistic restrictions and apprenticeship regulations, to the right to basic education and a redistributive tax system.

Critique of concentrated power

Smith is equally consistent in his critique of the "wretched spirit of monopoly and privilege" that he routinely associates with the powerful and the well connected rich. This comes out most clearly in Smith's frontal attack on mercantilism, the restrictions and monopoly privileges of the «mercantile system», as well as in his defence of economic freedom and free trade, at all levels, from the national to the international.

Even if *rent seeking* and *lobbying* were not familiar terms in Smith's time, Smith was always alert to the problem of businessmen attempting to capture gains through special privileges:

"The proposal of any new law or regulation of commerce which comes from this order (of men), ought always to be listened to with great caution, and ought never to be adopted until after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it."¹

The role of the state

Although Adam Smith himself was the first to realise that he did not quite succeed in realising his original ambition to develop a set of principles for an enlightened policy, with the primary goal "to extend the liberty and happiness of the people, and expand the power and the opulence of the nation", he nevertheless came a long way. In *WN*, Smith outlines and justifies what he considered to be the main responsibilities of the state. He placed special emphasis on the primary tasks of defence, security and an efficient and impartial administration of justice. However, Smith was breaking new ground when he added important public goods and infrastructure, which he understood could not be run efficiently and responsibly under private auspices, to the list. For Smith, it was also important to ensure basic education for all – not a common demand in mid 18th century Britain.

In retrospect, it is also striking to notice how carefully Adam Smith dealt with the question of how to organise, finance and pay for public services. Smith's overall consideration was to balance efficiency and quality through what we today would appropriate incentives, or in Smith's own words: "structured as to engage the motives and interests of those concerned". A highly relevant topic in public economics, even in 2023.

The ascent of political economy

After having read Smith's *WN*, the French economist Jean Baptiste Say wrote the following: "When you read this work, you quickly realise that there was no such thing as political economy before Smith." Like so many others, Say was also profoundly impressed by Smith's ability to combine wonder, curiosity and idea inspirations from near and near, accompanied by a constructive imagination that was faithfully moderated by systematic observations and penetrating historical studies. The special persuasive quality of Smith's arguments undoubtedly owes a great deal to the fact that he always let empirical facts have the decisive last word.

An important key to understanding why Smith's ideas quickly gained international influence lies in the almost immediate fame he was received after the publication of *WN*. The book's influence spread quickly through translations into French, German, Italian, Spanish and Danish. The French translation was of particular importance, since it helped Smith's many friends among the French *économistes* to spread his thoughts and also to moderate the French physiocrats prejudiced thinking on the primacy of agriculture. The Danish translation, that was also easily read in Norway, was of less importance, but it helped to facilitate Smith's later influence on Norwegian economic policy, especially during the Great Modernisation from the middle of the 19th century.

¹ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, The University of Chicago Press, Chicago, 1976, Bk. I Ch. XI, p. 278.

Not to forget, it did not take long before *WN* had political consequences, especially through the abolition and reduction of restrictive regulations and taxes, monopoly privileges and high customs barriers. The first free trade agreement between Great Britain and France in 1786, signed by the self-proclaimed Smith disciple William Pitt the younger, testified this clearly. Eventually, Adam Smith's major work inspired a series of reforms that promoted economic freedom, free trade and industrial innovations - as an engine for economic growth, higher wages and widely shared increased prosperity.

Smith's most lasting influence on social and economic development must nevertheless be understood to have worked more indirectly, from the professional field he established, that inspired and attracted new generations of economists. Indeed, it is hard to find any modern economic theory that in some meaningful way be traced back to approaches and insights found in Smith's main work.

The discovery of the market system

The question remains on what can be said to have been Adam Smith's greatest and most enduring achievement, as an Enlightenment philosopher and first political economist. What significant and lasting insight did Smith bestow on posterity?

According to the economists Lionel Robbins and Friedrich Hayek, two careful readers of Adam Smith, there was little doubt about the answer: It was Adam Smith's ground-breaking understanding of the market's superior capacity for spontaneous coordination of supply and demand, of consumers' and producers' plans and actions, shaped by incentives formed by the interplay of free competition and free price formation in the market.²

There can be little doubt that Smith clearly understood that a well functioning market economy, conditioned by an appropriate legal and regulatory framework, was the economic system that was best able to satisfy human needs and create broad based economic progress for the people. In Smith's interpretation, the free interaction of market participants, acting on their own understanding of self-interest, will lead to outcomes consistent with the common good, as if they were guided by "an invisible hand":

"...by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end (the public interest) which was no part of his intention."³

The many illusions of control and command

These beneficial outcomes of «the invisible hand», however rudimentary Smith's understanding of them was, found its compliment in Adam Smith's argument against political ambitions to try masterminding the economic process:

"All systems either of preference or restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for

² Lionel Robbins, *The Theory of Economic Policy in English Classical Political Economy*, McMillan & Co. Ltd., London, 1953, p. 7-22. Friedrich A. Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, Routledge and Kegan Paul, London, 1978, p. 267-269.

³ Adam Smith, op.cit., Bk. IV Ch. II, p. 477.

the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society."⁴

This insight of Smith anticipates Hayek's later theory on the use of decentralised knowledge in a market economy, and the inherent problems associated with attempts to centralise dispersed knowledge. Moreover, Smith's early insights into the use of knowledge in society is once again highly relevant to the current debates on interventionist industrial policy, where it is argued that the state should intervene more directly and with greater ambitions to create a new «mission economy».

Adam Smith's extended Enlightenment project

Once we move on, trying to understand why exactly Adam Smith was the first to discover the systemic beneficial properties of the market economy, it is helpful to step out of Adam Smith's political economy, in the narrow sense. In this way, we are better placed to appreciate the fact that Adam Smith's political economy was, from the outset, deeply rooted in a much broader perspective on society. A perspective that also dealt with the evolution of language, morality, knowledge, laws and political governance – always in historical context and grounded in certain basic assumptions about human nature.

Adam Smith looks quite different when we understand his life's work as a coherent whole, as an integrated Enlightenment project, and as a unique contribution within the Scottish Enlightenment tradition. Let's start with the concept of enlightenment, which Adam Smith's contemporary, the philosopher Immanuel Kant, understood as follows: To step out of a state of ignorance and self-imposed disempowerment.

Adam Smith understood well that this kind of self-imposed disempowerment was closely connected with prejudice, superstition and a fundamentally pessimistic attitude towards human possibilities and towards the future in general – locked inside a closed worldview. Adam Smith's contribution was an attack on what he understood as the many destructive and oppressive consequences of varieties of counter-enlightenment. Smith was a guide to a more modern and open society and its corresponding habits of mind.

In this light, Adam Smith's enlightenment was primarily about empowerment via increased knowledge and a better understanding of the causes of human progress and societal improvements, from the scientific to the linguistic, moral and not least the economic and social aspects of our lives. Inspired by his teacher, Francis Hutcheson, and in close dialogue with his slightly older friend and mentor David Hume, Smith clearly envisioned the possibility of developing a new science of man, his nature and possibilities for progress, with observation and historical studies as empirical tools .

Through the lense of human interactions

Smith's unique contribution to the Scottish Enlightenment, also compared to Hume, followed as a product of his concentration on understanding how development takes place when people meet and exchange anything from knowledge and sympathy, to goods and services. It is precisely human interactions in various forms and contexts, or the interaction between people if you like, that Smith takes an interest in and is absorbed by. The uniqueness of Adam Smith's contribution must also be understood against the background of the decisive importance he attached to one specific human characteristic and inclination: the human desire to constantly improve one's own life situation.

⁴ Adam Smith, op. cit., Bk. IV Ch. IX, p. 208.

In Smith's world, man was primarily a social creature, and the term self-interest was never intended to convey anything close to pure selfishness. Smith's understanding of self-interest was meant to accommodate a combination of both material, moral, intellectual and aesthetic needs, which may vary in their relative felt intensity, depending on situation and context. This complex and balanced picture of human nature and of human motivations is equally present in *WN* and in Smith's first major work, *The Theory of Moral Sentiments (TMS)*.

When Smith studied the history of astronomy, it was not the science of astronomy, as such, that interested Smith, but rather the study of how scientific knowledge grows and develops, stimulated by human wonder, surprise and admiration - within a field of knowledge where it was relatively easy to identify the great leaps in knowledge, based on available historical material.

Similarly, Smith studied different languages and rhetoric to better understand what languages and its evolution can tell us about the development of societies and civilizations, in addition to the more practical need to learn from the history of different countries, in their original language. Deirdre N. McCloskey's more recent analysis of the importance of words and ideas, to explain the rise of the modern world, certainly rhymes with Smith's thinking.⁵

From morality to market

Not surprisingly, we also find that Adam Smith, when he studied human interactions in civil society, was primarily interested in how personal interactions contributed to the promotion of mutual sympathy and moral judgement. Here we are witness to another breakthrough, quite similar to the "invisible hand" we find in the *WN*. In *TMS* Smith frames his argument within the contextualised aspect of human nature, that is primarily motivated by gaining recognition and goodwill from others. Smith shows how this motive leads us to practise empathy for others, as well as to moderate and adapt our own behaviour, so that others will reciprocate their sympathy for us.⁶

Smith's metaphor in this context, was about seeking guidance from the "impartial spectator": "the ideal man within the breast". This is how Smith explained how our moral judgement develops, through free human interactions. In this sense, the exchange of empathy in *TMS* plays a similar role as the division of labour and free trade does in *WN*. The parallels between the two are quite striking. In our personal relationships we seek recognition and goodwill from others. In our work and business life, we seek to improve our living standard, with greater emphasis on the material aspects of our lives.

The union of improvement and reform

There are undoubtedly some important red threads running through Adam Smith's lifework that gather in the contours of an Enlightenment spirit, based on the understanding that man's desire for improvement and progress is deeply embedded in human nature. By systematically uncovering the most important sources and means of realising social improvements with an eye to the common good, Adam Smith helped to spread the belief that social improvements can actually be achieved through well-founded policies and institutional reforms.

Moreover, Smith understood that thoughtful liberal reforms can set off a beneficial chain reaction: Legal and political improvements lead to economic improvements, which in turn lead to further

⁵ Deirdre N. McCloskey, *Bourgeois Dignity, Why Economics Can't Explain the Modern World*, The University of Chicago Press, Chicago and London, 2010, p. 1-30.

⁶ Adam Smith, *The Theory of Moral Sentiments*, Liberty Classics, Indianapolis, 1976, pp. 161-165, 208-231 and 328-343.

improvements in society's legal and political institutions. It is perhaps not surprising that Adam Smith eventually managed to convince the entire Western world that liberal reforms are the surest path to social improvements. At the same time, Smith clearly distanced himself from those who argued for either social upheaval or for a stubborn conservation of the *status quo*.

A new mentality is born

In summary, the story of Adam Smith is largely the story of an Enlightenment philosopher, cosmopolitan and a reform-oriented liberal (what in Britain used to be referred to as a Whig) who consistently advocated "the liberal plan of equality, liberty, and justice". But the most important effect of Smith's lifework was to give lasting nourishment to a new mentality that eventually came to inspire an entire world.

As the French political philosopher Louis Rougier has explained, Adam Smith's thinking came to form an important and integral part of the scientific and political mentality that was to shape the values, institutions and the Promethean culture of the liberal West:

«Western civilization is the outcome of a mentality which insists on freeing itself from taboos, interdicts, and ancestral customs devoid of social utility; which forces itself to understand the surrounding world so that it may master it by its own laws; which ceaselessly strives to improve the conditions of life so that existence may be worth living for the greatest possible number; but which always insists that progress can only come through processes which respect the dignity of the individual.»⁷

In this light, it is hard to find a single individual who has contributed so much to enlightenment, in the service of human progress and social improvement, as Adam Smith did.

Perhaps we should also be grateful that Adam Smith was born 300 years ago, and not 30 years ago. At the very least, it is difficult to imagine that the boundary-breaking interests, the broad-based studies and the interdisciplinary inspirations that made Smith's lifework possible would have had an equal opportunity to make themselves felt in the narrowly divided fields and disciplines of our time.

In other words, Adam Smith's ability to combine lateral and vertical thinking is also a testament to the power of human imagination and creativity – in producing new ideas. The fact that Adam Smith's new ideas changed the world should be a welcoming inspiration for us all.

Notes

⁷ Louis Rougier, *The Genius of The West*, Nash Publishing, Los Angeles, 1971, p. 197-198.