### **Adam Smith**

After two centuries, Adam Smith remains a towering figure in the history of economic thought. Known primarily for a single work, An Inquiry into the nature an causes of the Wealth of Nations (1776), the first comprehensive system of political economy, Smith is more properly regarded as a social philosopher whose economic writings constitute only the capstone to an overarching view of political and social evolution. If his masterwork is viewed in relation to his earlier lectures on moral philosophy and government, as well as to allusions in The Theory of Moral Sentiments (1759) to a work he hoped to write on “the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society”, then The Wealth of Nations may be seen not merely as a treatise on economics but as a partial exposition of a much larger scheme of historical evolution.

#### **Early Life**

Unfortunately, much is known about Smith’s thought than about his life. Though the exact date of his birth is unknown, he was baptised on June 5, 1723, in Kikcaldy, a small (population 1,500) but thriving fishing village near Edinburgh, the son by second marriage of Adam Smith, comptroller of customs at Kikcaldy, and Margaret Douglas, daughter of a substantial landowner. Of Smith’s childhood nothing is known other than that he received his elementary schooling in Kirkcaldy and that at the age of four years he was said to have been carried off by gypsies. Pursuits was mounted, and young Adam was abandoned by his captors. “He would have made, I fear, a poor gypsy”, commented his principal biographer.

At the age of 14, in 1737, Smith entered the university of Glasgow, already remarkable as a centre of what was to become known as the Scottish Enlightenment. There, he was deeply influenced by Francis Hutcheson, a famous professor of moral philosophy from whose economic and philosophical views he was later to diverge but whose magnetic character seems to have been a main shaping force in Smith’s development. Graduating in 1740, Smith won a scholarship (the Snell Exhibition) and travelled on horseback to Oxford, where he stayed at Balliol College. Compared to the stimulating atmosphere of Glasgow, Oxford was an educational desert. His years there were spent largely in self-education, from which Smith obtained a firm grasp of both classical and contemporary philosophy.

Returning to his home after an absence of six years, Smith cast about for suitable employment. The connections of his mother’s family, together with the support of the jurist and philosopher Lord Henry Kames, resulted in an opportunity to give a series of public lectures in Edinburgh - a form of education then much in vogue in the prevailing spirit of “ improvement”.

The lectures, which ranged over a wide variety of subjects from rhetoric history and economics, made a deep impression on some of Smith’s notable contemporaries. They also had a marked influence on Smith’s own career, for in 1751, at the age of 27, he was appointed professor of logic at Glasgow, from which post he transferred in 1752 to the more remunerative professorship of moral philosophy, a subject that embraced the related fields of natural theology, ethics, jurisprudence, and political economy.

#### **Glasgow**

Smith then entered upon a period of extraordinary creativity, combined with a social and intellectual life that he afterward described as “ by far the happiest, and most honourable period of my life”. During the week he lectured daily from 7:30 to 8:30 am and again thrice weekly from 11 am to noon, to classes of up to 90 students, aged 14 and 16. (Although his lectures were presented in English, following the precedent of Hutcheson, rather than in Latin, the level of sophistication for so young an audience today strikes one as extraordinarily demanding.) Afternoons were occupied with university affairs in which Smith played an active role, being elected dean of faculty in 1758; his evenings were spent in the stimulating company of Glasgow society.

Among his circle of acquaintances were not only remembers of the aristocracy, many connected with the government, but also a range of intellectual and scientific figures that included Joseph Black, a pioneer in the field of chemistry, James Watt, later of steam-engine fame, Robert Foulis, a distinguished printer and publisher and subsequent founder of the first British Academy of Design, and not least, the philosopher David Hume, a lifelong friend whom Smith had met in Edinburgh. Smith was also introduced during these years to the company of the great merchants who were carrying on the colonial trade that had opened to Scotland following its union with England in 1707. One of them, Andrew Cochrane, had been a provost of Glasgow and had founded the famous Political Economy Club. From Cochrane and his fellow merchants Smith undoubtedly acquired the detailed information concerning trade and business that was to give such a sense of the real world to The Wealth of Nations.

#### **The Theory of Moral Sentiments**

In 1759 Smith Published his first work, The Theory of Moral Sentiments. Didactic, exhortative, and analytic by turns, The Theory lays the psychological foundation on which The Wealth of Nations was later to be built. In it Smith described the principles of “human nature “, which, together with Hume and the other leading philosophers of his time, he took as a universal and unchanging datum from which social institutions, as well as social behaviour, could be deduced.

One question in particular interested Smith in The Theory of Moral Sentiments. This was a problem that had attracted Smith’s teacher Hutcheson and a number of Scottish philosophers before him. The question was the source of the ability to form moral judgements, including judgements on one’s own behaviour, in the face of the seemingly overriding passions for self-preservation and self-interest. Smith’s answer, at considerable length, is the presence within each of us of an “inner man” who plays the role of the “impartial spectator”, approving or condemning our own and others’ actions with a voice impossible to disregard. (The theory may sound less naive if the question is reformulated to ask how instinctual drives are socialized through the superego.)

The thesis of the impartial spectator, however, conceals a more important aspect of the book. Smith saw humans as created by their ability to reason and - no less important - by their capacity for sympathy. This duality serves both to pit individuals against one another and to provide them with the rational and moral faculties to create institutions by which the internecine struggle can be mitigated and even turned to the common good. He wrote in his Moral Sentiments the famous observation that he was to repeat later in The Wealth of Nations: that self-seeking men are often “led by an invisible hand... without knowing it , without intending it, to advance the interest of the society.”

It should be noted that scholars have long debated whether Moral Sentiments complemented or was in conflict with The Wealth of Nations, which followed it. At one level there is a seeming clash between the theme of social morality contained in the first and largely amoral explanation of the manner in which individuals are socialized to become the market-oriented and class-bound actors that set the economic system into motion.

#### **Travels on the Continent**

The Theory quickly brought Smith wide esteem and in particular attracted the attention of Charles Townshend, himself something of an amateur economist, a considerable wit, and somewhat less of a statesman, whose fate it was to be the chancellor of the exchequer responsible for the measures of taxation that ultimately provoked the American Revolution. Townshend had recently married and was searching for a tutor for his stepson and ward, the young Duke of Buccleuch. Influenced by the strong recommendations of Hume and his own admiration for The Theory of Moral Sentiments, he Approached Smith to take the Charge.

The terms of employment were lucrative (an annual salary of ?300 plus travelling expenses and a pension of ?300 a year after), considerably more than Smith had earned as a professor. Accordingly, Smith resigned his Glasgow post in 1763 and set off for France the next year as the tutor of the young duke. They stayed mainly in Toulouse, where Smith began working on a book (eventually to be The Wealth of Nations) as an antidote to the excruciating boredom of the provinces. After 18 months of ennui he was rewarded with a two-month sojourn in Geneva, where he met Voltaire, for whom he had the profoundest respect, thence to Paris where Hume, then secretary to the British embassy, introduced Smith to the great literary salons of the French Enlightenment. There he met a group of social reformers and theorists headed by Francois Quesnay, who are known in history as the physiocrats. There is some controversy as to the precise degree of influence the physiocrats exerted on Smith, but it is known that he thought sufficiently well of Quesnay to have considered dedicating The Wealth of Nations to him, had not the French economist died before publication.

The stay in Paris was cut short by a shocking event. The younger brother of the Duke of Buccleuch , who had joined them in Toulouse, took ill and perished despite Smith’s frantic ministration. Smith and his charge immediately returned to London. Smith worked in London until the spring of 1767 with Lord Townshend, a period during which he was elected a fellow of the Royal Society and broadened still further his intellectual circle to include Edmund Burke, Samuel Johnson, Edward Gibbon, and perhaps Benjamin Franklin. Late that year he returned to Kirkcaldy, where the next six years were spent dictating and reworking The Wealth of Nations, followed by another stay of three years in London, where the work was finally completed and published in 1776.

#### **The Wealth of Nations**

Despite its renown as the first great work in political economy. The Wealth of Nations is in fact a continuation of the philosophical theme begun in The Theory of Moral Sentiments. The ultimate problem to which Smith addresses himself is how the inner struggle between the passions and the “impartial spectator’ - explicated in Moral Sentiments in terms of the single individual - works its effects in the larger arena of history itself, both in the long-run evolution of society and in terms of the immediate characteristics of the stage of history typical of Smith’s own day.

The answer to this problem enters in Book 5, in which Smith outlines he four main stages of organization through which society is impelled, unless blocked by deficiencies of resources, wars, or bad policies of government: the original “rude’ state of hunters, a second stage of nomadic agriculture, a third stage of feudal or manorial “farming”, and a fourth and final stage of commercial interdependence.

It should be noted that each of these stages is accompanied by institutions suited to its needs. For example, in the age of the huntsman, “there is scar any established magistrate or any regular administration of justice. “ With the advent of flocks there emerges a more complex form of social organization, comprising not only “formidable” armies but the central institution of private property with its indispensable buttress of law and order as well. It is the very essence of Smith’s thought that he recognized this institution, whose social usefulness he never doubted, as an instrument for the protection of privilege, rather than one to be justified in terms of natural law: “Civil government,” he wrote, “so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all.” Finally, Smith describes the evolution through feudalism into a stage of society requiring new institutions such as market-determined rather than guild-determined wages and free rather than government-constrained enterprise. This later became known as laissez-faire capitalism; Smith called it the system of perfect liberty.

There is an obvious resemblance between this succession of changes in the material basis of production, each bringing its requisite alterations in the superstructure of laws and civil institutions, and the Marxian conception of history. Though the resemblance is indeed remarkable, there is also a crucial difference: in the Marxian scheme the engine of evolution is ultimately the struggle between contending classes, whereas in Smith’s philosophical history the primal moving agency is “human nature “driven by the desire for self-betterment and guided (or misguided) by the faculties of reason.

#### **Society and “the invisible hand”**

The theory of historical evolution, although it is perhaps the binding conception of The Wealth of Nations, is subordinated within the work itself to a detailed description of how the “invisible hand” actually operates within the commercial, or final, stage of society. This becomes the focus of Books I and II. In which Smith undertakes to elucidate two questions. The first is how a system of perfect liberty, operating under the drives and constraints of human nature and intelligently designed institutions , will give rise to an orderly society. The question, which had already been considerably elucidated by earlier writers, required both an explanation of the underlying orderliness in the pricing of individual commodities and an explanation of the “laws” that regulated the division of the entire “wealth” of the nation (which Smith saw as its annual production of goods and services) among the three great claimant classes - labourers, landlords, and manufacturers.

This orderliness, as would be expected, was produced by the interaction of the two aspects of human nature, its response to its passions and its susceptibility to reason and sympathy. But whereas The Theory of Moral Sentiments had relied mainly on the presence of the “inner man” to provide the necessary restraints to private action, in The Wealth of Nations one finds an institutional mechanism that acts to reconcile the disruptive possibilities inherent in a blind obedience to the passions alone. This protective mechanism is competition, an arrangement by which the passionate desire for bettering one’s condition - a “desire that comes with United States from the womb, and never leaves United States until we go into the grave “ - is turned into a socially beneficial agency by pitting one person’s drive for self-betterment against another’s.

It is in the unintended outcome of this competitive struggle for self-betterment that the invisible hand regulating the economy shows itself, for Smith explains how mutual vying forces the prices of commodities down to their natural levels, which correspond to their costs of production. Moreover, by inducing labour and capital to move from less to more profitable occupations or areas, the competitive mechanism constantly restores prices to these “natural” levels despite short-run aberrations. Finally, by explaining that wages and rents and profits (the constituent parts of the costs of production) are themselves subject to this natural prices but also revealed an underlying orderliness in the distribution of income itself among workers, whose recompense was their wages; landlords, whose income was their rents; and manufacturers, whose reward was their profit.

#### **Economic growth**

Smith’s analysis of the market as a self- correcting mechanism was impressive. But his purpose was more ambitious than to demonstrate the self-adjusting properties of the system. Rather, it was to show that, under the impetus of the acquisitive drive, the annual flow of national wealth could be seen steadily to grow.

Smith’s explanation of economic growth , although not neatly assembled in one part of The Wealth of Nations, is quite clear. The score of it lies in his emphasis on the division of labour (itself an outgrowth of the “natural” propensity to trade) as the source of society’s capacity to increase its productivity. The Wealth of Nations opens with a famous passage describing a pin factory in which 10 persons, by specialising in various tasks, turn out 48,000 pins a day, compared with the few, perhaps only 1 , that each could have produced alone. But this all-important division of labour does not take place unaided. It can occur only after the prior accumulation of capital (or stock, as Smith calls it ), which is used to pay the additional workers and to buy tools and machines.

The drive for accumulation, however, brings problems. The manufacturer who accumulates stock needs more labourers ( since labour-saving technology has no place in Smith’s scheme), and in attempting to hire them he bids up their wages above their “natural” price. Consequently his profits begin to fall, and the process of accumulation is in danger of ceasing. But now there enters an ingenious mechanism for continuing the advance. In bidding up the price of labour, the manufacturer inadvertently sets into motion a process that increases the supply of labour, for “the demand for men, like that for any other commodity, necessarily regulates the production of men.” Specifically, Smith had in mind the effect of higher wages in lessening child mortality. Under the influence of a larger labour supply, the wage rise is moderated and profits are maintained; the new supply of labourers offers a continuing opportunity for the manufacturer to introduce a further division of labour and thereby add to the system’s growth.

Here then was a “machine” for growth - a machine that operated with all the reliability of the Newtonian system with which Smith was quite familiar. Unlike the Newtonian system, however, Smith’s growth machine did not depend for its operation on the laws of nature alone. Human nature drove it, and human nature was a complex rather than a simple force. Thus, the wealth of nations would grow only if individuals, through their governments, did not inhibit this growth by catering to the pleas for special privilege that would prevent the competitive system from exerting its begin effect. Consequently, much of The Wealth of Nations, especially Book IV, is a polemic against the restrictive measures of the “mercantile system” that favoured monopolies at home and abroad. Smith’s system of “natural liberty”, he is careful to point out, accords with the best interests of all but will not be put into practice if government is entrusted to, or heeds, the “mean rapacity, who neither are , nor ought to be, the rulers of mankind.”

The Wealth of Nations is therefore far from the ideological tract it is often supposed to be. Although Smith preached laissez-faire (with important exceptions), his argument was directed as much against monopoly as government; and although he extolled the social results of the acquisitive process, he almost invariably treated the manners and manoeuvres of businessmen with contempt. Nor did he see the commercial system itself as wholly admirable. He wrote with decrement about the intellectual degradation of the worker in a society in which the division of labour has proceeded very far; for by comparison with the alert intelligence of the husbandman, the specialised worker “generally becomes as stupid and ignorant as it is possible for a human being to become”.

In all of this, it is notable that Smith was writing in an age of preindustrial capitalism. He seems to have had no real presentiment of the gathering Industrial Revolution, harbingers of which were visible in the great ironworks only a few miles from Edinburgh. He had nothing to say about large-scale industrial enterprise, and the few remarks in The Wealth of Nations concerning the future of joint-stock companies (corporations) are disparaging. Finally, one should bear in mind, that, if growth is the great theme of The Wealth of Nations, it is not unending growth. Here and there in the treatise are glimpsed at a secularly declining rate of profit; and Smith mentions as well the prospects that when the system eventually accumulates its “full complement of riches” - all the pin factories, so to speak, whose output could be absorbed - economic decline would begin, ending in an impoverished stagnation.

The Wealth of Nations was received with admiration by Smith’s wide circle of friends and admires, although it was by no means an immediate popular success. The work finished, Smith went into semiretirement. The year following its publication he was appointed commissioner both of customs and of salt duties for Scotland, posts that brought him ?600 a year. He thereupon informed his former charge that he no longer required his pension, to which Buccleuch replied that his sense of honour would never allow him to stop paying it. Smith was therefore quite well off in the final years of his life, which were spent mainly in Edinburgh with occasional trips to London or Glasgow (which appointed him a rector of the university). The years passed quietly, with several revisions of both major books but with no further publications. On July 17, 1790, at the age of 67, full of honours and recognition, Smith died; he was buried in the churchyard at Canongate with a simple monument stating that Adam Smith, author of The Wealth of Nations, was buried there.

Beyond the few facts of his life, which can be embroidered only in detail, exasperatingly little is known about the man. Smith never married, and almost nothing is known of his personal side. Moreover, it was the custom of his time to destroy rather than to preserve the private files if illustrious men, with the unhappy result that much of Smith’s unfinished work, as well as his personal papers, was destroyed (some as late as 1942). Only one portrait of Smith survives, a profile medallion by Tassie; it gives a glimpse of the older man with his somewhat heavy-lidded eyes, aquiline nose, and a hint of protrusive lower lip. “I am a beau in nothing but my books, ”Smith once told a friend to whom he was showing his library of some 3,000 volumes.

From various accounts, he was also a man of many peculiarities, which included a stumbling manner of speech ( until he had warmed to his subject), a gait described as “vermicular”/ and above all an extraordinary and even comic absence of mind. On the other hand, contemporaries wrote of a smile of “inexpressive benignity,” and of his political tact and dispatch in managing the sometimes acerbic business of the Glasgow faculty.

Certainly he enjoyed a high measure of contemporary fame; even in his early days at Glasgow his reputation attracted students from nations as distant as Russia, and his later years were crowned not only with expression of admiration from many European thinkers but by a growing recognition among British governing circles that his work provided a rationale of inestimable importance for practical economic policy.

Over the years, Smith’s lustre as a social philosopher has escaped much of the weathering that has affected the reputations of other first-rate political economists. Although he was writing for his generation, the breadth of his knowledge/ the cutting edge of his generalization, the boldness of his vision, have never ceased to attract the admiration of all social scientists, and in particular economists. Couched in the spacious, cadenced prose of his period, rich in imagery and crowded with life, The Wealth of Nations projects a sanguine but never sentimental image of society. Never so finely analytic as David Ricardo nor so stern and profound as Karl Marx, Smith is the very epitome of the Enlightenment: hopeful but realistic, speculative but practical, always respectful of the classical past but ultimately dedicated to the great discovery of his age - progress.

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