

# Adam Smith: Inspiration and Issues<sup>1</sup>

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**Adam Smith 1723-1790**

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## Introduction

There is a risk that very mention of Adam Smith might, today, be something of a turn-off. But his work is both interesting, and pertinent to our current concerns. In this short talk, I will take up just a few out of many possible themes. My aim will be to remind you of some material that should be found inspiring by those with an interest in classical liberalism. But I will also to point to some challenges to which his work gives rise.

I will write in very broad terms, but will add some references in notes, for those who might wish to have more detail available to them.

Do, however, feel free to e-mail me (at the address at the start of this paper) should you wish for further information.

## 1. Smith as an Inspiration

The key idea about which I would like to speak with you today, relates to the way in which Smith offers a resolution to the problem of how one can respect individual rights and minimize coercion but also have a society that functions well.

Why is this a problem? Well, if you think about it, while we would wish to treat one another well and to respect other people's liberty, this might on the face of it seem to generate a difficulty. Namely, how, then, can we get people – if we treat them this way – to cooperate with one another, and, in particular, to engage in complex enterprises of a kind which is typical of societies like the ones in which we are currently living, in which we are all making small contributions to various complex operations, with the overall character of which we are typically not familiar. Cooperation with people with whom we have direct face-to-face relations, and a clear common purpose, will usually not present too many difficulties. But as Leonard Read spelled out in his well-known essay, 'I, Pencil',<sup>2</sup> simple objects such as a pencil (or, say, a can of soft drink), in fact involve the products of the actions of many different people, these days in many different countries. The problem is: how are we to get them to cooperate, in a way that is required if such things are to be produced, if we are committed to respecting their rights? It is this problem, to which Smith's work offers us a solution.

### **A: 'Natural jurisprudence' & rights**

Smith may usefully be understood as having written in the setting of ideas that are now often referred to as 'natural jurisprudence'.<sup>3</sup> These were ideas about 'natural law', as they were developed in Seventeenth and Eighteenth Century thought, following the work of Hugo Grotius. There were various different views about how such ideas might be understood; but perhaps the best-known account is to be found in John Locke's Second Treatise of Government. In this, Locke starts with ideas about individuals having rights in a so-called 'state of nature' – i.e. independently of government – and presents government, and what are and what are not its legitimate powers, as something that we should understand, in terms of the kinds of arrangements that such individuals might rationally have agreed to, if they were setting up a government from this starting-point. It is inspiring stuff and of great political importance – such ideas, for example, influenced the Bill of Rights in the American Constitution.

There were various different views as to how the basis of such ideas should be understood: the foundations of Locke's own account would seem to me best understood as religious.<sup>4</sup> Smith, by contrast, has some suggestions which it might be possible to develop into a non-religious approach to rights.<sup>5</sup> Further, while I have referred to Smith as sharing in the broad approach of 'natural jurisprudence', Smith is not like Locke in how he tackles social and political issues. (For example, Smith is not a social contract theorist.) But his views are clearly compatible with an approach like that of Locke.<sup>6</sup> And this means that those who favour a viewpoint which places stress upon individual rights of the kind that one finds in the work of Locke and the American Constitution, can then make use of Smith's ideas to explain how a society that respects people's rights, will also work.

There are two issues here of particular importance, which interlock. First, there is the question of what sorts of rights we should acknowledge; and this approach gives us an indication of which claims to rights we should accept when others make them, and which we should resist. Second, it then tells us how we can expect a society to function and to flourish if such rights are recognised – i.e. what kinds of social mechanisms will do the work, and how such a society will function, with a minimization of coercion. (I.e. a knowledge of these things may help us to avoid the difficulties that one might otherwise hit if, for example, people were accorded over-generous, or simply badly-designed, welfare entitlements: while this might be nice for their recipients, one would then face the problem of how to motivate them to do things for others, and to participate in the kinds of activities upon which a well-functioning society depends.<sup>7</sup>)

### **B: Smith's Social Theory: an overview**

The key idea in Adam Smith's work is of what may usefully be referred to as the social division of labour, in which the coordination of economic activities takes place within a legal and institutional framework, by way of the interplay between individual self-interest and prices. In addition, people's moral sentiments also play a significant

role, both in people's personal motivation, and as providing a basis on which various social institutions work. Let me say a little about the details of Smith's ideas.

On Smith's account, productivity and wealth are a product of the division of labour. In part, this is a matter of individuals becoming more accomplished if they work on particular tasks (e.g. working on making one part of a pin, rather than each making an entire pin). In part, this comes about as a result of innovation: if tasks are simplified, then it becomes easy to see how, say, a piece of machinery might replace the repetitive work undertaken by some individual in the construction of some part of a pin. Another crucial factor is the size of the market – for if a society is small, it can't support much specialized activity.

Coordination here is also vital. I.e. it would lead not to gains in productivity, but to waste and chaos, if, say, vast numbers of pin heads were produced, which were not matched up to the other parts of a pin. (One also needs to match up the overall production of pins, to demand.) In a pin factory (as in Smith's account in Book I of The Wealth of Nations) the coordination of different activities are presumably achieved by the manager of the factory; under other arrangements, it might be decided by the committee of an industrial cooperative, and so on. Smith, however, also works with a bigger picture – which seems to me of greater significance. This is his picture of the social division of labour. For specialization – and the coordination of economic activity – also takes place right across society. Here, however, we don't need to have a manager or the equivalent to direct us as to what to do: rather, coordination takes place by means of the price system and people's economic self-interest. The key idea here is that goods and services are directed to those places in the economy where they are most highly valued, by virtue of individuals (either private individuals, or those acting for companies) being given appropriate price incentives.

This mechanism – which is effective, essential, but obviously not perfect<sup>8</sup> - has the advantage for the classical liberal that it works on the basis of individual choice, and the respect for people's rights.

## 2. Some Problems

In Smith's view, there could have been a 'natural' pattern of historical development leading up to a 'commercial society'. But actual the historical path that societies took, e.g. in Britain, did not fit this – not least, because of developments relating to feudalism. This posed the problem: what is then to be done? How are classical liberals – and those in government – to react to the resulting situation? In addition, Smith highlighted some other problems that emerge in 'commercial societies', which are of continuing relevance. All these, and the possibility that our inherited institutions may stand in need of improvement and reform, pose some interesting challenges to classical liberals which can't be resolved simply by pointing to Smith's more general social theory.

### **What were the problems? A:**

I will not here discuss issues relating to Smith's interpretation of history, which get rather complex,<sup>9</sup> but will, rather, refer to some more practical problems with which he was concerned.

First, Smith was concerned about issues which relate to people's motivation and behaviour. If someone left a village to live in an industrial city, they were typically materially better off (it is worth noting that charities in Nineteenth Century England existed to assist people to make such a move!).<sup>10</sup> But Smith was concerned about people's behaviour. In a village, ordinary people had what Smith referred to as 'a character [or reputation] to lose': everyone knew them, and this kept them in check. In the anonymous life of a city, no one really cared about what they did (at least if they stayed within the law). Smith was worried that such people might fall into 'profligacy and vice'.<sup>11</sup> This kind of issue is of concern beyond the individual, as it is likely to affect people's families and the general character of social life. But there is more to it for, as Smith's own discussion indicates, if people are in such conditions this may lead them into behaviour which may have problematic social consequences. Smith, himself, was worried that they might join over-narrow religious sects; these days, we might for example be worried about their joining extremist political parties.

### **What were the problems? B:**

Just before Adam Smith died, he revised his Theory of Moral Sentiments. He expressed concern that the rich were chasing after fashion. He was not so worried about what this meant for the rich, for they could presumably take care of themselves, but about them as a model for others less able to cope with the problems to which this conduct might give rise.<sup>12</sup> Something that parallels this has arisen in our own time.<sup>13</sup> Consider, for example, the implications for the poor or the less able, and for their kids, of things are not likely to pose as big problems for the wealthy and intelligent. One example, here, is no-fault divorce. It addresses an obvious problem, in what seems an intelligent and humane way. We are likely to favour the idea, as serving to enhance our liberty, even if we are happily married. Further, those who are around my age, and certainly many of those who are younger, typically favour the legalization of a number of recreational drugs. Again, this speaks to freedoms that many people wish to enjoy, and in addition, a telling case can be made about the bad consequences of the existing system.<sup>14</sup>

However, the problem here, by analogy with Smith's argument, is that while the problems that arise (e.g. of coping with two families on a single wage, or dealing with problems of addiction or dependence) may not be too difficult for the relatively wealthy and intelligent to deal with, the results may be devastating for those who are poor or less able.

Now, it might be argued that such issues, while sad, are not our concern. We may take the view that the only respect in which people should be subject to limitations on their conduct, are cases in which they would otherwise directly harm others. However, such a perspective would seem to me rather short-sighted. Not only, if we are arguing for the importance of individual freedom, does it seem somewhat callous

to disregard what are likely to be some of the obvious consequences of this, if we are successful, for people who are vulnerable. But insofar as we offer a picture of a free society as being one that we can expect to function well, it would seem to pose an obvious problem if anyone who thinks about what we are advocating can see it as leading to a range of difficult social problems.

### **3. What is to be done?**

Smith's positive picture is of real importance and it seems to me vital that we should not lose sight of it. It is, as Hayek has stressed more recently, of key importance to understand how a free society works, and to do the hard intellectual work of determining how we should tackle social problems in ways that will not stuff it up. We need also, as Hayek has himself stressed, to also consider how we may improve such a society.<sup>15</sup> What does this mean? First, we have to understand intellectually how a free society works. Then we need to be on the lookout for, and to understand, problems as they arise (and they will). Next, we need to work out how they might be addressed without causing difficulties for freedom and for the effective functioning of a free and prosperous society.

In addition, we will then have to make a case for why we should proceed in this way in a public forum – which will not be easy. I stress this point, just because if we take our task seriously, we will be conscious of the need to work within particular constraints in tackling some problem (i.e. our concerns about individual rights, and about what is needed for a free, market-based society to function well), which our fellow citizens may well not appreciate. They may find more direct and obvious ideas about how to fix things much more attractive – so we may have a difficult argument on our hands in explaining why such things are to be rejected, in favour of what may be more complex approaches. We will then need to find ways of convincing politicians and public servants that this is the best way of proceeding. Finally, we will need to tackle the problem of how to do this within a political system that, to a large extent, operates on the basis of interests not ideas. Rather than naturally responding to abstract arguments, our politicians will more typically – and understandably – be concerned about the views of those who have financial clout, or who represent the key votes in marginal seats that they need to retain or to capture. All this, however, presents to us a really interesting intellectual problem for us to tackle.

There is, it seems to me, one other particular difficulty in Australia. What often seems to be crucial in the determination of policy, are the theoretical ideas and models with which high-level public servants are operating. It is these which may, as it were, determine the framework within which people seek for the solution to problems. But such ideas suffer, it seems to me, from a lack of exposure to criticism. There is, I think, a real problem that rather than being able to hold the underlying views of senior public servants directly open to criticism, the only form of criticism that can readily take place is of the views of politicians. They may or may not be capable; but they are hardly the people who are responsible for the underlying theoretical ideas which stand behind the choice of policies (or which may rule out some policies from ever being considered at all). There is a risk, here, that we may be invited to engage with the monkey, when it is really the organ-grinder who needs questioning!

#### **4. A Concluding comment**

**I have suggested that Smith offers us an inspiring picture of how a free and prosperous society may function: one which respects individual rights and whose economy functions effectively. But if we take our lead from Smith, we can well expect that it will encounter various problems, and that we will need to think seriously about how they can be tackled, and also about how, more generally, the inherited institutions of such a society can be improved. This, however, means that (alas) we can't do without politics, politicians and public servants – and the need to address them. This then means that classical liberals need to have a clear view not just of the broad principles of a free society but also to give thought to the intellectually difficult issues of how to remedy problems as they arise, within free societies. We also face the further – and perhaps even more difficult – problems of getting politicians and public servants to do what they need to do, rather than all the other things they'd like to do, or which would be popular. (Or which, say, they feel they should do for the sake of 'national security' – behind which banner 1000 horrors flourish; but that is a story for another occasion.<sup>16</sup>)**

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<sup>1</sup> This is a revised version of a talk given at The Freedom Factory on July 13<sup>th</sup>, 2007 at Curtin University. On the occasion, I spoke from powerpoint notes, and indicated that I could not there supply documentation. I have taken the opportunity to expand and I hope clarify what was on the notes, as well as to add a limited amount of documentation. I have often referred in what follows to various of my own publications, not out of a sense of megalomania, but in order that an interested reader can see how I have handled these issues when writing at greater length.

<sup>2</sup> Leonard Read, 'I, Pencil'. The essay dates from 1958; a useful current source is: <http://www.econlib.org/library/Essays/rdPnc11.html>. The idea with which Read is concerned, goes back at least to John Locke's Second Treatise of Government, paragraph 43.

<sup>3</sup> There have been some interesting controversies about Smith's political thought, and the setting in which it is best understood. The theme of 'natural jurisprudence' is stressed, particularly, by Knud Haakonssen, The Science of a Legislator, Cambridge: Cambridge University Press, 1989. See, for a view which contrasts somewhat with this, Donald Winch's Adam Smith's Politics, Cambridge: Cambridge University Press, 1978. An interesting account which stresses commonalities with Locke, is Istvan Hont and Michael Ignatieff, 'Needs and Justice in The Wealth of Nations', in Hont and Ignatieff (eds), Wealth and Virtue, Cambridge: Cambridge University Press, 1986.

<sup>4</sup> One writer who stressed this particularly, was John Dunn in his The Political Thought of John Locke, Cambridge: Cambridge University Press, 1969. See also his 'What is Living and What is Dead in the Political Theory of John Locke', in his Interpreting Political Responsibility, Princeton, NJ: Princeton University Press, 1990, for some reconsiderations.

<sup>5</sup> I would like to thank Knud Haakonssen for discussion on this topic. It is not that Smith offers an explicit theory, but, rather, that one might be able to reconstruct one, if one puts together ideas from his Lectures on Jurisprudence and his Theory of Moral Sentiments.

<sup>6</sup> As the piece by Hont and Ignatieff cited in note 3 makes clear.

<sup>7</sup> Obviously, all kinds of other activities will also take place in a well-functioning society – including, for example, all kinds of voluntary activity, and also the provision of assistance to people who are not able to support themselves. My concern, here, is with the more general framework within which such activity needs to be understood as taking place.

<sup>8</sup> Two issues are important, here. First, as Mises and Hayek argued, it is not clear that there can be any alternative to the price system, in economies of any complexity, if they are to function effectively. Second, these mechanisms clearly respond to what is sometimes called 'effective demand' – so that the economy may not, for example, respond to the basic needs of those who have few or no resources; further, we may well spend money on things that will not necessarily be in our best interests. How these and other problems may be addressed in ways that don't compromise people's basic freedoms, and the effective

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working of an economy, were, for example, a key concern of Friedrich Hayek's (on whom, see, for example, my Hayek and After, London: Routledge, 1986).

<sup>9</sup> See, on this, for example my 'Smith and the Materialist Theory of History', Regarding the Past: Proceedings of the 20<sup>th</sup> Conference of the History of Economic Thought Society of Australia, University of Queensland, 11-13 July 2007, edited by Peter E. Earl and Bruce Littleboy, St Lucia, Queensland: The School of Economics, University of Queensland, 2007, pp. 44-61. ISBN: 9781 8649 98 979 (pbk); 9781 8649 98 955 (CD-ROM).

<sup>10</sup> Compare on this issue, A. Seldon (ed.) The Long Debate on Poverty, London: IEA, 1973; but see also the critical review by John Saville in The Economic History Review, New Series, Vol. 27, No. 3 (Aug., 1974), pp. 485-7.

<sup>11</sup> See Adam Smith, Wealth of Nations, Book 5, chapter 1, Article Iii, Of The Expense Of The Institutions For The Instruction Of People Of All Ages, paragraph 12; Glasgow Edition, p. 176.

<sup>12</sup> See Adam Smith, The Theory of Moral Sentiments, Chapter Iii: Of The Corruption Of Our Moral Sentiments, Which Is Occasioned By This Disposition To Admire The Rich And The Great, And To Despise Or Neglect Persons Of Poor And Mean Condition, paragraph 7. See Glasgow edition, p. 109.

<sup>13</sup> I was struck by a lecture at the CIS by Professor Peter Saunders on these issues in which he referred, inter alia, to research undertaken for CIS by Barry Maley.

<sup>14</sup> At the most obvious, illegal drugs are typically of unknown quality (or composition). In addition, if drugs are illegal, they are typically more expensive than they would be if they were legalized. In the case of heroin, many people are known to steal to support a drug habit. But as the cash that they receive for stolen goods is but a fraction of the value of the goods that they steal, this is often argued to be a really significant source of burglary.

<sup>15</sup> See, on this, my Hayek and After, London: Routledge, 1986.

<sup>16</sup> In which context, a useful piece of reading on which to start is Randolph Bourne's 'War is the Health of the State'; see, for example: [http://www.struggle.ws/hist\\_texts/warhealthstate1918.html](http://www.struggle.ws/hist_texts/warhealthstate1918.html).