



## Mr. President, Meet Mr. Smith

BY LAWRENCE W. REED

As I listened to this year's presidential candidates discuss economic matters, one thought came repeatedly to mind: *Oh, how much they could learn from Adam Smith!* Since it's obviously possible for people to reach the pinnacle of politics without seeming to know much about either economics or Smith, perhaps we're overdue for a little reminder about both.

Smith was baptized on June 5, 1723, in Kirkcaldy, Scotland. It's not known for certain, but it is presumed that he was either born on that very day or a day or two before. Whichever date it was, he entered a world that his reason and eloquence would later transform.

For 300 years before Smith, western Europe was dominated by an economic system known as mercantilism. Though it provided for modest improvements in life and liberty over the feudalism that came before, it was a system rooted in error that stifled enterprise and treated individuals as pawns of the state.

Mercantilist thinkers believed the world's wealth was a fixed pie, giving rise to endless conflict among nations. After all, if you think there's only so much and you want more, you've got to take it from someone else.

Mercantilists were economic nationalists. They thought foreign goods were sufficiently harmful that government policy should promote exports and restrict imports. Exports were to be paid for in gold and silver, not products. To the mercantilist, the precious metals were the very definition of wealth, especially to the extent that they piled up in the coffers of the monarch.

Because they had little sympathy for self-interest, the profit motive, and the operation of prices, mercantilists

wanted governments to bestow monopoly privileges on a favored few. In Britain the king even granted a protected monopoly—to a particular, highly placed noble—over the production of playing cards.

Economics in the late eighteenth century was not yet a focused subject of its own, but rather a poorly organized compartment of what was known as “moral philosophy.” Smith's first book, *The Theory of Moral Sentiments*, was published in 1759, when he held the chair of moral philosophy at Glasgow University. He was the first moral philosopher to recognize that the business of enterprise—and all the motives and actions in the marketplace that give rise to it—was deserving of careful, full-time study as a modern discipline of social science. The culmination of his thoughts in this regard came in 1776. As American colonists were declaring their independence from Britain, Smith was publishing his own shot heard round the world, *An Inquiry into the Nature and Causes of the Wealth of Nations*, better known ever since as simply *The Wealth of Nations*.

Smith's choice of the longer title is revealing in itself. Note that he didn't set out to explore the nature and causes of the *poverty* of nations. Poverty, in his mind, was what happened when nothing happens, when people are idle by choice or force, or when production is prevented or destroyed. He wanted to know what brings the things we call material wealth into being and why. It was a searching examination that would make him a withering critic of the mercantilist order.



**The world's first major public monument to Adam Smith, in Edinburgh, Scotland. The statue, unveiled on July 4, 2008, was financed entirely by private contributions.**  
Courtesy, Adam Smith Institute

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Wealth was not gold and silver in Smith's view. Precious metals, though reliable as media of exchange and for their own industrial uses, were no more than claims against the real thing. All of the gold and silver in the world would leave one starving and freezing if they couldn't be exchanged for food and clothing. Wealth to the world's first economist was plainly this: *goods and services*. Whatever increased the supply and quality of goods and services, lowered their price, or enhanced their value made for greater wealth and higher standards of living. The "pie" of national wealth isn't fixed; you can bake a bigger one by producing more.

Baking that bigger pie, Smith showed, results from investments in capital and the division of labor. His famous example of the specialized tasks in a pin factory demonstrated how the division of labor works to produce far more than if each of us acted in isolation to produce everything himself. It was a principle that Smith showed works for nations precisely because it works for the individuals who make them up. He was consequently an economic *internationalist*, one who believes in the widest possible cooperation between peoples irrespective of political boundaries. He was, in short, a consummate free trader at a time when trade was hampered by an endless roster of counterproductive tariffs, quotas, and prohibitions.

### Exploding an Old Fallacy

Smith wasn't hung up on the old mercantilist fallacy that more goods should be exported than imported. He exploded this "balance of trade" fallacy by arguing that since goods and services constituted a nation's wealth, it made no sense for government to make sure that more left the country than came in.

Self-interest, frowned on for ages as acquisitive, anti-social behavior, was celebrated by Smith as an indispensable spur to economic progress. "It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner," he wrote, "but from their regard to their own interest." Moreover, self-interest was an unsurpassed incentive: "The natural effort of every individual to better his own condition . . . is so powerful, that it is alone, and without any assistance, not

only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often encumbers its operations."

In a free economy, he reasoned, no one can put a crown on his head and command that others provide him with goods. To satisfy his own desires, he must produce what others want at a price they can afford. Prices send signals to producers so that they will know what to make more of and less of. It wasn't necessary for the king to assign tasks and bestow monopolies. Prices and profit would act as an "invisible hand" with far more efficiency than any monarch or parliament. Competition would improve quality and reduce prices.

Smith displayed an understanding of government that eclipses that of many citizens today when he wrote, "It is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense . . . They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will."

The ideas of Adam Smith exerted enormous influence before he died in 1790 and especially in the nineteenth century. America's founders were greatly affected by his insights. *The Wealth of Nations* became required reading among men and women of ideas the world over. A tribute to him more than any other individual, the world in 1900 was much freer and more prosperous than anyone imagined in 1776.

Ideas really do matter. America's new president should take time to get acquainted with Adam Smith.

Postscript: In a recent essay in the *New York Times Sunday Book Review*, *Newsweek* editor Jon Meacham revealed that when he e-mailed Barack Obama about the books that have most influenced him, Obama included *The Wealth of Nations* and *The Theory of Moral Sentiments* on his list. The country would benefit if the president-elect would give them a second read before January 20.