



Adam Smith 300 Competition

Adam Smith published two influential books based on his lectures at the University of Glasgow.

The first was *The Theory of Moral Sentiments*. It was published in 1759. The book is an attempt to explain everyday moral judgment. Instead of telling us what to think about morality, Smith tried to understand how people make moral decisions. He traced this to our feelings: the moral sentiments. Smith argues that humans possess a capacity for Sympathy with each other. This is a 'fellow-feeling with any passion whatever.' What we call empathy. It allows us to imagine what we would feel if we were in another's situation.

Sympathy means that humans are naturally sociable, we care what others think about us and about what happens to other people. This desire for approval means that society acts like a mirror, and we see ourselves reflected in other people's reactions to us. We want other people to approve of us so we control our actions and try to match them to what we imagine other people will approve of, and to avoid actions that will bring their disapproval. This is a process that we learn as we grow up. It is the basis of the expected rules of behaviour that develop in different societies.

The next step in Smith's argument is to explain how we internalise this process of judgment. Smith suggests that we develop the ability to imagine what an impartial spectator would think about our actions. This allows us to judge our own actions and guide them to meet society's expectations of us. Consulting the impartial spectator provides us with an authoritative voice within who judges us: Smith is explaining the idea of conscience. This allows him to explain situations where we think that we are doing the right thing, because our conscience tells us that we are, while the rest of society disagrees with us. The voice of conscience is so strong that it can break through our selfishness and self-deceit and allow us to hold ourselves to a higher standard of behaviour and become moral individuals.

Adam Smith's second book was *An Inquiry into the Nature and Causes of the Wealth of Nations*. It was published in 1776. His aim was to criticise what he saw as false ideas of wealth and false theories of how wealth is generated. Mercantilist thinkers thought that the wealth of a nation was measured by the amount of gold it possessed and that the way to secure greater wealth was through colonialism and protectionism.

Smith explains that wealth does not consist in gold, but rather in the living standards of the whole population. 'Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life.' This means that colonialism and protectionism, which benefit wealthy merchants, actively harm the wealth of the rest of the nation. If we want to understand where rising living standards come from, we need to understand what it was that brought about the increased productivity that made more goods available to more people.

Smith does this through five big ideas.

First, the Division of Labour. Using the example of a pin factory Smith shows how specialisation increases the output of workers. One person can make around 20 pins a day by themselves, but 10 people co-operating and dividing up the tasks of production can make 48,000 pins a day. Specialisation allows increased skill and greater use of machines to vastly increase output. The result is that a pin moves from a luxury good to a mass good available to all. The second idea is trade. Smith thought that humans had 'a natural propensity to truck, barter and exchange.' This allows us to divide labour and become interdependent specialists. To understand the wealth of the nation we need to understand what makes trade and the division of labour possible and, crucially, what stops them from working.

The third idea is capital accumulation. Wealth is generated by increased production through trade and the profits from this are re-invested in increased production leading to the 'slow and steady' accumulation of advantage. Our savings and investments are driven not by greed but by 'the natural disposition to improve our situation.' All of us try to turn our labour and resources to their most efficient use to secure necessities and comforts for our families.

This leads to the fourth idea. Smith rejected the policies that sought to restrict trade to the advantage of merchants and corporations. He believed in what he called the system of 'Natural Liberty'. Left to themselves under a stable system of law people will direct their productive activity to the area indicated as profitable by prices that emerge from markets. The result is a more efficient system of resource and effort distribution than if a government attempted to direct it by favouring merchants or corporations. Smith was against trade restrictions, subsidies, and colonialism because he thought they prevented the operation of trade and competition which in turn allowed the most effective use of labour and resources.

The fifth idea is the 'invisible hand.' Smith used this as a metaphor to describe how trade and the division of labour operate to maximise the wealth of the nation without the deliberate direction of the government. Merchants and traders who claim to represent the wealth of the nation and seek government protection from competition disrupt this process. The wealth of the nation is brought about by free trade and competition between individuals seeking to improve their own lives. This invisible hand is more effective than government attempts to direct trade.

But Smith was not blind to the potential negative outcomes of free trade. He argued that there were three vital tasks for Government: Defence, Justice, and Public Works. The public works included roads and bridges, but also public schools intended to help ordinary workers improve their lives.