
Adam Smith: What he thought and why it matters: A response

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Cosmos + Taxis have assembled a very distinguished group of scholars to comment on my recent book on Adam Smith. In considering their remarks I have been struck both by their quality and by the degree of engagement they reflect—and still more by their sympathetic understanding of the slightly unusual nature of the book. I warmly thank all of the contributors, and Gordon Graham and Leslie Marsh for bringing this forum together.

The book is unusual in seeking to discharge a wide range of functions at the same time, and in a fairly small compass. In the first place, it is designed to be a brief and accessible, but I hope also authoritative, introduction to the life and thought of Adam Smith. Secondly, it seeks to debunk many of the myths and caricatures which have grown up around Smith, taking aim in particular at competing misinterpretations from different parts of the political spectrum. Thirdly, it is intended to offer a more in-depth analysis of Smith's thought, and to highlight both his impact and the continuing relevance of his ideas to a host of current political, economic and social problems.

Combining these three goals, and the different modes of analysis and expression required to achieve them, is not a straightforward task; I discuss its demands and constraints in more detail in the Acknowledgements to the book. But as with my book on Edmund Burke, my (rather immodest) historiographical hope has been to rework the category of intellectual biography in a way that gives more scope to nuanced and sympathetic discussion of complex ideas, without losing the reader. Otherwise the biographer faces the problem of moving from the subject's choice of breakfast, so to speak, to their views on the 18th century market for Bills of Exchange or some other abstruse but important topic, and then—many analytic pages later—back to their preferences for dinner.

In his comment, Ryan Hanley shows himself well aware of these different goals and the constraints that they impose. He offers a brief but very cogent recapitulation of some of the central ideas of the second half of the book, in particu-

lar in relation to what I have called crony capitalism. As he detects, although I am myself a working politician I have approached these issues very much in the spirit of academic analysis and debate. But I do allow myself a Smithian move into the persuasive, if not the polemical, when it comes to present-day issues, though not in any party-political way. In a chapter for a forthcoming book on counsel and advice to leaders, I show how Smith himself kept his advice to politicians free of party entanglements, with a studied neutrality that many academics today struggle, or actively do not seek, to achieve.

Maria Pia Paganelli also highlights the importance of detaching a scholarly perspective from any specific political orientation. She focuses with great insight on the links between mercantile interests, the British Empire, and crony capitalism. She sees the modern solution, internationally at least, in open borders, quoting Smith's line that "Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity."

I am afraid I am not so sure about these matters, either as a reading of Smith or on the substance of the policy. I suspect Smith's concern was always more for the conflict caused by "jealousy of trade" and its supposed mercantile inspiration, than for the effects of nationalism or xenophobia as we understand them today. And the idea of open borders carries with it its own dilemmas, for example in the brain drain of talent from developing countries, something I discuss in Chapter 9 of my book.

Inevitably, these comments can be also read in relation to the vexed issue of Britain's withdrawal from the EU. It is a parlour game to speculate on what Adam Smith's position would be on particular modern issues, especially one as controversial as Brexit. But if we simply focus on the principles involved, I do not think it is obvious which principle Adam Smith might have chosen to invoke. On the one hand, he might well have celebrated the ability to trade without friction across borders offered by the EU Single Market,

and the depth of market, specialization and value creation afforded by membership of the European Union. On the other hand, he would have noted the faster rates of economic growth to be found elsewhere around the globe—and his 1778 memorandum to Wedderburn illustrates his awareness that over time sovereignty could shift within a federal system across traditional national boundaries and towards areas of greater size and population. He would thus seem to be sensitive to both sides of the argument in British politics.

Colin Heydt also offers a more contemporary political take on the issue of free market capitalism. He asks in relation to the six lessons that I pose at the end of my book whether in fact Smith is necessary to any of them, or whether we could learn those lessons elsewhere. The answer may well be that we could, though that in turn begs the question whether those sources might themselves have been influenced by Smith. Certainly within the western tradition that seems likely.

But my own view is that it is of great independent interest to derive these lessons directly from Smith. First, because of the depth and interlocking complexity of his ideas, which generate intellectual resources that I believe scholars and politicians have yet to appreciate in full. And secondly, because Smith's own immense authority and prestige help to give his ideas currency and power which a more circumstantial derivation might not provide.

But there is a third reason as well. Heydt very interestingly emphasizes the potential for “deep stories” to serve as narratives of grievance able to fuel nationalism and populism, and asks from where a countervailing deep story might come in support of commercial society. But I would say that one of the greatest achievements of *The Wealth of Nations* was, precisely, to identify and establish a “deep story” in 1776 about the sources of human wealth and productivity. That story has itself been long-lived and enormously influential, and it has helped to make *The Wealth of Nations* so as well.

I do not know from where exactly a new deep story in support of commercial society is to come. But my suggestion has been that, in part at least, such a story may not need to be invented but can be recovered, and Smith himself can be a crucial route to its recovery. That is, a “new master narrative” can come from a wider and better-founded appreciation of Adam Smith and the deep story he offers, and from a better grasp of the innumerable ways in which commercial society has in fact made people's lives better across the globe since his death. There is a continuing tendency for

commentators only to see these matters in national terms specific to them, and the rapid escalation of inequality at the very top end of the income and wealth spectrums in the US, the UK and some other countries is apt to distort a much wider and more positive picture of developing commercial prosperity around the world.

Jim Otteson nicely brings out a traditional problem in the interpretation of Adam Smith, between his view of markets as human constructs, his apparent willingness to entertain specific interventions in markets—and his advocacy of “the obvious and simple system of natural liberty” and insistence that state interventions can be harmful to human prosperity.

There is a genuine tension here in Smith's thought. But perhaps I can make some remarks which lessen the tension a little. In the first place, let us note that Smith appears to contemplate a wide range of specific interventions in markets. These include: the Navigation Acts; taxing spirits more than beer to reduce consumption of alcohol; the granting of temporary monopolies to stimulate overseas trade in remote or hostile regions; a duty in law to pay workers in cash rather than in kind, as protection against fraud; higher taxes on rents in kind than on money rents; the compulsory registration of mortgages; enforcement of building standards; sterling marks on silver plate and stamps on textiles, to show quality; special regulation of the banks, and of currency; and even a five per cent limit on the maximum rate of interest, as a protection against the wasteful activities of ‘prodigals and projectors’.

But these are specific interventions; they are not well thought of in the abstract categories of modern policy-making. Smith is not advocating temporary monopolies as such, for example; he is prepared to contemplate one or more in a specific policy context, all things considered. This willingness to tolerate what in other circumstances might be deemed a second best outcome is part of what Donald Winch has notably referred to as Smith's “wisdom of Solon”.

Secondly, Smith's preoccupation seems to focus on both ends of what we might call the spectrum of political intervention. On the one hand he is indignant in *The Theory of Moral Sentiments* about the “man of system”. On the other, he is no less scathing about “that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs”. So it would seem that he greatly dislikes interventions that are very wide-ranging, systematic and oppressive, or that are petty, tactical and representative of a particular interest

at the expense of what he takes to be the public good. There are thus, it would appear, a range of intermediate interventions in markets that Smith can in principle properly endorse given his lights.

Thirdly, I think there is a subtext running through much of Smith's thought, in the latent comparison between France and Britain. What had been claimed as the great advantage of the French political system, its capacity for state direction from the centre by appointed advisers—a capacity used both by Turgot and Necker—strikes Smith as a damaging exercise of unchecked power.

It is when British policy seems to approximate to this absolutist approach, based on court priorities not the public good, fitting an abstract theory not a qualified "science" based on human experience, exercised through political appointees not elected representatives, that Smith is most hostile to it. This is at the heart of his criticism of the Physiocrats. But this topic really requires a more detailed treatment, and of course it has received many over the years.

John McHugh also raises a serious problem with the interpretation of Smith, this time in his moral theory. If, as I argue, *The Theory of Moral Sentiments* is at root a descriptive theory of moral psychology, how can it sustain any normative judgements at all? If it cannot do that, how can it be used to criticize other moral viewpoints—indeed, does it have any value as a work of moral philosophy at all? And if not, where does this leave the idea of Adam Smith as a moral teacher?

Again, these are deep waters. But I think we can rescue Smith from this sceptical line of attack, although of course questions will remain. First of all, it is important to be clear that Smith does not see himself as engaged in a Kantian-style project of establishing moral foundations. His goal is in the first instance the more limited one of identifying and characterising a process by which human beings as social animals come to develop moral norms and values. Yet it does not follow from this descriptive and analytical account that Smith's theory is free from normative implications, because once a norm has been established within a community it exercises a degree of moral force, for good or ill. In effect, then, Smith offers an account which takes us from the fact of human practice and habit to public or private norms, and so to putative moral and social values.

The result is an approach which does not take up the (highly demanding) quest for ultimate moral objectivity. But it identifies what has proven to be an enormously fertile and influential way to think about social learning and

the establishment of norms. It establishes what is psychologically an immediately recognizable theory of conscience. And philosophically, it allows moral judgement to be exercised both comparatively between sets of norms, and critically between the content of a norm or value, and the extent to which people comply with it. Cutting across a number of modern disciplines, this is a very considerable achievement.

Douglas Den Uyl also carefully highlights problems and tensions in Smith's moral theory, including the concern about moral relativity. His fear is that the explication and defence of Smith in my book may end up making him an intellectually lifeless figure, offering "the answer for everything". Now Smith is himself such a multifarious, complex and qualified thinker that, as Jacob Viner noted, it is a poor scholar indeed who cannot find some support for their theories in his work. And it has certainly been my goal to make a persuasive case for the depth, importance and continuing relevance of his work. But that is not, as all the contributors recognize, at the expense of the truth. Smith's thought is far from a cure-all, and in the book I point out several areas in which it is limited, out of date or just plain wrong.

The Smith that emerges escapes the charge of being simply Mandevillian, because he is a theorist of abstention as well as of extravagance, of capital accumulation and progress as much as of present consumption. But there is also a methodological difference: Smith's is a qualified and dynamic picture of human development, while Mandeville's—to take the conceit seriously, as he intended—is stylized and static.

Den Uyl suggests that "Norman effectively throws up his hands in the end by saying that Smith 'struggles to supply a wholly naturalistic basis for his theories either of norms or of justice.'" But in drawing this conclusion, I did not mean to suggest that Smith's account must inevitably fail, only that Smith was not in fact able to detach his putatively naturalistic account from a substantive and perhaps religious worldview. It is Smith's hands that go up, and the biographer's job is to note that they must do so.

Finally, to highlight a moral dimension to all human exchange is not to "moralise the public realm", or at least not in any "thick" sense; and I would share concerns about programmes of public morality, as I think Smith would. The point is surely that views which see markets as "purely" about interest and law and not norms and trust, still less those which argue that economics is a value-free science, are mistaken; that analysis and policy prescription which do not recognise this normative dimension for good or ill

are likely to prove inadequate; and that norms form a social resource which is both vital and under-appreciated by economists. Indeed, as Den Uyl notes, “commerce finds ways to utilize at least some common moral pathologies to the benefit of society.” I think that is correct, both in fact and as a reading of Smith. The passions that drive people towards a slavish regard for the rich and powerful are the same passions that help drive the competitive desire to better one’s own station.

Finally, Craig Smith highlights issues connected to equality and “rank” in Adam Smith, and asks whether it is really right to see him as egalitarian. Of course, the word “egalitarian” has many meanings, and perhaps I should have made clearer what I had hoped was evident: that there is a world of difference between the equalising goal of 20th century redistributionist policies, and the kind of moral and legal equality that sits at the heart of Adam Smith’s worldview.

For Adam Smith, as for Hume and many others of the time, the rule of law lay at the heart of British liberty. That connected freedom from arbitrary detention, due process in court, and a core body of rights to free speech, freedom of association and the like. It is a marker of the supersession of feudalism. But Smith goes much further than this, not in advocating state programmes of redistribution and mass poverty relief, but in his deep sense of human equality, a sense that privileges the workers in legislation against the masters, that recognizes and seeks to relieve “mental mutilation”, and that acknowledges the dignity of a Diogenian tramp by the side of the highway, among much else.

As Craig Smith notes, there is no evidence that Adam Smith sought to use the tax system to promote social equality as such. But there is evidence of his support for at least some progressive taxation, and it would be entirely in keeping with his worldview if the commercial society financed in part by that tax revenue had the effect of making the least well off a bit more affluent. After all, he is a believer in “universal opulence”, and the legitimacy of commercial society lies in the fact that all do better within it.

Craig Smith also taxes me with inconsistency, in not seeing that issues of “rank” and managerial self-entrenchment can exist in all forms of organisation, governmental and not-for-profit as well as private sector. It is true that I have not discussed this point much either in my book on Smith or in previous work, though readers may be interested in my review of Weber’s “Politics as a Vocation” last year, which touches on these matters (online at [\[man.com\]\(http://www.jessenor-man.com\)\). It is also true that this is a serious issue, and long endemic to the management of large organisations.](http://www.jessenor-</p>
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But I have never taken the view that organisations outside the private sector are exempt from this concern, and it is easy to see how a Smithian analysis of the problems of principals and agents, asymmetries of information and power, and rent extraction can be applied to them. In general, we might note in Smithian spirit, these problems tend to be lessened by decentralization, greater accountability and competition and, be it said, in some cases by better regulation. They will never be eliminated entirely, but that is no reason not to seek improvement, both points that Adam Smith was wise enough to understand.

These comments will, I hope, underline the importance of the issues raised by the contributors. Again, I offer them my profound thanks.