

The Economist

Rescuing Adam Smith from Myth and Misrepresentation

Smith applied economic concepts to new questions



Adam Smith: Father of Economics. By Jesse Norman. *Basic Books*; 416 pages; \$30. Published in Britain as “*Adam Smith: What He Thought and Why it Matters*” by Allen Lane; £25.

MARGARET THATCHER is said to have carried a copy of the “*Wealth of Nations*”, Adam Smith’s most famous work, in her handbag. Britain’s most famous economist appears on the back of £20 notes. Yet while a few stock ideas are associated with him—the “invisible hand”, the division of labour, self-interest—what he actually wrote is often misinterpreted.

Jesse Norman, a British member of parliament who trained as a philosopher and is one of the Conservative Party’s best brains, wants to put that right. Author of a celebrated biography of Edmund Burke, Mr Norman not only explains Smith’s writings, which ranged from astronomy to colonialism, but also shows that they are still relevant today.

Smith lived at a time of great change, when the Industrial Revolution was getting going and more people were questioning the authority of religion. Scotland was in many ways a more progressive place than England, and, as a professor of moral philosophy at Glasgow University, Smith was right at the heart of it.

In the “Wealth of Nations” and his less famous work, “The Theory of Moral Sentiments”, Smith expounded the benefits of these changes. His enthusiasm for free thinking set him on the path to atheism, though he did not travel as far down it as his friend David Hume did. He believed that free trade was a force for good. He applied economic concepts to new questions, such as slavery, arguing that slave labour was more expensive than waged labour, because slaves had no incentive to produce more than the bare minimum.

Though Mr Norman proceeds at a brisker pace, he covers much the same ground as Nicholas Phillipson did in his recent intellectual biography of Smith. And like Mr Phillipson, Mr Norman peppers his high-minded discussion of Smith’s work with details about the economist’s day-to-day life. Smith spent six miserable years as a student at Oxford University, where he thought the teaching far inferior to what he could get in Scotland.

Some readers will find Mr Norman’s busting of Smith-related myths to be the book’s most satisfying theme. Contrary to what is often assumed, the Scot did not advocate ruthless self-interest. The very first sentence of “The Theory of Moral Sentiments” reads: “How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.”

Smith’s notion of the “invisible hand” is also misunderstood. The term is often taken to mean that the market will always produce the best outcome. The reality is more complex. True, Smith believed in markets—and to a radical extent. But he saw many instances where markets needed to be curbed. Smith was even sympathetic to limits on interest rates charged on loans, a policy that few modern economists would support.

Mr Norman gets all this right, but he is not the first to do so. Robert Heilbroner’s “The Worldly Philosophers”, published in 1953, offered a fairly nuanced understanding of what Smith stood for. More recently Emma Rothschild, one of the world’s best historians of economic thought, and Amartya Sen have written widely on the “uses and abuses” of Smith. Yet the book cites few of their contributions—not even a fascinating paper Ms Rothschild wrote in 1994 which explores Smith’s use of the phrase “invisible hand”.

The book also does an unsatisfactory job of dealing with Smith’s critics. Writers from Murray Rothbard to Joseph Schumpeter to Salim Rashid have argued that Smith’s ideas are poorly thought through, even plagiarised. Mr Norman accepts that Smith’s discussion of what constitutes value is confused, but he has too little time for the naysayers. He dismisses Rothbard’s critique in a footnote as “manifestly unfair and inaccurate” without explaining why; Schumpeter’s objections are batted aside; Mr Rashid’s work is not mentioned at all. As a result the book’s big claims about Smith, including that the “Wealth of Nations” is “the greatest work of social science ever written”, are not convincing.

The author is on safer ground when he explains the relevance of Smith’s ideas today. Economists, especially in America, increasingly worry that capitalism has become too cosy—or “rigged”, as President Donald Trump puts it. Smith got there first. He fretted that the capitalists would always try to exploit ordinary people, whether by shaping regulation to their advantage or

by fixing prices. "The rate of profit...is always highest in the countries which are going fastest to ruin," he argued. America's corporate-profit rate is currently at historical highs. Had regulators read more Smith, the American economy might be in better shape.

This article appeared in the Books and arts section of the print edition under the headline "An enlightened life"