

ECONOMIC SCENE

# The many faces of Adam Smith: Rediscovering 'The Wealth of Nations.'

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NOT long ago, I asked my research assistant, Melissa Clark, to track down a passage from "The Wealth of Nations" by Adam Smith. Although I expected her to consult the modern edition, she instead requested the original 1776 edition from Princeton's Rare Book Library. The librarian accidentally gave her the fifth edition, published in 1789, and therein she discovered a remarkable signature: George Washington.

It is known that Adams, Jefferson, Madison and Hamilton studied "The Wealth of Nations." Washington, too? That prospect "is genuinely thrilling news for historians," said Emma Rothschild, director of the Center for History and Economics at King's College, Cambridge.

The Adam Smith that Washington would have read was the unreconstructed Adam Smith, according to Ms. Rothschild, who has a new book out -- "Economic Sentiments: Adam Smith, Condorcet and the Enlightenment" (Harvard University Press).

Some of Washington's sentiments were clearly Smithian. In his farewell address, for example, he wrote, "Even our commercial policy should hold an equal and impartial hand: neither seeking nor granting exclusive favors or preferences." Smith railed against monopolies and the political influence that accompanies economic power.

In her book -- which is not easy reading at the beach but nonetheless provides unique insights into Smith's thinking -- Ms. Rothschild argues that Smith has been reinvented as a narrow, unyielding defender of unfettered free enterprise. Yes, he emphasized the motivating force of self-interest and gains from free trade, but he also viewed freedom in a broader sense than economic freedom and championed the disadvantaged.

The real Adam Smith was a complex thinker, capable of holding and exploring ideas even when they were in conflict. To understand Smith, Ms. Rothschild says his contributions must be viewed in light of 18th-century institutions.

Smith worried about the encroachment of government on economic activity, but his concerns were directed at least as much toward parish councils, church wardens, big corporations, guilds and religious institutions as to the national government; these institutions were part and parcel of 18th-century government.

Ms. Rothschild stresses that Smith was sometimes tolerant of government intervention, "especially when the object is to reduce poverty." Smith passionately argued, "When the regulation, therefore, is in support of the workman, it is always just and equitable; but it is sometimes otherwise when in favour of the masters." He saw a tacit conspiracy on the part of employers "always and everywhere" to keep wages as low as possible.

Smith was a Rawlsian before the philosopher John Rawls, proclaiming: "No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged."

At the turn of the 19th century, Adam Smith's arguments were invoked by Samuel Whitbread in favor of a minimum

wage and by William Pitt against it. "There is something of Smith," Ms. Rothschild wryly observed, "on both sides of the parliamentary debate."

Or consider taxes. Dick Arney does not miss an opportunity to enlist Adam Smith in support of his flat tax. Smith did favor low taxes and argued that subjects "ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities." But he also argued, "It is not very unreasonable that the rich should contribute to the public expence, not only in proportion to their revenue, but something more than in that proportion."

Would Mr. Arney support a tax on luxury carriages? Smith did.

Smith also supported universal government-financed education because he believed the division of labor destined people to perform monotonous, mind-numbing tasks that eroded their intelligence, not because education led to economic gain. His economic policy had social and moral objectives, not just the maximization of national income. To Smith, enlightenment was for the masses.

Smith saw people as usually rational decision makers, although sometimes seduced by "romantic hopes" to disregard the dangers inherent in their decisions.

Ms. Rothschild's most controversial point is that Smith was skeptical of the notion that an "invisible hand" would lead individuals to unintentionally promote the public interest by pursuing their own self-interest. She even suggests that Smith used the famous metaphor as an ironic joke. This conclusion is speculative and sure to enrage critics. But there can be little doubt that Smith's faith in the invisible hand has been exaggerated by modern commentators. Smith used the metaphor only once in "The Wealth of Nations," applied it narrowly and presented the idea with more than his usual number of caveats.

He persistently worried that if merchants and manufacturers pursued their self-interest by seeking government regulation and privilege, the invisible hand would not work its magic -- a worry that applies with equal force to George W. Bush's energy bill and many other contemporary policies.

Most of postwar economics can be thought of as an effort to determine theoretically and empirically when, and under what conditions, the invisible hand turns out to be all thumbs.

Ms. Rothschild says she does not want to "claim Adam Smith from the right for the left." Her point is that Smith was a nuanced thinker with an unafraid mind, not an ideologue. "The only real sense in which I am a proselytizer," she said, "is to encourage people to read Adam Smith for themselves."

The beauty of Adam Smith -- why he is still worth reading and debating after 225 years -- is that he saw economics as deeply intertwined with human nature, with people's feelings, emotions and thoughts. He eloquently reported what he observed firsthand or learned from history without prejudice or fear. I suspect that that is also why he found it so hard to hew to a consistent line: some observations led to generalities that were incongruent with other generalities drawn from other observations. The elegant properties of laissez-faire rest on assumptions -- including the absence of market power -- that Smith's observations led him to doubt sometimes.

Smith's internal conflicts also demonstrate that deviations from some principles, like proportional taxation and laissez-faire, are sometimes required to satisfy others, like support for the disadvantaged and universal education. These conflicts were on the minds of the founding fathers as well.