

Adam Smith 300: Rainer Zitelmann interviews Eamonn Butler



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We don't know his exact birthday, but June 16 is the 300th day of Adam Smith's baptism. What's clear however is that he changed the science of economics, and the nature of society, forever with his publication of *The Wealth of Nations*. It is still cited today as the most powerful argument in favour of markets yet produced.

The historian and sociologist Rainer Zitelmann, author of the books "The Power of Capitalism" and "In Defence of Capitalism" sat down with Eamonn Butler – the co-founder and director of the Adam Smith Institute – to mark the anniversary.

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Dr Rainer Zitelmann: *If you were to highlight the single most important thought in all of Smith's work, what would it be?*

Eamonn Butler: The Wealth of Nations contains so many insights that changed our thinking that it is hard to single out any one of them.

In the very first paragraph, for example, he invents the notion of GDP and then he goes on to describe the division of labour, the benefits of free commerce, and so many more new concepts including the Invisible Hand idea.

But to answer your question, surprisingly I would plump for his insight in *The Theory of Moral Sentiments* that human morality is driven by sympathy – our desire as social creatures to act in ways that bring the approval of others and to avoid actions that others disapprove of. It's a very powerful idea, an evolutionary idea that was a century ahead of Darwin.

Zitelmann: Smith was, as we say today, a moral philosopher and an economist. The first term – moral philosopher – doesn't mean all that much to us today. At the same time, his work doesn't have much in common with the way economists work and write today. Is Smith not perhaps, if you put it in modern terms, more a combination of economic historian, sociologist and psychologist?

Butler: I have always thought of him as a social psychologist. Obviously we remember him today for his economics, but it was his moral writings that first brought him international fame. He also wrote and taught about logic, the arts, culture and the fine use of language, and wrote an important essay on the philosophy of science.

He saw these things as simply different parts of the human mind. This is why we have the Adam Smith Problem – the idea that the self-interest underpinning Smith's economics and the empathy underpinning his ethics are in conflict. No, they are two parts of our human personality, and they both co-exist and interact with one another.

Zitelmann: A key concept in *The Theory of Moral Sentiments* is that of "sympathy" (today we would probably use the word "empathy"). Why does Smith not explicitly refer to the entrepreneur, who above all must be empathetic in order to develop and sell a product? In this sense, a present-day entrepreneur like Steve Jobs would be a prime example of empathy, because he so brilliantly recognised and understood people's needs.

Butler: When he wrote *The Theory of Moral Sentiments* in 1759 he was a college professor with little experience of the business world. So that is hardly surprising. But interestingly, I have been asked to give talks on the relevance of Smith's ethics to entrepreneurship and business, and his moral ideas are indeed very relevant. Take, for example, his emphasis on the virtue of prudence.

Prudence means acting in your own best-interest — your long-term interest, not what may seem good at the time (like keeping healthy rather than lazing on the sofa with beer and pizza). That's entirely true in business. You do not build a business by trying to make a quick buck out of people, but in building up reputation for giving customers what they want and need. Customers will come back only if they trust you and see that you have integrity and good reputation.

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Zitelmann: What significance does the theme of poverty have in Smith's work? Would you agree with me when I say that Adam Smith's primary concern was to show the way out of poverty?

Butler: Definitely. Smith supported free trade and free commerce for the same reason I do, namely that it is the best way of improving the condition of the working poor — or more properly, the best way to allow the working poor to better their own condition.

Bettering your condition, he thought, is a natural human desire, but it is too often blocked by onerous taxes and regulations imposed by people in authority. And too often, those rules are deliberately proposed by established businesspeople who want to keep out any competition, and imposed by their friends and cronies in government. Sweep that away, says Smith, and the 'system of natural liberty' will bring prosperity to all.

Zitelmann: Smith's work contains many compassionate and positive passages about the poor, but not a single positive passage about the rich. On the contrary, one can find many negative remarks in his work about merchants, entrepreneurs, rich people. Isn't he – in this respect – a typical intellectual in this antipathy towards the rich?

Butler: No, because his view is founded in reality, not in envy. Smith was supported by an ex-student, the Duke of Buccleuch, who owned huge estates across Scotland. But Smith was nevertheless very critical of the landowners of his day, who simply inherited fortunes instead of creating them, and who 'loved to reap where they never sowed'.

Though he was a lifelong friend of the Duke, he still could not justify that, and he was highly critical of other lairds and landowners for whom showing off was more important than improving their land or the lives of the tenants who farmed it. His disdain for certain businesspeople, however, was different, but again not inspired by envy and a modern-style intellectual idea that 'we have more brains than business people and we should be paid more and put in charge of more decision-making'. What he objected to was the tendency

of tradespeople to use their cronies in government to 'conspire against the public' by closing down competition.



circa 1770: Scottish economist and philosopher Adam Smith (1723-1790). Professor of moral philosophy at the University of Glasgow from 1752, he published 'Theory of Moral Sentiments' 1759, and 'An Inquiry into the Nature and Causes of the Wealth of Nations,' published in 1776. His pragmatic, social insight remained an influence on the later economists and economic doctrines such as free trade, individual competition and the division of labor. (Photo by Hulton Archive/Getty Images)

Zitelmann: Murray Rothbard directed some very harsh criticism at Smith: According to Rothbard, Smith is grossly overrated, an inveterate plagiarist and was often wrong in what he wrote. What is the basis f



Rothbard's scathing assessment? Did he find a genuine weakness, or is Rothbard simply completely wrong?

Butler: Rothbard, whom I knew, loved being controversial, but his remarks on Smith strain one's indulgence. His point is that Smith proposed a labour theory of value — the value of something reflects the amount of work put into it — that paved the way for Karl Marx to proclaim the primacy of labour and the re-focusing of society accordingly.

But this is a misreading of Smith. It stems from a passage where he is talking about the development of economic life and starts by describing an original world, without capital. In such a world, people certainly would take into account the labour invested in producing different things, since there was no capital invested in it.

But it is obvious that Smith does not believe this is a general principle. He talks about supply and demand, and markets, and he speculates on why diamonds should be more valued than water. So he does not support a labour theory of value.

Zitelmann: Authors like Samuel Fleischacker and Elizabeth Anderson tend to associate Smith with leftist, even egalitarian values. Is this a distortion of Smith? Where do these authors have a point and where are they wrong? Did Smith perhaps attach greater importance to the state than you and I would?

Butler: Smith was certainly motivated largely by the condition of the working poor. And he of course wrote that no country could count itself as prosperous if the greater part of the population was poor. So to that extent his motives are the same as those of the left. His solutions, however, are the exact opposite of theirs. Rather than arguing that the state should have more power in order to improve the lot of the poorest, he argues the exact opposite — that it is the oppression of those in authority that constrains the ambition of the poor and keeps them in poverty. His solution, therefore, is to set the people free of all that.

Zitelmann: To a modern reader, Smith's books, especially *The Theory of Moral Sentiments*, are more reminiscent of self-help books (like Dale Carnegie's *How to Win Friends*) than of modern economic texts, in which you largely find a lot of mathematical calculations and formulas. "Moral philosophy" was, after all, also more concerned with teaching about human behaviour. I don't mean that negatively, but as a compliment, because I hold Carnegie in high esteem. Is that an aspect of Smith's work that has perhaps not been given enough attention?

Butler: The point had not occurred to me, but yes, Smith's analysis of the human mind is drawn from innumerable practical examples of real-live dilemmas. In *The Theory of Moral Sentiments* it is about what one might feel and think and do when faced with a moral problem, in *The Wealth of Nations* it is about the incentives that draw people into one economic action rather than another. So yes, they are very relevant for those who want to understand their own minds and put their thoughts and actions on a rational foundation.

Zitelmann: More generally: If Smith were able to look down at us from heaven today and say something about our modern world, what do you think he would say?

Butler: It is always unwise to speculate about what an eighteenth-century character would say about our twentieth-century lives. But for you I will break my rule. He would, of course, be amazed by the wealth around in the world and the sheer number of goods and services that are available, even to the poorest



people in the developed countries. We are, after all, fifty or a hundred times richer today than people were in Smith's time. But equally, when he reviewed the laws and regulations that constrain our every action and cripple our enterprise, and when he discovered that governments routinely take forty or fifty percent of the nation's product for their own purposes, he would undoubtedly conclude that we are, regrettably, living under the most profound tyranny.