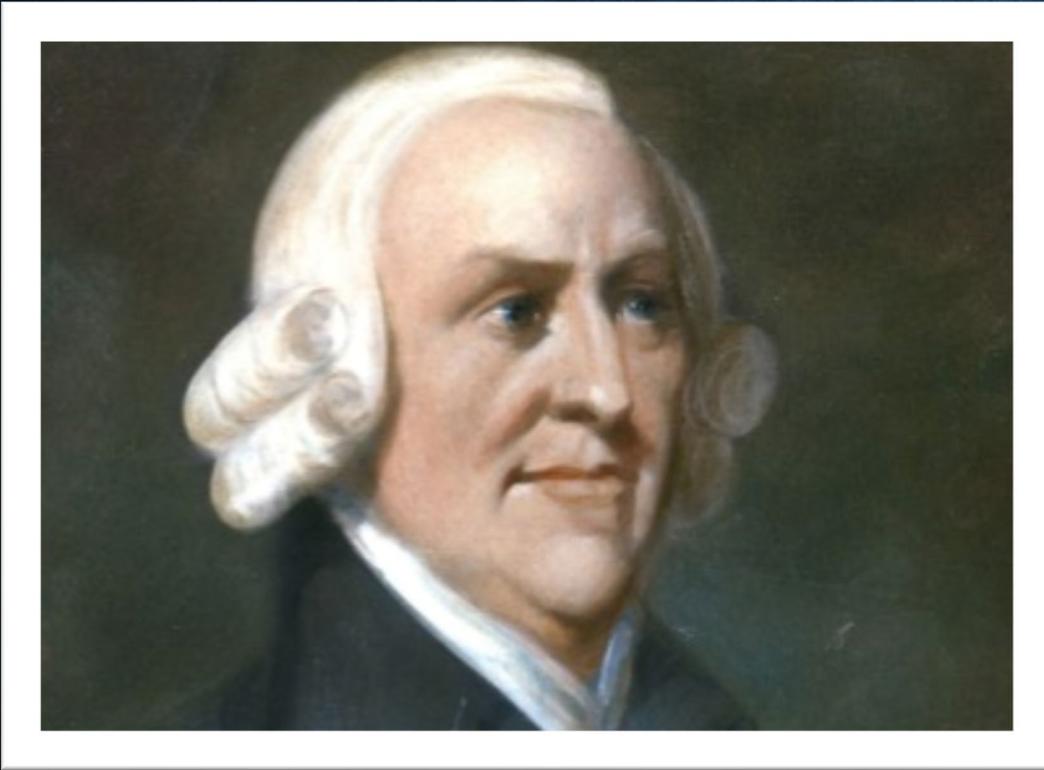


Teaching Adam Smith

James R. Otteson, PhD

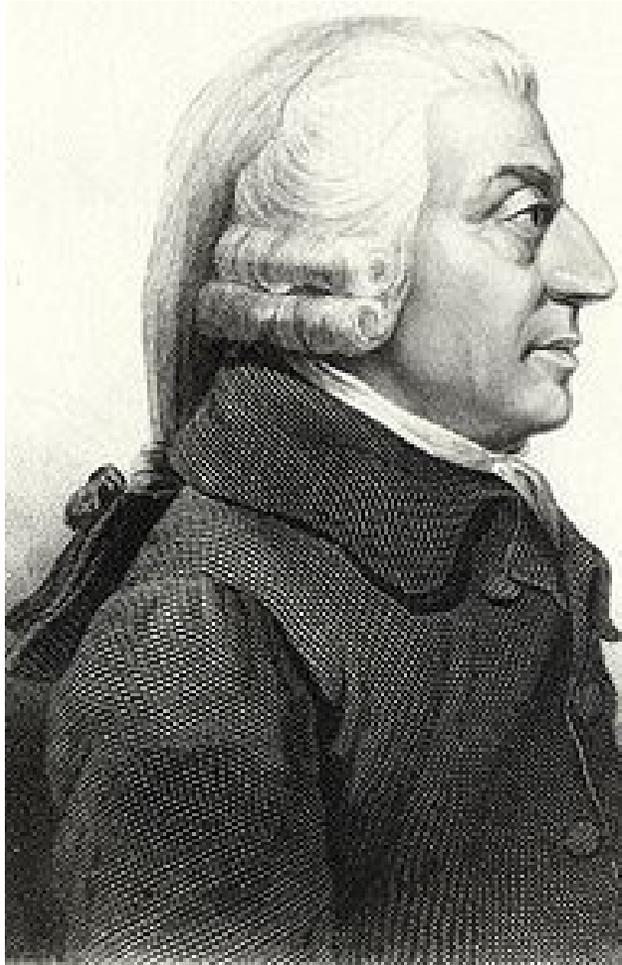
Wake Forest University

Who Was Adam Smith?



Adam Smith, 1723–1790

- Born in Kirkaldy, Scotland.
- David Hume and the Scottish Enlightenment.
- “Father of economics.”
- Father of social science?



Smith's Two Books

The Theory of Moral Sentiments (1759)

An Inquiry into the Nature and Causes of the Wealth of Nations (1776)

- TMS: origins and nature of human morality; “sympathy.”
- WN: development of wealth; “self-love.”

A “problem”?

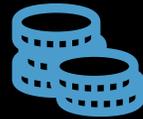
- 19th C German scholars: *Das Adam Smith Problem*.
- 20th C English-speaking scholars: “The Adam Smith Problem.”

Q: How do markets and morality mix?

Three Key Ideas from Smith



A “spontaneous order” of morality—and other human social institutions.



An empirical political economy promising increasing prosperity.



A conception of equality: respect.

Idea #1:

Spontaneous Order of Morality

Two phenomena to explain:

1. Transition from amoral infants to moralized adults.
2. Rough consensus and overlap across societies.

Two interesting observations:

1. We do a lot of judging! (*Homo iudicans?*)
2. We follow more rules than we realize or can state.

Examples:

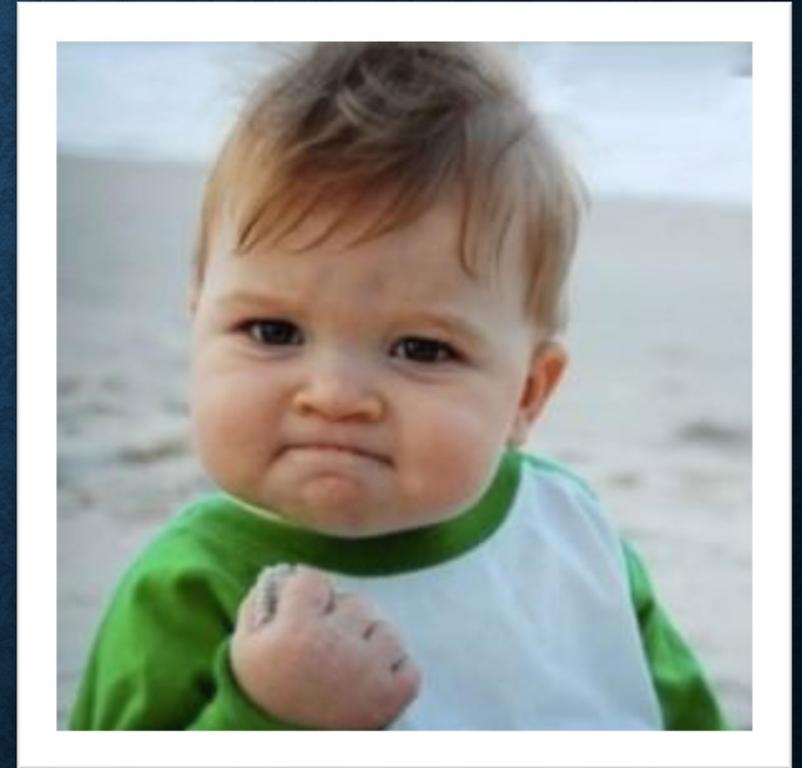
1. Attire.
2. Jokes and laughing.

The desire for “mutual sympathy of sentiments” = centripetal social force.

Smith: we *develop* and *train* our moral sentiments over time.

Smith on Children:

- Born with no notion of right or wrong; only wants.
- Rebukes from peers awaken desire for mutual sympathy of sentiments.
- Trigger search for ‘successful’ behavior.
- Success → habits → principles → conscience.
- “Conscience” = “impartial spectator.”
 - Would the Impartial Spectator approve?
 - WWJD?



Smith's Genealogy of Morality

- Gradually we get better at anticipating others' reactions to our behavior.
- Feedback leads to *habits*, which become *principles* that guide our *conscience*.
- Dynamic spontaneous order.
- Development depends on interactions with others.
- No overall designer.
 - (God and free will?)

Idea #2:

Political Economy



What institutions have historically generated the most prosperity? (Not speculative theorizing.)



Smith's empirical answer: the public protection of "justice," and little else.



Smithian **justice** is "negative": refraining from injuring **person**, **property**, and **promise**.



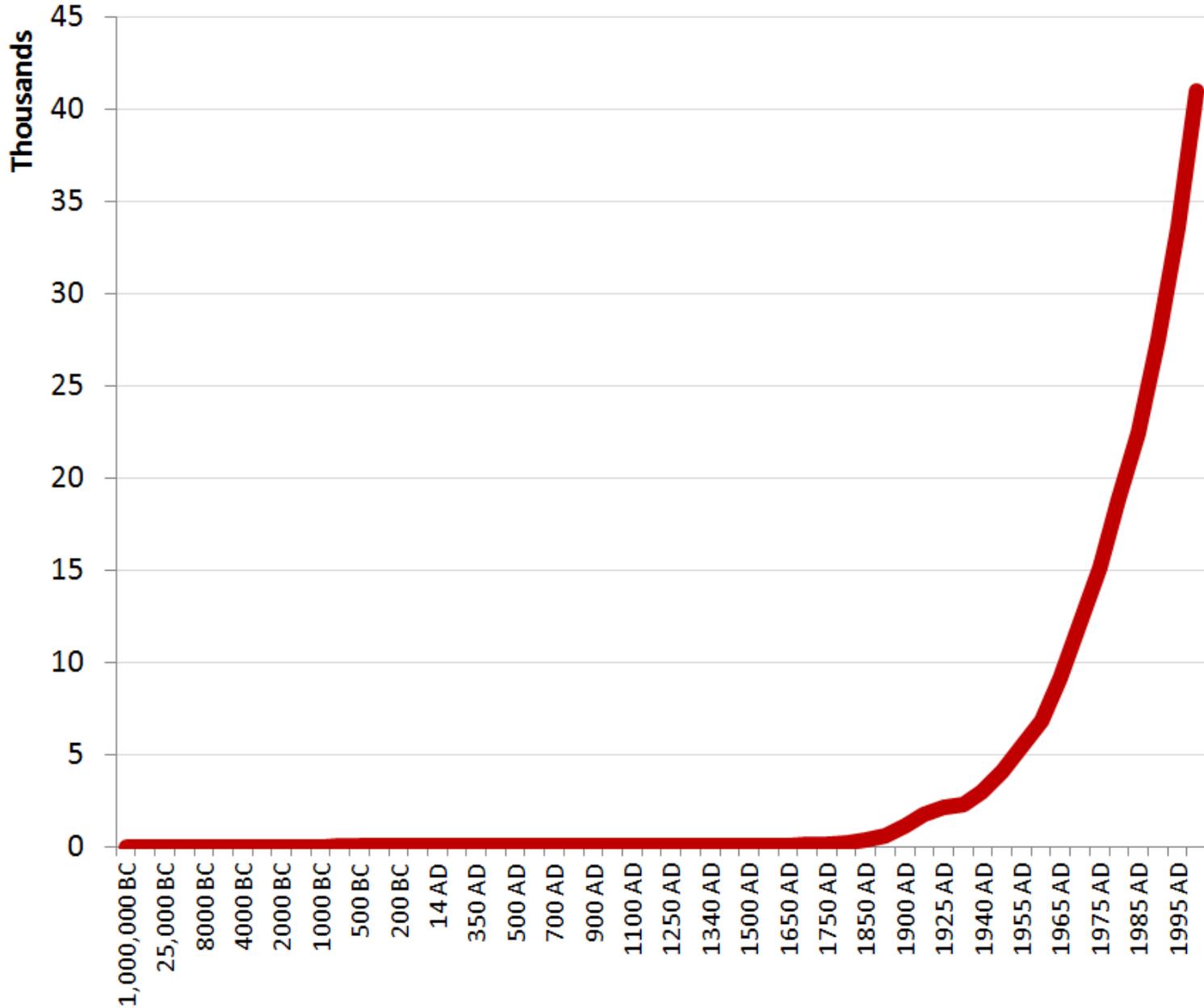
"Positive" virtue, or **beneficence**, is properly left in private hands. (Depends on local knowledge.)



Thus: protection from foreign and domestic aggression, free trade, and open markets.

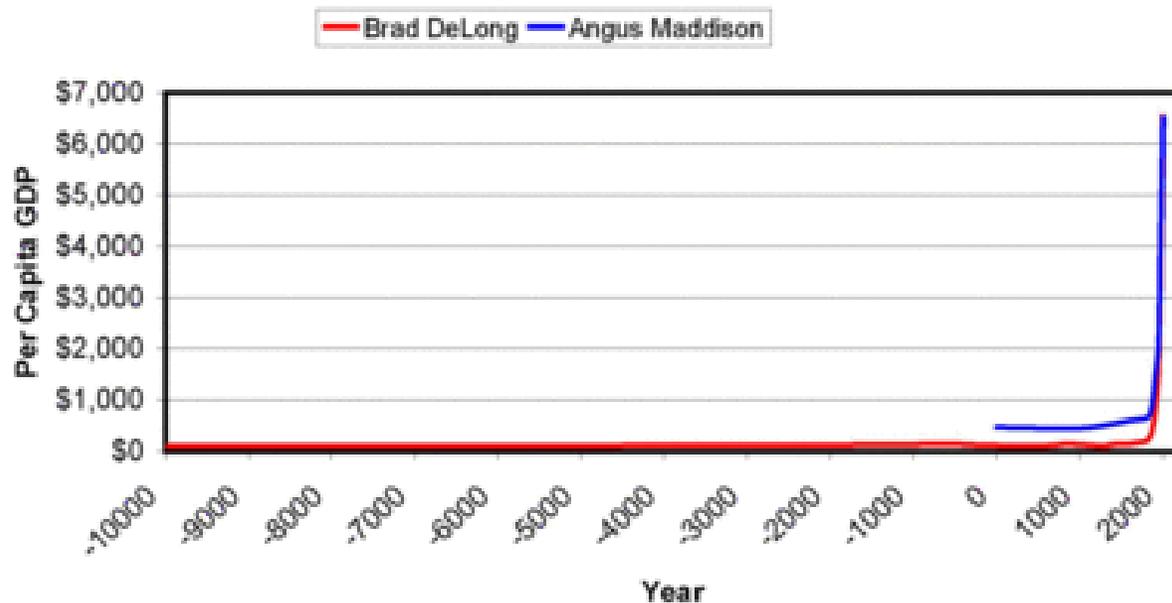
GWP (billions)

(figures are in 1990 international dollars)



**Was Smith
Right?**

World Per Capita GDP 10000 BCE - 2003 CE (1990 International Dollars)



Source: J. Bradford DeLong, "Estimating World GDP, One Million B.C. - Present" http://www.j-bradford-delong.net/TCEH1998_DraftWorld_GDP/Estimating_World_GDP.html. Accessed Mar 5, 2008; Angus Maddison, "Contours of the World Economy, 1-2030 AD: Essays in Macro-Economic History," New York: Oxford University Press, 2007, 382.

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Per Capita Growth in Wealth

**How Big Has the
Transformation
Been?**

Hobbes: “the life of man, solitary, poore, nasty, brutish, and short.”

- Average person in 1800 was no better off than in 100,000 BC!
- ~\$2 per day per person for >99% of human history.

And today?

- World: \$48 per person/day (\$17,500/year).
- U.S.: \$164 per person/day (\$59,800/year).

A 16-fold real increase worldwide; a *55-fold* real increase in America.

Perhaps Smith was on to something

A Worry: The Unlucky?

Fairness and “luck egalitarianism.”

A ‘Smithian’ proposition: **Undeserved bad luck and reasonable disappointment** do not necessarily require compensation.

Consider Jack and Jill . . .

. . . and Joe.

- Lamentable? Yes. Warranting help? Possibly.
- Injustice requiring compensation or punishment? No.

Coffee Shop A and Coffee Shop B....

A Second Worry: Inequality

Should justice address *material inequality*?

Consider two people, A and B.

- A is wealthier than B.
- A is *one hundred times* wealthier than B.

Failure of justice? Of *social* justice?

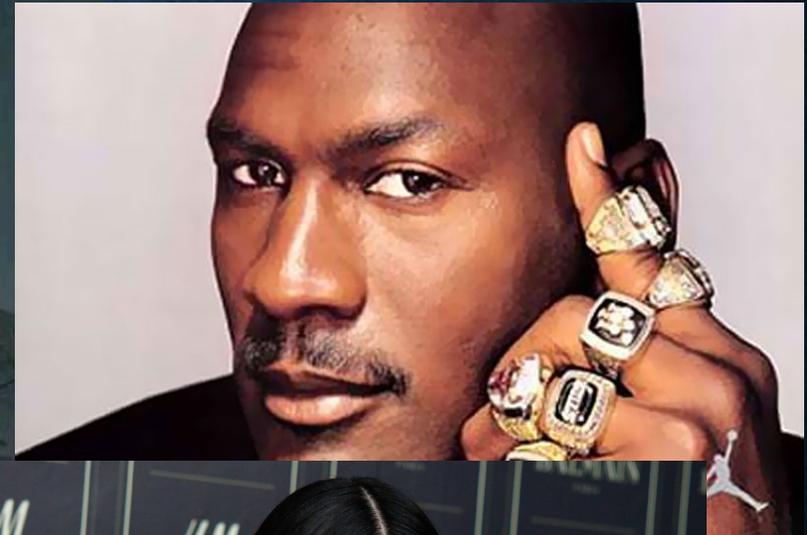
What matters:

1. How did A get it?
2. The *absolute* quality of B's life?

Q: More extreme wealth differentials?

- 1/250,000th of Gates's wealth?

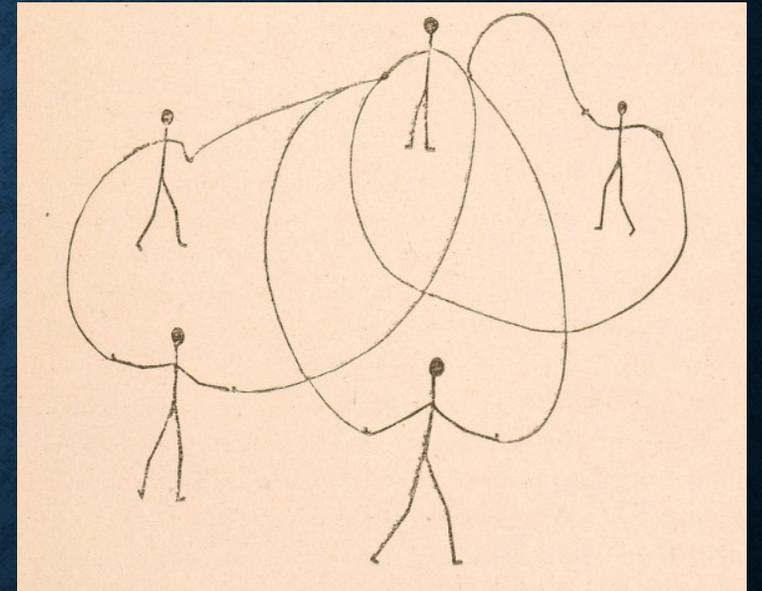
Q: Poverty *or* inequality?



Final Note on Equality

“It is not from the **benevolence** of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to **their own interest**. We address ourselves, not to their humanity but to their **self-love**, and never talk to them of our own necessities but of **their advantages**.” (Adam Smith, *Wealth of Nations*)

- Selfishness?
- Or *respect*?
 - Opt-out option.
 - Paying attention to *you*.
- Cooperation based on equality of human moral agency.
- A respect for human personhood and human dignity.



Fleeming Jenkin's exchange diagram (1887)

Concluding Thoughts



A single theory for explaining large-scale human social institutions—the “market model.”



Empirically-based recommendations for political-economic institutions that seem to have predicted subsequent events.



A conception of equality—equality of moral agency and respect.

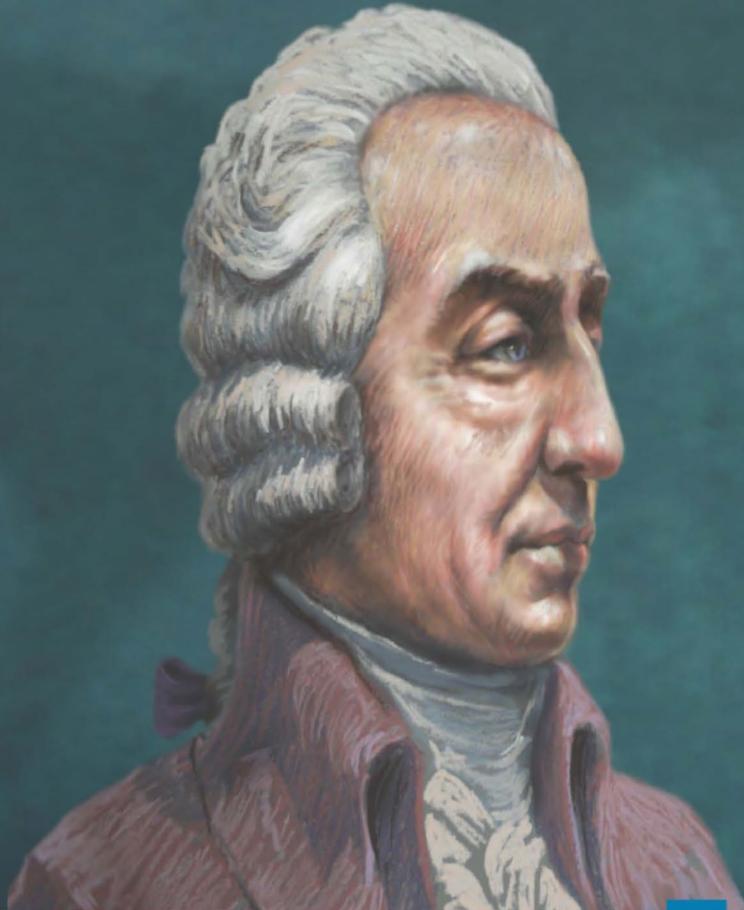


In other words, he may actually have gotten some things right!

The Essential
ADAM SMITH

The Essential ADAM SMITH

James Otteson



the founding father of what
moral philosophy, Smith be-
saw his two books, *The Theory*
the Nature and Causes of the
philosophical project. One
ets and morality mix?—is not
question for us today. Is there
engage in economic trans-
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ntroduction to several of his
aders with some of the central
to give some appreciation of



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**Maybe He's Worth
Reading After All!**

Thank you!

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