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## THE ADAM SMITH LECTURE SERIES – PROFESSOR NIALL FERGUSON

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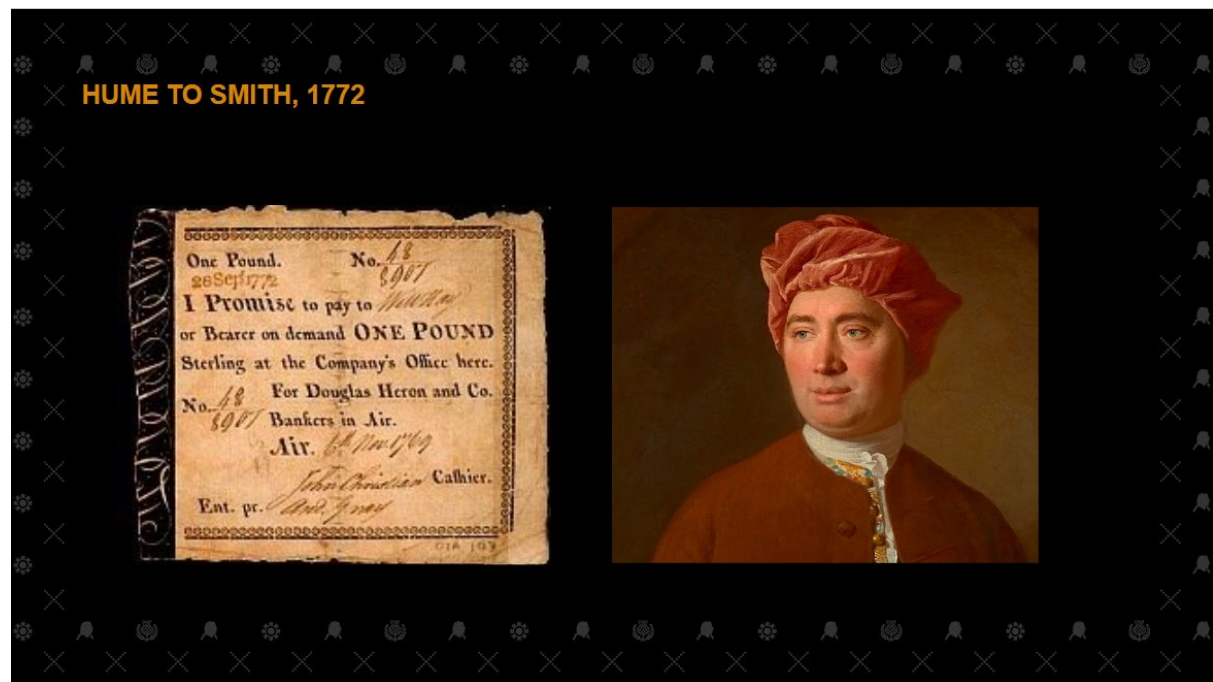
### NIALL FERGUSON: ADAM SMITH, GLOBALISATION AND NEW WORLD ORDER

Thursday 30 November 2023

### LECTURE TRANSCRIPT



## HUME TO SMITH



I want to begin with a little bit of time travel. I'm going to take you back slightly further than Adam just did, to a year in a period before Smith moved into this wonderful house to be precise. I want to take you back to June the 27<sup>th</sup> and a letter David Hume, his brilliant friend, wrote to Adam Smith.

*We are here in a very melancholy situation, continual bankruptcy is universal, loss of credit and endless suspicions there are about two standing houses in this place, Mansfields and the Cotes Mansfield has paid away 40,000 pounds in a few days, but it is apprehended that neither he nor any of them can hold out till the end of the next week, if not alteration happen. The case is a little better in London, even the Bank of England is not entirely free from suspicion. Those of Newcastle, Norwich, and Bristol have said to be stopped, the Thistle Bank has been reported to be in the same condition. The Karen Company is reeling, which is one of the greatest calamities of the whole, as they gave employment to near 10,000 people. Will these events anywise affect your theory? asked Hume, or will it occasion the revival of any chapters? (Hume to Smith, 1772)<sup>1</sup>*

<sup>1</sup> Tyler Beck Goodspeed, A Very Melancholy Situation. In *Legislating Instability: Adam Smith, Free Banking, and the Financial Crisis of 1772* (pp. 1–28). Harvard University Press, 2016.

Smith, of course, was in the midst of writing the *Wealth of Nations* when the Great Ayr Bank crisis struck. Those of us who are connoisseurs of economic history have come to understand the Ayr Bank crisis better thanks to the exceptional work of my former student, Tyler Goodspeed, whose book *Legislating Instability* published seven years ago now, tells the story of the Ayr bank crisis and shows to me, fascinatingly, not only the scale and nature of the crisis and its unexpected consequences for Smith's book, but also, just as interestingly, Goodspeed shows just how important the Scottish economy was at that time. Not only in relation to the English economy, but in relation to the entire world economy.

Let me tell you a bit more about what happened in 1772. The economists here will immediately realise that financial crises don't change enormously much over time, so some of the terminology I'll use will be familiar to economists. It all really began on June the 10th, two weeks before David Hume wrote to Smith. The London Banking House, it was London based, of Neale, James, Fordyce and Downe, had blown up because of an unsuccessful short selling trade on East India Company's stock. This then triggered a run on Scottish banks and a sudden stop in the market for Scottish bills of exchange. The run then spread to multiple Scottish banks, including Douglas Herron & Co, which was the Ayr Bank, then the biggest bank in Scotland, which suspended payments. In other words, to stop converting notes and bills into gold. In June, the 22<sup>nd</sup>, this crisis threatened to ruin Adam Smith's pupil and patron Henry Scott the third, Duke of Buccleuch. We were at Dalkeith for lunch today, hearing a little about how, Henry Scott's ancestors came through this difficult time. It forced him to sell one of the family's many estates.

Not only that, but the crisis forced Adam Smith to rethink his ideas about banking regulation, and to endorse some restrictions which he'd previously been sceptical about, in the Scottish banking system. These included the prohibition of small denomination bank notes, a maximum legal rate of interest, and the prohibition of contingent liability bank notes. The great thing is that Goodspeed shows that Smith was wrong. Even the most brilliant people are sometimes wrong, and Adam Smith was, in fact, wrong to change his view on these regulations, as Goodspeed shows. In fact, the regulations, which were of quite recent origin, were part of the reason for the crisis. And that's one of the beautiful things about Tyler Goodspeed's book.

But I want to go beyond the banking crisis and talk about what we can learn about Scotland's economy in 1772 from these events. In Goodspeed's words, Scotland was a rapidly emerging economy with a fixed exchange rate, large external debt, and a chronic current account deficit balanced by large, but often highly volatile capital inflows. From 1716 to 1845, Scotland had the closest ever historical approximation to free banking, namely the competitive issuance of convertible currency by nonprivileged banks. Libertarians to this day love the idea of free

banking. What's exciting to them is that it was actually tried in Scotland, in the 18<sup>th</sup> and early 19<sup>th</sup> centuries.

The Scottish economy during these 130 years was characterised by faster economic growth and greater financial stability than occurred contemporaneously in England. When one looks at the 18<sup>th</sup> century Scottish economy, what one discovers is truly fascinating, from 1745 until the end of 1763, Scottish linen manufacturers surge 124% in quantity terms, and 146% in value terms in the decade prior to the Ayr Bank crisis. Scottish tobacco imports grew by a staggering 105%, and nearly all of these were then re-exported. The Carron Company, which David Hume alluded to, had been founded in 1759. By 1771 it was indeed Scotland's biggest industrial concern and, indeed, one of the biggest industrial concerns in the world at that time. But it wasn't just industry that was booming. There was a boom in Scottish agriculture as a result of large-scale investment by families like the Scots in cattle farming, providing cattle for the English market. If you look at the trade data for the Scottish economy at this time, it's quite astonishing. From 1755 to 1771 exports grew 72% imports by almost as much. There was a doubling of the tonnage of oceangoing vessels going through Scottish ports in the same period, and there was massive investment in infrastructure. In canals, in roads, as well as in urban infrastructure. Edinburgh, Newtown, the envy of all Glaswegians, was of course, begun in 1767.

So, the financial boom that ultimately produced the Ayr Bank crisis, was associated with an extraordinary period of investment in almost every sector of the Scottish economy, and as John Kay and I were discussing at lunch today, it's quite clear that at this point in history, Scotland was probably the most dynamic economy in the world. And it was a globally significant economy for that reason, the Ayr Bank failure triggered a selloff of Dutch West India company stock and the bankruptcy of a number of major Amsterdam houses, including Clifford and sons.

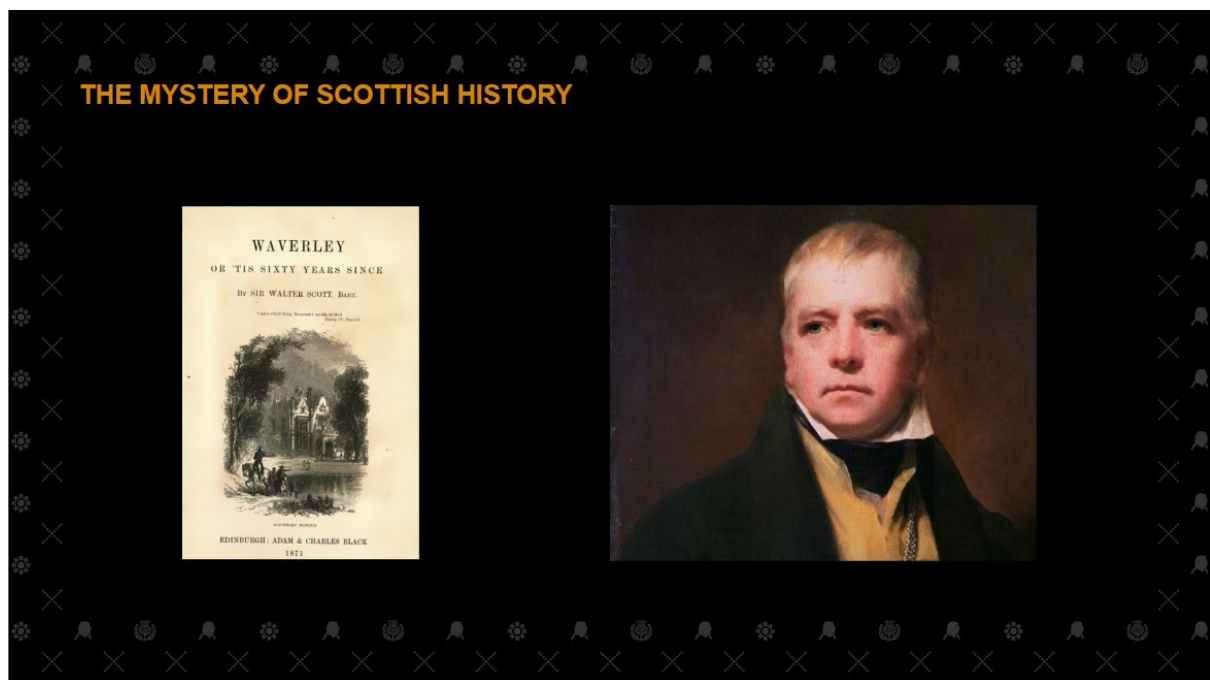
Creditors who lost money in the crisis included Frederick the Great of Prussia and Christian VII, who was king of Denmark. The city of Amsterdam had to establish a mutual insurance company backed by the Bank of Amsterdam to try to protect its economy from the shock. The Empress of Russia, Catherine the Great was deeply involved in firms that were financed by the Ayr Bank.

If you look at trade data around the crisis, you can see the scale of the shock. Imports into England and Scotland had been growing rapidly since the end of the seven years' war but fell by 14% between 1772 and 1773. At this time, Scotland accounted for an incredibly large 40% of all imports into Great Britain from the North American colonies, and around 50% of the tobacco imports. An enormous proportion of the money owed by colonists to British creditors on the eve of the American Revolution, was due to Scottish lenders. One of the borrowers who owed the Scots money, was none other than Thomas Jefferson.

If you look at the figures for trade across the Atlantic, you can see this surge in growth, 9% per annum growth between the seven years' war, and then a sudden plunge around the crisis. Same story when you look at trade with India. The East India Company saw a collapse in its exports to England and Scotland of 22% in 1772 and 28% the following year. This necessitated a government bailout and the Tea Act allowing the East India company to export tea duty-free. Scholars of American history will know the unintended consequences of that measure.

So, I hope I've managed to convey to you just how important and dynamic the Scottish economy was at the time that Adam Smith was writing the *Wealth of Nations*, and how impactful the financial crisis of 1772 was on his thinking.

## THE MYSTERY OF SCOTTISH HISTORY



But now I want to introduce a second great Scot, Walter Scott, in fact, and I want to pose to you what I'm going to call the mystery of Scottish history. The mystery is that the economy that I've just described to you, the tiger economy, if you like, of the late 18<sup>th</sup> century, which had just a generation before been a basket case.

Let me quote from Scott's great novel *Waverley*, which has, as its alternate title, *Tis 60 years since*, and this quotation better poses the question about the mystery of Scottish history than anything else I have ever read:

*There's no European nation Scott wrote, which within the course of half a century or little more, has undergone so complete a change as this kingdom*

*of Scotland. The effects of the insurrection of 1745, the destruction of the patriarchal power of the Highland Chiefs, the abolition of the heritable jurisdictions of the nobility in Barons, the total eradication of the Jacobite party, which averse to intermingle with the English or adopt their customs, long continue to pride themselves upon maintaining ancient Scottish manners and customs, commenced this innovation. The gradual influx of wealth and extension of commerce have since united to render the present people of Scotland, a class of beings as different from their grandfathers as the existing English are from those of Queen Elizabeth's time. The political and economic effects of these changes have been traced, Scott wrote, by Lord Selker, with great precision and accuracy. But the change, though steadily and rapidly progressive, has nevertheless been gradual. Unlike those who drift down the stream of a deep and smooth river, we are not aware of the progress we have made until we fix our eye on the now distant point from which we have been drifted. Such of the present generation, as can recollect, the last 20 or 25 years of the 18<sup>th</sup> century, will be fully sensible of the truth of this statement, especially if they're acquaintance in connections lay among those who in my younger time were facetiously, called folks of the old leaven who still cherished a lingering though hopeless attachment to the house of Stewart.<sup>2</sup>*

Everyone should read Scott. I was taught at school, and I'm wearing my Glasgow Academy tie, not to read Scott, I was discouraged by the English teachers and told that Scott was really a terrible bore, and we weren't made to read Scott. We were made to read Dickens, we were of course, made to read Shakespeare. We read Burns and plenty of Burns, but Scott was neglected, and I think this was wrong. There's a moment in *Waverley*, a very powerful moment when Scott describes pre-Highland Scotland and it's when Waverley enters the straggling village of Tully-Veolan, and I'm going to quote this passage. It's really his first encounter with that old, Jacobite Scotland:

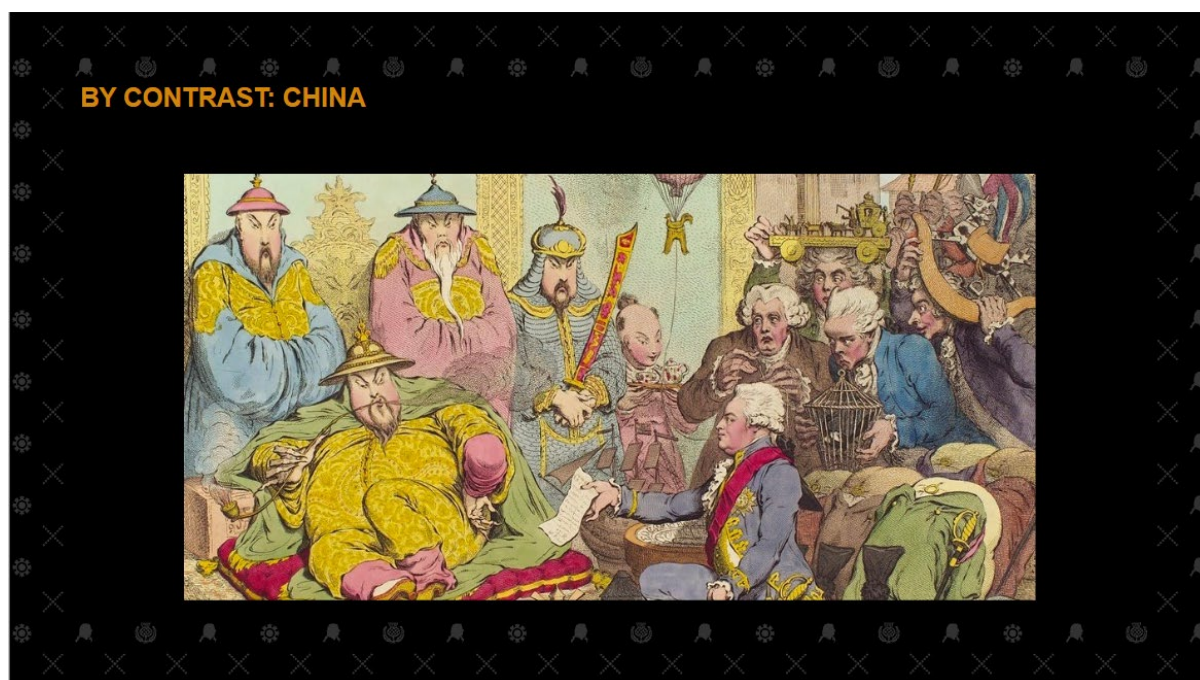
*The houses seemed miserable in the extreme, especially to an eye accustomed to the smiling meekness of English cottages. They stood without any respect for regularity on each side of a straggling, kind of unpaved street, where children, almost in a primitive state of nakedness, lay sprawling as if to be crushed by the hoofs of the first passing horse. Occasionally, indeed, when such a consummation seemed inevitable, a watchful old grandnam [sic] with a close capped distif [sic] and spindle rushed like a Sybil in frenzy out of one of these miserable cells, dashed into the middle of the path and, snatching up her own charge from among the sunburnt Loiterers, saluted him with the sound cuff and transported him back to his dungeon. The little whiteheaded violet screaming all the while from the very top of his lungs, a shrill treble to the growling rem monstrances [sic] of the enraged matron. Another part in this concert was sustained by the incessant yelping of a score of idle useless curses, which followed snarling, barking, howling, and snapping at the horse's heels, a nuisance at that time common in Scotland.*

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<sup>2</sup> Walter Scott, *Waverley*. United Kingdom: Clarendon Press, 1981.

What strikes me about this passage is that I feel I've seen that village, but not in Scotland. And not for that matter in England or Europe, but I've seen that village in Africa, and I've seen that village in India. I've even seen that village in the poorest parts of China, and that brings me to China.

## BY CONTRAST: CHINA



China serves a very peculiar purpose in the *Wealth of Nations*, as a kind of mirror or model for European self-evaluation. Now, the French 'philosophe' loved talking about China, though none of them had been there. And in a way, Smith's debates with human others about China are borrowed, or at least inspired by the great French debates between the sinophiles and, and sinophobes. Montesquieu loved, in the spirit of the laws, to theorise about China. In the *Wealth of Nations* China is the exemplar of what Smith calls the stationary state, and this is a tremendously important passage in the book that I think has been overlooked by scholars:

*China has been long one of the richest, that is, one of the most fertile, best cultivated, most industrious, and most populous, countries in the world. It seems, however, to have been long stationary. Marco Polo, who visited it more than five hundred years ago, describes its cultivation, industry, and populousness [sic], almost in the same terms in which they are described by travellers in the present times. It had, perhaps, even long before his time, acquired that full complement of riches which the nature of its laws and institutions permits it to acquire. The accounts of all travellers, inconsistent in many other respects, agree in the low wages of labour, and in the difficulty which a labourer finds in bringing up a family in China. If by digging the ground a whole day he can get what will purchase a small quantity of rice in the evening, he is contented. The condition of artificers is,*

*if possible, still worse. Instead of waiting indolently in their workhouses for the calls of their customers, as in Europe, they are continually running about the streets with the tools of their respective trades, offering their services, and, as it were, begging employment. The poverty of the lower ranks of people in China far surpasses that of the most beggarly nations in Europe.*

*Marriage is encouraged in China, not by the profitableness of children, but by the liberty of destroying them.*

*China, however, though it may, perhaps, stand still, does not seem to go backwards. Its towns are nowhere deserted by their inhabitants.<sup>3</sup>*

*(Wealth of Nations)*

So, the stationary state, which features in book one, chapter eight of the *Wealth of Nations*, is to be juxtaposed with the extraordinary dynamic state of contemporary Scotland, which is the ultimate growth economy. Where the division of labour and commercial activity are causing a boom. China doesn't have that – why not?

Smith has an answer.

*China seems to have been long stationary, and had, probably, long ago acquired that full complement of riches which is consistent with the nature of its laws and institutions. But this complement may be much inferior to what, with other laws and institutions, the nature of its soil, climate, and situation, might admit of. A country which neglects or despises foreign commerce, and which admits the vessel of foreign nations into one or two of its ports only, cannot transact the same quantity of business which it might do with different laws and institutions.*

*(Wealth of Nations)*

You see here that that Smith is really the founder of the Institutional School of Economics. His whole theory of economic growth is that China has the wrong institutions. With the right institutions he argues it should be as dynamic as Scotland. And he goes on to explain what else is wrong with Chinese institutions. It's not just the lack of trade and the restrictions on foreign commerce:

*In a country, too, where, though the rich, or the owners of large capitals, enjoy a good deal of security, the poor, or the owners of small capitals, enjoy scarce any, but are liable, under the pretence of justice, to be pillaged and plundered at any time by the inferior mandarins, the quantity of stock employed in all the different branches of business transacted within it, can never be equal to what the nature and extent of that business might admit. In every different branch, the oppression of the poor must establish the monopoly of the rich, who, by engrossing the whole trade to themselves, will be able to make very large profits.*

*(Wealth of Nations)*

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<sup>3</sup> Adam Smith, *An Enquiry into the Nature and Causes of the Wealth of Nations* (Oxford: Clarendon Press, 1976)



Smith's theory is partly about the social structure of China and the ways in which small businesses are subject to depredation by the bureaucracy, the inferior mandarins. For Smith, this problem explains the ease there's a kind of national security dimension to the argument with which China was conquered by the people he calls the Tartars, as the Ming dynasty gave way to the Ching. Smith compares this to the year 1745 in his own country, in which four or five thousand naked unarmed Highlanders took possession of the improved parts of this country without any opposition from the unwarlike inhabitants. It's a fascinating moment where we juxtapose the rise of the Ching dynasty with the Jacobite rebellion.

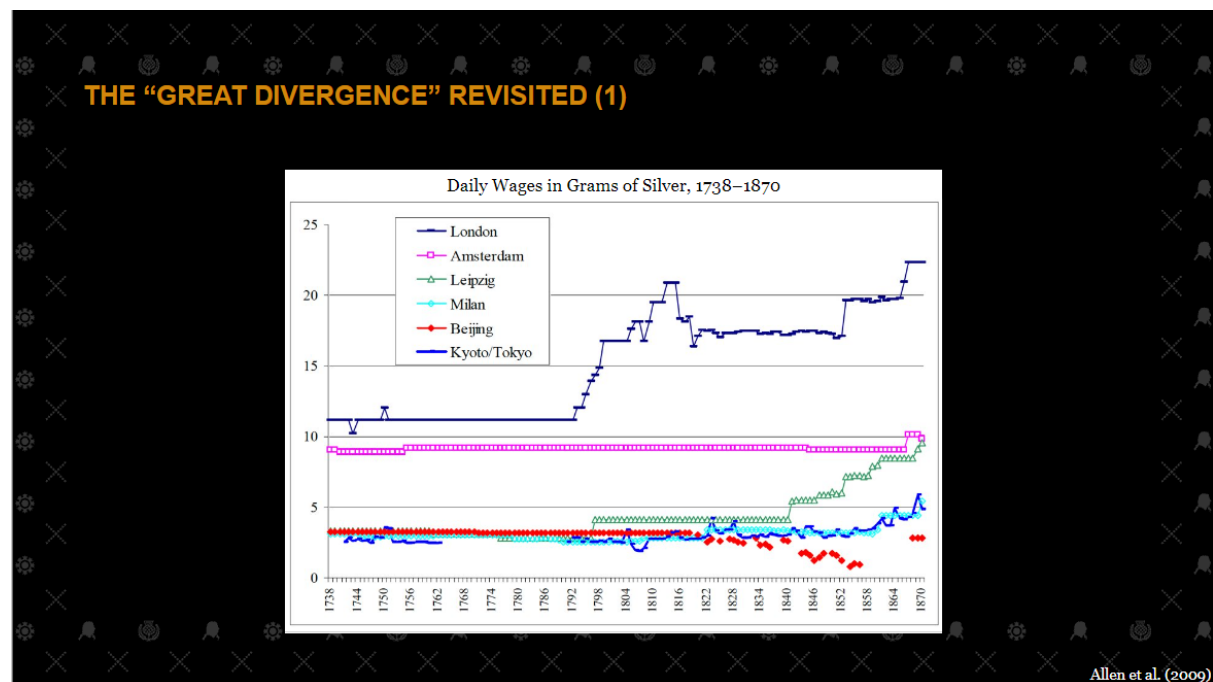
Smith has many other insights, one other that I'm going to mention because it's relevant to some of the data I'm going to show you. He understands the meaning of purchasing power parity, and this is from book one, chapter five:

*an ounce of silver at Canton in China may command a greater quantity both of labour and of the necessaries and conveniencies [sic] of life, than an ounce at London. A commodity, therefore, which sells for half an ounce of silver at Canton, may there be really dearer, of more real importance to the man who possesses it there, than a commodity which sells for an ounce at London is to the man who possesses it at London. If a London merchant, however, can buy at Canton, for half an ounce of silver, a commodity which he can afterwards sell at London for an ounce, he gains a hundred per cent. by the bargain, just as much as if an ounce of silver was at London exactly of the same value as at Canton. It is of no importance to him that half an ounce of silver at Canton would have given him the command of more labour, and of a greater quantity of the necessaries and conveniencies [sic] of life than an ounce can do at London. An ounce at London will always give him the command of double the quantity of all these, which half an ounce could have done there, and this is precisely what he wants.*

*(Wealth of Nations)*

So, you can see that the distinction between the purchasing power parity concept and the current international prices concept was well understood by Smith.

## THE 'GREAT DIVERGENCE' REVISITED

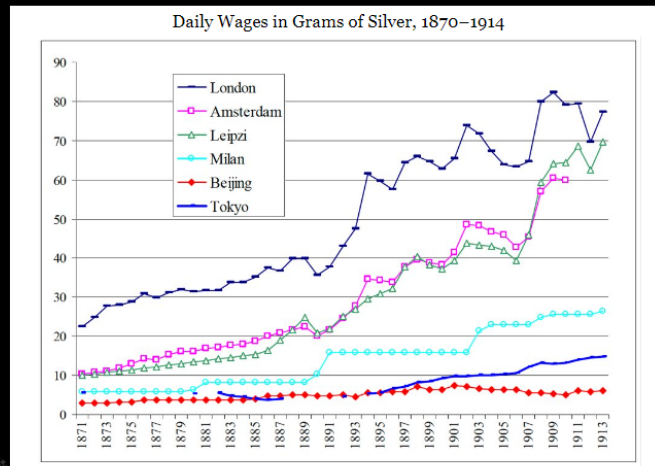


I've given you all of this context in order to flip my conversation now to what might be called historical reality: What do we know about the world that Smith was writing about on the basis of, it must be said, relatively fragmentary data and very little firsthand knowledge.

Thanks to the work of Bob Allen, teams of research assistants and younger academics we now know quite a lot about daily wages measured in silver in different parts of the world from the 1730s in this chart up to 1817. And what we can see very clearly here is the great divergence that Kenneth Pomeranz has written about. *The Great Divergence*<sup>4</sup> shows here the massive divergence of daily wages in grams of silver in London relative to just about everywhere else, but especially relative to China, where they fell in the period that we're looking at. I'm going to show you a few more slides like this, because they are, I think, the best way we have of conceiving of Smith's economic world.

<sup>4</sup> Kenneth Pomeranz. *The Great Divergence: China, Europe, and the Making of the Modern World Economy*. Princeton, N.J: Princeton University Press, 2000.

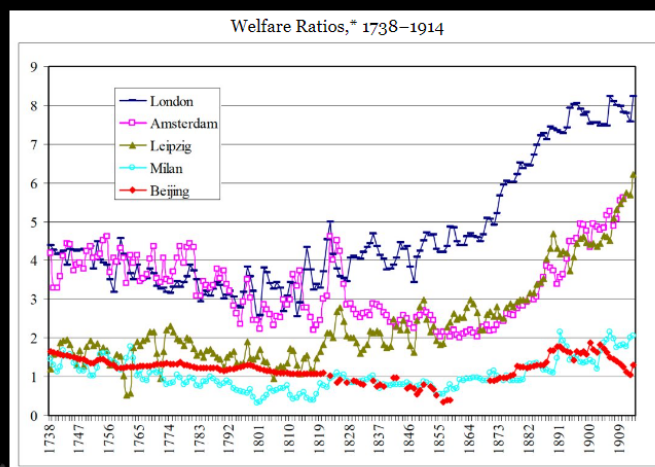
## THE "GREAT DIVERGENCE" REVISITED (2)



Allen et al. (2009)

If we take the story forward from 1870 to 1914 that great divergence only gets worse. You can see that London leads, but now Amsterdam and Leipzig, the European, cities are following, but Beijing is still in the doldrums with no increase in daily wages measured in silver. Milan, even in Italy is beginning to show signs of life. Tokyo showing the first signs of some kind of economic prosperity. But Beijing is a flat line in this chart.

## THE "GREAT DIVERGENCE" REVISITED (3)

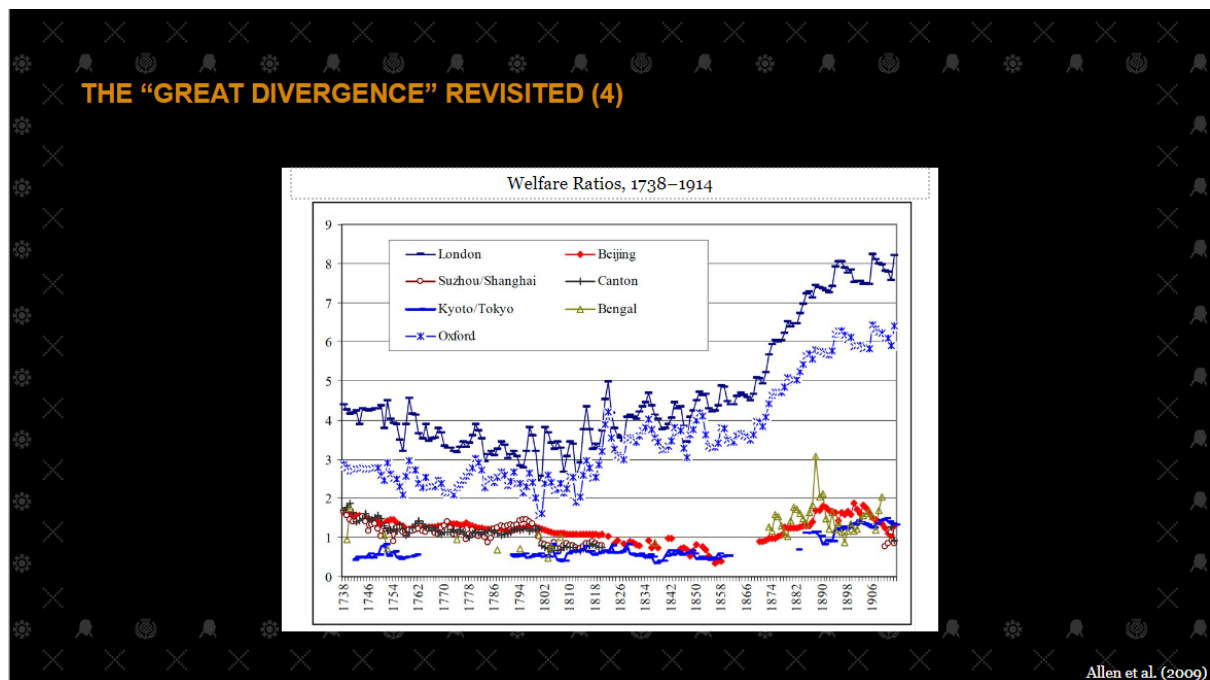


\*When the welfare ratio equalled one, an unskilled labourer working full time could earn just enough to support his family at subsistence income. Higher values indicate some surplus.

Allen et al. (2009)

So to adapt the concept of purchasing power parity, the welfare ratios are shown here. Now, a welfare ratio is understood in the following simple way when the welfare ratio equalled one, an unskilled labourer working fulltime could earn just enough to support his family at subsistence income. Higher values than one indicate some surplus, and this is another way of understanding

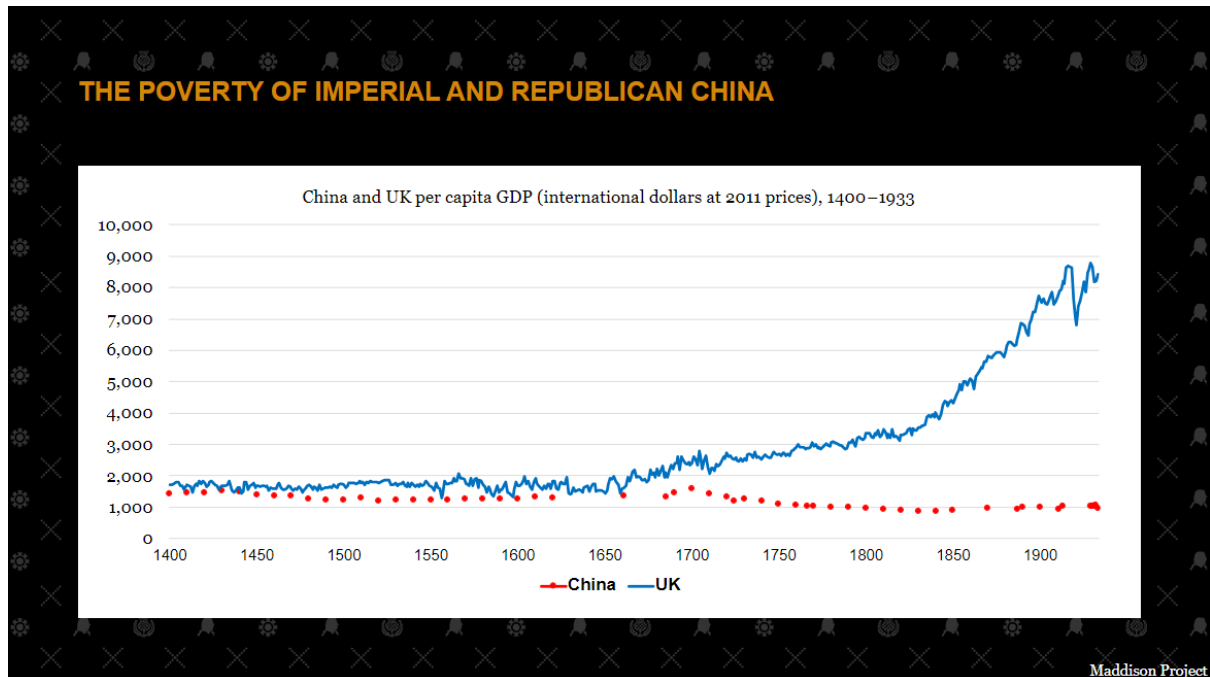
in a comparative international perspective, the great divergence in living standards and seeing that it really is already well established by the mid-18<sup>th</sup> century, suggesting, as I and others, including Angus Maddison, have argued, that it predated the industrial revolution by perhaps as much as two centuries, but certainly by a century. And you can see that there is this divergence in this sense as well to be in China, or for that matter, to be in Italy, in the 18<sup>th</sup> and early 19<sup>th</sup> centuries, essentially to be in a subsistence level of economic life. If you want to experience rising living standards, you better be in London, with Amsterdam and Leipzig as your next best bets.



You can see here with the addition of a few more data series that the great divergence is not just a London story, it's a British story. Sadly, we don't have Scottish data, I'll come back to that in a moment, but you can see that Oxford tracks London pretty closely.

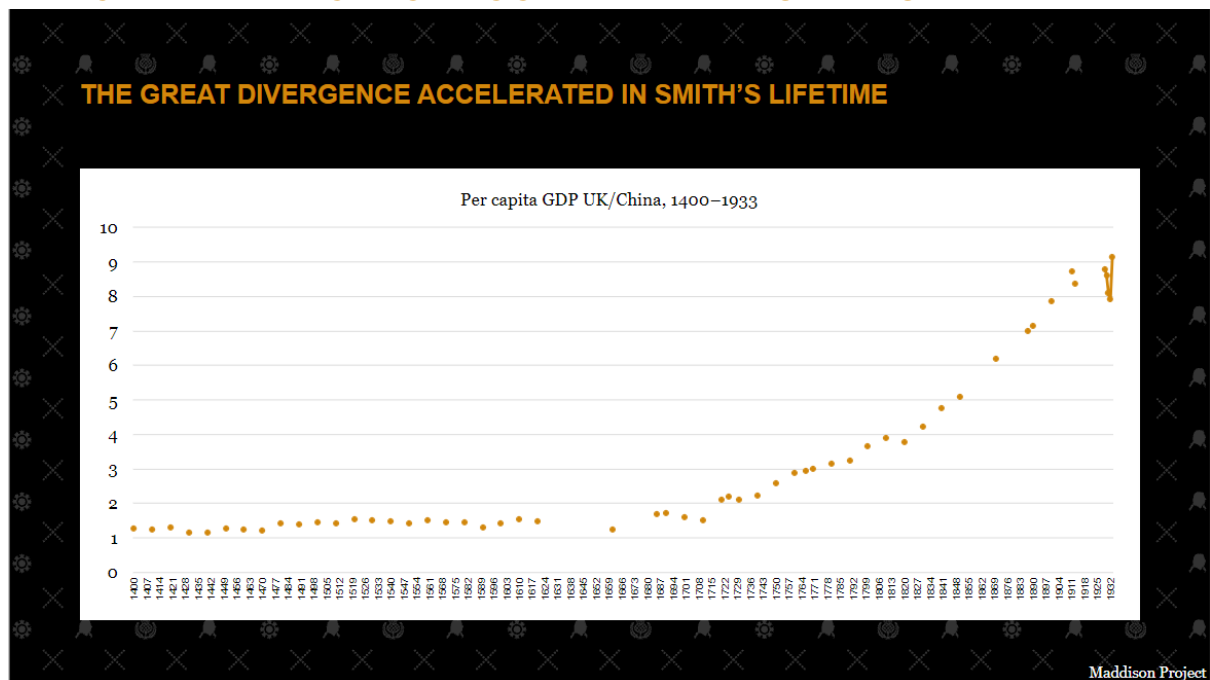
What's also interesting is that the situation in Bengal is not a great deal better than the situation in Canton or for that matter in Suzhou or Shanghai, and even Tokyo is not radically better, than those other East Asian places and South Asian places. All of this, I think, illustrates how very powerful Smith's concept of a stationary state is. These were in terms of living standards, truly stationary economies by comparison with what was happening first in the UK and then in Western Europe.

## THE POVERTY OF IMPERIAL AND REPUBLICAN CHINA



Angus Maddison and his successors, who've carried on his work since his death, were able to show in a different way the scale of the great divergence. These calculations of per capita gross domestic product which take the story all the way back to the 1400 and carry it on up to the 1930s, tell a striking story. And if you want me to just simplify this story, let's calculate a ratio.

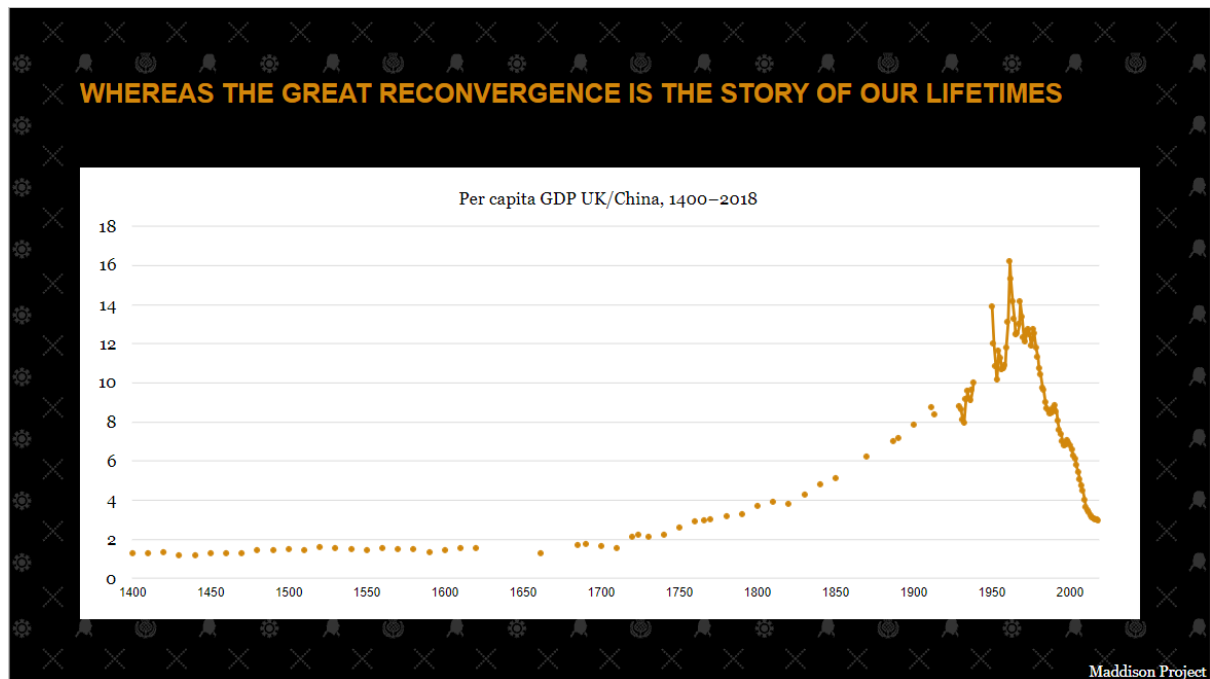
## THE GREAT DIVERGENCE ACCELERATED IN SMITH'S LIFETIME



So, this is the ratio of per capita GDP in the UK to per capita GDP in China from the 1400s to 1933. You are above unity already in the 15<sup>th</sup> century, but you begin to see significant increases towards twos, and then threes, fours, fives, until finally, you are at a nine to one ratio by the time

you get to the first third of the 20<sup>th</sup> century. So, this is another way of capturing the great divergence in economic history.

## THE GREAT CONVERGENCE IS THE STORY OF OUR LIFETIMES

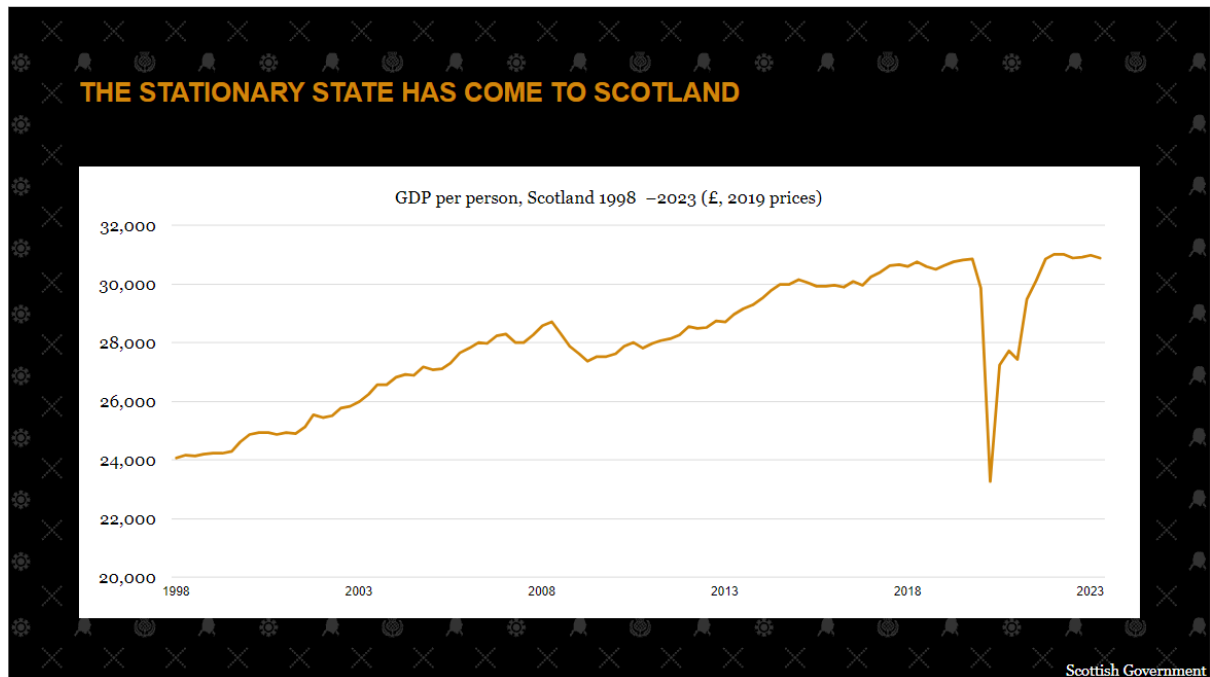


But our time is the opposite. In our time, we have seen the great reconvergence, and that's illustrated in this chart, which takes the story forward to 2018. That ratio of British to Chinese per capita GDP peaked at 16:1 during Mao Zedong's catastrophic regime in China, when manmade famines caused the deaths of tens of millions of people, but after the disappearance of Mao from the scene, a remarkable thing happened. Perhaps the most remarkable thing in modern economic history, and that remarkable thing was that China finally achieved sustained growth in per capita income and very rapid growth.

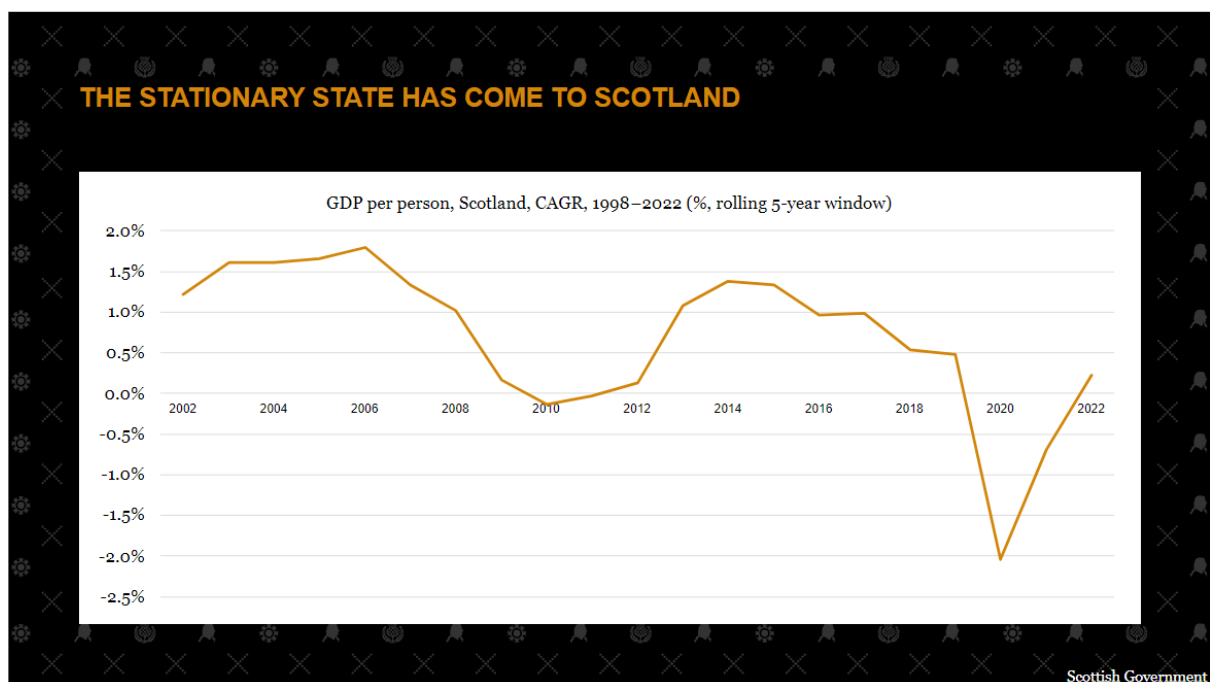
So, we've lived through the Great Reconvergence, what we've seen is a ratio of 16:1 go down to something close to 2.5:1. That is the big story of modern economic history, and it's the opposite story of pretty much everything that happened from well before Smith's time, through Smith's time, through Walter Scott's time, right the way through the 19<sup>th</sup> century, right the way through the 20<sup>th</sup> century.

It persisted after the empires of Europe were falling apart. It persisted all the way until the late 1970s, when I was a teenager. And from that point on, we had the great reconvergence.

## THE STATIONARY STATE HAS COME TO SCOTLAND



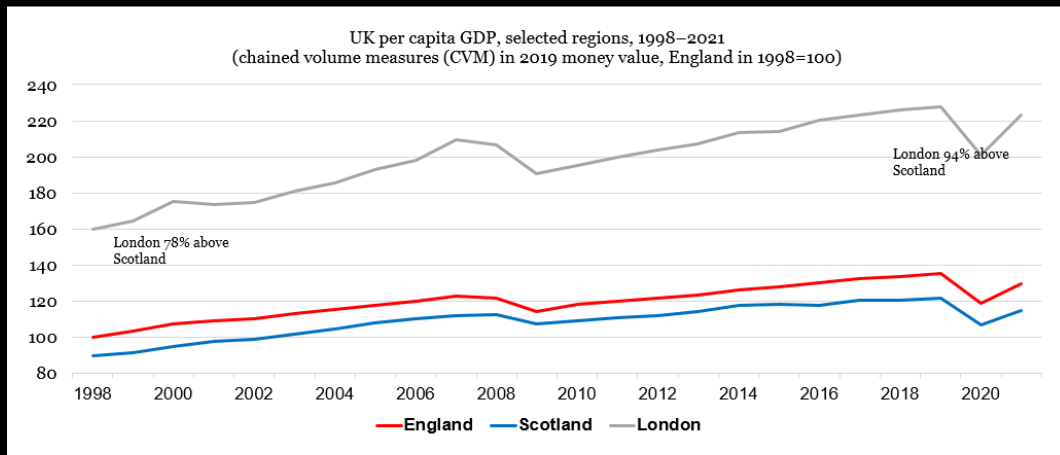
The sad news is of a role reversal. The stationary state, which Smith identifies with China, is now Scotland's sad lot. And you can see very clearly what I mean from this chart: Gross domestic product per person in Scotland still was rising through the 1990s and early 2000s, but in the last few years, it's essentially stopped.



Here's the evidence. If you calculate a rolling five-year compound annual growth rate for GDP per person, it's essentially close to zero now. And that's the essence of the stationary state.

## THE RELATIVE DECLINE OF A NATION

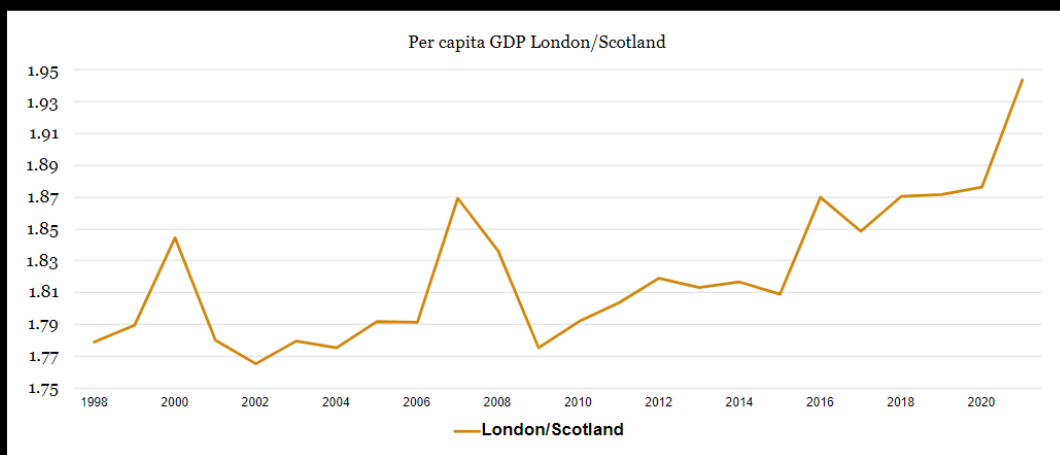
### THE RELATIVE DECLINE OF A NATION (1)



ONS

The stationary state is something that is not of course, unique to Scotland. There has been a similar slowdown in per capita GDP growth for the UK as a whole, but it is interesting that, back in the late 1990s per capita, GDP in London was 78% higher than in Scotland, than the latest figures it's now 94% higher. So, the slowdown that we see in the UK as a whole seems especially bad in Scotland. I didn't come here to cheer you up.

### THE RELATIVE DECLINE OF A NATION (2)



ONS

Here's another expression of that same point you can see that there has been this quite marked rise in the GDP ratio between London and Scotland, since around 2009, since the financial crisis.



## THE ULTIMATE HUMILIATION

**THE ULTIMATE HUMILIATION**

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**It's hot to be a Scot**

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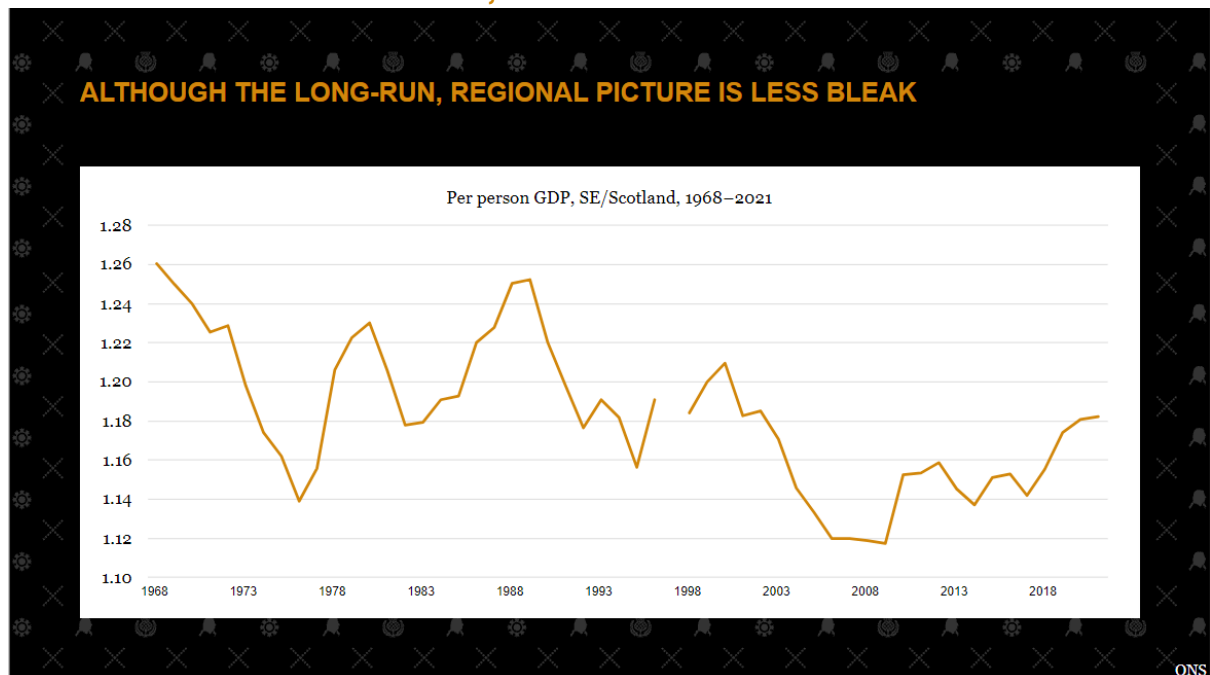
**“Amazing Scottish makers are doing things differently**

Boyd is just one young creative turning Scottish classics into cool, contemporary offerings. Chocolate brand *Coco* sells “haggis spiced” dark chocolate with notes of nutmeg, and *Jorum Studio* makes unconventional, Celtic-inspired fragrances from its studio in Edinburgh: scents

FT, Nov. 7, 2023

The ultimate humiliation, it seems to me is when the Financial Times ‘how to spend it’ section runs an article with the headline, ‘It’s hot to be a Scot’<sup>5</sup>, and offers the encouraging news that mutton pies will be available in London by January, so that those of us who remember them fondly from our youths will be able to buy them doubtless at vastly inflated prices and talk nostalgically about the happy times we had in Scotland back in the 1970s.

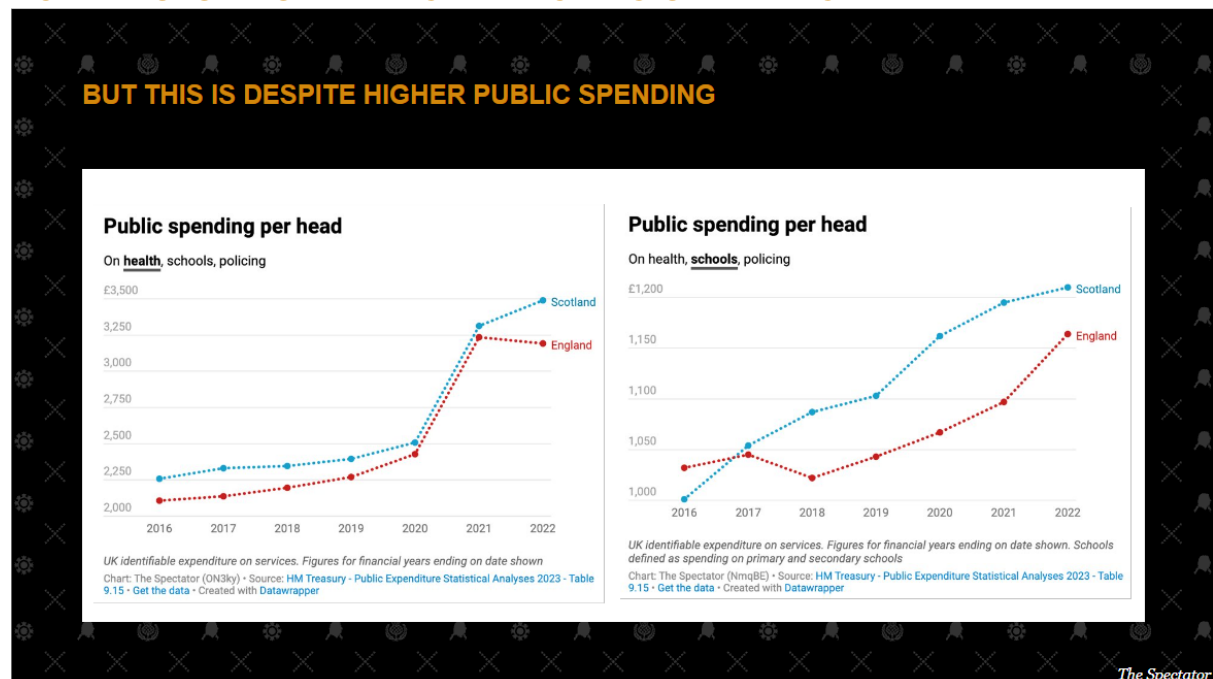
## ALTHOUGH THE LONG-RUN, REGIONAL PICTURE IS LESS BLEAK



<sup>5</sup> [www.ft.com/content/6074b14f-279b-42eb-a3fe-55e374b868c6](https://www.ft.com/content/6074b14f-279b-42eb-a3fe-55e374b868c6)

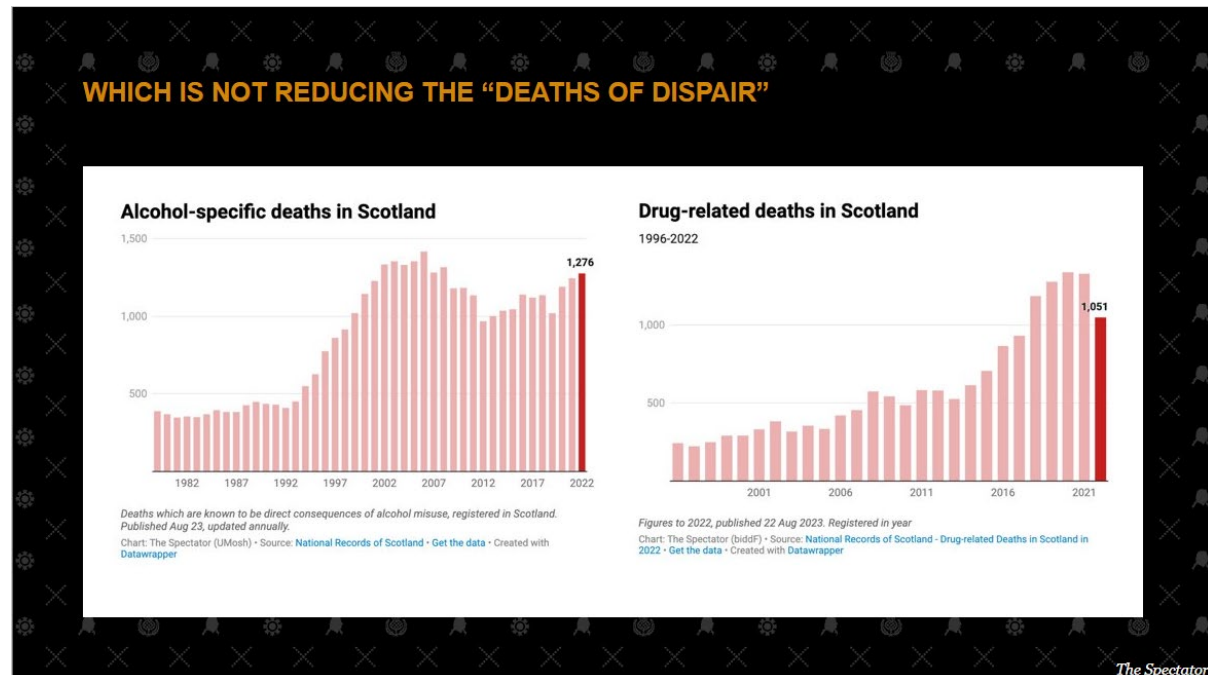
Now, I always tried to take the longest possible run view, and what's fascinating is that if you take the data back further, you realise that actually when I was a kid, the differential between the Southeast of England and Scotland was actually higher than it is today. I don't think I realised at the time just how attractive England was, but it was really attractive. I didn't know why I wanted to go to Oxford. Now I do. I really was, like one of those characters from Dr Johnson looking at the high road to England and seeing the most beautiful view in Scotland. So, the picture over a lifetime, over my lifetime, is a little less bleak. It suggests that in fact, Scotland's situation improved after the very rough 1980s, improved right through the 1990s and into the early two thousand. And the deterioration I referred to earlier is something of relatively recent origin post financial crisis.

## BUT THIS IS DESPITE HIGHER PUBLIC SPENDING



The interesting thing is that Scotland's poor performance is despite higher public spending per head on health and higher public spending per head on schools.

## WHICH IS NOT REDUCING THE “DEATHS OF DESPAIR”



The great Nobel laureate Angus Deaton was with us at lunch today, what is very fascinating about Scotland's social situation is that deaths of despair such a striking feature of Scottish life. When JD Vance published *Hillbilly Elegy*<sup>6</sup> a few years ago, I said to him, you know, *Hillbilly Elegy* was really invented in Scotland and only recently adopted in Rust Belt America and the drug related deaths, and the alcohol specific deaths are a very shocking feature of Scottish life.

## AS FOR EDUCATION

**AS FOR EDUCATION...**

Organization for Economic Cooperation and Development (OECD), Program for International Student Assessment (PISA), Averages for age 15 years by All students [TOTAL] and jurisdiction: 2018, 2015, 2012, 2009, and 2006

Year/Study	Jurisdiction	Reading	Mathematics	Science
2018	China c/w Scotland	10.2%	21.0%	20.4%
	HK c/w Scotland	4.0%	12.7%	5.4%
2015	China c/w Scotland	0.2%	8.2%	4.2%
	HK c/w Scotland	6.8%	11.6%	5.3%
2012	HK c/w Scotland	7.6%	12.6%	8.1%
2009	HK c/w Scotland	6.6%	11.1%	6.8%
2006	HK c/w Scotland	7.5%	8.3%	5.3%

**NOTES:**  
 In 2018 China refers to the four PISA participating China provinces: Beijing, Shanghai, Jiangsu, and Guangdong.  
 In 2015 China refers to the four PISA participating China provinces: Beijing, Shanghai, Jiangsu, and Zhejiang.  
 HK refers to Hong Kong

PISA

<sup>6</sup>J. D. Vance, *Hillbilly Elegy*. William Collins, 2016.

As for education, well, we don't quite know where we stand today because I'm told that Scotland no longer participates in the PISA<sup>7</sup> tests, but we have the data from 2006 to 2018, and what you can see is that, whether you compare reading, mathematics or science, or whether you compare Scotland with Hong Kong or cities in China, there's a marked performance differential between Chinese 15 year olds and Scottish 15 year olds. I'd be very surprised if that hadn't got worse. There is new data due to be published in just a week or so, but I gather from Tom Hunter that Scottish data will not be included, so we won't be able to tell. But I think it stands to reason that there's now a marked differential in performance between, say, Hong Kong and Glasgow or between Shanghai and Edinburgh in all these domains. The time I've spent as a visiting professor in Tsinghua [University] tells me that the emphasis on performance at Chinese schools is simply stronger than the emphasis on performance at schools here.

## WITH PROBLEMS LIKE THESE, WHY SHOULD WE CARE ABOUT CHINA?



If our problems are this bad, if we have reached the stationary state where China has so to speak, stolen the clothes of the Scottish Enlightenment, why should we care about China? This is a very important question, and it's one that Adam Smith also addressed in the *Theory of Moral Sentiments*.

I'm going to conclude my lecture with two quotations from that great work, a work that should be studied as much as the *Wealth of Nations*. When I was 11 years old, I was unwell enough to get a day off school. My father disapproved of days off school as a doctor, he didn't believe his

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<sup>7</sup> <https://www.oecd.org/pisa/>

children should ever be ill. And so, before he left the house, he threw a book at me, it landed on the bed, missed me, it was the *Wealth of Nations*, but he never threw the *Theory of Moral Sentiments* at me, and that's a bit like throwing Tocqueville's *Democracy in America* at a child, but not also throwing the *The Old Regime and the French Revolution*. They're twin works and they need to be read together.

So, what does Smith say in the *Theory of Moral Sentiments* about China and why we should care about it?

*Let us suppose that the great empire of China, with all its myriads of inhabitants, was suddenly swallowed up by an earthquake, and let us consider how a man of humanity in Europe, who had no sort of connexion with that part of the world, would be affected upon receiving intelligence of this dreadful calamity. He would, I imagine, first of all, express very strongly his sorrow for the misfortune of that unhappy people, he would make many melancholy reflections upon the precariousness of human life, and the vanity of all the labours of man, which could thus be annihilated in a moment. He would too, perhaps, if he was a man of speculation,<sup>8</sup>*

*(Theory of Moral Sentiments)*

you could see that Smith had a sense of humour in this passage it's almost as ironical as Hume at his best:

*He would too, perhaps, if he was a man of speculation, enter into many reasonings concerning the effects which this disaster might produce upon the commerce of Europe, and the trade and business of the world in general. And when all this fine philosophy was over, when all these humane sentiments had been once fairly expressed, he would pursue his business or his pleasure, take his repose or his diversion, with the same ease and tranquility, as if no such accident had happened. The most frivolous disaster which could befall himself would occasion a more real disturbance.*

*(Theory of Moral Sentiments)*

Smith sees this as a profound problem: Why would we be so indifferent to a calamity on that scale in China? He continues.

*If he was to lose his little finger to-morrow, he would not sleep to-night; but provided he never saw them, he will snore with the most profound security over the ruin of a hundred millions of his brethren, and the destruction of that immense multitude seems plainly an object less interesting to him, than this paltry misfortune of his own. To prevent therefore, this paltry misfortune to himself would a man of humanity be willing to sacrifice the lives of a hundred millions of his brethren, provided he had never seen them? Human nature startles with horror at the thought, and the world, in its greatest depravity and corruption, never produced such a villain as could be capable of entertaining it. But what makes this difference? When our passive feelings are almost always so sordid and so selfish, how comes it that our active principles should often be so generous and so noble? When we are always so much more deeply affected by whatever concerns ourselves, than*

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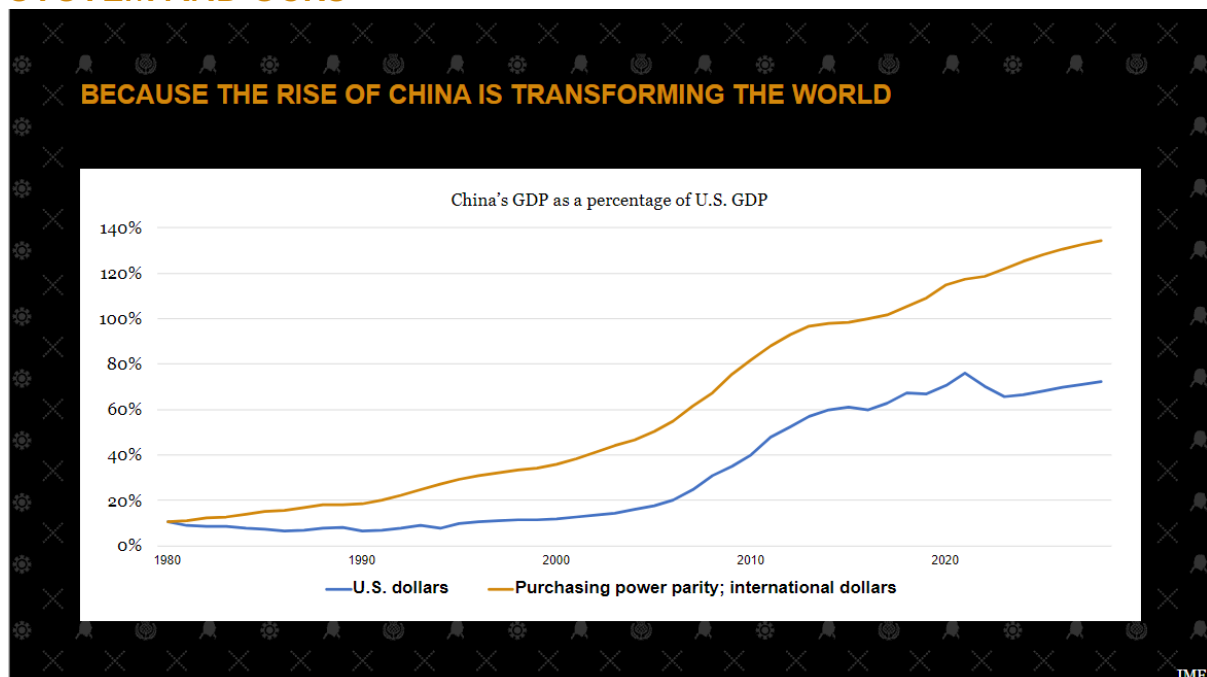
<sup>8</sup> Adam Smith, *The Theory of Moral Sentiments* (Oxford: Clarendon Press, 1976)

*by whatever concerns other men; what is it which prompts the generous, upon all occasions, and the mean upon many, to sacrifice their own interests to the greater interests of others? It is not the soft power of humanity, it is not that feeble spark of benevolence which Nature has lighted up in the human heart, that is thus capable of counteracting the strongest impulses of self-love. It is a stronger power, a more forcible motive, which exerts itself upon such occasions. It is reason, principle, conscience, the inhabitant of the breast, the man within, the great judge and arbiter of our conduct.*

*(Theory of Moral Sentiments)*

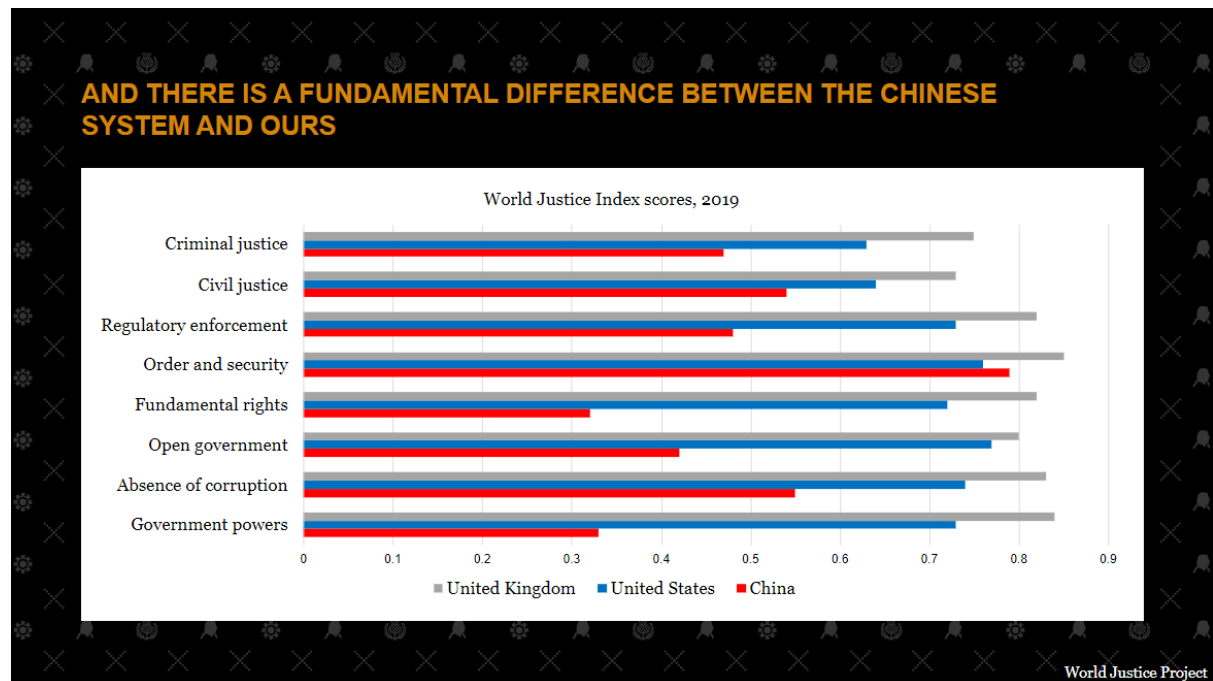
This is the most interesting passage as Smith tries to argue his way out of the corner that he's put himself in. Would we sacrifice the population of China to avoid the loss of a little finger? No, of course not. Nobody would do that, but why not? What is it that would make us care about these distant people on the other side of the world, whom we've never seen? This is a good question for our own time, too. It's a good question as we debate the ravages of climate change, if the ravages of climate change disproportionately fall on people far away from Scotland. I always joke, the Scotland is one of the places that would welcome climate change in all the world. Why would we mind if Scotland got the weather of Italy at the expense of the Middle East or North Africa being reduced to an uninhabitable inferno?

## BECAUSE THE RISE OF CHINA IS TRANSFORMING THE WORLD AND THERE IS A FUNDAMENTAL DIFFERENCE BETWEEN THE CHINESE SYSTEM AND OURS



The answer is that we cannot ignore what happens in the rest of the world. That is not an option. If it was an option in the late 18<sup>th</sup> century, it ceased to be one now. The rise of China is not only transforming living standards in China, it's transforming the global balance of power by one measure. The purchasing power parity measure. China's economy is already larger than that of

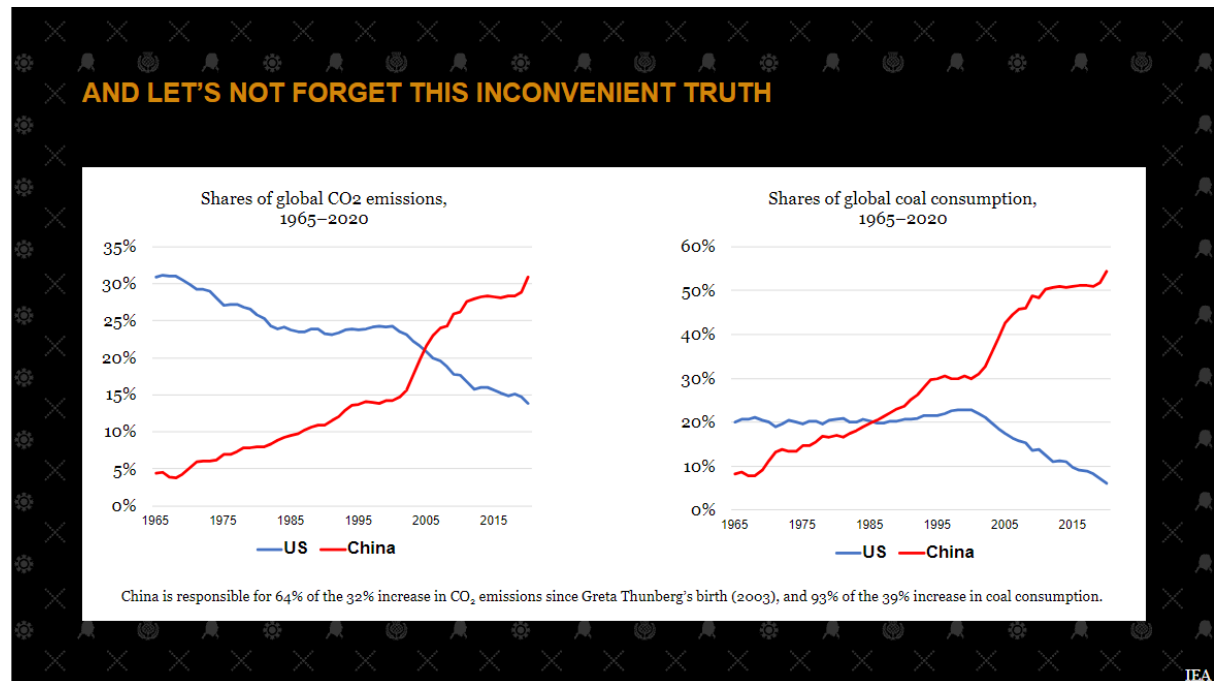
the United States, and has been for the last nine years, and yet, China has laws and institutions fundamentally different, profoundly different from ours.



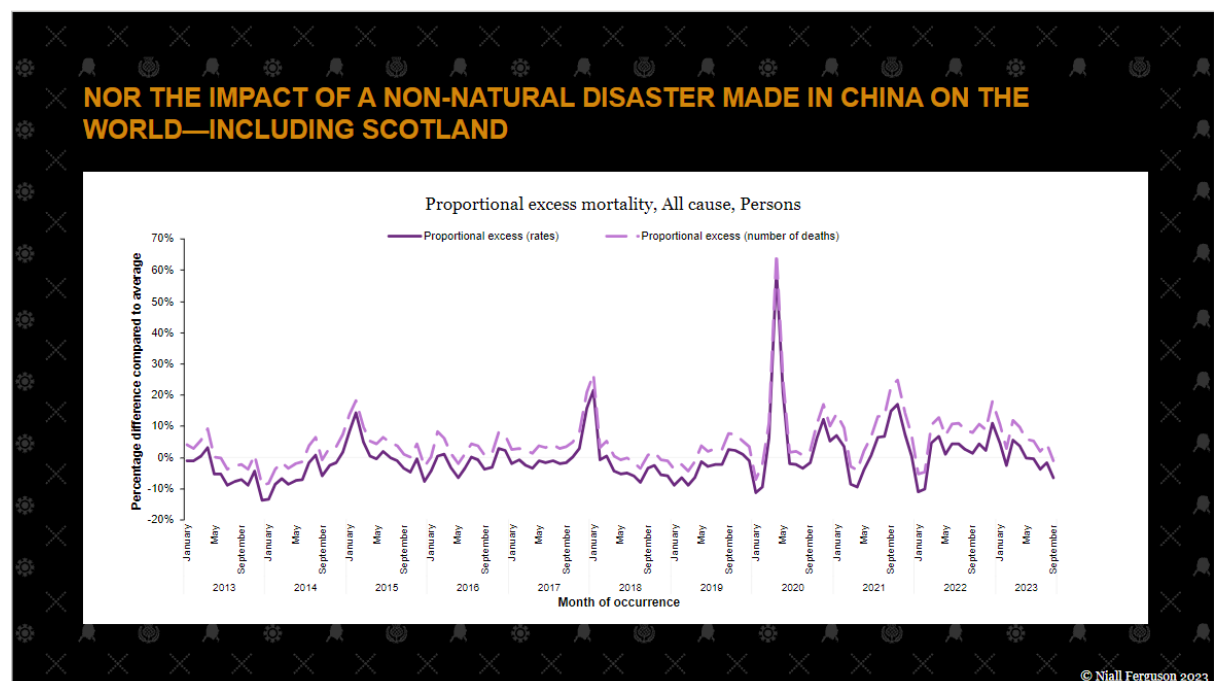
The World Justice Index scores countries around the world according to how well the rule of law functions, the criminal justice system, the civil justice system, and so on, and you can see from this chart that the United Kingdom does somewhat better than the United States, but both do massively better than China, which doesn't really have the rule of law at all. Because the Chinese Communist Party is in many respects above the law. The rise of China is the rise of a system in which the laws and institutions are subordinated to the interests of the CCP.



And what the CCP does with its power is often very disagreeable. Indeed, these are photographs of what could be described as labour camps or re-education camps in Xinjiang, where Uyghurs are held in conditions that most of us would regard as deplorable and reminiscent of the totalitarian regimes of the mid-20<sup>th</sup> century.



It's an inconvenient truth that China's rapid industrialisation is now the principal driver of carbon dioxide emissions in the world 64% of the 32% increase in CO emissions since Greta Thunberg's birth were accounted for by China. And a staggering 93% of the 39% increase in coal consumption in the world.





Finally, let's not forget that a natural disaster in China, if it was indeed natural, perhaps it would be more accurate to call it non-natural, could have an impact as we saw in 2020 everywhere, including in distant Scotland. This chart here shows the excess mortality data from 2013 to 2023. You'll have no difficulty in spotting the massive spike in excess mortality that COVID-19 caused in Scotland, in 2020 and so, what we see very clearly is the answer to Smith's question. We no longer live in a world in which the fate of China is a matter of indifference that requires us to make a kind of moral effort to care about. We now live in a world in which we are obliged to care about disasters elsewhere, because those disasters elsewhere can have an impact on us just in the way that the Ayr bank crisis of 1772 had an impact on the East India Company and on the debtors of Colonial America, including one Thomas Jefferson.

I've come to the end of this talk. It would be wrong not to give the last word to David Hume. Hume also had, views on China, funny views, entertaining views, views in which he was able to use Chinese examples to have a go at the Roman Catholic Church, which he always enjoyed doing, but I'm going to quote from a rather obscure passage, in which Hume asks an economic question similar to Smith,

*A Chinese works for three halfpence a day and is very industrious. were he as near us as France or Spain, everything we use would be Chinese, till money and prices come to a level. The Chinese were, they as near us as Poland or Barbary, would drain us of the over plus of our species and draw to themselves a larger share of the West Indian treasures.<sup>9</sup>*

How profoundly insightful David Hume and Adam Smith were. Well, we have arrived at that very place. Not only is Scotland the stationary state and China, the dynamic economy, but now China is as near us as Poland or Barbary or France or Spain. Now, that Chinese labourer and his much lower price than the Scottish labourer really can drain us of the over plus. We'll know that the world has turned entirely upside down when, as I believe will happen soon, a banking crisis in China causes not just the stationary state, but a full-blown recession in Scotland. Thank you very much indeed.

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<sup>9</sup> David Hume, Political Discourses. United Kingdom: R. Fleming, 1752.

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