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BRANKO MILANOVIC: PEOPLE, ASSOCIATIONS AND GOVERNMENT POLICY

Thursday 29 February 2024

LECTURE TRANSCRIPT

SAMENESS OF PEOPLE AND ACCIDENTS OF BIRTH

I would like to begin by highlighting three features of individuals and society that I think are assumed or believed by Adam Smith. The first is that all people are fundamentally the same which implies that we can understand motivations behind people's behaviour and accept a form of “egalitarianism”. The second point is that accidents play a large role in life and here by accidents I mean the accidents of birth, location, and parental wealth. The third point is that no organised groups of individuals are to be fully trusted. We have to maintain healthy scepticism towards any organised group whether it is the businessmen's association, trade unions, government or even organised religion. This scepticism combined with Smith's view about the evolution of factoral income shares explains, I will argue, his negative attitude towards the influence of capitalists on government policy.

Regarding the first point I would like to begin with a personal reflection. I asked myself the following question: when Adam Smith published the *Wealth of Nations (WoN)* what were my ancestors doing then? And although I don't know the details because my knowledge of my background does not extend that far into the past, I do know that they lived in the then Ottoman Empire in what is today Serbia, Macedonia, and Greece and I think that all of them, with the possible exception of one or two persons, were fully illiterate or functionally illiterate. The situation in Scotland at that time was better. The question I then asked myself is whether Smith would have been surprised to have somebody like me deliver a talk on his work in his house. And the answer that I thought I would get from him was that he would not be surprised. The reason why I think he would not be surprised is because of his belief in the fundamental sameness of people, and in economic growth. Economic progress not only makes people materially richer but is associated with better education. Better health, and, very importantly, greater self-awareness. Self-awareness is needed for self-expression. There would be no books like the *WoN* were it not for the ability of individuals to reflect on society and on their own place in it. Without economic growth, there would be no “commercial society” and nothing like that to observe; and most likely without economic growth there would be no Adam Smith.

There were millions of people who had lived prior to us and of whom very little is known. Practically nothing remains of their thinking. It is not that they were unable to think as clearly as we. But in the less developed or more primitive societies the thinking about social matters was a prerogative of a few select groups. For others it was difficult or impossible to transmit whatever they thought and felt without sufficient education and, obviously, without being literate. Economic growth changed all of that.

I would now continue with the discussion of what I defined as the three important ideas that feature in Adam Smith's view of individuals and society.

The fundamental *sameness* of people is critical: it means that we are able to understand other people's behaviour and to have empathy for them. This is the bedrock principle of the *Theory of Moral Sentiments (ToMS)*. But we are also able to understand that self-interest influences what people do, the principle which is the bedrock of the *WoN*. Thus, the sameness of people, in terms of their motivations and behaviour, is treated in *ToMS* and *WoN* as the basis for the main principles that activate the two books: empathy and self-interest. Without people being the same, we could not feel empathy with the other simply because we could never mentally place ourselves in their position. And without people being the same, we could never understand self-interest as the engine of economic activity, nor figure out that other people's interests and ours may be complementary, as in the famous lines from the *WoN* about the butcher, the brewer and

the baker...and ourselves. Nor would we understand that the desire for material improvement is common to most people. As Smith writes:

An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition. (WoN, Book II, Ch. III, p. 436)

The sameness of individuals also rules out, by definition, as good societies those based on claiming that there are intrinsic differences between people. These could be differences between free people and slaves, men and women, legally defined social estates, or any other ascriptive differences like the caste. The sameness of people represents the basis for treating everybody equally both in legal and economic sense. And if I am allowed to jump to the 20th century, it allows us to require that any departure from economic equality be justified by the appeal to some higher good, such as, for example, that greater inequality would improve the absolute position of the worst-off.

The second principle is the importance that Adam Smith places on social conditions under which we are born and under which we live for our “observable” success. If accidents of birth, and what John Roemer calls “the episodic luck”, explain most of the differences in wealth and status, then these differences cannot be due to intrinsic differences in intelligence or capabilities. In *The Lectures on Jurisprudence*, Smith writes (or more exactly teaches): “The difference between a porter and a philosopher in the first four or five years of their life is, properly speaking, none at all” (p. 113). The fundamental variance between people is small or hardly existent; it is much smaller than the observable variance. This is expressed frequently in the *Theory of Moral Sentiments* where even the happiness of the poor is contrasted to the insecurity of the rich:

In ease of body and peace of mind, all the different ranks of life are nearly upon the same level, and the beggar who suns himself by the highway, possesses that security which kings are fighting for. (ToMS, Part IV, Ch. I, p. 165)

While that particular statement can be interpreted as a justification of economic inequality it can be also interpreted as a statement that the differences that we observe are much less “real” than they seem to us. The same principle is illustrated by Smith’s idea of what may be called “the hiding hand” that prompts us to seek income and power in the hope that they would make us much happier only to discover, to our disappointment, that this is seldom the case.¹

¹ See *ToMS*, Part IV, Ch. I, p. 158.

SCEPTICISM TOWARD ALL ASSOCIATIONS, INCLUDING GOVERNMENT

The third fundamental proposition is that associations of people that are formed to pursue a particular interest are always to be looked upon with a very sceptical eye. Every such association tends to promote a special interest, often to the detriment of the interest of others or of social interest. That, of course, opens up the question what is the social interest, but one might sidestep that question by arguing that social interest, according to Smith, is the improvement in the material conditions for the majority of people. It was a novel statement at the time (mercantilism holding a very different view) and one that Adam Smith frequently invokes:

Servants, labourers and workmen of different kinds make up the far greater part of every great political society, but what improves the circumstances of the greater part can never be regarded as an inconvenience to the whole. No society can surely be flourishing and happy of which the far greater part of the members are poor and miserable. (WoN, Book I, Ch. VIII, pp. 110-11).

GOVERNMENT. The sceptical approach towards organised individuals, i.e., associations, carries over to all such organisations. Indeed, the most frequently quoted parts of *The Wealth of Nations* are those where Smith speaks with a very heavy dose of scepticism about the role of government. He sees the people in the government (and it is important to underline that he looks at the *people* in the government, not the government as some transcendental or separate entity) as pursuing their own interests. He sees them as unfit to tell other people what to do because they themselves are often transgressing the norms that they try to impose upon others. As Smith writes in a famous paragraph:

It is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will. (WoN, Book II, Ch. III, p. 442).

Indeed, civil servants never forget to overpay themselves,

The emoluments of offices are not...regulated by the free competition of the market, and do not, therefore always bear a just proportion to what the nature of the employment requires. They are, perhaps in most countries, higher than it requires; the persons who have the administration of government being generally disposed to reward both themselves and their immediate dependents rather more than enough. (WoN, Book V, Ch. II).

CAPITALISTS. Less frequently cited are similar statements that express negative or sceptical attitude towards the organised groups of employers or, as Adam Smith calls them before the term “capitalist” was invented, “masters”.

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together it ought to do nothing to facilitate such assemblies; much less to render them necessary. (WoN, Book I, Ch. X, p. 177)

Moreover, “[t]he masters, being fewer in number, can combine much more easily and the law besides authorizes or at least does not prohibit their combinations (WoN, Book I, Ch. VIII, p. 94).

Thus masters, as opposed to workers, enjoy the coordination advantage since it is easier to bring together and find common interest amongst very few than amongst the dispersed many. One must be suspicious of masters not only because of their tendency to collude, but also because of the way they have acquired their wealth. Smith is not more gentle towards them than Marx: “the primitive accumulation” is done through the exercise of monopoly power (WoN, Book IV, Ch. VIII, p. 807), collusion to raise prices (WoN, Book I, Ch. X), Ponzi-like schemes (WoN, Book II, Ch. II), sheer plunder (WoN, Book IV, Ch. VII, p. 722), crusades (WoN, Book III, Ch. III, p. 513), and enslavement (ToMS, Part V, I. 19, p. 178)² among others fine means. This negative view regarding the original acquisition of “masters” wealth and the role of their associations, will, joined with Smith’s view that the road to “natural opulence” of societies implies a decrease in the rate of profit, lead him to take a strong stance against the political role of capitalists. But he will also acknowledge that thanks to their cleverness and ability to handle sophistry, capitalists are most likely to influence government’s policy. This should make us twice wary when we listen to them.

CHURCHES. Smith’s unwillingness to take at face value what organisations claim for themselves extends to the organised religion. It is shown for example in Smith ironic statement about the Quakers’ release of their slaves: “The late resolution of the Quakers in Pennsylvania to set at liberty all their negro slaves, may satisfy us that their number cannot be very great.” (WoN, Book III, Ch. II, p. 496).

² “Fortune never exerted more cruelly her empire over mankind, than when she subjected these nations of heroes to the refuse of the jails of Europe, to wretches who possess the virtues neither of the countries which they come from, nor of those where they go to, and whose levity, brutality, and baseness so justly exposed them to the contempt of the vanquished.” (ToMS, Part V, i, p. 19B).

Organised religion plays on people's prejudices, and even good government must yield to such prejudices in order to preserve "public tranquillity".

The laws concerning corn may every-where be compared to the laws concerning religion. The people feel themselves so much interested in what relates either of their subsistence in this life, or to their happiness in a life to come, that government must yield to their prejudices, and, in order to preserve the public tranquillity, establish that system which they approve of. It is upon this account, perhaps, that we so seldom find a reasonable system established with regard to either of those two capital objects. (WoN, Book IV, Ch 5; pp. 682-3)

WORKERS. Smith is also sceptical of workers' associations, but they come for less criticism. There are several reasons for this: a. the already mentioned difficulty of organising many people hampers the efficiency of workers' organisation and thus requires from the philosopher and the economist a less probing or suspicious eye; b. the lack of influence of workers on government's decisions because they are not close to the centres of power, and c. lack of education which prevents workers from effectively presenting their case.³ The last reason has, interestingly, in its origin a phenomenon that is at the heart of economic progress and indeed one of the key ideas that rendered Smith famous: the division of labour. The division of labour, the author of the first chapter of the *Wealth of Nations* holds, leads to the dulling of thinking or to the lack of interest in social matters among people who are subjected to it. Smith, followed in that by Marx, tends to see the division of labour as being destructive of intellectual interests because a working day of 10 or 12 hours spent in accomplishing a single task does not leave any time for mental activities. He contrasts the much broader knowledge and interests of farmers or countryfolk compared to workers: "How much lower ranks of people in the country are really superior to those of the town is well known to every man whom either business or curiosity has led to converse much with both". (*WoN*, Book I, Ch. X, p 175)

But perhaps the most important reason why workers' association are less to be worried about is that they represent the largest class in society. Their combinations are therefore less likely to be deleterious to the public interest. As Smith writes: "When the regulation...is in favour of the workmen, it is always just and equitable; but it is sometimes otherwise when in favour of the Masters". (*WoN*, Book I, Ch. X, p 195).

The conclusion is that Smith is the least critical of workers' associations because he believes that they are simply less powerful, they are unlikely to influence government policy, and, even if they

³ "But though the interest of the laborer is strictly connected with that of the society, he is incapable either of comprehending that interest, or of understanding its connection with his own" (*WoN*, Book I, Ch. XI, p. 337).

do, they stand for the interest of the majority of the population. As we have seen, it is the improvement in the position of the largest classes that is by definition the attribute of a progressive society.⁴

But the situation is exactly the opposite with employers' associations, to which I turn next.

EVOLUTION OF INCOME DISTRIBUTION AND CAPITALISTS' INFLUENCE ON GOVERNMENT POLICIES

Here we have to take into account Smith's views regarding the evolution of incomes of the three major classes. It will be from that distributional angle that Smith will look at the undesirability of capitalists' advice on economic policy.

As already mentioned, Smith sees capitalists as the most influential group as far as economic policymaking is concerned. It is interesting to note here that Smith did not change this opinion, or that at least it was not contradicted, by his own experience as the Commissioner of Customs in Scotland. Revisions of the *WōN* were done while Smith was the Commissioner: the third edition of the *WōN* was published in 1784, in the seventh year of his job as a commissioner. A new text of some 24,000 words (about 6% of the total length) was added. The *ToMS* was revised, significantly in parts, and was republished in 1790, shortly before Smith's death, in the twelfth year of his job as Commissioner of Customs.⁵ Had he changed his mind or had he begun to doubt that the influence of capitalists on government policy is less than he originally thought there was ample time and opportunity for this to be reflected in the revisions of the *WōN*. But this never happened.

What is the problem with such influence? It is less welcome compared to that of other classes because the natural course of opulence implies, according to Smith, a decrease in the rate of profit, and that means that the interests of capitalists are, whether they are aware of that or not, opposed to the interests of society of the whole and to the interests of the other two classes whose incomes tend to increase with the advancement of society. Real wages go up, Smith holds, because an improved society pays more those who "feed and cloth it". And the land rent goes

⁴ The term "progressive", as opposed to "stationary" and "declining", is a technical term used by Smith for a society that has a positive rate of economic growth. It exhibits different states of mind amongst its population. "The progressive state [of society, in economic terms] is in reality the cheerful and the hearty state to all the different orders of the society. The stationary is dull, the declining melancholy." (*WōN*, Book I, Ch. VIII, p. 114)

⁵ Based on Gary M. Anderson, William F. Shughart II and Robert D Tollison, "Smith in the Customhouse", *Journal of Political Economy*, August 1985, vol. 93. No. 4, pp. 740-759.

up because of the increased demand for food and for products of the earth, including mining. We thus have only the rate of return to capital which, because of competition among the owners of the ever-increasing amounts of “stock” (i.e., capital intensity of production increases with per capita income), tends to go down.⁶ Contemporary Holland is often adduced by Smith as a perfect example. As he writes,

The rate of profit does not, like rent and wage, rise with the prosperity and fall with the declension of the society. On the contrary, it is naturally low in rich, and high in poor countries, and it is always highest in the countries that are going fastest to ruin. The interest of this third order [capitalists], therefore, has not the same connection with the general interest of the society as that of the other two. (WoN, Book I, Chapter XI, p. 338)

This is why—and let me give here three strong quotes from the *WoN*—one should not trust the advice coming from this class:

The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. (WoN, Book I, Ch. XI, p. 339)

[The capitalists] are an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it. (WoN, Book I, Ch. XI, p. 339).

But the mean rapacity, the monopolizing spirit of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected may very easily be prevented from disturbing the tranquillity of anybody but themselves. (WoN, Book IV, Ch III, p. 621)

We thus come to the conclusion that the mistrust expressed by Smith toward the self-proclaimed objectives of all organisations is particularly strong when that organisation’s interests run contrary to the “natural progress of opulence”. It is these interests in particular that should be the subject of scrutiny.

Two distinct parts of Adam Smith’s economic and political thinking –his scepticism toward associations and his theory of evolution of income shares in progressive societies—come together to fashion his views on economic policy. This is not sufficiently appreciated. On the contrary, his critiques of government and of organised labour are more frequently cited than his critique of organised capital or what we would today call business lobbyists. Yet for the reasons

⁶ The evolution of factoral income shares is discussed in an important section concluding Book I of the *WoN*.

explained, it is really the latter whose advice is, according to Smith, most likely to hold sway and to be pernicious.

IMPLICATIONS FOR TODAY

Smith's views in these areas have clear implications for today, some 2½ centuries after they were put on paper. Smith would, I think, regard with profound suspicion the idea of a deserving or meritocratic elite that is today often touted. He would know that "meritocracy" is often the product of happen-stance, of more favourable conditions enjoyed at the outset, and even of the use of disgraceful means to get ahead. It may be speculated that one of his disagreements with the physiocrats, who saw themselves in a position of such a meritocratic elite, was that Smith simply did not believe in meritocracy as a reflection of individuals' superior ability.

Today's Smith would be an anti-elite Smith, sympathetic to the workers' cause but without supporting them in all instances, sceptical of all capitalists' associations, Davoses, Renaissance Weekends and similar gatherings organised in order to "deceive the public". He would be an adversary of crony capitalism, yet on guards against the political capitalism where many economic decisions are taken by the state, or rather by the people who pretend to act on behalf of the state. His legacy is thus, I think, one of abiding commitment to equality of people, suspiciousness towards the do-gooders and special interest who do not dare show their true colours, and belief that if public opinion is sufficiently strong to prevent the most egregious misdeeds by different organised groups, including the government and organised religion, the road to prosperity will nevertheless remain open. His common-sense made him believe in things being sufficiently good, not ideal.

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