



A Visit with Adam Smith

Adam Smith was an 18th-century philosopher who is highly regarded today for having explained many of the basic principles of market economies. Here are a few facts regarding Professor Smith.

- Adam Smith was born in Kirkcaldy, Scotland, in 1723.
- In 1751 Smith was appointed professor of logic and then professor of moral philosophy at Glasgow University in Scotland.
- In 1759, he published *Theory of Moral Sentiments*, a book that established his reputation as an intellectual leader. In this book Smith defines virtue and discusses why we should live a virtuous life.
- Smith spent 10 years writing his most well-known book, *An Inquiry Into the Nature and Causes of the Wealth of Nations* - usually referred to as *The Wealth of Nations*. Published in 1776, this book established Smith as the founder of modern economic thought. In it, he offers an extensive description of the principles of market economies.
- In 1777, Smith became Commissioner of Customs for Scotland.
- People who knew Smith often commented on his charm and intelligence; they also observed that Smith was the epitome of the absent-minded professor.

The Activity

Today, we are going to act out an imaginary panel discussion between prominent economists and other scholars from different time periods. They will pose questions to Adam Smith, the founder of modern economic thought.

The Roles

Panel Moderator
Adam Smith
David Hume
Voltaire

Friedrich von Hayek
Walter Heller
John Maynard Keynes
Karl Marx

John Locke
David Ricardo
Jean-Baptiste Say

Panel Moderator Professor Smith, thank you so much for accepting our call. Welcome to the technology of the 21st century. We are delighted that you are willing to speak with us.

Professor Smith Thank you. I certainly don't understand how this conversation across time is possible. But I am happy to speak with you. By the way, I wonder if your amazing machine could tell me where I might have placed my eyeglasses? They always seem to be hmmm, aaahhh ... lost ...

Panel Moderator I will tell my people to get in touch with your people so that we can arrange to scan your home and try to spot your glasses with our laser eyeglasses detectors. In the meantime, Professor Smith, here is your first question. It comes from one of your friends and countrymen - philosopher, historian, and economist David Hume.

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- Mr. Hume It is good to speak with you again, my friend, even under these extraordinary circumstances. Here is my question. I suspect that, even in the 21st century people are still trying to understand the operation of market economies, the very topic you wrote about so well back in 1776. People persist in thinking that the men and women who run businesses in market economies are motivated by greed. It is all anyone talks about in the popular media. Greed, as you well know, Professor Smith, is associated with earning profits. And greed is not a positive character trait. It brings to mind all sorts of disagreeable connotations. What do you say to those who regard business people as greedy, selfish, money-grubbing dolts?
- Professor Smith I once referred to England as a nation of shopkeepers. Perhaps you remember that. I meant that remark as a compliment to the people of England. The values of the merchant include honesty, trustworthiness, peace, and cooperation. These are positive values, not negative ones.
- Mr. Hume Perhaps you are right. But you are avoiding my question. What about the negative trait of greed and its association with markets?
- Professor Smith You always have been keen on maintaining a sharp focus, David. Very well then: The word greed does suggest unsavory, brutish behavior. Yet in some cases we admire greed. Greed may imply working competitively to achieve a goal, as in the case of scientists who are greedy in their search for new explanations or new medicines. Olympic athletes are greedy about setting new records. Poets are greedy for the satisfaction, and perhaps also the acclaim, they gain by writing new verse. All this seems unremarkable. Unfortunately, the same drive and determination that people admire in these cases tend to be less admired in businesspeople.
- M. Voltaire Yes, of course. I have heard you say that many times. But for some reason we continue to regard greed as bad. Who would choose to sit at a sidewalk cafe with people who are greedy and selfish?
- Professor Smith Ah, Monsieur Voltaire. How kind of you to join us. You ask pointed questions, as usual, and I know you are particular about the company you keep. But I fear that I have been misunderstood regarding this point about greed and selfishness. Let me put it this way. There is a difference between people who are selfish and people who are self-interested. While some people are selfish, all people act in their own self-interest. Self-interested behavior may be selfish, but it is not necessarily so.
- Professor Hayek Not necessarily so: It is a view I should think the skeptical Frenchman would approve. I also have thought often about this distinction between self-interest and selfishness. Please explain your view of it in greater detail.
- Professor Smith Perhaps it would be helpful to consider some familiar examples, Herr Hayek. Think of the great moral leaders of the 20th century, including the Reverend Martin Luther King and Mother Teresa. Neither sought riches. Both, however, accepted large sums of money when they were awarded their Nobel Prizes. Why? Were they secretly greedy, and merely found out in the end? I do not think so. They accepted prize money to use it as a resource for support of their

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moral causes. In this they are not alone. People who run churches, schools, hospitals, and charities all seek resources. Is that greedy? Knowing that people are motivated in part by money tells us nothing about their character.

Professor Heller Many people, Professor Smith, are unaccustomed to the idea that those who do not work in business are nonetheless self-interested.

Professor Smith Dr. Heller! For years now I have admired your academic scholarship and your service to the U.S. government. I hope you found self-satisfaction in each endeavor. I am sure you did. It is human nature to be self-interested. People act in accordance with their self-interest whether they give to others or give to themselves. Nurses tend to the sick to earn an income, of course, but also because of the satisfaction they gain from their work. Scientists do research, in part, to earn income, but also because of the satisfaction they gain in their efforts to learn something new.

Professor Keynes Years ago I maintained friendships with many writers and artists in and around London, and I can vouch for the fact that they showed ample self-interest in their work. Some observers regarded these people, however, as self-absorbed idlers. Yet you contend that those who act in their own self-interest - business-people and others - actually serve the common good. Would you please say more about that?

Professor Smith I have no doubt, Lord Keynes, that some of your acquaintances in the Bloomsbury group were more than a little difficult to get on with. Yet it is true that the common good is furthered by the self-interested action of individuals. Think of the millions of honest, mutually satisfying exchanges that occur every day in the U.S. market economy. Business people, acting in regard to their self-interest, produce the goods and services that consumers wish to purchase. Think of all the products people have used to their advantage in your 20th century that did not exist in my 18th century! It is people's regard for their own self-interest that makes such achievement across the centuries possible.

Professor Marx I fear you live in a dream world of abstraction, Professor Smith. People of low moral character will surely take advantage of any system that seeks the public good as a product of self-interested behavior.

Professor Smith In my time-travel scholarship, Herr Marx, I have read much about what people today refer to as gaming the system, and I know that it has been an irresistible temptation for many. In fact it seemed especially attractive throughout much of the 20th century in a nation whose rulers tried to fashion an economy according to your theories. Of course capitalists have also been among those seeking to use market systems unscrupulously. Market systems provide safeguards against such opportunism, but the safeguards do not depend on people's good intentions; they rely instead on competition. Market systems must be able to encourage competition among producers. The fear of competition is what pushes business people to respect the wishes of their customers. If they don't, another business person will. That prospect - of losing profits, income, perhaps one's entire business investment - does more than laws and regulations to encourage business people to act properly with regard to their customers.

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- Professor Locke It is a far-reaching claim that you make, Professor Smith. You seem almost to be saying that market systems help to develop good character even though good character is not their crucial safeguard of proper conduct.
- Professor Smith I would go further: It is the absence of markets that encourages immoral behavior.
- Professor Locke Admirably blunt and plain-spoken. Please say more, since your view will strike many as suspect.
- Professor Smith Of course. The values of the market include honesty. While markets are vulnerable occasionally to scam artists and schemers, business people know that customers eventually will punish those who cheat and lie to them. Business people who are rogues and scoundrels usually wind up bankrupt or in jail. Markets also encourage tolerance. Business people who discriminate in hiring or refuse to sell to all paying customers will eventually find themselves punished in an extra-judicial manner: by not finding the best employee for the job or by earning less in sales, for example. I could go on. Other values encouraged by markets include cooperation, courtesy, and enterprise.
- Professor Ricardo On which would you rather depend, Professor Smith: people who do good out of a sense of caring or people who do good out of a sense of self-interest?
- Professor Smith Caring is a fine trait, to be sure, so far as it goes, but people tend to care especially for family members and others who are well known to them. I have been interested by contrast in conduct in the large, public world, where strangers must interact with one another and hope not to be cheated or harmed. In that arena, people who earn an income by selling goods and services help to establish, almost without noticing that they are doing so, important norms of conduct. Acting in their own interest as business people, they help others who may be complete strangers - people of different beliefs, races, and religions. Many among us would find it difficult to do good for strangers on a similar scale - if doing good depended merely on an ethic of benevolence or care. The record of experience shows that people will more often do the right thing when they act in regard to self-interest.
- Professor Say Philosophers in my country have given much thought to the self - to individual consciousness. Please explain your view as to how people will know what their self-interest is, when it comes to producing or buying goods and services?
- Professor Smith I have been flattered, M. Say, by the attention you have paid to my work. Market economies provide a signal that tells people what goods and services are worth. This signal is the market price. Prices reflect the value of a good to society and the cost to society of making the good. People in households and businesses use prices in making decisions about what and when to buy and what and when to sell. Market prices register the choices, and thereby reflect the self-interest, of millions of consumers and producers. Most of them are complete strangers to one another, and most have perhaps not engaged at great length in introspection about their individual consciousness.

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Panel Moderator I wish to thank Professor Smith and the rest of the panel for speaking with us today.

Professor Smith Thank you, sir. And did you, by chance, find my eyeglasses?

Panel Moderator I am sorry, sir, but your people told my people that our scanner did not detect them. Where were you the last time you had them?

Professor Smith I don't recall. I couldn't find things when I lived in my own time. According to your calendar, I must now be more than 200 years old! And where do you suppose I put my keys?
I don't suppose that your people could talk to ...

Panel Moderator I am sorry, Professor Smith; that is all the time we have today.

QUESTIONS FOR DISCUSSION

A. Who was Adam Smith?

B. What is the difference between self-interest and selfishness?

C. What virtues are encouraged in market systems, according to Professor Smith?

D. Why are market prices important?

E. Solve the mystery: How can people acting in their own self-interest contribute to the social good?
