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ARTICLE

INTRODUCTION TO THE SPECIAL ISSUE ON ADAM SMITH@300

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Abstract
2023 marks the tercentenary of the birth of Adam Smith. A towering figure of the Scottish Enlightenment, his writings helped to establish the discipline we now refer to as Political Economy. Indeed, many of his ideas remain the foundation of economic theories still in use today. It is this ongoing relevance, and the lessons we can take from Smith's methods, that binds the papers in this Special Issue together. The Special Issue draws upon excellent contributions from renowned scholars covering a wide array of Smith's contributions to economics and political economy.

Keywords: Adam Smith; Tercentenary; Moral Sentiments; Wealth of Nations

JEL codes: A1; B12; B31

The year 2023 marks the tercentenary of the birth of Adam Smith. Born in Kirkcaldy in 1723, Smith would become a towering figure of the Scottish Enlightenment. Smith was a student, Professor and Rector at the University of Glasgow. His writings, much of which draw upon lectures he gave at Glasgow, helped to establish the discipline we know today as Political Economy.

Many of his ideas remain the foundation of economic theories still in use today, with his work influencing many subsequent pioneering economists and political theorists from Karl Marx to Milton Friedman. Most importantly, his methods teach us how to think about the economy through a careful, logical and rigorous examination of the world around us.

It is remarkable how many of the issues that Smith was writing about remain relevant. It is this, and Smith's methodology as an economic scientist, that binds the papers in this Special Issue together.

Of course, the historical context is different. The industrial revolution was in its early stages when Smith arrived as a student in Glasgow in 1737. But the fundamental questions economists ask today have not changed. What drives economic growth? How might economic institutions and policies be designed to maximise living standards? How should the gains from economic activity be shared? What role can the banking system play in supporting growth in the real economy and how should it be regulated? How might self-interest (good and bad) motivate economic efficiencies? And, what are the gains (and losses) from international trade?

Most famously, Smith criticised the Mercantilist's false ideas of wealth and their theories of how wealth is generated. For Smith, wealth did not consist of gold, or the power of a select few individuals or institutions, but in the living standards of the whole population. Smith wrote: 'Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life' WN I:V. Today, we are still debating how to improve prosperity—or well-being—not just for the few, but the whole population.

Smith argued that to understand where rising living standards come from, we need to understand how increased productivity can make more goods available to more people. For Smith, specialisation,

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trade and capital accumulation were crucial. But for society to flourish, it also needed good institutions, rules and government policy. As we face complex intergenerational and global challenges, be it the climate emergency, rising inequality or the age of Artificial Intelligence, there is much we can apply from Smith's writings to the design of modern cohesive, fair and resilient policymaking.

Crucially, Smith put markets at the centre of a successful society. But he was not blind to their limitations and failings. Debates over what markets should and should not be for, the role and nature of competition vis-à-vis the State, and the idea of 'market failure' remain just as relevant now as they did back in the eighteenth century. Smith highlighted too the dangers from elites—and big business—in capturing and exerting undue influence. In his day, it was the East India Company. Today, it is the influence of multinationals, digital oligarchs and the continued power of patronage. Similarly, a strong modern theme in both of Smith's famous works *The Theory of Moral Sentiments* and *The Wealth of Nations* is the role of justice. 'Justice' in the sense of providing a stable legal framework and the rule of law is a key duty of government and fits well with a modern view that institutions and regulation are crucial to the proper functioning of the economy.

Smith, of course, was more than an economist. First and foremost, he was a moral philosopher. For Smith, understanding how an economy operated—and should operate—requires an understanding of the values we possess as moral human beings. We care what others think of us and about what happens to other people. As Chris Berry notes in his book *Adam Smith: A Very Short Introduction*, the link between morality and sociality is key to Smith's thinking in his Moral Sentiments. This also makes Smith's thinking relevant to modern social scientists, as it emphasises how social interactions play a key role in social learning.

Throughout 2023, a series of events and activities have been undertaken to commemorate the tercentenary and to bring Smith alive for a modern and diverse audience. Public lectures and workshops have been held in cities around the world. A national competition has been held tasking students to re-design the front cover of *The Theory of Moral Sentiments* and *The Wealth of Nations*. This Special Issue of the *National Institute Economic Review* marks a key contribution to these commemorations.

Smith's reach and influence is extraordinary. Most economists will claim to 'know' Smith. But a full appreciation of the breadth and depth of his thinking is often lacking. The articles in this issue help fill that gap, exploring Smith as both the moral philosopher and political economist. Contributions also discuss how Smith and his ideas have been referenced in modern debates. It has become common practice to look to Smith for answers to today's problems. But as Jesse Norman notes in his biography of Smith, 'Smith is so intellectually fertile, so multi-faceted and so quotable that he offers constant temptations to over-interpretation or outright misappropriation' (*Adam Smith: What He Thought, and Why It Matters*, page xiii).

It is not surprising, therefore, that in the thoughtful contributions throughout this Special Issue, a common thread is that the most important lesson that we can take from Smith is his methodology. Unlike many modern economists, he did not start with a stylised model and then apply it to the real world in the hope that it would 'fit'. Instead, he examined in detail the world around him and sought to explain what he observed through careful generalisation and focussed insight. He was an astute student of history, with his ideas also taking inspiration from the sciences, the arts and humanities. He was committed to evidence-based thinking and, crucially, was not afraid to change and update his thinking as his knowledge grew.

Diane Coyle (Cambridge) picks up on Smith's famous insights on the role of specialisation and the division of labour in driving prosperity and 'universal opulence'. Specialisation and competition are key to determine the scope and shape of that growth, with Smith highlighting a trade-off between these two mechanisms. Coyle reflects upon the concentration of many of today's key markets including global production networks that rely upon a highly specialised supplier or winner-takes-all digital global markets. For policymakers, just as in Smith's time, there is a dilemma between the efficiency benefits of specialisation versus competition that requires careful consideration. Efforts at establishing a focus upon stakeholder value maximisation as opposed to shareholder value maximisation have been offered as a

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solution to tackling the specialisation/competition dilemma. Ultimately, such a shift—even at the margin—will require changes in global policymaking and governance that have been elusive thus far.

In 'On the promises and perils of Smithian growth—from pin factory to AI', Marcus Miller (Warwick) builds on these reflections by turning to Smith's insights on the role that prices can play in the efficient allocation of resources and how innovation, specialisation and investment can spur growth. Smith was not just concerned about the causes of growing wealth, but the nature of how such benefits are distributed across society. Miller argues that, whilst the benefits of innovation were distributed widely during the industrial revolution, the reverse seems to have happened in more recent years. Moreover, Miller cautions that the rise of Artificial Intelligence has the potential to accelerate the pace of innovation but with potentially hazardous consequences that include—but might extend beyond—widening inequalities. Miller concludes that Smith was right in cautioning that 'the exertions of natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments'.

Alan Winters (Sussex) in his essay, 'Adam Smith's Wealth of Nations is still relevant to UK trade policymaking on international trade', reflects upon the area of policy Smith is arguably most well-known for—free trade. Smith clearly articulated views about the benefits of trade and markets but held equally strong views on the necessity of sound institutions. Winters reflects upon the parallels between today's trade policy challenges, particularly in the United Kingdom, with the general principles and ideas that Smith famously set out in *The Wealth of Nations*. Winters assesses how well post-Brexit UK trade arrangements—from relations with the EU and third countries, the WTO and the new Trade Remedies Authority—might meet Smith's expectations. He concludes that, whilst the United Kingdom has not lost 'the tolerable administration of justice', it has certainly been diminished.

David William (Queen Mary) in his essay, 'Adam Smith, Colonialism and Liberal Imperialism', argues that Smith remains an extremely rich source for reflections on colonialism and liberal imperialism. This is not because Smith was 'right' about all of this, but because by following the contours of his thinking, in all its ambivalence and ambiguity, we are led to the heart of matters that are relevant for our thinking today. In the end, we have to do our thinking for ourselves, but paying attention to Smith can help that thinking be more effective.

Smith's legacy and influence is discussed by John Aldrich (Duke) in his essay exploring the link between Adam Smith and another influential Scottish economist, Duncan Black. In 'Duncan Black: Heir to Adam Smith and the Scottish Enlightenment', Aldrich argues that Black, also a graduate of the University of Glasgow, was the last member of the Scottish Enlightenment. Furthermore, he argues that there are remarkable similarities between Black's revolutionary work on political theory—and the foundation of the discipline now known as social choice theory—and two similar foundations for Smith's work on the economy: self-interest (more astutely the premise that people have preferences and act on those preferences) and equilibrium in collective outcomes. Aldrich's essay provides an illuminating overview into this fascinating, but often forgotten, economist and his relationship to Adam Smith's thinking.

Michael Bordo and Hugh Rockoff (both Rutgers) reflect upon the appropriate lessons for the modern monetary economist from Smith's writings. As the author's note, the world of banking looks radically different to Smith's time. But there are important analogies to the present day. In particular, Bordo and Rockoff argue that, in some ways, policy debates over the development of central bank digital currencies are similar to the evolution from metallic money (i.e. gold and coins) to paper money that Smith wrote about in *The Wealth of Nations*. Smith argued for appropriate regulations that he thought would permit society to reap the benefits whilst minimising the risks from this shift, identical to the live debates today on how to regulate digital currencies. The authors also note how other present day-to-day concerns with monetary and financial policy—inflation, fears of banking instability and the interactions between monetary and fiscal authorities over public debt—were all concerns that Smith discussed. The key lesson the authors conclude is in the value of following a Smithian approach of careful study of the origin and history of modern monetary policy dilemmas.

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The theme of Smith and banking is continued by Alfred Duncan (Kent) and Charles Nolan (Glasgow) in 'Adam Smith and the Bankers: Retrospect and Prospect'. Here, the authors discuss in detail Smith's writings on money, banking and credit. These have been some of the most criticised aspects of his work, although some scholars have argued that his insights are actually more robust than was perhaps previously thought. In particular, the authors highlight that Smith's key concern was that with a system of free banking—which he favoured—regulations would be needed to guarantee monetary stability. For Smith, the management of bank balance sheets, either through rules or laws, needs to be driven by one overarching issue: the integrity of money and monetary exchange. Recent experiences on financial regulation, and the focus upon microprudential over macroprudential regulation, mean that policy-makers have yet to fully catch up with Smith's perspective.

Over the years, Smith's name has become associated with all manner of policy ideas and agendas. He has been used by the left to justify the role of government and social security, and by the right to emphasise the power and efficiency of the market. Over the last 50 years, advocates of the neo liberal paradigm (NLP) have painted Smith has an advocate of laissez-faire economics as a means to justify their own view of the world. In recent years, there has been significant push back against such a view. Ronald MacDonald (Glasgow) adds to this 'revisionist' view of Smith by re-examining the underlying tenets of the NLP macroeconomic agenda against what Smith said across his various key writings. MacDonald, through developing an 'Adam Smith Tool Kit', evidences that advocates of NLP regularly present a false and misleading interpretation of Smith's writings. MacDonald goes on to highlight where Smith's writings can offer insights into how to reform modern economic systems.

Continuing this theme of how Smith has been referenced in political and policy debates in recent decades, Zachary Greene (Strathclyde), Jan Jasinski (Glasgow), Graeme Roy (Glasgow), Thomas Schober (Strathclyde) and Thomas Scotto (Glasgow) examine how Smith has been referred to in Hansard. Tracking the official record of debates in the House of Commons since 1919, the authors identify from over 18,500 debates all instances where Smith—and his two major books—are referenced in the Chamber. The contemporary relevance of Adam Smith is evidenced by the finding of over 700 such mentions. The authors examine the ebb and flow in tone and substance of references to Smith, finding evidence of appreciation among parliamentarians of all political persuasions for Smith's complex ideas. However, during the 1970s, and the 'adoption' of Smith by Margaret Thatcher and her supporters, the authors note the change to a more negative and 'ornamental' tone. In more recent years, this narrative has changed with a return to a more rounded view of Smith.

Sayantan Ghosal (Glasgow), in his essay 'Moral sentiments and self-interest in Adam Smith: two comments', focuses on two facets of the interplay between moral sentiments and self-interest, a key theme in Adam Smith's classic works, *The Theory of Moral Sentiments* and *The Wealth of Nations*. First, an interpretation of the so-called 'das Adam Smith Problem', an issue that was pointed out originally by nineteenth-century German scholars, is set out. Specifically, the argument is that self-interest, sympathy (interpreted as common knowledge of self-interest) and trust (interpreted as the enabler of coordination across self-interested agents) together constitute the moral sentiments that underpin the processes of mutually beneficial trade and specialisation that, in a commercial society (a 'society of strangers' in Smith's words), generates the wealth of nations. Second, the interplay of emotions and self-interest is examined, specifically how emotions impact of self-interest. Building on an insight of Smith on the association of shame and poverty in *The Theory of Moral Sentiments*, it reports on recent research that seeks to examine how emotions impact the perception of self-interest and, hence, behaviour in marginalised groups.

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