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Summary of *The Essential Adam Smith*

Author James Otteson walks us through the life of Adam Smith and encapsulates the legacy he left behind in *The Essential Adam Smith*. Smith was born in 1723 in Kirkcaldy, Scotland, where he learned Latin, mathematics, history, and writing. This led him to attend the University of Glasgow to study moral philosophy at the age of 14. Smith then moved on to his postgraduate studies at the University of Oxford; however, he felt unfulfilled and left school to become a public lecturer in 1746. He eventually returned to the University of Glasgow, where he became the head of moral philosophy. There, his lectures became the foundation for his first book *The Theory of Moral Sentiments*. After 12 years at Glasgow, Smith resigned and toured Europe as a tutor for a young British aristocrat, where he met many intellectuals such as economist Francois Kane who helped shape his views. He returned to Kirkcaldy in 1776 and dedicated the next ten years of his life to writing his most famous work, *The Wealth of Nations*, which remains one of the most influential pieces of literature. Today, Smith is known as the father of economics.

A key focus of Smith's was morality in *The Theory of Moral Sentiments*. Inspired by David Hume, Smith concludes that moral sentiments, or our perception of what is right and wrong, develop over time. These sentiments are primarily drawn from our interactions with others. As humans spend time around other humans, they begin to observe what is considered acceptable. Smith believed that the main driver behind one's morals is the desire to be seen by others as morally accountable. He also concludes that one's moral sentiments are also driven by

an impartial spectator or a conscience. The impartial spectator guides human behavior by informing us of how other people will interpret our behavior.

Another central idea of Smith's was labor specialization. Smith explains in *The Wealth of Nations* that dividing the work among a group of people, instead of having one person do all of the work, actually increases business productivity. In other words, having workers specialize in particular tasks results in a higher rate of production, which then leads to lower prices, which then results in a higher living standard for workers. Smith also points out that labor specialization can also lead to greater worker skills, higher levels of expertise, and innovation. Another aspect of Smith's analysis of the division of labor is market size. He observes that the ability of a business to produce more through specialization requires access to more consumers. To solve this problem, Smith recognized the importance of freer trade. Expanding markets to foreign countries allows workers to continue to specialize which again, reduces cost and increases prosperity. In conclusion, Smith believed that prosperity stems from labor specialization and freer trade, a theory that is still considered important today.

Smith also warns us about cronyism in *The Wealth of Nations*. Cronyism is when businesses receive special treatment from the government. Smith recognizes that businesses have an incentive to try to coordinate their efforts to avoid competing with each other. However, he refers to this tactic as useless, as new competitors can easily enter the market. Smith also realizes that businesses can lobby the government for protection. However, all of the protections only benefit the business at the expense of the consumer. Smith's solution for cronyism is open and competitive markets. This way, new and existing companies are free to challenge those trying to benefit from special privileges. Despite Smith's warnings, businesses today are still arguing for protections based on contradictory reasons.

In *The Wealth of Nations*, Smith also explores the role of government in a society. In doing so, he determines three key roles for the state to achieve a “well-governed society.” The first is external protection. This means that the state must protect its citizens from foreign aggressors. Secondly, the state must also protect its citizens internally, which calls for protection from aggression from other citizens. This includes a functioning court system. The third role is public works and institutions. Smith believes that the government must build and maintain public works and institutions including highways and other infrastructures. Smith also provides conditions for the government to be involved in public works and institutions. He requires that advocates for government action prove that private enterprise cannot provide public work and that the government action would benefit the entire society.

Smith's best-known idea is referred to as the Invisible Hand. This observation claims that individuals pursuing their interest to make a living benefit society by providing goods people need and want. However, some limitations come with this claim. Smith recognizes that this exchange of goods must be voluntary. Each individual that is involved in the exchange must have an “opt-out” option.

Days before Smith died, he asked his friends to burn all of his unpublished manuscripts, which consisted of 16 volumes. After Smith died in 1790, the world was only left with two of his publications. However, both *The Theory of Moral Sentiments* and *The Wealth of Nations* have provided us with an immense amount of valuable information that we still use today.