Adam Smith's economic legacy at 250

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The Smith we think we know

Markets. Self-interest.
The invisible hand.
Limited govt.

How much of Smith does that leave out?

What is left of him today?



Today

1. Smith's life and Glasgow
2. **Wealth of Nations**: progress
3. **Moral Sentiments**: sympathy
4. **Astronomy**: evolving explanations
5. Economics since Smith and his legacy

Smith’s life and Glasgow

The man behind the books

Born 1723

- A childhood in Kirkcaldy.
- University of Glasgow at fourteen.
- A student of the moral philosopher Francis Hutcheson.

A Glasgow education

The Old College on the High Street.

Philosophy, rhetoric and oral examination.



Oxford, 1740–46

Scholarship to Balliol College, whose professors had "…given up altogether even the pretence of teaching."

Wealth of Nations, V.i.f.8

A sharp contrast with his Glasgow education.

Back to Glasgow, some travel and finally Edinburgh

- 1751–64: UofG Professor of Logic, then of Moral Philosophy.
- 1764–66: European tour, tutoring the Duke of Buccleuch.
- 1767–76: **WN**, in Kirkcaldy and London.
- 1778–90: Customs Comm., Edinburgh.
- 1787–89: Rector of Glasgow University.

The happiest years

"…by far the happiest and most honourable period of my life."

Smith remembering his professorial years in Glasgow.

Letter to Principal Davidson, 16 November 1787

Two books, one essay

- 1776: **The Wealth of Nations**
- 1759: **The Theory of Moral Sentiments**
- 1740s(?) **The History of Astronomy**, a 'juvenile work'

(Of course, there is a lot more)

An Inquiry into the Nature and Causes of the Wealth of Nations

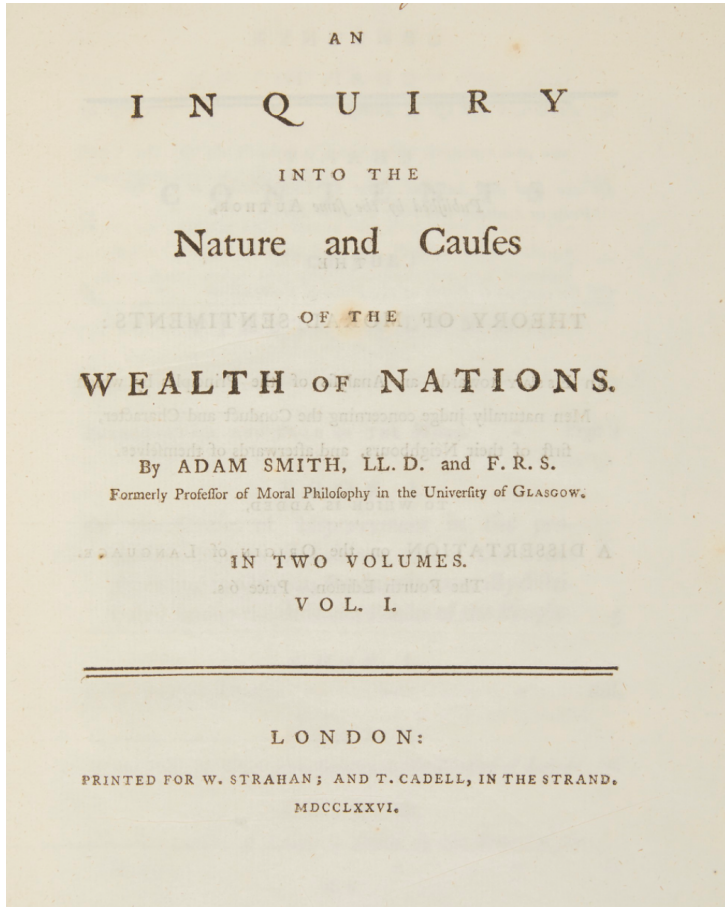
1776

The Wealth of Nations, 1776

What is wealth?

Gold and silver in the treasury?

Smith asks what people can produce and obtain through exchange.



AN

INQUIRY

INTO THE

Nature and Cauſes

OF THE

WEALTH OF NATIONS.

By ADAM SMITH, LL. D. and F. R. S.

Formerly Profeſſor of Moral Philoſophy in the Univerſity of GLASGOW.

IN TWO VOLUMES.

VOL. I.

LONDON:

PRINTED FOR W. STRAHAN; AND T. CADELL, IN THE STRAND.

MDCCLXXVI.

"Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniencies, and amusements of human life"

Wealth of Nations, I.v.1

Thus, we should ask what arrangement maximises production and consumption:

- Trade, exchange, capital, and natural liberty
- The sources of productivity
- Some **necessary** interventions

Trade

Good wine may be produced in Scotland but only at “about thirty times the expense for which at least equally good can be brought from foreign countries”

Wealth of Nations, IV.ii.15

Trade can make **both parties** better off.

Mutual benefit from exchange

"It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest."

Wealth of Nations, I.ii

The Wealth of Nations, 1776

Natural liberty

People can exchange, enter a new trade, change occupation and invest where they **see an opportunity**.

Monopoly privileges and barriers to entry obstruct that process.

The invisible hand

"by directing . . . industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention"

Wealth of Nations, IV.ii.9

Private, impersonal acts $\rightarrow$ overall gain

Interrupting that – by subsidy, quotas, and privileges – is thus costly

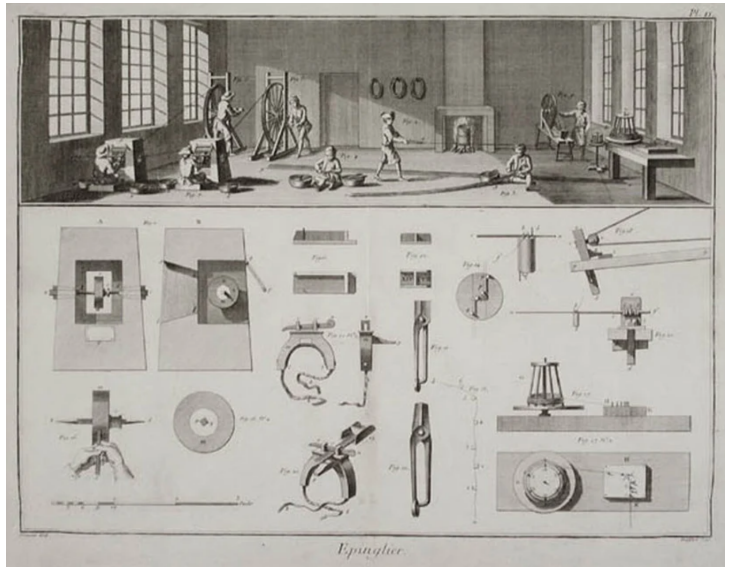
- "forcing some part of the industry of the country into a channel less advantageous than that in which it would run of its own accord".

Wealth of Nations, IV.iv.24

Productivity in division of labour

Specialisation is key

- Repetition $\rightarrow$ skill.
- Task switching $\downarrow$.
- Machinery augments



The same labour produces much more.

Government has work to do

But it is defined clearly in Smith's system:

- Justice makes exchange dependable.
- Roads and bridges widen markets, may not be provided privately.
- Banking regulations "to prevent the communication of fire".
- Schooling counters the mental costs of repetitive work.

How the parts fit together

- Division of labour is limited by the extent of the market.
- Better transport & free trade opens larger markets, supports more specialisation.
- Investment provides tools and supports workers while they produce.
- Security of exchange & justice sustain this

How the caricature takes hold

- Self-interest becomes selfishness.
- The conditions for markets to work well disappear.
- Smith becomes a mascot for “greed is good”.

This also disregards Smith’s other great book...

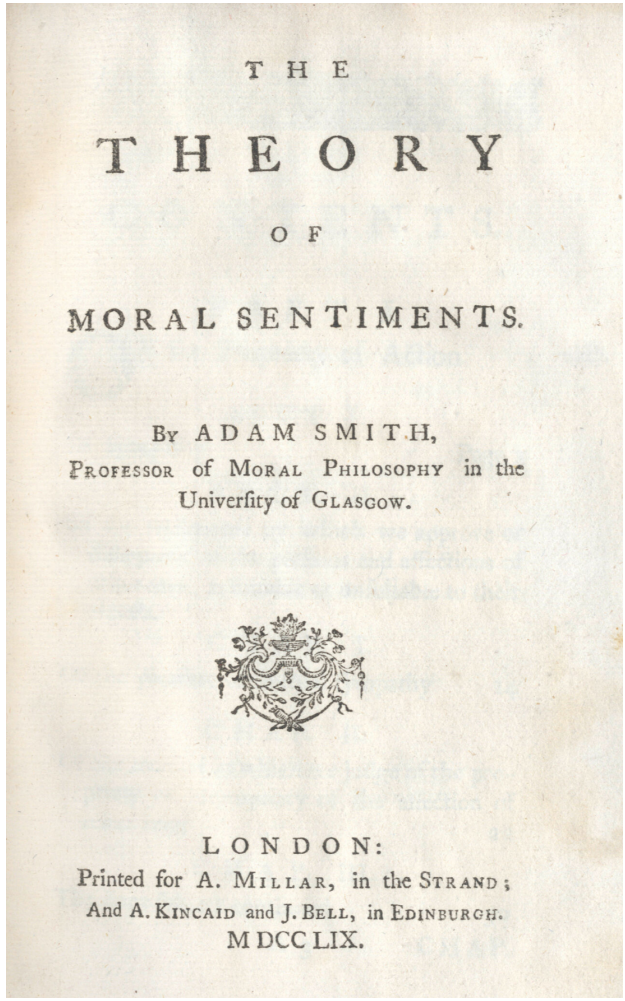
The Theory of Moral Sentiments

1759

Before the economics

How do we judge other people?

How do we learn to judge ourselves?


THE

THEORY

OF

MORAL SENTIMENTS.

By ADAM SMITH,
Professor of Moral Philosophy in the
University of Glasgow.

LONDON:
Printed for A. Millar, in the Strand;
And A. Kincaid and J. Bell, in Edinburgh.
M DCC LIX.

Sympathy: understanding others

"How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others…"

Theory of Moral Sentiments, I.i.1.1

Judging ourselves

What would a fair observer think of my behaviour?

The “impartial spectator” — the man within the breast — turns that judgement on ourselves.

Governing ourselves

"Man naturally desires, not only to be loved, but to be lovely…"

Theory of Moral Sentiments, III.2.1

We want approval — but also to deserve it.

Self-command helps us act on that judgement.

We can, however, mistake status for virtue.

Burns reading Smith

"O wad some Pow'r the giftie gie us
To see oursels as others see us!"

Robert Burns, **To a Louse** (1786)

‘Das Adam Smith problem’

Did Smith change his mind, or contradict himself?

One book about sympathy.

Another about self-interest.

Two incompatible views of human nature?

Particular German writers of the C19 drew attention to this apparent contradiction.

Some argued that Smith had changed his mind between the two books.

This became "Das Adam Smith Problem".

But note: Both books were revised over his lifetime

- 1759-1790: 6 editions of **TMS**
- 1776-1789: 5 editions of **WN**

We also discovered the some student manuscripts in 1876 and 1958

- These turned out to be lecture notes by Smith's Glasgow students of the 1760s

The same people inhabit both books

We can understand Smith thought that:

- We pursue our own interests, properly.
- We care about others & their judgement.
- Exchange depends on rules, justice & trust.
- Not all of that is formal.

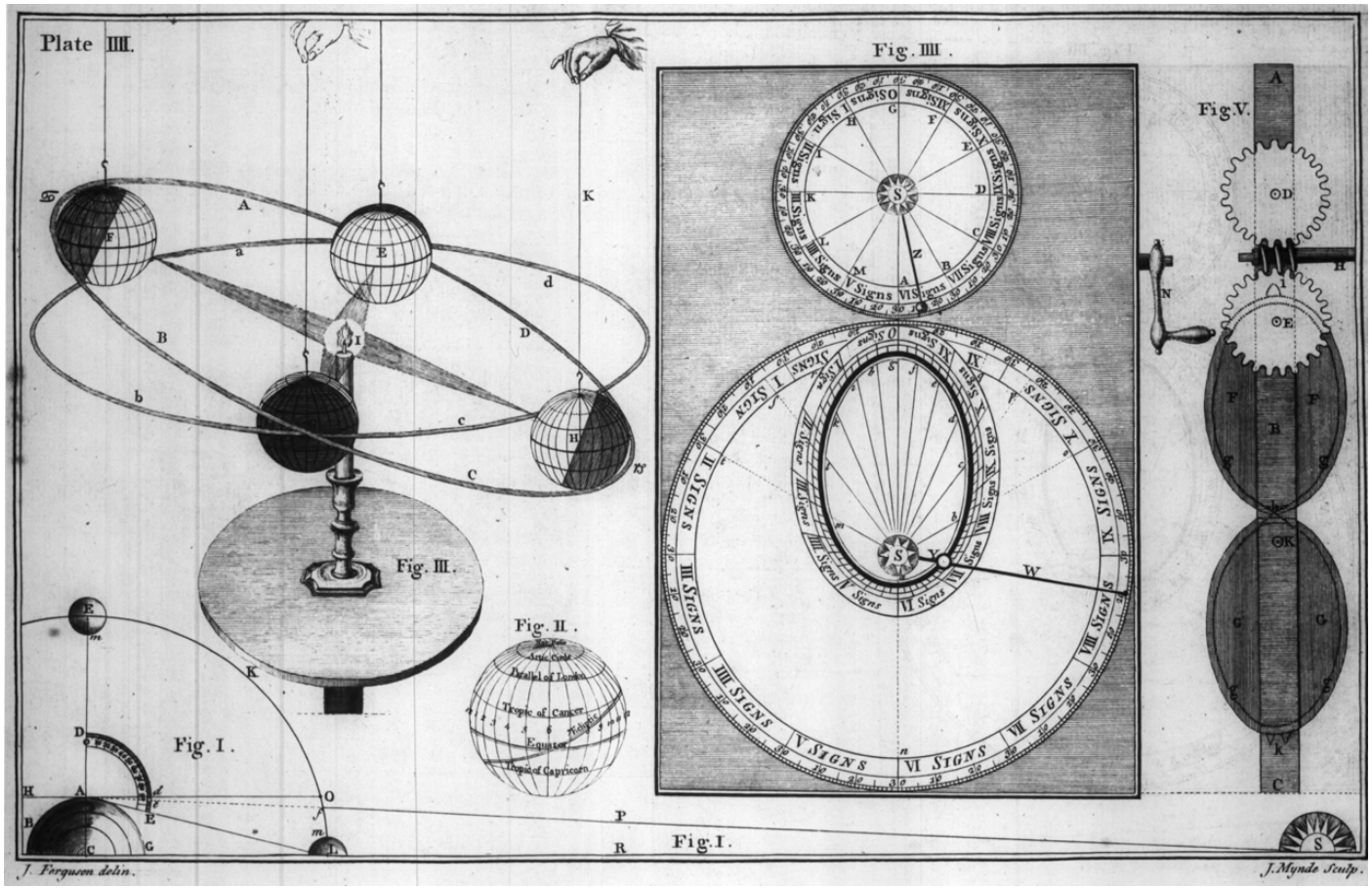
The History of Astronomy

Revisiting Smith's own economic system, by his own philosophy

Smith's philosophy of science

- He was interested in how astronomical systems evolved up to Newton
- No system is perfect; it should "soothe the imagination"
- When struck by surprises, we wonder how to change it

The heavens as a connected system



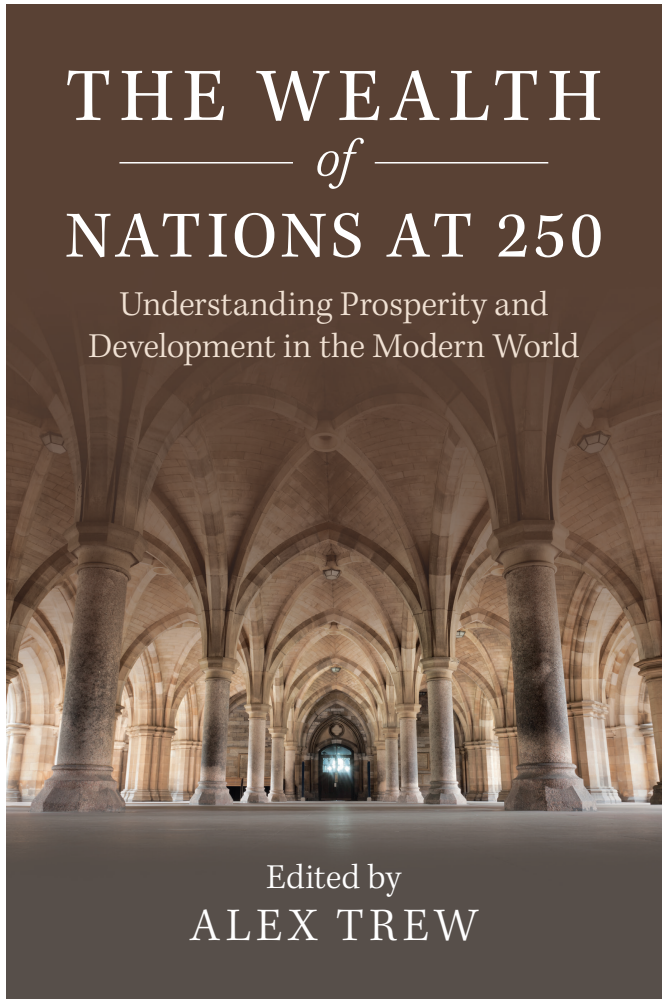
James Ferguson, **Astronomy Explained upon Sir Isaac Newton's Principles** (1756)

The Wealth of Nations at 250

Of Smith's economic system,

1. What survives?
2. What needs adding?
3. What remains contentious?

Forthcoming
Cambridge U Press ⟶



1. What survives

Henderson, Shaw-Taylor & Thisse (ch. 7): The extent of the market

Towns in England and Wales, 1817–1901.

- Falling transport costs encouraged specialisation.
- New industries and innovations spread between towns.

Gollin (ch. 8): A road is not enough

In sub-Saharan Africa today, many households remain poorly connected to markets.

Transport costs, weak competition, insecure property and limited insurance inhibit specialisation.

Qian (ch. 4): Agriculture and prosperity

Across countries and centuries, food surpluses have supported towns and industry.

But: Landholding, population and institutions shape who gains.

There is no single agriculture-first path.

2. What needs to be added

Galor (ch. 2): Escape from Malthusian trap to sustained growth

Explaining the world's escape from long-run stagnation:

- Innovation raises the value of education.
- Families invest more in fewer children.
- Income per person can keep rising.

Austin (ch. 3): Very different paths
Europe, Asia and Africa: different resources and different paths to development.

Allen (ch. 5): Ancient origins
The ancient Near East: specialised occupations thousands of years before extensive transport networks and states.

Humphries (ch. 6): Invisible hands of women and children

Britain's growth after 1650 depended on women's and children's work.

Paid work expanded production; unpaid care sustained the workforce.

Smith did not fully integrate care into his economic account.

Besley & Ghatak (ch. 9): Bringing WN and TMS together, and going further

In modern firms, workers, consumers and investors bring values into market choices.

Markets can connect people with shared purposes.

Values and economic institutions shape one another.

Becker (ch. 10): Religion and economics
Religion interacts with education, trust and economic incentives.

Gatsou & Sunde (ch. 11): Long-term orientation
Longer lives and secure returns can encourage investment in the future.

3. What remains contentious

Zhu (ch. 12): Between the Grabbing Hand and the Invisible Hand

Room for bottom-up policy innovation was crucial in China's development.

Rodrik (ch. 13): What the mercantilists got right

East Asian industrialisation: public action can help new productive activities emerge.

Voth (ch. 14): Conflict and colonialism

Britain's rise: war built state capacity; colonial trade and slavery profits supported investment.

Voth challenges Smith's assessment of empire.

Whose wealth grew — and at whose expense?

We are still working on it

Further reading

Smith himself

Wilson and Skinner (eds.), 1976, **The Market and the State**

A short introduction

Craig Smith (2020), **Adam Smith**

Modern perspectives

Alex Trew, ed. (2026), **The Wealth of Nations at 250**

Two shorter reads

Recently in **Economics Observatory**:

- How did Adam Smith think about the world?
- How has economics changed since Adam Smith?

Questions