

Joseph Nicholas

English 1100/A

Introduction to Composition

Professor I. Bodre

October 15, 2018

The First Economist and How he Changed the World

Adam Smith is one of the most influential people in the world today. As a figure of the Scottish Enlightenment period, he was more of a moral philosopher than an economist. Smith is best known however, for being the first theorist of what is known today as capitalism. Despite being a polarizing figure and having many critics of his theory of economics, he laid the ground work for a classical free market (an unregulated system of economic exchange) that many nations would use to establish their economies with concepts such as the division of labor, rational self-thought, and competition. Adam Smith's plan as to how to establish such an economy was to introduce the importance of morality and economic exchange. Before his death on July 17, 1790, Smith believed that this plan of action was how to create a truly prosperous nation and it's possible that he may have been correct in his position.

Ideas Adam Smith proposed were concepts that I had never heard of before until I became a teenager. An economic system that would help create successful economies centuries later was apparently not important enough to dwell upon in the schools I attended. I would always come across terms such as "communism" and "socialism" and even the ideas of Karl

Marx, another economist of which many people would vehemently reject his themes in his works, but not once had I had a lesson about the importance of Adam Smith. So how did I come across Adam Smith? I had come across Smith from a moment of deep thought. Some people would say that the United States was under a capitalist system, well what was capitalism? When I began to understand what capitalism was, I began to wonder what its effects in society were? Where did capitalism originate from? Who proposed the ideas of capitalism? I finally acted upon my thoughts and began to read as to who was Adam Smith. I read his books, watched documentaries about him, but most importantly I researched how capitalism has affected other nations and, in the end, I became thankful that I live in a nation that derives its economic policies from the first economist.

Adam Smith was born in Kirkcaldy, Fife, Scotland, on June 5, 1723. Not much is known about his childhood but, at 14, he entered the University of Glasgow. During his time in Glasgow, he met Francis Hutcheson, a famous professor of moral philosophy who helped in Smith's development. Smith began to take an interest in moral philosophy and continued his education in Balliol College, in England, which he did not find to be as stimulating as Glasgow. Most of his time in Balliol College was spent on self-study. (adamsmith.org Accessed 12 October 2018) However, despite this unstimulating period in his life, he began to read the works of David Hume; one of the most important figures of the Scottish Reformation who proposed how humans can grow in character without the help of God. (youtube.com Accessed 24 October 2018) Smith would later leave Balliol College and thanks to a jurist and philosopher, Lord Henry Ford, Smith was able to give public lectures in Edinburgh ranging from history to economics, which made an impression on many of Smith's contemporaries. In 1751, at the age of 27, Smith returned to Glasgow as a professor of logic and then a year later he transferred his post to

become a professor in moral philosophy; which covered natural theology, ethics, jurisprudence, and political economy. Smith would call this time in his life “by far the happiest, and most honourable period of my life.” (Britannica Accessed 12 October 2018) Smith would meet many figures such as Joseph Black, a pioneer in the field of chemistry, David Hume in the flesh, and Andrew Cochran, the founder of the Political Economy club. Smith also met merchants who were partaking in the colonial trade (which opened to Scotland following its union with England in 1707) along with members of aristocracy and government. The merchants and Cochran gave Smith the knowledge of trade and business in the real world which would then start his writing career. (adamsmith.org Accessed 12 October 2018)

Smith’s writing career began in 1759 when he published his first work, *The Theory of Moral Sentiments*. Themes presented in the book is that our moral ideas and actions are a product of our very nature as social creatures. He regarded that as individuals, we tend to look after ourselves as a sign of our prudence. He said that despite this, we should learn how to live with one another without doing each other harm. If people do good (defined as beneficence), it is welcomed but cannot be demanded as strongly as justice. In the book, Smith writes that the most important ideal is that any impartial person can fully empathize with our actions and emotions which requires self-command and what he deemed as true virtue. At the end of his book, he defines a virtuous person; someone who pursued justice, did performed deeds, empathetic, and someone with the ability to not only look after himself/herself, but look after others avoiding any form of violence. (adamsmith.org Accessed 12 October 2018)

The concept of a virtuous person was his way of tackling human nature. The main goal of establishing a person such as Smith’s archetype was to establish trust in society. Instead of using religion and the wrath of God to propose the importance of a good person, Smith focused on

relating his archetype to the importance of the free market. When we exchange goods and services with other people, we put our trust into them in the hopes that it would become a useful investment, such as putting our trust into a baker that his product will be good. Due to people doing business with others by exchanging goods and services, it becomes a plausible way of generating wealth. Parts of a worker's income can be divided into categories such as bonuses, or money others owe you. However, most of a worker's income comes from the employer and other people trusting the worker to get a task completed. (forbes.com Accessed 25 October 2018)

There is also the question as to how this virtuous person is developed. The answer lies in how we act in society. We were born in a society that rewards and praises good deeds and denounces bad actions. People want to be liked and by interacting society, we see how people in society react to our actions, thus putting people on a moral path to be a good person. (youtube.com Accessed 24 October 2018) Thus, Adam Smith believed that before nations could establish a successful economy, the ability for it to work falls on the people and the idea of a virtuous person was Smith's example as to who people would want to do business with in order to create wealth.

Smith's "magnum opus" he would write in 1776, *An Inquiry into the Nature and Causes of the Wealth of Nations*. In his book, Smith would argue that regulations on commerce are ill-founded but most importantly, counterproductive. At the time in Scotland, a popular view was that because gold and silver were extremely valuable, countries should boost exports and resist imports in order to maximize the metals' wealth. Smith argued that a nation's wealth comes from the stream of goods and services that nation produces (which is now modernly known as GDP) and that to maximize it was not to restrict that nation's productive capacity, but to instead set it free. (adamsmith.org Accessed 12 October 2018) Smith felt that the capacity of the production of goods rested on the division of labor; which is to break down any task into small, individual

tasks that could be taken care of by a specialist. Specialists would then be left with a surplus that could be exchanged with others or invested. With a surplus, we also accumulate capital which we can use to afford labor saving equipment, thus making labor more efficient. In addition, Smith also said that specialization in economics in that nations should only do what they are good at. When nations try to produce a good or service that is extremely difficult and costly to produce, compared to a nation that can do produce it easily, it becomes self-harming to both nations. To remedy this, Smith argues that nations should, instead, trade their products. Smith's most important and prevalent theme in the book is the role of the government. Smith said he is critical of government because the government thinks they are better at direct production than the market when they intervene in production. Smith explains that when it comes to accumulating capital, the government should allow people to gain capital to enjoy what it can provide, and the government should refrain from taxation because it would eat away at a nation's capital.

(adamsmith.org Accessed 12 October 2018)

Capitalism has been followed in many nations, cities, and communities. It's also possible to say capitalism can lift those communities from the depths of poverty and turmoil. One such example is China, specifically Hong Kong. Right after World War II and Japanese occupation, Hong Kong's income was a third of the United Kingdom. (capx.co Accessed 25 October 2018) What was left of Hong Kong was vast number of refugees who fled from the Chinese Civil War (1927 – 1936 and 1946 –1950), and a large harbor of which became a community where everyone lived in small boats and trash littered the streets. Back in the 1960's no one could have believed how China would go from one of the poorest nations in the world, into a nation with the second highest nominal GDP. (youtube.com Accessed 24 October 2018) It was all thanks to a simple Scotsman, Sir John Cowperthwaite; a devotee of Adam Smith. Sir John implemented

Smith's economic theories into practice. Cowperthwaite became Hong Kong's Financial Secretary from 1961 – 1971 and during that time, he preserved a regime of low taxes and budgetary surpluses that were proposed by previous secretaries but strongly restricted government in economic affairs through his vigor and deep commitment to his beliefs. The market was left to be free and after his tenure, he made sure to handpick his successor Phillip Haddon-Cave who was the financial secretary from 1971 – 1981. (capx.co) Accessed 24 October 2018 Even before Phillip's tenure was over, the positive results were apparent as Hong Kong's GDP increased from \$3380.60 in 1961 to approximately \$10,000 in 1980 and continued to increase from there. (tradingeconomics.com Accessed 25 October 2018)

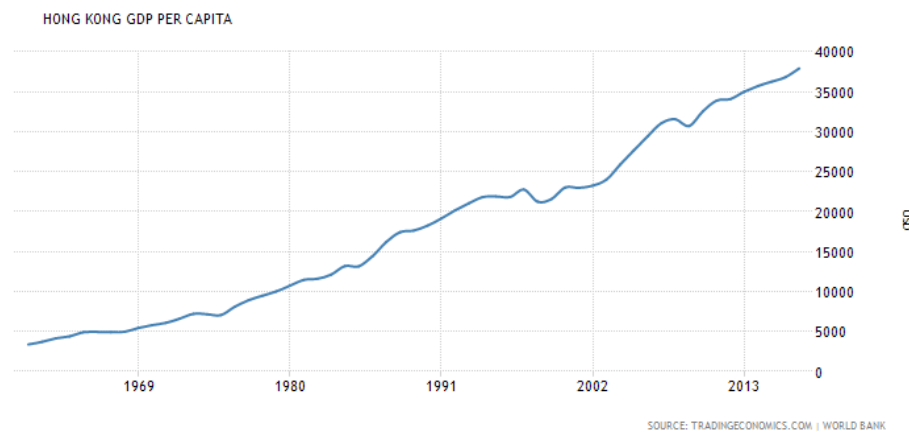


Fig 1. Hong Kong's GDP per capita steadily increased after Sir John's tenure and continued to increase where it continued to increase long into the 21st Century. Hong Kong GDP Per Capita (2 October 2018; tradingeconomics.org; Web; 25 October 2018)

Adam Smith's theories in economics have become an important step in creating successful economies. While not all his ideas and teachings are followed, to some extent, they are present in modern day economics as seen with Hong Kong. Smith's first work introduced the

idea of a virtuous person, and how while we are not fully aware of it, we do strive to be this archetype because we desire to be good people worth of praise. This allows us to have trust in others when we exchange goods and services because the archetype is described as someone who can be trusted. His second work introduced the idea of a limited government, where not only nations would be able to flourish, but increase their productivity. Smith used his knowledge he gathered from Cochrane and the merchants to argue against government regulation in trade and production in hopes to create stronger economies, not only for individual nations, but also for the global economy. Smith's legacy gave birth to the beginning of modern-day capitalism, where his work and teachings I would hope to see followed, implemented, and improved on for centuries to come.

Works Cited

Harford, Tim. "The Economics Of Trust." *Forbes*, Forbes Magazine,

13 July 2012, www.forbes.com/2006/09/22/trust-economy-markets-tech_cx_th_06trust_0925harford.html#1bbd48752e13. Accessed 25 October 2018

Heilbroner, Robert L. "Adam Smith." *Encyclopædia Britannica*, Encyclopædia Britannica, Inc.,

28 Sept. 2018, www.britannica.com/biography/Adam-Smith. Accessed 12 October 2018

"Hong Kong GDP per Capita 1961-2018 | Data | Chart | Calendar | Forecast." *Hong Kong GDP*

per Capita | 1961-2018 | Data | Chart | Calendar | Forecast,

tradingeconomics.com/hong-kong/gdp-per-capita. Accessed 25 October 2018

Network, Free To Choose. "The Real Adam Smith: Ideas That Changed The World - Full Video."

YouTube, YouTube, 28 Mar. 2016, www.youtube.com/watch?v=8ruiUOQERnw.

Accessed 24 October 2018

Network, Free To Choose. "The Real Adam Smith: Morality and Markets - Full Video."

YouTube, YouTube, 28 Mar. 2016, www.youtube.com/watch?v=V6S6pMsKzII.

Accessed 24 October 2018

"The Theory of Moral Sentiments." *Adam Smith Institute*,

www.adamsmith.org/the-theory-of-moral-sentiments/. Accessed 12 October 2018

"The Wealth of Nations." *Adam Smith Institute*, www.adamsmith.org/the-wealth-of-nations/.

“History - Scottish History.” *BBC*, BBC,

www.bbc.co.uk/history/scottishhistory/enlightenment/features_enlightenment_enlightenment

[2.shtml](#) Accessed 12 October 2018

Tupy, Marian L. “The Man behind the Hong Kong Miracle.” *CapX*, CapX,

24 Aug. 2017, capx.co/the-man-behind-the-hong-kong-miracle/. Accessed 25 October 2018