

# The Wonderfully Paradoxical World of Adam Smith

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- **Something about Smith & His World**
- **Standard View of Smith & Its Problems**
- **Smith on Wages**
- **Smith on Usury & Bentham's Critique**
- **Summary & Conclusion**

# Some Facts about Smith

- Born in Kirkaldy, near Edinburgh, June 16, 1723
- Bumbling & Absent-Minded (Heilbroner, WP)
- Studied Moral Philosophy, Maths & PE at Glasgow, & then Oxford
- Chair of Logic at Glasgow (1751) & Chair of Moral Philosophy, starting 1752
- Main Works: TMS (1759) & WN (1776)
- Charles Townsend, after reading TMS, got Smith to tutor his stepson, the Duke of Buccleuch

# The World During Smith's Life

- (1) Almost No Economic Growth
- (2) Little or No Inter-Generational Mobility
- (3) Bad Harvests Led to Starvation for Many
- (4) Most Babies Died before Age 5
- (5) Survivors were Stunted, Illiterate & Sickly
- (6) High Poverty & Disability (Inability to Work)
- (7) Very Beginning of Capitalism



**What Do You Know About or  
Think about Adam Smith as an  
Economist?**

# **The Popular View of Adam Smith**

**Free market or “invisible hand” would solve all economic problems**

**Policy Solution was laissez-faire-- keep the government out of the market and people’s business**

**This would lead to improvements in standard of living and greater freedom for all**

# Smith on the Role of Government

**Opposed monopoly & mercantilist trade restrictions**

**Bk V.1 focuses on public policies to combat poverty & illiteracy**

**Supported higher wages and greater equality**

**Bk V.2 supports taxing rents, the wealthy and progressive taxation**

**Opposed forced labor- apprenticeships, slavery, sharecropping (Bk III.2)**

**He supported public regulation of paper money (Bk II.2)**

**He supported public health measures by the government (272)**

**Supported requirement party walls to prevent spread of fire (307)**

**Supported ceilings on interest rates**

# Smith on Wages

Smith Cared about Poor & Average Worker

**WN focused on Functional Distribution of Income**

**Market Price & Natural Price; 3 theories of income**

**Natural Wage is Subsistence and Gravitational Force**

**Problem- How Does Division of Labor Increase Wealth?**

**Solution- Natural Wage is Socially Determined**

**This doesn't really solve the problem**

# Smith on Usury

- Middle Ages-- charging interest prohibited
- Protestant Revolution-- limits on interest?
- *Lectures on Jurisprudence* (1763, p. 220) makes case in terms of natural & market interest rates
- Smith supported interest rate limits (“around 5%”)
- Greater than natural price
- Would allow lending to poor without long-run harm from debt



# Bentham on Usury

Bentham (*Defense of Usury*, 1787) criticized Smith

(1) Black Markets

(2) Failure to Lend Hurts the Poor

(3) Businesses (Source of Economic Growth) Would Be Hurt

(4) Crime Would Rise

(5) Poor Know Their Interests Better than Politicians

(6) People Would Distrust of Government & Laws

**Doesn't Seem Smith was Convinced**

# Summary and Conclusion

**Smith was not the free market economist he is usually made out to be.**

**He supported higher wages, but didn't see how to achieve this. Division of labor doesn't do it. Nor does a social subsistence wage.**

**His support of interest rate ceilings offers a solution. Despite Bentham, Smith unconvinced that markets should determine the price of money.**

**Parallel case for labor-- government support of minimum wages, labor unions & child allowances.**

**Thank you for paying attention and putting up with me!!**

