

THE PRICE OF FREEDOM

Adam Smith's free-market economic theories may be more than two centuries old, but we still have much to learn from him, Jesse Norman MP tells *Alec Marsh*

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. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages.'

Published in the year of the declaration of American independence, these words are among the most famous phrases in the history of economics; words so majestic, powerful and authoritative, that it's not going too far to say that Adam Smith's magnum opus, *The Wealth of Nations*, is to economics what the King James Bible is to God.

Just as Isaac Newton discovered gravity, so Smith, the sage of Kirkcaldy and giant of the Scottish Enlightenment, was the first to identify and connect a series of profound truths about the way our society is arranged and interacts economically. He did this by employing a Newtonian approach: he followed the money, so to speak – observing the human 'propensity to truck, barter and exchange' – and in so doing explained how the combined effect of the enlightened self-interest of the mass of all humanity, that 'invisible hand', is the mainspring of our collective wealth. All it took, he stated, was 'peace, easy taxes and a tolerable administration of justice' and the rest came naturally.

The fulcrum of this exchange is markets, and free markets at that; not free in a laissez-faire or what David Cameron might have characterised as a 'swivel-eyed' way, but free in the sense that they are free from corruption and cronyism, and free as in free-moving and free from hindrance.

Smith also made clear that the market is the route to greater wealth, too, because deeper, bigger markets allow for even greater divisions of labour, which in turn makes us more productive. 'Men are much more likely to discover easier and readier methods of attaining any object,' he

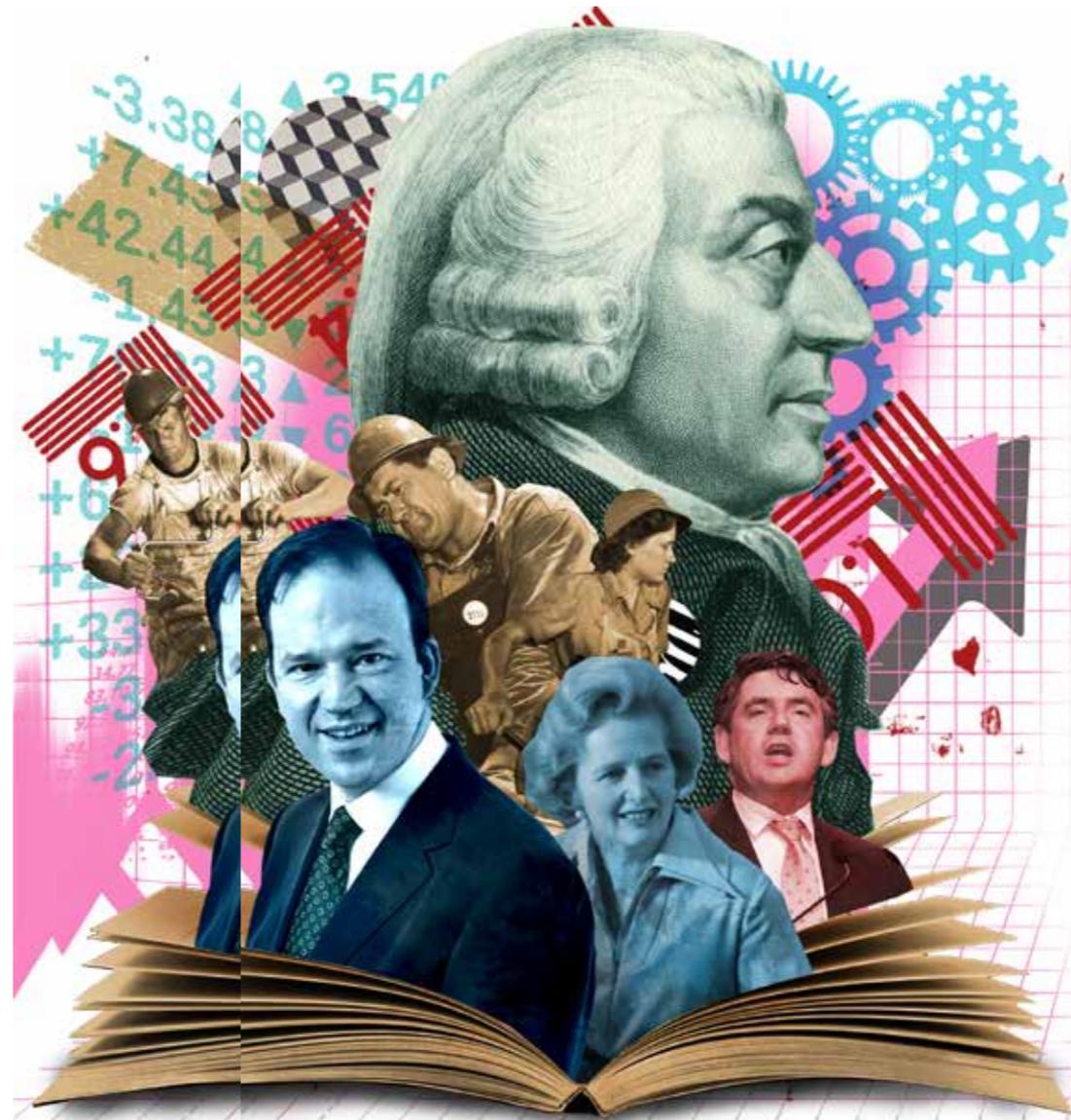
wrote, 'when the whole attention of their minds is directed towards a single object.' Drawing on the example of pins, he noted that someone working daily on the entire process would struggle to make 20 in a day, whereas ten people employed in specific parts of the process could together make 48,000 daily. 'The division of labour... so far as it can be introduced, occasions, in every part, a proportionable increase in the productive power of labour.'

Page after page, *The Wealth of Nations* just keeps delivering – which helps explain why people are still mad about Smith, and why he's never really gone away. There is, after all, the Adam Smith Institute – the neoliberal think tank beloved of Margaret Thatcher and Keith Joseph; Gordon Brown was a self-proclaimed Smithian and mentioned him almost without cease; and the great man's profile has adorned £20 notes south of the border – all two billion of them – since 2007. And, apparently, his work is not done yet.

ECONOMIC ROAD MAP

'There are a whole raft of areas where we either have more to learn from Smith or where we have actively unlearned the lessons of Smith,' insists Jesse Norman, the Conservative MP and author of the well-received *Adam Smith: What He Thought and Why It Matters*. When we meet in his office at the Department for Transport, Norman, whose day job is overseeing the nation's roads, explains that we need Smith in our lives more than ever – which is why he wrote the book.

The prime reason is that capitalism is experiencing something of a PR problem, and Smith can help: 'What Smith implies is that capitalism isn't what really matters,' says the MP, whose previous works include a biography of Edmund Burke. 'What really matters is that we should live in what he calls commercial society.' That's the free-market society that



Smith observed in the 18th century in which 'every man is, as it were, a merchant and lives by exchanging'.

'That's a society we recognise,' says Norman, 'and the reason it matters is because capitalism does not have any accompanying theory of legitimacy about it. Capitalism is what it is – it's just markets. Commercial society has a theory of legitimacy – everyone in society, because it's a society, has to do better. So if there's embedded, persistent failure of people to do better, then the system isn't working and the state, as the ultimate guarantor of that system, has got to take steps to ensure the system does better.'

In particular, the crux of the system is the market – or

rather, as Smith makes clear, the hundreds of individual markets relating to each and every commodity or service. For Norman, what he calls the 'haircuts and hamburgers' markets 'work beautifully' and 'really don't need any intervention'. But he warns that asset markets – where 'there's bid-offer prices, the entities don't destruct, and of course there are specific channels which can create exuberance and cause them to crash' – are clearly a different kettle of fish. So are digital markets, says Norman, who says of Amazon that 'it's not obvious that you couldn't apply a break-up' with UK, German and US companies obliged to compete with each other (following the line of the Sherman Act of 1890).

'One of the reasons why financial markets failed in 2008 was because people weren't clever enough about thinking about the difference between financial markets and other markets,' states Norman. 'They applied free-market orthodoxy that had arisen perfectly reasonably in the context of hamburger and haircut markets to financial markets, assets markets, derivatives – and to property, another real asset market, but with different characteristics. Result,' he pronounces: 'Catastrophe.'

REGULATION BEHAVIOUR

The lesson he draws from Smith, therefore, is not less government, rather it's better government – and better regulation of markets to ensure an equitable outcome. Pointing to our utility markets, 'some' of the financial markets and 'technology platforms', Norman says: 'At some level these are highly beneficial to users, but they're also very inside-driven and highly potentially exploitative – and that's a serious problem and Smith has the answer to that.'

The bedrock of Smith's understanding was that labour was the 'real measure of the exchangeable value of all commodities'. This directly informed his understanding of price theory. 'Market price,' wrote the sage, 'is regulated by the proportion between quantity which is actually brought to market and the demand of those who are willing to pay the natural price,' and is therefore ultimately self-regulating in well-administered, fair markets free of corruption. Critiquing what we would now call crony capitalism and anti-market activities, he added: 'The price of monopoly is upon every occasion the highest which can be got. The natural price, or the price of free competition, is the lowest which can be taken.'

Young first-time buyers looking for a home in Britain right now, or the workers who didn't (as Norman is only too happy to point out) see an increase in real income for 13 years, would be right to wonder if Smithian principles were being thoroughly applied. Certainly it strikes this big-thinking MP, one who might properly be regarded as a public intellectual, that they are not. 'Politicians don't think enough about basic principles,' he asserts. We'll have to see if Norman's book will make any difference on that score. He says he'll give a copy to Theresa May, which is a good start. But perhaps it would be wiser to give one to John McDonnell. If he read it, the world might be a safer place. ●