

Adam Smith Steps Up to the Plate



KIRKCALDY LIES IN THE KINGDOM OF FIFE along the coastal road between Edinburgh and St. Andrews. I had a chance to visit there recently, when both my children decided to spend a semester studying in Scotland.

It was my first trip to that country, and as taken as I was with the beauty of the Trossachs, the sophistication and vibrancy of Edinburgh, and the historical charm of St. Andrews, my brief visit to Kirkcaldy also left a lasting impression, for it inspired me to become reacquainted with the writings of its most famous resident, Adam Smith.

What first surprises about Smith's work is how modern it is. Writing at the dawn of the industrial revolution and before the American War of Independence, he clearly and concisely laid out the concepts of the division of labor, the laws of supply and demand, the relationship of price to wages, rents and profit, and the role of money as a measure of value. A person of the 21st century who studied just one text, Smith's *Wealth of Nations*, would be well prepared to understand and intelligently discuss many of today's key economic issues.

Consider some of his insights. With regard to a global economy, Smith wrote that "the discovery of America and that of a passage to the East Indies by the Cape of Good Hope, are the two greatest and most important events in the history of mankind." The ease with which goods can be manufactured in Korea and sold in Charlotte would not have been much of a surprise to Mr. Smith.

With regard to commercialism and advertising, he observed that shopkeepers and tradesmen "may sometimes decoy a weak customer to buy what he has no occasion for . . . (but) this evil is of too little importance to deserve the public attention . . . for it is not the multitude of alehouses that occasion a disposition to drunkenness, but a disposition arising from other causes that gives employment to the multitude of alehouses."

With regard to issues of corporate governance, he would likely not be overly surprised with misdeeds of corporate executives from companies like Adelphia, Enron, Imclone, Tyco, and Worldcom for he understood that corporate leaders "are an order of men who generally have an interest to deceive and oppress the public and have done so on many occasions."

In fact, Smith's genius is not so much in the mathematical formulas he produced but in his understanding of how

human behavior shapes those equations. In his *Theory of Moral Sentiments*, a book some consider the equal of *Wealth of Nations*, Smith explores why mankind is drawn to be acquisitive,

how we acquiesce to social rank, even to the extent of accepting institutions of social inequality, and how self-deceit "is the source of half the disorders of human life."

As impressive as these insights are, I wondered how Smith's ideas would translate to great, contemporary issues that have no direct parallel in 18th-century life. How, for instance, would the father of conservative economics tackle the recurring problems in the world of Major League Baseball?

Here's an industry where the employees are young (in their 20s and 30s), work less than eight months a year, earn upwards of \$2 million in average annual salary, and are sufficiently discontented with their lot in life to strike, or threaten to do so, every several years.

Despite the fact that no self-respecting Scotsman would credit baseball as a real sport (like soccer or rugby), Smith's ideas once again prove to be instructive. He observed

- "The whole produce of labor does not always belong to the laborer. He must in most cases share it with the owner of the stock which employs him;"

- Some labor is productive (i.e., it adds to wealth) and some is not, and the class of unproductive labor includes "some of the most important and some of the most frivolous professions: churchmen, lawyers, physicians, men of letters, players, buffoons, musicians, singers and dancers." And, one would assume, athletes.

- "When by an increase in the effectual demand, the market price of some particular commodity happens to rise a good deal above its natural price, those who employ their stocks in supplying the market are generally careful to conceal the change."

Given the opportunity, one can imagine Smith advising the owners and players of Major League Baseball in this way: "Play nicely, boys. Divide your profits fairly, but for goodness sake, keep it quiet, lest those farmers and factory workers who pay to see you play realize how much is being spent on labor so unproductive."

Economic issues are on our minds daily, as we try to make sense of the dizzying gyrations of the stock market, monetary crises in South America, and the effects of terrorism on global trade. Just as in religion and literature, spending some time with the classics can provide a steadying force in a turbulent sea.

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