

Chapter 1



How Adam Smith Can Change Your Life

What is the good life? Religion, philosophy, and modern self-help books grapple with the question, but the answer is elusive. Does it mean being happy? Or is it about wealth and professional success? What role does virtue play? Does the good life mean being good? Does it mean helping others and making the world a better place?

Two hundred and fifty years ago, a Scottish moral philosopher addressed these questions in a book with the unglamorous title *The Theory of Moral Sentiments*. The book was Adam Smith's attempt to explain where morality comes from and why people can act with decency and virtue even

when it conflicts with their own self-interest. It's a mix of psychology, philosophy, and what we now call behavioral economics, peppered with Smith's observations on friendship, the pursuit of wealth, the pursuit of happiness, and virtue. Along the way, Smith tells his readers what the good life is and how to achieve it.

The book was a success in its day. But today *The Theory of Moral Sentiments* is virtually forgotten, dwarfed by the reputation Smith achieved with his second book. That book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1776, made Adam Smith forever famous and gave birth to the field of economics. While few people still read *The Wealth of Nations*, it's undeniably a famous book, a classic. Fewer still read or have even heard of Smith's other book, *The Theory of Moral Sentiments*.

For most of my career, I hadn't read it either. That's a bit awkward for an economist to confess. You'd think I would have read both major books by the founder of my field. But until recently, I knew very little about *The Theory of Moral Sentiments*. In fact, for most of my career, I never heard anyone mention Smith's other book, the not-famous one, the weird one with the daunting title that didn't sound like it had much to do with economics.

My relationship to *The Theory of Moral Sentiments*

changed when my friend Dan Klein at George Mason University suggested that I interview him about it on my weekly podcast, *EconTalk*. I agreed, thinking it would get me to finally read the book. I did at least own a copy—I had bought it maybe thirty years earlier, thinking that an economist should at least *own* both of Adam Smith’s books. I took it down off my shelf, opened the book to the first page, and began reading.

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.

Forty-two words. A long sentence by modern standards. I had to read Smith’s opening sentence twice before I understood what he was saying: that even though people can be pretty selfish, they do care about other people’s happiness. Makes sense. I kept reading. I read the first page. Then the second page and the third. I closed the book. A second confession—I had no idea what Smith was talking about. The book appeared to begin in midstream. Unlike *The Wealth of Nations*, which is delightful and engaging prose from the get-go, *The Theory of Moral Sentiments* is very slow

going. I had a moment of unease—maybe I shouldn't have agreed to the interview. I wasn't sure I could figure out what this book was about. I was going to embarrass myself. I thought of asking Dan to cancel.

I pressed on, hoping to find my footing. I started over. Eventually I began to get a feel for what Smith was up to. A third of the way in, I was hooked. I lugged it to my daughter's soccer games and devoured it at halftime and when my daughter wasn't playing. I started reading excerpts out loud to my wife and kids at the dinner table, hoping to get them interested in Smith's ideas about how to relate to others. The margins of the book began to fill up with stars and exclamation points marking passages I had enjoyed. By the time I finished the book, I wanted to shout from the rooftops—it's a marvel, a hidden gem, you've got to read it!

The book changed the way I looked at people, and maybe more important, it changed the way I looked at myself. Smith made me aware of how people interact with each other in ways I hadn't noticed before. He dispenses timeless advice about how to treat money, ambition, fame, and morality. He tells the reader how to find happiness, how to treat material success and failure. He also describes the path to virtue and goodness and why it's a path worth pursuing.

Smith helped me understand why Whitney Houston and Marilyn Monroe were so unhappy and why their deaths made so many people so sad. He helped me understand my affection for my iPad and my iPhone, why talking to strangers about your troubles can calm the soul, and why people can think monstrous thoughts but rarely act upon them. He helped me understand why people adore politicians and how morality is built into the fabric of the world.

And even though he's the father of capitalism and wrote the most famous and maybe the best book ever on why some nations are rich and others are poor, Adam Smith in *The Theory of Moral Sentiments* wrote as eloquently as anyone ever has on the futility of pursuing money with the hope of finding happiness. How do you reconcile that with the fact that no one did more than Adam Smith to make capitalism and self-interest respectable? That is a puzzle I try to unravel toward the end of this book.

Besides the emptiness of excessive materialism, Smith understood the potential we have for self-deception, the danger of unintended consequences, the seductive lure of fame and power, the limitations of human reason, and the unseen sources of what makes our lives both so complex and yet at times so orderly. *The Theory of Moral Sentiments* is

a book of observations about what makes us tick. As a bonus, almost in passing, Smith tells us how to lead the good life in the fullest sense of that phrase.

The details of Smith's own life are fairly mundane. He was born in the village of Kircaldy, Scotland, in 1723. His father died a few months later. At the age of fourteen, Smith went off to school at the University of Glasgow, then Oxford, returning to lecture at the University of Edinburgh before being appointed at the University of Glasgow in 1751, as a professor first of logic and then of moral philosophy. His mother and unmarried aunt joined him in Glasgow at the house provided by the university. In 1763 he left academic life for a more lucrative job tutoring the wealthy young Duke of Buccleuch.

This must have been a rather dramatic change of pace for the forty-year-old Smith, giving him an intimate look at the lifestyles of the rich and famous of his day. For two and a half years, Smith traveled in France and Switzerland with the boy and, along the way, met some of the great European intellectuals of the time, including Voltaire, François Quesnay, and Anne-Robert-Jacques Turgot. After returning from Europe, he spent the next decade in Kircaldy and then London, working on *The Wealth of Nations*.

In 1778, Smith moved from London to Edinburgh to live with his mother and several cousins. That same year he was

appointed one of the five commissioners of customs in Scotland, leading a bureaucracy that sought out contraband and collected duties, or what we now call tariffs. Perhaps the most influential defender of free trade in the history of political economy spent the last years of his life reducing the flow of smuggled goods and collecting taxes for the government from importers.

Other than his time in Europe, Smith appears to have led what most would call a particularly unexciting life. He was a lecturer, a professor, a tutor—three jobs that are renowned for being removed from what might be called reality. Joseph Schumpeter wrote, “No woman, excepting his mother, ever played a role in his existence: in this as in other respects the glammers and passions of life were just literature to him.” Schumpeter exaggerated a bit, but Smith never married. He died in 1790 at the age of sixty-seven.

Such was Smith’s outer life. What about his inner life? No journal or diary survived Smith’s death—he asked that all his private papers be destroyed. With a few exceptions, most of his letters are spare and businesslike, even when he is writing his best friend, the great philosopher and his fellow countryman David Hume. How could a man of Smith’s seemingly limited experience plumb the depths of human interaction and manage to dredge up any insight?

We know he managed to do so because we have *The Theory of Moral Sentiments*. First published in 1759, the book went through six editions, the last one published in 1790, the year of Smith's death, when he made substantial revisions to the text. In a sense, *The Theory of Moral Sentiments* was Smith's first and last book.

I think I know why he revised it late in his life, at a time when he was doing little serious scholarship that has survived. Once you start to think about human motivation and the bright and dark side of humanity—what Faulkner called the “human heart in conflict with itself”—it's hard to think about anything else. Trying to understand your neighbor and, in turn, yourself really doesn't get old. There's a brand-new set of data every day to chew on and explore if you're interested—all those interactions with friends, family, colleagues, and strangers.

Reading *The Theory of Moral Sentiments*, you realize that morality and the meaning of life and how people behave haven't changed much since the eighteenth century. A wise-enough man can reach across more than two centuries, get your attention, and teach you a thing or two about yourself and what's important.

Adding to the delight is that Smith can really write. He's ironic, funny, and eloquent. When he hits his stride and

warns you about getting too involved with fancy gadgets that fit in your pocket, you feel like you've found a secret source of wisdom. It's like discovering that Bruce Wayne, that successful man about town, has even more to share with the world and that his hidden side may be a lot more interesting than his public persona.

So why is *The Theory of Moral Sentiments* such a secret? Smith's road map to happiness, goodness, and self-knowledge is an old road map. The language is a little bit dusty, betraying its eighteenth-century origin. More than that, it's a road map that takes a lot of difficult twists and turns. The book occasionally doubles back on itself, and you find yourself in a spot you feel you've visited before. It isn't the easiest going for the modern reader.

Smith was writing an academic treatise, in intellectual competition with other authors with their own theories of human motivation. Most of those authors—writers like Bernard Mandeville and Francis Hutcheson and the Stoics—are long forgotten by most of us, along with their particular visions of humanity. Smith spends a decent amount of space explaining why his theories and insights are preferable to the competition's. So it doesn't read much like a self-help book.

It would make me very happy if more people read *The Theory of Moral Sentiments*. There's a wonderful edition still

in print that is reasonably priced, and you can read it without charge at EconLib.org. Much of the charm of *The Theory of Moral Sentiments* is in the poetry of Smith's language. He was a great stylist, and that explains part of his success. But we twenty-first-century folk can find old prose daunting—the sentences are often long, and they're structured in ways our brains don't process well without some practice. They take a lot of time and patience. But if you're a little busy, part of my aim here is to give you Smith's insights and some of the best of his writing, just in case you don't get around to reading all of the original.

My other mission is to bring Smith's ideas into the present and see how they might be useful to you and me. We all see ourselves as special—and I'm sure you are—but we also have much in common. We have many of the same strengths and weaknesses. So when Smith teaches me something about myself, he often teaches me something about you. And that helps me treat you the way you'd like to be treated and gives you an idea of how to treat me. More than that, Smith was trying to understand what makes us happy and what gives life meaning. These are still pretty useful things to understand.

I struggled with how to get Smith's lessons into digestible form. The normal strategy would be to follow Smith's narra-

tive in his book. But it's not a linear narrative, and many of his concerns and topics are not of interest to the modern reader. So I've taken Smith's most relevant insights and organized them into an order that I think is more accessible than the original. I also quote Smith directly whenever I can—I've managed to squeeze in most of my favorite quotes from *The Theory of Moral Sentiments*. But where necessary I've broken them up and offered running commentary explaining the allusions and stylistic peculiarities of a well-educated gentleman of 1759. Unless I note otherwise, all quotes are from *The Theory of Moral Sentiments*. Within those quotes, I will occasionally use brackets [like this] to explain an archaic word or phrase. I've left Smith's spelling as he wrote it. So "labor" becomes "labour," "honor" becomes "honour," and "befall" has only one "l."

You might be wondering what an eighteenth-century book on morality and human nature has to do with economics, Smith's most famous legacy. Behavioral economists today do their work at the border between economics and psychology, which is very Smithian territory. But most economists in the twenty-first century try to predict interest rates, suggest policies to reduce unemployment and soften its sting, or forecast the next quarter's GDP. Sometimes they try to explain why the stock market went up or down.

They're not particularly good at any of these things, and they often disagree on the best policies for getting the economy going. This leads noneconomists to conclude that economics is mostly about money and that economists are not very reliable predictors of the future or the best engineers to be steering the economic engine.

Unfortunately, what the media and the public expect from economists is what we are probably worst at—giving precise answers to questions that presume the economy is like some giant clock or machine whose innards can be mastered and then manipulated with some degree of precision. The failure of my profession to anticipate the Great Recession, to agree on how to get out of it, or to predict the path of the recovery should humble all economists.

But economics is actually quite useful—it's just not so useful for the things people typically expect from it. When I tell people I'm an economist, they often respond by saying something like "That must be useful around tax time," or "You must know a lot about the stock market." Alas, I am not an accountant or a stockbroker, I explain. But one very useful thing I've learned from economics is to be skeptical of advice from stockbrokers about the latest stock that's sure to skyrocket. Saving you from losses isn't as exciting as promising you millions, but it's still pretty valuable.

But the real point is that economics is about something more important than money.

Economics helps you understand that money isn't the only thing that matters in life. Economics teaches you that making a choice means giving up something. And economics can help you appreciate complexity and how seemingly unrelated actions and people can become entangled. These insights and others are sprinkled throughout *The Theory of Moral Sentiments*. Money is nice, but knowing how to deal with it may be nicer. A student once told me that a professor of hers said that economics is the study of how to get the most out of life. That may strike some of you, even those of you who majored in economics, as an absurd claim. But life is all about choices. Getting the most out of life means choosing wisely and well. And making choices—being aware of how choosing one road means not taking another, being aware of how my choices interact with the choices of others—that's the essence of economics.

If you want to make good choices, you have to understand yourself and those around you. If you want to get the most out of life, understanding what Smith has to say in *The Theory of Moral Sentiments* is probably more important than Smith's insights in *The Wealth of Nations*. Let's get started.