

On the wealth, and poverty, of nations

“There’s a great deal of ruin in a nation.”

- Adam Smith, in correspondence discussing the Battle of Saratoga, which marked a turning point in the American Revolutionary War against the British.

Every year at around this time, something rather magical happens to Edinburgh. The population of the Scottish capital swells by over 4 million people – and in a very good-natured way. Only the Olympic Games and the World Cup sell more tickets – and they only take place once every 4 years. As the comedian and writer Dominic Frisby [puts it](#),

If Margaret Thatcher, Adam Smith or Friedrich Hayek were watching they would glory in this free market at work. Everyone is out for themselves, and yet there is huge camaraderie. You can be rubbing shoulders with a student one moment, an Oscar-winner the next. If one performer is having a hard time, you can be sure others will help him out in some way. There is no higher authority providing compulsory care. Everything is voluntary. Nobody is forcing anyone to do anything – except to turn up their show on time and not overrun.

The more successful performers do not have 45 per cent of their audiences taken from them and re-distributed to other more deserving or needy acts. It is known that, in most cases, a performer has worked hard to get where he or she is, they’ve done their hard yards, and the reason they are where they are is that they’ve played the game well. Injustice and inequality are everywhere, but it is an accepted norm in this world. The answer is to work harder and get better.

This year we participated in a discussion at the newly refurbished late home of the economist Adam Smith, Panmure House, at the invitation of MoneyWeek’s editor-in-chief Merryn Somerset Webb, to discuss the author of *The Wealth of Nations* and his effect on economic history. Fellow panellists included Dominic Frisby, Lord Lamont of Lerwick and the commentator Liam Halligan.

Notwithstanding the fact that he died over two centuries ago, Adam Smith gives good quote. Among the panellists’ favourites:

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. [This insight isn’t intuitively obvious today, but it must have seemed revolutionary when first expressed in 1776.]

All money is a matter of belief. [And not just money: much else in our modern economic system is intangible and entirely faith-based.]

The propensity to truck, barter and exchange one thing for another is common to all men, and to be found in no other race of animals.

It is now 10 years since the defining event of the Global Financial Crisis, namely the collapse of Lehman Brothers, and a decade of tinkering with the mechanisms of modern markets and unprecedented intervention in the world's monetary system has given rise to a widespread sense of disenchantment with both finance and politics. Adam Smith addressed the problems of 'crony capitalism' too, when he suggested that

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.

Smith was a huge advocate for legitimate free enterprise, but he had no time for cartels, monopolies, rent-seeking or price-fixing.

A truth that goes insufficiently acknowledged in modern politics, festering as it is in a mire of social justice virtue-signalling, is that free markets are the optimal economic force that can pull millions out of poverty. Socialism certainly can't. So it is time for small 'c' conservative politicians to reattach themselves to the source code from which they have been bafflingly severed for far too long. Free markets work.

Whereas Adam Smith provided the positive story for healthy competition, [Leopold Kohr](#) experienced the doleful impact of its absence. Whereas Smith wrote on *The Wealth of Nations*, Kohr warned, in 1957 (coincidentally, the timing of the Treaty of Rome), of *The Breakdown of Nations*. An Austrian Jew and a contemporary of Hayek who only narrowly escaped the Nazis to live in the United States, Kohr lamented the overlargeness of Europe's body politic in the 1930s and afterwards. Born in the tiny Austrian village of Oberndorf, where the carol 'Silent Night' was written and composed, Kohr valued smallness, competition for ideas, and political independence. Paul Kingsnorth, for *The Guardian*, writes:

Kohr's claim was that society's problems were not caused by particular forms of social or economic organisation, but by their size. Socialism, anarchism, capitalism, democracy, monarchy – all could work well on what he called "the human scale": a scale at which people could play a part in the systems that governed their lives. But once scaled up to the level of modern states, all systems became oppressors. Changing the system, or the ideology that it claimed inspiration from, would not prevent that oppression – as any number of revolutions have shown – because "the problem is not the thing that is big, but bigness itself".

Ladies and gentlemen, we present to you the evidence for the prosecution: the European Union. 28 member states (for the time being, at least), one core currency, without an established system of transfer payments, banking guarantees or a common culture of paying taxes, but with a plethora of different attitudes, languages, backgrounds and beliefs. Held together by a discredited elite of unelected bureaucrats with a pathological aversion to legitimate and local democracy.

Independence and fair competition have been seen to have worked before. They can do so again.

Dominic Frisby:

Edinburgh is astonishingly competitive. 'If you can make it here, you can make it anywhere,' sang Frank Sinatra about New York. He may as well have been singing about the Scottish capital in August. There is everything – good and bad – about the entertainment industry here, but distilled. Just as football players, more than anything else, want to play at the World Cup, so do performers want to play – and shine – at the Edinburgh Festival.

The end result of all this competition is artistic brilliance: fantastic show after fantastic show, year in year out. It's perhaps the world's most telling example of the power of an unregulated free market at work.

And, yet, the irony is, most of the entertainment industry [and, we would add, more disturbingly, a huge proportion of modern politicians] is inherently opposed to the idea of free markets and competition. They need their heads examined.

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